

**Cortez Fire Protection District
Pension Board meeting minutes
July 8, 2015**

Call to order

President Sharp called the meeting to order at 6:00 p.m. in the meeting room at Station #1. The roll was taken and the board members present were Orly Lucero, Lori Johnson, Gene Gustafson, Kent Lindsay, Buck Woodman, Sherri Wright and Larry Sharp. Administrative assistant Wendy Mimiaga, Asst. Chief Charles Balke and Chief Jeff Vandevoorde were also present for the meeting.

Approval of the minutes

The minutes of the meeting held on April 8, 2015 were brought before the board for approval.

After reading and review, Kent Lindsay made a motion to approve the minutes from the meeting held on April 8, 2015, Sherri Wright seconded. The minutes were approved on the following vote:

Gustafson	Johnson	Lindsay	Lucero	Wright	Woodman	Sharp
yes	yes	yes	yes	yes	yes	yes

Public Comment

There was no public comment.

Correspondence

There was no correspondence.

Administrative assistants report

Administrative Assistant Wendy Mimiaga went over her report that was included in the packet. As requested by the Board, the value of the bonds and mutual funds in the Edward Jones Investment account were delineated. It was reported that the value of the Edward Jones account on:

April 24, 2015 was \$2,181,981.70 with an income for the month of \$48.12. The value of the bonds was \$1,691,591.18, a decrease in value of \$15,638.77 from March, 2015. The value of the mutual funds was \$489,390.52, and increase in value of \$14,998.76 from March, 2015.

May 29, 2015 was \$2,135,770.39 with an income for the month of \$13,958.42. The value of the bonds was \$1,650,279.75, a decrease in value of \$41,311.43 from April, 2015. The value of the mutual funds was \$485,490.64, a decrease in value of \$3,899.88 from April, 2015.

June 26, 2015 was \$2,066,802.72 with an income for the month of \$8,652.85. The value of the bonds was \$1,583,869.24, a decrease of \$66,410.51 from May, 2015. The value of the mutual funds was \$482,933.48, a decrease of \$2,557.16 from May, 2016.

The year to date income for the Edward Jones account, as of June 26, 2015 is \$33,764.30.

The balance for the First National Bank, as of March 31, 2015, was \$98,872.49 with interest earned of \$4.05; April 30, 2015, was \$84,755.90 with interest earned of \$3.77; May 31, 2015 was \$85,340.92 with interest earned of \$3.65. The June, 2015 statement was not received prior to the July 8, 2015 Pension Board meeting, and will be reported at the next scheduled meeting, October 14, 2015. The interest earned year to date was \$20.57. The interest rate remained at 0.05%.

It was reported to the Board that the volunteer pension currently has a monthly benefit payout of \$13,389.75, monthly fees of \$213.40 for a total monthly financial liability of \$13,603.15.

The second quarter pension payment from the District of \$10,000.00 was made on June 10, 2015.

Mr. Chad Daniels submitted his resignation letter as a volunteer. He only had two (2) years toward the pension, and is therefore not vested, and will be taken off the rolls for the next actuarial report, to be done in 2016.

Ms. Johnson inquired about the decrease in value of the account versus the income received. It was explained that the value of the bonds and mutual funds will fluctuate with the market, but the income earned from the bonds will remain the same. The income from the bonds is deposited into the First National Bank account and used for pension payments. The fluctuation of the bonds does not affect us as we hold them until maturity, which will always be at par (100), however, the change in the mutual funds can affect the value of account.

Mr. Lindsay asked if we have looked into getting a better interest rate for the bank account. It was explained that not many banks pay interest on their checking account, and if they do, they are not paying very much. It would cost more to move the account and have new checks printed than we could possibly make in interest.

New Business

Changes for Edward Jones Investment account – Mike McAndrew handed out an updated detail of what is held in the fund. The current value to date is \$2,100,577.00. The annual income is \$68,072.00. All the income comes from the bonds, the mutual funds pay very little. They are more for growth as opposed to income.

In 1995 the Colorado Legislature enacted the Prudent Investor Act. This allowed us to invest in mutual funds in the pension account. We invested in mutual funds, and they have done very well for us over the years.

Last year it was recommended that the profits be taken out of the mutual funds and reinvested in to bonds. We are currently experiencing a lot of market volatility, similar to 2008 where we took a big hit, down 50 – 60%. Everything did eventually come back. Currently there is a lot of international unrest, which could affect the market. The China market is down 30%. They are experiencing the same problems we had back in 1999 with the tech bubble, which caused the big market downturn in 2000. The 2008 downturn was caused by the banking industry.

With the current market volatility, Mr. McAndrew suggested that we rethink our investment strategy. The mutual funds are very good investments, and have done well for the account, however, this account is designed to produce income to pay the pension benefits. Due to the market volatility and the fiduciary responsibility of the Board, Mr. McAndrew suggested that the mutual funds, about \$475,000, be liquidated and reinvested into income bearing bonds. We can always go back to the mutual funds, if need be, when the global markets calm down. Mr. McAndrew would like to avoid the downturn the account suffered in 2008. To be safe, Mr. McAndrew suggested to more out of the mutual funds and invest in bonds.

Currently, FNMA's, government bonds, are paying around 3.2%, and Colorado Municipal Bonds are paying around 3.5%. We currently have a shortfall on income. Eventually this account will have to start liquidating some of the principle to pay the pension benefits. Some pensioners will start to fall off the rolls, and others will be coming on, but the account will still be here so that the last pensioner gets his last check. This is what we manage the account for. The best way to ensure this for now is to get out of the mutual funds and into individual bonds. This will also greatly reduce the risk.

Mr. McAndrew pointed out the performance analysis , under the Growth and Income heading, the total return on the mutual funds, which includes price appreciation plus the income. On the Income Fund of America, since 2005, it has averaged 7.21% annually, Investment Company of America 9.12%, Washington Mutual 9.27%, Growth Fund 9.79%, New perspective Fund 7.82%. This is a lot better than what the bonds are producing in income, however, these gains can erode due to the volatility in the market, and we could lose our gains. The bonds are a much safer investment, but give a lower return. And if additional money was needed, the bonds are just as liquid as stocks.

Lori Johnson made a motion to move the total amount invested in mutual funds into bonds, Sherri Wright seconded. The motion was approved on the following vote:

Gustafson	Johnson	Lindsay	Lucero	Wright	Woodman	Sharp
yes	yes	yes	yes	yes	yes	yes

2014 Audit – Ms. Heidi Trainor presented a portion of the Cortez Fire Protection District 2014 Audit to the Pension Board as a large part of the audit consists of the pension accounts. There are a lot of new changes and GASB requirements that pertain to the pension funds and governmental audits.

Ms. Trainor reported that the pension fund is part of the fire district and is presented in the financial statements of the fire district as a separate fund. The balance sheet shows the investments, at \$2.1 million. The profit and loss shows the contributions made by the State and the District, the increase in market value and earning. The \$205,000 is due to the growth in the

market, \$95,000 is the actual earnings on the investments. In 2014 there was the cost of the actuarial report, some office expenses and \$160,000 in pension payments, up just slightly from 2013. Because of the earnings, the pension fund did well.

The change in disclosures for the pension fund is targeted toward fire districts and public employees. The intent was to bring the reporting for governmental agencies in line with that of private agencies. The type of plan and benefits had to be described. The pension liability is reported which is the amount it will take over time, based on the actuarial study, for the last person to receive the last payment.

Based on the most current actuarial report, the investment rate of return was determined to be 4.5%. Ms. Trainor believes we are stretching that a bit, and that we are not getting that kind of return overall. There will probably be a change in the upcoming 2016 actuarial report.

The actuarial cost method, the entry age normal, is required for private entities, and is now required for public as well.

The pension liability did go down. At the end of 2014 is just under \$500K, at the end of 2013 it was just under \$700K.

The discount rate, the present value of future money, was not disclosed in the 2014 Actuarial report, but will need to be from now on starting with the upcoming 2016 report. It was calculated the best it could be for the audit at about 8.75%. The Districts recognized pension expense for 2014 was \$165,245.

A new schedule required by GASB this year is the schedule of changes in the district's net pension liability and related ratios. It will eventually show ten (10) years, but we will have to work up to that. It shows, from 2008 to 2014, the total pension liability, interest earned, earnings, changes of assumptions, benefits paid and then the net positions, contributions by the State and District, investment income, administrative expense. It shows the change in the net position for 2014 being very strong. The unfunded liability show a significant drop from 2008, \$1,056,706, to 2014, \$680,670. This shows that the fund is sound.

The schedule of district contributions shows, from 2008 to 2014, the actuarially determined contribution, the contributions made and the excess.

There is one more change that will be required for the next, 2015, audit. That will be to record the liability on the balance sheet.

Ms. Mimiaga stated that we will be doing a new actuarial in 2016, and it look like there will also be some changes that will need to be done for the 2016 actuarial report.

Mr. Trainor pointed out that the current actuarial report from 2014 stated that the fund is actuarially sound only if the average annual return on investments is at least 4.5%. If this changes, the report will change. The number of people coming into the plan has been dropping, placing less demand on the pension fund, however, the rate of return on the investments has also been dropping.

Old business

Pension hours – Included in the packet was a spread sheet for the first half of the year showing training hours and B-tone responses. We only have five (5) volunteers who are working toward the pension. Ms. Johnson pointed out that only the Mott's are eligible for the year so far based

on the required 20% B-tone response. Asst. Chief Balke pointed out that this is the mid-year report as requested by Mr. Lindsay last year.

Executive Session

There was no executive session.

Adjournment

Having no further business to come before the board, Kent Lindsay made a motion to adjourn the meeting, Gene Gustafson seconded. The motion passed as follows:

Gustafson	Johnson	Lindsay	Lucero	Wright	Woodman	Sharp
yes	yes	yes	yes	yes	yes	yes

The meeting adjourned at 6:47 p.m.

Larry Sharp – President

Attest:

Kent Lindsay – Secretary / Treasurer