

MINUTES
MAY 13, 2024 REGULAR BOARD MEETING
CITY OF DELRAY BEACH FIREFIGHTERS' RETIREMENT SYSTEM

1. CALL TO ORDER, ROLL CALL

Chair Mahoney called the meeting to order at 1:10 p.m.

Board Members present: Chair Craig Mahoney, Vice-Chair Jay Gunsten, Alan Kirschenbaum, Tom Glanfield (joined at 2:00 p.m., remote), and Jack Warner.

Also present: Scott Montgomery (Marcum LLP), Jeffrey Amrose (Gabriel, Roeder, Smith & Company), Brendon Vavrica and Jorge Friguls (Mariner Institutional), Pedro Herrera (Sugarman, Susskind, Braswell, & Herrera as designated by City Attorney), and Lisa Castronovo (City of Delray Beach)

Public attendees: none

2. AGENDA ADOPTION

MOTION made by Mr. Kirschenbaum, seconded by Mr. Gunsten, to adopt the May 13, 2024 Regular Board Meeting Agenda. In a voice vote by the members present, **Motion** passed 4-0.

3. COMMENTS

- a. Public
None
- b. Board of Trustees of Firefighters' Retirement System
None
- c. Active and Retired Members of the Plan
None

4. Initial Disability Hearing

- a. Jeffrey Wunsch

Mr. Herrera told the Board Mr. Wunsch was notified of the date and time of this meeting, but he declined to attend, saying instead his attorney would contact Mr. Herrera to discuss the matter. When asked by Mr. Gunsten, Mr. Herrera said that after researching the matter, it was determined that the benefit Mr. Wunsch was receiving from the military was not based on years of service and thus Mr. Wunsch could use the prior military he bought toward his Delray Beach retirement benefit thus making Mr. Wunsch eligible for a nonservice-connected disability benefit or regular deferred retirement benefit. The Board tabled the Item.

5. CONSENT AGENDA

- a. February 29, 2024 Regular Meeting Minutes
- b. Warrant Ratification (#280)
- c. Warrant Approval (#281)
- d. Ratify/Approve – Refunds/Benefit Enhancements/New Retirement/DROP/Vested/Death Annuities

MOTION made by Mr. Kirschenbaum, seconded by Mr. Gunsten, to approve the Consent Agenda. In a voice vote by the members present, **Motion** passed 4-0.

6. REPORTS

a. September 30, 2023 Financial Statements - Marcum LLP

Report made part of these Minutes.

Mr. Montgomery reviewed the draft September 30, 2023 Financial Statements emphasizing the auditor's opinion was clean and "unmodified" meaning it was the highest opinion that could be issued. Upon the completion of his report overview, Mr. Montgomery stated there were no material weaknesses, deficiencies in internal controls, or non-compliance issues.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Gunsten, to accept the September 30, 2023 Financial Statements as presented by Marcum LLP. In a voice vote by the members present, **Motion** passed 4-0.

b. 2023 Annual State Report – Lisa Castronovo

Report made part of these Minutes.

Ms. Castronovo requested Board approval to submit the 2023 annual State Report to the Florida Division of Retirement now that the September 30, 2023 Financial Statements were accepted. Ms. Castronovo reminded the Board the State uses the information provided in the annual State Report to issue Chapter 175 premium tax distributions.

MOTION made by Mr. Warner, seconded by Mr. Kirschenbaum, that the information provided for the 2023 State Report had been reviewed by the Board and was approved to be submitted to the Florida Division of Retirement. In a voice vote by the members present, **Motion** passed 4-0.

c. Actuarial Reports - Gabriel, Roeder, Smith & Company ("GRS")

i. October 1, 2023 Actuarial Valuation Report

Report made part of these Minutes

Highlights of the October 1, 2023 Actuarial Valuation Report:

- The City's required contribution increased from \$8,964,943 for fiscal year end September 30, 2024 to \$10,122,444 for fiscal year end September 30, 2025, an increase of \$1,147,501 and 9.35% as a percent of payroll. The increase was due primarily to a reduction in the assumed rate of return from 6.625% to 6.25%.
- If the City paid FYE 2025 required contribution on October 1, 2024, the first day of the fiscal year as done in the past, the contribution would be \$9,766,980.
- There were no revisions in benefits.
- The actuarial assumed rate of return of 6.625% was decreased to 6.25%. The assumption change caused the required employer contribution to increase by approximately \$1,136,000 or 8.29% as a percent of payroll.
- The plan experienced a net actuarial loss of \$1.28M meaning actual experience was less favorable than anticipated. The loss was due primarily to a lower-than-expected investment return based on the actuarial value of assets (6.1% actual vs. 6.625% assumed). On a market value basis, the investment return was 11.8%. A portion of the losses came from a higher-than-expected return in the COLA Reserve Account. The net loss caused the required employer contribution to increase by about \$135,000 (1.0% of covered payroll).
- The funded ratio on October 1, 2023, was 69.7% compared to 70.6% on October 1, 2022.
- The estimated required City contribution for fiscal year end 2026 was \$10.35M assuming a 5.55% increase in total covered payroll and no gains, losses, or assumption changes.

Mr. Amrose told the trustees that even though the funded ratio was under 70%, the Plan was in very good shape as the Board had taken many steps to increase the funded ratio in the future, such as lowering the amortization period to 15 years, decreasing the assumed rate of

return to 6.25%, and changing the unfunded actuarial accrued liability to be amortized as a level dollar amount over the number of years remaining in the amortization period. All of the steps taken realistically reflected the Plan's actual experience and, when put together, will work to increase the funded ratio in future years.

Mr. Warner asked if the trustees should consider lowering the amortization period from 15 years to 10 years. Mr. Amrose responded that if the amortization period is too short, i.e., 10 years, then the required City contribution would vary greatly from year to year making it hard for the City to budget accurately from one year to the next. Furthermore, the payment on each existing base would increase significantly causing an immediate increase in the required contribution. When asked, Mr. Amrose said assuming all actuarial assumptions are met exactly over the next 15 years, the current unfunded actuarial accrued liability will be paid off in 15 years. While it was impossible for each assumption to be met exactly every year, the trustees had made significant changes to help assure actual experience would be much closer to assumed experience.

MOTION made by Mr. Gunsten, seconded by Mr. Kirschenbaum, to accept the October 1, 2023 Actuarial Valuation Report as presented. In a voice vote by the members present, **Motion** passed 4-0.

ii. Funded Ratio Review

Mr. Kirschenbaum asked Mr. Amrose if it made sense to lower the assumed rate of return once again. Mr. Amrose responded that he did not believe in using any assumption to get more or less money into a plan. He said assumptions should be set with the intent to accurately reflect each individual plan's experience and expectations for the future. Based on recent assumption changes made, the Plan was in a very good place and a lower assumed rate of return was not needed.

Mr. Amrose and Mr. Vavrica recommend using 6.25% as the expected rate of return for the current year, the next couple of years, and long-term thereafter.

MOTION made by Mr. Gunsten, seconded by Mr. Kirschenbaum, to approve an expected rate of return of 6.25% for the current year, the next couple of years, and long-term thereafter as recommended by the Plan's actuary and investment consultant. In a voice vote by the members present, **Motion** passed 4-0.

The trustees accepted GRS's fee increase proposal of 3% for the 2023-24 fiscal year.

d. Investment Review – Mariner Institutional

i. Portfolio Performance Review – Quarter End March 31, 2024

Report made part of these Minutes.

Mr. Vavrica summarized the March 31, 2024, performance report noting that overall, the quarterly returns were good. All equity investments had positive returns. The under-performance of fixed income and real estate slightly drug down the overall performance of the fund. The Plan's total net return for the quarter ended March 31, 2024, was 5.26% vs. the benchmark of 5.77% and for the fiscal year to date was 14.16% vs. the benchmark of 15.15%. The Plan's assets increased from \$162.1M on December 31, 2023, to \$168.0M on March 31, 2024.

ii. Flash Report – April 2024

Report made part of these Minutes.

For the month ended April 30, 2024, the Plan's return, net of fees, was -3.45% vs. the benchmark of -3.14%. The fiscal year to date return was 10.23% vs. the benchmark of 11.53%.

Discussion ensued regarding large cap growth manager Polen Capital. Mr. Vavrica said the manager was doing exactly what they set out to do (annual returns of 14-15%) but was not keeping up with the overall market in that space. He said he thinks Polen will work it out over time to which Mr. Kirschenbaum responded the Board had given them enough time. Mr. Vavrica said that while he was also frustrated with their performance, there were no other active large cap growth managers doing any better. Mr. Kirschenbaum suggested lowering the allocation of large cap growth to Polen to 5%, not the 6.5% they had. Mr. Vavrica said the problem with taking funds away from an active manager and placing them with a passive manager was if any one of the 8-10 companies that made up the majority of the Russell 1000 were to perform poorly, such performance will take the whole index with it, meaning major losses for the Plan.

When asked, the trustees agreed with Mr. Vavrica that the reserved cash could be used to pay benefits and expenses for the next three months. Mr. Kirschenbaum suggested that if more funds were needed before the Board met again, the needed funds could be taken from fixed income. Mr. Vavrica said the funds could be taken from whichever asset group was over target.

e. Legal Report - Sugarman, Susskind, Braswell & Herrera

i. Summary Plan Description

MOTION made by Mr. Kirschenbaum, seconded by Mr. Gunsten, to approve the Summary Plan Description as drafted and presented by Mr. Herrera. In a voice vote by the members present, **Motion** passed 5-0.

f. Pension Administrator's Report

Ms. Castronovo: 1) provided the trustees with the 2023-24 administrative expense budget versus actual expenses through mid-May; 2) informed the trustees that all 128 beneficiaries and retirees had returned their benefit verification letter; and 3) informed them that Ms. Brown had scanned and electronically filed all active retirees' and beneficiaries' original paper files.

Ms. Castronovo noted there was an issue with quorum for the August 29, 2024 regular Board meeting and asked the trustees to consider another date. After discussion, the Board decided to meet September 11, 2024 starting at 1:00 p.m.

7. ADMINISTRATIVE

a. Return of Employee Contributions (Refunds)

Ms. Castronovo summarized steps taken to pay outstanding returns of employee contributions ("refunds"): 1) notified one person that if he did not return his refund paperwork by mid-July, he would receive his refund in cash with all applicable taxes withheld; and 2) directed Salem Trust to pay refunds to three people whose refund amount was less than \$1,000.

Ms. Castronovo said there were six ex-employees, each employed less than three weeks with the City, who were due refunds of less than \$1,000. She held off directing Salem Trust to issue the refunds since Chair Mahoney correctly pointed out that Chapter 175.032 6(b) states “a firefighter may voluntarily leave his or her contributions in the fund for 5 years after leaving the employ of the fire department, pending the possibility of being rehired by the same department without losing credit...” Ms. Castronovo asked the trustees if they were okay refunding the funds to the ex-employees since none of them had any service credit to lose. The trustees agreed it was okay to pay these six refunds.

Ms. Castronovo continued that when the refund issue was addressed at a board meeting in early 2023, there was discussion about amending the Ordinance to remove the language granting 3%/5% interest accumulation on outstanding refund funds due. Ms. Castronovo asked the trustees if they wanted to direct Mr. Herrera to draft an Ordinance amendment to remove the interest accumulation language. Mr. Herrera cautioned that while such an idea was good, the decision to remove the interest accumulation ultimately had to be negotiated by the firefighters’ union and City.

Ms. Castronovo requested Board approval to engage an address search service.

MOTION made by Mr. Kirschenbaum, seconded by Mr. Gunsten, to approve the engagement of an address search service. In a voice vote by the members present, **Motion** passed 5-0.

ADJOURNMENT

The meeting adjourned at 3:29 p.m.

I, Craig Mahoney, the undersigned, am the Chair of the City of Delray Beach Firefighters’ Retirement System Board of Trustees (“Board”). The information provided herein is the Minutes of the May 13, 2024 regular meeting of said body. These Minutes were formally approved and adopted by the Board on 9/11/2024.



Board of Trustees, City of Delray Beach
Firefighters’ Retirement System

NOTE TO THE READER: If the Minutes you have received are not complete as indicated above, this means these are not the official minutes of the Board of Trustees of the City of Delray Beach Firefighter’s Retirement System. Minutes will become official only after they have been reviewed and approved, which may involve some amendments, additions or deletions to the Minutes as set forth above.

NOTE: upon official approval by the Board of Trustees, the Minutes will be posted on the City of Delray Beach website at: www.delraybeachfl.gov.