

West Palm Beach Police Pension Fund

2100 North Florida Mango Road

West Palm Beach, Florida 33409

Minutes

April 8, 2022

8:30 AM

CALL THE MEETING TO ORDER

Mr. Frost called to order the West Palm Beach Police Pension Fund Meeting on April 8, 2022 at 8:30 AM, in the main conference room of the Ernest George Building of the Palm Beach County Police Benevolent Association.

Present at the meeting: Jonathan Frost, Board Chairman; Troy Marchese¹, Board Secretary; Dana Fragakis, Board Trustee; Joseph Ahern², Board Trustee and Sean Williams, Board Trustee.

Also present: Janine Testa; Frank Ficarra; Frank Distefano & Dustin Campbell, Active Member; Coleman Hubbard – Barrow Hanley; Jeffrey Amrose, Board Actuary - GRS Retirement Consultants; Brendon Vavrica, AndCo Consulting; Bonni Jensen, Board Attorney - Klausner, Kaufman, Jensen & Levinson; and Dave Williams, Plan Administrator & Michael Williams, Administrative Plan Assistant.

APPROVAL OF THE MINUTES

After noting his comments, Mr. Frost asked if there were any additional changes required to the minutes of March 11, 2022. Mrs. Fragakis made the motion to approve the minutes as noted, which was seconded by Mr. Marchese. All Trustees voted yes, and the motion was passed 5-0.

NEW BUSINESS

- **Anthony Testa – Determination of Death**

Mrs. Jensen reviewed the independent medical report of Dr. Elise Zahn in the matter of Anthony Testa's death.

After an extensive review of Anthony C. Testa's medical records from Broward Health Coral Springs and Cleveland Clinic Main Campus, as well as the death certificate, it was evident to Dr. Zahn that Mr. Testa's cause of death was cardiorespiratory arrest due to COVID-19 infection. It was also noted that the cause of death was also listed as multisystem organ failure and COVID respiratory distress syndrome on the death certificate, certified by Usman Ahmad, MD filed on 8/29/2021 and issued on 10/8/2021.

It was opined by Dr. Zahn that based on the August 14, 2020, "Safeguarding America's First Responders Act of 2020," Anthony C. Testa was considered a line-of-duty death as he meets the following criteria:

¹ Departed at 10:30 AM.

² Departed at 10:30 AM.

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- a. No other competent medical evidence exists to suggest that Anthony C. Testa death was directly and proximately caused by something other than COVID-19. This is clear in the medical description provided above;
- b. Anthony C. Testa was engaged in a line-of-duty action or activity between January 1, 2020, and December 31, 2021;
- c. Based on the detailed sequence of events detailed above it is clear that Anthony C. Testa received a diagnosis of COVID-19 during the 45 day period beginning on his last day of duty.
- d. The evidence indicates that Anthony C. Testa died as a result of complications of COVID-19.

Mrs. Jensen outlined that the “Safeguarding America’s First Responders Act of 2020” (the “Act”) provides presumptive line-of-duty death and disability benefits to qualifying police officers and firefighters. For the purpose of death and disability benefits, the Act creates a general presumption that a public safety officer who dies from COVID-19 or related complications sustains a personal injury in the line-of-duty as long as no other medical evidence exists to suggest the officer’s death was directly and proximately caused by something other than COVID-19. Under the Act, a public safety officer must meet the following three criteria for a line-of-duty death benefit:

The public safety officer was engaged in a line-of-duty action or activity during the period beginning on January 1, 2020, and the earlier of the date on which the COVID-19 public health emergency declared by the Secretary of Health and Human Services expires and December 31, 2023;

The public safety officer received a diagnosis of COVID-19 (or evidence indicates that the officer had COVID-19) during the 45-day period beginning on his last day of duty; and

Evidence indicates that the public safety officer had COVID-19 (or complications therefrom) at the time of his death.

Based on the totality of circumstances a determination of line-of-duty would be reasonable and prudent.

After considering the independent medical report and the law applicable to the case, Mr. Marchese made a motion to grant line-of-duty death benefit³; that Officer Testa was engaged in a line-of-duty activity during the required time period, he received a diagnosis of COVID-19 within 45 days of his last day on duty, and the evidence indicates he died as a result of complications of COVID-19. Additionally, that no other competent evidence exists to suggest Officer Testa’s death was the direct and proximate cause by something other than COVID-19. The foregoing motion was seconded by Mr. Ahern. All Trustees voted yes, and the motion was passed 5-0. A formal order will follow.

On behalf of the Board, Mr. Frost provided his heartfelt sympathy to the Testa Family.

Mrs. Fragakis asked if she could assist Mrs. Testa in establishing a legal guardianship pro bono. Mrs. Jensen advised that she would research the question and respond.

³ Applicable to the widow & child of Officer Testa.

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OLD BUSINESS

- **ACTUARIAL VALUATION PRESENTATION – SEPTEMBER 30, 2021**

Matter Tabled to May 13, 2022 Meeting.

- **SUPPLEMENTAL DISTRIBUTION⁴**

As requested by the Board of Trustees, Mr. Amrose presented information regarding a potential fresh start of assets and payment of a Supplemental Pension Distribution in connection with the 9/30/2021 Actuarial Valuation.

1. Required City Contribution and Funded Status

	9/30/2020 Valuation Report	9/30/2021 Valuation Report	
		Baseline ¹	Fresh Start, SPD Payment and \$15.5 Million Reserve ²
Expected Payroll	24,775,673	24,649,746	24,649,746
Normal Cost	17.44%	19.45%	19.45%
Amortization of UAL	4.94%	2.99%	2.99%
Total Required City Contribution (RCC):			
% of Payroll	22.38%	22.44%	22.44%
Dollar Amount	5,544,797	5,531,404	5,531,404
Market Value of Assets (MVA)	400,055,406	485,338,602	485,338,602
Preliminary Actuarial Value of Assets (AVA)	410,350,311	444,687,802	444,687,802
Write-up of assets due to fresh start	0	0	40,650,800
Payment of Supplemental Pension Distribution (SPD)	0	0	(19,516,400)
Contribution Stabilization Reserve	0	0	(15,500,000)
Final AVA	410,350,311	444,687,802	450,322,202
Accrued Liability (AL)	427,593,037	458,474,832	458,474,832
Unfunded Accrued Liability (UAL)	17,242,726	13,787,030	8,152,630
Funded Ratio	96.0%	97.0%	98.2%
Cushion to Offset Future Adverse Experience	0	40,650,800	15,500,000

¹ Lower the investment return assumption from 7.25% to 7.00%

² Based on a 30 year amortization period for the fresh start, 20 year amortization period for the SPD payment, and a 10 year amortization period for the establishment of the contribution reserve and thereafter a combine and offset of all amortization bases using a 17 year amortization period. These amortization periods and methods would need to be reviewed before considered final.

Eligibility for Supplemental Pension Distribution (SPD):

- a) The supplemental pension distribution amount shall not exceed accumulated net actuarial experience from all pension liabilities and assets.
- b) If the net actuarial experience is favorable, cumulatively, commencing with the experience for the year ended September 30, 1991, after offset for all prior supplemental distributions, the supplemental distribution may be made.

⁴ Duly noted on the official public Agenda of April 8, 2022.

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c) If the net actuarial experience is unfavorable, cumulatively, commencing with the experience for the year ended September 30, 1991, after offset for all prior supplemental distributions, no supplemental distribution may be made, and the city must amortize the loss until it is offset by cumulative favorable experience.

	Actuarial Gain / (Loss)	Prior SPD Payments	Total
- Unamortized Balance as of 9/30/2020	(28,451,874)	3,397,182	(31,849,056)
- Write Down of Existing Bases	4,119,534	444,012	4,563,546
- Gain / (Loss) or SPD paid During FYE 2021	12,320,907	0	12,320,907
- Unamortized Balance as of 9/30/2021	(12,011,433)	2,953,170	(14,964,603)
- Unamortized Balance as of 9/30/2021	(14,964,603)		
- Deferred Investment Gains / (Losses)	40,650,800		
- Unamortized Balance as of 9/30/2021 Reflecting Deferred Investment Gains	25,686,197		

Amount of Supplemental Pension Distribution

Pensioners who retired before 10/1/1999 plus those with 12.5 years of service as of 10/1/1999 who terminated employment after 10/1/1999 (13th Check):

Liability	104,294,453
Investment Return for FYE 2021	24.30%
Return from 7% to 9%	2.00%
Preliminary SPD	\$2,085,890

Pensioners with less than 12.5 years of service as of 10/1/1999 (13th Check):

Liability	109,271,495
Investment Return for FYE 2021	24.30%
Return from 8% to 9%	1.00%
Preliminary SPD	\$1,092,715

All Eligible Pensioners (14th Check):

Liability	213,565,948
Investment Return for FYE 2021	24.30%
50% of Return over 9%	7.65%
Preliminary SPD	\$16,337,795

Preliminary SPD	\$19,516,400
Unamortized Balance as of 9/30/2021 Reflecting Deferred Investment Gains	\$25,686,197
Final SPD Payment Reflecting Fresh Start of Assets (lesser of total SPD and Unamortized Balance)	\$19,516,400

Implications of Fresh Start

- There is no requirement for the Board to fresh start the assets but if they do the \$40.7 million of deferred investment gains would be immediately recognized and the cumulative experience position since 10/1/1991 would change from a loss \$15.0 million to a gain of \$25.7 million. This would trigger a \$19.5⁵ million SPD to be paid.

⁵ A \$19.5 million SPD payment may translate into an average payment of \$70,000 per retiree.

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- The Board may elect to fresh start the assets but should consider the risk of a future market correction. If a fresh start is adopted by the Board and a market correction occurs, the RCC⁶ could increase significantly since the cushion to offset future adverse experience would be reduced.
- A fresh start of assets that results in a lower required contribution is often negatively perceived in the actuarial community and is often only considered when combined with strengthening the assumptions so that the end result is not a decrease in the RCC.
- Implementing a fresh start only when the MVA⁷ is higher than the AVA⁸ is sometimes viewed as a bias in the asset smoothing method unless it is also implemented when the MVA is lower than the AVA.
- If the Board elects a fresh start of assets, we have laid out two options that will help the plan provide a buffer against adverse experience and to avoid the negative perception of a lower RCC when fresh starting the assets.
- Option #1 – If the Board elects a fresh start of assets which triggers a \$19.5 million SPD along with establishing a \$15.5 million contribution stabilization reserve which may be used to offset future RCC, the RCC will remain a 22.44% of pay as shown prior. Under this option a policy regarding the use of the reserve should be created.
- Option #2 - If the Board adopts a fresh start of assets which would trigger a SPD payment along with lowering the investment return assumption to about 6.8%, the RCC would remain the same. A return assumption of 6.8% would be more inside a range of reasonableness and would lower the actual return needed to generate actuarial gains. GRS would recommend studying if the liability needs to be loaded due to the DROP interest crediting rate exceeding the return assumption in the next Experience Study Report.

In review of the last SPD issued, the Board of Trustees did fresh start the assets. Mrs. Jensen also reported that although it has no bearing on this Board's action, the fire board met and approved a fresh start at a meeting she recently attended. Mr. Amrose also confirmed this information.

Mr. Ahern supported option #1 fresh start, as it would be life changing to many retirees and at the same time create a \$15.5 million contribution stabilization reserve which may be used to offset future RCC.

Thereafter a consensus was developed, and Mr. Ahern made a motion to approve option #1 and fresh start the assets, which would trigger a SPD & develop a stabilization reserve to safeguard the city. Mr. Sean Williams seconded the motion. Trustees voted as follows: Mr. Ahern, Mr. S. Williams and Mr. Frost voted yes on the motion. Mr. Marchese and Mrs. Fragakis abstained from voting as recipients of the SPD⁹.

⁶ Regular city contributions.

⁷ Market Value of Assets.

⁸ Actuarial Value of Assets.

⁹ Form 8 will be filed accordingly by Mr. Marchese & Mrs. Fragakis.

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No Trustees voted no in the measure. As a result of the foregoing action Mr. Amrose will finalize the October 1, 2021 valuation and present it at the May 13, 2022 meeting for acceptance.

INVESTMENT REPORT

BARROW HANLEY GLOBAL INVESTORS – Small Cap Value

Mr. Coleman Hubbard¹⁰ presented an update to the portfolio, but before doing so, reviewed with the Board who Barrow Hanley was and the strategy they have been engaged to do for the plan. Mr. Hubbard also highlighted the investment process, outlined the performance and reviewed the holdings. It was cited that Barrow Hanley is a global specialist focused exclusively on value investing. They believe in the long-term advantages of value investing and their ability to partner with clients to achieve their distinct goals.

The portfolio at \$ 26,540,505 as of December 31, 2021. The fiscal year to date return was valued at 7.7% net of fees compared to the benchmark return¹¹ of -0.10%. Since inception the portfolio returned 0.7% vs. -2.0% for the same benchmark. It was noted this was a short inception date of May 3, 2021.

For the 4th quarter of 2021, the Barrow Hanley Small Cap Value strategy returned 10.36% compared to 4.36% for the Russell 2000 Value. Most of the outperformance began in the first week of November and accelerated through December. Ultimately, it was reported that their bottom-up, fundamental process & stock selection remains the critical components of performance over the long-term.

Mr. Frost reminded Mr. Hubbard about the Board's interest in firm's employment diversity progress.

ANDCO – INVESTMENT CONSULTANT

Mr. Vavrica provided a flash report for the fiscal year through March 31, 2022 being -0.3%.

Due to Mr. Ahern and Mr. Marchese departing the meeting, Mr. Vavrica's report on direct lending was tabled.

Mr. Frost asked Mr. D. Williams to add AndCo Consulting review to the next agenda.

ATTORNEY'S REPORT

Mrs. Jensen noted a change of ownership/management at Rhumblin. The Board congratulated Mrs. Denise D'Entremont, CEO. Mr. Frost executed the assignment of the investment management agreement.

¹⁰ COLEMAN HUBBARD CFA - Portfolio Manager/Analyst - Mr. Hubbard joined Barrow Hanley in 2012 as an equity analyst, working with the Small Cap Value team. He was promoted to the portfolio management team in January of 2020. Mr. Hubbard began his investment career as an analyst at Bank of America Merrill Lynch. He graduated from Davidson College, where he earned a BA in Economics. Mr. Hubbard is a CFA Charter holder. Joined the firm in 2012 | 13 years' experience.

¹¹ Russell 2000 Value.

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APPROVAL OF DISTRIBUTIONS

New Warrants were presented for review and execution. Warrants approved at the last meeting were presented to the Board in spreadsheet format by Mr. Williams. A formal administrative report was also provided for consideration. After Mr. Williams detailed the report, Mrs. Fragakis made the motion to approve all items, which was seconded by Mr. S. Williams. All Trustees voted yes, and the motion was passed 3-0¹².

ADMINISTRATOR’S REPORT

Mr. Williams cited he received a public records request regarding active drop membership. As a matter of normal course, Mr. Williams cited he notifies all affected personnel accordingly of the request and what was disclosed.

Mr. Williams asked the Board if he should prepare a notice to the membership about the SPD in written form. The Board agreed a uniform response would be appropriate.

OPEN DISCUSSION

No discussion ensued.

ADJOURNMENT

Being there was no other business; the meeting was adjourned by motion at 10:52 AM.

Next meeting is scheduled for May 13, 2022 at 8:30 AM.



Troy Marchese, Board Secretary

¹² Mr. Ahern & Mr. Marchese was not present at the meeting.