

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

Thursday

SAN JOSÉ, CALIFORNIA

December 9, 2010

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met on Thursday, December 9, 2010, in regular session at City Hall in the Wing Meeting Rooms 119-120, 200 East Santa Clara Street San José, California 95113.

BOARD MEMBERS

Matt Loesch, Chair, Trustee
 Ed Overton, Vice-Chair, Trustee
 Pete Constant, Trustee
 Ash Kalra, Trustee - absent
 Jeffrey Perkins, Trustee
 Arn Andrews, Trustee
 Vacant, Trustee

SECRETARY

Russell U. Crosby

ALSO PRESENT:

Mollie Dent	-City Attorney	Bill Hallmark	-Cheiron
Russell Richeda	-Conflicts Counsel	Brian Bowman	-WPC
Carmen Racy-Choy	-Staff	Tim Callahan	-Retiree
Rajiv Das, M.D.	-Retirement Services	Rick Chavez	-GS
Antonio Guerra	-Mayor's Office	Gerry Chappuis	-MEF
Ron Kumar	-Staff	Patty Houston	-ESD
Jennifer Holmboe	-Staff	Richard Green	-MGO
Donna Busse	-Staff	Linda Hurley	-MGO
Michael Moehle	-Staff	Annie Louie	-MGO
Mary Dariano	-Staff	Ann Ortiz	-CMO
Sonia Morales	-Staff	Ken Lee	-CMO
Veronica Niebla	-Staff	Roman Dizon	-SJACS
Amanda Ramos	-Staff	Bill Pope	-OE-3
Bob Leininger	-SJREA	Tom Reilly	-OE 3
Aracely Rodriguez	-OER	Toni Johnson	-Staff
Allison Suggs	-OER	Allen De Mers	-HR

WEDNESDAY

December 9, 2010

8:30 a.m.

CALL TO ORDER - 8:35 a.m.

ORDERS OF THE DAY

Item 17 was heard first followed subsequently by items 25, 26, 27, 23b, 23c, 23a, and 16.

Senior Deputy City Attorney Mollie Dent advised the Board that some items for the agenda were submitted after the Sunshine deadline had passed; but, the Board could vote to waive Sunshine and continue with the meeting as scheduled. **Approved.** (M.S.C. Constant/Overton, 5-0-1, Kalra absent)

RETIREMENTS

1. **Disability Retirements - None**
2. **Disability Retirement for Re-Hearing - None**
3. **Change in Status**
 - a. **Ronald Ippolito**, Equipment Operator, Parks, Recreation and Neighborhood Services. Request for a change in status from Service Retirement to a Service-Connected Disability (SCD) retirement effective March 20, 2010; 20.58 years of service.

The following reports were submitted.

MEDICAL REPORTS – DR'S NAME	DATED
LILLIANA SACKETT, M.D.	04/27/2010 (FIVE REPORTS), 03/15/2010 (TWO REPORTS), 02/23/2010, 02/22/2010, 01/30/2010, 01/22/2010, 01/13/2010, 09/25/2009, 09/09/2009, 09/01/2009
ANGELA SOOHOO, M.D.	01/20/2010
BRAD PIATT, M.D.	12/08/2009 (TWO REPORTS)

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	09/23/2010

The medical evidence provided stated Mr. Ippolito was working full duty at the time of his voluntary retirement with no work restrictions. No work restrictions were given by the Board's Medical Director. Mrs. Ippolito gave testimony that the treating physician only removed work restrictions so that the applicant could try and return to work. A motion was made to deny the request for change in status. **Denied.** (M.S.C. - Constant/Overton, 5-0-1, Kalra absent)

- b. **James M. Rodolfa**, Custodian, General Services Department. Request for a change of status from Service Retirement to Service-Connected Disability (SCD) retirement, effective August 29, 2007; 6.47 years of service.

The following reports were submitted:

MEDICAL REPORTS – DR’S NAME	DATED
KISUK CHO, M.D.	12/10/08 (FIVE REPORTS)
RANDELL CAMANTIGUE, M.D.	6/29/09 : 3/10/08 (FOUR REPORTS) : 10/26/07 : 9/12/07 : 8/31/07
MARK KATZ, M.D.	7/18/07
JIN KIM, M.D.	6/28/07
ELIZABETH KAISER, M.D.	6/14/06: 5/4/06
MEDICAL REPORT FROM BOARD’S DIRECTOR	DATED
RAJIV DAS, M.D.	10/6/2010

The medical evidence provided stated that Mr. Rodolfo was working full duty at the time of his voluntary retirement and there was no clear link between his disability and his job. A motion was made to deny the request for change in status. **Denied.** (M.S.C. - Constant/Overton, 5-0-1, Kalra absent)

CONSENT CALENDAR (Items 4 through 14)

A motion was made to approve the Consent Calendar. **Approved.** (M.S.C. - Overton/Constant, 5-0-1, Kalra absent)

4. Request for approval of Non-Service-Connected Disability Retirements

Brian Bowen, Plant Operator, Environmental Services Department. Request for a Non-Service-Connected Disability Retirement, effective December 9, 2010; 20.97 years of service.

5. Request for approval of a Change in Status to a Non-Service-Connected Disability Retirements

Roman Dizon, Jr. Animal Services, General Services Department. Request for a change of status from Service Retirement to a Non-Service-Connected Disability Retirement, effective June 3, 2010; 8.84 years of service.

6. Request for Approval of Service Retirements

- a. **Katrina D. Allen**, Director, Public Works Department, effective January 22, 2011; 9.01 years of service.
- b. **William H. Alvarenga**, Custodian, General Services Department, effective December 25, 2010; 21.00 years of service.

- c. **Elviro A. Cudal**, Custodian, Police Department, effective December 25, 2010; 21.67 years of service.
- d. **Zita Daulton**, Senior Office Specialist, Police Department, effective January 22, 2011; 26.15 years of service.
- e. **Diana Flauding**, Associate Architect, Public Works Department, effective November 27, 2010; 8.96 years of service.
- f. **Kelly J. Locke**, Senior Electronics Systems Technician, Airport Department, effective December 1, 2010; 5.23 years of service.
- g. **Valerie Malvini**, Office Specialist II, Police Department, effective January 22, 2011; 13.09 years of service.
- h. **Laurence R. Manley**, EMA II Mechanic, General Services, effective January 8, 2011; 21.16 year of service.
- i. **Roberto L. Molina**, Senior Geographic Systems Specialist, Public Works Department, effective December 11, 2010; 24.05 years of service.
- j. **Ernest J. Najar**, Maintenance Worker II, Department of Transportation, effective December 11, 2010; 29.9 years of service.
- k. **Michael G. Noble**, Senior Painter, Environmental Service Department, effective January 8, 2011; 24.96 years of service.
- l. **Irma B. Pagan**, Principal Office Specialist, Police Department; effective January 8, 2011; 30.09 years of service.
- m. **Flora Lee Price**, City Clerk, City Clerk's Office, effective December 25, 2010; 6.75 years of service. (With reciprocity)
- n. **Edward T. Tolentino**, Deputy Director, Planning, Building and Code Enforcement, effective February 19, 2011; 15.73 years of service.
- o. **Steven Ray Wilson**, Program Manager II, Airport Department, effective January 22, 2011; 30.08 years of service.

7. **Deferred Vested**

- a. **Taniuska C. Davila**, Custodian, Convention, Arts and Entertainment Department, effective November 4, 2010; 9.17 years of service.
- b. **Paul Krutko**, Chief Development Officer, City Manager's Office, effective January 20, 2011; 9.04 years of service.
- c. **Michael S. McInerney**, Senior Executive Analyst, City Manager's Office, effective January 22, 2011; 8.50 years of service.
- d. **Nancy Mendizabal**, Senior Construction Inspector, Department of Transportation, effective December 25, 2010; 9.22 years of service. (With reciprocity)
- e. **Randell D. Valente**, Senior Maintenance Worker, Department of Transportation, effective April 29, 2011; 26.37 years of service.

8. **Board Minutes**

Approval of Board Minutes of November 10, 2010.

9. **Return of Contributions**

- a. Voluntary
- b. Involuntary

10. **Investment Summary Report**

Report on Investments as of October 31, 2010.

11. **Approval of Monthly Expenditures**

Report of Federated Retirement Plan expenses for October 2010.

12. **Investments**

Adoption of Resolution No. 6706 acknowledging receipt of report on investments for the period October 1, 2010 through October 31, 2010.

13. **Communication/Information**

- a. 2011 Meeting Schedule.
- b. Letter to Plan Vendors regarding: No Holiday Gifts.

14. **Approval of Travel Conference Attendance**

Pete Constant – CAPP Pension Plans II, March 5-6, 2011

Pete Constant – Benefits Conference for Public Employees, March 7-8, 2011

15. **DEATH NOTIFICATIONS (Moment of Silence) Note and File.**

Theodore N. Alders, Retired Police Property Clerk I, retired 09/19/87, died 11/19/10. No survivorship benefits.

OLD BUSINESS-DEFERRED/CONTINUED ITEMS

16. Discussion and action regarding Internal Revenue Code Tax Compliance Review by Ice Miller for the Federated City Employees' Retirement System.
- a. Review and recommendation to City Council on ordinance amending Chapter 3.28 of Title 3 of the San Jose Municipal Code to incorporate provisions related to the primary purpose of the Federated City Employees' Retirement System, use of retirement plan assets, prohibited retirement plan transactions, pension benefit vesting, pension benefit and contribution limits, required benefit payments, permissive purchases of service credit, rollover of employee contributions into other tax qualified plans and accounts, permissive retirement plan investment vehicles, qualified domestic relations orders and contributions, benefits, service credit for qualified military service, date of establishment of medical benefits account, and to make other

technical amendments related to Internal Revenue Code provisions for qualified governmental retirement plans;

Senior Deputy City Attorney Dent reported that Plan language is being rewritten in order to meet IRS requirements. The rewritten ordinance was submitted to the Unions through the Office of Employee Relations. No comments on the ordinance from the Unions have been received by the City Attorney's office.

Responding to questions from Mr. Loesch, Ms. Dent stated that the intent on redrafting the Municipal Code was not to change any benefits, but rather to ensure compliance with the Internal Revenue Code. Ms. Dent also stated that Counsel would prepare a "plain language" document to demonstrate the intent of the changes.

A motion was made to submit the amended ordinance to the City Council for approval in January 2011 in order to meet IRS deadlines. **Approved. (M.S.C. - Overton/Constant, 5-0-1, Kalra absent)**

- b. Adoption of a Resolution 6703 authorizing submission of the following applications to the Internal Revenue Service, upon Council approval of an ordinance containing the required Plan tax compliance language:
 - i. Application for a tax determination letter, with a payment by the Plan of the \$1,000 determination letter filing fee.
 - ii. Application to the Voluntary Compliance Program (VCP) for correction of failures to adopt timely amendments to the Retirement Plan as required under federal tax law and to define the establishment date of the Plan's IRC 401(h) account, with a payment by the Plan of the \$20,000 VCP fee.

A motion was made to accept Resolution 6703. **Approved. (M.S.C. - Overton/Constant, 5-0-1, Kalra absent)**

17. Discussion and possible action regarding Supplemental Retirement Benefit Reserve (SRBR):

- a. Discussion and possible action on SRBR calculations from the Cheiron Company.
- b. Discussion and possible action on City Council action regarding SRBR payments. (*Continued from November 10, 2010 meeting*)
 - i. Adopted Resolution No. 75635
 - ii. Memo to City Council from Alex Gurza dated November 16, 2010.

Senior Deputy City Attorney Dent reported that the City Council adopted the resolution to suspend SRBR payments until June 2011. The board discussed reviewing the distribution methodology for SRBR before June 2011 in order to analyze it and recommend changes to City Council. Bob Leininger, President, Federated Retiree's Association, suggested that the board agendaize the item in March 2011. The Chair directed staff to re-agendaize for March 2011.

NEW BUSINESS

18. Approval to rescind retirement application of **Anne Katashima**, approved November 10, 2010. **Approved. (M.S.C. - Overton/Andrews, 5-0-1, Kalra absent)**
19. Adoption of Resolution 6705 denying the re-hearing request of **Shirleen Lilly** for a Service-Connected Disability. **Approved. (M.S.C. - Andrews/Constant, 5-0-1, Kalra absent)**
20. Adoption of Resolution 6704 denying the application of **Sedera K. Olker** for a Service-Connected Disability. **Approved. (M.S.C. - Andrews/Constant, 5-0-1, Kalra absent)**
21. Approval for the Secretary and City Attorney to negotiate and execute the First Amendment to the Agreement with Hanson Bridgett LLP, the Board's external investment counsel, to extend the term of the agreement to June 30, 2014 and increase the maximum compensation to an amount not-to-exceed of \$250,000; and to increase 2010-11 budget by \$70,000. **Approved. (M.S.C. - Constant/Andrews, 5-0-1, Kalra absent)**
22. Election of Board Chair and Vice Chair for Calendar Year 2011. A motion was made to re-elect 2010 Chair and Vice Chair. **Approved. (M.S.C. - Constant/Andrews 5-0-1, Kalra absent)**
23. Audit Report

Mr. Green, Partner, and Ms. Louie, Senior Manager, MGO, presented their findings and reports to the Trustees.

- a. Mr. Green noted that the Agreed Upon Procedures were comments and recommendations on processes and procedures, not an audit. Further communication between staff and MGO is necessary to finalize changes and define next action steps. A motion was made to Accept the Independent Accountant's Report on Applying Pension Data Evaluation Agreed-Upon Procedures. **Approved. (M.S.C. - Constant/Perkins, 5-0-1, Kalra absent)**
 - b. A motion was made to accept Macias Gini & O'Connell's Required Communication to the Board of Administration of the Federated City Employees' Retirement System for the Fiscal Year Ended June 30, 2010. **Approved. (M.S.C. - Constant/Perkins, 5-0-1, Kalra absent)**
 - c. A motion was made to accept Macias Gini & O'Connell's Management Comments and Recommendations for the Fiscal Year Ended June 30, 2010. **Approved. (M.S.C. - Constant/Perkins, 5-0-1, Kalra absent)**
24. Authorize the City Attorney's Office to negotiate and execute an amendment to the Agreement with Ice Miller, LLP the Board's outside tax counsel, to include professional services provided by additional personnel effective June 1, 2010; to allow for the addition of personnel subject to the approval of the City Attorney's Office; to amend the scope of work to include additional services; and to increase the maximum amount of compensation payable by \$25,000 for a total not to exceed amount of \$60,000; and to increase the 2010-11 by \$25,000.

A motion was made to authorize the City Attorney's Office and Board Secretary to negotiate and execute the recommended amendment. **Approved. (M.S.C. - Constant/Andrews, 5-0-1, Kalra absent)**

25. Review and action on Cheiron's Other Post Employment Benefits (OPEB) Actuarial Assumptions for the Valuation period ending June 30, 2010.

Chair Loesch summarized Board concerns into the following five action items: (a) Future amortization for UAAL which occurs beyond the 30-year base established at June 30, 2009; (b) Direction of 401(h) limit testing; (c) Health care trend rates; (d) Blended discount rate; and, (e) Contribution timing (i.e. floor versus rate). (Contribution timing is addressed under item 27).

The Board took the following action:

- **Approved 20 year layered amortization for future UAAL beginning with 2010 Valuation and beyond. (M.S.C. - Andrews/Constant, 5-0-1, Kalra absent);**
- **Directed Counsel to consult with Ice Miller regarding 401(h) limit testing;**
- **Approved Cheiron's recommendations for the health care trend rate, claims cost, and demographic assumptions for the 2010 OPEB Valuation. (M.S.C. - Overton/Perkins, 5-0-1, Kalra absent); and,**
- **Approved Cheiron's recommendation for the blended discount rate to be used for the 2010 OPEB Valuation. (M.S.C. - Constant/Perkins, 5-0-1, Kalra absent)**

26. Discussion and action on Cheiron's Pension Valuation for the period ending June 30, 2010.

The Board commended Mr. Bill Hallmark and Cheiron on their report and offered appreciation for the clarity of the presentation. They took the following action:

Accept report with direction to staff to review performance return. (M.S.C. - Constant/Andrews, 5-0-1, Kalra absent).

27. Discussion and action regarding the timing of the implementation of the methodology approved by the Trustees at their November 10, 2010 Meeting for Employer Annual Required Contributions being set as the greater of two dollar amounts: the Contribution amount reported in the Valuation or the employer Contribution rate times the emerging payroll for the year.

Mr. Hallmark advised that the June 30, 2010 valuation results are used to determine contribution rates for the City and members for the Fiscal Year 2012. He stated that Cheiron recommended that the City contribution be the greater of the dollar contribution amount reported in the valuation or the dollar contribution amount determined by applying the contribution rate times the emerging payroll in the fiscal year. Mr. Hallmark indicated that moving from the previous percent of payroll the new approach would eliminate future losses when there are payroll contractions and using the greater of the two dollar amounts would provide a funding source for future liability losses that occur if layoffs take place.

Mr. Hallmark submitted a report showing the impact analysis of the November 2010 Board decision to use the recommended ARC methodology. He stated that Cheiron endorsed the

Board's decision to implement these revised procedures for determining the City's ARC as this change will serve to minimize actuarial losses from developing in the future. They recommended that this approach be applied immediately, for determining the fiscal year 2010/2011 City contribution, but would not object if the Board decides to delay implementation until fiscal year 2011/2012. The Board took action as follows:

Approved implementation of the recommended approach (the greater of two amounts: the dollar ARC or the payroll rate times the emerging payroll) for fiscal year 2011-2012. Direct Counsel to draft necessary Municipal Code changes. (M.S.C. - Constant/Perkins, 5-0-1, Kalra absent)

STANDING COMMITTEES / REPORTS / RECOMMENDATIONS

28. **Committee for Investments (Perkins/Loesch/Andrews-alternate/Vacant) – Next meeting December 15, 2010. Note and file.**

Summary of Minutes of the September 23, 2010 Committee for Investments Meeting.

29. **Policy Committee (Vacant/Overton/Constant – alternate/Loesch): None**

EDUCATION AND TRAINING

30. **Notification of CalAPRS' Trustees Round Table**

- a. Trustees' Round Table, Double Tree Hotel, 2050 Gateway Place, San Jose, CA – January 28, 2011.
- b. General Assembly, Monterey, CA – March 3, 2011 thru March 8, 2011.

Notification of IFEBP Training

- a. Investments Institute, Las Vegas, NV – Monday, April 11, 2011 thru April 13, 2011.
- b. Portfolio Concepts and Management, Philadelphia, PA – Monday, May 23, 2011 thru Thursday, May 26, 2011.
- c. Trustees and Administrators Institutes – New Trustees, Hilton, San Francisco, CA – Monday, June 13, 2011 thru June 15, 2011.
- d. Certificate of Achievement in Public Plan Policy (CAPPP) – Employee Pensions – Part 1, Hilton San Francisco, CA - Monday, June 13-14, 2011.
- e. CAPPP – Employee Health – Part 1, Hilton San Francisco, CA – Monday, June 13-14, 2011.
- f. CAPPP – Employee Pensions – Part II, Hilton San Francisco, CA – Wednesday, June 15-16, 2011.
- g. CAPPP – Employee Health – Part II, Hilton San Francisco, CA - Wednesday, June 15-16, 2011.

FUTURE AGENDA ITEMS

March 2011 - Supplemental Retirement Benefit Reserve (SRBR)

PUBLIC/RETIREE COMMENTS

Tim Calahan spoke to the board regarding the recent report by the City Auditor on Pension Benefit Sustainability.

ADJOURNMENT 11:55 a.m.



Matthew Loesch, P.E., Chair
Board of Administration

Attest:



Russell U. Crosby, Secretary
Board of Administration