The following transcript is provided for your convenience, but does not represent the official record of this meeting. The transcript is provided by the firm that provides closed captioning services to the City. Because this service is created in real-time as the meeting progresses, it may contain errors and gaps, but is nevertheless very helpful in determining the gist of what occurred during this meeting.

>> Matt Loesch: Call the meeting to order. We need to get our quorum so we need our Clerk's office representative to do the swearing in so people can get to their positions. We'll do our swearing in and we'll have our quorum and we'll be able to begin their meeting. Find their positions and get cemented and we'll have someone from the Clerk's office in just a moment. We'll go over orders of the day and whatnot. So mic's yours, giving the instructions, whatever you need to do.

>> Good morning, I'm deputy City Clerk, Nora Pimentel. If I will have Lara, Stuart and Michael please rise. If you will please state after me, I state your name. Do solemnly swear.

>>> do solemnly swear.

>> To support and defend.

>>> To support and defend.

>> The constitution of the United States.

>>> The constitution of the United States.

>> And the constitution of the State of California.

>>> And the constitution of the State of California.

>> Against all enemies.

>>> Against all enemies.

>> Foreign and domestic.

>>> Foreign and domestic.

>> That I will bear true faith.

>>> That I will bear true faith.

>> And allegiance to.

>>> And allegiance to.

>> The constitution of the United States.

>>>The constitution of the United States.

>> And the constitution of the state of California.

>>> And the constitution of the state of California.

>> That I take this obligation freely.

>>> that I take this obligation freely.

>> Without any mental reservation.

>> Without any mental reservation.

>> Or purpose of evasion.

>>> Or purpose of evasion.

>> And I will well and faithfully discharge.

>>> And I will well and faithfully discharge.

>> The duties for which I'm about to enter.

>>> The duties for which I'm about to enter.

>> Congratulations.

>> Matt Loesch: William, congratulations, I'm sure you're excited about that. We now have our quorum. I'll call to order the meeting of the Federated city retirement system. We have orders of the day. First things first, 16, 17 and 18 first, those are the things involving the Cherri, Cheiron. We have closed session item 2. And then we have any other items or issues with the order of the day, any thoughts there? Okay I'll entertain a motion on those orders.

>> Edward Overton: So moved.

>> Matt Loesch: Any comments or questions? All in favor? Opposed, none. First we're going to do with item 16. Which is discussion and action regarding Cheiron's June think, 2010 order postemployment benefit valuation report. We have Mr. Bill Hamilton here, Bill HalMark, I'm sorry.

>> Bill hallmark with Cheiron. I'm going to run through an overview of the actuarial valuation process the key results. Give you a little reconciliation from the prior valuation. Last meeting, when we were talking about assumptions, there were a number of questions about the sensitivity of the results to health care trend. The health care trend assumptions, so we'll look at that in a couple of different ways including using our projection model

where we can actually put in whatever assumptions we want and see how it affects viability. I want to put in a few more issues that the board and/ority may need to address as we go forward with this plan. And please, interrupt me with questions along the way, if something's not clear. I want to start with this graphic, on -- that we use both for pension funds and health funds, in terms of how they are funded, and what the controls are. The tank shown here represents the liability for the health benefits. The retiree health benefits. And the valuation essentially measures the size of that tank. The green inside the tank is the assets currently in the fund. For health fund, typically the assets are much lower because most -- if there's any funneled of funding, advance funding at all, it is usually started in the last few years. And so they're just starting to build up assets. The things that go into that are both employer contributions and employee contributions. Which is largely what we talk about, with the valuation, is after assessing how well funded it is, and applying the methods, we set contribution rates. Or recommend contribution rates. There's also investment earnings which go into the furniture. For most pension funds that is a very significant piece, for the OPEB funds that are not as well funded yet, that's a much smaller piece. So in this case the bigger contributions now are coming from the contributions as opposed to the earnings. And going out of the fund we have the expenses of both administering the fund and paying the benefits. That stream of benefits is driven by the design of the plan and the promises and the number of retirees currently receiving benefits. Here we're showing the results of the prior valuation in the far right column. And then the current valuation in the two middle columns. There are two columns shown for this valuation, one at 7.95, which is our investment return assumption. And so if the -- if we were funding the full annual required contribution, the valuation would be based on that discount rate. But because we're not funding the full annual required contribution we have to use a blended discount rate. And 6.71 is the current blended discount rate. In the prior year it was 6.7. So those two columns are the most comparable for comparing the change from year to year. The liability increased from about \$800 million to \$926 million. The assets of the plan increased from 85 to 108. But that leaves the unfunded increasing from 710 to 818 million, and the funding ratio going from 11 to 12%. The next section shows the contribution rates following the MOUs that were negotiated. And essentially here, there's a limit in the MOUs, the contribution rate for the city and for the members cannot increase more than .75%, and we're at that limit, and so that is the increase you're seeing Those are for the fiscal year ending June 30th, 2012. The arc coming through this valuation following the process that has been used in the past is actually for the year ending 6/30/2011. And that's one of the future issues that I want to discuss, is we may want to get those lined up, so that they're on the same fiscal year. But the arc is increasing from about 39 million last year to 47 and a half this year. A couple of months ago we showed -- or I guess it's last month we showed this graph without the 2010. The gray bars showed the liability of the plan historically and the green line shows the assets. And you can see, 2006 was the first year that the liabilities were assessed following the methodologies that are consistent with GASB 4345. So there's a large jump-up in the liability, in that year. Then in 2007 that decline was due to primarily a change in the discount rate. And then since then you're seeing the growth of the liabilities. And the assets are increasing slowly.

>> Matt Loesch: What are the drivers for this recent increase in the liability this last year?

>> We'll get to that. I have a slide directly addressing that. The MOUs call for the full arc to be contributed starting in 2013-14 and prior to that, a linear phase-in but no larger increase than .75% per year. So this projection is showing the prior years, and then going forward we're increasing .75% per year and then when we get to 2013-14 there is a jump-up to the full arc. The city gets a jump from about 8% up to about 11 and employees, 7.25 to 10% of pay. So here's our reconciliation of the liability change. So has year, it was about 800800 million. The passage of time includes interest charges and the accrual of benefits. And this is about 49 million. There were some demographic changes that increased the liability about 14 million. I think mostly more retirements than expected. We changed the claims assumption which added about $30 million to the liability. And then the trend assumptions which I'll focus on a little bit more following this, increased it about 35.5 million and then there were some miscellaneous other assumptions and including a change from our valuation, from GRS's valuation system to our valuation system so the total increase is about $130 million this year. So just as a reminder. This is a change in the health care rates from last year to this year. The solid blue and red lines are our trend rates that we are using this year. The small are red and blue lines are the equivalent trend rates that were used in the prior valuation. Essentially we started at a very similar or identical trend rate for 2010 but are grading down over a longer period, over 15 years instead of about ten years. Both to an ultimate trend rate of 4.5%. And so that's what drove the $35 million increase in the liability. Now, the liabilities and the measures of the unfunded and the annual required contribution or arc are very sensitive to the trend assumption. And so this slide shows if you move the whole trend assumption up 1% or down 1%, what is the impact on those numbers? And so you can see it would change the unfunded liability up from 818 million up to 956 million or down to 701 million. A fairly substantial

change for that change in rate. There's an even greater percentage to the arc, going from 47.6 million up to 65.9 or down to 33.7. So these results are very sensitive to the trend assumption and to actual health care trend. I'd like to introduce you to our model so we can look at projections and we can address some of the questions about what different trends would do. I'll start with the graph on the hoar left. The bars represent our measure of the actuarial liability for the plan. The green line represents a projection of the assets of the plan, the red line, the NOO is called the net OPEB obligation. And that's the figure that appears on the City's balance sheet. And it's essentially the difference between the annual contribution and what has been contributed cumulatively. And once you start paying the annual required contribution, it declines. So you can see in the early years, that number is increasing, and then, when the full arc is being paid, it remains level, and starts to decline slightly. Fest the change in the early year, where the actuarial liability drops, that's where we go to the full investment return assumption. So that decline is really a change in the discount rate. But then, the liabilities are projected to increase from there. The graph on the right shows, in the gray shaded area, that's our projected benefit payments. That's what retirees are receiving, both in premium subsidy, and there's an implicit subsidy that's built into that that is the difference, the estimated difference between the cost of retiree claims, and the premium that's charged for retirees. The teal bars represent the City's projected contribution, and the gold bars, the employee contribution. So you can see, the combination of the two is contributing more than is going out of the fund now, which helps us to build the assets. And then, the red line represents the arc, which stays above everything for a couple years, and then drops down to equal the city contribution. So are there any questions with these graphs before I start playing with some things?

>> Matt Loesch: I guess I'm not clear as to why the discount rate drops to 6 in 2012.

>> The blending method looks at the rate that is actually being contributed compared to the arc. And with the limit on contributions, for the members and city, they're paying a smaller percentage of the full arc and so that calculation results in a lower discount rate.

>> Matt Loesch: Because the arc is growing at a faster discount rate than the contribution is growing?

>> Correct, yes. That end we hit the jump that caused the contribution rates to go to 10% and we're at the full arc.

>> Matt Loesch: The agreement was .75% per year and that rate is lower than the rate the arc is growing and boom, at the end we have to get up to the full arc right away, is that what you're saying?

>> Right.

>> Matt Loesch: Any questions from the board? Mr. Andrews, microphone.

>> Arn Andrews: When you talk about sensitivity to trend rates -- and I know we've had this conversation before, about it seems counterintuitive, the actuaries seem to think that health care rates are going to trend down over the long term. When you do your model, I'm interested in actually seeing -- I mean I know you've projected it for us here, but in the one graph, but seeing it and then also, on slide 7 when you talked about the passage of time, if $50 million that got added to the actuarial liability, you said it was a combination of interest charges and the actual benefits can you give me a percentage breakdown just how much of it was interest on outstanding liabilities as opposed to new benefits?

>> I don't have that at the tip of my tongue here. But we can certainly send that to you.

>> Arn Andrews: Okay.

>> You could just apply 7.95% to last year's liability to get a rough idea of what the interest charge is.

>> Arn Andrews: Thank you.

>> So let me address some of that question about the trend rates. First, the theory about trend rates declining over time is that health care, as a percentage of the total GDP of the economy, in theory, can't keep increasing

forever. If it did, at some point, the entire GDP would be -- or the vast majority of our GDP would be due to paying for health care. And so the trend models that actuaries use, look at where the current trends are, and then project out over a period of time to stabilize at a constant percentage of GDP. And there is variation in how actuaries project that out. We've projected it out to a 15 year trend. The prior was around 10. You know I think 15 is kind of in the mid range of where most actuaries are projecting it. But if we, for example, if we just put in ten years here, so we're only projecting ten, you can see those gold bars drop down. So putting it at 15 actually increases our liabilities because we're projecting those costs to increase for a longer period. If we did it, you know you might say well, maybe it's going to take 20 years. That's all going to have some effect on the liability.

>> Arn Andrews: And when you say 20 years you say 20 years to reach what you perceive to be the appropriate portion of health care for GDP?

>> Right.

>> Arn Andrews: At a point in the future? Okay.

>> Until it levels off and remains a constant percentage of GDP. And then the other piece of it is, what is that ultimate trend rate in nominal terms that keeps it a constant percentage of GDP. And we had discussions about whether that should be 4.5 or 5. Both are fairly commonly used and if we increase it to 5, that, you know, increases the liabilities over the long haul. Put these back at 15.

>> So this may be a question of more for staff or trustees that have been around. Do we actually have a target for when we want to become fully funded?

>> Matt Loesch: Well there was an agreement that was made through the bargaining parties, 2006-ish, 7? Not ballparking, looking at one of the negotiations, that said that the unfunded liability at that time was enclosed amortization over 30 years so in 30 years that unfunded liability is supposed to be paid off. So that was the target.

>> So the target was 2039.

>> Matt Loesch: Okay. Depending when the agreements had and when it started moving up to the payment. So it's 2039.

>> Is that sort of a typical response from public entities to GASB to this?

>> No. I -- that's a -- well, it depends on how large their liabilities have been. Some have not done any advanced funding and are still doing the pay-as-you-go. Some are trying to piece together advanced funding. I think it's rare to find somebody who is committed to get it paid off in 30 years.

>> Matt Loesch: One thing the GASB statement didn't require funding, just required statements of unfunded liability. I'm going to look at the actuaries to make sure I'm saying it right. It didn't require any funding at all, it just required that you state whatever you are not funding and the bargaining units here decided we wanted to be fully funded, we would fund the arc and this is agreement between the bargaining parties.

>> I would add the existing liability is a 30 year amortization period, future liabilities will be at 20-year.

>> Yeah, so the gain or loss, let me switch back here. The changes on here, other than the passage of time, get rolled into a 20-year amortization. And then the remainder of the unfunded is part of the rolling cost. Any other questions or you want to see more with the model?

>> (inaudible) so if really the whole resumption of the actuarial value is that the health care trend rate is going to decline, what happens if -- well that doesn't come true?

>> Matt Loesch: Chart isn't big enough.

>> You obviously get very high escalating rates.

>> So as early as 2015, the city and the employer contributions would be around -- am I reading this right -- 20%?

>> 20, 22% each. If -- well, that's -- that's if we change our assumption, as well.

>> That's correct.

>> To that. So it's not just what happens between now and 2015. But if we change our assumption.

>> Matt Loesch: That would never decrease.

>> Right.

>> Russell Crosby: It would mirror recent history, then this is the picture you get.

>> Matt Loesch: But the point is that also, the entire GDP of the United States would be in health care. Probably not as likely also. Some range between here and there.

>> Well, and you'd see -- you'd see changes in the plan designs that --

>> Matt Loesch: Yeah, probably.

>> The employer-paid portion would not be as large, there would be some cost-shifting. Sorts of things.

>> Matt Loesch: Mr. Mullen do you have anything?

>> Do you have anything in your model for health care cost?

>> No, we have not specifically reflected the impacts of health care reform because those impacts are emerging with the regulations and potential repeal and all of those sorts of changes.

>> Do you expect them to increase the cost or lower or at this point you can't tell?

>> At this point we don't know in the long run. In the short run there are speculation that it would increase cost. Because increased coverage and the cost saving measures don't take effect until later.

>> Matt Loesch: Do we have an order of magnitude of what that might look like?

>> I don't.

>> Matt Loesch: I mean ballpark. I don't -- because the key drivers that kick in are like you said the increased coverage. I'm trying to think what the city has purported for just the employees' increase, to the active plan. I don't remember, but -- okay. And when do you think -- I mean are you planning on doing any reporting on that? I mean obviously it's kind of a moving target. You have to kind of take a snapshot and this is what the plan is today. In right.

>> Matt Loesch: With either changes of either -- any political change in Washington would have -- could potentially have dramatic effects on what that plan looks like so --

>> Exactly. We're monitoring it, closely monitoring the development of the regulations for implementing the health care reform which will have a significant impact on what our assessment is as well as any additional action taken by Congress.

>> Matt Loesch: Is there any plan to take a snapshot and make an assessment?

>> I don't know the timing on it but I can -- I'm more of the retirement actuary putting this together, as opposed to the primary health care actuary making those assessments. So I would need to check, to the primary health care actuary.

>> Can I tell you the actuary for the Police and Fire fund, noted that they were including some cost factor for that. They didn't isolate it but I can tell you their trend assumption is north of the assumptions used here by maybe 1%, or somewhere in that range. But again --

>> Matt Loesch: I don't want to ignore it. If it's there we can't ignore it.

>> They don't know for sure but they did factor in to some extent put they didn't isolate the specific component.

>> Matt Loesch: Mr. Armstrong do you have something to add?

>> Michael Armstrong: How sensitive is your model to the salary increase portion?

>> The salary increase really affects the contribution rates because we are taking a dollar amount of contribution and converting it to a percent of pay. So if we just change this ultimate to say 3%, it increases the percentages, because the overall level of salary is less and we're still trying to get the same dollars. Because the benefits are not tied to salary here.

>> Michael Armstrong: So the levers that can be -- if you were to summarize, what are sort of the key levers that drive all of this?

>> Well, the biggest lever is the cost of health care and then the design of the plan. You know for example, we can also change actual investment returns. And you know, let's just put in 20%. I don't want to do it forever, but -- that has an effect. But because we're only 12% funded, it doesn't have a dramatic effect.

>> Michael Armstrong: So rip-roaring bull market doesn't fail this out?

>> No, it doesn't because we don't have enough assets to take advantage of them compared to the liabilities.

>> I have one question, if you go back to your baseline model what happens if you decline the population by let's say 2%, 2, 3% a year? Is that part functional?

>> It is functional. And it actually -- it has a positive effect here, because even though you're having less payroll to pay off the liability, you're generating a lot less liability from the individuals. So over time, that has a -- you know a positive effect for the cost of the plan.

>> Pete Constant: If I could add a question in here, obviously we know at some point population, employee population is going to start recovering because five years out down the line we're going to start hiring people again. Is there any growth factors in the outyears for the restoration of services that we've been cutting and the restoration of employee positions?

>> No. Right now in the model we have one population growth factor that applies to all years. We could build in that sensitivity, but we just haven't.

>> Pete Constant: But it's safe to say the inverse of what you just demonstrated would happen?

>> Yeah. Okay? There are just a couple of issues I wanted to put on the table. I think a number of these really depend on the city and their auditor and how they view their accounting and trying to align it with the way the funding is set up. So the first one is that the arc that the city discloses in their financial statements is currently calculated for the fiscal year immediately following the valuation. So the June 30th, 2010, valuation provides their financial disclosure information for the 2010-11 fiscal year. But it produces the funding rates for the 2011-12 fiscal year so there's a year offset. And this one-year lag is normal for funding because of the budgeting

process. Because we're just now presenting those results, give them time to budget for the next fiscal year. The accounting can be done either way. But the MOU requires that in 2013-14 the city fund the arc. Well, if the arc is still based on the year immediately following the valuation, they wouldn't know that amount until half-way through that fiscal year. If you take a literal reading of that. So it doesn't need to be resolved today, or in the next year. But we need to discuss how we're aligning those things in the future.

>> And if I could just add, the main driver for that was, when we first started to do GASB 43, 45 it was for reporting purposes only, as the bargaining units started to negotiate to move into full funding there was more need to align the funding valuation versus the reporting valuation so those are two pieces that will come together.

>> Yeah, and one simple way to do that is we can use one valuation for two years of reporting, and get it lined up with the funding. So we could for example use this valuation for the next two years of accounting reporting and then we'd be aligned. The other question related to that is, the implicit subsidy contributions. The city now correctly takes credit on their financial statements for the implicit subsidy that they pay for retirees through the active premiums as a contribution towards the arc. And that's the way GASB's laid out that they should do that. It's not clear though, from the MOUs, it appears that the ark contribution is -- they're supposed to contribute the full arc into the fund. And so if those two things happen, they, after they're contributing the full arc into the fund then on their accounting statements also taking credit for the implicit subsidy they'd be contributing an amount greater than the arc and it wasn't clear if that's what the intent was or how that should be resolved. The third bullet we've talked about last time. There's a 401H limit to how much you can contribute to the current funding arrangement. We had a discussion with legal counsel and have agreed on a methodology for calculating that limit and we're in the process of producing it. But it -- I don't know where those results are going to come out right now. But in the long run, the contribution rates I showed would not be able to be contributed to the 401H account.

>> I'm not familiar with 401H.

>> Matt Loesch: Could I have Veronica probably describe how we do the accounting for the medical portion of this because we deal with it on a 401H account. And what the dispute was with the lawyers trying to figure out how -- what starting rate and so forth.

>> So the 401H is a section of the internal revenue code that limits the amount that the percentage that can be put into medical payments versus retirement payments. Because the purpose of a qualified retirement plan is primarily to provide for retirement benefits. And so in order to satisfy that limit 401H establishes that can you only put a certain percentage of contributions into the medical benefits account. And I don't think there was really any dispute necessarily, there were some questions about how the limit is to be applied given various factors with our specific plan. But the actuaries and our outside tax counsel had a conversation about how that limit should be calculated for the plan, and they came to agreement on how the limit should be calculated. And so they're in the process now of looking at that. Essentially I mean very simply speaking, it's a 25% limit. So we're looking at having the contributions to the medical benefits account be a small percentage of the overall contributions. And the city does know that at some point in the future, how soon, we don't know, that's what the actuaries are looking at. But we do know that the vehicle that we're using to fund the medical benefits, the 401H account, can't last forever. And that there are alternative vehicles for funding medical benefits. So we are looking at those and we've been watching the 401H limit pretty closely for the last few years.

>> Matt Loesch: We are precariously close depending on when we -- and then there was dispute with the lawyers.

>> Mollie Dent: There have been as much issues with how it's been calculated in the past and I think we're now on a firm footing to getting it calculated.

>> Yeah, let me just kind of summarize at a very high level where the limits can end up. The limit is cumulative, if you look at the beginning of the 401H account, July 1st 1995, we have to construct back from July 1st 1995, you can't contribute more than the 401H account, essentially it works out to a third of the normal cost to the pension. The unfunded liability contribution to the pension gets taken out of the calculation. The current normal

cost for the pension plan, the total normal cost which is paid both by the city and employees, is around 18% of pay. Which would mean that the most on an ongoing basis that you could contribute to the medical plan is 6% of pay. That's total between employees and city. Now, we get to make up for lost ground from 1995, which means I don't know where we come out, as of today. But going forward, with the rates we showed, we're obviously making up significant ground against that limit. And will exceed the limit in the near future if we continued on that funding path.

>> Matt Loesch: Does that answer your question? Any other --

>> Now, having said that there are other trust vehicles available and I understand the city is looking into that. So that's part of why we have not modified the projections in this valuation, we're assuming that the trust vehicle is available to take in those contributions.

>> Matt Loesch: Any other questions for the board? Great. I think we've -- so in looking through this, we've done, taken care of 16, the discussion of the valuation, we'll make an action here to accept the report in a moment or not. 17 was discussion and action regarding recommendations for actuarial equivalence. We haven't talked about that. 18, discussions and action regarding Cheiron's findings with respect to IRC 401H.

>> Mollie Dent: I would ask the actuary if they have anything else they want to say on 401H. If minutes of the board have any questions or members of the public have anything they want to speak about it.

>> Matt Loesch: Anything else you want to talk about?

>> No.

>> Matt Loesch: In dealing with number 16, we basically need to accept or make comments to the report that was issued on the OPEB valuation, so I guess I'm entertain a motion.

>> Arn Andrews: Make a motion to accept the Cheiron June 30th, 2010 other postemployment benefit report.

>> Second.

>> Matt Loesch: Motion and second. Any further discussion or comment open that? All in favor? Aye, what was that? I'm sorry.

>> Mollie Dent: You want to ask for public comment.

>> Matt Loesch: I do, is there anyone in the audience that want to comment on it? Valuations are fun but not that fun.

>> Mollie Dent: You never know.

>> Matt Loesch: Some people call it pleasure reading so all in favor? Aye, opposed, okay. So that's 16, 18 anything else on the 401H? Otherwise basically to hear later right? There's really no action just to hear later.

>> Right. We're in the process of producing those results.

>> Matt Loesch: Right, sorry to bop around here a little bit. And then 17 was to discuss an action, discussion and action regarding Cheiron's recommendation inform actuarial equivalence factors for optional forms of payment. Was there something there that we needed to discuss indirect?

>> Didn't we already do that?

>> No.

>> No. We talked about assumptions for the valuation. This is for the calculation of actual benefits, in other optional forms.

>> Can I provide a bit of background.

>> Matt Loesch: There was nothing in the packet about it. For new members it would be very unclear what we're talking about. All it is is an agenda item.

>> There should have been something in the packet.

>> Mollie Dent: Item 17 in the packet.

>> As a pit of background, under the plan, a retiree can elect to have 50% of his benefit continued upon his death to survivor or domestic partner as he chooses. But there's specifically one other optional form they could choose to have 100% continued upon their death. And the calculations to determine the amount of reduction in the retiree's benefit they're embedded in the Municipal Code. And unfortunately, because of that, the assumptions used to calculate those forms are outdated. Significantly outdated. I think it's a 1983 mortality table. And a 9% discount rate. And there's no factor in the calculation to take into account that benefits are in fact basically have a guaranteed 3% cost of living adjustment. So staff recommended that Cheiron look at the factors and come up with what they feel is their recommendation going forward. And really our goal is to get the specific factors taken out of the municipal code and have a general reference to whatever the board chooses based on the advice of the actuary. So I'll turn it over to Bill to go through his recommendation.

>> So our recommendation is essentially to try and make the factors actuarial equivalent, so there's no difference in value, depending on what option the member chooses. So they have a default benefit if they choose a different option, we have to convert it to that option, to that form of annuity. And we're recommending factors that are the same as what is used in the valuation, essentially. There are a couple modifications to that. First, in creating these factors, you can't use different mortality tables for males and females. We're recommending using a blended table

that is 50% male, 50% female. Also with the board adopting an investment return assumption of 7.95 in the current valuation but 7.75 starting with the next valuation, we recommended going just directly to the 7.75 because there is an administrative cost every time you change these factors. And by the time they're implemented, will be right on the use of the 7.75. In the packet we gave a couple of examples of the effect of changing the factors. And the effect is going to vary, depending on the retiree's age and their beneficiary's age. So these are just a couple of samples. We can produce more samples. But the essential motivation is to try and make whatever the member chooses, actuarial equivalent in value, to the primary form.

>> And staff has gone through their recommendations and we believe they're a very good recommendation. And what would have to happen is that the municipal code, if the board approved the change, the municipal code would have to be modified to have, in a sense, a general reference to what the board adopts from time to time.

>> Edward Overton: Maybe we ought to have Mollie chime in on that.

>> Mollie Dent: Yeah, I --

>> Edward Overton: Seems to me, I remember there being a requirement to have the plan document include these items. And if that's the case, then we need to have something in in there. If it's not, I'd be the first to recommend we go with the actuary's recommendation, to take it out and make it just actuarial equivalent.

>> The norm is to refer to the actuarial valuations. Because the norm is for the assumptions to be used in the actuarial equivalence, to be consistent with your actuarial valuations some, so that there is no gains or losses generated. So if there needs to be reference to a document, then that document should be the actuarial valuation, or some document that we can create.

>> Mollie Dent: Well, currently, actually for this plan, I believe the municipal code allows the use of an alternative annuity table or an alternative interest rate, pursuant to a board adopted resolution. I mean, that's the way the code reads. So now whether or not this translates into a cost increase for either the plan or a cost increase for the

members, when they buy the annuity, might need to be taken into account. But I'm not sure that the code itself needs to be amended. Because it already provides for the board to adopt alternatives by resolution.

>> Okay.

>> The idea from Cheiron's recommendation is to actually make the cost impact of an optional form, cost-neutral to the plan. So what Cheiron is coming forward with, will not create additional cost to either the plans or the members. That's the idea from the recommendation.

>> Mollie Dent: So in order to implement this I think you have two options. I mean you could recommend that the council amend the municipal code so that these rates in the table do track the valuation. That would be one way to go. The other way to go would be, when you change interest rate assumptions, or you change mortality table assumptions, you do that by resolution and say that it's going to apply to the optional form of benefit. So there's two different ways you could implement this. You could either try to implement it under the current code or you could ask council to amend the code so that it would track automatically in the future.

>> Russell Crosby: Just I know it's a different board? Does it work the same way in Police and Fire because I understood there is a variation.

>> Mollie Dent: I don't have my Police and Fire plan with me. It may be different for the Police and Fire plan. I think their tables may be more embedded in the code.

>> Russell Crosby: Yeah, and I would just recommend for consistency for ease of identification, for lack ever confusion, five years down the road, modify the municipal plan for both plans, both Police and Fire and Federated to do what Cheiron says, simply reference the valuation so that automatically it's clear that always, that change will occur every time the board changes the valuation assumption.

>> Matt Loesch: I agree with the simplicity. And the one thing that Cheiron hit on was the cost of of location. We have bitten this a couple of times here, it seems to be logical, we should be doing this and they've come back with increase cost that is pretty hefty. Is there any cost to make egg these changes at all? That's the key, it wasn't in here I don't think and --

>> Yes, there -- in the valuation, we are essentially assuming that all the options are cost-neutral. And so adopting this approach will eliminate gains and losses from people choosing something that actually has a cost advantage.

>> It would not affect the liability you have already calculated?

>> Right, we're not building in any anticipation of those gains or losses right now. So there is no cost impact in terms of the valuation. There's a cost impact in terms of eliminating future gains and losses due forms of benefit that members elect.

>> Matt Loesch: Okay. Questions or comments from the board, Mr. Andrews? Staff? All right, so --

>> Arn Andrews: I was going to say it sounds like we need to make a motion to direct the city council to adopt the Municipal Code.

>> Matt Loesch: It would be great to direct the council to do all sorts of things. We can request them.

>> Arn Andrews: Suggest. Just a suggestion.

>> Mollie Dent: Would you like to ask our office to bring the ordinance amendment back to you, so that the ordinance amendment then would be ready?

>> Matt Loesch: Yes.

>> Mollie Dent: To go on to the city council, maybe?

>> Matt Loesch: Sounds like a great move.

>> Mollie Dent: This sounds like a fairly simple one.

>> Matt Loesch: That sounds like our motion. Do I have a second?

>> Second.

>> Matt Loesch: Motion and second. Any further comments? Mr. Johnson?

>> What does a 3% cola have to do and should it be included in the motion somewhere?

>> The cola should use the assumptions of the valuation and make sure that it's clear that the actuarial equivalence takes into account all aspects of the plan and perhaps including the 3% cola. I don't know if it's necessary or not but the intent should be clear, that that's included.

>> Mollie Dent: I would agree. I mean, we already refer to actuarial equivalence. We don't see that only the mortality tables and the discount rate are to be taken into account. But I think it would be clearer to say that all the assumptions in the valuation need to be taken into account in terms of determining actuarial equivalence.

>> That's the idea of actuarial equivalence. All the assumptions should be taken into account.

>> And the 3% is a plan are provision that is not subject to assumption. It is actually hard-coated in the plan.

>> Matt Loesch: Just for clarity sake, we're going to reread the motion just to make sure we're clear. Not ordering the council to do all sorts of fun stuff. Would you read the motion please.

>> Russell Crosby: As best I understand it, it is a motion by Mr. Andrews to request that the city attorney's office draft the necessary resolution, to --

>> Mollie Dent: Draft the ordinance.

>> Russell Crosby: Draft the ordinance for review by the board to be forwarded to the city council, to use the actuarial assumptions as approved by the board, during their valuation process, to determine actuarial equivalence factors.

>> Matt Loesch: Is that all right as a motion?

>> Arn Andrews: I said all that? Couldn't have said it better myself.

>> Edward Overton: Should it reference optional benefits?

>> Russell Crosby: Actuarial factors for optional benefits.

>> Matt Loesch: Mr. Constant.

>> Pete Constant: I would suggest that the motion perhaps add in the direction that Russell asked for and that's coordination between the Federated board and the Police and Fire board so that both revisions can go to the city council at the same time. So that we have uniformity and clarity. And it would be easier for the council to understand it coming through once quite frankly than two separate times.

>> Matt Loesch: Does that jive with the motioner or --

>> Mr. Chair.

>> Matt Loesch: The friendly amendment to the motion. Right?

>> Mollie Dent: When we bring the ordinance back to you we can let you know how it's proceeding with the Police and Fire board and whether they're on track together. We would always --

>> Matt Loesch: Attempt to make it --

>> Mollie Dent: Attempt to take them together, yes.

>> Matt Loesch: Any further question or discussion on that?

>> Russell Crosby: Overton.

>> Edward Overton: Yes.

>> Matt Loesch: Great, all in favor, aye, opposed, okay. Done, 16, 17, 18. Mr. Hallmark you may be released.

>> Thank you.

>> Matt Loesch: In my typical bull in a China shop fashion, I was pushing through. We have a lot of new people here, we don't know who is advising them giving them thoughts. For help sake, who is saying what and why, Mr. Constant please.

>> Pete Constant: I'm councilmember Pete Constant, nonvoting liaison depending what document you read for both the retirement funds.

>> Matt Loesch: Mr. Johnson.

>> I'm Dick Johnson from Saltzman and Johnson Law Corporation, sitting in for Russ Richeda, who normally attends these meetings.

>> Mollie Dent: Mr. Richeda is the outside counsel for the plan and I'm in-house attorney, City Attorney's Office, and my name is Mollie Dent.

>> Arn Andrews: Arn Andrews, I'm the employee representative, and until you folks arrived I was the new trustee. I can no longer state that.

>> Lara Druyan: Lara Druyan, I am a new trustee.

>> Stuart Odell: Stuart Odell, I'm also a new trustee.

>> Russell Crosby: Russell Crosby, director of retirement services.

>> Matt Loesch: I'm Matt Loesch, the other employee represetative.

>> Ed Overton: And I'm Ed Overton, the retired member on the board.

>> Michael Armstrong: Mike Armstrong, the third new trustee.

>> Carmen Rossi Choy: Carmen Rossi Choy, chief investment officer.

>> Mike Maley: Mike Maley, staff actuary.

>> Veronica Niebla: Veronica Niebla accountant.

>> Donna Busse, deputy director.

>> (inaudible)

>> Matt Loesch: Great, so we're going to move in our orders of the day to item 2 which is a closed session hearing I believe the facilities are that we're going to move aside here so folks can stay put. The folks that are going to be going into closed session, going into the room next door, correct?

>> Mollie Dent: Correct so I need to announce for the record that the board is authorized to adjourn into code section pursuant to government section 54957 for hearing a disability retirement for M. Michael Pribula.

>> Matt Loesch: Thank you. [Closed session] mark-to-market

>> Mollie Dent: Session to vote open the matter of the disability retirement of M. Michael Pribula.

>> Matt Loesch: Any other comments from the the board on the report nonmedical procedures or anything? Okay. Seeing none, well then I'll entertain a motion on the item or further discussion if we need to.

>> Arn Andrews: First off I would like to thank the applicant for taking the time to come here and explain their situation and thank you for your city service. With that being said though I didn't see anything in the packet that would lead me to conclude that we should not approve the denial of the application. So I'd like to make a motion to deny the application. For a nonservice connected disability.

>> Edward Overton: I'll second that.

>> Matt Loesch: Okay so motion and second to move staff recommendation to deny the application. Any further comment or question?

>> Edward Overton: I'd just like to add that the reason that I'm seconding the motion is that continued employment is available based on retirement services response to the question, could they accommodate the medical restrictions. Recognizing that there are a couple of restrictions, and they can accommodate them, then disability must not be granted when there is work or alternative work available. So that's the reason I'm seconding the motion.

>> Arn Andrews: And that was the basis of my motion. Thank you for the clarification.

>> Matt Loesch: Any other comments? We'll take the vote, all in favor of the motion? Aye, opposed, thank you very much. Okay. We're at 10:00, even though it seems like we were just on a break, I'll call a break for ten minutes so people can refresh themselves. Thank you. [Recess]

>> Matt Loesch: If I could requeen, please. We have a quorum and our secretary is in the house. Okay moving on to the consent calendar. Does anybody have anything to pull from the consent calendar? Is I have three items them, item 3, 4A and 4B. Other than that, motion on the consent calendar please.

>> Arn Andrews: Motion to accept the consent calendar.

>> Edward Overton: Second.

>> Matt Loesch: All in favor, opposed, three items approved, item 3, the approval of application for nonservice connected and the recommendation was to approve a service connected disability.

>> The memo was the typo, the agenda and the rest of the packet is correct. The agenda is correct, the subject item is correct but the first sentence is wrong.

>> Matt Loesch: Just wanted to get that on the record there is a slight change. That being said, I'll entertain a motion on item 3.

>> Edward Overton: Move approval.

>> Arn Andrews: Second.

>> Matt Loesch: All in favor, opposed, none.

>> Edward Overton: And parenthetically, Mr. Chair, there is no modified duty available as per the memo and the staff and the packet and that was the reason for my support of this motion as well.

>> Matt Loesch: Okay. Thank you. On items 4 A and 4 B in the resolution is it just the weirdest coincidence in the world or were both these people born in the same day, same year, December 2nd, 1948? Because before we approve the resolution I think we -- I don't know if staff needs to call back or look at the paperwork. We can put that off until later on in the agenda. It would be an amazing coincidence but stranger things have happened. So we'll hold on 4A and 4B until we get confirmation one way or the other or we'll just put it off until next time. Okay, item 12, moment of silence please for those who have passed. [Moment of silence.

>> Matt Loesch: Thank you. Old business, item 13. Discussion and action regarding resolution 6710 recommending to the city council to adopt an ordinance maming the San José Municipal Code to allow for the implementation or methodology approved by the trustees at their November 10, 2010 board meeting for employer annual required contribution being set at the greater of two dollar amounts, the contribution amount reported in the valuation or the employer contribution rates times the emerging payroll begins fiscal year 2011-2012.

>> Mollie Dent: Staff had changes after it was distributed to the board. They are pretty unsubstantive corrections, including the meeting date. I'll pass out a copy of the revised resolution. But it was really more to

clarify that you're looking at the greater of two dollar amounts. In terms of the language and then like I say to add the adoption date. So it's not substantively different than what's in your packet.

>> Why was it deferred?

>> Mollie Dent: From last month? Because the resolving wasn't in front of the board last month at all. The board basically directed this to come back this time. So that this resolution could be adopted.

>> Matt Loesch: Correct, there was no resolution for us to adopt at that time. It was a discussion of the item and the resolution was the mechanism to make that change if so.

>> Mollie Dent: Now because we do have different board members here considering the item, staff may want to make a brief statement about the background behind this and the board may want to hear that.

>> Matt Loesch: You read my notes, I see, that's exactly what I said. Have a quick synopsis if we could please.

>> Just for the purpose of context, the arc used to be determined as the contribution rate that was set in the actuarial valuation, typically there was a lag of one year before the timing of the actuarial valuation, and that rate went into play. And the rate was multiplied by emerging payroll or the payroll as calculated by finance. So the contributions coming in on behalf of both the employees and the employer are basically the contribution, the appropriate contribution rates calculated in the payroll. This is great when the payroll is increasing. The city has started to make reductions in payroll. The problem with the methodology when there's a reduction in payroll is that the actuarial valuation really calculates a dollar amount. And then, that's the actual dollars amount that the actuary would like to see paid into that pension plan. The actuary will always make assumptions that payroll is increasing. And based on that payroll, convert the dollar amount into a percentage. When payroll in fact starts to decline, if one uses the methodology simply implying the percentage times emerging payroll the amount of money that the plan gets at the end is less than what the actuary had anticipated, and additional unfunded liabilities are created. Staff, obviously with the support of the actuary, suggested that the methodology be changed. The idea

was to have the city contribute the dollar amount that's in the appropriate valuation. So rather than pretty much pick the consideration that is in the valuation, pick the dollar amount that is estimated in the valuation. The reason is the dollar amount is the real estimate. The actuary in an valuation goes through person by person and calculates the appropriate amount that should be set aside for every person and then aggregates that across the entire population. So in order to avoid creating additional unfunded liabilities, the idea was to make sure that the correct dollar amount actually gets paid. And that's what the change in arc methodology is attempting to do.

>> Matt Loesch: Okay. And then the one other item I think we discussed last time is when this would be coming into play. I don't know who would like to address that.

>> Mollie Dent: I believe that was one of the changes that staff asked for, to the resolving.

>> Matt Loesch: Because Cheiron had recommended it be put into place, effectively with the fiscal year.

>> Mollie Dent: That is one of the differences between the new resolution and the one in your packet. This references 11-12.

>> It was 2011, 2012.

>> Matt Loesch: The discussion at that last month and Cheiron had recommended immediately but that it's acceptable to put it into the fiscal year 11-12 as a result of what the impact would be and we're trying to figure out how to deploy that effectively, that was the background of what was the decision last month. Are we missing anything else? To those who were here, I think. Any questions from any of the board members? I see that someone from the public will be to the board members. Mr. Gurza.

>> Alex Gurza: Good morning, Alex Gurza director of employee relations. I'd like to take a moment to welcome on behalf of the City Manager, the new trustees. You will see me or one of any employees at most of the meetings. The Federated board has started to take action on the payment of the arc as well as the Police and Fire

board. Understand that the retiree health care liability, understand that on the pension side, the city pays the unfunded liability, we want to make sure we pay that appropriate A. Ton employee health care side, the employees are sharing in that 50% unfunded. In a situation where we have a declining payroll, wondering how the board plans to deal with the fact that in that time period that portion of the unfunded liability will also have not been completely collected. And so I'd like to see how that might be addressed.

>> It is true there is a 50-50 sharing but if there is a shortfall on OPEB it immediately gets shared 50-50 again. So it doesn't fall -- that any shortfall that shows up in one year doesn't go entirely back to the city requirements. It is again shared 50-50.

>> So I guess the comment is that the methodology here doesn't -- deals only with the employer contribution. And so the question that's coming up is, and this is appropriate for example in the pension plan context, the city picks up the entire unfunded liability. However open the OPEB liability where there's a 50-50 cost sharing including any payments towards the massive unfunded liability, I guess that question is trying to address, shouldn't there be something more being done? I think the difficulty there that staff had is, how do you go back and collect from the employees at the end of the year? Once you set the rate and you collect the rate, during the entire year, we really thought that further discussion had to happen on -- it's true that the employee portion of the unfunded liability may not get paid. I mean a portion of it would not get paid and we are going back and collecting from the city but we're not going pack and collecting from the employees. I think further thought would have to be put in to see how this could be fixed but currently there was no easy fix, so we prefer to put something in place because the city is the 80% of the issue. And just continue to address the remaining portion.

>> Alex Gurza: We suggest that the board continue to study that one possible thing is that the future contribution rate on the employee side gets adjusted in the subsequent year to make up that difference that wasn't paid. That's one idea that we would appreciate if the board would look into ways to address that issue.

>> Matt Loesch: That's reasonable.

>> Arn Andrews: In the current environment where the next couple of years we're only allowed to increase by .75 if we are trying to do a true-up and adjust I think that's a factor that has to be brought to bear. If we're doing a true did-up we would have to do it two or three years down the road.

>> Alex Gurza: I think that's something we have to consider as well.

>> Matt Loesch: Any further comments? I'll entertain a motion on the resolution.

>> Edward Overton: Move approval.

>> Second.

>> Matt Loesch: Any further discussion? All in favor, opposed, none, going on item 14. Further discussion on the proposed ordinance amending the San José municipal code to incorporate provisions related to the internal revenue service requirements for the qualified government retirement plans. This was I believe on behalf of, on my request I had requested kind of a plain-language summary of the changes but I think it also would be -- so first of all thank you for producing this. I know adding work is not necessarily fun but I suppose we ought to again kind of review do a little quick summary of what's going on and what the purpose of this document is for the new trustees.

>> Mollie Dent: So this is not on as an action item for the board, so that's good news. The draft tax qualification ordinance has already been approved for the prior board to submit to the city council, and will be considered by the city council on January 25th. We started reviewing this plan for tax qualification about nine months ago. The Police and Fire and retirement staff authorized us to retain outside counsel to review the plan. We did retain icemiller. Who is tax counsel for a number of retirement plans nationwide, public plans particularly. With a goal towards filing a request for a tax determination letter in what is called cycle E of the internal revenue service filings. San José's plans have never had tax determination letters before. That doesn't mean the plans are not tax qualified, it is just that we've never asked the IRS to bless our plans. There are advantages to plans, to have a tax

determination letter. Any changes you make to your plan during that five year period would still need to be in accordance with internal revenue service requirements. But the prior board determined that they did want to try to apply for a tax determination letter. The deadline for filing is January 31st of 2011. In a few weeks. And so we engaged tax counsel to look at our plan and to make any recommendations they would have for amendments that would be needed to the plan in order to put it into as good a position as possible for tax -- for getting the tax determination letter. The goal of the tax counsel review was not to make changes to the plan design, not to make, you know, not to change anything that didn't need to be changed or offer any amendments to the code that didn't need to be made, strictly geared towards getting a tax determination letter. So most of the changes that they recommended to our code which are reflected in the draft ordinance are technical in nature. Just language that the IRS wants to see in plans. I included in the packet a copy of outside tax counsel's presentation that was made to a joint session of both boards back in October, because this -- it lays out the framework, for what they were looking at, in this plan, and for what some of the areas are that the IRS really focuses on. So the -- as I say, it's not an action item at this point for the board. The board's also adopted the resolution authorizing the tax determination letter application to be filed. If the council moves forward with the ordinance, it really is up to council to approve an ordinance, an adoption ordinance. So I'm certainly willing to answer any questions that anybody might have about all of this.

>> Matt Loesch: Great, we'll ask those now. So if there's any questions of this process or of Ms. Dent. Mr. Andrews.

>> Arn Andrews: If I understand this Mollie, this is not just nice to have. During that discussion I think it was mentioned that the IRS in general is taking a closer look at public plans.

>> Mollie Dent: Yeah I think that you know, the IRS considers that public plans are underserved. They want to provide better service to us. Now whether or not -- [Laughter]

>> Mollie Dent: Whether or not you think the IRS is really going to tackle public plans is you know I think a philosophical issue. Cal PERS is never going to apply for a tax determination letter. So and in California, some of

the county plans are applying and some are not. They -- the statutorilily determined plans have some hurdles because it takes the state legislature to amend their document. We like other local government plans who have our own plan documents at least don't have those hurdles. We also think we found out through the tax process that we didn't have really any huge problems with our plans. One aspect of this, though, that is significant to the discussion of the 401H limit that we had a little earlier, one of the plan amendments that's being proposed here is to establish 1995 as the 401 (h) establishment date which allows us to go back and pick up some years when we had lower contributions to average them in. And we're also going to be if we pursue this doing a voluntary compliance filing with the IRS or the 401 (h) establishment date. And a couple of internal revenue service amendments that we didn't make when we were supposed to make them. So there's some advantages to going this route in terms of possibly protecting yourself from the IRS. It's not -- it's not abundantly clear what they're going to do with public plans. There are also some advantages as we move, and Russell can probably speak to this better than I can, as we move into other asset classes we do good requests from certain investment vehicles for our tax determination letter.

>> Matt Loesch: Thank you. Any other questions?

>> I don't know you how relevant this is to going before the IRS but going on page 22, on compensation limits.

>> Matt Loesch: Going on page 22 of the presentation?

>> 22 of the icemiller, says the plan must limit the compensation that may be considered in determining benefits to 200,000 then adjusts for inflation. Is this the piece that has the University of California managers caught up that's been in the press?

>> Mollie Dent: I believe the piece that -- I believe that the piece that has the University of California folks concerned is the limit on the amount of compensation that can be taken into account in calculating the pension, yes.

>> Okay so that is what this is about here?

>> Mollie Dent: There are three different limits that come into play, as far as the amount you can pay, the compensation limit and the benefit limit.

>> So the city has to comply with that?

>> Mollie Dent: We do. We've had basic limit language in our codes for some time. I would say this is just an upgrade to the language in our code. It is not a substantive change for us.

>> Matt Loesch: Any other questions? I have two. When are we to be filing for the determination letter is it right after the 25th meeting if the council approves?

>> Mollie Dent: Yes.

>> Matt Loesch: Council doesn't need to approve the filing. They just need to approve the amendments.

>> Mollie Dent: Correct, it's just the first reading of the ordinance. We wanted to get at least some indication that council was ready to go forward with the ordinance before we did the filing. And so the first reading would be on the 25th. The actual adoption of the ordinance wouldn't be until February sometime but yes the idea would be to file the determination letter as soon as we could and obviously before the 31st.

>> Matt Loesch: One further question. How soon after the 25th do we need to have that IRA system for the rollovers in place? Do we have to wait for the final reading and adoption, right?

>> Mollie Dent: We would have to wait until after the ordinance is adopted and it's become effective. If an ordinance is adopted I believe it's usually two weeks after first reading so it's the 12 of February I believe so it would become effective in mid March sometime.

>> Matt Loesch: Are we doing any labor work ahead of time to get the systems set up so --

>> Russell Crosby: No, not yet.

>> Matt Loesch: Okay because we're going to have that thing in place middle of February to make sure --

>> Mollie Dent: We have up to six months to ensure payouts.

>> Matt Loesch: Okay, good.

>> Mollie Dent: And the goal of course that staff is going to have is to get people to file the elections so we don't have the to start the IRAs for them.

>> Matt Loesch: If it comes September and October and people haven't done anything -- great.

>> Arn Andrews: So the new board members can appreciate what's come out of this, the plan will have to create IRA type vehicles for members who have not elected another type option and the moneys will be deposited into that. So we've had considerable discussions on that but it does create an administrative element.

>> So if if someone doesn't want to participate in the defined benefit plan they have an option?

>> Matt Loesch: If they don't vest the moneys will get rolled back to them.

>> Donna describe.

>> If somebody is not eligible to invest in the plan they have an election that they have to make this is the default election, people don't turn in paperwork and tell us what to do with their money, in general we would say we would

have given is them the cash but Mollie is saying if this is over $1,000 we have to actually put it into a vehicle for them.

>> Mollie Dent: It is not me. If I were the IRS, the rules would be really different.

>> Russell Crosby: Donna are there many of these?

>> There's not -- there will be a lot less -- lot of people don't turn in paperwork if they think they're just going to get the money anyway. But we have been instructing them that they will not get their money, if they don't turn in paperwork so it's been reduced quite a bit.

>> It will be a tax consequence to them?

>> Russell Crosby: Unless they roll it over.

>> Mollie Dent: This puts into our code all of the IRS options for rollover. That's the big exception. They have lots of options for rolling this money over.

>> Matt Loesch: If they don't give us their selection, we have to roll it over. Thank you for all the time to put that together. Item 15, discussion and action regarding the process and schedule for recommending the seventh board member to the city council.

>> Edward Overton: Doesn't the code already provide a process for doing that?

>> Matt Loesch: Well it has a process -- well what it says is we make a recommendation and then the council says yea or nay. It doesn't say the actual mechanism for how we're physically going to make that action. That is the point of this.

>> Edward Overton: Okay, Mr. Parker is not interested in continuing?

>> Matt Loesch: The six of us would have to vote to select him.

>> Mollie Dent: In the code you have to do interviews. I believe the board is supposed to interview candidates. You can certainly enter -- I guess you could just interview Jeff if you wanted to. But the Police and Fire board had asked whether or not you wanted to do a joint process to interview the candidates for the last seat on each of your boards.

>> Russell Crosby: And it was actually the remaining candidates that were on the approved list that had been created by the city council.

>> Matt Loesch: Otherwise we have to go out and do another application process and get all of those in so on so forth. My personal feeling, I'd like to have a joint meeting if we could to the extent possible, otherwise, especially if we're using the remaining 14 that are interviewed, if we have a joint meeting even-Steven for the lack of a better word, we could have a joint meeting where we could discuss and each board could vote for who they would like to have recommended to council, and then I would personally like to have this done by the end of January the joint meeting so that we could get it to council maybe a place holder on the agenda for early February. I don't know if it's too late to get it on like a February 1st meeting so that then they be in place for the Police and Fire board for their first meeting in February and our first meeting the week after that if we work expeditiously. I think February 1st is the first meeting in February. If we get our vote to them they could approve or not, or appoint or not, I guess is the word, and we'd be ready to move in February.

>> Russell Crosby: I would also like some direction if we can't work out a joint meeting date with Police and Fire that would be before February what is your preference, go ahead alone?

>> Matt Loesch: I would -- to all extent possible I'd like to endeavor to have a joint meeting just to make it easier so staff didn't have to reconvene twice on this thing or we didn't have to pull applicants twice if we decide to

interview. What I would like to endeavor to do is get a meeting by the end of the month so we could make that vote and recommendation to council.

>> Mollie Dent: If your goal February 1st is the first council date in February, I'm sorry I don't have a calendar in front of me.

>> Matt Loesch: It is.

>> Mollie Dent: In order to get on that agenda, the absolute deadline would be rules committee the week before probably which would be the Wednesday before.

>> Matt Loesch: Is there a way to put a place holder? A recommendation is going to come?

>> Mollie Dent: We could go into rules with a place holder. But it usually does name the person on the agenda that's going to be appointed and then you get into a Brown Act deadline for doing that which would be the Friday before the meeting. So I'm just cautioning you if you want to do that February 1st you might want to back it up about a week.

>> Matt Loesch: Okay. Mr. Constant do you have any comment?

>> Pete Constant: I was going to say that I encourage a joint meeting not only for the benefit that it gives you as board members to be able to work with Police and Fire, but it also is a big benefit to the applicants who have already had to go through one interview and then would have to go through two separate interviews.

>> Matt Loesch: I agree.

>> Pete Constant: And being conscious of the fact that they all have real jobs that they have to take time off for. As far as the placement on the agenda, I think that we can easily get it on the agenda, and a standing -- a

memorandum placing it on the agenda, and as Mollie said, as long as there is a supplemental by 5:00 p.m. on Friday that names the individual we should be fine, Friday before the 1st.

>> Matt Loesch: Good. Any other thoughts from the board?

>> Edward Overton: Are there written results of the other interviews?

>> Matt Loesch: A transcript?

>> Mollie Dent: There would be minutes of the council meeting and there would be the ability to view the council interviews, on --

>> Russell Crosby: No, they weren't televised.

>> Matt Loesch: They were not live but they are recorded.

>> Russell Crosby: You can listen to them, you can't see. They are there? Okay.

>> Matt Loesch: At the time they are blacked out, not shown live but they are posted as videos and the questions.

>> Russell Crosby: And there is a vote record.

>> Edward Overton: Might short circuit if we could look at something ahead of time. And not have to go through all of the same questions and things of that nature, they've already answered. And then, add onto that, after the actual interviews any clarification of thoughts that one might have.

>> Mollie Dent: So in terms of a packet for the board, we -- there are the applications of the remaining board members. And there would be, as Mr. Crosby indicates a record of what the council's vote was on the remaining board members. So certainly, those could be put together in, you know, a written packet for the board. We could put the council meeting minutes in a written packet for the board. But you might find it more informative to watch the recorded interviews, than the written minutes. But we -- we can certainly put a written packet together and would put a written packet together with the applications and what the vote was and what the minutes were. I can't think of anything else that you could put in a packet.

>> Russell Crosby: We also have resumes.

>> Mollie Dent: Right, that's part of it, yeah.

>> Edward Overton: How many were there, seven?

>> Russell Crosby: 14 total, seven were selected so there's seven remaining.

>> Edward Overton: Well that's a suggestion, if you're interested in doing that to --

>> Russell Crosby: Get some legwork before. Mr. Andrews, you had your hand raised.

>> Arn Andrews: My question is the remaining amount and I like using the existing list. Many of these candidates have already been vetted. We have materials to vet them ourselves personally.

>> Matt Loesch: And the worst possible is we say we don't want any of the seven and we have to go out for the process. The end result, the worst thick. Do you have any suggestions for us to select? The answer can be no.

>> I would suggest looking at the interviews and reading the applications, I think that's a good way to start to screen and then we can do follow-up questions.

>> Mollie Dent: And having spent time in the room with a bunch of the applicants, this is a pretty August group that you guys put together. I don't think there's a reason to go beyond that, I would imagine we would be able to find the candidates from the ones who are remaining.

>> Matt Loesch: Great.

>> Just communicating with them you know why we're coming back and I mean you don't want -- you know, if I'm one of them oh, so why are you coming back now after I wasn't selected first time around?

>> Edward Overton: Can we limit the number that come back? Do we have to take everybody or can we say okay we looked at the written material, the questions, we want to see these three.

>> Mollie Dent: I think that it's up to you who you want to interview. I mean, you can start out by looking at the written material, and the other information available, on the seven that were on the council's list.

>> Matt Loesch: That's how they got on the council list anyway, right?

>> Mollie Dent: There were 30 some-odd. You can start with the seven but if you only want -- if you are doing it with Police and Fire it may be that all seven will just come back.

>> Edward Overton: How many do they need to select?

>> Mollie Dent: They need one, and you need one.

>> Edward Overton: And we need one.

>> Matt Loesch: Did any of them say they only wanted to be on Police and Fire and only wanted to be Federated?

>> Mollie Dent: Some people checked the box but it's not clear that they really didn't want to be on the other board. I think some folks thought they needed to check a box.

>> Pete Constant: We asked each one of them and every applicant said they would be willing to serve on either board. I believe so many of them just checked a box because they felt they had to check one or the other. So I don't know if we actually asked Jeff that but we did all the others.

>> Matt Loesch: So maybe we can do something similar because I believe to counsel you were sent all 35 packets or whatever and a certain amount 14 were selected then by interest right? And that's who you interviewed. We could do the similar thing with the remaining seven, send out those packets and say by a certain date Tuesday or Wednesday, how quickly we could get that information, we want to interview these three people maybe. But I don't know what the thoughts are about the logistics of things like that.

>> Pete Constant: The way we do it and we do it for all our commissions is people have to get a certain number of requests. So for us because we're an 11 member board we say everybody look at it and put in who you'd like to interview and then anybody who gets four or more requests gets interviewed. Things were a little different with the retirement boards because we also had them weighted by experience and type of experience to help inform. And all that information is available to be shared with the new selection committee.

>> I think it would be a good process to not have to interview seven candidates for one position. Especially if we have good information on them.

>> Pete Constant: And the other thing you can rely on too, I tell you the council had a very difficult time making the selections. Because the candidates were all very, very well qualified. So the council vote record is available as well, so you can see which of those candidates that weren't ultimately selected were in the running and had risen

to the top amongst their peers in the 14 interviews. I think that would be very informative to you as well to kind of give you an idea how the council was evaluating each individual.

>> Edward Overton: I think February is ambitious. But we certainly would be willing, should you know --

>> Pete Constant: And then I could make one more suggestion, you could if you want to kind of fast-track it you could just create a small subcommittee of one of the experienced board members and one of the new board members, to go through it, make a recommendation for interviews to the rest of the board and proceed that way. That way it could be a more dynamic discussion, you could take everything into account, and move forward rather quickly.

>> Mollie Dent: So one thing I would offer --

>> Matt Loesch: Read my face.

>> Mollie Dent: One thing I could offer is to the extent that you as a board want to hone -- want to narrow that list of seven down some, and you can do that, and you only have two candidates as a board that would you want to interview, if there are two or three candidates that Police and Fire want to interview then you don't need a joint meeting. So that might -- there's a possibility there to expedite the process. If they are the same, then you have --

>> Matt Loesch: So two questions, can we get a meeting for Police and Fire guys before February if we want to and then how do we do that process once we do have that meeting established? Do we have any indication if there's an ability, flexibility or interest on the Police and Fire side whether they're --

>> Russell Crosby: Well at their meeting they did have vote to have a joint session with you, with Federated board to review the applicants. They didn't get into any process of winnowing down the seven possibles to a smaller number and since then, we, the administration has touched the trustees to say what's availability twin now and February and it doesn't look like the board is going to be able to get together and make a decision before

February 1st. Or key members would be available before February 1st or even for the February Police and Fire meeting.

>> Matt Loesch: Got it. Other thoughts here from the board about whether that's important to you or not?

>> Edward Overton: What are you speaking of, important?

>> Matt Loesch: Whether we try to get ours done before February, if we are available to make that move forward, if they are not?

>> Edward Overton: I think it's more likely, if we don't try for a joint meeting, to get something done in time for February. And I think as soon as possible would be my preference.

>> Arn Andrews: I would agree with your initial assessment chair that you thought it would be good to try oand expedite this process and try and get our final word member done.

>> Matt Loesch: So it looks like endeavor to try to get this meeting done before the end of January, not likely, but meeting of the six here so a date that we could convene to make that decision.

>> Mollie Dent: Do you want to move forward with any process, to among yourselves preidentify?

>> Matt Loesch: Right, that's step 1 whether we go into January. Step 2 is how do we do that? Do we ask staff to put together a packet of remaining seven and he all the subsequent discussions and votes at the council session on the item and submit that to us, submit that to us via e-mail or does it have to be in a written packet? What is the preference, is there any issue there, e-mail it to --

>> Mollie Dent: It is all public documents anyway, if you choose to receive it via e-mail or packet, that's your choice.

>> E-mail.

>> E-mail.

>> And the URL for the -- so that we can watch, also?

>> Matt Loesch: Good point.

>> Russell Crosby: We'll include that.

>> Matt Loesch: So staff would need to know our responses and we did have a criteria whether we're going to say three people have to say they want to see these people, to kind of get their list of who's going to be interviewed if any. Do you want to interview all seven, do we want to interview none? What's the -- do you want to pare down the list?

>> What if we just rank them individually and take the top-three ranked votes?

>> Matt Loesch: Seems fair.

>> If there's seven candidates we rank them 1 to 7 and the top three highest return votes.

>> Matt Loesch: Trying to set the date by when staff is going to submit this and by when we have to respond. How about one week after we receive the data. That would give us a week to review. We have to respond, so they can file the list and they'll also be working on dates to convene that meeting and we'll know whether we'll be interviewing and who.

>> Right so the response will electronically respond to what we read some is that --

>> Russell Crosby: Just send us an e-mail.

>> Matt Loesch: 1 through 7.

>> Russell Crosby: Kerrie Dariano is the one to likely respond, respond back to her and we'll let you know who the top vote getters are, and we'll arrange them.

>> Matt Loesch: Meeting by tend of the month, process to get the matter to rules, if we're not doing a meeting we'll probably have another week, so our board meeting is the other week.

>> Russell Crosby: Mollie?

>> Mollie Dent: I think that could be direction to staff.

>> Matt Loesch: I like that, okay. Any other comments or questions on that? Fast and furious. Anybody from the audience want to comment on what we're doing, make sure it's all clear and out in the open. Okay. We've done 16, 17, 18, on to 19. Discussion about board committees and assignments. This is kind of clear about the committees and about assignments. I have prepared a list of based on the current standing committees of the assignments. But then I also wanted to have a discussion. And also get understanding of the leeway of that. We have a tremendous amount of intellectual horsepower. To try to pare it down to three individuals, it's the best for all of us to have as much of the decisions made by as many of us as possible utilizing that horsepower. So if we quasi-abolish the investments committee and all that done in a full board setting are there any issues that I need to be aware of or we need to be aware of or we can just do it we don't have the investment committee or the investment committee is the whole board? I don't know the way to make the decision or anybody else, is it codified in the municipal code?

>> Mollie Dent: No, it is not in the municipal code, the committee structure, that's up to the board. I think in terms of -- I mean staff would probably need to speak to the -- would I say the speed at which investment decisions sometimes need to be made, but you can have special board meetings. Can you have a full board doing the investment.

>> Russell Crosby: And importantly on this board unlike Police and Fire the investment committee has no real authority.

>> Mollie Dent: Right.

>> Russell Crosby: So everything comes back to this board anyway. That's part of the slow down process.

>> Matt Loesch: It's always a two step process.

>> Mollie Dent: Yes except that sometimes get -- just the investment committee does somewhat narrow down the work that winds up coming to this board. But that's just a policy decision. I mean you have the flexibility to not have an investment committee if you don't want one.

>> Matt Loesch: Okay. Any thoughts from -- input from staff of whether it helps, doesn't help, whether the investment committee is set up with a smaller group is more beneficial, less?

>> Russell Crosby: Well, we've been recommending this to flip the structure of the board so that the board is more focused on investments, now that you've got investment professionals on board. And the -- a lot of the things that were done by the board, perhaps disabilities and some of the other things could be done in committee. Or by some other structure, but that's to be discussed.

>> Matt Loesch: Which is to be discussed coming in about April.

>> Russell Crosby: Yes.

>> Matt Loesch: So essentially because typically we have an investment committee meeting the fourth Thursday of the month.

>> Russell Crosby: Correct.

>> Matt Loesch: And we would not be having that anymore. Instead of having that fourth Thursday of the month meeting, all that stuff would then -- these meetings might be a bit longer and we would have investment managers and meetings that need to be made, the stuff that we did at the other location might be considered as to how that rolls out. Any other thoughts on that?

>> Edward Overton: I would just say the current investment committee board member I think we would be remiss not to gain the insights and exposure that the new composition of the board has now. You know, I think we will have to figure out how to possibly parse other items off, so that on a day or on a board meeting when it is going to be primarily investment related, we won't be here until three in the afternoon. The new investments begs having the agreement of the total board, instead of the investment sector. Instead of it being a investment committee we could have a disability committee, maybe those are heard in a separate setting so when investments come before the board we're focused on investments, when disabilities are focused we are focused on disability. I like that type of methodology you're discussing and I think like I said we'd be remiss not to get the benefit of the new composition.

>> Edward Overton: I think there need to be code changes to go that route.

>> Mollie Dent: Well, there would, for the disability piece of it. I don't think the code spells out an investment committee for the board, for the --

>> Edward Overton: No, it doesn't but I think that the determination is of disability is a board responsibility.

>> Mollie Dent: Right right, the disability piece of it would need some code changes. So --

>> Edward Overton: In fact any business that's done by committee that's official would need to be sounded to a committee.

>> Mollie Dent: You're correct, if you are trying to set up an investment committee where the investment committee made the final decision on the investments, the current code structure calls for the board to make the final decision on the investments. Now I believe the way the Police and Fire board has done that, they've done a delegation of authority directly to their committee but that's not what you all are talking about doing. You're talking about going the other direction which is for the investment side is totally consistent with the code. For to you bring the investment stuff back to the full board, is consistent with the code.

>> Matt Loesch: So we might have the occasional meeting that goes to 3:00, but we won't have the meeting on the fourth Thursday that adds on. It might be a slightly longer meeting but not the second meeting to attend.

>> Arn Andrews: I meant I liked the item of segmenting our focus. It would probably are the entire board doing the disabilities, I just like the segmenting of focus. When we meet we meet on a topic and that's the focus of our attention. I notice on the investment committee we have the benefit of that being the topic and I think we do a lot of good work on the investment committee. I want to be sure we figure out a format to make that the total focus.

>> Matt Loesch: Getting folks in and figuring out how we lay out these meetings and how we agendize these things.

>> Edward Overton: I personally like the idea of the segmenting of the board actions, but I think it's going to be a tough rock to crack because it's meet-and-confer. And we'd have to go through a bargaining process and to take the authority away from the board is going to be difficult. And assign it to a committee. Although I agree that it's a good idea.

>> Matt Loesch: Any other input on the investment committee no longer meeting open the fourth Thursday but all the investment decisions being done here? Is it an action item that we mead to put a motion?

>> Mollie Dent: If you're actually abolishing the committee, I don't know if it was set up by resolution but I'll bring something back, oso it's done in your rules .

>> Matt Loesch: No other action. We do have a policy committee, we will hang onto that, it has not met frequently and not many issues currently about it. I've not made the assignments. I'm sure happily. Mr. Overton is chair of that, Mr. Armstrong and myself on that committee and Mr. Andrews as the alternate on that. We'll see what comes up with it. The current ad hoc committee, there is one ad hoc committee that is presently in place to deal with the disability process, I don't know if we ever gave it an official name but we're arriving the process of the disabilities and so with the idea that we would for the folks that are new we've talked a lot about the disability process. You've experienced one of the processes today. There's -- we feel like there's ways to improve it so we say we'll assign this to a committee, to come up with ways to make recommendations, we'll probably come up, we'll probably meet for a couple of months and then have a report to this board by we're hoping April of this year with recommendations that would probably be changes we can make by ourselves and recommendations to changes that we can't make ourselves whether it's assigning or delegating authority or any of that stuff. Stuff that we can't control that whatever. So it will probably be set up like that. So in April we'll have a report back on that and hopefully that committee will be going away and hopefully we'll be moving on.

>> Arn Andrews: The only thing I want to add in relation to the disability committee, I hate to burden the staff, we have the benefit of educational presentations, we have four new board members. I think it would behoove them to get the benefit of those presentations.

>> Russell Crosby: Not only presentations but actuarial material three separate training sessions that would bring the new board members up to date and up to speed. We're kind of holding on that until you get your last

member in rather than launch halfway. That is certainly our intent, we have talked to staff and our consultants about that.

>> Mollie Dent: I would add when staff is ready to do that we'll probably do the semi annual ethics training that the boards are required to have. We'll probably do a special presentation for these boards.

>> Matt Loesch: Great.

>> Mollie Dent: You don't have to have it right away but we'll try to get your training done at the same time.

>> Arn Andrews: And as a work in progress can current board members attend the trainings?

>> Russell Crosby: I hope. Our goal is to have this for all seven of you for each one of those sessions.

>> Matt Loesch: And the other note I had on my memo to staff was that potential ad hoc committees, get ideas from folks where I'm thinking,ive different structure of the board, we might consider having an governance committee, I'm talking ad hoc committees, maybe later on in the year look at the governance structure, look at what we're doing and how policies are set forth and possibly again an audit committee of how we're doing our audits and how we're proceeding forward. Potential, nothing called for there. Any other discussion on the committees and that's why I created it as a discussion item.

>> One additional comment is, the statement of investment policy would need to be changed to reflect the fact that there would be no investment committee per se. So to the extent that that is --

>> Mollie Dent: There is a resolution so yeah we can bring that back.

>> So both the in use statement of a revised statement of policy would have to be brought back with the resolution. And I believe even if there's no resolution per se we'd have to revise the statement of investment policy.

>> Mollie Dent: The statement is actually adopted by resolution, that's the way so yeah, and there may be other things out there on the committee structure so we will just check for what documents would need to be revised and amended and bring them back the next month.

>> Matt Loesch: All right. 20 and 21 there's nothing. 22, note and file, potential education trainings. One I would like to note is 22 C, principles for trustees, put on by Cal APRS, California association of public retirement systems, held at Stanford, we're only slotted to two folks that we're allowed per plan. So I believe it's three sitting here before have been, it's the three new folks are available. It would be strongly encouraged if you could make yourselves available for those times at Stanford.

>> Russell Crosby: But I need to know very quickly because these slots will go away and each public plan in California is only allowed two trustees to go to this. So as quickly as possible we need names we need to get them in and we need our positions locked down before Cal APRS gives away our spot.

>> Matt Loesch: It is California plans only so California law is interest and it's very close to a lot of us where we live so it's convenient as well.

>> Arn Andrews: I recently attended it. It's a very good program. It's a program that runs from 8:00 a.m. to 8:00 in the evening. They don't like you leaving the facility even though it's in Palo Alto they will encourage you to stay the night at a hotel because they do a lot of break-out sessions, so the commitment is an overnight commitment.

>> Matt Loesch: So look at that schedule and just report to Mr. Crosby as to your availability. Any future agenda items?

>> Pete Constant: Mr. Chair no future agenda item but just to make sure did we get a closed session report?

>> Mollie Dent: They came back and voted in open session on the item.

>> Pete Constant: I came late. Okay, thanks.

>> Matt Loesch: No future agenda items. Any public retiree comments?

>> Edward Overton: Before we move off, just the new trustees know how they get involved in these various training sessions?

>> Russell Crosby: Yes, they call me.

>> Edward Overton: They call you. Okay.

>> Matt Loesch: Paperwork and whatever.

>> Edward Overton: So if you see anything on there that you want to attend, give the director a call.

>> Matt Loesch: Okay, no public retiree comments? We're adjourned. Thank you.