FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

THURSDAY | **SAN JOSÉ, CALIFORNIA** | **January 14, 2010**

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met at 8:32 a.m., on Thursday, January 14, 2010, in regular session at the Department of Retirement Services, 1737 N. First St., Suite 600 - San José, California.

ROLL CALL **Present:**

Matt Loesch	**Chair/Trustee**
David Busse	**Vice Chair/Trustee**
Jeffrey Perkins	**Trustee**
Ed Overton	**Trustee**
Ash Kalra	**Trustee – arrived 8:37 a.m.**
Pete Constant	**Trustee**
Arn Andrews	**Trustee**

ALSO PRESENT:

Russell U. Crosby	**-Secretary/Director**
Mollie Dent	-City Attorney
Debbi Warkentin	-Staff
Diane Hunt	-GRS
Veronica Niebla	-Staff
Ramon Varela	-Airport
Bill Pope	-OE3
Sharon Erickson	-City Auditor
Bob Leininger	-SJREA
Carol Bermillo	-Staff
Tom Reilly	-OE3
John Pletsch	-SJREA
Allison Suggs	-OER
Amanda Ramos	-Staff
Melanie Kirmse	-CEO
Carmen Racy-Choy	-Staff
Donna Busse	-Staff
Yolanda Cruz	-AFSCME-MEF
Rhonda Snyder	-Staff
Gerry Chappuis	-Public Works
Darvid Rodriquez	-Retiree
Ceara O'Fallon	-Staff
Jazmin LeBlanc	-City Auditor's Office
Maria Loera	-Staff
Bill Thomas	-SJREA
Aracely Rodriguez	-OER
Alex Gurza	-OER
Toni Johnson	-Staff
Linda Dittes	-AFSCME
Antonio Guerra	- Mayor's Office

REGULAR SESSION

Chair Loesch called the meeting to order at 8:32 a.m.

The Secretary took a moment to introduce the newest member of staff, Ryan Jusko, as part of the investment team.

ORDERS OF THE DAY

Chair Loesch stated the following changes needed to be made:

Item 2i – Ronald Bratcher deferred vested application should show nonservice-connected disability pending and it should also show 9.03 years of service.

Item 13 – City Auditor's report will be heard out of order.

RETIREMENTS - None

CONSENT CALENDAR (Items 2 thru 8)

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

Service retirements approved:

Michael P. Duffy, Sr. January 9, 2010
Guadalupi R. Figueroa, January 23, 2010
Gilbert R. Garcia, Sr., January 9, 2010
Brande Gex, January 9, 2010
Diane Lindberg, January 23, 2010
Irene L. Ray, January 1, 2010
Ramon Varela, January 23, 2010
Michael A. Warner, January 23, 2010

Deferred vested retirements approved:

Ronald A. Bratcher, December 28, 2009 **(NSCD pending)**

DEATH NOTIFICATIONS (Moment of Silence)

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

NEW BUSINESS

13. Acceptance of City Auditor's report entitled: Audit of Pensionable Earnings & Time Reporting. (Out of Order)

Ms Erickson introduced Jazmin LeBlanc who was the individual who did the work on this audit. She stated that this report had been presented to the City Council's Public Safety, Finance & Strategic Support Committee. She summarized that the City's pensions rely on accurate information about employees' contributions and hours. Exhbit 2 on page 6 shows a simple diagram depicting the flow of information and how it moves from an employee's timecard and how that earnings information is transmitted from the City to the Retirement System. The objective of this audit was to review the accuracy of that information and review those processes that the City has in place that could impact pensionable earnings and pensionable hours. This audit was performed at the request of the Retirement Services Director. There was some confusion initially as to who would be doing the audit which resulted in Macias Gini performing part of this audit and her office doing another piece. Due to a delay in Macias proceeding with their portion of audit, her office was requested to continue and report back to the Boards. There were three findings made as a result of this audit. They were: Finding I – Errors Resulted in Higher Pensions; Finding II – Time Reporting Codes are Unclear and Duplicative; and, Finding III – Some Pensioners Benefit from City's Definitions of Earnable Income and Highest Salary with numerous corrective recommendations for each finding.

Ms. Erickson continued that there were six audit recommendations regarding this first finding to improve processes, correct errors and clarify pensionable income. Those are primarily things that need to be fixed on the City side. In Finding II there were a total of six recommendations, primarily to the City to periodically cull duplicative and unused pay codes, etc. For Finding III, there were the three recommendations to review the policies and consider amending the Municipal Code to redefine final compensation and hours of credit and to return to a three year average in calculating pension benefits.

Ms. Erickson summarized that there were a total of 15 audit recommendations in this report. As with any audit report, the recommendations are what the auditors feel is their best effort at addressing problems they identified. The actual implementation of these recommendations is within the purview of the Administration. The final three recommendations within the report are subject to meet and confer. She thanked the staff of Retirement Services, the Finance Departments, Human Resources, Attorney's Office and OER who helped with the completion of this audit.

Trustee Overton commented that he was puzzled by recommendations concerning benefit reductions. He felt it was outside the scope of an operational audit and something that is best left to the City Administration and the Bargaining Groups.

Ms. Erickson responded that under the Charter they are a performance audit shop and they report directly to the City Council. One of the issues the were investigating was pension spiking. They found that the plan does not generally allow pension spiking. As the City moves forward, they felt it was important to raise these issues.

The Chair asked if there were any errors found on the Retirement Services side.

Ms. LeBlanc responded that there were errors to the extent they were taking information from Payroll that had errors in it. So it all started in the Payroll side. There were no errors created on the Retirement side.

Ms. Erickson added that correcting these errors will necessitate the involvement of Retirement staff to a large degree.

The Chair asked if there was a plan to continue this type of audit moving forward on a regular basis.

The Secretary responded that his prior experience before coming here has been that on a roughly two to three year cycle the trust fund should audit whatever employer is paying into the trust fund to verify that the transmissions are correct and in comformance with the underlying plan document.

(M.S.C. Constant/Busse) to accept Auditor's report and refer this report to the Policy Committee. Motion carried 7-0-0.

OLD BUSINESS

10. Travel Audit compliance update.

Mrs. Niebla reported that the next meeting of the Policy Committee will be February 16th.

11. Discussion and action regarding GRS' assumptions for the valuation for the period ending 30 June 2009.

12. Discussion and action regarding staff's recommended change in amortization method and amortization period for the valuation for the period ending 30 June 2009

The Chair recommended that the above two items be discussed together but then the five distinct items be voted on separately. The five areas of discussion are: 1) demographic changes; 2) investment return assumption; 3) the effect of investment return on SRBR ; 4) amortization method; and 5) valuation experience study process. He felt that it was agreed upon in December to do annual valuations, but there was no discussion on how often the experience study should be completed.

Ms. Hunt commented that the report dated January 14, 2010, has updated the information which was provided at the December meeting with June 30th, 2009 data. These are very similar phase-in numbers and as requested by the Board, they focused on earnings assumptions of 7.5% and 7.75% on the projections to give the total retirement plan contributions. This report shows the phase in over five years, three years and two years with 7.5% and 7.75%. Finally they revised the amortization examples with the updated data and used various economic scenarios. They also provided additional detail on how the layered amortization basis works.
In this updated presentation retiree medical contributions were not included as that valuation has not been done. They did assume that demographic results were going to be accepted immediately and the phase-in example is only for the impact of the investment return change. The pension valuation results are still preliminary, but very

close to what will be seen in the actual report. Page 4 of the report shows the following chart which shows everything at 8.25%; in other words no investments return change:

Contribution as $ of Pay	June 30, 2007 valuation	June 30, 2009* No changes	June 30, 2009* Board-adopted demographic assumptions
Employer-Retirement	18.31%	21.46%	22.54%
Employee-Retirement	4.28%	4.28%	4.45%
Total-Retirement	22.59%	25.74%	26.99%

*2009 preliminary results

As indicated the contribution rate went to 25.74% in total. The main reason for the big jump of 3% from 2007 to 2009 is the investment return assumption was not met for two years. It was approximately -3% for FY ending 2008 and -18% for FY ending 2009.

Ms. Hunt discussed the chart on page 5 which summarizes the different scenarios. The chart reads as follows:

Nominal Rate of Return	Real Rate of Return	Inflation	Payroll Growth	Ultimate Salary Scale
7.50%*	4.00%	3.50%	3.75%	4.00%
7.75%*	4.08%	3.67%	3.83%	4.08%
8.25%* (Board-adopted demographic assumptions)	4.25%	4.00%	4.00%	4.25%

*2009 preliminary results

Page 6 shows what would happen if the new investment returns were adopted immediately, using the current valuation results:

Contributions	8.25% (Board-adopted demographic assumptions	7.75%	7.50%
Employer-Retirement	22.54%	25.76%	27.45%
Employee-Retirement	4.45%	4.87%	5.11%
Total	26.99%*	30.63%*	32.56%*

*2009 preliminary results

Page 7 shows a five-year phase-in:

	7.75%		7.50%	
Fiscal Year Beginning	Employer-Retirement	Employee – Retirement	Employer – Retirement	Employee-Retirement
2010 (Board-adopted demographic assumptions	22.54%	4.45%	22.54%	4.45%
2011	23.35%	4.57%	23.77%	4.631%
2012	24.13%	4.68%	24.97%	4.80%
2013	24.88%	4.78%	26.11%	4.96%
2014	25.60%	4.88%	27.20%	5.12%
2015	26.28%	4.97%	28.24%	5.26%

Page 8 shows the results of a three-year phase: 7.75%

7.50%

Fiscal Year Beginning	Employer-Retirement	Employee – Retirement	Employer – Retirement	Employee-Retirement
2010 (Board-adopted demographic assumptions	22.54%	4.45%	22.54%	4.45%
2011	23.78%	4.62%	24.43%	4.72%
2012	24.97%	4.79%	26.23%	4.97%
2013	26.10%	4.94%	27.96%	5.20%

Page 9 shows a two-year phase-in:

	7.75%		7.50%	
Fiscal Year Beginning	Employer-Retirement	Employee – Retirement	Employer – Retirement	Employee-Retirement
2010 (Board-adopted demographic assumptions	22.54%	4.45%	22.54%	4.45%
2011	24.32%	4.69%	25.25%	4.83%
2012	26.01%	4.92%	27.83%	5.18%

Ms. Hunt continued that this was the additional information they were requested to provide on investment returns with updated information.

Member Perkins asked, to put it in perspective, what is a 1% difference comes out to be in terms of dollars for a year. Since it is based on payroll, what is 1% of payroll in a year?

Mr. Gurza responded that it is approximately $7.2 million for both funds. That is overall pay; 1% of retirement contribution would be closer to $5 million; these are very rough numbers.

Ms. Hunt indicated that she had the compensation valuation and in rough numbers it would be approximately $3.5 million.

The Chair asked why one would not want to phase in the demographic changes due to the fact that these changes do not happen over a year, they occur over several years.

Ms. Hunt responded that the main demographic change is the mortality table assumptions for both males and actives.

The Chair asked what the pros and cons of spreading this are.

Ms. Racy-Choy answered that from the Administration point of view, since the Board's decision has been to do an experience study every two years, typically if you were to phase in you wouldn't want it to be over a longer period of time than that. This way you can complete a phase-in schedule then whatever comes from a new experience study can be put in place. It can become very messy if you have various phase-in periods from prior valuations. She has rarely seen demographic changes being phased in.

Ms. Hunt agreed that usually demographic changes are implemented immediately.
Ms. Racy-Choy stated that these changes are very small, 1.08%.

Trustee Kalra stated that looking at page 7 of the report, the five-year phase in, it appears that the percentage of the increases are larger in the early years and smaller in the later years. It appears to scale down from .81% to .68% for the 7.75% and for the 7.50% it scales down from 1.23% to 1.04%. What is the reason for this scale down?

Ms. Hunt responded that it is not an exact linear scale because they are rolling forward some missed contributions to keep the Plan whole. By the time you get to year 2015 the present value of all the contributions would be equivalent to what would have done if this had been done immediately.

Trustee Kalra stated that there is some weighting that's incorporated in to make it whole by 2015. Is there a way of incorporating this type of change and purposely making it nonlinear by weighting it in the later years rather than earlier years? It is known that the City will be facing a serious fiscal deficit in the next couple of years and hopefully by the years 2012 or 2013 they will see a way out of it in some measure. In other words, is it possible to shift some of that burden to the last couple of years?

The Secretary responded that would make the later years go up significantly higher.

Ms. Hunt added that it would be more like a balloon payment type of approach where you'd end up in the last couple of years making up for the short payments in the first three years.

Ms. Racy-Choy added that there would be some accounting complications that would need to be explored further. The accountants fundamentally don't like that due to the fact that you're saying you know you should be paying a certain amount but you don't want to at that time.

The Secretary stated that it would create a pension liability.

Trustee Kalra asked if it would cause paying more money overall.

The Secretary responded that it would cost more money.

Ms. Racy-Choy added that it would cause the City to book additional accounting liabilities on the City's financial statements. This could have implications on credit rating and so forth.

Trustee Kalra inquired that if you look at the 7.75%, the highest percentage increase would be the in the first year, 2010 to 2011, .81% and then it reduces after about .03. How much of a liability on the City's credit rating would there be if it was reversed.

Ms. Racy-Choy answered that Macias Gini would need to be consulted as there are implications.

Mr. Richeda added that you would want to conduct some fiduciary analysis because this is a little hint of the San Diego City problem. Just looking at this, you're postponing monies that would otherwise have been concluded should be coming in and then phasing it in with a balloon-type approach. It is not of the magnitude of San Diego City. It should be checked to see if it fiduciarily acceptable.

Ms. Dent added that there would have to be an actuarially-sound basis to do this type of action. It can't simply be made to postpone payments.

Trustee Kalra stated that if they are talking about a five-year period, he did not see the parallel to San Diego City. Looking at sound actuarial advice has to be tempered with the reality of what is being faced on the City side. These numbers and this process do not exist in a vacuum.

Mr. Richeda responded that one case that has been reported on was San Diego County. This in a different factual context, but it did explicitly approve a retirement board looking at other ancillary impacts of its decision.

Trustee Kalra stated that he felt they should be looking at these numbers with the best interest of the Plan and the best interest of the City in mind.

Ms. Dent stated she thought the Board had some leeway to take into account the impact on the City's contributions. But this has to be looked at on a long-term basis.

The Secretary added that it is the recommendation of both the staff and the actuary not to stretch this over five years. It is to do this on as short an interval as possibly can be tolerated. Five years get to be a very long time in valuation cycles.

Ms. Racy-Choy stated that the investment losses that have been factored in 2009 only represent 1/5 of the investment loss that happened during the year. This actually means that there were will be additional losses factored in and the rates will increase. If the Board chooses to phase in over five years, there has to be some recognition that the rate will continue to increase over the next ten years. The issue with longer phase-in periods is that you ultimately get to a higher contribution rate.

The Secretary stated that what the City doesn't pay for today builds up with interest.

Trustee Constant stated that back-weighting is not a road this Plan should go down at all. He asked in regards to these phase-in periods, what type of layering effects will there be if they do valuations annually? Is phasing in over a period that is five times longer than the valuation period a smart thing to do?

Ms. Hunt responded that it would be simpler to do it in a shorter period of time. The other thing that can be done is to look at the phase in schedule and true it up to some extent with what has occurred that year.

Member Constant asked if that became more difficult the longer this is stretched out or more problematic.

Ms. Racy-Choy responded that it effects more of the financial soundness the longer the phase in. Fundamentally doing it two years or three years is more financially sound and easier to handle administratively.

Member Constant stated that when the Board is wearing their trustee hats the financially soundness of the plan has to be paramount. The trustees can consider all those other issues, but the plan is number one. He added that he felt that the two-year phase in is the appropriate method if they phase in at all. He stated he would possibly agree to three years, but he would not agree with five years at all.

Trustee Perkins asked from GRS' standpoint, what are other clients doing in this situation.

Ms. Hunt reported that the range has been from implementing immediately, which use to be much more common than in the last three or four years. Some clients have said that this is the assumption and they're doing it. Probably on average most of their clients have adopted the two to three year phase-in. Some plans have done the five-year phase in but they are in worse financial condition than this plan.

Member Perkins concluded than these are all in the realm of financially prudent approaches.

Ms. Hunt responded that the more funded distress the plan is in, the longer they stretch it out. It's really a unique decision to each board and each plan.

Member Perkins added that each year this is will be revisited and this is just a mathematical equation on how the phase in is dealt with.

Ms. Hunt stated that you still want to end up as if you had implemented it immediately.

Trustee Andrews summarized that what is being said is that the longer the phase-in period, ultimately the higher the contribution for both the City and the employee.

Ms. Hunt responded this was correct. The five-year phase-in ends up at an ultimately higher percent because you're trying to make up for those missed years. The longer you wait, the higher your ultimate contribution will be.

Ms. Racy-Choy added that in regards to the phase-in years, five-year phase in is in the realm of what's usable and the City has actually used a five-year phase in on the health side. However, on the health side the funding ratio is around 20%. Going from 20% funded to 100% funded, time is being taken to achieve that actuarially sound result. She stated that she has rarely seen a five-year phase in on small amounts of two to three percentage points.

The Chair stated that it's obvious if the Board lowers the assumed rate they increase the unfunded liability significantly and asked how these might impact the bond rating for the City?

Member Andrews stated he had never participated in that process and at this time there was no one here from the Finance Department that could answer that question.

The Secretary stated that the people who buy and sell bonds look further, that's why the disclosures are as detailed as they are. Anyone reviewing this would say that the Plan's liability has gone up, but they would also be able to see that it went up because the Trustees reduced their earning assumption taking a more conservative step. That's a better overall picture for the City than to have a higher earnings assumption with a lower liability. Investors see right through that.

The Chair noted that there is no topic in this item about retiree healthcare costs. In the material last month there was a resultant baseline increase in retiree healthcare that was quite substantial. There is an agreement with the bargaining groups as to the amount of that increase. Has there been thought as to how that would be affected because of any changes?

Ms. Hunt indicated that new retiree healthcare valuation was being looked at so those figures have not been updated yet.

The Chair pointed out that his questions were based on the fact that last month the Board asked for something showing the overall effects of all these moving parts. They wanted to know what the effects on specific things are, and this is one of the specific things that will be affected by this decision. He then asked for a timeline on when the retiree healthcare valuations would be done.

Ms. Hunt responded that they are planning to present the experience study recommendations in February and then having it done in March.

The Secretary added that the Board already knows what the rates are for retiree healthcare as they have been negotiated between the City and the unions. Everyone knows what the real healthcare rates will be. Although it's been pegged at a level, the implied rate will be higher and, as a result, the Plan will be building up a liability.

Trustee Kalra asked if anyone knew how long the rate had been at 8.25%.

Trustee Overton responded that he thought had been at 8.25% around 20 years.

Trustee Kalra pointed out that if the Board decided to do a two year phase in that's approximately $20 million of cuts that would be necessary. That money has to come from somewhere. It's challenging as he keeps his trustee hat on, but there are some practical considerations. There has already been a request to the bargaining units for 5% cost savings. We are asking a lot of the residents in terms of cutting back services and we're asking a lot of our employees in terms of them having to give back even more. You must look at all the factors involved and that's when it becomes more challenging. If they decide to do what he considers being the more prudent route and making some change that reflects a more accurate assumptions there will be some dramatic impacts. We do know what the picture is over the next two years and it's not pretty. It is understood that it's not the fiscally preferable route to phase it over five years, or three or two years. He would have to say that a five-year phase in is the way we should do it being both responsible at the board level and also is a responsible way of looking at the decisions to be made on the City side.

Trustee Constant stated that he wanted to underscore a point already made that when the plan gets to the end of the five-year period we will be sitting at a total contribution rate of 33.5%. That's not just that year; that's every year thereafter. When you compare that to the chart on page 6, that's nearly one full percent more per year for many years. That comes out to over $3 million depending on what the actual payroll is. When you add that cumulative number you end up pushing off a huge amount of payments to the future. He believes there might be a need for a little bit of phasing, but thinks the five years is troublesome; he's not comfortable exposing the City and the employees to $3 to $5 million dollars a year for a generation.

The Chair requested that any member of the public that would like to make comments on this topic only should do so at this time.

Mr. Leininger stated he appreciated the effort taken by the Board. He mentioned that he's noted that the investment results since the bottom of the market in March 2009 through November 2009 has gone up. Investments are long term, up and down; many cycles go into a successful long term program. In this context, it seems to retirees that the Board can look at not pushing costs off unfairly to future generations.

The Secretary stated that the losses that occurred last year have been captured and will work their way into the system over time according to the amortization schedules that have been set up. Even though the plan has done well since then, the plan will still be paying off the losses that occurred in a point in time. Staff is looking at a long period of time and that is why they have made a recommendation to reduce these assumptions. Part of the problem has been a mismatch over what the actuaries have used and what the investment consultants have indicated that the plans can actually produce. There has also been a miscommunication over what is net and gross inside that actual earnings assumption. When the investment consultant tells you what a plan can earn, 8.25, and there is also layered on a series of costs that really take the earnings assumptions to 9.25% the mismatch between 8.25% and 9.25% becomes huge. That's been going on for a very long time. To assume that the investment consultant, the actuary or the staff is only looking at last year's losses is an erroneous assumption. Staff is looking at actual recommendations coming from the investment consultants and the actuaries and trying to bring reality to these plans.

Ms. Racy-Choy commented that historically the net return of the plan has been around 7% net. The reason the plan is where it is now is not because of one year. The plan is in the current situation because over time the actuary has been assuming significantly higher returns than what has been earned by the fund. Clearly the actuary's recommendations are based on prospective returns; meaning they have tried to look at what investment consultants at large believe are the potential returns given the existing asset allocation. To be clear, the current financial condition of the plan is not the result of one year, it is the result of many years.

Trustee Perkins disagreed and noted that as of July 16, 2009, there are five actuarial firms that have 8.25% assumptions out of 40; there are three that are 7.5% or less with the bulk of them at 8% or 7.75%.

Trustee Overton stated that he agreed with Trustee Perkins' comments and noted that analysts can come up with different results on a quarter to quarter basis. Given the current investment environment, Trustees do need to look at some reduction off of the 8.25%. He suggested trustees look at reducing the investment earnings assumptions given the current investment environment.

(10 minutes break taken)

There was in-depth conversation and question and answers between Trustees, Ms. Hunt and staff over varying amortization periods.

There was discussion concerning staff recommendations in regards to the frequency of experience studies.

(M.S.C. Busse/Constant) Direction to staff to come back to the Board with recommendation concerning the frequency of conducting experience studies. Motion carried 7-0-0.

(M.S.C. Perkins/Constant) Approve demographic changes as recommended by GRS. Motion carried 7-0-0.

Member Constant made the motion to use 7.5% assumed net earnings rate with three-year phase in. His motion failed for lack of a second.

(M.S.C. Kalra/Perkins) motion to use 7.75% assumed net earnings rate with five-year phase in and the layered amortization. 5-2-0 (Andrews/Constant – no)

STANDING COMMITTEES / REPORTS / RECOMMENDATIONS

18. Discussion and action on committee assignments and structure, including potential establishment of new committees. **(Out of Order)**

The Chair commented that he felt it would be good to talk about the committee structure. Currently there are two active committees, one being the very active Investment Committee and the other is the Policy Committee. There is the Real Estate Committee but at present that is not being utilized. The Chair named to the Investment Committee Jeff Perkins, Arn Andrews and himself with Jeff Perkins as chair and Dave Busse as the alternate. The members of the Policy Committee will be Dave Busse, Pete Constant and Ed Overton with Dave Busse as chair and Ash Kalra as alternate. The basic question now is what to do with the Policy Committee so the work is fruitful. In summary the Investment Committee is responsible for the real estate investments, asset allocation, review of investment managers, due diligence and recommending hiring replacements for poor performing investment managers. He would like to add the task of initially drafting the investment policy before sending it to the Policy Committee for formatting and structure before it comes to the full Board. In other words, it will handle the investment policy first before it hands it to the Policy Committee who will make sure it jives with other Board policies. In regards to the Policy Committee, he suggested they be assigned all topics related to Board policies, benefit administrative, governance, audit and actuarial material. He would recommend that all existing Board policies be reviewed every two years with the odd numbered ones being reviewed in the odd years; the even numbered in the even years. They would be in charge of drafting and reviewing all new policies except for the investment policy. They would also review, monitor and evaluate the audit and actuarial work. Also if any hiring or RFQ's need to be issued in these areas they would be the ones initiating the process. He requested that the Policy Committee meet and report back to the full Board and the March meeting what their basic plan will be to tackle these assignments.

Member Busse stated that he felt the scope of work assigned to the Policy Committee was a little ambitious.

The Chair stated that it was his thought that the Policy Committee would review the actuaries if they were to select a new actuary. They could be a go-between with the actuaries and the Board. Just as they do with investments where they have the Investment Committee moderate what the managers are doing and monitoring their performance, the Policy Committee would monitor the actuary, for example.

The Secretary stated his concern about inserting another body in between staff, professional, actuary, etc. before matters could be dealt with by the full Board.

There was additional conversation amongst Board members as to what the various committees will handle.

The Chair added that he had conversation with the Secretary about forming a Health Committee or something of that name. This would help streamline any difficulties there are with the disability hearings that are held. There has been conversation with the lawyers as to whether that committee could approve or deny disability retirement applications. At the minimum, they could meet quarterly to discuss the disability process and recommend improvements. There could be additional discussion next month as to what is possible for these committees to do.

NEW BUSINESS (Back on agenda)

14. Discussion and action on Council's action at their 12/15/09 meeting directing City Attorney to draft ordinance amending Muni Code to require all Boards and Commissions meet at City Hall.

Trustee Overton started the conversation with the fact that he had two concerns with this action. The first question he asked legal counsel if this falls under the purview of the City Council. This might be something the attorneys need to come back with the answer. Is it legal to have the Council tell this Board that it must meet at City Hall? The second part of his concern is what happens if there is absolutely no space at City Hall for the Board to meet. Would this Board be required not to meet? What are the alternatives?
Following there was discussion between the Trustees, staff and the attorneys as to the action taken by the Police & Fire Board at their last meeting.

The Secretary stated that, as a result of conversations with City hall communications and facilities personnel that he's had since the P&F meeting, at this point it would take further action by City Council to authorize them to televise, web stream or do anything else than just providing a portable recording device which staff would have to put in place, put microphones in place and record the meeting with less technically-current equipment than what is currently in place in this building.

Trustee Constant clarified that the microphones are already in place.

(Member Perkins exited the meeting.)

The Secretary stated that he had been informed the microphones to be used by the Boards are not in place.

Trustee Constant commented that the Mayor, the Council and the City Manager have all made it clear that the Retirement Boards' meetings will be given the exact same priority as Council or Council committee meetings.

There are rooms already set up. The intent of the Mayor during conversation was to have these meetings video streamed. Many other groups already do it by plugging into the video recorder that is already set up.

There was additional conversation with the attorneys and the Trustees as do the best way to perform their fiduciary duties and how to try to comply at least for a trial period.

The Secretary added that the P&F Board's conditional acceptance was predicated on a Municipal Code amendment. He also added that the P&F Board authorized the chair to send a letter to the Mayor and Council on this matter.

Trustee Overton stated that we are all in this thing together and everyone is trying to do the best job possible. This Board has already approved a recording system. His concerns over this issue come from 30 years of bouncing around one place or the other. These are real concerns and it's his opinion they will occur in the future. The current room was rented, renovated, furnished, micro phoned, etc. because the Boards wanted a place in which to conduct business. To not have an assigned place dedicated to management and operation of these funds is totally ridiculous. There needs to be someone who will be able to say what added benefits will be achieved by moving these meetings to City Hall. The attendance here is as robust, and perhaps even more robust, than it's ever been at City Hall. No one at City Hall cares. He needs to be convinced there is a real and material benefit to the disruption that will occur in moving the meetings.

The Chair stated that originally the Mayor had requested this action take place and the Board considered it over hours of discussion. Once the Board decided they did not want to move for numerous reasons, but that the appropriate recording equipment would be added to this room. Now the Council's action is to enact a law requiring the meetings be moved. In his opinion, they met half way to where the Mayor and Council wanted to go. Then this matter is included in an ethics document which gives the issue a flavor of something unethical going on if the meetings are at Retirement Services. Apparently no one can find where this room is. Somehow this will make these meetings more public and can be seen by whom? When this matter was heard at the Council meeting there was no discussion as to why. The politicians on this Board that bring their politician hats to the Board table didn't seem to bring their trustee hat to the Council table. They could have listed the reasons the Board thought might be problematic in moving these meetings. The leasing of this facility, which is used for those 30 meetings between this plan and Police & Fire, will not be used and now it will cost the Plan more to use rooms at City Hall. When he initially became a Board trustee one of the first questions he asked was why the meetings were here instead of City Hall. Once the reasons were laid out it made a lot of sense to him.

Trustee Constant stated he felt that there are people at City Hall who care what happens at these meetings. He has been contacted by dozens of employees who question why these meetings aren't at City Hall. The business of the City should be done at City Hall. As to any comments being made at the Council meeting, he feels he is not the Board's liaison to the City Council. It is not his job to go to Council and tell them the Board's position on various items. The bylaws state that only the chair can speak on behalf of the Board. In the reverse, he is the Council's designated representative on this Board. There are five other members on this Board that could have been at the Council meeting to speak on behalf of this Board. There is one person, the chair, whose duty it is to speak for the Board. He initially voted to move the meetings, so if he brought anything up at the Council meeting it would have been speaking against what the Board voted on.

There was further discussion about the ordinance process and what has to transpire before it becomes enforced.

Trustee Kalra requested this item again be agendized for February due to his concerns that apparently not all technology will be available to the Board at City Hall. He could benefit from further conversation and getting some answers to questions prior to giving definitive direction. There has no timeline given in the motion by Council. He felt the Council would be agreeable to a deferral until the Board had additional time to meet and get answers to some outstanding issues. There is value in doing that before going forward with a Board opinion.

Trustee Andrews said he also wondered why these meetings were held at Retirement Services; however being a Board member is not about his personal comfort but about performing their fiduciary responsibilities. He requested a cost benefit analysis. He would like to know what it cost to lease the current facility as opposed to leasing something in City Hall. He would like to know what is the cost comparison between these two facilities.

The Secretary responded that we can't get rid of this facility. We can't give this facility back to the landlord. There is a cost to lease this room, but it does not go away if the meetings are held at City Hall.

Trustee Andrews requested that the Chair ask for a deferral until they are able to get a cost comparison of the two facilities.

Mr. Richeda suggested that if the Board wanted a deferral perhaps a written communication to the Mayor and City Council asking for this deferral would be appropriate.

Trustee Overton stated that the Municipal Code vests the responsibility for management and administration of the pension systems in the Retirement Boards. What happens when the Council decides that the Boards cannot meet on Thursdays? Where does it stop?

There were additional comments made by members of the public.

The Chair added that he really had no opinion as to where these meetings should meet; but without a compelling reason to change the location he felt there was no need to move.

(M.S.C. Busse/Andrews) to authorize the chair to communicate with the Mayor and Council including some of the concerns mentioned; what are the benefits and what the costs associated with the move and requesting a deferral for no less than 60 days until the Board can look at this issue, including staff providing cost and legal analysis for the February Board meeting. Motion carried 5-1-1 (Constant – no/Perkins – absent)

15. Adoption of Resolution No. 6555 denying service-connected disability application of Raul Guerrero.

(M.S.C. Constant/Overton) to approve. Motion carried 7-0-0.

16. Adoption of Resolution No. 6556 denying service-connected disability application of Neil J. Walsh.

(M.S.C. Constant/Overton) to approve. Motion carried 7-0-0.

(Member Kalra exited meeting.)

17. Approval of Travel/Conference Attendance

Trustee	Conference Name/Location/Dates
Matt Loesch	CalAPRS' General Assembly – Palm Springs, March 7 thru 9, 2010
Matt Loesch	2010 Pension Bridge Annual – San Francisco, April 6 & 7, 2010

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

STANDING COMMITTEES / REPORTS / RECOMMENDATIONS

19. **Committee for Investments (Perkins/Loesch/Busse – alt/Constant)**
    a. Summary of meeting held 22 October 2009

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

Committee of the Whole (Full Board) - None
Policy Committee (Busse/Overton/Constant – alt/Loesch) - None

EDUCATION AND TRAINING

20. Notification of IFEBP'S 2010 Schedule of Educational Programs

This item is note and file.

21. Discussion concerning Chair's request to schedule 2010 Board Study Session

The Chair stated it was his idea to agendize an item 2010 study session, formerly knows as board retreat. It was his thought to schedule something in a March timeframe to schedule a study session to discuss investments, board governance and benefits, etc.

(M.S.C. Constant/Busse) to have staff schedule study session for topics mentioned above. Motion carried 6-0-1.

FUTURE AGENDA ITEMS - None

PUBLIC/RETIREE COMMENTS - None

ADJOURNMENT

There being no further business, **Chair Loesch** adjourned the meeting at 12:12 p.m.

MATTHEW LOESCH, P.E., CHAIR
BOARD OF ADMINISTRATION

ATTEST:

RUSSELL U. CROSBY, DIRECTOR
BOARD OF ADMINISTRATION