



FIREFIGHTERS RETIREMENT SYSTEM

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MEETING OF THE BOARD OF TRUSTEES May 21, 2009

A meeting of the board of trustees was held on May 21, 2009, at the Public Safety Building in Baton Rouge. Mr. Charles Fredieu, Chairman, called the meeting to order at 8:30 a.m.

Mayor Hawkins gave the invocation and Mr. Birdwell led the pledge of allegiance.

Mr. Stockstill introduced the new FRS employee, Ms. Susan Strohmeier, to the members of the board. She was warmly welcomed by all.

Mr. Jason Starns called the roll.

MEMBERS PRESENT

Charles Fredieu, Chairman
Mayor Clarence Hawkins
Chief Sammy Halphen
Stacy Birdwell
Paul Smith
Mayor Jimmy Durbin
Barbara Goodson
John Broussard

OTHERS PRESENT

Steven Stockstill
Jason Starns
Susan Strohmeier
Gary Curran
Joe Meals
Mike Gallagher
Mike Chernine
Randy Black
John Walton
Carl Finley
Roy Darby
Eldon Ledoux
Tony Smith
Arthur Price

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MINUTES

MOTION: Mr. Birdwell moved to adopt the minutes of the board meeting held on April 9, 2009. Mr. Halphen seconded. The motion passed.

APPLICANTS

- New Members

PROCEDURE: Each enrollment application is reviewed by staff to determine eligible job classification, date of hire, employer certification, and medical waiver information. Each application for membership was completed and submitted in accordance with all applicable state laws.

Mr. Jason Starns presented the list of new member applicants and stated that all applications were in order. (see attached Exhibit #1)

MOTION: Mr. Birdwell moved to approve the new member applicants. Mr. Halphen seconded. The motion passed.

- Retirees

PROCEDURE: Written notification of retirement is received and the member's file is reviewed for proper documentation and to determine that the applicant meets the legal criteria necessary to receive payment in the form of a monthly retirement benefit. Calculations for retirement are performed by the benefit analyst and verified by the system's administrator. All retirement applications were submitted and benefits calculated in accordance with all applicable state laws.

Mr. Starns presented the new retiree applicants and stated that all applications were in order. (see attached Exhibit #2)

MOTION: Mr. Birdwell moved to approve the new retiree applicants. Mr. Halphen seconded. The motion passed.

- Survivor Applications

PROCEDURE: Survivors applying for benefits must furnish the retirement office with a notarized application for survivor benefits, a copy of the member's death certificate, a marriage license (if beneficiary is a spouse), and the beneficiary's birth certificate. Once received, the application and all supporting documentation is reviewed by staff. The deceased member's records are reviewed by staff to determine survivor benefit eligibility and to determine that survivor benefit calculations are

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completed per applicable state law and any merger agreement. [NOTE: Individuals who retired under another retirement system where FRS is a third party administering payments as a result of a merger, and where the individual becomes deceased after the merger, the beneficiary or survivor is still required to submit all necessary documents; however, payment is made as set forth in the merger agreement (contract) affecting beneficiaries and survivors.] (R.S. 11:2256 and R.S. 11:2259)

Mr. Stockstill distributed to the members of the board information relative to Mrs. Stacy Boler, surviving spouse of Mr. Gary M. Boler. (see attached Exhibit #3)

Mr. Starns reminded the members of the board that in March and April of 2008, Mr. Boler, who had leukemia, made application for a disability retirement; however, before the doctor's report was received and the processing of his application could be completed, he passed away. Mr. Starns explained that legislation passed during the 2008 Regular Session [Act 496] allowed the board of trustees to adopt an Administrative Rule relative to the payment of benefits to the surviving spouse of a member who dies in the line of duty. In the case of Mr. Boler, because he died before his disability application could be processed, Mrs. Boler would be entitled to a surviving spouse benefit rather than a disability survivor benefit.

Chairman Fredieu clarified by adding that the legislation gives the board discretion in determining whether a member's death was in the line of duty.

MOTION: Mr. Birdwell moved to approve in-the-line-of-duty survivor benefits for Mrs. Stacy Boler. Mr. Halphen seconded. The motion passed.

Mr. Starns presented the application of Mrs. Alma Faye Dunn, surviving spouse of Mr. Charles J. Dunn. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve survivor benefits for Mrs. Alma Fay Dunn. Mayor Durbin seconded. The motion passed.

Mr. Starns presented the application of Mrs. Virginia Dauterive Molbert, surviving spouse of Mr. Oscar George Molbert. He stated that the application was in order.

MOTION: Mr. Birdwell moved to approve survivor benefits for Mrs. Virginia Dauterive Molbert. Mr. Halphen seconded. The motion passed.

- Disability Applications

PROCEDURE: Applications for disability retirement, current job duties, and all medical records pertaining to the injury or illness are received and reviewed by the retirement office staff. An appointment is scheduled with a State Medical Disability Board doctor specializing in the area of

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the claimed disability. The doctor submits a detailed report, in laymen's terms, of his findings based on the examination performed and the medical records reviewed. The board of trustees is provided with the disability application, job description, State Medical Disability Board doctor's report and all medical records for review. (R.S. 11:215, 216, 218, & 2258)

Mr. Starns directed the board members' attention to a letter from Mr. Lee Allen West which stated he was withdrawing his application for disability benefits.

MOTION: Mr. Birdwell moved to approve the withdrawal of the disability application of Mr. Lee Allen West. Mr. Halphen seconded. The motion passed.

Mr. Starns presented the application for disability retirement of [REDACTED], who was seen by Dr. Thad Broussard, the State Medical Disability Board doctor. Dr. Broussard's report stated that he was of the opinion that [REDACTED] injury had no cause or connection to his occupation as a fire captain; however, he believed that the applicant's complaints relative to his left foot would be permanent and would prevent the applicant from wearing his boots, therefore preventing him from performing his normal duties. In addition, Dr. Broussard reported that he referred [REDACTED] to an orthotist regarding the possibility of having a special steel toe boot made within the specifications required for firefighters which may allow [REDACTED] to return to work. Mr. Starns then referred to the report from Dr. Esteban Botello, a pedorthist, who stated that, although the second insert he made for [REDACTED] fitted well, [REDACTED] was in pain because his foot was very sensitive. Based upon the medical reports of Dr. Thad Broussard and Dr. Esteban Botello, the recommendation of staff was for approval of a non-job-related disability and approval for continuing disability recertification.

MOTION: Mr. Birdwell moved to approve non-job-related disability benefits for [REDACTED]. Mr. Halphen seconded. The motion passed.

- Disability Conversion Applications

PROCEDURE: Retirees who apply for conversion from regular retirement to a disability retirement are required to submit detailed medical information as part of the application in support of their claim that the disability was job-related and occurred during active employment as a firefighter, even though the actual physical disability may not have become manifest until after the effective date in DROP or after commencement of service retirement. Once received, the application is reviewed by staff and medical records are forwarded to a State Medical Disability Board doctor to determine if sufficient documentation is present to certify that the retiree's disability occurred during active employment and was a direct result of working as a firefighter. If the medical information submitted is not sufficient for the doctor to determine the date and cause of the disability, then an appointment is scheduled for the applicant to undergo a physical examination. The State Medical Disability Board doctor must furnish a medical report certifying the retiree's disability and that the disability was a direct result of employment as a firefighter. (R.S. 11:2258(B)(e)(I) and Administrative Rule)

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Mr. Starns presented the application for disability conversion of [REDACTED] [REDACTED] was seen by Dr. Rubin Patel, the State Medical Disability Board doctor, who stated in his report that the applicant has significant coronary disease due to an extensive family history and tobacco use, has been diagnosed with emphysema relative to his tobacco use, and should remain permanently disabled. Mr. Starns stated that it was the recommendation of staff that [REDACTED] application for disability conversion be approved, as well as the discontinuation of disability recertification.

MOTION: Mr. Halphen moved to approve [REDACTED] application for disability conversion.

In stating the reason for his motion, Mr. Halphen said that the majority of heart problems seen in firefighters comes from stress, not smoke. The stress on firefighters affects the heart repetitively, and there's no doubt that it is a factor of coronary disease. He added that there are a lot of firefighters who smoke, but the one thing that cannot be measured that is a contributing factor is stress.

Mayor Durbin referred to the medical narrative report written by Dr. Patel. He said the report clearly describes an individual that really has a significant family history and has smoked a pack of cigarettes day since the age of 24. Mayor Durbin was of the opinion that [REDACTED] is a prime example of a person that is disabled from a variety of factors, including a significant family history of poor health, and smoking should not be considered the only factor. He felt that there was no reason why the board should not approve his application for a disability conversion.

Mr. Halphen added that the applicant's employer hired him knowing that he was a smoker and knowing that there is presumptive law. He said there was a lot more to the issue than just saying someone smokes. As to whether there is a smoking cessation program for firefighters, he said the answer is always "no." Mr. Halphen felt that the board would have firm ground to stand that it has not been convinced, particularly knowing the job duties of a firefighter, that it could be solely attributable to smoking.

MOTION: The earlier motion to approve the disability conversion application of [REDACTED] was taken up at this time. Mr. Broussard seconded. The motion passed.

Mr. Starns presented the application for disability conversion of [REDACTED]

MOTION: Mr. Halphen moved to enter into executive session in order for the board to discuss the privacy protected medical information related to the disability conversion applicant. Mr. Birdwell seconded. The motion passed.

The board entered into executive session.

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MOTION: Upon conclusion of executive session, Mayor Durbin moved to return to regular session. Mr. Halphen seconded. The motion passed.

The board returned to regular session.

MOTION: Mr. Birdwell moved to approve the disability conversion application of [REDACTED]. Mayor Durbin seconded. The motion passed.

Mr. Starns presented the application for disability conversion of [REDACTED], along with the second physician's report.

Chairman Fredieu asked [REDACTED] and his legal counsel, Mr. Carl Finley, if they would prefer to enter into executive session, to which Mr. Finley replied in the affirmative.

MOTION: Mr. Birdwell moved to enter executive session to discuss the disability conversion application of Mr. Walton. Mr. Halphen seconded. The motion passed.

The board entered into executive session.

MOTION: Upon conclusion of executive session, Mr. Birdwell moved to return to regular session. Mayor Durbin seconded. The motion passed.

The board returned to regular session.

MOTION: Mr. Birdwell moved to approve the disability conversion application of [REDACTED]. Mayor Durbin seconded.

Mayor Durbin complimented Mr. Finley on his presentation on behalf of [REDACTED].

Mr. Halphen stated for the record that, although he agreed that [REDACTED] disability was proven to be job-related, he did not necessarily agree that [REDACTED] could not return to work.

MOTION: The earlier motion and second to approve the disability conversion application of [REDACTED] was taken up at this time. The motion passed.

Chairman Fredieu suggested that the board policy be taken up later in the meeting in order to allow the representatives of Land Baron to discuss the real estate investments.

• **MONTHLY FLASH REPORT - APRIL**

Mr. Meals presented the month flash report for April 2009. (see attached Exhibit #4) He noted that the overall fund was up/down as follows: +5.3% for the month of April as compared to the blended index of +5.9%; -23.6% for fiscal year to date as compared to the blended index of -17.2%; -24.3% for the trailing 12 months as compared to the blended index of -21.1%.

COMMITTEE REPORT - INVESTMENT COMMITTEE

[NOTE: The investment committee met on May 20, 2009, at the FRS office in Baton Rouge at 3:00 p.m. to discuss the business set forth in its posted agenda. Committee members present included committee Chairman Stacy Birdwell, Mr. Halphen, Mayor Hawkins, Mr. Smith, Mr. John Broussard, alternate, and Mr. Charlie Fredieu, ex officio.]

• **Land Baron LLC and First NBC Bank**

Mr. Mike Chernine and Mr. Randy Black were present to discuss Land Baron Investments. Mr. Chernine provided an update regarding the development activity related to the property known as Nothing Left to Prove (NLTP). He then informed the board that the loan on the property has matured and they are in the process of obtaining an extension on the loan, as well as looking at an offer to refinance the loan through First NBC Bank. Mr. Chernine distributed a document comparing the terms of extending the current loan with Specialty Trust to the terms of refinancing through First NBC. (see attached Exhibit #5)

Considering the value of the property when it was purchased and taking into consideration the fall in property values since that time, Chairman Fredieu asked what the value of the property might be at this point in time.

Mr. Black replied that, because of current market conditions, he had not taken a look at that; however, his opinion was that it was absolutely worth the purchase price and more than likely worth more. The issue is that the real estate market itself doesn't have many buyers and the timing is not correct. He said he would prefer to get through this next summer, have the interstate highway interchange in place, and try to solidify some of the users they've been working with because assessing a value at this point in time would be speculative in nature. Also, it wouldn't be in anyone's best interest to try to sell the property now for those same reasons.

Ms. Goodson asked if approval was needed for negotiation of the loan. Referring to Exhibit #5, Mr. Chernine said NLTP LLC ("partnership") has two options relative to the matured loan, to extend the loan with Specialty Trust for another two years or to refinance the loan with First NBC, which, in his opinion, was clearly a better financial situation for the partnership. Under the existing loan with Specialty Trust, the interest rate is 13.5%, and the original intent of having that loan was to

close on the property and, after one year, refinance at a better rate. Unfortunately, the capital market changed thereafter and made it extremely difficult to get refinancing. Specialty Trust allowed an extension of the loan under the same terms. However, through a relationship with the New Orleans Firefighters, First NBC Bank has made an offer to refinance the \$21 million currently owed on the loan at an interest rate of 7.5% for three years. He stated, though, that he and Mr. Black would like to tweak the loan with First NBC to \$27 million. The additional \$6 million would be used to service \$2 million a year for the interest on the loan, with an approximate out-of-pocket additional amount of \$350,000 to put the loan in place. Mr. Chernine went on to say that the downside of the loan with First NBC is that after three years, the principal balance on the loan is \$27 million instead of \$21 million. The Specialty Trust extension of the existing loan would be for two years at 8.5%, down from 13.5%, but an interest reserve would be required every six months. At the end of two years, due to the reduction, another requirement would be to immediately fund \$2 million, and the loan balance will then be \$19 million. The cash outlay for FRS to extend the existing loan for another two years is a little over \$2.5 million versus the cash outlay to refinance through First NBC for three years is approximately \$127,000. Mr. Chernine stated that, by the end of the month, the board needed to decide which loan it wanted to go with.

Chairman Fredicu questioned the reason for the partnership to borrow an additional \$6 million if the pay-off of the existing loan is \$21 million.

Mr. Chernine responded that First NBC is requiring the payment of an interest reserve in the amount of \$2 million a year for three years.

Chairman Fredieu asked if money is being borrowed for the interest, to which Mr. Chernine responded in the affirmative. He added, though, that it is possible that the interest could be serviced by the partnership, and the loan with First NBC would be for \$21 million, not \$27 million.

Mr. Black said it is almost a miracle to be offered such a loan, because they have been retiring debt on buy-downs from banks that have been taken over by the FDIC on all of the other partnerships they have. He added that land loans are not the most popular products being offered.

Mr. Broussard asked if the bank is requiring an appraisal. Mr. Chernine said the bank already has the appraisal completed.

Mr. Broussard then asked if it is the initial appraisal or a current appraisal. Mr. Chernine responded that he thought the bank had gotten a current appraisal, but the appraisal has nothing to do with the approval process. The offer of the loan is based on the systems that are involved.

To reconfirm, Mr. Broussard asked again whether the bank has an appraisal. Mr. Chernine said he believes they do.

Mr. Black added that the land is collateral. Additionally, when the partnership began negotiations with First NBC approximately six months ago, he recalled that they ordered a valuation of some sort.

Mr. Chernine said the bank may have contacted the company who did the appraisal when the property was initially purchased.

Mr. Black said the lever in the negotiations with First NBC was providing to them all the information on the property and the zoning status, as well as the same information that had been discussed with FRS on development of the property. He stated that he told First NBC, "There's the prior appraisal of \$58 million. There's the loan request. Is that something you would do or not?" First NBC answered, "Yes, according to the terms of the loan." He added that, due to concerns expressed by FRS relative to some of the terms set forth in the letter of commitment, clarification on those concerns was obtained from First NBC.

Upon questioning by Mayor Durbin as to the amount of the total debt, Mr. Chernine responded that it was \$21 million under the existing loan, but would require approximately \$2.6 million from FRS over the next two years under the new terms to extend the loan.

Mrs. Goodson asked if Specialty Trust is requiring an amount for interest under the extension.

Mr. Chernine answered in the affirmative, adding that it would be required every six months.

Ms. Goodson observed that, with Specialty Trust, it's "pay as you go," but First NBC requires the interest be paid up front.

Mr. Chernine told Ms. Goodson that her observation was correct.

Mr. Broussard commented that it's "either pay now or pay later."

Mr. Meals said the other co-owners are in favor of the First NBC option shown in the right-hand column of Exhibit #5, which requires the least amount of capital outlay and at the lower interest rate. The co-owners have not approved the Specialty Trust transaction because they definitely prefer the First NBC bank loan.

Mayor Durbin asked Mr. Meals, from the standpoint of a financial advisor, if FRS is currently in a position of continuing to subsidize additional funding requirements, why wouldn't it be a better option for FRS to put up \$21 million to pay off the debt and then charge a reasonable rate of interest against that debt instead of the system paying a three-year debt service.

Mr. Broussard reminded that members that FRS had \$20 million since the Investment Committee had decided against investing in Townsend. He emphasized, however, the fact that it's not a question of whether or not FRS has the cash, it's what the partners would think about such an option.

In addressing Mayor Durbin's question, Mr. Meals stated that FRS has an opportunity with First NBC for a loan at 7.5%. Actually, he said, the effective rate, which he would have to calculate, is a little more than that because the interest is being borrowed in advance. To that extent, the alternative needs to be considered, which is the system would have to earn more than 10% on the \$21 million it uses to pay off the loan, and FRS would basically become the banker and charge interest to the co-owners, as opposed to First NBC, which would not require the other two parties to pay their pro rata share.

Mr. Meals further said that, as the system's financial advisor, if FRS were able to borrow money at a true cost of 7.5% with First NBC, it would be a better financial arrangement than paying \$21 million in cash. If you look at the effective rate of prefunding your interest payment and, therefore, paying interest on the interest for that three years, simple calculation drives the rate up to around a 9.6% or 9.75% effective cost over three years. It then becomes more of a coin toss as to whether the system earns more than 9.75%.

Chairman Fredieu asked Mr. Stockstill if he understood the terms the board was discussing.

Mr. Stockstill summarized the concept by saying FRS is going to structure an agreement containing the terms discussed by the board and one that the co-owners would agree to. The co-owners would be required to pay FRS immediately under the same terms they would have paid the bank. Although FRS would become the banker, so to speak, the co-owners would not be given more favorable terms than they currently have.

Mr. Meals indicated that the co-owners would not be required to put up their interest deposit.

Mr. Broussard stated that the co-owners may not want to fully participate or possibly not at all. New Orleans and/or MERS may not be able to afford their entire share right now. To the extent the co-owners want to participate, it reduces the ultimate carry that FRS will collect.

According to Mr. Meals, it would basically be creating a second class of ownership, with the second class of ownership raising \$21 million, and the three participants being given an opportunity to participate at whatever level they choose.

Mr. Stockstill asked whether any board member had contemplated the impact of the transaction on the existing 15% guarantee when the property is sold.

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Mr. Chernine stated that the transaction would be treated in exactly the same manner as the debt. If the debt is retired, the \$21 million gets retired first, plus whatever the accrual is, then it would be the distribution of capital and gains.

Mr. Broussard stated FRS steps in front of the co-owners on payment. In other words, this particular piece of the financing puzzle steps in front of the 15% guarantee.

Mr. Meals responded that the FRS preferred interest would be treated as an expense to the investment before the calculation of the return on the investment is performed in determining whether the 15% has been triggered.

Mr. Chernine added that, in the event of the sale of a parcel, interest would get paid first and the principal would be paid second.

Mr. Meals commented that it would be no different than the requirement of the bank; i.e., 100% of the proceeds would be used to pay down the loan, 100% of the proceeds from any parcel sales would be used to retire the preferred interest, and if there was more money left over after that, it would be applied to principal.

Mr. Broussard said the major national banks are all deleveraging right now. They're not expanding their loan base, they're deleveraging; which is exactly what FRS would be doing. The system would be doing the exact same thing the professionals are doing right now – deleveraging the real estate because there's no way of knowing for sure how long the downturn in the market is going to be and how long it is going to take to cash out the real estate. You have to have staying power. So the question is do you want to borrow the money now and face refinancing in three years or do you want to take care of that problem right now.

Mr. Meals remarked that one of the advantages of paying the loan off is there are no out-of-pocket expenses relating to loan fees.

MOTION: After further discussion, Mayor Durbin moved that FRS fund the pay-off of the existing loan with Specialty Trust as a preferred equity participant and assess a carrying charge of 9.25% to the NLTP partnership.

Before continuing with his motion, Mayor Durbin asked if refinancing of the loan in the amount of \$21 million with Specialty Trust was solely the obligation of Land Baron, to which Mr. Chernine responded that it was the obligation of the partnership.

Mayor Durbin then asked what the status of FRS would be if it pays off the loan and the partnership is no longer obligated to Specialty Trust. Mr. Black answered that FRS would be in the primary position.

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With regard to the makeup of the partnership, Mr. Meals stated that MERS and New Orleans Firefighters are the two members of the NLTP partnership.

Mr. Black added that there is a small percentage of co-owners that are private capital investors.

Mr. Chernine stated that, based upon past experience, and as Mr. Meals had stated, there would need to be two different classifications of ownership, as well as an amendment to the co-ownership agreement.

Mayor Durbin asked if any problems with the other co-owners could be expected. Mr. Black replied that as long as they are given the opportunity to participate on their proportionate level, he didn't expect any problems.

Mr. Black clarified that it would be necessary to account for the actual cost of those funds and to make sure that the legitimate accrual rate on the 7.5% would cost 9.25%.

The earlier motion by Mayor Durbin was not considered.

MOTION: Mayor Durbin then moved that FRS, as a preferred equity participant, fund the entire \$21 million to pay off of the balance of the existing loan with Specialty Trust and assess a carrying charge of 9.25% to the NLTP partnership in the event the partnership and/or the other co-owners decline an offer by FRS to participate in paying a share of the \$21 million pay-off. Mayor Hawkins seconded. The motion passed.

MOTION: At the suggestion of Mr. Stockstill, Mayor Durbin moved to approve FRS retaining the services of an attorney to draft an amended agreement relative to the pay-off of the loan. Mr. Birdwell seconded. The motion passed.

- **Land Baron Investments, Inc. and FRS LB #1 - 15% Guaranteed Return**

Chairman Fredieu stated that Ms. Kelli Chandler, the system's CPA, informed the board that the auditors require documentation regarding the 15% guaranteed return agreed to between FRS LB #1 and the principals of Land Baron Investments, Inc. Referring to a document submitted by Land Baron Investments relative to its 5-Year Performance results (see attached Exhibit #6), he asked if the document was verified by auditors.

Mr. Chernine replied in the negative, adding that Land Baron Investments had never been requested to provide audited financial statements. He stated that such a process would require valuations on everything they own, which they would have to pay for, as well as hiring an accounting firm to perform the audit.

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Mr. Stockstill explained that if FRS does not receive substantiation required by the auditors, 15% of the value of the investment may have to be written off the books.

Mr. Black stated that a compilation of supporting documentation of the value based upon comparables, market data per parcel, and documentation relative to percentages of ownership could be performed and provided to Ms. Chandler. She could then extrapolate the information needed to provide to the auditors.

Mr. Meals clarified that the interest accrued to date would be written off. He then said that, rather than waiting for the actual request from the auditors, it would be better to prepare the information now in order for Ms. Chandler to then present it to the auditors, who would then decide whether or not to accept it as substantiation. He added that the audit is due June 30.

MOTION: Mr. Birdwell moved to request that Land Baron Investments provide documentation relative to the 15% guaranteed return to Ms. Chandler for purposes of audit requirements. Mayor Durbin seconded. The motion passed.

Mr. Stockstill requested that Mr. Meals be recognized to enunciate a clear understanding of the 15% guarantee.

Mr. Meals reminded Mr. Chernine and Mr. Black that, when they last appeared before the board, a discussion was had regarding how, from an administrative process, the 15% guarantee works. Referring to the Management Agreement, he explained that it was his understanding, as well as that of FRS, that when a property is sold, a computation will be made at that point in time as to whether 15% has been earned on that particular property, after taking into consideration the cash flow from any preceding sales of property, to determine if those transactions in combination have earned 15%. In the event the 15% guarantee has not been achieved on each sales transaction, under the terms of the personal guarantee, a claim will be made against the principals of Land Baron Investments, Inc., for the difference. As long as the 15% guarantee has been achieved, there would be no claim. To use an example, Mr. Meals stated that, if the first sale of the property produces a 12% return, it would trigger the guarantee for the principals to make up the difference between 12% and 15% at the sale. In the event the sale of a second property produces an 18% return, the calculation of that return would take into consideration the proceeds from the first sale plus any contributions made under the guarantee. Therefore, it would not require any additional personal contribution. Another scenario would be that, if the first sale produced an 18% return and the second sale produced a 12% return, the combination of the cash flow from the two sales achieves a 15% return. In that case, there would be no claim under the guarantee. He further explained that, each time there is a sale, the transaction is computed based on all cash flows that have occurred up to the point and time of that sale. If the 15% has been achieved, there is no claim; however, if the 15% has not been achieved, there is a claim under the guarantee, and any contributions made under the guarantee will be counted toward all future calculations.

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Mr. Black and Mr. Chernine indicated that their understanding of the guarantee was the same as the explanation given by Mr. Meals.

Upon questioning by Mr. Birdwell regarding the first sale and future sales of property, Mr. Meals replied that it would be the completed sale of the property, not parcels.

Chairman Fredieu asked for clarification of the payoff schedule when the first piece of property is sold.

Mr. Meals said the note is a special interest note. The 9.25% gets paid off before the 15% does. You want the 15% to be out there for the longest period of time because that's what you're earning your money on.

After further discussion, this matter was concluded with no action being needed or taken.

The board then recessed for lunch, after which it continued with discussion of items on the agenda.

Mr. Birdwell requested that Mr. Meals comment on the issues discussed by the Investment Committee in its meeting.

- **Market Update**

Mr. Meals distributed a document depicting charts relative to the update of the market. (see attached Exhibit #7) He stated there has been no real change with regard to the outlook in the market. Although the market rallied substantially in April, it now seems to be faltering. A decrease in the spread in the corporate marketplace occurred in the month of April.

- **Small/Mid Cap Manager Search Update**

Mr. Meals stated that the update regarding the small/mid cap manager search was discussed in the Investment Committee meeting. He deferred to Mr. Birdwell to inform the board of its recommendation.

Mr. Birdwell stated that it was the recommendation of the Investment Committee that Advisory Research, Inc., Artisan Mid-Cap Value Strategy, and Kennedy be requested to appear before the Investment Committee at its June meeting.

MOTION: Mr. Birdwell moved the recommendation in the form of a motion. Mayor Durbin seconded.

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Mr. Meals referred to a handout containing information on the seven managers that were under consideration. (see attached Exhibit #8)

Chairman Fredieu requested that all board members be in attendance at the Investment Committee meeting in June.

MOTION: The earlier motion by Mr. Birdwell and second by Mayor Durbin was taken up. The motion passed.

- **Townsend Real Estate**

Mr. Meals stated that the feasibility of investing in a fund sponsored by Townsend Real Estate was discussed in detail at the Investment Committee meeting. It was decided that it would not be in the best interest of the system to do so.

The discussion on this matter was concluded with no action being needed or taken.

- **FRS Investment Policy**

Mr. Meals informed the members of the board that the FRS Investment Policy was discussed on a page-by-page basis during the Investment Committee meeting. He referred the members to a copy of the FRS Investment Policy, which was distributed to the members. (see attached Exhibit #11) Mr. Meals stated that changes to the policy had been suggested and those changes were handwritten on the Exhibit.

Mr. Birdwell recommended that, since most of the members were present at the Investment Committee meeting when the policy was discussed, the revisions be adopted.

MOTION: Mr. Birdwell moved to adopt the revisions to the FRS Investment Policy. Mr. Halphen seconded. The motion passed.

- **FRS Large Cap Equity Managers**

Mr. Meals explained that the Flash Report uses a benchmark for measuring each managers performance against the market. Based on discussions with members of the board, for the month of April, a test scenario of the Dow Jones Wilshire benchmarks was used. Mr. Meals referred to a study prepared by Dow Jones for the members regarding the construction of their entity versus the Russell Index. Discussion during the Investment Committee meeting led to a recommendation that the Dow Jones Indices be adopted as the formal benchmark for the FRS equity portfolio.

MOTION: Mr. Birdwell so moved. Mr. Halphen seconded. The motion passed.

- **J. P. Morgan - Securities Lending/U.S. Treasury Markets**

Mr. Meals stated that J. P. Morgan had requested a change in its contract with FRS relative to the process it uses in treating fails on securities. He explained that this is taking place throughout the industry in response to recent settlement issues that have occurred due to short selling in the marketplace, particularly as it relates to treasuries. Mr. Meals stated that J. P. Morgan adopted the new policy of the Treasury with regard to this issue. The primary impact of the change to FRS would be how revenues are treated from a fee standpoint. He went on to say that, in his opinion, the proposal for change submitted by J. P. Morgan was a fair proposal and is in keeping with the standards that are taking place in the industry.

Mr. Birdwell stated it was the recommendation of the Investment Committee to agree to the changes requested by J. P. Morgan.

MOTION: Mr. Birdwell moved the recommendation in the form of a motion. Mr. Halphen seconded. The motion passed. [NOTE: Due to lack of a quorum at the time the motion was made, the actual vote occurred later in the meeting.]

- **Southern Theaters, LLC**

Mr. Meals provided an update regarding a proposal by Mr. George Solomon that FRS fund a transaction with Southern Theaters, LLC. Mr. Solomon had approached the board and submitted information; however, there was no formal request, and the information he supplied was insufficient. Mr. Meals stated that the Investment Committee suggested that he contact Mr. Solomon and request additional information, as well as informing Mr. Solomon that it would be highly unlikely that FRS would commit \$30 million to the transaction. He agreed to contact Mr. Solomon and, if a formal, more structured proposal was provided for review, he would present it to the Investment Committee.

The discussion on this matter was concluded with no action being needed or taken.

- **FRS Board Policy - Enrollment of Individuals Over the Age of 50**

Mr. Starns stated that the administrative staff of FRS had drafted a proposed board policy regarding the enrollment of an individual over the age of 50. (see attached Exhibit #9) He explained that the proposed policy would apply to a person employed prior to the age of 50 who is erroneously enrolled in another Louisiana public retirement system by the employer, and it is determined at a later time that the person should have been enrolled as a member of FRS. In such a case, the person should be enrolled in FRS at the next available payroll date whether or not the person is over the age of 50 at that time. In addition, service credit accrued in the other retirement system would be eligible for transfer into FRS subject to the provisions of R.S. 11:143. Mr. Starns went on to say that the proposed enrollment policy was drafted due to a situation where an individual was employed, but

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the city was unaware that she should have been enrolled in FRS and instead was enrolled in another statewide public retirement system. When the error was subsequently discovered, the employee was over the age of 50; however, at the time of employment was under the age of 50. Under current provisions (R.S. 11:2253(A)(1)(a)(ii)), an individual over the age of 50 cannot become a member of FRS unless it is by reason of a merger. He explained that, in this case, if the person were to be enrolled as a member of FRS after the age of 50, after six months, she would be eligible to transfer service credit from the other retirement system in which she was erroneously enrolled. Mr. Starns made reference to R.S. 11:2253(D), which provides that in any case of doubt, the board of trustees shall be the sole judge as to eligibility for membership.

Mr. Starns further explained that fire department in which the individual is employed is contributing to FRS; however, when the individual was first employed, the fire department did not think she met the definition of "employee" under the Fire and Police Civil Service System and was enrolled in MERS.

Mr. Stockstill stated that there would probably be an actuarial cost to the individual, who may not be able to afford to pay the cost for the transfer of service credit.

Mr. Gary Curran, FRS system actuary, stated that, based on the actuarial value of a transfer, it would vary on a case-by-case basis relative to whether or not there would be a cost for transfer into FRS.

Chairman Fredieu, as well as Mr. Birdwell, was of the opinion that the city should be responsible for paying any actuarial cost for the transfer of service credit into FRS of any employee erroneously enrolled in another system.

Mr. Stockstill replied that the individual could opt to keep his service credit in the other retirement system, as well as accruing service credit in FRS; however, if the individual requests a transfer of that service credit, it would be up to the city and the individual to decide who will pay such cost.

Mr. Stockstill suggested that the proposed change be adopted as written.

MOTION: Mr. Birdwell moved to approve the proposed change to the board policy regarding enrollment of individuals over the age of 50. Mayor Durbin seconded. The motion passed.

Chairman Fredieu noted for the record that documentation be obtained to verify that all requirements for membership in the system have been met.

- **Conversion of FRS Computer System**

Mr. Stockstill reminded the members that the condition of the FRS computer system had been discussed and it was agreed that it needed to be upgraded or replaced. He stated that a three-phase cost invoice submitted by Southwest Computer Bureau had been provided. (see attached Exhibit # 10) At this point, however, the request is to have Southwest Computer Bureau transfer FRS' information to Automated Services Provisioning using VENYU, which is more secure than what is currently used by FRS. The cost of the project would be between \$3,000 and \$4,000. Mr. Stockstill strongly recommended that the board approve the conversion.

MOTION: Mr. Halphen moved to approve the conversion of FRS' information by Southwest Computer Bureau to VENYU. Mr. Birdwell seconded. The motion passed.

Mr. Stockstill requested authority to amend the budget to cover the cost of the conversion in the event the cost exceeds what is currently in the budget.

MOTION: Mr. Birdwell moved to approve an amendment to the budget, if necessary, relative to the cost of conversion to VENYU. Mr. Halphen seconded. The motion passed.

- **Cancellation of Contract Between FRS and Elaine Bardwell**

Mr. Stockstill requested that the members of the board approve the cancellation of a contract between FRS and Elaine Birdwell. He explained that the contract had become unnecessary.

MOTION: Mayor Hawkins moved to allow Mr. Stockstill to rescind the contract. Mr. Halphen seconded. The motion passed.

- **Legislative Update**

Mr. Stockstill provided a brief update to the board on legislation that may affect FRS.

Chairman Fredieu asked Mr. Stockstill about the legislation relative to guaranteed cost-of-living adjustments.

Mr. Stockstill explained that the legislation (IIB 96 by Representative Pearson) would allow an option to members in state and statewide retirement systems to, upon application for retirement, choose to have their retirement benefits actuarially reduced in order to receive a guaranteed 2.5% COLA every year until death. This would be in addition to any COLA granted by the member's retirement system.

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Mr. Curran commented that he did not think very many members will select the option because the reduction to their monthly benefit would probably be in the neighborhood of 20% or more.

• **Other Business**

Mr. Stockstill mentioned to the members that the FRS Statement of New Assets as of March 31, 2009, a copy of the constitutional provisions relative to loans, and miscellaneous articles had been made available.

ADJOURNMENT

There being no further business, the meeting was dissolved by loss of a quorum.

FUTURE MEETINGS

**FRS Investment Committee
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Wednesday, June 17, 2009, at 02:00 pm**

**FRS Board of Trustees
Public Safety Building
3100 Brentwood Drive
Baton Rouge, Louisiana
Thursday, June 18, 2009, at 8:30 a.m.**

SUBMITTED BY:

APPROVED BY:

Janet Picard, Transcriptionist



Mr. Charles Fredieu, FRS Chairman