



CITY OF ESCANABA DEFINED BENEFIT RETIREMENT PLAN BOARD

Regular Meeting Agenda

May 8, 2024 – 9:00 a.m.

Room 102

Board members: James McNeil, Melissa Becotte, Heather Calouette, Ronald J. Beauchamp, Sue Beckon

1. Call to Order
2. Roll Call
3. Adjustments to the Agenda
4. Approval of Minutes – 11/17/2023
5. Conflict of Interest Declaration
6. Public Comment
7. Old Business
8. New Business

I. Review and Approval of Investment Policy

At the previous meeting, the Board reviewed the Investment Policy. City Administration is recommending the Board formally adopt the policy.

II. Review and Approval of Change Order for Auditing Services

The City of Escanaba currently has an audit contract in place with Rehmann. A price was requested for the additional work to audit the Defined Benefit Pension Plan. The first year will be slightly higher than future years due to extra testing and reporting requirements that will now be part of their duties. Once these are in place, future work is reduced.

III. Investment Update

Bob Valentine with First Bank Investment Management Group will provide an investment update.

IV. Review and Recommendation of Pension Funding Schedule

City Administration has been working with the consulting actuary, Cavanaugh MacDonald, on a funding plan. Administration will lead a discussion of the findings and will be seeking direction from the Board.

9. Other Business
10. General Public Comment
11. Adjournment

The City of Escanaba will provide all necessary, reasonable aids and services, such as signers for the hearing impaired and audiotapes of printed materials being considered at the meeting to individuals with disabilities at the meeting/hearing upon five days' notice to the City of Escanaba. Individuals with disabilities requiring auxiliary aids or services should contact the City of Escanaba by writing or calling at (906) 786-9402.

Respectfully Submitted,

A handwritten signature in blue ink that reads "James McNeil".

James McNeil
City Manager/ City Assessor



Mission Statement:

Enhancing the enjoyment and livability of our community by providing quality municipal services.
The City of Escanaba is an equal opportunity employer and provider.

**Defined Benefit Retirement Plan Board
Regular Meeting Minutes
November 17, 2023**

Pursuant to public notice, Defined Benefit Retirement Plan Board Regular meeting was held on Friday, November 17, 2023, at 9:00 a.m., in Room 102.

Call to Order

City Manager McNeil called the meeting to order at 9:00 a.m.

Roll Call

Board Members Present: James McNeil, Melissa Becotte, Heather Calouette, & Sue Beckon, Ronald Beauchamp

Board Members Absent: None

Others Present:

Approval/Adjustments to Agenda

Becotte moved, with a second from Beckon, to approve the agenda. Motion carried unanimously.

Conflict of Interest Declaration

None.

Unfinished Business

No unfinished business.

New Business

A. Election of Officers

Beckon moved to elect McNeil as Chair, Becotte seconded the motion. Motion carried unanimously.

Calouette moved to elect Becotte as Vice Chair, with a second from Beauchamp. Motion carried unanimously.

B. Review of Statement of the Investment Policy

C. Hiring of the Investment Manager

Beauchamp motioned to approve an investment management agreement with First Bank Investment Management Group, with a second from Beckon. Motion passed unanimously.

D. Hiring of the Actuary

Beauchamp motioned to approve a professional services agreement with Cavanaugh Macdonald Consulting, LLC, with a second from Becotte. Motion passed unanimously.

E. Selection of the depository bank

Becotte motioned to approve First Bank as the depository bank, with a second from Beckon. Motion passed unanimously.

Other Business

None

Public Comment

None

Adjournment

The meeting was adjourned at 9:58 a.m.

APPROVED:

James McNeil
Chair

STATEMENT OF INVESTMENT POLICY
CITY OF ESCANABA
DEFINED BENEFIT RETIREMENT PLAN

- I. PURPOSE OF STATEMENT
- II. GENERAL OPERATION OF PLAN
- III. INVESTMENT APPROACH
- IV. INVESTMENT RESTRICTIONS
- V. PERFORMANCE MONITORING
- VI. COMMUNICATION
- VII. SUMMARY

ADOPTED 10/19/2023

I. PURPOSE

The purpose of the City of Escanaba Defined Benefit Retirement Plan (hereinafter referred as “Plan”) Investment Policy Statement (herein after referred to as “Statement”) is to establish, document and communicate to interested parties, the goals, philosophies, guidelines, objectives, and risk tolerances relating to investment of Plan assets.

II. GENERAL OPERATION OF THE PLAN

- A. The Plan is established under the authority of Michigan Public Act 314 of 1965 as amended, known as the Public Employee Retirement System Investment Act (“Act 314”).
- B. The Plan is governed by a five-member board (“Board”) consisting of the City Manager, City Controller, City Treasurer, one member of the City Council, and one member of the public with preference to any Plan member. The Board is responsible for oversight and decision making relating to the general operation of the Plan. The Board’s oversight and decision making includes, but is not limited to, selection and replacement of investment managers and actuarial consultant, asset allocation policy, maintenance of the Plan’s actuarial integrity and on-going evaluation of the Plan’s progress toward its various goals and objectives. The Board shall employ the “Prudent Man” doctrine when making decisions concerning the investment of Plan assets. Plan assets shall be managed with the long term interest and integrity of the Plan in mind.
- C. The Plan is funded through contributions by the City of Escanaba.
- D. The City Treasurer is responsible for keeping records of investment activity within the Plan. Such records are made available for public inspection at the Office of the City Treasurer, 410 Ludington, Escanaba, Michigan.
- E. Annually, the Plan is audited by a public accounting firm and evaluated by an actuarial consultant. Audits and actuarial valuations are also available for public inspection at the office of the City Treasurer.

III. INVESTMENT APPROACH

- A. It is the philosophy of the Plan to pursue management of Plan assets through the use of outside investment managers. For purposes of this document, mutual funds or mutual fund companies shall be deemed to be outside managers. Outside managers may also include, but are not limited to, affiliates of registered and licensed brokerage firms, registered professional money management firms, mutual funds, and money market instruments, banks, trust departments, and independent advisors. The Board may employ any number of outside managers it deems necessary for the effective administration of the Plan. The Board shall not undertake to select individual securities as an on-going means to achieve Plan objectives. For purposes of this document, mutual funds are not considered to be individual securities. Instead, selection of individual securities will be left solely to the discretion of investment managers hired by the Plan.
- B. For purposes of administration, the Board shall separate the overall investment portfolio into an equity component and a fixed income component. Each component will be comprised of cash and securities, the proportions of which shall be left to the discretion of the investment manager(s) controlling each respective component. Maximum equity exposure is hereby set at 65% of Plan assets. It shall be the responsibility of the Board to monitor on an on-going basis, the allocation

of dollars between fixed income and equity components, and to transfer funds between components as deemed necessary to achieve the objectives of the Plan.

- C. Plan assets will be managed in accordance with Michigan Public Act 314 of 1965 as amended . All external money managers are required to abide by all applicable provisions of Act 314 and by all applicable provisions of this Statement. External managers will be furnished with a copy of Act 314 and with a copy of this Statement and will be required to acknowledge in writing the receipt thereof. If a manager is unable to comply with any of the provisions of Act 314 or any provision of this Statement, he or she must communicate as such in writing prior to investing any assets of the Plan. All external managers are required to comply with applicable laws of the State of Michigan, whether now in force, or hereinafter enacted.
- D. Subject to the requirements set forth herein, all external money managers shall have full authority to select individual securities, and to determine an appropriate mix of cash and investments within their allotment of Plan assets.
- E. The Board shall determine if, and when, outside custodians shall be employed. If employed, outside custodians shall perform the following functions:
 - 1. Notify the Plan sponsor of transactions as they occur.
 - 2. Provide electronic quarterly statements detailing specific investment holdings with summaries of gains/losses, income received, and activity for the period covered.
 - 3. Provide safe keeping of assets.
- F. Outside custodians are not required when mutual funds are used. In the event the Board employs a registered mutual fund as an outside manager, the mutual fund's statements and other reporting shall be an acceptable substitute for the services of a custodian.
- G. In addition to the services of professional money managers and custodians, the Board may contract with outside parties for advisory and related services. Examples of such services may include brokerage, performance monitoring, studies, and general consultations. Decisions to contract for such services shall be made on the basis of perceived cost versus benefit.

IV INVESTMENT RESTRICTIONS

- A. Equity investments shall be limited to exchange listed securities which have a readily available market and for which prices are readily available. Exceptions to this provision will be considered when they are brought to the attention of the Board in writing prior to purchase of such securities. This provision shall not apply to registered mutual funds held by the Plan.
- B. Notwithstanding other provisions of this Statement, the following are examples of permitted investments for use by external managers: Treasury securities, agency securities, mortgage-backed instruments, guaranteed investment contracts, corporate bonds, common stocks, preferred stocks, mutual funds, ETFs, money market mutual funds, commercial paper, repurchase agreements and banker's acceptances. Securities not specifically mentioned are permissible investments if they are not prohibited under applicable law or under the provisions of this Statement.
- C. External money managers are required to notify the Board in writing in the event of any change that will have a significant impact on the operations of the firm. Written notice is required in the event of any of the following:
 - 1. Change in ownership of the firm

2. Change in portfolio managers
 3. Change in investment style
 4. Investigation of the firm or its management by a regulatory body
 5. Material litigation
- D. Upon written request from the Board, money managers will be required to furnish the Board references. Clients who have requested in writing that their identity not be disclosed may be excluded from such list. This provision does not apply to externally employed, registered, mutual funds.
- E. External money managers shall be required to disclose the existence of party in interest transactions and the corresponding details thereof. Notwithstanding SEC and other requirements, registered mutual funds are exempt from this provision.
- F. The Board shall ensure that portfolios are diversified with respect to risk, and where applicable, maturity. The Board shall not permit any one security to represent more than 5% of the overall fund, and shall not permit one industry to represent more than 30% of the fund. Mutual funds are not to be classified as individual securities for purposes of this provision. External money managers are not individually responsible for adhering to this provision, since they will not have knowledge of holdings outside of their management.
- G. External managers shall disclose to the Board in writing if any individual security exceeds 10% of the assets that they manage on behalf of the Plan. Additionally, external managers shall disclose to the Board in writing if any individual industry represents more than 50% of the assets that they manage on behalf of the Plan. Externally employed, registered mutual funds are exempt from this provision.
- H. The fixed income portfolio must carry an average rating of A or better by Standard & Poor's and Moody's. Money managers may hold below investment grade rated securities as long as the aggregate value of such securities does not exceed 10% of a manager's allotted funds. Mutual fund managers are exempt from this provision.
- I. The Board shall impose the following limitations on foreign securities. The board shall ensure that foreign equities do not exceed 15% of the overall investment portfolio. Foreign fixed income holdings shall not exceed 10% of the overall investment portfolio.

V. PERFORMANCE MONITORING

- A. The Board shall review year to date performance relative to established benchmarks. Performance review shall take place at semiannual regular meetings. It shall be the responsibility of the investment manager to report performance. If desired, the Board shall have the option to seek independent performance review.
- B. The Board shall use a blended portfolio consisting of 85% Russell 3000 Index and 15% MSCI ACWI ex-US Index as its proxy for the equity market. The Board acknowledges that investment managers will have varying disciplines. As such, the Board also acknowledges that the blended equity proxy may not be a relevant indicator in every case. The Board therefore will consider peer group equity comparisons when appropriate.

- C. The Board shall use the Bloomberg US Aggregate Index as its proxy for bond market returns. Additionally, the Board shall evaluate the credit quality and duration of the Plan's fixed income component relative to its market proxy.
- D. In addition to monitoring the total return of investments, the Board shall review investment volatility relative to established benchmarks. Standard deviation shall be the primary measure of volatility.

VI. COMMUNICATION

- A. External money managers shall furnish the Board with an electronic quarterly statement containing a list of holdings, a summary of gains and losses, a portfolio valuation, and a summary of activity. Fixed income managers are required to furnish semiannual calculations of duration, average maturity and credit quality. If registered mutual funds are employed by the Board, they shall be responsible only for adhering to their individual regulatory reporting requirements.

VII. SUMMARY

- A. This Statement sets forth the philosophies, goals, objectives, tolerances and methodologies for the investment of Plan assets. Absent provisions to the contrary, all parties involved in the investing of Plan assets are expected to adhere to the provisions found herein.
- B. Should any provision of this Statement be found to be in conflict with Michigan Law, Michigan Law shall preside over the terms of this Statement.

IT IS HEREBY CERTIFIED THAT WE HAVE RECEIVED A COPY OF THE STATEMENT OF INVESTMENT POLICY OF THE CITY OF ESCANABA DEFINED BENEFIT RETIREMENT PLAN. WE HAVE ALSO BEEN FURNISHED WITH A COPY OF MICHIGAN PUBLIC ACT 314. WE FURTHER CERTIFY THAT WE HAVE READ THE AFOREMENTIONED DOCUMENTS AND AGREE TO ABIDE BY THE TERMS AND CONDITIONS CONTAINED THEREIN.

Name of Firm: _____

Name of Representative: _____

Title of Representative: _____

Signature of Representative: _____

Date: _____

Rehmann

CHANGE ORDER

Client: City of Escanaba, Michigan (the "City")

Date: February 26, 2024

Project Description: Additional audit testing and reporting for the newly established single-employer City of Escanaba Defined Benefit Retirement Plan for the year ended June 30, 2024. Testing required may include contributions, benefit payments, terminations/deaths, and other plan changes. Reporting changes will include updates to the footnotes and required supplementary information for the plan change.

Fee: Estimated to be \$4,000 in the year of change, and \$3,000 in subsequent years due to the ongoing testing requirements.

We believe it is our responsibility to exceed the City's expectations. This Change Order is being prepared because the above project was not anticipated in our original Fixed Price Agreement. The fees for the above project have been mutually agreed upon by the City and Rehmann. It is our goal to ensure that the City is never surprised by the price for any Rehmann service, therefore, we have adopted the Change Order Policy. The estimated additional amount above is due and payable upon completion of the project described.

If management agrees with the above project description and the estimated fee amount, please authorize and date below. Retain a copy for your records.

Agreed to and accepted:

Officer signature

Printed Name

Title

Date



Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

**City of Escanaba
Retirement Plan
Status Update**

Larry Langer and Wendy Ludbrook
Sent May 2, 2024

Preliminary June 30, 2023 Valuation Results



Valuation Results as of June 30, 2023

1 Participant data

Active		13
Retired and Disabled		100
Beneficiaries		18
EDRO		9
Terminated Vested		19
Total Members		159

Projected FYE 2024 Payroll	\$	522,538
Projected FYE 2024 Benefit Payments	\$	3,218,616

2 Assets and liabilities

Actuarial Accrued Liability	\$	37,426,943
Assets:		
i without surplus	\$	22,181,469
ii with surplus		25,608,373
UAAL:		
i without surplus	\$	15,245,475
ii with surplus		11,818,571

Funded Ratio		
i without surplus		59.27%
ii with surplus		68.42%

3 Surplus assets (2ii - 2i)	\$	(3,426,904)
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The results of the First Annual Actuarial Valuation of the City of Escanaba Retirement Plan are to the left.

Results are based on an assumed investment return of 7.25 percent Pub-2010 General Employee Mortality Table with a fully generational projection of mortality improvements using SOA Scale MP-2020. All other assumptions are consistent with the MERS valuation.

Note the actuarial value of assets have been set to market. Future actuarial valuations will use five-year smoothing.

Alternate City Contributions for FYE June 30, 2025

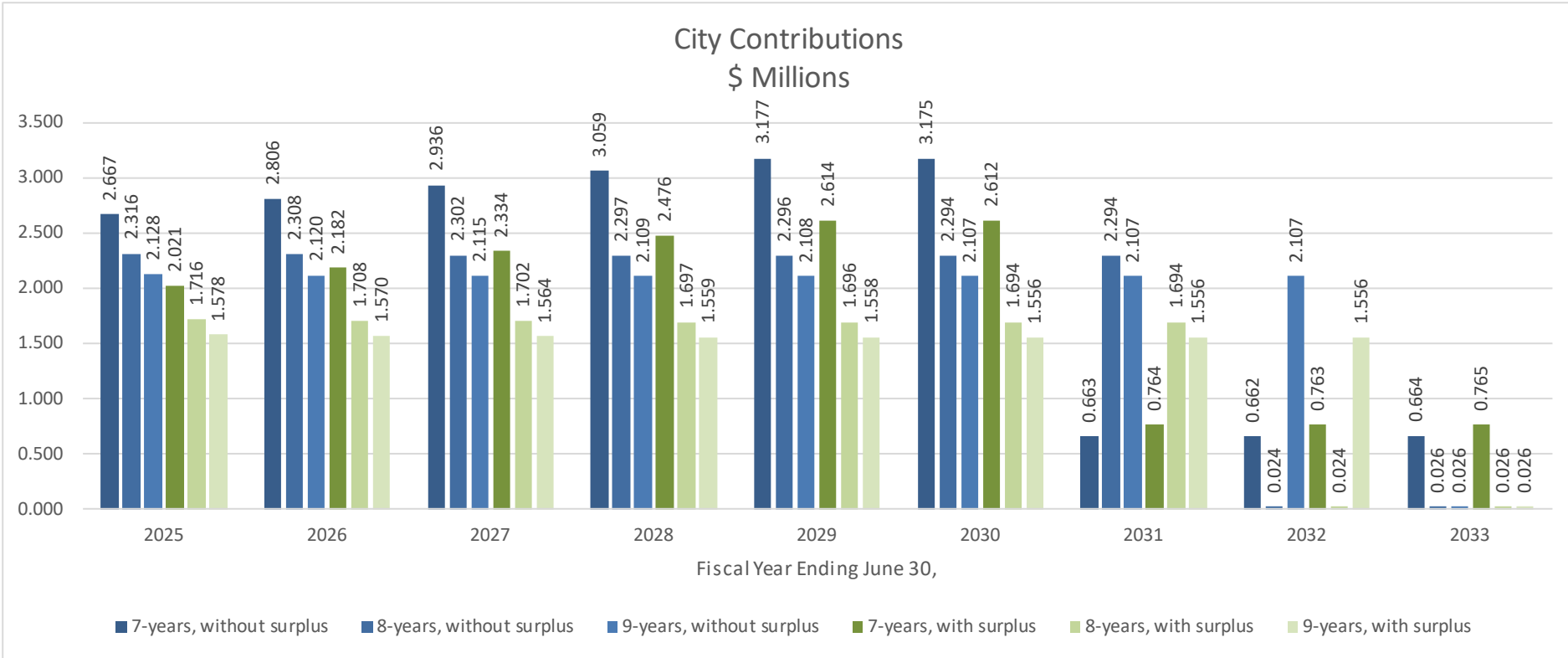


Alternate City Contributions without and with Surplus for Fiscal Year Ending June 30, 2025 Based on Amortization Period of:

	7 Years	8 Years	9 Years
Without Surplus			
Projected Normal Cost	\$ 39,748	\$ 39,748	\$ 39,748
Projected UAAL Payment	2,512,652	2,269,945	2,082,396
Projected Administrative Expenses	16,892	16,892	16,892
Projected Member Contributions	0	0	0
Preliminary Employer Contribution Amount	\$ 2,569,292	\$ 2,326,585	\$ 2,139,036
With Surplus			
Projected Normal Cost	\$ 39,748	\$ 39,748	\$ 39,748
Projected UAAL Payment	1,848,381	1,669,839	1,531,872
Projected Administrative Expenses	16,892	16,892	16,892
Projected Member Contributions	0	0	0
Preliminary Employer Contribution Amount	\$ 1,905,021	\$ 1,726,479	\$ 1,588,512
Difference	\$ 664,271	\$ 600,106	\$ 550,524

- All these proposed amortization periods are reasonable and comply with Actuarial Standards of Practice.
- Use of the surplus has more impact on the contribution than the amortization period but can result in future budgetary challenges in the event of lower-than-expected returns or other adverse experience.

Estimated City Contributions Based on Alternate Amortization Policies and without and with Surplus

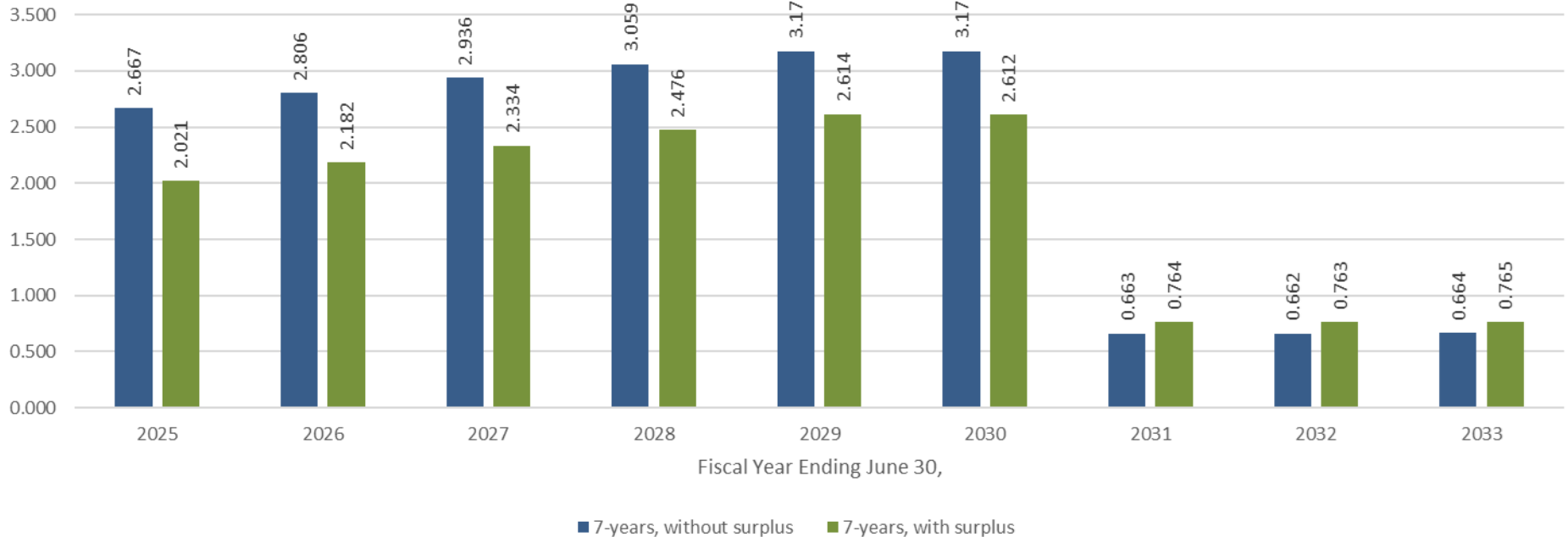


Shorter amortization periods means the UAAL is projected to be paid off earlier. Note the contributions once the UAAL is paid is primarily for projected administrative expenses, with some for benefits accrued, the employer normal cost. Note that “without surplus” means that the City contributions are calculate without the \$3.4 million surplus and the surplus can be used to defease future contribution requirements.

Estimated City Contributions Based on 7-year Amortization, without and with Surplus, and -10% FYE June 30, 2024 return



City Contributions assuming negative 10% FYE June 30, 2024 Return and 7-years Amortization
\$ Millions



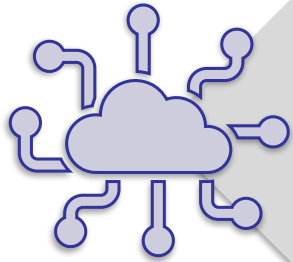
Here we show illustrate the impact on City contributions after FYE 2025 based on a -10% return for FYE 2024 and 7.25% thereafter, which impacts the City contributions for FYE 2026 and beyond. (We are not predicting this event – it is just to illustrate the point.) If the City opts for the no surplus route, some or all of surplus can be used to pay future contributions – even for FYE 2025.



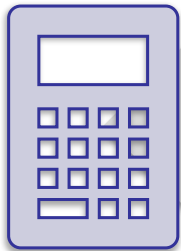
Key Takeaways



We've developed the June 30, 2023 actuarial valuation which is the basis of the FYE June 30, 2025 City contributions. There are a couple of loose ends.



An amortization period and use of surplus needs to be selected.



CavMac needs to develop City contributions by employer.

Actuarial Certification



The results were prepared under the direction of actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. These results have been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions about them.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

Larry Langer, ASA, EA, MAAA, FCA
Principal and Consulting Actuary

Wendy Ludbrook, FSA, EA, MAAA, FCA
Consulting Actuary

Questions?



Thank you!