

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

THURSDAY

SAN JOSÉ, CALIFORNIA

April 9, 2009

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met at 8:31 a.m., on Thursday, April 9, 2009, in regular session at the Department of Retirement Services, 1737 N. First St., Suite 600 - San José, California.

ROLL CALL

Present:

DAVID BUSSE

CHAIR, Trustee

Jeffrey Perkins

Trustee

Patrick Skillsky

Trustee

Pete Constant

Trustee

Ed Overton

Trustee

Ash Kalra

Trustee

NOT PRESENT:

Matt Loesch

Trustee (Excused)

ALSO PRESENT:

Russell U. Crosby	-Secretary/Director	Donna Busse	-Staff
Russ Richeda	-Attorney	Mollie Dent	-City Attorney
Tamasha Johnson	-Staff	Carmen Racy-Choy	-Staff
Debbi Warkentin	-Staff	Allison Suggs	-OER
Bill Thomas	-Retiree	Tom Reilly	-OE3
Ron Kumar	-Staff	Amanda Ramos	-Staff
Rhonda Snyder	-Staff	Alex Gurza	-OER
Veronica Niebla	-Staff	Ali Amiry	-Staff
Carol Bermillo	-Staff	Trish Glassey	-CEO
Jesselle Holcomb	-Staff	Ceara O'Fallon	-Staff
Bill Pope	-OE3	Maria Loera	-Staff
Jennifer Schembri	-OER	Yolanda Cruz	-MEF
Antonio Guerra	-Mayor's Office		

REGULAR SESSION

Chair Busse called the meeting to order at 8:31 a.m. The Board went into Closed Session.

1. CLOSED SESSION

Conference with Legal Counsel - Anticipated Litigation

Initiation of litigation pursuant to subsection (c) of Section 54956.9 of the Government Code:

Number of matters to be discussed: 1

CONFERENCE WITH REAL PROPERTY NEGOTIATORS

pursuant to Government Code Section 54956.8

Property: Milpitas Warehouse 746-876 South Milpitas Boulevard

Negotiator: Leslie Horenburger, MIG Realty Advisors, Inc.

(via telephone)

Under negotiation: Price and terms of payment

Probable Value of Property: Exceeds \$1 million

Ms. Dent stated there was nothing to report out from closed session.

Chair Busse resumed the public session at 9:20 a.m.

ORDERS OF THE DAY

The Secretary stated at IMN's Public Pension Fund Awards banquet in March, the Plan won Mid-Sized Public Plan of the Year Award. The editors noted the improvements in the Plan's diversification of assets in the portfolio, and other changes implemented over the last year.

RETIREMENTS

CONSENT CALENDAR (Items 2 thru 8)

(M.S.C. Constant/Perkins) to approve Consent Calendar. Motion carried 6-0-1. (Absent: Loesch)

Service retirements approved:

Angelita C. Castillo, March 28, 2009
Keith A. Creal, April 18, 2009
Irene Machado, April 22, 2009
Tess McClendon, March 31, 2009
Neil R. Metzger, March 31, 2009
Edward A. Moore, March 31, 2009
Gwen C. Parker, March 31, 2009
King C. Wong, March 21, 2009

DEATH NOTIFICATIONS (Item 9 - Moment of Silence)

The Chair stated there would be a moment of silence for the death notifications.

OLD BUSINESS (Item 10-13)

10. Travel Audit compliance update.

Mrs. Niebla stated the City Travel Policy is finalized, and will be discussed at the Policy Committee on April 20, 2009. Additionally, she noted that staff will have a citywide training on April 13, 2009.

11. Adoption of Resolution No. 6398 revising the excess earnings as of June 30, 1996, 1997, 1998, 1999, 2005, 2006, 2007 and 2008 for the purpose of transfer to the Supplemental Retiree Benefit Reserve.

(M.S.C. Constant/Perkins) to approve the resolution. Motion carried 6-0-1.

11.2 Approval of the Supplemental Retiree Benefit Reserve ("SRBR") distribution for the Federated City Employees' Retirement System in the amount of \$148,426, for the fiscal year ended June 30, 2008.

Ms. Niebla stated in response to a question posed by Member Perkins, there was a variance in the amounts due to the allocations to the pension and health plan. The correct amount is stated in the original memo in the amount of \$147,578.

(M.S.C. Constant/Overton) to approve the SRBR distribution in the amount of \$147,578). Motion carried 6-0-1.

12. Discussion on details of the DRS reorganization in the approved Department of Retirement Service's Budget for Fiscal Year 2009-2010.

The Secretary stated the staff reorganization structure is basically equivalent to the structures of similar plans. They typically have subject matter specialization as part of the investment staff at a senior level. Those specialized members focus on public markets, private markets, real assets, risk management, and actuarial. The reallocation of staff and the development of new staff have been outlined.

Members Perkins and Overton had further discussion related to the positions qualifications, current staff, and the priority in filling the new vacancies.

The Secretary stated he plans to move quickly to fill the positions, and these additions will return value in lower management fees and lower portfolio risks. There will now be oversight for each of the asset classes. By having a deeper level of staff monitoring assets, which is the standard structure in building a robust staff, it is possible that the Plan may have mitigated some of the incurred losses.

This item is note and file.

NEW BUSINESS (Items 13-17)

- 13.** Discussion on memo from Alex Gurza, Director of Employee Relations, concerning agreements between the City and various bargaining units re: pre-funding of the full annual actuarial costs for retiree healthcare as prescribed by GASB 43/45

Mr. Gurza stated the City and both Boards studied this topic for some time. The City also performed stakeholder outreach and educational sessions. The Office of Employee Relations successfully participated in coalition bargaining with seven of the City's unions regarding the ramping up to full prefunding for retiree healthcare. He stated City Council action will take place on April 21, 2009, which will include the unrepresented employees in the system, and only one union is still in negotiations (OE3). The underlying agreement will not be changed, nor will the Municipal Code change. The current cost sharing will continue as it exists. The FCERS rolling 15-year funding method will change to ramp up to pay the full actuarial cost or the Annual Required Contribution (ARC) over the next five years. The data provided during the Joint Solutions to Retiree Healthcare Committee meetings displaying the 5-year phase-in from the actuaries were used as a guide in determining the proposed agreement. The City plans to implement the ramp up in July 2009, so that requires updated numbers and charts of the 5-year phase-in with a closed amortization period from the Plan's actuaries.

(M.S.C. Overton/Constant) to authorize staff to proceed with the request to negotiate an agreement with GRS for the 5-year phase in for implementation in July 2009 and provide a side letter. Motion carried 6-0-1.

- 14.** Discussion and direction to determine if a letter or memo should be sent to the City Council, with a copy to the City Manager, recommending that the Council consider options related to the SRBR, including restructuring or elimination.

Member Overton stated he has an issue with the Board recommending elimination of benefits. The Board has a duty to administer the fund solely in the interests of the plan participants, so he cannot support any direction regarding this matter.

Chair Busse stated the SRBR seems contrary to the health of the fund. The Plan uses smoothing for the peaks and valleys, but the SRBR slices off the peaks. He brought this item up to initiate discussion concerning the best interest or the health of the fund. He noted CALPERS has a Purchase Protection Program that may be more actuarially predictable.

Mrs. Racy-Choy stated the CALPERS Purchase Protection Program, or cost of living adjustment, differs from the SRBR. CALPERS COLA provides some benefit each year to those retirees whose purchasing power has fallen below minimum levels. The long term health of the Plan over many years of investment returns link the formula to the fund ratio.

(M.S.C. Busse/Constant) to direct staff to review the SRBR program and provide in depth analysis of structures/options with suggestions. To provide an outline of how other systems provide a similar benefit.

Motion carried 6-0-1.

15. Report on cash flow and liquidity analysis

Mrs. Racy-Choy stated fundamentally there are no cash flow and liquidity issues. The fund is 80% liquid. There is a \$15-16 million aggregate cash need each month, there are \$4 million in net income/assets, and \$2 million in employee contributions typically invested to bring the fund closer to the target asset allocation. A formal forecast and spreadsheet will be provided in the upcoming months.

16. Discussion and request for Board direction on City Attorney's Office Legal Services for Federated City Employees Retirement System

Ms. Dent stated that until now, the services of the City Attorney's Office have not been billed as administrative expenses to the Plan. The P&F Plan has a provision in the Fire MOA which prohibits the Plan to directly pay the City Attorney's Office, so that Board approved an amount for outside legal services to supplement the work of the City Attorney's Office. Federated can provide direct payment to the City Attorney's Office, which is billable at \$120/hour per the number of hours established. The City Attorney's Office bills those departments with non-General Fund sources of funding. The Plans combined use is 40% of *Ms. Dent's* time, but since P&F are not party to payment, Federated will be sharing 20% of the cost. Any work that cannot be done in-house will be brought to the Board for approval of outside legal service.

(*M.S.C. Perkins/Constant*) to direct staff to incorporate payment for services to City Attorney's Office for legal services provided to the Plan. Motion carried 5-0-1-1 (Absent: *Loesch*, No: *Skillsky*).

17. Request for Board approval of the following trustees'/staff attendance at the educational conferences listed:

<u>Trustee/Staff</u>	<u>Conference Name/Location/Dates</u>
Ali Amiry	Investment Manager Due Diligence (Calamos Investments), 4/16/09 to 4/17/09, Chicago, IL
Barbara Hayman	PRISM Conference, 4/26/09 to 4/29/09, Portland, OR PensionGold NUG Conference, 4/29/09 to 5/1/09, San Diego, CA
Debbi Warkentin	CalAPRS Administrative Assistance Roundtable, 4/10/09, San Jose, CA
Tamasha Johnson	CalAPRS Administrative Assistance Roundtable, 4/10/09, San Jose, CA

(*M.S.C. Perkins/Skillsky*) to approve. Motion carried 6-0-1.

STANDING COMMITTEES / REPORTS / RECOMMENDATIONS

18. Committee for Investments (Perkins/Loesch/Busse – alternate/Constant)

a. Memorandum for meeting held 26 March 2009

1. Approval of the modifications to the Federated City Employees' Retirement System's Statement of Investment Policy to include policy language regarding High Yield Bonds, Bank Loans, and Convertible Bonds as well as the addition of the Board approved asset allocation mix

Member Overton stated he has concern about pay-in-kind and toggle bonds and asked what controls are in place.

Dr. Amiry stated that a toggle bond or a pay –in-kind is a specialized type of bond where the issuer can replace a bond rather than retire it. When the bond reaches maturity the corporation replaces it with another bond on a regular basis. The decision to purchase a specific bond should be left to the portfolio manager. There is full staff review for separate accounts.

(*M.S.C. Perkins/Skillsky*) to approve. Motion carried 6-0-1.

b. Summary of meeting held 12 March 2009

Member Overton stated this summary contained two items for approval, one of which is an RFP for an investment consultant. He stated he thought this item was to be recommended to the Board for approval.

Ms. Dent stated an RFP issuance is not required to be approved by the full Board, however historically they have been brought to the Board. It is typical that RFP's are often issued by staff action within City Administration.

Member Perkins stated the intent was to bring the RFP to the Board, so the Committee is not moving from existing practice.

The Secretary stated the RFP will come back to the Board. The omission was an administrative oversight.

(M.S.C. Constant/Kalra) to approve. Motion carried 6-0-1.

c. Summary of meeting held 26 February 2009

1. Approval of Minutes:

I. Committee of the Whole Meeting, December 11, 2008

II. Investment Committee Meeting, January 29, 2009

(M.S.C. Constant/Kalra) to approve. Motion carried 6-0-1.

19. Committee of the Whole (Full Board) – Last meeting 2/26/09

a. Summary of meeting held 26 February 2009

(M.S.C. Constant/Perkins) to approve. Motion carried 6-0-1.

20. Policy Committee (Busse/Overton/Constant – alt/Loesch) – Next meeting 4/20/09 at 10:30 a.m.

**EDUCATION AND TRAINING
PUBLIC/RETIREE COMMENTS
FUTURE AGENDA ITEMS**

ADJOURNMENT

There being no further business, at 10:25 a.m., **Chair Busse** adjourned the meeting.

**DAVE BUSSE, CHAIR
BOARD OF ADMINISTRATION**

ATTEST:

**RUSSELL U. CROSBY, DIRECTOR
BOARD OF ADMINISTRATION**