

# FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

## Minutes of the Board Meeting

**THURSDAY**

**SAN JOSÉ, CALIFORNIA**

**October 12, 2006**

### CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met at 8:40 a.m., on Thursday, October 12, 2006, in regular session at the Department of Retirement Services, 1737 N. First St., Suite 600 - San José, California.

### ROLL CALL

#### Present:

**DAVID BUSSE**  
**Bill Thomas**  
**Tim Callahan**  
**Mike Yoshimoto**  
**Jeffrey Perkins**  
**Forrest Williams**

**CHAIR, Civil Service Representative**  
**Vice Chair, Retiree Representative**  
**Employee Representative**  
**Employee Representative**  
**Public Member**  
**City Council Representative**

### NOT PRESENT:

**David Cortese**

**City Council Representative (Excused)**

### ALSO PRESENT:

**Edward F. Overton** -Secretary / Director  
**Susan Devencenzi** -City Attorney  
**Dr. Das** -Medical Staff  
**Debbi Warkentin** -Staff  
**Toni Johnson** - "  
**Bob Leininger** -SJREA  
**Donna Busse** -Staff  
**Judy Powell** - "  
**Maria Loera** -Staff  
**Marilyn Contreras** -SJPD  
**Karin Carmichael** -Staff  
**Doug Baker** -OER  
**Selina Ordaz** -Staff  
**Charles Gebhardt** -IBEW  
**Mike Pribula** -Staff  
**Eduardo Luna** -Auditor's Office  
**Doug Riccobono** -ABMEI

**Tom Webster** -Staff  
**Russ Richeda** -Outside Attorney  
**Tamasha Johnson** -Staff  
**Ray Mendez** -Airport  
**Aleta Holcomb** -Staff  
**Carol Bermillo** -Staff  
**Roger Pickler** - "  
**Amanda Ramos** - "  
**Udaya Rajbhandari** - "  
**Bob Leininger** -SJREA  
**Suzanne Hutchins** -CAO  
**Hoa Lang** -Staff  
**Ron Kumar** - "  
**Roy Heath** -ESD  
**Sarah Nunes** -HR  
**David Rodriguez** -PW  
**David Tucker** -ESD

## REGULAR SESSION

The Chair called the meeting to order at 8:47 a.m.

### RETIREMENTS

#### Disability retirements for hearing

**Fazilat Haider**, Laboratory Technician II, Environmental Services Department. Request for Service-Connected Disability Retirement effective October 12, 2006, 11.32 years of service.

**Chair Busse** stated that Ms. Haider was not present and this Item will be deferred to the end of the meeting.

### CONSENT CALENDAR (Items 2 thru 9)

The Chair stated Item 3c has been pulled from the consent calendar, as applicant withdrew application. Also, Items 8d, e, f, and h have been pulled for discussion.

(M.S.C. Thomas/Perkins) to approve Consent Calendar. Motion carried 6-0-1 (Cortese).

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## **City Auditor's final report on audit of the City's Procurement Plan Program.**

*Mr. Webster* stated that the Board has the final report on the City's audit on the Procurement Plan and there are some recommendations, one being that the Federated & PF Boards recommend to the Rules Committee an audit of the Retirement Travel Program is put into the auditor's work plan. This item was heard by the Police & Fire Board last week and they made a motion to have their own outside auditor do the audit and they directed the City auditor to give a copy of all paperwork to Macias & Gini. Now the Federated has to decide what they wish done.

**Member Callahan** said he wanted to know where the City Auditor was going with this policy audit and he agrees with Police & Fire to have our auditor to do an audit and that the records from the City auditor are turned over to them. He really doesn't understand what's going on here because it seems that they are imposing that there is fraudulent use of the credit card.

*Mr. Webster* clarified that there were no findings of fraud in the City's audit, they just questioned some items, and however the over all idea is that they just want to strengthen the plan.

*Mrs. Devencenzi* stated that the auditor has a right to audit any department. Some of the language in the report should be taken carefully, it says that there are no findings of fraud but they see some risks; however it is just auditor language.

**Chair Busse** said that he believes it is healthy to look at these areas of question and review our policy and to have our outside auditor look at it as well. At the retreat we will be reviewing several travel policies to see where we can strengthen our policy.

**Member Williams** stated that the auditor's procedures exposed just the risks and that it is prudent to identify risks. It just means that we take a look but they are not castigating anyone, so long as when auditors find holes that some kind of action is taken to plug those holes.

**Member Perkins** said that it is a Procurement Card because it's assigned to an entity, so then they step back to review its use since the responsibility shifted from the credit card company to the entity

**Member Callahan** said that it is worth looking at the Retirement Board or Department having a separate Procurement Plan Program, because he feels that the City should not be reviewing the Board but that staff should since the Board is a Trust and run the Plan.

**Member Williams** said that we do operate as a separate entity but when it all comes down it is the City that we fall back on, so it is their responsibility to ensure that any exposed risks are addressed and to realize that this is not implying anything about our Plan or our travel policy other than that there are areas we can strengthen it.

(M.S.C. Callahan/Perkins) to approve having our outside auditor perform an audit on our travel policy and that the records from the City auditor are turned over to them. Motion carried 6-0-1.

*Mr. Webster* introduced Retirement Department's newest staff member Selena Ordaz, she is our new Account Clerk II.

## **Russ Richeda's report on possible amplification of Board Conflict-of-Interest Training**

## **Russ Richeda's & Susan Devencenzi's update on AB 1234 State Mandated Ethics Training.**

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**Chair Busse** said that the City's training is already in process.

*Mrs. Devencenzi* stated that part of the training is required in the Statute, which states you must do a 2 hour session.

*Mr. Richeda* said that he and *Mrs. Devencenzi* discussed if the AB1234 applied to the Board, and agreed that the Board should take as much ethics training as possible, and definitely should complete this mandatory 2 hour course. This training would be 2 hours every 2 years, and it strikes him as being not much, but maybe if we start a cycle of short one to two page memos to the Board because the law is complicated and there's so much that getting it crammed at you in 2 hours is not a very good education and it would be better to receive the material and try to understand it and make it useful.

**Member Perkins** said that we should send staff to evaluate the idea of having short subjects introduced in memos periodically, which would be good and he would recommend it.

**Members Williams and Callahan** had some discussion about the interpretation of the law's requirement and taking advantage of any training available.

**Member Perkins** stated that he had a conflict in schedule to attend the training, however he found out that there is an online program that satisfies the training requirement mandate.

*Mrs. Devencenzi's report is note and file.*

(M.S.C. Perkins/Thomas) to approve having legal counsel provide the AB 1234 ethics subjects and updates provided to the Board throughout the year in the form of a memo. Motion carried 6-0-1.

### **Draft report on the City's Actuarial Valuation of Retiree Health Benefits as of June 30, 2006**

*Mr. Webster* said this is the draft evaluation for GASB 43/45. He said that recently the government and standards board came up with a rule on reporting for OPEB, which is Other Post Employment Benefits and health benefits fall within that. GASB says that there has to be knowledge of the cost of that plan, so the Board had sent this to the actuary. The Board is responsible for 43 part of the GASB 43/45 and the Plan sponsor the City is responsible for the 45 part. Since the Board is going to have a study the City asked if they would also do 45, the Board agreed to do that, and this study is the result of that. One of the things mentioned is that while there is no pre-funding requirement for health, our Boards have always done some pre-funding on our health benefits, not in the nature of a normal valuation but just as what they thought future costs were going to be and we would fund out to 15 years. We have been ahead of most other Plans in the United States, as a result of that you can see that the annual required contributions (ARCS) are quite a bit less because of the money we have already put in there. The ARCS for this year, if the City's uses a 30 year amortization is \$24 million and for an 11 year amortization would make the ARC be \$44 million. Once the Board approves this we will forward this on to the City because they are the one that has to reflect the cost of this in their CAFR. They only need to show the difference between the ARC and what they paid.

**The Board** discussed with *Mr. Webster* an analogy to describe the ARC and how the funding structure is based on.

**Member Callahan** mentioned the concern many fund administrators are voicing in the community with regards to public funds that are under funded.

*Mr. Webster* stated that there are a lot of pension systems around that provide health benefits and have never recognized cost, and those are the plans that are the ones in trouble. We have always looked at the benefits costs over a period of 15 years and funded for that.

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## DEATH NOTIFICATIONS (Moment of Silence)

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

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

## NEW BUSINESS

### Approval of change of Ray Mendez's disability retirement effective date from September 14, 2006 to March 13, 2006

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

## OLD BUSINESS - None

## STANDING COMMITTEES / REPORTS / RECOMMENDATIONS

### Investment Committee of the Whole – Next meeting 11/30/06.

#### Real Estate Committee

Summary of meeting held 13 September 2006.

- Approval to move the Real Estate manager presentations from the Committee of the Whole to the Real Estate meeting.

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

#### Committee for Investments

Summary of meeting held 18 September 2006.

- Approval to invest \$40 million in the Pantheon USA Fund VII and \$40 million in the Pantheon Global Secondary Fund and to authorize the Secretary to negotiate and execute the agreement with Pantheon Ventures Inc.

Member Thomas said that at no time should our investment exceed 3%, in the report it shows the allocation being spread out over time.

Member Callahan stated that the portfolio should be rebalanced periodically, so that allocation should not be an issue.

Mr. Leininger said that he is speaking for the retirees and asks that the Board proceed with caution, as he is not real knowledgeable but he has been reading up on investment standards, and finding out about private equity. He asked if the paybacks lay, if the Plan is still committed to pay the rest of the money allocated, and if there is an exit strategy in that scenario.

Member Perkins stated that the Board looked into private equity for some time before investing, also that the Plan's investment advisors are present, and that the Plan's investment strategy is reviewed every year. He also said that the points made by Mr. Leininger are things that the Board asked itself and has looked into also. He explained that over time the Plan will reallocate to step it up and to get the money working to reach the 3%, as it stands we are only .2% invested currently out of the 3% allocated. The Board is taking a very conservative approach to investing in private equity asset class, and there are exit strategies.

(M.S.C. Callahan/Thomas) to approve. Motion carried 6-0-1.

#### Benefits Review Forum (BRF) oral update. (Thomas)

Member Thomas said the next meeting will be on October 25, 2006 at 9 am in room W-262 at City Hall. The major discussion is the medical plans for 2007; Blue Shield and Kaiser were chosen and he feels that

the decisions are moving in the right direction and they are good plans with reasonable costs for the programs that the City will be receiving.

*Mrs. Devencenzi* stated that Mr. Delong mentioned to her that one of the benefits negotiated will be to allow people with less than 15 years to buy in to the Kaiser plan.

*Mr. Webster* said that this year the department will have open enrollment for the members under age 65, as this is a Pilot Program and if it works well then next year we will implement online enrollment for everyone.

## **EDUCATION AND TRAINING**

**Notification of the 15<sup>th</sup> Annual Public Fund Boards Forum to be held Saturday, December 9 through 12, 2006, in San Francisco.**

**(Out of Order)**

### **Disability retirements for hearing**

**Fazilat Haider**, Laboratory Technician II, Environmental Services Department. Request for Service-Connected Disability Retirement effective October 12, 2006, 11.32 years of service.

**The Chair** stated that Ms. Haider will not be attending today's meeting and that there is a specific recommendation from the Federated Disability Hearing Sub-Committee denying a Service-Connected Disability Retirement and recommend the approval of a Nonservice-Connected Disability Retirement.

*Mr. Pribula* requested that if the Board has any discussion on this Item that they would do so in closed session, as it would be the applicant's wishes.

**The Chair** adjourned the meeting to closed session to discuss the applicant's case.

Back In Session

(M.S.C. Callahan/Thomas) to approve a nonservice-connected disability retirement for Ms. Haider. Motion carried 6-0-1.

## **PUBLIC/RETIREE COMMENTS FUTURE AGENDA ITEMS**

## **ADJOURNMENT**

There being no further business, at 10:07 a.m., **Chair Busse** adjourned the meeting.

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**DAVID BUSSE, CHAIRPERSON  
BOARD OF ADMINISTRATION**

**ATTEST:**

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**EDWARD F. OVERTON, DIRECTOR  
BOARD OF ADMINISTRATION**