

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

Minutes of the Board Meeting

Thursday

SAN JOSÉ, CALIFORNIA

December 6, 2012

CALL TO ORDER

The Board of Administration of the Police and Fire Department Retirement Plan met on Thursday, December 6, 2012 in regular session at City Hall Wing Rooms 118/120, 200 East Santa Clara Street, San José, California 95113. Chair Sean Kaldor called the meeting to order at 8:34 a.m.

BOARD MEMBERS

Sean Kaldor, Chair	-Present
Richard Santos, Vice Chair	-Present
Sean Bill	-Present
Damon Krytzer	-Absent
Drew Lanza	-Present
James Mason	-Present
Nick Muyo	-Present
Elizabeth Rounds	-Present
Vincent Sunzeri	-Present

NON-VOTING BOARD MEMBER

Pete Constant– arrived at 8:35 a.m. -Present

ACTING DIRECTOR RETIREMENT SERVICES

Donna Busse -Present

COUNSEL

Harvey Leiderman -Present

BOARD MEDICAL DIRECTOR

Rajiv Das, M.D. – Present

RETIREMENT SERVICES STAFF – PRESENT: Toni Johnson; Veronica Niebla; Leslie Lamb; Ron Kumar; Tram Doan; Heidi Poon; Sonia Morales; Daryn Miller, Jennifer Holmboe; Jesselle Holcomb;

ALSO PRESENT: Alan Martin, NEPC; Dan LeBeau, NEPC; Bill Hallmark, Cheiron; Gene Kalwarski, Cheiron; Jim Spence, P&F Retirees' Association; Sam Swift, Attorney, Thomas Boyle, Attorney;

Chair Kaldor called to order both the Pension and Health Care Agenda at 8:34 a.m.

CALL TO ORDER: 8:34 a.m.

• ORDERS OF THE DAY

Dennis Hawkins, City Clerk, administered the oath of office of the newly appointed Trustee Nick Muyo and re-appointment of Trustee Sunzeri.

Chair Kaldor made the following changes to the Orders of the Day:

Waive Sunshine on
 Item 1.4 – received late
 Item 1.6 – received late
 Item 2.2 – received late
 Item 2.6 – received late
 Item 1.3 of the Health Care Agenda – received late

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A motion was made to Waive Sunshine on Items 1.4, 1.6, 2.2, 2.6 on the Pension Agenda and Item 1.3 of the Health Care Agenda.

Approved. (Santos/Sunzeri, 8-0-1, Absent-Krytzer)

Item 2.4 – Deferred

Item 4.1(d) – change effective date to January 26, 2013.

Item 6.5(c) – Deferred, at the request of Human Resources

Item 7.5(d) – Revised, changed January 9, 2012 to new date January 16, 2012 under Investment Committee section

Closed Session 1.1 – to be heard at the end with other Closed Session Item

1. INVESTMENTS

Item 1.1 was heard at the end of the Agenda, as noted on the Orders of the Day.

- 1.1 **CLOSED SESSION**: Conference with Investment Consultant pursuant to GOVERNMENT CODE SECTION 54956.81 TO CONSIDER PURCHASE PENSION FUND INVESTMENTS (THREE INVESTMENTS)

OPEN SESSION

- 1.2 **Discussion and approval of modifications to the Police & Fire Department Retirement Plan's Investment Policy Statement.**

Ms. Doan led the discussion regarding the modifications to the Investment Policy Statement.

A motion was made to approve the modifications to the Investment Policy Statement.

Approved. (M.S.C. – Santos/Mason, 8-0-1, Absent-Krytzer)

- 1.3 **Presentation of the third quarter 2012 Performance Report by NEPC.**

Alan Martin and Dan LeBeau of NEPC presented the third quarter 2012 Performance Report and responded to questions from the Board.

- 1.4 **Presentation of the October 2012 Flash Report by NEPC.**

Dan LeBeau of NEPC led the presentation and responded to questions from the Board.

Item 1.1 and Item 1.2 of the Health Trust Agenda were heard simultaneously after Item 1.4 of the Pension Agenda.

- 1.5 **Discussion and action regarding the portfolio transition.**

- a. **Discussion and approval to continue authority to delegate the selection of passive equity, fixed income, and real assets strategies for the current pending portfolio transition to staff and NEPC LLC and for the Secretary to negotiate and execute agreement(s) with the selected manager(s) as appropriate.**

Dan LeBeau of NEPC led the discussion regarding the portfolio transition.

A motion was made to continue authority of delegation and comeback on a quarterly basis.

Approved. (M.S.C. – Kaldor/Santos, 8-0-1, Absent-Krytzer)

- 1.6 Authorization for the Secretary and the City Attorney to negotiate and execute the Second Amendment to the agreement with Hanson Bridgett LLP to increase the compensation for the remaining term of the agreement to end June 30, 2014 by \$250,000, for a total contract amount not to exceed \$500,000.**

Mr. Kumar led the discussion and responded to questions from the Board.

A motion was made to have staff do an RFP and to increase the amounts beyond the \$250,000 to \$500,000 for Hanson Bridgett and to coordinate with the Federated City Employees Retirement Board and the City Attorney's Office.

Approved. (M.S.C. – Sunzeri/Bill, 8-0-1, Absent-Krytzer)

2. NEW BUSINESS

Item 1.3 of the Federated Health Care Trust Agenda were heard simultaneously with Item 2.1 of the Federated Pension Agenda.

2.1 Discussion and action on Plan Expenses for October 2012.

Veronica Niebla led the discussion on the Plan Expenses for October 2012.

A motion was made to approve Item 2.1 the Plan Expenses for October 2012 of the regular Federated Board Agenda and Item 1.3 of the Federated Health Care Trust Agenda.

Approved. (M.S.C. – Santos/Bill, Absent-Krytzer)

2.2 Discussion and action on Cheiron's preliminary Valuation Results.

Bill Hallmark and Gene Kalwarski from Cheiron led the discussion on the preliminary Valuation Results.

Extensive discussion continued.

a. Memo from Alex Gurza, Deputy City Manager, regarding Supplemental Retiree Benefit Reserve (SRBR), dated November 29, 2012.

A motion was made to lower the discount rate to 7.25%.

Approved. (M.S.C. – Santos/Lanza, 7-1-1, No-Bill, Absent-Krytzer)

An amendment to the motion by Trustee Bill was to lower the discount rate a quarter this year and another quarter next year to 7.0%.

Amendment to the original motion did not pass.

A motion was made to direct Cheiron to prepare both numbers with and without the SRBR.
Approved. (M.S.C. – Lanza/Santos, 8-0-1, Absent-Krytzer)

Item 2.3 was heard after Item 2.8.

2.3 Discussion and action on Cheiron’s preliminary OPEB Assumptions.

Bill Hallmark from Cheiron led the discussion on Cheiron’s preliminary OPEB Assumptions. Mike Schoinning from Cheiron’s San Diego office led the presentation on the Health Care Assumptions.

A motion was made to adopt the OPEB assumptions to 7.25%, recommend 3.5% for expected return assumptions, and change the blended discount rate methodology.

Approved. (M.S.C. – Kaldor/Santos, 7-0-2, Absent-Krytzer, Lanza)

2.4 Staff report regarding history of the 401(h) practice and clarification of the employer credit language in the San Jose Municipal Code.

Deferred, as noted on Order in the Day.

2.5 Discussion and action on the proposed City Ordinance amending various sections of Chapter 3.28 of Title 3 of the San Jose Municipal Code to clarify the City Charter supersedes the Federated City Employees Retirement Plan in event of conflict, clarify the definition of Tier 2 member, discontinue the Supplemental Retiree Benefit Reserve, clarify actuarial soundness is determined consistent with the California Constitution, and make additional requirements for mandatory Medicare enrollment, to be effective January 1, 2013.

Mr. Leiderman led the discussion regarding the proposed City Ordinance.

Note and file.

2.6 Approval of the City of San Jose Police and Fire Department Retirement Plan’s 2012 Comprehensive Annual Financial Report (CAFR) and acceptance of the audited financial statements for fiscal years ended June 30, 2012 and 2011.

Mr. Niebla led the discussion regarding the CAFR and responded to questions from the Board.

A motion was made to approve the City of San Jose Police and Fire Department Retirement Plan’s 2012 Comprehensive Annual Financial Report (CAFR) and acceptance of the audited financial statements for fiscal years ended June 30, 2012 and 2011.

Approved. (M.S.C. – Santos/Muyo, 7-0-2, Absent-Krytzer, Lanza)

2.7 Communication to the Board of Administration of the City of San José Police and Fire Department Retirement Plan from Macias Gini and O’Connell (MGO), the Plans external auditor:

Rick Greene and Annie Louie from Macias Gini and O’Connell (MGO) led the discussion on the reports and responded to questions from the Board.

- a. **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.**
- b. **Required Communications.**
- c. **Management Comments and Recommendations.**

A motion was made to accept the audit.

Approved. (M.S.C. – Kaldor/Santos, 7-0-2, Absent-Krytzer, Lanza)

Item 2.8 was heard after Item 4.2b.

2.8 Election of Chair and Vice Chair.

Trustee Mason made a motion to keep the current chair and vice chair for the following 2013 year. 2nd by Santos. Motion did not pass.

Extensive discussion continued and numerous motions were made.

All previous motions were withdrawn.

A motion was made to elect Trustee Kaldor as Chair for 2013 and to bring discussion to the Strategic Planning Special Meeting in January 2013.

Approved. (M.S.C. – Santos/Mason, 7-0-2, Absent-Krytzer, Lanza)

2.9 Discussion and action regarding Trustee orientation and annual training requirements.

Mr. Leiderman led the discussion regarding Trustee orientation and annual training requirements.

A recommendation was made to schedule training at Retirement Services for the new Trustees.

3. OLD/BUSINESS/CONTINUED-DEFERRED ITEMS

3.1. Oral update on the strategic plan meeting. **Receive and file.**

Chair Kaldor updated the Board on the strategic plan meeting.

3.2. Oral update on payroll audit, FLSA and overtime payment issues. **Receive and file.**

Ms. Neibla reported that she had not received any update and had nothing else to report.

3.3. Oral update from Councilmember Constant. **Receive and file.**

Councilmember Constant updated the Board under Item 2.5.

3.4. Demo of Electronic Board Packets

Ms. Busse led the discussion and introduced Granicus to the Board. Kelly Barlow from Granicus gave a short demonstration.

3.5. Oral update on Pension Administration System RFP. Receive and file.

Ms. Busse reported that staff started to do site visits and will try to get a recommendation to the Board in January.

Entered into Closed Session for Items 1.1, 3.6, 3.7 and 3.8 at the end of the Agenda at 2:31 p.m.

3.6. CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL – LITIGATION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(a),

Paul Mulholand, et al v. City of San Jose, et al, Santa Clara County Superior Court
Case No. 1-12-CV-219748

3.7. CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL – LITIGATION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(a) (2 CASES)(MEASURE B LITIGATION)

San Jose Police Officers' Association v. City of San Jose, et al, Santa Clara County Superior Court, No. 1-12-CV-225926, cross complaint of City of San Jose.

Sapien vs. City of San Jose, et al, Santa Clara County Superior Court,
Case No. 1-12-CV-225928.

3.8. CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL - PURSUANT TO GOVERNMENT CODE SECTION 54956.9(c) – Deciding whether to initiate litigation (2 cases).

The Board reconvened from Closed Session at 4:06 p.m. There was not reportable action out of Closed Session.

OPEN SESSION

4. RETIREMENTS

4.1. Service Retirement

- a. **Allison J. Cabral**, Battalion Chief, Fire Department, effective December 22, 2012; 20.49* years of service. Approved. **(M.S.C. – Santos/Kaldor, 7-0-2, Absent-Krytzer, Lanza)**
- b. **Brian T. Christian**, Police Sergeant, Police Department, effective January 19, 2013; 20.13* years of service. *With reciprocity*) **(M.S.C. – Santos/Kaldor, 7-0-2, Absent-Krytzer, Lanza)**
- c. **Gregory M. Crader**, Police Officer, Police Department, effective January 31, 2013; 25.08* years of service. *(With reciprocity)* **(M.S.C. – Santos/Kaldor, 7-0-2, Absent-Krytzer, Lanza)**

- d. **Gregory J. Gunsky**, Police Officer, Police Department, effective January 19, 2013; 25.01* years of service. **Change effective date to January 26, 2012, as noted in the Orders of the Day. (M.S.C. – Santos/Kaldor, 7-0-2, Absent-Krytzer, Lanza)**
- e. **James Morphis**, Fire Captain, Fire Department, effective December 30, 2012; 24.44* years of service. **(M.S.C. – Santos/Kaldor, 7-0-2, Absent-Krytzer, Lanza)**
- f. **Michael Tallerico**, Fire Engineer, Fire Department, effective December 22, 2012; 25.68* years of service. **(M.S.C. – Santos/Kaldor, 7-0-2, Absent-Krytzer, Lanza)**
- g. **Hector M. Vasquez**, Police Officer, Police Department, effective January 19, 2013; 25.58* years of service. **(M.S.C. – Santos/Kaldor, 7-0-2, Absent-Krytzer, Lanza)**

Items 4.2a and 4.2b were heard after Item 2.2.

4.2. **Service-Connected Disability** – *10:30 a.m. time-certain or soon thereafter.*

- a. **Tina R. Boales**, Police Officer, Police Department, effective December 6, 2012; 25.27* years of service. *(Continued from the October 30, 2012 Special Board meeting)*

A motion was made to approve Ms. Boales Service-Connected Disability.

Approved. (M.S.C. – Santos/Mason, 7-0-2, Abstain-Bill, Absent-Krytzer)
Trustee Bill abstain from vote due to he did not hear the full case.

- b. **Kenneth D. Willey**, Police Sergeant, Police Department, effective December 6, 2012; 21.89* years of service.

A motion was made to approve Mr. Willey's Service-Connected Disability.

Approved. (M.S.C. – Santos/Bill, 8-0-1, Absent-Krytzer)

4.3. **Deferred Vested**

- a. **Toran T. Wright**, Police Officer, Police Department, effective December 12, 2012; 10.48* years of service.
Approved. (M.S.C. – Santos/Kaldor, 7-0-2, Absent-Krytzer, Lanza)

5. **DEATH NOTIFICATIONS** - None

6. **COMMITTEE MINUTES, REPORTS AND RECOMMENDATIONS**

6.1 **Investment Committee (Sunzeri/Bill/Kaldor/Krytzer)**

– Last Meeting: November 14, 2012 - Next Meeting: December 12, 2012

- a. **Report from the Chair of the Investment Committee. Receive and file.**

Chair of the Investment Committee, Trustee Sunzeri, updated the Board on the work NEPC is doing and recognition for the work staff is doing.

- b. **Minutes of October 23, 2012, Police & Fire Investment Committee. Receive and file.**

6.2 Ad Hoc Governance Committee-Cortex Phase II (Kaldor/Lanza/Rounds/Santos)

- a. Report from the Chair of the Ad Hoc Governance Committee-Cortex Phase II. Receive and file.**

Chair of the Ad Hoc Governance Committee, Chair Kaldor, reported the next Ad Hoc Governance Committee meeting is scheduled for December 21, 2012.

6.3 Ad Hoc Personnel Committee (Lanza/Kaldor/Rounds/Sunzeri)

- a. Report from the Chair of Ad Hoc Personnel Committee. Receive and file.**

There was not report.

- b. Discussion and action on recruitment process for the Director and Chief Investment Officer.**

6.4 Audit Committee (Bill/Lanza/Mason)

- Last Meeting: November 26, 2012 - Next Meeting: TBD

- a. Report from the Chair of Audit Committee. Receive and file.**

Chair of the Audit Committee, Trustee Bill, updated the Board regarding meeting with the accountant and approved their audit for the CAFR.

6.5 Disability Committee (Santos/Rounds)

- a. Report from the Chair of Ad Hoc Disability Committee. Receive and file.**

Chair of the Disability Committee, Trustee Santos, reported that a meeting is scheduled for December 14, 2012.

- b. Update on Legal RFP.**

Ms. Busse updated the Board on the legal RFP and responded to questions from the Board.

- c. Discussion and action regarding help for Dr. Das to extend medical personnel to help expedite with the pending disability lists.**

Deferred as noted in the Orders of the Day.

7. CONSENT CALENDAR (Items 7.1 through 7.7)

Items 7.5d and 7.5e were pulled from the Consent Calendar. Chair Kaldor stated that Items 7.5d and 7.5e will be discussed at the January Strategic Planning meeting

A motion was made to approve the balance of the Consent Calendar Items 7.1 through 7.7, except Items 7.5d and 7.5e.

Approved. (M.S.C. – Santos/Rounds, 7-0-2, Absent-Krytzer, Lanza)

7.1 Change of Retirement Application

- a. Approval of change of retirement date of **John M. Seaman**, Police Sergeant, Police Department; from December 22, 2012 to November 24, 2012.

7.2 Approval of Minutes

- a. Monthly Board meeting held on November 1, 2012.

7.3 Approval of Travel and Attendance for Conferences and Due Diligence

- a. Pete Constant - CalAPRS – Board Leadership Institute: Advanced Principles in Governance, CalAPRS Education Partnership w/UCLA Anderson School of Management – January 29-31, 2013.
- b. Don McLaughlin - 2012 Annual Governmental GAAP Update – Webcast.
- c. Deborah Sattler - 2012 Annual Governmental GAAP Update – Webcast.
- d. Ron Kumar - Real Estate Manager Due Diligence: Boston, New York, Philadelphia – December 17-19, 2012.
- e. Barbara Hayman - Denver City Employees Retirement System, Denver, CO – December 3, 2012.
- Sonoma County Retirement System, Sonoma, CA – December 2012.
- f. Toni Johnson - Denver City Employees Retirement System, Denver, CO – December 3, 2012.
- h. Maria Loera - Sonoma County Retirement System, Sonoma, CA – December 2012.

7.4 Return of Contributions

- a. Voluntary
- b. Involuntary

7.5 Communication/Information

- a. The Cortex Report: Research Papers and Articles
- b. Benefits Review Forum Report, October 2012.
- c. Retirement Services organization and staffing.
- d. 2013 Schedule of Meetings. **Item was pulled. Revised date to under Investment Committee to January 16, 2012, as noted in the Orders of the Day.**
- e. Committee Membership Summary. **Item was pulled.**
- f. Memo from Alex Gurza, Deputy City Manager, regarding Risk and Volatility, dated November 29, 2012.
- g. Communication from IRS regarding pending tax qualification application.

7.6 Pending Projects

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7.7 Report out of Closed Session regarding investments at the August 2, September 6, and October 4, 2012 Board meetings..

8. **EDUCATION & TRAINING** - Note and file.

8.1 **Educational Programs and Courses**

8.2 **Conferences and Seminars**

8.3 **CalAPRS' Training**

- a. Board Leadership Institute, Advanced Principles in Governance, A CalAPRS Education Partnership with UCLA Anderson School of Management, Los Angeles, CA – January 29-31, 2012.
- b. Trustees Round Table, Doubletree Hotels, San Jose, CA – February 8, 2013.

• **PROPOSED AGENDA ITEMS**

• **PUBLIC COMMENTS**

• **ADJOURNMENT**

Meeting was adjourned at 2:31 p.m.


SEAN KALDOR, CHAIR
BOARD OF ADMINISTRATION

ATTEST:



DONNA BUSSE
ACTING DIRECTOR, RETIREMENT SERVICES