Cortez Fire Protection District
Pension Board meeting minutes
October 12, 2016

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, Rodney Branson, Sherri Wright, Buck Woodman, Kent Lindsay and Larry Sharp. Gene Gustafson was absent. Administrative assistant Wendy Mimiaga and Chief Jeff Vandevoorde were also present for the meeting.

Orly Lucero made a motion to excuse Gene Gustafson from the meeting, Kent Lindsay seconded. The motion was approved on the following vote:

Gustafson	Branson	Lindsay	Lucero	Wright	Woodman	Sharp
absent	yes	yes	yes	yes	yes	yes

Approval of the minutes

The minutes of the meeting held on July 13, 2016 were brought before the board for approval.

After reading and review, Orly Lucero made a motion to approve the minutes from the meeting held on July 13, 2016, Buck Woodman seconded. The minutes were approved on the following vote:

Gustafson	Branson	Lindsay	Lucero	Wright	Woodman	Sharp
excused	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.

It was reported that the value of the Edward Jones account on:

July 29, 2016 was $2,297,793.64, an increase of $35,115.53 from June 24, 2016, with an income for the month of $7,876.84.

August 26, 2016 was $2,276,733.07, a decrease of $21,060.57 from July 29, 2016, with an income for the month of $3,192.60.

September 30, 2016 was $2,266,281.18, a decrease of $10,451.89 from August 26, 2016, with an income for the month of $614.30.

The year to date income for 2016, for the Edward Jones account, is $49,389.38.

The balance for the First National Bank account:

July 31, 2016 was $46,353.37 with interest earned of $2.28.
August 31, 2016 was $31,761.72 with interest earned of $1.63.
September 30, 2016 was $30,879.34 with interest earned of $1.28.

The interest earned year to date for 2016 is $25.32. The interest rate remains at 0.05%. It was reported that all outstanding checks have cleared from this account, and all direct deposits have been redirected to the new Four Corners Community Bank account. We will now be able to close this account.

The balance in the Four Corners Community Bank account:

July 29, 2016 was $32,076.97
August 31, 2016 was $43,141.60
September 30, 2016 was $45,594.05

The total of the two (2) checking accounts, the First National Bank and the Four Corners Community Bank, as of September 30, 2016 was $76,473.39.

We received the third quarter distribution of $15,000 from the Cortez Fire Protection District on September 14, 2016. It was deposited into the new account at the Four Corners Community Bank.

The application for the State Contribution to Volunteer Pension Funds was submitted on August 29, 2016. It was reported that we should receive the same amount as last year, $36,000 the end of November.

New Business

Mike McAndrew, Edward Jones account overview – Last year we reduced our exposure to mutual funds to zero and put all monies into income producing bonds. Currently the account has a value of $2,229,427 and produces $73,625 per year in income.
As shown on the Income Bar Chart, the income from the bonds is distributed sporadically throughout the year, with some months being much higher and others not much at all. This is determined by the payment schedule of each bond held in the account. The Diversification Bar Chart shows the account is invested for income focus. We have 100% in the income category, bonds.
Mr. McAndrew continued to explain to the Board that there are some very important developments that need to be discussed. The U.S. Government Department of Labor is the regulatory agency of all retirement accounts. They have come out with a new regulation that will go into effect for most individuals on April 10, 2017, but for pension account much sooner. The new regulation is written to ensure the individuals interest are the main focus for the activity in the account, and not the 'brokers.' From now on, to make a contribution to a retirement account you will have to have a 'managed account,' for which there will be no upfront sales charge. However, there will be a fee

charged to manage the account. The charge will be 1.5% per year. This would cost the pension account around $30,000 per year. (1.5% of the total value of the account, $2.2 million) This will be charged on a monthly bases and will be taken from the account. This would drastically diminish our income. We currently do not pay any management fees, and depend on all of the income from this account to make our pension payments.

According to Edward Jones, our pension account will be grandfathered. However this will decrease our flexibility. As our bonds are called or come to term, and are turned into cash, we will not be able to reinvest back into the current account, and we will have to put the money into a new 'managed' account, as required by the new regulations. Mr. McAndrew continued that anything we do now will be grandfathered. And it looks like October 31, 2016 could be the end date for this account. He suggested, to keep the flexibility of the account, if we went back to mutual funds, which we could do at no cost due to the amount of money we would be investing, we would have the flexibility to move from one fund to another within the family, i.e. bonds, stocks, etc. in the grandfathered account. We can also maintain the level of income we currently have by reinvesting all the dividends back into the mutual funds, and then do a systematic withdrawal. This would amount to a 3.5% withdrawal rate to match the income we have now. We would also have the flexibility to increase or decrease this amount when needed.

Mr. McAndrew also pointed out that we currently have a lot of profit in the bonds that we are holding. The Federal Reserve is looking at another rate hike before the end of the year. An increase in rates will cause the value of the bonds to go down. Going back into the mutual funds will allow us not only the flexibility within the account, but will also allow us to lock in the profits we currently have in the bonds. Just the threat of the Federal Reserve raising interest rates has caused a small decrease in value from $2.26 to $2.22 million. It was pointed out that, based on the account statement that was included in the packet, we have some substantial unrealized gains in our bond portfolio. We usually hold the bonds to maturity, par, but this way we will be able to cash in on the current increases. It was also pointed out that the estimated future management fees would infringe on our ability to make the pension payments at the current level.

Mr. McAndrew also stated that when this all came up, it was not immediately know if Edward Jones would actually be able to keep this account because it is a defined benefit account and due to it being non ERISA.

Mr. Woodman asked what either of these options, selling the bonds and buying mutual funds or leaving it as is, will cost our account. Mr. McAndrew replied that leaving it the way it is now will eventually cost us the 1.5% management fee, and upwards of $30,000 per year, or selling the bonds and reinvesting into the mutual funds will cost the account nothing, as we can go into the funds at no cost. If in the future the Board decides that they want out of the mutual funds, the only option will be the managed account, and hence the management fee. Mr. McAndrew also pointed out that with the amount we have to reinvest into the mutual funds, we can invest in two (2) fund families which increases our flexibility even more.

Mr. Woodman also asked what our profit will be, or what kind of a return will we get, if we move back into the mutual funds. Right now we are making about $70,000 with the bonds. Mr. McAndrew pointed out that the $73,000 we currently receive from the bonds is the interest income. The bonds have gone up in value, which will be a capital gain. We would then put the total amount into the mutual funds and then just take a monthly income from the mutual funds based on what is needed to make the pension payments. We do not know what the mutual funds will do, or how they will perform in the future.

Rodney Branson made a motion, based on the recommendation of Mr. Mike McAndrew, to liquidate the bonds and reinvest into two (2) mutual fund families, Kent Lindsay seconded. The motion was approved on the following vote:

Gustafson	Branson	Lindsay	Lucero	Wright	Woodman	Sharp
excused	yes	yes	yes	yes	yes	yes

Mr. McAndrew will get started right away and will work with and report his actions to Ms. Mimiaga.

2017 Budget – A copy of the 2017 pension fund budget was presented to the Board. The budget does not change much from year to year. The income coming in, including the District payment, the State contribution and the investment income, is estimated at about $153, 841. The only change could be the investment income if it is perceived that we will need additional money to make the pension payments. This is not anticipated. The main expenditure is the actual pension payments, estimated at $166,235. We do not have any new pension payments coming up this year. The next additions will be in 2018. The miscellaneous fees include the direct deposit fees we are charged for the pension payments each month, administrative fees, postage, etc. We do budget $3,000 each year for the death benefit if it becomes necessary. We did pay out $600 this year.

Old Business

There was no old business.

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, Rodney Branson seconded. The motion passed as follows:

Gustafson	Branson	Lindsay	Lucero	Wright	Woodman	Sharp
excused	yes	yes	yes	yes	yes	yes

The meeting adjourned at 6:30 p.m.

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Larry Sharp – President

Attest:

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Kent Lindsay – Secretary / Treasurer