

**MINUTES OF THE POLICE PENSION BOARD
SPECIAL MEETING
WEDNESDAY, JANUARY 26, 2011**

CALL TO ORDER:

President Helgerson called the meeting to order at 5:01 pm.

ROLL CALL:

Present: President Stan Helgerson, Vice-President Jeff Martynowicz, Secretary Andrew Doles, and Trustee Art Weber. Assistant Secretary Dennis Walker was absent. A quorum was present. Village Treasurer Jack Walde, Assistant Finance Director Susan Skillman, and Recording Secretary Laura Donohue were also present. Prospective attorneys John Kelly and Carolyn Clifford arrived at 5:30pm for their interviews.

ADOPT AGENDA:

A motion was made by Doles and seconded by Weber to adopt the agenda as presented. Voice vote: unanimous ayes - motion carried.

CONSULTANT REPORT:

Smith Barney: Mary Tomanek reported to the Board via telephone.

Quarterly Review – Both small and large caps are outperforming the established benchmarks; moving extra monies to Royce was a great move; and the expectations for a positive economic outlook continue to increase. Interest rates and inflation continue to be low and we continue to see strong corporate balance sheets. Europe, however, is still an issue with Spain hitting the skids.

We still may be in for a bumpy ride with various issues working their way throughout the year. The fund's 4th quarter was quite solid but the 3rd quarter was a totally different picture thus showing the continued state of flux in the market. The market has definitely taken off since the end of September. However, Tomanek is asking for the board's patience with the conservative managers we have in Atalanta and Congress funds. With various legislative matters pending, we may be open to some other choices in the conservative management arena going forward. Becker is still lagging which will be discussed shortly. Overall the diversification present through Colombia Dividend Income for a full quarter and First Eagle since the spring has been good for the fund. Tomanek's recommendation is to sit for now; clarify the rules of the investment policy, and look to tweak the investments in the near future.

Fixed Income Manager Search: Tomanek explained that the search for a new Fixed Income Manager began with the basics – minimum reporting standards; at least \$1 Billion under management; then added another layer of criteria – lower volatility (being conservative); minimum returns vs. the fund's benchmark; experience working with Illinois Police and/or Fire Pensions; longer maturities than Becker. The list was narrowed down and is represented on the Zephyr charts (included with minutes to be kept on file).

Then it comes down to who is qualified historically; who is a good fit by their discipline and their process, and who do we trust? Tomanek suggested twenty minute interviews followed by ten minutes of questions and answers and finally a private discussion by the board alone. It appears based on the criteria described that Eagle and Segall Bryant are the clear interviewees. Helgerson questioned based

on new legislation if both of them do corporates? Tomanek stated that they both have corporate history. Helgerson is looking for strategies to take on the board's expanded investment authority for the April meeting. A Special Meeting will be needed with the board and with Tomanek. Martynowicz is familiar with Segall Bryant but questioned location for Eagle. Tomanek stated that Eagle is a division of Raymond James and is stationed out of St. Petersburg, Florida. Segall Bryant is locally based in Chicago and has been around a long time. Martynowicz questioned the final choices of Eagle and Segall Bryant to which Tomanek restated their consistent performance driven standards; experience with Illinois pension funds; the maturity of bonds; minimum account size, and performance related to corporates.

Helgerson reviewed the listing of the previous firms and also has backups available after the interviews with Eagle and Segall Bryant. Suggested dates for site visit interviews from Tomanek are February 16, or 23, 2011; or March 2, 2011 at 5:00 pm. The board will relay their availability and a Special Meeting date will be set.

Investment Policy: Copies of the Investment Policy with highlighted changes are included with the minutes to be kept on file. The changes are meant to incorporate the pending legislative changes. All items in red are items suggested as removals while all items in yellow are suggested additions. All legislative and/or housekeeping changes will be reviewed and up for discussion and approval at the April meeting.

Tomanek continued with one last item for discussion. The total equity in the fund is at 47% due to market growth. She is looking to the board for a trigger point to move some equity money perhaps by the end of March, 2011.

A motion was made by Doles and seconded by Weber to provide Tomanek with the authority at the end of March provided the fund is still over on the equity side to move sufficient money out of Atalanta to our fixed income manager. Voice vote: unanimous ayes - motion carried. Tomanek will provide to Walde the official letters of authorization and permissions.

ATTORNEY INTERVIEW:

John Kelly and Carolyn Welch Clifford

Helgerson introduced the board to the two attorneys. He continued by explaining the board's history with disability hearings – not many to date. He also noted that based on the board's needs there is no need for an attorney to be present at each meeting. Helgerson has 30 years in Finance experience in addition to sitting on two other pension boards, Martynowicz is the current Finance Director in Bartlett, and finally Walde, while not a voting member, is the Finance Director in Algonquin. Realizing that it is not the norm, the main interest will be to have the attorneys run disability hearings not the quarterly meetings.

Martynowicz questioned the attorneys by prefacing that besides being guided by the law, how will the attorneys guide the board. Kelly began by explaining the history of the firm of Ottosen Britz Kelly Cooper & Gilbert, Ltd. Established in 1992 it is now a firm of 18 attorneys with a specialty in fire service to date. They work with police and fire departments, school districts, libraries, and municipalities. Kelly himself was a police officer for ten years before deciding to attend law school.

Clifford is the chief attorney for pension funds. Clifford pointed out two hallmarks of her services: responsive to the board when needed (never more than 24 hours) and flexibility in structuring their billing schedule. She has worked with Tomanek in Park Ridge and the board will be free to decide based on needs what the fee schedule will be with their firm. Clifford spends 80% of her time with pension funds. She can be hands on if needed or just step in on complicated issues.

As far as disability cases are concerned, Clifford believes that managing her homework on the front end is key. In this way the board will be prepared at the hearing with all research completed. As soon as an application is filed, her management expertise begins. She will work with the board to assign the three physicians. She has devised a booklet for the doctors in disability cases and will provide the board with the statutes involved as a question and answer packet. Clifford stated that she remains every thoughtful in due process to be fair to both the board and to the applicant. A court reporter will always be necessary during hearings in order to provide full written disclosure that will hold up during any future review process.

Helgerson recapped the process of review, evaluation, and fact gathering. Helgerson questioned the average length of this process. Clifford stated on average six months. Kelly added that over the years their firm has developed a packet of rules and forms to be used by pension boards. Clifford pointed out that she expects the board to be prepared for all hearings after having read all materials. A draft decision will never be presented ahead of time. The only possible exception would be pregnancy disability cases as they are generally fast track decisions.

Weber questioned whether using this firm conflicts with Chief Russell Laine's use of the firm for disciplinary cases. Kelly answered by suggesting that if their firm needs to step out they would then be able to assist with finding competent representation for the board.

Clifford mentioned that she will provide the board with a newsletter three times per year with specific mentions of legislative alerts that would be applicable to the board. The firm also has a comprehensive website with past issues. Further, when invited to any meeting, Clifford will be prepared to share pertinent items with the board. It is noted by Kelly that the Village of Algonquin's Police Pension Board appears to be quite sophisticated, perhaps in the top 10%. Sometimes boards do not have the administrative support this is evident with the Finance Director, Assistant Finance Director, and Recording Secretary's presence at the meeting.

If selected, Clifford would like to see a startup meeting be scheduled lasting approximately one hour in order to go over available forms, documents, and policies. She would also develop a yearlong timeline to be placed on the record for the board. She has developed strategies which would be shared for passing desk audits with all necessary compliance.

An hourly basis billing structure can certainly be structured with the smallest of billing increments available. There are no minimum billing times, no postage or copying costs, and no travel costs. A shareholder, partner, and associate will always be available. The board is welcome to tap the resources of all those versed in any of a large number of issues as they use a team approach. The firm and specifically Clifford have spoken at many of the membership affiliations over the years. Their client references include: Barrington Fire Department, Buffalo Grove Fire Department, Evanston Police Department, as well as the villages of Morton Grove, Naperville, and Niles.

Helgerson advised that he will be back in touch once the board has discussed this interview. The attorneys thanked all present and exited the meeting at 6:09 pm. Weber outlined a very successful history with the firm. Helgerson pointed out their professionalism which was echoed by all members present. Helgerson had previously checked their references so as not to bring in an unqualified interviewee. There will need to be a special meeting scheduled to get through the stated startup and that will in turn engage the board with startup costs to bring in this firm.

Helgerson reminded the board that dollars and cents were never the issue with the previous attorney. Ottosen Britz Kelly Cooper & Gilbert, Ltd. does have a high retainer fee. It is suggested that their hourly rate structure would be put into place first. Once the learning curve is complete, they would then not need to attend each meeting. Doles suggested that if email were to be used that Helgerson be the point of contact instead of each member approaching the firm.

A motion was made by Doles and seconded by Weber to hire Ottosen Britz Kelly Cooper & Gilbert, Ltd. as fund attorney effective January 26, 2011. Roll call voting: President Stan Helgerson Aye, Vice-President Jeff Martynowicz Aye, Secretary Andrew Doles Aye, and Trustee Art Weber Aye. Unanimous ayes – motion carried.

Doles questioned whether the board was obligated to notify the former attorney, Cary Collins. Helgerson stated that there is not contractual obligation and that during the last meeting and correspondence following Collins in fact had fired the board from his services.

APPROVAL OF MINUTES:

The minutes of the Special Meeting held November 10, 2010 were presented. There were no questions or changes to the minutes.

A motion was made by Martynowicz and seconded by Doles to approve the minutes of the November 10, 2010 meeting. Voice vote: unanimous ayes - motion carried.

TREASURER'S REPORT:

Financial Statements for the Period Ending December 31, 2010

Balance Sheet:

The total book value of assets reported was \$12,343,092.35. The equity market value adjustment was positive at \$292,339.65. The unrealized year-to-date market adjustment in the fixed income portfolio is positive at \$14,434.32.

Income Statement:

Total revenues through 12/31/2010 were \$1,664,580.60. Of this amount, employer contributions were \$916,348.59 or 99.9% of budget. The employee contributions were \$262,648.75 or 66.5% of budget. Investment income was a gain of \$485,583.26 which includes the referenced equity market value adjustments. The allocation of investments at market value is as follows: cash .6%, fixed income portfolio 53.0%, and equity portfolio 46.4%.

Expenditures through 12/31/2010 were \$196,507.20 or 58.8% of budget. Benefit payments were \$146,679.28 and reflect previously approved pension payments to Schinkel, Stone, Azarela, Weber, and Frasier. Administrative expenses were \$49,827.92 or 52.7% of budget. Investment management fees amounted to \$43,770.75 and the training, compliance fee, legal and steno fees were \$6,057.07.

Distributed with the financial reports for the period ending 12/31/2009 was the Fourth Quarter 2010 Check Register, 4th Quarter Money Market Statements, and correspondence from Ottosen Britz Kelly Cooper & Gilbert, Ltd.

A motion was made by Doles and seconded by Weber to accept the Treasurer's Report and to ratify the money manager's transactions, wire transfers, ACH transfers and the check register through December 31, 2010. Voice vote; unanimous ayes - motion carried.

Walde noted that notice has been received from the Illinois Department of Insurance of their intention to do a desk audit of the records of the Police Pension Board. He explained that most of the work will be conducted at IDOI offices meaning that the burden will be on the board to provide certain documents. Items that may be requested are minutes from past meetings, personal documents from officers such as marriage certificates, divorce decrees, etc. In the last audit that took place approximately five years ago, it was a helpful exercise in that it establishes our protocol. It may be a nuisance to get off the ground, but it assures all that we are doing is accurate and that such information as officer salaries, etc is accurate. Helgerson added that the result will be a list of their findings, a period to address them, and as long as the findings are being addressed we will then avoid penalties that some other communities are being faced with. Doles questioned the timing of the audit. Walde explained that audits had been run approximately every ten years when it was an in-person audit. If severe irregularities were present then the audit would be longer in length on the premises.

APPROVE BILLS FOR PAYMENT:

There are no outstanding bills for payment.

REQUEST FOR BENEFITS:

Walde explained that Officer Dykstra must have received a call because he had been present for a few minutes in the meeting but is now not present. Dykstra has two years of military service and had read about a change to the police pension regarding this service in *The Siren*. He has verbally questioned Walde regarding credit of up to two years police pension for his military experience. This would entail paying some fees to the pension fund. Walde instructed Dykstra that his request needs to be in writing to the board along with DD Form 214 to establish his active duty service. Based on that the board will need to direct Walde to calculate the cost and then Dykstra will need to pay the employee portion as well as the Village's normal cost which can be fairly expensive, perhaps a total of 22-25% compounded at 7% until the time that his date of payment is established. Doles stated that Dykstra has given his written request and the necessary form to which Helgerson requested Walde to calculate the cost. Walde will submit the cost data to the board and Dykstra. It will then be up to the board to approve the request if Dykstra is still interested. Helgerson explained that if Dykstra were to pay directly prior to the next quarterly meeting that the interest would stop compounding as of the date of the check and the board would then take action at the next meeting to accept his military time with that date. Doles questioned the timeline. Walde answered that Dykstra, after receiving the calculation, will communicate with Doles and provide Doles with a date that he is able to pay on a specific date. Doles questioned that

if he does buy back the time does that provide for credible service. Helgerson answered in the affirmative with 6% toward his pension. After additional questions and variables presented, Helgerson requested that Walde go forward with the calculation so that Dykstra and the board will clearly understand the buyback process. Dykstra may have questions regarding a purchase of one year now and the other year at a later date. It is noted that the cost is even more expensive if that process were to be put into place because of the interest cost.

RECESS TO EXECUTIVE SESSION:

A motion was made by Weber and seconded by Doles to recess into Executive Session to review Executive Session Minutes. Voice vote: unanimous ayes – motion carried.

Adjourn 6:30 p.m.

RETURN TO REGULAR MEETING:

Call to order 6:33 p.m.

Present: President Stan Helgerson, Vice-President Jeff Martynowicz, Secretary Andrew Doles, and Trustee Art Weber. Assistant Secretary Dennis Walker was absent. A quorum was present. Village Treasurer Jack Walde and Assistant Finance Director Susan Skillman were also present.

EXECUTIVE SESSION ACTION:

Walde explained that while in Executive Session the minutes of the January 27, 2010 and August 26, 2010 executive sessions were reviewed.

Approval:

A motion was made by Weber and seconded by Doles to approve the Executive Session Minutes of the January 27, 2010 and August 26, 2010 meetings. No discussion ensued. Voice vote: unanimous ayes – motion carried.

Release:

A motion was made by Doles and seconded by Martynowicz to release the Executive Session Minutes of the January 27, 2010 and August 26, 2010 meetings. No discussion ensued. Voice vote: unanimous ayes – motion carried.

NEW BUSINESS:

Budget FYE 04/30/2012: Walde will present at the April meeting.

Economic Interest Statements

Walde advised the board that the McHenry County Clerk will be mailing Economic Interest Statements to the Pension Board members which must be completed and returned. There are penalties involved if not completed and returned.

Training Requirements

Martynowicz has completed eight hours of training with IPPAC Winter Training on 12/10/2010. Walde would scan the certificate into the records for the board.

Helgerson added he will be signing up through Walde for the IPPFA two day April training session in St. Charles. Doles and Walker will be attending the one day session in Rockford. Weber is also scheduled for a different session. Helgerson continued by reminding all members to be diligent in returning their certificates for addition into the board's records. These are some of the items that will be requested during the desk audit. Discussion ensued about how certain training sessions must be attended in full for any credit. Partial attendance may not qualify.

Legislation

A pension bill passed that provides for second tier hiring changes to the pension code. Helgerson explained that this will be something that the board will grow into with the next new hires. The effect on the board will be notification to the actuary for changes in calculations. Another part of the legislation has to do with resetting the forty year clock, adding seven or eight years (now 2040) for a 90% funding level versus the present 100% funding level. Although it sounds like a simple change it is a bit more complicated. Helgerson along with the board will continue to work with Walde to be in compliance. The final piece of legislation is the expanded investment authority discussed earlier as it relates to the Investment Policy. This will enable the board to invest in corporate bonds on the fixed income side. It is noted that the bonds must be managed and that there is more risk involved. A strategy will have to be devised to decide on an acceptable percentage of the portfolio to invest.

Doles questioned the new hire legislation for a laid off officer who then is rehired. Helgerson explained that the officer would be under the old system because it is based on their hire date but that clarification would be requested on a case by case basis. Transfers from other departments will most likely be under the old system as well. The new second tier is just for completely new hires. Weber continued with the questioning for officers that pull their monies. Helgerson's understanding is that if the officer was hired for even one day prior to 2011 then they are under the old system but clarification would always be garnered.

OLD BUSINESS:

A couple but not all of the board members received a letter from Attorney Cary Collins. The letter mentioned his ability to point out some cost saving measures for the board. Helgerson reiterated that the change in attorney was never solely about the cost. No specific cost saving measures was outlined in the letter.

NEXT QUARTERLY MEETING:

Doles stated the he will be in the FBI National Academy during April, May, and June. Key meeting sometime in late February or early March for the interviews of possible new fixed income managers. The next regular Police Pension Board meeting is Wednesday, April 27, 2011 in the Police Department Conference Room of Village Hall.

ADJOURNMENT:

There being no further business, it was moved by Doles and seconded by Martynowicz to adjourn. Voice vote: unanimous ayes – motion carried.

The meeting adjourned at 6:50 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dennis Walker", written over a horizontal line.

Dennis Walker, Assistant Secretary
Algonquin Police Pension Fund

Minutes prepared by Laura K. Donohue

Approved by the Board of Trustees at its meeting held on May 4, 2011.