



BOARD OF ADMINISTRATION

City Hall
Wing Rooms 118-120
200 East Santa Clara
Street,
San Jose, CA 95113

Meeting Minutes - Final Federated City Employees' Retirement System and Federated City Employees' Health Care Trust

Thursday, February 21, 2019

8:30 AM

City Hall, Wing Rooms 118-120

CALL TO ORDER AND ROLL CALL

The Board of Administration of the Federated City Employees Retirement System and Health Care Trust met on Thursday, February 21, 2019 at 8:30 a.m. in regular session at City Hall, 200 E. Santa Clara Street, Wing rooms 118-120, San Jose, California 95113. Chair Loesch called the Pension Plan and Health Care Trust meeting to order at 8:30 a.m.

Present: 5 - Matt Loesch, Martin Dirks, Kurt Billick, Jay Castellano and Elaine Orr

Absent: 2 - Anurag Chandra and Qianyu Sun

Retirement Staff Present: Roberto L. Peña, Prabhu Palani, Kathryn Schaefer, Brian Starr, Jay Kwon, Christina Wang, Arun Nallasivan, Peter Pham, Marti Zarate, Michelle San Miguel, Linda Alexander.

Also Present: Jeffrey Rieger, General and Fiduciary Counsel, Cheryl Parkman, OER; Michael D'Arcy, retired; Don Ludwig, retired; Brad Imamura, retired.

CLOSED SESSION

The Board entered into closed session item IA. at 8:30 a.m.

CLOSED SESSION AGENDA ITEM I. WILL BE HEARD AT 8:30 A.M.

CLOSED SESSION AGENDA ITEMS II. AND III. WILL BE HEARD AFTER ITEM 7.

I. CLOSED SESSION

- A. CLOSED SESSION:** PUBLIC EMPLOYEE PERFORMANCE EVALUATION PURSUANT TO GOVERNMENT CODE SECTION 54957(b)(1). Position: Chief Executive Officer.

The Board came out of Closed Session at 8:45 a.m.

OPEN SESSION - will reconvene following Closed Session, estimated to be 8:45 a.m.

The Board reconvened into Open Session at 8:47a.m. There was no reportable action out of closed session.

ORDERS OF THE DAY

The following changes have been made to the Orders of the Day:

-Item 1.2a - Frank Gaska is withdrawing his Deferred Vested application.

-Item 4e - Discussion and action on Municipal Code changes for both Boards regarding public member Trustee eligibility and the election process for the employees and retirees.

This item will be deferred until next month.

A motion was made to approve the Orders of the Day.

Approved. (M.S.C. Castellano/Dirks 5-0-0). The motion passed unanimously.

1. CONSENT CALENDAR

A motion was made to approve the Consent Calendar.

Approved. (M.S.C. Castellano/Dirks 5-0-0). The motion passed unanimously.

1.1 Approval of Service Retirements

- a. Bijan Abouzia**, Associate Structural/Land Designer, Public Works Department, effective March 9, 2019; 17.55* years of service.
- b. Adelmo Carreon**, Senior Construction Inspector, Public Works Department, effective February 9, 2019; 30.00* years of service.
- c. George K. Cowl III**, Building Inspector Supervisor, Planning, Building and Code Enforcement Department, effective February 9, 2019; 20.28* years of service.
- d. Stephen E. Cross**, Wastewater Operator III, Environmental Services Department, effective March 23, 2019; 20.51* years of service. *(With Reciprocity - CSJ YOS 18.32 + PERS 2.19)*
- e. Tony Finch**, Wastewater Superintendent, Environmental Services Department, effective March 23, 2019; 28.59* years of service
- f. Nancy Giannoccaro**, Senior Office Specialist, Police Department, effective February 23, 2019; 15.08* years of service.
- g. Gregory A. Lawrence**, Associate Construction Inspector, Public Works Department, effective March 9, 2019; 29.36* years of service.
- h. Marty Jo Luis**, Senior Analyst, Police Department, effective March 9, 2019; 30.00* years of service.
- i. Nandita Modak**, Analyst II, Human Resources Department, effective February 23, 2019; 5.22* years of service.

- j. **Lenora Morris**, Library Clerk, Library Department, effective March 9, 2019; 25.30* years of service.
- k. **Kim N. Hung Nguyen**, Senior Librarian, Library Department, effective March 9, 2019; 23.38* years of service.
- l. **Leonard Perez**, Warehouse Supervisor, Airport Department, effective March 9, 2019; 31.18* years of service.
- m. **Jon Max Reger**, Environmental Inspector II, Environmental Services Department, effective January 10, 2019; 26.69* years of service.
- n. **Corrie Santo**, Accounting Technician, Airport Department, effective February 23, 2019; 29.71* years of service.
- o. **Anthony J. Sedillo**, Gardener, Parks, Recreation, Neighborhood Services Department, Effective March 9, 2019; 22.36* years of service.
- p. **Rick Talamantes**, Senior Facility Attendant, Public Works Department, effective February 23, 2019; 30.05* years of service.
- q. **Pamela Taylor**, Library Clerk, Library Department, effective March 9, 2019; 29.27* years of service.
- r. **Peter Testa**, Associate Engineer, Public Works Department, effective March 9, 2019; 29.55* years of service.

1.2 Approval of Deferred Vested

- a. **Frank Gaska**, Concrete Finisher, Department of Transportation, effective February 9, 2019; 22.56* years of service.
- b. **Sandra Gates**, Senior Analyst, Planning, Building and Code Enforcement Department, effective February 13, 2019; 28.83* years of service. (*With Reciprocity - CSJ YOS 22.83 + PERS YOS 6.00*)
- c. **FanLang Kong**, Senior Engineer, Planning, Building and Code Enforcement Department, effective February 20, 2019; 16.33* years of service.

1.3 Approval of Board Minutes

- a. Approval of the Board Minutes of January 17, 2019

1.4 Approval of Return of Contributions

- a. Voluntary | Involuntary.

1.5 Acceptance of Communication/Information Reports

- a. Matrix of City Auditor's Recommendations from the 2017 Audit. Receive and file.
- b. Report of the Plan Expenses for December 2018. Receive and file.
- c. Report of the Budget vs. Actual Expenses for 2nd Quarter FY 18-19. Receive and file.
- d. Revised 2019 Scheduled Board and Standing Committee meetings.

1.6 Approval of Travel / Conference Attendance

- a. Roberto L. Peña, CEO
 - CalAPRS Administrator's Round Table, Marriott Burbank Airport, Burbank, CA - January 25, 2019.
 - CalAPRS General Assembly, Monterey Marriott, Monterey, CA - March 2-5, 2019.
- b. Elaine Orr, Trustee
 - CalAPRS General Assembly, Monterey Marriott, Monterey, CA - March 2-5, 2019.
 - 12th Annual Women's Private Equity Summit, Monarch Beach Resort, Dana Point, CA - March 12-15, 2019.
 - Pension Bridge Annual 2019, Westin St. Francis Hotel, San Francisco, CA - April 9-10, 2019.
- c. Qianyu Sun, Trustee
 - CalAPRS Advanced Principles of Pension Management for Trustees, UCLA Luskin Conference Center, Los Angeles, CA - March 27-29, 2019.

2. DEATH AND SURVIVORSHIP NOTIFICATIONS (Moment of Silence)

Chair Loesch asked for a moment of silence for those who served and have passed away.

- a. Notification of the death of **Ernestine M. Allen**, Recreation Program Specialist, retired March 21, 2009, died December 26, 2018. No survivorship benefits.

- b. Notification of the death of **Otto H. Chavez**, Groundskeeper, retired March 9, 1995, died September 20, 2018. No survivorship benefits.
- c. Notification of the death of **Omar Hindiye**, Associate Civil Engineer, retired April 29, 1983, died January 15, 2019. No survivorship benefits.
- d. Notification of the death of **Wilma J. Hyde**, Librarian, retired March 24, 1984, died October 6, 2018. No survivorship benefits.
- e. Notification of the death of **C. Donald McBride**, Senior Deputy City Attorney, retired May 24, 2003, died July 31, 2018. No survivorship benefits.
- f. Notification of the death of **Susan McCarthy**, Legal Analyst II, retired March 31, 2012, died December 12, 2018. Survivorship benefits to Joseph McCarthy, Spouse.
- g. Notification of the death of **Paul Mula**, Building Inspector, retired February 8, 1997, died October 7, 2018. Survivorship benefits to Punboon Mula, Daughter.
- h. Notification of the death of **John Oberg**, Civil Engineer, retired September 20, 2013, died December 26, 2018. No survivorship benefits.
- i. Notification of the death of **Michael Rudd**, Accounting Technician, retired October 20, 2009, died September 20, 2018. No survivorship benefits.
- j. Notification of the death of **Robert Watanabe**, Groundswoker, retired May 30, 1997, died December 14, 2018. Survivorship benefits to Mayko Watanabe, Spouse.

3. OLD BUSINESS-DEFERRED/CONTINUED ITEMS

- a. Discussion and action on adoption of Resolution #8873 Reclassified Member Contribution Rates. (TIME CERTAIN 9:00 A.M.)

Item 3a was heard after item 4d.

The Chair introduced the item. Ms. Parkman and Ms. Schaefer were available to answer questions from the Board. Ms. Parkman spoke to the item and explained that it is the reclassified members' responsibility to pay for their Tier 1 benefit. She stated that emails and letters were sent to the affected 40 members on the rate that was agreed upon at the January Board meeting and each member was given their total amount owed. CEO Peña stated that the Board approved 3% and explained how the rate was broken down. Cheiron, the Boards Actuary, did the calculations. Ms. Parkman stated that, if a member retires or separates from service, the member may pay off the debt by lump sum, but an active member must pay off the debt through periodic deductions from their pay. OER provided four drop-in sessions and provided data by Cheiron to each individual by email. The floor was open for public comment. Michael D'Arcy, retired, spoke to the item and he questioned the actuarial calculation and how they arrived at those calculations. The letter he received did not include the factors that went into calculating individual rates.

After discussion, a motion was made to maintain 3% rate that was set at the Board's January meeting and direct staff to ask Ice Miller, Tax Counsel, to determine whether there were any ways to let active members pay off their debt by lump sum.

Approved. (M.S.C. Loesch/Dirks 5-0-0). The motion passed unanimously.

Cheryl Parkman, OER, will contact Cheiron to resend a detailed email/letter with calculations to employees.

4. NEW BUSINESS

- a. Oral update from the CEO of Retirement Services, Roberto L. Peña.

Item 4a was heard first.

CEO Peña updated the Board on the following:

- Public member application has been delayed. Staff is working with the City Attorney's office regarding changing the Municipal Code requirement that appointed public members of the Board reside and work within a 50-mile radius from City Hall to a 100-mile radius.
- The Deputy Director search closed on January 25th. The goal is to conduct interviews and on board a new person at the end of March.
- CEO Peña and CIO Palani presented the CAFR to the City Council on January 29, 2019.
- PAS went live on February 4, 2019. Payroll will close today or tomorrow. PAS will be on the Joint Audit Committee agenda.
- The Administrative Budget will go to the Board next month and presented to City Council mid-March.
- CEO Peña is working with OER to meet with new Councilmembers regarding the Office of Retirement Services.
- Recruitments- New Staff Tech and Analyst were added to the Benefits Group. There is a search for a Staff Tech in Investments. The Internal Auditor position closed on January 25, 2019.
- The Santa Clara Civil Grand Jury will issue a report in May.

- b. Oral update from the City Council Liaison to the Board.

Item 4b was heard after item 3a.

Council Liaison Dev Davis updated the Board and stated that the City Manager released the schedule for the Budget session. It runs from February through June. The Chair informed Council Liaison Davis about the 7th Trustee seat. CEO Peña stated that staff has requested that the live and work radius be extended from a 50-mile radius from City Hall to a 100-mile radius from City Hall for eligibility to serve as a public trustee and that issue will go to City Council. Council Liaison Davis asked about other changes. Ms. Alexander spoke and noted that the other change being requested is the election process: If only one candidate, push forward as opposed to waiting for another candidate and prolonging the process.

- c. Discussion and action on compensation and benefits for the Office of Retirement Services's Chief Executive Officer (CEO).

Chair Loesch led the discussion and stated that the review process for CEO Peña was completed in closed session. He met with the Police and Fire Chair and they put together an appraisal. The Board complimented CEO Peña on his leadership position.

After discussion, a motion was made to grant the Chief Executive Officer (CEO) a 2% increase retroactive to July 1, 2018 and granting (4) additional Executive Leave days.

Approved. (M.S.C. Loesch/Castellano 5-0-0). The motion passed unanimously.

- d. Discussion on proposed topics for the April 25, 2019 Joint Meeting with the Retirement Boards and City Council.

4d was heard after 4a.

The Board asked Council Liaison Davis what areas were needed for discussion. In summary, the Board suggested:

- Plans Maturity and how it impacts the Plans Risk and their Asset Allocation.
- The difference of returns between the plans and what the process might be as far as returns going forward on asset allocation changes approach.
- Investment Fees (attach fee report).
- Reed Smith offered to present on the California rule regarding members vested rights. There are several cases in the Supreme Court.

- e. Discussion and action on the Municipal Code changes for both Boards regarding public member Trustee eligibility and the election process for the employees and retirees.

This Item was deferred to the Federated City Employees' Retirement System and Federated City Employees' Health Care Trust due back on 3/21/2019.

- f. Discussion and action on adoption of Resolution #8874 Cost of Living Adjustment rate for 415(b) Qualified Participants.

CEO Peña introduced the item and Ms. Schaefer was present to answer questions from the Board. CEO Peña explained the IRS 415(b) limit issue. Jeffrey Rieger, General and Fiduciary Counsel, pointed out one clarifying, non-substantive change that was made to the resolution between the original posting of the agenda and the meeting.

A motion was made to approve Resolution #8874 Cost of Living Adjustment rate for 415(b) qualified participants.

Approved. (M.S.C. Loesch/Billick 5-0-0). The motion passed unanimously.

5. INVESTMENTS

- a. Oral update from the CIO of Retirement Services, Prabhu Palani.

Mr. Kwon updated the Board for CIO Palani on the following:

- 2018 Q4 -Equity Markets in a free fall-13% drawdown.
- Improved Peer returns for the quarter.
- Since year-end, markets have been recovering most of the drawdown.
- CIO Palani presented the performance fees to the Federated Retirees on Feb 14, 2019.

-Cortex governance project is going to Investment Committee in March.

6. COMMITTEES/REPORTS/RECOMMENDATIONS

6.1 Investment Committee (Loesch, Billick, Chandra)

Last Meeting: December 18, 2018 Next Meeting: March 26, 2019

- a. Oral update from the Chair of the Investment Committee.

The next Investment Committee meeting will be held in March.

- b. Minutes of the December 18, 2018 Federated Investment Committee meeting. Receive and file.

This Committees/Reports/Recommendations was received and filed

- c. Minutes of the December 18, 2018 Joint Investment Committee meeting. Receive and file.

This Committees/Reports/Recommendations was received and filed

6.2 Governance Committee (Dirks, Orr, Sun)

Last Meeting: November 26, 2018 Next Meeting: March 7, 2019

- a. Oral update from the Chair of the Governance Committee.

Everything was covered on the agenda today.

- b. Discussion and action on cancelling an additional Board meeting during the calendar year, per the Federated Board Performance Evaluation/Assesment.

After discussion, a motion was made to delete the regular September Board meeting and replace it with a Board retreat to be held on the same date.

Approved. (M.S.C. Loesch/Castellano 5-0-0). The motion passed unanimously.

The Chair requested that Trustee Castellano to work on the agenda.

6.3 Audit Committee (Castellano, Dirks, Orr)

Last Meeting: October 18, 2018 Next Meeting: February 21, 2019

- a. Oral update from the Chair of the Audit Committee.

There is an Audit Committee meeting today.

6.4 Joint Personnel Committee (Dirks, Loesch, Chandra)

Last Meeting: February 20, 2019 Next Meeting: TBD

- a. Oral update from the Chair of the Joint Personnel Committee.

Chair Loesch noted that Trustee Chandra is the Vice Chair of the Joint Personnel Committee. Trustee Dirks stated that they discussed the Defined Benefit Plan for the CEO/CIO. The next steps are to discuss Compensation plans and to ask Cortex to resolve the performance approach for the next fiscal year and schedule a meeting next month.

7. EDUCATION & TRAINING

- a. The Cortex Report January 2019 - Conferences, Seminars, and Educational Programs.
- b. CalAPRS 2019 Program Calendar.
- c. The Pension Bridge Annual Conference, Westin St. Francis Hotel, San Francisco, CA - April 9-10, 2019.

CLOSED SESSION

The Board re-entered into Closed Session at 10:40 a.m.

II. CLOSED SESSION INVESTMENTS

- A. **CLOSED SESSION:** CONFERENCE WITH INVESTMENT CONSULTANT PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER PURCHASE OR SALE OF PARTICULAR PENSION FUND INVESTMENT (THREE INVESTMENTS).

III. CLOSED SESSION

Trustee Castellano recused himself from CS III.A and CS III.B. The reason being is that he is a plaintiff and claimant in the matters that were discussed.

- A. **CLOSED SESSION:** CONFERENCE WITH LEGAL COUNSEL PURSUANT TO GOVERNMENT CODE SECTION 54956.9(d)(1) - PENDING LITIGATION: PRESERVATION OF BENEFIT PLAN RETIREES ASSOCIATION V. CITY OF SAN

JOSE, ET AL., SANTA CLARA COUNTY SUPERIOR COURT NO. 17CV312610.

- B. CLOSED SESSION:** CONFERENCE WITH LEGAL COUNSEL PURSUANT TO GOVERNMENT CODE SECTION 54956.9(e)(3) - RECEIPT OF CLAIM PURSUANT TO THE GOVERNMENT CLAIMS ACT - ONE CLAIM: PRESERVATION OF BENEFIT PLAN RETIREES ASSOCIATION V. BOARD OF ADMINISTRATION OF THE FEDERATED EMPLOYEES RETIREMENT SYSTEM.

The Board came out of Closed Session at 12:33. See Adjournment for reporting out of closed session.

FUTURE AGENDA ITEMS

None.

PUBLIC/RETIREE COMMENTS

Brad Imamura, retired, commented on the historical performance of the Board's retirement funds and the election process.

This comment was made after item 4b.

ADJOURNMENT

The Board reconvened into Open Session at 12:33 p.m.
There was no reportable action out of Closed Session item II.A and III.A

There was reportable action out of Closed Session item III.B: The Board denied the claim as untimely and the Board denied the claim on the merits.

The meeting adjourned at 12:35 p.m.

*Estimated

Minutes Recorded, Prepared and Respectfully Submitted by,

_____/S/_____
MATTHEW LOESCH, P.E., CHAIR
BOARD OF ADMINISTRATION

ATTEST:

_____/S/_____
ROBERTO L. PEÑA
CEO, OFFICE OF RETIREMENT SERVICES