

CITY OF FLINT EMPLOYEES' RETIREMENT SYSTEM

BOARD OF TRUSTEES REGULAR MEETING

A regular meeting of the Board of Trustees of the City of Flint Employees' Retirement System was held on Tuesday, August 24, 2004 in the New Committee-of-the-Whole Room, City Hall Council Chambers, third floor, with the following in attendance.

TRUSTEES &
ALTERNATES Daniel Hall – Chairperson, Daniel Coffield, Peter Dobrzeniecki,
Robert Erlenbeck, James Goodin, Janice Kehoe, Sandra Kidd,
Amy Lindman, Alvern Lock, Donald Phillips, Edward Taylor
Cass Wisniewski

ABSENT Peggy Cook, Mark Horrigan, Robert Rosenberger, Georgia Steinhoff

ALSO PRESENT Habeeb Ghattas, Attorney for the Retirement Board
Jeffrey Welch, Attorney for the Retirement Board
Wanda Twitty, Retirement Supervisor
Larry Langer, Gabriel, Roeder, Smith & Company
Beth Bialy, Plante & Moran
Wendy Trumbull, Plante & Moran

1. CHAIRPERSON CALLS THE MEETING TO ORDER

Chairman Daniel Hall called the meeting to order at 1:05 p.m. He noted that an Agenda Addendum, containing two more Applications for Voluntary Retirement, and Item #13, relating to the September 1, 2004 Pension Payroll, have been distributed to the Trustees and he asked for a motion to add these items to the Agenda.

Motion made by Amy Lindman, supported by Donald Phillips, to make the Agenda Addendum part of the Regular Agenda and to accept the Memorandum to the Trustees regarding Agenda Item #13, the September 1, 2004 Pension Payroll.

Upon being put to a vote, the motion carried unanimously.

2. MEMBERS OF THE PUBLIC WISHING TO ADDRESS THE BOARD

Lanta Robbins, from the City's Legal Department, introduced herself to the Board.

Charlotte Novak, President of the Hurley Medical Center Registered Nurses Union, requested that, as soon as the legal problems are resolved regarding the transfer to MERS, there be a special board meeting called in order to approve the transfer and allow the union members to retire through MERS.

Jill Lake, Hurley Medical Center R.N. for 36 years, told the Board that she wants to retire, from MERS not FERS, as soon as possible.

Chairman Daniel Hall noted that the Board is working on the issues to approve the MERS transfer, with a special meeting to be called as soon as all issues are resolved.

Vice Chair Donald Phillips, Retiree Representative on the Board of Trustees, noted that the retirement benefits will not change, whether retiring from FERS or MERS. Additionally, there is no union representation for retirees in either case.

3. APPROVAL OF THE JULY 20, 2004 REGULAR BOARD MEETING MINUTES

It was moved by Amy Lindman, and supported by Robert Erlenbeck, to approve the minutes of the July 20, 2004, Regular Board Meeting, with corrections.

The following correction was noted by Attorney Habeeb Ghattas:

Page 8961, 4th paragraph:

Original Entry: Mr. Ghattas noted that a copy of the Court of Appeals decision regarding the 26-27 pay issue was included in the agenda packets, along with a summary he prepared.

Corrected Entry: Mr. Ghattas noted that a copy of the Court of Appeals decision regarding the 26-27 pay issue was included in the agenda packets. *Copies of a Summary of the Court's opinion he prepared were circulated at today's meeting.*

Upon being put to a vote, the motion carried unanimously.

4. APPLICATIONS FOR VOLUNTARY RETIREMENT

Steven Anderson
DPW/1600

Final Average Compensation:	\$ 35,929.60
Accumulated Contributions:	32,393.40
DRET:	25.38
Effective Date of Retirement	12/27/2003
Service: 32 Years, 10 Months	
The retiree elected the Option A in the amount of \$2,333.70	

Robert Erlenbeck requested that the application for voluntary retirement for Steven Anderson be tabled, until all necessary information is obtained, in order for Mr. Anderson to make a determination on his retirement. Mr. Erlenbeck noted that needed information has been received from Gabriel Roeder and is currently under review by the City (a copy will also be sent to the Union). It is expected that the issue will be resolved soon.

Janet Hall
Treasury/1600

Final Average Compensation:	\$ 37,995.23
Accumulated Contributions:	17,367.81
DRET:	779.89
Effective Date of Retirement	07/16/2004
Service: 13 Years, 9 Months	
The retiree elected the Option Straight Life in the amount of \$1,067.03	

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Janet Hall be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option Straight Life, in the amount of \$1,067.03, for as long as she lives.

Kathleen Mathews
HMC/1603

Final Average Compensation:	\$ 46,785.02
Accumulated Contributions:	Non-Cont
DRET:	.00
Effective Date of Retirement	07/09/2004
Service: 18 Years, 0 Months	

The retiree elected the Option C w/pop-up in the amount of \$2,702.37

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Kathleen Mathews be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option C w/pop-up, in the amount of \$2,702.37, for as long as she lives.

Deloris Evans
HMC/825

Final Average Compensation:	\$ 40,852.90
Accumulated Contributions:	Non-Cont.
DRET:	.00
Effective Date of Retirement	07/23/2004
Service: 29 Years, 1 Months	

The retiree elected the Option Straight Life in the amount of \$1,655.39

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Deloris Evans be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option Straight Life, in the amount of \$1,655.39, for as long as she lives.

Larfayette Hayes
HMC/1603

Final Average Compensation:	\$ 46,219.22
Accumulated Contributions:	Non-Cont.
DRET:	.00
Effective Date of Retirement	07/22/2004
Service: 31 Years, 10 Months	
The retiree elected the Option Straight Life in the amount of \$ 2,031.72	

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Larfayette Hayes be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option Straight Life, in the amount of \$2,031.72, for as long as he lives.

Lindsey Curtis
WSC/1600

Final Average Compensation:	\$ 55,847.35
Accumulated Contributions:	39,397.03
DRET:	677.64
Effective Date of Retirement	06/26/2004
Service: 29 Years, 11 Months	
The retiree elected the Option B w/pop-up in the amount of \$ 2,927.50	

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Lindsey Curtis be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option B w/pop-up, in the amount of \$2,927.50, for as long as she lives.

Steve Miller
Parks & Rec/1799

Final Average Compensation:	\$ 56,747.98
Accumulated Contributions:	25,803.33
DRET:	1,049.47
Effective Date of Retirement	07/08/2004
Service: 25 Years, 1 Months	

The retiree elected the Option B w/pop-up in the amount of \$2,780.01

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Steve Miller be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option B w/pop-up, in the amount of \$2,780.01, for as long as he lives.

Louis Rivas
WSC/1799

Final Average Compensation:	\$ 69,027.46
Accumulated Contributions:	40,363.75
DRET:	951.14
Effective Date of Retirement	07/15/2004
Service: 25 Years, 1 Months	

The retiree elected the Option B in the amount of \$3,174.49

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Louis Rivas be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option B, in the amount of \$3,174.49, for as long as he lives.

It was moved by Amy Lindman, and supported by Donald Phillips, to approve the Applications for Voluntary Retirement for Janet Hall, Kathleen Mathews, Deloris Evans, Larfayette Hayes, Lindsey Curtis, Steve Miller and Louis Rivas.

Upon being put to a vote, the motion to approve the Applications for Voluntary Retirement, with the exception of Steven Anderson, carried unanimously.

5. APPLICATIONS FOR DEFERRED RETIREMENT

Zalondra Dennie
HMC/1603

Final Average Compensation:	\$ 30,303.73
Accumulated Contributions:	Non Cont.
DRET:	.00
Effective Date of Retirement	06/19/2004
Service: 10 Years, 11 Months	

The retiree will elect an Option prior to 09/01/2031

Ronda McGuire
HMC/825

Final Average Compensation:	\$ 56,634.09
Accumulated Contributions:	Non Cont.
DRET:	.00
Effective Date of Retirement	07/23/2004
Service: 10 Years, 2 Months	

The retiree will elect an Option prior to 12/01/2024

Renee Androsky
HMC/1603

Final Average Compensation:	\$ 38,218.75
Accumulated Contributions:	Non Cont.
DRET:	.00
Effective Date of Retirement	07/18/2004
Service: 10 Years, 0 Months	

The retiree will elect an Option prior to 03/01/2015

It was moved by Donald Phillips, and supported by Amy Lindman, to approve the Applications for Deferred Retirement for Zalondra Dennie, Ronda McGuire, and Renee Androsky.

Upon being put to a vote, the motion carried unanimously.

6. OPTIONS PICKED BY DUTY-DISABILITY AND DEFERRED RETIREMENTS

Linda McDill/HMC Option Straight Life, \$812.04

Rebecca O’Grady/HMC Option Straight Life, \$792.92

Danny Boring/City Of Flint Option B, \$ 852.42

For informational purposes only.

7. APPROVAL OF PENSIONS PREVIOUSLY REPORTED

Calvin Barrett/Fire Revised Years of Service: 4 years, 5 months

Revised for years on Workers’ Compensation

Anita Garza/HMC Revised Years of Service: 2 years

Revised for years of service previously calculated incorrectly

A motion was made by Amy Lindman, and supported by Daniel Coffield, to approve the pensions previously reported.

Discussion followed.

Upon being put to a vote, the motion carried unanimously.

8. APPLICATIONS FOR DUTY DISABILITY RETIREMENT

Stephen Tarkowski

Fire/352

Age: 50 Years

Service: 23 Years, 5 Months

The medical report and summary of Disability Determination dated April 29, 2004 from Dr. Victor Roth, Medical Director, does certify that Stephen Tarkowski is not totally and permanently disabled.

Mr. Tarkowski’s application for duty disability retirement was tabled by the Board.

9. UPCOMING CONFERENCES (All items placed on file in the Retirement Office.)
 - 9.1 Employee Benefit News, 17th Annual Benefits Management Forum & Expo, September 19-22, 2004, Nashville, TN.
 - 9.2 Council of Institutional Investors, Fall Meeting 2004, September 26-28, 2004, Boston, MA.
 - 9.3 Institute for International Research, 12th Annual Guns & Hoses 2004, October 3-6, 2004, San Diego, CA.
 - 9.4 MAPERS, 2004 Fall Conference, October 10-12, 2004, Grand Rapids, MI.
 - 9.5 NAREIT, 2004 NAREIT Annual Convention, November 17-19, 2004, Los Angeles, CA.
 - 9.6 New York University, Investment Management for Institutional Investors, November 14-17, 2004, Phoenix, AZ.

A motion was made by Donald Phillips, and supported by Amy Lindman, to add the stated conferences to the list of authorized conferences.

Upon being put to a vote, the motion carried unanimously.

10. COMMUNICATIONS RECEIVED (All items were placed on file in the Retirement Office; if noted, a copy was given to Board Members in their agenda packets also.)
 - 10.1 IFS, Operational Reviews for Public Pension Funds, August 10, 2004.
 - 10.2 David Babson & Co., The Babson Staff Letter, July 23, 2004.
 - 10.3 Piedmont Investment Advisors, Piedmont Perspective, June 15, 2004.
 - 10.4 Asset Services Co., Capital Perspectives, 2nd Quarter 2004.
 - 10.5 Plante & Moran, Universal Advisor, 2nd Quarter 2004.
 - 10.6 NCPERS, PERSIST, Summer 2004.
 - 10.7 David Babson & Co., The Babson Staff Letter, August 13, 2004.

- 10.8 WestAM, Schedule K-1 for 2003, June 28, 2004.
- 10.9 MAPERS, Pension Scope, Summer 2004.
- 10.10 NCPERS, The Monitor, July/August 2004.
- 10.11 Gabriel, Roeder, Smith & Co., News Scan & Research Memos, August 4, 2004.
- 10.12 Donaldson & Co., Letter to Daniel Hall re: Commission Recapture Program, July 7, 2004.
- 10.13 Fidelity Investments, Letter to Daniel Hall re: Change in Managing Directors, July 13, 2004.
- 10.14 Secured Capital LLC., Letter to Peter Dobrzeniecki re: Hyperion GMAC Real Estate Income Securities Fund, May 21, 2004.
- 10.15 Glass Lewis & Co., Letter to FERS re: SEC Proxy Voting, July 29, 2004.
- 10.16 Memo to Pension Board from Merle West re: Defined Contribution Plan, July 6, 2004. (Enclosed)
- 10.17 Memo to Retirement Board from Council President Coleman re: Ordinance/Resolutions passed by EFM, August 12, 2004. (Enclosed)
- 10.18 Letter to Valerie Humphries from Bob Erlenbeck re: Disability Pension, July 20, 2004. (Enclosed)
- 10.19 E-Mail to Peter Dobrzeniecki from Curtis Spears, re: Changes in Northern Trust's Quantitative Management Team, July 31, 2004. (Enclosed)
- 10.20 Letter to Retirement Board from Alvern Lock re: Election of Police/Fire Trustee, July 21, 2004. (Enclosed)
- 10.21 Memo to Board of Trustees from Habeeb Ghattas re: Election of Police/Fire Trustee & Alternate, August 16, 2004. (Enclosed)
- 10.22 Letter to Margaret Hunter from Habeeb Ghattas re: Transfer to MERS, July 14, 2004. (Enclosed)

- 10.23 Letter to Edward Taylor from Habeeb Ghattas re: EFM Amendments to Retirement System Ordinance, August 16, 2004. (Enclosed)

It was moved by Amy Lindman, and supported by Donald Phillips, to receive the communications on file.

Upon being put to a vote, the motion carried unanimously.

11. REPORTS RECEIVED (All items were placed on file in the Retirement Office; if noted, a copy was given to Board Members in their agenda packets also.)
- 11.1 State Street Global Advisors, Account Summary as of June 30, 2004.
- 11.2 Lynch, Jones & Ryan, Trading Summary as of June 30, 2004.
- 11.3 Magna Securities, Commission Recapture Report as of June 25, 2004.
- 11.4 Fidelity Investments, Monthly Investment Update as of July 31, 2004.
- 11.5 Wentworth, Hauser, & Violich, Executed Trades, July 14, 2004.
- 11.6 LSV Asset Management, 2nd Quarter '04 Update.
- 11.7 Bank of Ireland, Proxy Voting Activity Report for quarter ended June 30, 2004.
- 11.8 Bank of Ireland, Statement of Holdings as of June 30, 2004.
- 11.9 Bank of Ireland, Statement of Holdings as of July 31, 2004.
- 11.10 Bank of Ireland, Statement of Holdings for Quarter Ending June 30, 2004.
- 11.11 Bank of Ireland, Client Update, July 2004.
- 11.12 Magna Securities, Commission Recapture Report as of July 27, 2004.
- 11.13 State Street Global Advisors, Appraisal Report, July 31, 2004.
- 11.14 RCM, Directed Brokerage Report as of June 30, 2004.
- 11.15 RCM, Investment Performance as of June 30, 2004.

- 11.16 RCM, Performance Summary for month ending June 30, 2004.
- 11.17 RCM, Performance Summary for quarter ending June 30, 2004.
- 11.18 State Street Global Advisors, Investment Quarterly, 3rd Quarter 2004.
- 11.19 GLOBALT Investments, Equity Strategies, 2nd Quarter 2004.
- 11.20 ICON Advisors, Inc., Performance Summary as of June 30, 2004.
- 11.21 State Street Global Advisors, Appraisal Report, June 30, 2004.
- 11.22 Fidelity Investments, Capital Contribution Request, July 19, 2004. (Enclosed)
- 11.23 Fred Alger Management, The Alger Update, 2nd Quarter 2004.
- 11.24 Merganser Capital, Investment Memorandum, 2nd Quarter 2004.
- 11.25 RCM, Performance Summary for month ending July 31, 2004.
- 11.26 Intercontinental Real Estate, Performance Results as of June 30, 2004.
- 11.27 Northern Trust Reports – June 2004 (Enclosed)
- 11.28 Retirement Fund Employee/Employer Contributions (Enclosed)

It was moved by Amy Lindman, and supported by Donald Phillips, to receive the reports on file.

Upon being put to a vote, the motion carried unanimously.

12. STATISTICAL REPORT OF BENEFITS

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Number Retired	2,964	3,001	2,984
Annualized Payroll	\$ 58,416,621	\$ 61,357,283	\$ 62,357,693
13 th Check	-0-	-0-	-0-
Charter 13 th Check	-0-	-0-	-0-

For informational purposes only.

13. APPROVAL OF THE SEPTEMBER 1, 2004 PENSION PAYROLL TRANSFER

A motion to approve the pension payroll transfer for September 2004 in the amount of \$5,045,784.34 from State Street Global Advisors to Citizens Bank for payment of the September 1, 2004 pension payroll, was made by Donald Phillips, supported by Daniel Coffield.

Upon being put to a vote, the motion carried unanimously.

Chairman Daniel Hall requested a motion to allow Larry Langer, Actuary for Gabriel, Roeder, Smith & Company, to address the Board of Trustees.

Motion made by Donald Phillips, supported by Daniel Coffield, for Larry Langer to address the Board of Trustees, and answer questions, under agenda items #14, #15, #16 & #17.

Upon being put to a vote, the motion carried unanimously.

14. GABRIEL ROEDER & SMITH – LARRY LANGER

Mr. Langer's presentation is covered under Agenda Items #15 & #16.

15. RESOLUTION TO ADOPT 58TH ANNUAL ACTUARIAL VALUATION (as of 12/31/02)

Larry Langer noted that the final, bound copy of the 58th Annual Actuarial Valuation Report dated December 31, 2002, that the Board of Trustees has now received, is unchanged from the draft presented at the last meeting, with the exception of the three changes discussed at last month's meeting (and covered in the minutes of that meeting).

Discussion followed. It was noted that the 58th Annual Actuarial Valuation, as revised, was formally received by the Board of Trustees at the July 20, 2004 Regular Board Meeting.

Habeeb Ghattas presented suggested resolutions for adoption of the Computed Contribution Rates for Hurley Medical Center and the City of Flint for Fiscal Year 2005 (beginning July 1, 2004). He noted that the resolutions include the standard language necessary to meet the responsibilities of the Board of Trustees and the requirements of the Ordinance. Chairman Daniel Hall asked Peter Dobrzeniecki and Daniel Coffield to review the resolutions prior to the next board meeting. He requested that a final version be included in the next agenda packets for consideration at the September Board Meeting.

Attorney Ghattas noted that Public Act #728 of 2002 requires that the certification statement listed on page A-1 of the Actuarial Report be adopted by the Board of Trustees. This certification indicates that the Board is satisfied, based upon information contained in the actuarial report, that the System provides for the required employer contributions to the System. Therefore, he recommended that the Chair entertain a motion to that effect.

Motion by Amy Lindman, supported by Ed Taylor, that the Board adopt the Public Act #728 Certification on page A-1 of the Fifty-Eighth Annual Actuarial Valuation Report, which provides as follows:

The Board of Trustees of the City of Flint Employees Retirement System confirms that the System provides for payment of the required employer contribution as described in Section 20m of Michigan Public Act #314 of 1965, as amended by Public Act #728 of 2002.

Discussion followed.

Upon being put to a vote, the motion carried unanimously.

16. RESOLUTION AUTHORIZING THE TRANSFER OF ALL DATA FOR CERTAIN ACTIVE MEMBERS AND RETIREES OF HURLEY MEDICAL CENTER

Larry Langer reported that Gabriel Roeder has received all of the information needed to perform the transfer valuation and the final numbers will be finished within the next few days. His current estimate is that, if all Hurley active employees transferred (except Local #1603), the transfer would require about 40.18% of the Hurley-related assets. If all Hurley active employees (except Local #1603) transferred, plus half of the Hurley retirees, the percentage would be in the low 60s; however, if all Hurley retirees were to transfer also, the percentage would be in the high 80s. Mr. Langer noted that the valuation data used is as of December 31, 2003. When the transfer actually occurs, the percentage to be transferred should be applied to the most recent market information.

Chairman Daniel Hall stated that, when a special meeting is called to vote on this issue, he would like Larry Langer to attend and present the final numbers. Any other issues, such as tax issues, must be resolved prior to that meeting.

Discussion followed. It was noted that Sandy Rodwan, Actuary, will be reviewing the information from GRS, specifically checking the methodologies, principles, practices and actuarial standards, along with performing sample testing. Larry Langer noted that GRS also has an internal “double-checking system” that is currently performing an evaluation of the information and calculations.

A discussion followed regarding the fact that the rates used from the actuarial valuation reports have been implemented a year and a half after the valuation date; i.e., the rates from this valuation dated December 31, 2002 are being implemented for FY05, beginning July 1, 2004. Starting next year (FY06 beginning July 1, 2005), the rates adopted will be from the actuarial valuation dated June 30 of the previous year (June 30, 2004). Per Larry Langer, both time frames are within the realm of accepted actuarial practice; however, a “one-year lag” is best. He also noted that GRS will begin working on the December 31, 2003 and June 30, 2004 valuations after all data is completed for the MERS transfer. They also need asset information for December 31, 2003 to complete the valuations.

Don Phillips asked Larry Langer about the status of calculations for the System’s earnings for calendar year 2003 in order to calculate any 13th check that might be due to retirees (if the earnings are over 8%). The 13th check must be paid by the end of September, by Ordinance. Don Phillips noted that, although there were some ordinance changes made in June, a benefit cannot be taken away retroactively. Mr. Langer stated that he has not yet performed those calculations. Mr. Phillips noted that the preliminary figures from the System’s consultant indicate the earnings may have been in excess of 8%.

Ed Taylor stated that the City Council considers that there is still a 13th check per Ordinance, regardless of any changes made to the Retirement Ordinance by the Emergency Financial Manager, which are subject to change by the Council. Discussion followed.

17. RESOLUTION AUTHORIZING THE TRANSFER OF RELATED ASSETS AND LIABILITIES FOR CERTAIN ACTIVE MEMBERS AND RETIREES OF HURLEY MEDICAL CENTER.

Tabled by Chairman Daniel Hall.

Chairman Daniel Hall expressed his appreciation to Larry Langer for attending the Retirement Board Meetings. He also noted that Mr. Langer attended the Council Committee Meeting last week to answer the Council's questions regarding the Social Security Equating Option, as part of their discussion on enacting an ordinance change to update the language allowing that option. Chairman Hall reported that the Council did enact that ordinance change at their regular City Council meeting last night.

Larry Langer left the meeting at 2:00 p.m.

The Board recessed for a break at 2:00 p.m.

Chairman Daniel Hall called the meeting back to order at 2:10 p.m.

18. AUDIT COMMITTEE REPORT
- Update/Recommendations

Chairman Daniel Hall reported that Plante & Moran completed the FERS audits for the periods ended June 30, 2002 and June 30, 2003. Beth Bialy and Wendy Trumbull, from Plante & Moran, are present to review these audits with the Board. He expressed his appreciation to the Plante & Moran staff, Peter Dobrzeniecki and the Finance Staff, and to the Audit Committee (Sandra Kidd, Cass Wisniewski, Peter Dobrzeniecki, Daniel Hall) for their efforts on the audits.

Beth Bialy and Wendy Trumbull reviewed and summarized the 18-month audit for the period ended June 30, 2002 and the 12-month audit for the period ended June 30, 2003. Ms. Trumbull noted that the Independent Auditor's Report for both audits gave a "clean opinion" on the financial statements, which means the financial statements are fairly stated; there were no material exceptions found. During the review of the statements with the Board, they responded to questions, concerns and clarifications. The Letter of Comments and Recommendations, from Plante & Moran to the Audit Committee, was also reviewed with the Board, with special attention to the "Reportable Conditions" and "Other Matters" sections, which suggest some adjustments to accounting procedures in the future. It was also noted that, beginning with fiscal year 2004, the separate retirement system audit can be included in the City's financial statements, rather than the System's statements reflecting the City audit, as in the past.

Discussion followed. Changes to the Audit Reports were noted as follows:

Notes to Financial Statements, Note 2, page 8 (both reports), last paragraph:

Original Entry: The contribution requirements of plan members and the City of Flint are established and may be amended by the Board of Trustees in accordance with the City Charter, union contracts, and plan provisions.

Correction: “City Charter” should read “*City Ordinance.*”

Notes to Financial Statements, Note 4, page 10 (June 30, 2003 Report):

Original Entry: In addition, during 2003, the System established a self-insurance reserve to cover potential liabilities. The balance as of June 30, 2003 is \$554,548.

Corrected Entry: *At least ten years ago*, the System established a self-insurance reserve to cover potential liabilities. *During 2003, funds were set aside in this reserve account.* The balance as of June 30, 2003 is \$554,548.

Management’s Discussion and Analysis, Investment Results, page 3 (2002) & page 4 (2003), first paragraph, second sentence:

Original Entry: The System’s cumulative return actual vs. target has been substantially below target for the last three years.

Correction: Remove the word “*substantially.*”

Management’s Discussion and Analysis, Investment Results, page 3 (2002) & page 4 (2003), second paragraph, first sentence:

Original Entry: The manager effect attribution is negative and has been negative every quarter since 1995.

Correction: *Delete sentence.*

Motion made by Daniel Coffield, supported by Ed Taylor, to receive the Audit Reports, as prepared by Plante & Moran, with corrections as noted, for the 18-month period ended June 30, 2002, and the 12-month period ended June 30, 2003.

Discussion followed. Attorney Jeffrey Welch questioned Plante & Moran regarding the new Public Act #728 requirement of confirmation that all necessary contributions have been made. Beth Bialy and Wendy Trumbull noted that the audit must include a review of the actuarial calculations for contribution rates, and the actual contributions made by the employer, to ensure that the employers' contributions were in full compliance with actuarial requirements. As a result of their review, they believe that all required contributions were made, during the time periods covered by the audits, which is reflected in the audit reports. They stated that the audit reports will be reissued with the corrections as noted.

Attorney Habeeb Ghattas noted that, per Public Act 314 of 1965, as amended by Public Act 728 of 2002, a statement is to be included in the Board's annual report by the Auditor certifying that the required employer contributions were paid.

Upon being put to a vote, the motion carried unanimously.

Chairman Daniel Hall asked for a proposal from Plante & Moran for the 2004 Audit. He recommended the Board continue with Plante & Moran and he noted that the Audit Committee will be addressing future audit requirements. Also, the Board and the Committee should work with staff to be sure the issues of concern/recommendations from Plante & Moran are addressed.

Beth Bialy & Wendy Trumbull, of Plante & Moran, left the Meeting following their presentation.

19. DB/DC COMMITTEE REPORT

Tabled by Chairman Daniel Hall.

20. PROFESSIONAL SERVICES COMMITTEE REPORT

In Georgia Steinhoff's absence, Chairman Daniel Hall updated the Board on the issues currently before the Professional Services Committee:

- Holly Duncan reevaluation – Bob Erlenbeck sent a letter requesting further information regarding whether her condition has changed materially; she has not responded. The Board approved sending a second letter setting a time limit for a response.
- Kathleen Robinson reevaluation – Bob Erlenbeck reported that her reevaluation is on hold pending the establishment of a contract with the PPOM in order to obtain discounted fees for the tests. He has contacted the PPOM and is awaiting a response.
- Disability Report – There were no new applications for disability retirements this month. There is one application that is currently tabled (Stephen Tarkowski).
- RFP, Consultant Report – The Committee will be presenting a proposed RFP to the Board at the September 21 meeting. There were 33 requests for an RFP in response to the ad in the *Pensions & Investments* magazine. If there are any other consultants that Board Members want to add to the list to receive an RFP, information is to be given to Chairman Daniel Hall.
- Equating Option – Ed Taylor reported that the City Council voted to update the Retirement Ordinance section on the Social Security Equating Option at the Council Meeting on August 23. Bob Erlenbeck noted that the next step is for Gabriel Roeder to develop the methodology for calculating pensions and applying the updated equating option. Peter Dobrzeniecki asked if the union contracts needed to be amended to include the new information on the equating option. Attorney Habeeb Ghattas noted that, under the authority of PERA, the collective bargaining agreements supercede the ordinance. (However, the updated ordinance language is now consistent with the social security rules.) Bob Erlenbeck noted that many of the union contracts include the Retirement Ordinance by reference, rather than specific contract language, and asked if that would allow for ordinance changes without contract changes. Attorney Ghattas will review the union contract issue. Chairman Daniel Hall stated the Professional Services Committee will work with Attorney Ghattas on this issue.
- Review Test Fee Schedule from MWORKS – The Committee is still working on this.
- Election Rules – Attorney Habeeb Ghattas reviewed his response to the Board's request for his opinion concerning the validity of the election held on July 13, 2004 for the Police/Fire Trustee (#10.21 in agenda packets). His conclusion is that the election held on July 13th should be declared invalid and the Board should schedule a General Election for the Police/Fire Trustee and Alternate. A written explanation should be included when scheduling the election. No new nominees would be allowed. In the future, if there are only two petitions filed for the positions of Trustee and Alternate, the Primary Election should be cancelled and the General Election

held according to the regular schedule. (The Board will be re-evaluating the election rules in the future, so this item will remain on the Agenda.) In accordance with the Retirement Ordinance, the current Trustee (Amy Lindman) and Alternate (Alvern Lock) may continue to serve until their respective successors are elected and qualified.

Motion to hold a General Election for the Police/Fire Alternate on Monday, September 20, made by Donald Phillips and supported by Daniel Coffield.

Upon being put to a vote, the motion carried unanimously.

- Future Employment Restrictions – Tabled (The Committee is still working with M-Works on this issue.)

21. INVESTMENT COMMITTEE REPORT

- Recommendations – Report
- Manager Review
- MERS Update

Daniel Coffield distributed and reviewed the minutes of the Investment Committee Meeting held on August 13, 2004, along with a spreadsheet showing the status of the Retirement Fund as of August 10, 2003 with suggested rebalancing of the Fund.

The major issue for the Committee is the proposal for rebalancing the Fund, which would accomplish the following: a) Fund a potential transfer to MERS; b) Fulfill the awards recently given to new managers; c) Replenish the drawdown fund for the remainder of 2004; and d) Rebalance the asset allocation. The current market value of the Fund is \$738,000,000 as of midnight on August 10. The spreadsheet shows the recommended rebalancing of the Fund to meet these four objectives. These changes are subject to negotiation of fees, due diligence, new contracts to be signed, and City Council approval of the fees, under the ordinance. It was noted that Dresdner has not yet received a termination letter and that needs to be done as soon as possible.

Chairman Daniel Hall also reported that Ray Froehlich is no longer over the FERS account at Northern Trust; Harland Abraham is once again the Relationship Manager with FERS. He will be meeting with Mr. Abraham soon.

A motion was made by Amy Lindman to send the letter of termination to Dresdner within the next week, seconded by Donald Phillips.

Upon being put to a vote, the motion carried unanimously.

Discussion followed. Chairman Daniel Hall noted that Dresdner's management style has not changed, which is an important reason why they are being terminated. Three letters are needed: 1) Letter of Direction to the Transition Manager; 2) Termination Letter with directions to Dresdner; 3) Letter of Direction to Northern Trust.

In reviewing the Investment Committee's August 13 Meeting Minutes, Daniel Coffield noted that some changes were needed: 1) The second paragraph, under Topic #2, needs to be modified, deleting the words "...excluding Dodge & Cox, which has a minimum \$50 million fee." 2) Do the words "if necessary" after "City Council Approval" on the chart need to be added? Fees for new managers may need approval by City Council, per Retirement Ordinance. This is the result of the Court Order that the Board should be operating under the Ordinance, rather than State Law pre-empting the Ordinance, which is the Board's position. 3) Wells Fargo should read "Wells Capital." 4) The motion was for the approval of the reallocation of funds to accomplish the objectives, which the Committee approved. Discussion followed regarding adding the words "if necessary" after "City Council Approval" on the chart. No action was taken.

Chairman Daniel Hall stated that he received a document from Callan & Associates in reference to the fees, and he noted that the final paragraph reads as follows: "The Flint Retirement Board has always tried to negotiate the best possible fees while still providing an incentive to provide above-average performance." He will be giving copies of this document to the City Council for their review prior to discussions of fees, and other matters, at future meetings. He also noted that Dodge & Cox gave a fee rate that is far below the median and that most of the money managers are negotiating their fees with the Board.

Daniel Coffield made a motion, supported by Amy Lindman, to authorize recommendations of the Investment Committee for the reallocation of funds, as provided on the spreadsheet distributed to the Board, a copy of which is attached to these Minutes.

Upon being put to a vote, the motion carried, with one opposition (Donald Phillips).

Dan Coffield reported on the Investment Committee's discussion of the MERS Transfer. He stated that there are still four key areas to be resolved: 1) accumulation of funds for ultimate transfer; 2) Larry Langer's actuarial valuation; 3) Sandra Rodwan's review of the actuarial valuation; 4) legal clearance, including the tax opinion letter. Mr. Coffield referenced the August 23rd letter from Meg Hunter of Dykema Gossett, Special Tax Counsel for the Board. On the first page, she noted: "Our review of the documents described in your question indicates that they are not sufficiently detailed to accomplish the transfer of assets and liabilities to MERS without endangering the tax-qualified status of FERS." Ms. Hunter also makes recommendations regarding an ordinance change by

City Council, changes to the agreements, etc. At this time, the MERS transfer cannot be approved because, in the opinion of an expert, the documents are insufficient to accomplish that transfer.

Attorney Habeeb Ghattas stated that Ms. Hunter has recommended that the Ordinance be amended so as to address the concerns of the transfer more specifically. Ms. Hunter was also contacting Sandra Rodwan and Gabriel Roeder representatives regarding her concerns about the actuarial report. She has made some specific suggestions for Ordinance revisions by the City Council. In the agenda packets is a copy of a letter that Habeeb sent to Ed Taylor on August 16, in response to a request from Ed Taylor and Johnnie Coleman, outlining Habeeb's concerns with the Retirement Ordinance amendments enacted by the EFM, which included some language about the MERS transfer. Habeeb also recommends that Special Tax Counsel review the EFM's amendments. He stated that the transfer methodology is a major concern for administration of the Plan. Since the transfer methodology was not addressed in the collective bargaining agreements, it should be included in the Ordinance changes approved by City Council and adopted by the Board of Trustees for implementation.

Habeeb Ghattas also noted that there are other concerns with regard to the current tax qualification status of the Fund. In Ms. Hunter's opinion letter, she expresses concerns that MERS may need verification that the FERS' tax determination letter is up-to-date.

Discussion followed. It was noted that all other issues must be fully resolved prior to the City Council approving the appropriate Ordinance changes and the transfer.

Motion made by Daniel Coffield, supported by Amy Lindman, to have Habeeb Ghattas, as Attorney for the Board, compile a list of the legal requirements and issues that must be addressed, and actions that must be taken, before the MERS transfer can be approved. In this capacity, he is authorized to work with Meg Hunter (Dykema Gossett-Special Tax Counsel), Trachelle Young (City Attorney, representing City Council), Steve Lowney, of Foster, Smith, Collins (Hurley Medical Center), Mike Moquin (MERS), Union attorneys, etc.

Discussion followed. Dan Coffield asked if it would make sense to have a Hurley Attorney coordinate the legal work regarding the transfer with the other attorneys since the transfer is of primary concern to Hurley and Hurley had agreed to pay the fees for the Board's Special Tax Counsel, if necessary. Attorney Ghattas noted that the law indicates that the Board has independent oversight responsibilities, and under the stay order from Judge Yuille, he serves as Counsel to the Board and although his fees are paid only by FERS, the Board is entitled to independent advice regardless of who pays the fees in this instance. All attorneys can work together, but the Board must know that their own legal representative is promoting no agenda other than the interests of the Board of Trustees.

As requested by the Board, he will coordinate the MERS transfer, as the legal counsel to the Board of Trustees, working with other attorneys as required.

Upon being put to a vote, the motion carried unanimously.

Daniel Coffield reported that the Investment Committee has determined that a traditional consultant would be best for the System and he is working with Georgia Steinhoff on the RFP process. He also noted that a review of the quarterly returns to the System shows that FERS is in the 25th percentile.

22. EDUCATION/ TRAVEL/ TRAINING COMMITTEE

Chairman Daniel Hall noted that the Committee has not yet met. There have been no due diligence visits for Wells Capital or Piedmont; all others have been completed. However, once the contracts are done and evaluations of those two companies are made, it is possible that due diligence visits will be unnecessary.

Peter Dobrzeniecki noted that the FY05 travel budget has been exhausted and a budget amendment will be needed in order to pay for future travel.

Chairman Daniel Hall noted that MAPERS is scheduled for October 10-12 and asked that any Trustee who wishes to attend let him know today so that the reservations can be made.

23. RETIREMENT ORDINANCE REVISION COMMITTEE

Tabled by Chairman Daniel Hall, who noted that there have been no meetings with City Council as yet. However, there has been some groundwork laid and he is attending City Council meetings. Ed Taylor has been working on behalf of the Board to provide necessary information to Council in preparation for meetings of this Committee.

24. LEGAL COUNSEL UPDATES

- Board v Kurtz – Habeeb Ghattas reported that, since Mr. Kurtz left office on July 1, Special Counsel Steven Spender and the City’s Attorney, Richard Figura, agreed to sign an order dismissing the lawsuit without prejudice. A key component of that lawsuit was whether or not State Law pre-empted the Retirement Ordinance. A decision is still pending from the Court of Appeals regarding the Board’s lawsuit for the right of appointment of their own Counsel. The issue of whether or not State law pre-empts the Retirement Ordinance is also a factor in that case. In that pending lawsuit, both MAPERS and the State Firefighters have filed Amicus Briefs supporting the Board’s position. The parties are now awaiting the scheduling of oral arguments; once the oral arguments are scheduled, the opinion will be issued.
- Wallace Jones Update - Habeeb Ghattas stated that replacement checks were issued to Mr. Jones and sent to the Receiver, per Court Order. A letter was sent to Mr. Jones requesting reimbursement of the funds originally issued to him in error; however, he did not respond. Since these funds were issued in error, Habeeb’s advice to the Board was to follow the Ordinance, which allows for an adjustment for correction of errors by making the retiree responsible for repayment actuarially, through deductions to his benefit amount. A couple of days ago, Mr. Jones sent Attorney Ghattas a fax indicating that Mr. Jones has a continuing objection to the payments, as they are now being processed and sent to the Receiver, and he wants to be heard by the Court. Habeeb will send a letter to Mr. Jones recommending that he hire his own attorney to review the matter.
- 26/27 Pays – Habeeb Ghattas noted that the Opinion of the Court of Appeals was given to the Trustees in last month’s agenda packet; his summary analysis of that opinion was distributed at last month’s board meeting. The Opinion dealt with represented members and an unfair labor practice charge before MERC. MERC’s decision was appealed before the Court of Appeals, who affirmed it in part and reversed it in part. They remanded the matter back to MERC for entry of any final orders. No further documents have been received.

Per Peter Dobrzeniecki and Bob Erlenbeck, the City was already in compliance with the ruling and no recalculations have been necessary as a result of the Court of Appeals ruling. The 27-27-27 pays had been recalculated by the City, pursuant to the Court of Appeals and the original MERC hearing. The section that was remanded back was that the calculations should be made as 26-26-27. All of the recalculated individuals had been figured as 26-26-27, to allow for a naturally occurring 27 pays. The new union contracts and the Ordinance now read 26-26-26. The contracts supercede the Ordinance.

Don Phillips noted that URGE has filed a lawsuit, which is pending in Judge Yuille's court, regarding the 26-27 pay issue on behalf of retirees whose pensions were recalculated from 27-27-27 to 26-26-27. These retirees are getting a lower pension, both because of the recalculation and because a portion is being deducted to pay back to the City what the City considers to be the previous over-payment of pension funds. URGE believes this is a violation of the State Constitution.

In response to a question regarding the method of calculation for a retiree's best years of income, Peter Dobrzeniecki reported that the City now has a computer program in place to make the calculations. The program calculates the best three 26-pay periods in the five-year period involved (or best five out of ten where applicable). No gaps are allowed within a 26-pay period, which must be 26 consecutive pays. There can be gaps between each of the three separate 26-pay periods. Each period can cross calendar years; however, they cannot overlap each other. The computer will calculate the best three 26-pay periods and also print out all of the years and salaries for the retirement applicant, who can review and verify that those are the periods they would choose.

- Retirement Ordinance Changes - Tabled by Chairman Daniel Hall. Attorney Ghattas noted that there have been no meetings with City Council. Ed Taylor previously requested that Habeeb provide to him a list of Habeeb's concerns with the recent ordinance changes, from the Board's perspective. A copy of Habeeb's response is in today's agenda packet.
- Teresa Beatenhead - Tabled by Chairman Daniel Hall. This issue was referred to Habeeb Ghattas at the last Board Meeting; however, he has not yet received any documentation for review.

25. OTHER BOARD BUSINESS

Council Members requested a copy of the Investment Policy draft in their next packets.

Ed Taylor asked whether the information from Milberg-Weiss regarding litigation assistance for class action lawsuits was of interest to the Board of Trustees. Habeeb Ghattas noted that Northern Trust, as part of its custodial responsibilities, provides this service to FERS. If the Board hires separate attorneys in these lawsuits, the costs will be substantially greater. In the past, the Board has been satisfied with Northern Trust and their participation on a pro rata basis. The Board can consider hiring their own counsel on a case-by-case basis; however, Northern Trust would still need to be involved to research the particulars of the case and what securities belonging to FERS were thus impacted. Habeeb recommended that the Milberg-Weiss information be assigned to the

Investment Committee, who could review the information with Northern Trust to determine whether there would be any advantage to utilizing the services of Milberg-Weiss. Ed Taylor will provide the information to Daniel Hall for the Investment Committee.

Chairman Daniel Hall informed the Board that a dinner was being offered by Joe Solaka, of Ikon Advisors (formerly Meridian) tonight. Cocktails will be at 6:00 p.m. and dinner at 6:30 p.m., at Kruse & Muer in Grand Blanc. Also, please let him know today if anyone wants to attend the MAPERS Conference scheduled for October 10-12.

Chairman Daniel Hall asked that the Election Committee be added to future Agendas. The Committee will review the voting rules, the possibility of ballot votes, etc.

Ed Taylor noted that he will be attending Guns & Hoses from October 3-6, for his one out-of-state conference per year as a Trustee.

Peter Dobrzeniecki noted the need for a budget amendment to put more money into the travel budget.

Amy Lindman made a motion, supported by Donald Phillips, to authorize Peter Dobrzeniecki to move \$20,000 into the Travel & Education line item in the Retirement Budget.

Upon being put to a vote, the motion carried unanimously.

26. ADJOURNED

A motion was made by Amy Lindman, and supported by Sandra Kidd, to adjourn the meeting at 4:40 p.m.

Upon being put to a vote, the motion carried unanimously.

Respectfully submitted,

Peter Dobrzeniecki
Secretary