

Dallas Police and Fire Pension System
Thursday, January 8, 2004
8:30 a.m.
2301 North Akard Street
First Floor Conference Room
Dallas, Texas

Regular meeting, Gerald Brown, Chairman, presiding:

ROLL CALL

Board Members

Present: Gerald Brown, Gary W. Edge, Deputy Mayor Pro Tem Donald Hill, John M. Mays, Rector C. McCollum, Steven G. Shaw, George Tomasovic, Steven H. Umlor, and Richard H. Wachsman

Absent: Councilmember Maxine Thornton-Reese

Staff

Richard Tettamant, Brian Blake, Don Rohan, Everard Davenport, Pat McGennis, Jerry Baldree, Jay Jackson, John Holt, Jerry Chandler, and Linda Rickley

Others

Terry D. Gottberg, Meghan Cuddihy, Monica Hite, Greg Campbell, Arthur Hollingsworth, Luke Sweetser, Ken Cooley, Jon Donahue, Brent Kroener, and Gary Lawson

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The meeting was called to order at 8:30 a.m.

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A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of December 11, 2003
Actuarial Funding Committee meeting of December 16, 2003
Special meeting of December 16, 2003

2. Approval of Five-Year Certificates for the 4th Quarter

Police

Mohammad J. Atique
Francisco S. DeLeon

March 15, 2003
November 4, 2003

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2. Approval of Five-Year Certificates for the 4th Quarter (continued)

Fire

James E. Davidson	November 16, 2003
Melanie Forbes	December 9, 2003
Dwight U. Freeman	December 9, 2003
Jason S. Kimball	December 9, 2003
Rebecca S. Mathews	December 9, 2003
Patricia Ovalle	December 9, 2003
Natarsha Schufford	December 9, 2003
Sammy Urteaga	December 9, 2003
Gregory S. Whiteley	October 5, 2003
Donald S. Woodlan	October 19, 2003
Ashley Yarberry	December 9, 2003

3. Approval of the Monthly Trustee Summary for the Month of November 2003

4. Approval of Refunds of Contributions for the Month of December 2003

Refund of Combined Pension Plan, Section 6.02 Group B Contributions

<u>EMPLOYEE NAME</u>	<u>DEPT.</u>	<u>REFUND DATE</u>
Larry K. Ashley	P	Dec. 12, 2003
Corey B. Beasley	P	Dec. 12, 2003
Sotero Belmares, Jr.	P	Dec. 19, 2003
Steven R. Brown	P	Dec. 19, 2003
Raymond P. Caskey	P	Dec. 5, 2003
Kyle H. Grimes	P	Dec. 12, 2003
Nicole S. Hendricks	P	Dec. 12, 2003
Michael G. Pickett	P	Dec. 5, 2003
Keisha D. Ricks	P	Dec. 12, 2003
Amy Stewart	P	Dec. 5, 2003

Reimbursement to City Controller's Office of Overpaid Pension Contributions for the Following Members:

None

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5. Approval of Activity in the Deferred Retirement Option Plan (DROP) for January 2004

New DROP Participants

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Gary N. Hendley	Police
Michael B. McGee	Police

Retiree DROP Status Changes

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Jimmy D. Dutton	Fire	1
Gerald W. Jones	Fire	2
Danny L. Millaway	Fire	2
Joe M. Arce	Police	2
David M. Davis	Police	2
Charles W. Hudson	Police	2
David W. Peters	Police	2
Patsy R. Prestenberg	Police	1
Eduardo Silva, Jr.	Police	2
John E. Westphalen	Police	2

1 - Active DROP to Retiree DROP	2 - Retiree DROP to Payment
3 - Retiree to Retiree DROP	4 - Active (No DROP) to Retiree DROP

Transfer Funds from DROP to 401(k)

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None

6. Approval of Estate Settlements

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Vivian V. Maddox (<i>S</i>)	Fire	Dec. 4, 2003	Gayla M. Sims	B - Sec. 6.08
Rita M. Montgomery (<i>S</i>)	Fire	Oct. 25, 2003	Sheila M. Slider	B - Sec. 6.08
Jack R. Scott (<i>M</i>)	Fire	Aug. 9, 2003	Guy Pyron	A - Sec. 6.07
Georgia L. Wooldridge (<i>S</i>)	Fire	Oct. 29, 2003	Pam Aycock	B - Sec. 6.08

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7. Approval of Survivor Benefits - Deceased Retirees

Jimmy L. Asbill	Fire	Nov. 5, 2003	Betty A. Asbill	Yes	B - Sec. 6.08
Joe D. McCrary	Police	Nov. 22, 2003	Lynda L. McCrary	Yes	B - Sec. 6.08
Lelond W. Spradlin	Police	Dec. 2, 2003	Ilena Spradlin	Yes	A - Sec. 6.07

8. Approval of Survivor Benefits - Deceased Member

Lonnie K. Osborn	Fire	Nov. 29, 2003	Linda S. Osborn, spouse, and guardian of Everett R. Osborn	No	B - Sec. 6.08

9. Approval of Service Retirements

Austin S. Burton	Fire	Dec. 4, 2003	B - Sec. 6.02(b)	Yes/VI	No
Willie L. Cornell	Fire	Dec. 6, 2003	B - Sec 6.02(b)	Yes/V	No
Jimmy D. Dutton	Fire	Dec. 5, 2003	B - Sec. 6.02(b)	Yes/VIII	No
Ulysses Underwood	Fire	Dec. 31, 2003	B - Sec. 6.02(b)	Yes/V	No
Darnisha Dixon	Police	Dec. 31, 2003	B - Sec. 6.02(b)	Yes/IV/V	Yes
Patsy R. Prestenberg	Police	Dec. 24, 2003	B - Sec. 6.02(b)	Yes/VIII	No
Charles E. Storey	Police	Dec. 31, 2003	B - Sec. 6.02(b)	Yes/V	No

NE - Not Eligible	V - Monthly Payments
I - Life Annuity	VI - Although Eligible - No Distribution Elected
II - Joint/Survivor Annuity	VII - Did Not Join
III - Lump Sum ASAP	VIII - Retiree DROP
IV - Lump Sum Partial or Delayed Payment	IX - 100% Joint & Survivor

10. Approval of Alternate Payee Benefits

Elisabeth A. Eaton	Gilbert Travis	Police	B - Sec. 6.02
Nancy D. Garcia	Robert B. Garcia	Police	B - Sec. 6.02

11. Approval of Request for Acknowledgment of Name Change

Jan M. Rawlinson	Police	Dec. 1, 2003	Jan M. Holcomb

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A. CONSENT AGENDA (continued)

After discussion, Mr. Wachsman made a motion to approve the items on the Consent Agenda, subject to the final review and approval of the Administrator. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Potential investment through Merit Energy Company

Terry D. Gottberg, Meghan Cuddihy, and Monica Hite, of Merit Energy Company, discussed their new investor fund, Merit Energy Partners E Funds. Merit Energy Company manages various partnerships that own and manage direct investments in producing oil and gas properties for investors. Merit is offering an opportunity to the Board to invest in its new partnership, which is scheduled for the final closing on March 31, 2004.

The Administrator discussed with the Board that the Merit Energy Partners E Funds are commingled funds with a long-term investment of 15 years, and that the fiduciary responsibilities are limited because the funds are commingled. A summary of the main points regarding the investment is as follows:

- Expected rate of return is 12%
- Capital may be called during first 6 years
- Investment period is the first 9 years
- Cash distributions are 6% during the first 9 years
- 100% of available cash distributed quarterly beginning the 10th year
- 15 year fund life

After discussion, Mr. Wachsman made a motion to invest up to a maximum of \$30 million in the Merit Energy Partners E Funds, to be drawn from the S&P 500 Fund allocation, and to approve the investment agreement, subject to the final approval of the Administrator and the outside legal counsel, and to authorize the Administrator to execute the necessary documents. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

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2. Portfolio review of North Texas Opportunity Fund LP

Greg Campbell, Arthur Hollingsworth, and Luke Sweetser, Partners, North Texas Opportunity Fund LP, reviewed the portfolio holdings and performance of the fund.

Mr. Tettamant, Administrator stated that the System committed \$10,000,000 to the fund and made its first investment in the North Texas Opportunity Fund (NTOF) in August of 2000.

The System has invested approximately \$9,502,000 in capital contributions since inception. A breakdown of the System's investment in NTOF since inception is as follows:

Total invested	\$9,502,000
Capital returned	2,919,000
Investment loss	(2,281,000)
Fees paid	<u>(381,000)</u>
Ending Equity	\$3,921,000

It should be noted that investments are marked to market when investments are sold or harvested; otherwise, the portfolio holdings are held at cost.

After discussion, Mr. McCollum made a motion to receive and file the North Texas Opportunity Fund portfolio review. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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3. CDK Realty Advisors

- a. Akard Place budget
- b. Landmark Center
- c. Update on Cedars Investment Strategy

Ken Cooley, Jon Donahue, and Brent Kroener, from CDK Realty Advisors, presented the 2004 Akard Place annual budget for approval. CDK Realty Advisors began managing the Akard Place property on March 1, 2003.

Included with the budget was a proposed lease for the 2325 Akard building at the corner of Ashland and Akard Streets. The proposed tenant improvements would be \$180,000 and the rental income would be in excess of \$220,000 in the first five years.

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3. CDK Realty Advisors (continued)

CDK Realty Advisors discussed findings from their due diligence on the possible acquisition of Landmark Center. CDK Realty Advisors requested Board approval to purchase Landmark Center as a real estate investment for the System.

In accordance with the terms of Section 551.072, Texas Government Code, the Board went into a closed executive session at 11:04 a.m. to discuss current investments held in the Cedars and other possible acquisitions in the Cedars.

The meeting was reopened at 11:29 a.m.

After discussion, Mr. Wachsman made a motion to approve the proposed 2004 Akard Place annual budget. Mr. McCollum seconded the motion, which was approved by the Board. Mr. Shaw was opposed to the motion.

After discussion, Mr. Shaw made a motion to approve the acquisition of Landmark Center as presented by CDK Realty Advisors, and to approve the related modification of the CDK contract. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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4. Contract with Mellon Consultants, Inc. for actuarial consulting services

Mr. Tettamant stated that the contract for actuarial services with Mellon Consultants, Inc., formerly Buck Consultants, Inc., expired on December 31, 2003. Under the terms of the contract, Mellon is required to complete the actuarial valuation for the period January 1, 2002 – December 31, 2003, at a cost of \$50,000.

Mr. Tettamant discussed the contract and issues related to renewing the contract or conducting a search for a new actuarial consultant. Staff recommended that if the Board elects to renew the contract with Mellon Consultants, Inc, that a second actuarial firm be retained to conduct a peer review of the actuarial services performed by Mellon. The focus of a review would be to provide an independent verification and analysis evaluating the reasonableness of actuarial assumptions, the accuracy of plan data and calculations performed on the data, and the professional judgment of the actuary. Staff expects an actuarial review would cost between \$50,000 and \$100,000. A peer review of the system was last performed in 1998.

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**4. Contract with Mellon Consultants, Inc. for actuarial consulting services
(continued)**

After discussion, Mr. Wachsman made a motion to authorize the Administrator to negotiate a contract renewal with Mellon Consultants, Inc., and to negotiate a contract with an independent actuarial firm to perform a peer review of services performed by Mellon Consultants on behalf of the System at a cost not to exceed \$100,000, prior to December 31, 2004. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:34 a.m.

The meeting was reconvened at 12:11 p.m.

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5. Report on Actuarial Funding Committee

The Board and staff reviewed the report on the Actuarial Funding Committee meeting that was held on December 16, 2003. The next meeting is tentatively scheduled for February or March 2004.

After discussion, Mr. Wachsman made a motion to receive and file the report on the Actuarial Funding Committee meeting of December 16, 2003. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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6. Legal issues including, but not limited to:

Police Officer and Firefighter pay lawsuits

The outside legal counsel stated that there were no new developments to report.

No motion was made.

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7. Pension-related issues for possible legislative consideration

- a. Local
- b. State
- c. Federal

The Board and staff discussed reports from Locke, Liddell and Sapp, LLP regarding legislative activity at the local, state and federal level and from Hillco Partners regarding state legislative activity.

After discussion, Mr. Wachsman made a motion to receive and file the reports on pension-related legislative issues. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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8. Pension System's monthly financial statements

The Board and staff discussed the monthly financial statements for the periods ended October 31, 2003 and November 30, 2003 with the Board.

After discussion, Mr. Edge made a motion to receive and file the monthly financial statements for the periods ended October 31, 2003 and November 30, 2003. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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9. Staff and Board Members' reports on due diligence meetings, seminars and/or conferences attended

Conference: Olympus Real Estate Corporation 2003 Annual Partners' Meeting

Dates: December 9-10, 2003

Mr. Blake will report on the meeting at the February 12, 2004 Board meeting, in conjunction with the Board's discussion of Olympus Real Estate Partners.

After discussion, Mr. Tomasovic made a motion to receive and file the reports on due diligence meetings, seminars and/or conferences attended. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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10. Contract for independent audit service

Mr. Tettamant stated that at the 2003 Workshop, the Board directed the staff to review outside auditing firms. Staff has reviewed three firms. One firm withdrew after interviews stating that they had a conflict of interest. After the interview of the 2nd firm staff learned that the 2nd firm was involved in an accounting scandal with headlines in the Wall Street Journal.

The third firm is Mir, Fox & Rodriguez, P.C. based in Houston. They have extensive experience in public pension plans including Houston Fire, Houston Municipal, and Houston Metro retirement plans. They will contractually agree to finish the audit at a reasonable date that we stipulate. The proposed fee is \$24,000 for the Pension System and \$14,000 for the Supplemental Pension Plan.

After discussion, Mr. Edge made a motion to authorize the Administrator to enter into an agreement with Mir, Fox & Rodriguez, P.C. for independent auditing services, subject to the final review and approval of the attorney. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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C. BRIEFING ITEMS

1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

No active members or pensioners were present to address the Board.

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2. Administrator's report

- a. Custodial bank/consultants update, including monthly investment performance summary
- b. Investment managers update
- c. Professional services providers update
- d. Coalition to Preserve Retirement Security (CPRS), National Conference on Public Employee Retirement Systems (NCPERS), and the Texas Association of Public Employee Retirement Systems (TEXPERS)
- e. General administration update
- f. Continuing education/investment research

The Administrator presented the monthly report on performance returns by JPMorgan Chase & Company, the System's custodial bank.

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2. Administrator's report (continued)

Mr. Tettamant briefed the Board on the investment managers and professional services providers, and other current developments relating to the Pension System.

Mr. Tomasovic made a motion to receive and file the Administrator's report. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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3. Board operations and procedures

No action was taken.

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The Administrator stated that there was no further business to come before the Board. On a motion by Mr. Shaw and a second by Mr. Tomasovic, the meeting was adjourned at 1:12 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary