

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

OCTOBER 26, 2006

A regular meeting of the Board of Trustees was held on Thursday, October 26, 2006 at the Affinity Group Credit Union, 144 E. Pike Street, Pontiac, MI 48342. The meeting was called to order at 9:00 a.m.

TRUSTEES PRESENT

Thomas Miller, Vice Chairman
Raymond Cochran, Secretary
Brian Lee

TRUSTEES ABSENT

Mayor, Clarence Phillips (*absent*)
Craig Storum, Chairman (*excused*)

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Andrea Coffey-Stewart, Gray & Company
Dave Duddles, Firefighter
Charles Herring, Former Pontiac Police Officer
Donnell Reed, Police Officer (*arrived at 9:30 a.m.*)
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

CONSENT AGENDA

- A. Minutes of Regular Meeting: September 28, 2006
- B. Communications:
 - 1. Correspondence from Morgan Stanley Re: Portfolio Commentary September
 - 2. Correspondence from Oppenheimer Capital Re: Bill McDaniel Retirement
 - 3. Conference Information:
 - a. Public Fund Boards Forum – Public Fund Boards Forum – Dec. 9-12, 2006
- C. Financial Reports:
 - 1. Financial Reports – September 2006
 - 2. Securities Lending Report – August 2006
 - 3. Commission Recapture Report –September 2006
 - 4. Accounts Payable – October 2006
- D. Remove from the Rolls:
 - 1. Donald Genereux (deceased 09-16-06)
 - 2. Ray B. Wilson (deceased 09-30-06)
- E. Refund of Accumulated Contributions:
 - 1. Shannon Makowski – PPOA \$5,520.71
- F. Application for Disability Retirement (notice of application)
 - 1. Kevin Chapman - PFFU

Ms. Stewart said that there was a correction needed in the September 28, 2006 minutes. On page three under the Montag and Caldwell update the statement “Their C-rated credits negatively affected their performance,” should have read “Their lack of C-rated credits...., etc.”

Item F. 1. regarding Kevin Chapman under application for disability retirement (notice of application) was removed from the consent agenda.

RESOLUTION 06-076 By Lee, Supported by Cochran

Resolved, That the items of the consent agenda for October 26, 2006, as amended, be approved.

Yeas: 3 - Nays: 0

CONSULTANTS

Re: Sullivan, Ward, Asher & Patton, PC – CAPROC Update

RESOLUTION 06-077 By Cochran, Supported by Miller

Resolved, That the Board of Trustees move to closed session to discuss pending CAPROC litigation.

Roll Call:

Trustee Miller- yea

Trustee Lee - yea

Trustee Cochran - yea

Moved to Closed Session at 9:02 a.m.

Returned From Closed Session at 9:07 a.m.

RESOLUTION 06-078 By Cochran, Supported by Lee

Resolved, That the Board of Trustees approve the closed session minutes from the August 31, 2006 meeting.

Yeas: 3 – Nays: 0

Re: Gray & Company – Custody Search

Ms. Stewart reported that the General Employees Retirement System approved Northern Trust as the new custodian. Ms. Stewart told the Board that there was a joint meeting regarding the custody request for proposal. She said that the staff was involved in the search and that they were asked by the committee to go to Northern Trust in Chicago for a demonstration.

Ms. Zimmermann said that she felt Northern Trust had a good team with little turnover. Their reporting was a strength and will save the staff a lot of time preparing reports. The current custodian cannot provide the needed reports. She said that most months, data has to be downloaded and manipulated and put into the correct format for reporting purposes.

Ms. Zimmermann stated that the Northern Trust demonstration looked good. She also told the Board that the commission recapture rate is 80% to 20% which is a very good rate. Trustee Lee asked if the staff went to Bank of New York for a demonstration. Ms. Stewart replied that their fees were very high. Trustee Miller said that the consensus of the joint committee was to rely on the staff's recommendation.

RESOLUTION 06-078 By Lee, Supported by Cochran

Resolved, That the Board of Trustees retain Northern Trust as the custodian pending contract review by legal counsel.

Yeas: 3 - Nays: 0

Ms. Stewart told the Board that the transition will be very work-intensive for the staff to make the end of the year deadline.

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees

1. Real Estate Committee – None

2. Personnel Committee - None

Charles Herring distributed copies of a letter to the Board. He stated that he had addressed his issues with the City of Pontiac's Finance Sub-Committee last week.

He told the Board that he worked for the Police Department for twenty-three years and was a police officer for twenty-one years when he decided he would go out on an early retirement. He said that at the time George Phifer was going out on early retirement with seventeen years of service under "mystery criteria". He said that he met all the criteria, except that he was short thirty days of supervisory experience. He also said that he knew Pamela Chambers and Mark Peters were eligible but not ready to leave at that time.

He said that a PAS form was prepared and sent through the approval process. He said he was paid out his sick and vacation time. However, a month after his retirement he received a COBRA notice and found out that his medical benefits had stopped. At that time he was told that the process had been stopped and his retirement was being deferred. He referred to the PAS form that stated retired as of September 6, 2005 not deferred retirement. He told the Board that he is currently paying \$2,000 per year for health benefits. He wanted to address the Board to state his case and inquire as to how he might be able to obtain his pension and benefits retroactive to September 6, 2005.

Ms. Billings asked him what bargaining unit he was in on his last day of employment. Mr. Herring replied that he was a Lieutenant in PPSA.

Trustee Lee and Dave Duddles asked if there was an MOU. Ms. Zimmermann said that there was a MOU and a cost study was done for Mark Barnett and George Phifer. .

Trustee Miller asked about the PAS Form and how the process works. Ms. Zimmermann replied that an application for retirement is submitted by the employee, their time is verified and they either retire or defer.

Mr. Reed addressed the Board and told them that he is at the meeting to represent Terri Covington who is in the same situation. He said he would like to see her receive her pension benefit.

Ms. Billings asked if she had any expectations about receiving her pension benefit or if they had promised her an early out. Mr. Reed said that when Ms. Covington left she was a detective with twenty-three years of service and had been asking for eight months about an early retirement. She felt that by leaving she could help preserve the career of another officer due to the deficit. She had been actively seeking employment in Florida. He said that they asked her to stay because of her grant writing skills but she left in April, 2006. He added that many of the grants she wrote brought in a lot of money. He said that it was unfair to offer an early out to George Phifer and Mark Barnett who is a Chief elsewhere and not to Terri Covington or Charles Herring. He said that the Union turned its back on them and that no one from Human Resources or the Mayor's Office would talk to them.

Trustee Miller told Mr. Herring and Mr. Reed that the Board would follow up and look into the issue. Ms. Billings again stated that the Board cannot approve Mr. Herring's or Ms. Covington's request. She also told them that the Board's fiduciary responsibility is to administer the retirement benefits. Trustee Lee added that the Board has to follow the ordinance.

Mr. Herring and Mr. Reed left at 10:15 a.m.

Trustee Cochran spoke with Chief Gross and unfortunately based on the MOU prepared for George Phifer, Mr. Herring does not qualify.

There was Board discussion regarding the process and what roles the Unions and City Council play. Ms. Zimmermann also told the Board that she tries to discourage types of deals but in the end, the Board must implement what the City and unions agree to. The Board directed Ms. Billings to look into the issue and provide a written response.

RESOLUTION 06-079 By Lee, Supported by Cochran

Resolved, That the Board of Trustees directs legal counsel to obtain the relevant documents and provide a legal opinion on the Charles Herring and Terri Covington early out issue.

Yeas: 3 - Nays: 0

Re: Staff

Ms. Zimmermann requested that the trustees provide available dates in order for her to schedule a joint meeting to discuss the CAPROC litigation.

Disability Income Verification

Ms. Zimmermann told the Board that a procedural issue has occurred with the income verification process for those currently receiving a disability retirement benefit. She explained that in April the procedures were confirmed with the IRS on what forms were needed to obtain the information requested in order to process the verifications. However, the process has changed between April and September with no notification from the IRS provided.

She said that the IRS has supplied most of the information requested. For some members the IRS returned a letter saying that the individual has not filed a return, however, based on information provided by the member, the staff knows that is not the case. In order to continue the process the office would have to resend forms to the designated members asking them to sign in order to acquire the needed information. She said that this tends to raise concerns and makes the members nervous. She would like to avoid this if possible. She added that if the forms were again sent that by the time they were received back in the office and forwarded to the IRS it would be time to start the process for 2006 income.

Trustee Miller asked if the Board can reasonably make a determination without the requested documentation from the IRS. Ms. Zimmermann replied that none of the current disability retirees to date have gone over the income limitations. She said that in her experience they have always reported all their earnings when requested and have been consistent with the policy.

Ms. Zimmermann requested that the Board forego the policy and allow the office to stay the course and accept the information that has been received and follow up only if perceived necessary.

The Board directed Ms. Zimmermann to accept the information provided by the IRS and proceed as required verifying that all income is below the allowed amount.

Re: Legal

Ms. Billings requested that the Board approve forwarding the list of settlements to the custodian and request that Proof of Claims be filed on behalf of the Retirement System

Ferro Corporation Litigation

Defendant's reply brief was filed. Oral argument has not been scheduled.

United Rentals

Opposition to defendant's motion was filed. Defendant's reply is due on November 27, 2006. The court has not set a date for oral argument.

Jarden

Police & Fire Regular Meeting
October 26, 2006

Defendant filed their Motion to Dismiss on October 20, 2006. Opposition to Defendant's Motion to Dismiss is due November 24, 2006. To date, oral argument has not been scheduled.

Maxim

Motion for lead plaintiff is still pending.

Fossil, Inc.

Nothing new to report.

Tempur-Pedic International, Inc.

Nothing new to report.

The Board directed Ms. Billings to forward all settlements to the custodian to insure that the fund is receiving their fair share.

Investment Management Agreement with Wentworth, Hauser and Violich

Ms. Billings said that she has sent amended contract terms to Wentworth, Hauser and Violich. She said that they have incorporated the changes in all documents. Trustee Miller to sign the contract and execute agreement.

Investment Management Agreement with Mellon Trust of New England (Boston Company)

Ms. Billings reported that she made changes to the investment agreement with Boston Company requiring that they waive indemnification and that they acknowledge being an investment fiduciary per Public Act 314. She said that they do not want to comply with Public Act 314. She said that it is the Board's decision to and that she will give notice that they need to follow the guidelines. She said that she does not recommend a manager that will not comply with Public Act 314.

Trustee Lee asked how other funds to business with investment managers that don't comply with Public Act 314. Trustee Miller commented that they can't knowingly invest with managers that won't comply. There was discussion that there needs to be stronger language regarding Public Act 314 in future RFPs.

Re: Union Representatives

Mr. Duddles stated that Kevin Chapman does not want to go on disability retirement and that he wants to return to work. However, the doctor has not cleared him to return to work and has told him that he needs to continue his rehabilitation. Ms. Zimmermann said that she spoke with Trustee Storum and he said he saw no point in the system spending money when the member plans to go back to work. Kevin Chapman issue tabled and pulled from consent agenda.

NEW BUSINESS

Re: Online Estimate Calculator

Ms. Zimmermann referred to a proposal for a web-based benefit estimator from Gabriel, Roeder, Smith & Company. She went over the details of the quote. She said that the initial project cost

which includes the development of the software would be between \$12,000 and \$16,000. There would be ongoing costs for hosting and maintaining the software on the web at \$100 per month. The system could also lease the software at a cost of \$500 per month with a 2.5% annual increase with an initial five-year commitment. She added that at GRS, their IT people bill out at a higher rate than the Board's attorney.

Trustee Miller asked if there are any other options. Ms. Stewart said that the Rodwan Group is an actuarial firm and they are members of MAPERS.

Ms. Billings asked if GRS is needed to provide an online calculator or can an application be developed by IT people. Ms. Zimmermann replied that a trained actuary may be needed to program the application. She also said that the calculations need to be done by group.

Mr. Duddles asked if the cost could be negotiated. Trustee Miller said that it seems GRS costs continue to increase. He asked Ms. Zimmermann what type of service they provide. She replied that the service is average. Trustee Miller suggested that a search be conducted for actuarial services.

RESOLUTION 06-080 By Lee, Supported by Cochran
Resolved, That the Board conduct a search for actuarial services.

Yeas: 3 - Nays: 0

Re: Certificate of Deposit Renewal

Ms. Zimmermann informed the Board that the renewal for the certificate of deposit at the Affinity Group Credit Union is due for reinvestment. She said that the fund maintains a CD in the amount of \$100,000 which allows them to be fully insured. She also said that each year they roll over the principal and take the interest. She added that the current rate of the investment is 3.25% and that the reinvestment rates will be 4.35% with an annual yield of 4.42%. She asked the Board to provide direction as to the reinvestment of these funds.

RESOLUTION 06-081 By Lee, Supported by Cochran
Resolved, That the Board renew the Certificate of Deposit in the amount of \$100,000 for one year at Affinity Group Credit Union.

Yeas: 3 - Nays: 0

UNFINISHED BUSINESS

Re: Ordinance Clean-up – Tabled

SCHEDULING OF NEXT MEETING –Meeting on November 30, 2006 at 9:00 a.m., Shrine Room, Main Level City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342.

ADJOURNMENT

RESOLUTION 06-082 By Lee, Supported by Cochran
Resolved, That the meeting be adjourned at 10:48 a.m.

Yeas: 3 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the Police and Fire Retirement System held on October 26, 2006.

Raymond Cochran, Secretary
As recorded by Jane Arndt