

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Richard Costigan, Chairperson

Ms. Dana Hollinger, Vice Chairperson

Mr. Richard Gillihan

Mr. J.J. Jelincic

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee, also represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. John Chiang, represented by Ms. Christina Elliott

Mr. Rob Feckner, President

Mr. Ron Lind

Ms. Priya Mathur

Ms. Theresa Taylor

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Doug Hoffner, Deputy Executive Officer

Ms. Donna Lum, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Mr. Alan Milligan, Chief Actuary

A P P E A R A N C E S C O N T I N U E D

STAFF:

Ms. Mary Anne Ashley, Chief, Legislative Affairs Division

Ms. Tanya Black, Committee Secretary

Ms. Kim Malm, Chief, Operations Support Services Division

Ms. Kami Niebank, Interim Chief Compliance Officer

Mr. John Swedensky, Interim Chief, Affiliate Program
Services Division

Mr. Scott Terando, Interim Deputy Chief Actuary

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

Mr. Terry Brennand, Service Employees International Union

Ms. Faith Conley, California State Association of Counties

Mr. Dillon Gibbons, California Special Districts
Association

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1 P R O C E E D I N G S

2 CHAIRPERSON COSTIGAN: All right. Good morning.
3 We're going to call to order the February 17th meeting of
4 the Finance and Administration Committee. First item is
5 the roll call, please.

6 COMMITTEE SECRETARY BLACK: Richard Costigan?

7 CHAIRPERSON COSTIGAN: Here.

8 COMMITTEE SECRETARY BLACK: Dana Hollinger?

9 VICE CHAIRPERSON HOLLINGER: Here.

10 COMMITTEE SECRETARY BLACK: Richard Gillihan?

11 COMMITTEE MEMBER GILLIHAN: Here.

12 COMMITTEE SECRETARY BLACK: J.J. Jelincic?

13 COMMITTEE MEMBER JELINCIC: Here.

14 COMMITTEE SECRETARY BLACK: Henry Jones?

15 COMMITTEE MEMBER JONES: Here.

16 COMMITTEE SECRETARY BLACK: Bill Slaton?

17 COMMITTEE MEMBER SLATON: Here.

18 COMMITTEE SECRETARY BLACK: Betty Yee?

19 COMMITTEE MEMBER YEE: Here.

20 CHAIRPERSON COSTIGAN: All right. Thank you very
21 much.

22 So the first item of business is today is the
23 election of the Finance and Administration Chair and Vice
24 Chair. If I recall correctly, I'm looking forwards Mr.
25 Slaton, I have to turn the gavel over to the Vice Chair.

1 COMMITTEE MEMBER SLATON: (Nods head.)

2 CHAIRPERSON COSTIGAN: You get to start this.

3 You have to push microphone. I'll turn it on.

4 Okay.

5 VICE CHAIRPERSON HOLLINGER: Mr. Slaton.

6 COMMITTEE MEMBER SLATON: Thank you, Madam Vice
7 Chair. It's my distinct pleasure to nominate Richard
8 Costigan to serve as Chair of this Committee. He's done a
9 great job in the past, and he will do a great job in the
10 future. So that's my nomination.

11 VICE CHAIRPERSON HOLLINGER: Any other
12 nominations?

13 Any other -- okay. Going once, any other
14 nominations?

15 Third time, any other nominations?

16 Seeing nothing, okay we'll vote by acclamation.

17 COMMITTEE MEMBER JONES: Move it.

18 COMMITTEE MEMBER YEE: Second.

19 VICE CHAIRPERSON HOLLINGER: Second. Okay. All
20 in favor?

21 (Ayes.)

22 VICE CHAIRPERSON HOLLINGER: Okay.

23 Congratulations, Richard.

24 (Applause.)

25 CHAIRPERSON COSTIGAN: Well, thank you very much.

1 I greatly appreciate that. Thank you. All right. Now,
2 we're going to call on Mr. Jones.

3 Mr. Jones.

4 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
5 Chair. It's my distinct pleasure to nominate Dana
6 Hollinger for Vice Chair of the Finance Committee.

7 CHAIRPERSON COSTIGAN: Great. Thank you. So we
8 have a nomination in.

9 Ms. Yee, did you want to speak.

10 COMMITTEE MEMBER YEE: Second.

11 CHAIRPERSON COSTIGAN: Oh, you seconded it.

12 COMMITTEE MEMBER YEE: Yes.

13 CHAIRPERSON COSTIGAN: So it's actually been
14 moved and seconded that Dana be elected as the Vice Chair
15 of Finance and Administration.

16 COMMITTEE MEMBER JELINCIC: Are we going to give
17 her some training on --

18 CHAIRPERSON COSTIGAN: We're going to work on
19 training.

20 VICE CHAIRPERSON HOLLINGER: Yeah.

21 (Laughter.)

22 CHAIRPERSON COSTIGAN: Or actually I've got to
23 work on training as well.

24 VICE CHAIRPERSON HOLLINGER: You don't like me
25 being his muse.

1 (Laughter.)

2 CHAIRPERSON COSTIGAN: Any discussion?

3 Hearing none.

4 All those in favor?

5 (Ayes.)

6 CHAIRPERSON COSTIGAN: Opposed?

7 Motion carries. Congratulations, Dana.

8 VICE CHAIRPERSON HOLLINGER: Thank you.

9 (Applause.)

10 CHAIRPERSON COSTIGAN: All right. Now, that the
11 formalities are out of the way, we're looking forward to
12 another year. I have really enjoyed working with this
13 committee and with the staff, and with Ms. Eason.

14 With that, you're up.

15 CHIEF FINANCIAL OFFICER EASON: Good morning, Mr.
16 Chair and Committee members. Cheryl Eason, CalPERS staff.
17 And let me begin by extending My congratulations to the
18 Committee's Chair and Vice Chair. And I also look forward
19 to continuing to work with you and the Committee in the
20 upcoming year.

21 So today's agenda includes two action items. We
22 have the proposed California Employees Pension Prefunding
23 Trust Legislation, and the Board of Administration scoring
24 methodology for Request for Proposals. These items
25 require action by the Board which will be outlined in the

1 agenda items.

2 Several information items presented today will
3 include the 2015-17 business plan mid-year update, and the
4 first readings of the CalPERS 2016-17 business plan and
5 budget policy. Second readings for these two items will
6 be brought forward in March, based on your feedback today.

7 In the upcoming months, the Actuarial Office will
8 be providing a number of actuarial policies for your
9 review and consideration. This morning, staff will
10 outline the collaborative approach used to ensure
11 consistency with actuarial and policy management best
12 practices. This approach is based on a newly developed
13 policy management delegation authority framework that will
14 be implemented throughout the organization for future
15 policy development and management.

16 The next Finance and Administration Committee
17 meeting is scheduled for March 17th, 2016, and will
18 include the annual review of the Finance and
19 Administration Committee delegation, the introduction of
20 the Board of Administration election voting processes and
21 regulatory changes.

22 In addition, we will be hearing the second
23 reading of the CalPERS 2016-17 business plan, and the
24 budget policy, and first readings of the 2016-17 annual
25 budget proposal, as well as the review of the actuarial

1 cost methodology and amortization policy.

2 Thank you, Mr. Chair. This concludes my report
3 and I'd be happy to take any questions.

4 CHAIRPERSON COSTIGAN: Thank you, Ms. Eason.

5 Just a quick reminder to those in the audience.
6 If your wishing to speak on an item, make sure you please
7 sign up in the back. We're going move on to Item number
8 4, which is the consent item. Does anybody wish any items
9 to be removed?

10 Hearing none.

11 This is an action item, can I get a motion,
12 please?

13 COMMITTEE MEMBER JONES: Move it.

14 CHAIRPERSON COSTIGAN: Moved by Jones.

15 COMMITTEE MEMBER YEE: Second.

16 CHAIRPERSON COSTIGAN: Seconded by Yee.

17 All those in favor?

18 (Ayes.)

19 CHAIRPERSON COSTIGAN: Opposed?

20 Motion carries.

21 On the information consent items, 5a through d,
22 any concerns or questions?

23 Seeing none.

24 All right. We're going to move on to the meat of
25 the program. We're going to take up Item 6a, the proposed

1 California Employees Pension Prefunding Trust legislation.
2 We're going to have Ms. Eason, you can begin please
3 welcome Mary Ann.

4 CHIEF FINANCIAL OFFICER EASON: Thank you.
5 Cheryl Eason, CalPERS staff. And I'm joined by Mary Ann
6 Ashley on this item. So staff is seeking approval to
7 sponsor legislation for the implementation of the
8 California Employees' Pension Prefunding Trust program, or
9 CEPPT.

10 In December, the staff notified the Committee
11 along with a number of other legislative proposals that
12 there would be a legislative proposal brought forward to
13 this in February regarding a pension prefunding trust
14 after engaging with stakeholders to gauge their interest
15 in feedback on the item.

16 The pension prefunding trust would enable
17 eligible California public agency employers to prefund
18 their future annual pension contributions, pay down their
19 unfunded liability, and for GASB standard 68 accounting
20 reporting purposes for employers balance sheets record an
21 offset to their pension liabilities with the assets set up
22 in the Irrevocable IRC Section 115 Trust.

23 Staff conducted preliminary discussions with
24 member and employer association leaders, as well as
25 conducted a survey of CalPERS employers to gauge their

1 interest in participating in a pension prefunding trust.
2 That feedback has been provided in the agenda item. And
3 while there is employer interest in participating in the
4 trust, as well as conceptual support of prefunding pension
5 obligations with surplus funds from both member
6 association and employer association leaders, there are
7 considerations that may require further discussion with
8 the association leaders.

9 Based on our preliminary discussions with
10 stakeholders, staff would continue to work with
11 stakeholders on the specific language for the proposed
12 legislation, if the Committee was to approve the action to
13 sponsor legislation coming forward in the March time
14 frame. And I'll take this time to ask Mary Ann just to
15 provide details on what the status of that legislation is.

16 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Good
17 morning. Mary Ann Ashley, CalPERS staff.

18 So in preparation to be prepared should the Board
19 approve sponsoring legislation to establish this fund,
20 staff did submit language to legislative counsel, so we do
21 have intent language, which is currently unbacked. In
22 order to move forward, the bill introduction deadline is
23 this Friday, February 19th. So we would have to have an
24 author introduce the intent language. And then the next
25 pertinent deadline is February 26th, at which point, we

1 would have to submit language to leg counsel to make sure
2 that the bill actually was doing something. So bills that
3 are in spot language format would have to have changes
4 made.

5 After that point, we could continue working with
6 stakeholders and further amendments could be made as
7 needed.

8 CHAIRPERSON COSTIGAN: Okay. Thank you.

9 So first, any questions from Board members?

10 All right. We're going to start first with Mr.
11 Slaton.

12 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair,
13 and congratulations to you and to the Vice Chair on your
14 reelection.

15 You know, this is -- this is kind of one of
16 those -- to me, one of those no-brainer things. I mean,
17 it just -- in fact, it raises the issue to me is why
18 didn't we do this 10 years ago? It's just -- you know,
19 this is a vehicle for local agencies to do better
20 budgeting and planning, and take advantage of the same or
21 a similar vehicle that we have created with OPEB. And
22 OPEB is a very successful product that has allowed
23 agencies to be able to set aside money for retiree medical
24 and reduce that liability.

25 And yet at the same time, it provides more

1 flexibility than a pension plan does, in the sense that
2 the money can be on deposit, and then, at the direction of
3 the jurisdiction, can be then used for that specific
4 purpose, and that can't be used for other purposes. But I
5 like to think that money is pretty fungible. So if you
6 don't have to spend it in one area, it's available in a
7 budget for another, and in this particular case, the
8 ability for agencies, for local government to be able to
9 set aside money for pension obligations in a form that
10 allows them to accomplish two things.

11 One is earn on the money, and at an invest --
12 with an investment vehicle that could be a more
13 conservative vehicle than we currently offer under the
14 pension fund, which is a seven and a half percent assumed
15 rate of return. And just like in OPEB, where we give
16 options to employers, we could give options here as well,
17 so you could have a more conservative portfolio.

18 The beauty of this trust is that the agency can
19 then take the money out, because it's their money in a
20 trust, and use it to pay pension payments. So it's like
21 a -- it's like an earning checking account. And so the
22 money is not tied up. It's only tied up to the extent
23 that the local government decides to leave it on deposit
24 and not use it for pension purposes.

25 So, to me, it's an excellent cash management and

1 investment vehicle for local government to use to be able
2 to meet their pension obligations. And I think it adds
3 strength to the local government financial situation by
4 having this vehicle.

5 Thank you

6 CHAIRPERSON COSTIGAN: Thank you, Mr. Slaton.
7 Mr. Lind.

8 BOARD MEMBER LIND: I just have a process
9 question. I haven't heard of anyone that is opposed to
10 this concept. And as you -- Cheryl, as you discussed,
11 there's some disagreements on the particulars between some
12 of the stakeholders. So we're talking about agreeing to
13 sponsor this, but then we still have to work out the
14 language. And I think probably that can happen, but what
15 if it doesn't?

16 I mean, how do you unsponsor something once you
17 sponsor it? What sort of ramifications does that have if
18 ultimately it can't be sort of worked out.

19 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Hi.
20 Thank you. Actually, the bill would just cease to
21 continue moving forward, if there wasn't any resolution to
22 any issues or concerns. It just wouldn't make it to the
23 Governor's desk, so it would just essentially die.

24 CHAIRPERSON COSTIGAN: Does that answer your
25 question, Mr. Lind?

1 BOARD MEMBER LIND: Sure.

2 CHAIRPERSON COSTIGAN: Mr. Jelincic.

3 COMMITTEE MEMBER JELINCIC: Right now employers
4 have the ability to pay down their unfunded, is that
5 correct?

6 CHIEF FINANCIAL OFFICER EASON: That's correct.

7 COMMITTEE MEMBER JELINCIC: So the only thing
8 this would do is allow them to take money out of the
9 current budget and put it aside and say, at some point, we
10 will probably use this to pay pension -- make pension
11 payments, either in terms of the people who are getting
12 too much of a pension to meet the IRS rules, so our highly
13 compensated managers, or to say, well, you know, this year
14 money is really tight, so we're going to pull it out of
15 that reserve. I mean, that's really the two things that
16 this thing does.

17 And I saw your yes, so --

18 CHIEF FINANCIAL OFFICER EASON: Well, I would
19 just add there is -- there's a third in the ability for
20 them to put it into a trust because it's irrevocable under
21 the current GASB 68 standard reporting. That does allow
22 them to use that as a net pension liability offset, which
23 they currently wouldn't do if they're just holding surplus
24 funds, and then use that to pay down their unfunded
25 liability.

1 COMMITTEE MEMBER JELINCIC: Okay. So just the
2 mathematics of that, they would take their unfunded
3 liability and subtract from that whatever they had in this
4 special fund, and that's what they would report?

5 CHIEF FINANCIAL OFFICER EASON: That's correct.

6 COMMITTEE MEMBER JELINCIC: Or that's the
7 mathematics of it.

8 I like prefunding. I mean, it seems to me that
9 it's by and -- it's generally speaking in our interest --
10 our members' interests to have it well funded. It would
11 be even better if it were already in the system and really
12 paid down the unfunded would be even better, and -- but I
13 was kind of, this makes some sense, until I actually saw
14 the employer response.

15 Because one of the things that it does do is it
16 will take money out of the budget, I mean, that it's not
17 available for collective bargaining. And the employer is
18 saying if we don't have the right to unilaterally take it
19 out of the budget to -- and off the bargaining table, then
20 we're not interested. That made me really nervous. You
21 know, if you say that if I don't have the ability to take
22 money away from the bargaining table, then I don't want to
23 do this. Then I've got to wonder, well, what's your
24 motivation in supporting it?

25 So I've -- I like the concept, but when you throw

1 up that red flag, it kind of says what's going on here?
2 And so I'm not sure that I'm ready to go forward at this
3 point. I also recognize we have a deadline, and the --
4 you know, the -- so if we're going to sponsor it, we need
5 to get it in. On the other hand, the -- you know, the
6 cities and the public agencies could sponsor their own
7 bill to do this, and they could deal with the deadline.
8 So I'm just not -- I'm not sure where I shake out on this
9 just yet.

10 CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.
11 Mr. Slaton.

12 COMMITTEE MEMBER SLATON: Yeah. Let me address,
13 J.J., one of the points that you made. And that is that
14 it takes it off the table. I think the fact is -- the two
15 characteristics of this create a situation where I don't
16 think that occurs, because, first of all, you know, the
17 budget money is fungible. So if I have access to an
18 account where I could literally put the money in, and in
19 theory the next day take it back out, as long as I use it
20 for the purpose that the trust requires, then, in fact,
21 it's totally fungible, in terms of if I use it for pension
22 payments, then it makes it available -- other cash
23 available in my budget to use for other purposes.

24 So it's not locked up in perpetuity. It's not
25 even locked up for any particular length in time. It just

1 has to come back out to be used for that purpose. And I
2 think that addresses that issue that it doesn't quote
3 remove it from collective bargaining.

4 The other issue, which -- and this is an issue
5 that you've raised on multiple occasions is your aversion
6 to contracting out. And, in fact, the 115 section of the
7 tax code is available now and used in the private sector
8 available to local agencies.

9 So, in fact, that service, that function that
10 we're talking about is already available and being used in
11 the private sector. And so what we would be doing, if we
12 were to enact that, is bringing that in-house into the
13 State and have it be a service provided by this public
14 agency. And I think that serves that purpose as well.

15 CHAIRPERSON COSTIGAN: Controller Yee.

16 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

17 You know, I think the concept is certainly
18 consistent with what we're trying to facilitate relative
19 to risk mitigation. And it's a terrific tool, I think,
20 for local agencies.

21 I guess one of the questions I had is what would
22 happen to the program if we didn't get enough
23 participation? I mean, is this -- I mean, this is all
24 predicated on, you know, bringing in enough local
25 employers into this. So do we know kind of how

1 many -- what's the magnitude of assets we would need to
2 bring under this program to make it viable going forward?

3 CHIEF FINANCIAL OFFICER EASON: We haven't
4 specifically looked at what that threshold might look
5 like. Certainly, to be able to make it cost effective, we
6 would want to have as much as we could in terms of assets
7 under management.

8 COMMITTEE MEMBER YEE: Sure.

9 CHIEF FINANCIAL OFFICER EASON: If I could use
10 the program that sort of the -- that mirrors that, our
11 OPEB program with the CERBT program, we have just over \$4
12 billion worth of assets under management. And we have a
13 lower cost, about 10 basis points lower, in terms of being
14 able to provide that service to that fund in that trust.

15 COMMITTEE MEMBER YEE: Okay. And the bill
16 language itself, at its -- currently, it's just intent
17 language on --

18 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes,
19 it's just intent language.

20 COMMITTEE MEMBER YEE: Okay. All right. And
21 then I was heartened to see that there's a fairly good
22 percentage of the agencies surveyed that are actually
23 currently prefunding OPEB liabilities. Any sense as to
24 whether those agencies might -- I mean, you had three kind
25 of levels of interest and potential participation. So are

1 those agencies more inclined to participate in this on the
2 pension side?

3 CHIEF FINANCIAL OFFICER EASON: We believe so,
4 and we have had inquiries from employers that are
5 currently in the CERBT program approach us about the
6 potential as well to have the prefunding of a pension
7 trust.

8 COMMITTEE MEMBER YEE: Okay. All right. Thank
9 you.

10 CHAIRPERSON COSTIGAN: Just a quick follow-up
11 question to the Controller's. When you look at the OPEB
12 liability, and we had 42 percent of respondents. And so
13 that was 42 percent of the 758 that responded. And I'm
14 sorry, I don't know the answer to this. Of all of our
15 members, how many currently participate in OPEB?

16 AFFILIATE PROGRAM SERVICES DIVISION INTERIM CHIEF
17 SWEDENSKY: Yes, Mr. Costigan. We currently have 475
18 employers, unique employers, who participate in the CERBT
19 program.

20 By the way, I'm John Swedensky, CalPERS staff.
21 And those 475 employers represent just under
22 400,000 covered lives.

23 CHAIRPERSON COSTIGAN: Okay. Thank you very
24 much.

25 Ms. Hollinger.

1 VICE CHAIRPERSON HOLLINGER: Yes. Thank you.

2 I'm in support of this, because as a fiduciary,
3 our number one obligation to our members is to secure
4 benefits and to be able to make pension payments. So by
5 prefunding this, where it's a form of risk mitigation, and
6 the other thing that I very much like, it's invested in a
7 more conservative portfolio.

8 Following up to Mr. Slaton, this isn't mandatory.
9 So to the extent it might get taken off the table for
10 collective bargaining, as he says, it's fungible, it could
11 be put back, and I think this would be a very positive
12 move going forward.

13 CHAIRPERSON COSTIGAN: Thank you.

14 Ms. Taylor.

15 BOARD MEMBER TAYLOR: Hi. I'm -- I think this is
16 a great idea. I think prefunding is a way for us to
17 mitigate some of our risk. It is a great tool. And I
18 like the idea that it is being put in lower risk -- a
19 lower risk fund.

20 But what I'm a little concerned about, and to
21 answer to Mr. Slaton, is, as I'm reading this here,
22 "Employer association leaders representing our employers
23 believe a pension prefunding would benefit employers.
24 However, some feel the language proposed by member
25 associations may be an impediment to employers

1 participating in the trust.

2 "Leaders believe the process of funding pensions
3 is already transparent, and part of the current budget
4 process. Early indications from employer associations
5 that such language may undermine the program's intent, and
6 make prefunding substantially less attractive and feasible
7 to the cities. And my problem with that is if you don't
8 have an intent to take money off the table during
9 bargaining, then why would you have -- why would you say
10 it would make it less attractive?

11 I don't understand. If that's not your intent,
12 then having that language in there should not have -- be
13 an issue. And it has been my experience that once money
14 is taken off the table, it never comes back.

15 So that's why I feel that it's important that
16 however we do it, employer association and member
17 associations work together to get that language codified
18 in a way that they all agree on, because otherwise, I
19 don't see how it works. It seems to me that saying that
20 employer groups saying that it's less attractive and
21 feasible is a way for them to say that, yeah, that's
22 exactly what we want to do is pull money off the
23 bargaining table.

24 Thanks.

25 CHAIRPERSON COSTIGAN: Okay. Ms. Taylor, I

1 believe we're going to hear from two of the employer
2 organizations during public comment.

3 Mr. Gillihan.

4 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

5 I'd just like to make a couple points. First of
6 all, this is a voluntary program, and it would happen on a
7 annual basis. It's not a continuing expenditure. So an
8 employer who's responsible for allocating their budget
9 resources, in a particular year, they may not even be at
10 the bargaining table that year, may be faced with a
11 surplus and would wisely choose to put it away towards
12 future pension obligations.

13 And so this notion that they would have to
14 negotiate that with their employee groups seems ridiculous
15 to me. What other area of budget allocation, which is a
16 management responsibility, is negotiated with employees,
17 other than contracts and collective bargaining agreements?

18 This just seems like it's way outside of the
19 Board's purview to be sort of changing the nature of how
20 local governments allocate their budget resources.

21 CHAIRPERSON COSTIGAN: Thank you, Mr. Gillihan.

22 Mr. Jelincic.

23 COMMITTEE MEMBER JELINCIC: I actually have a
24 couple of questions. How many public agencies are
25 currently using 115 trusts for prefunding pensions? Do we

1 have any idea?

2 AFFILIATE PROGRAM SERVICES DIVISION INTERIM CHIEF

3 SWEDENSKY: Yes, Mr. Jelincic. In addition to the 475
4 employers prefunding OPEB liabilities in the CalPERS
5 trust, private sector trust providers probably number in
6 the neighborhood of about 200 collectively. So within the
7 State of California, you probably have somewhere around
8 675 to 700 employers actively participating in prefunding.

9 COMMITTEE MEMBER JELINCIC: Of retirement?

10 AFFILIATE PROGRAM SERVICES DIVISION INTERIM CHIEF

11 SWEDENSKY: Of retiree health liability.

12 COMMITTEE MEMBER JELINCIC: Okay. And -- but how
13 about -- do we have any idea how many are prefunding
14 pension liabilities?

15 AFFILIATE PROGRAM SERVICES DIVISION INTERIM CHIEF

16 SWEDENSKY: It's our understanding that in the two trust
17 funds that are currently already open on the market, that
18 there's probably in the neighborhood of 30 to 70 or so
19 employers actively now participating in pension
20 prefunding. It is a new concept, and they're just now
21 coming to grips with it.

22 COMMITTEE MEMBER JELINCIC: Okay. And right now,
23 you can -- the employer can put more money into PERS to
24 pay down their unfunded liability. Can they put more
25 money into PERS into the PERF trust fund, even if they're

1 fully funded?

2 CHIEF ACTUARY MILLIGAN: Current Board -- current
3 Board policy permits employers to make additional
4 contributions up until the point where they are
5 superfunded. So, yes, even if they are fully funded at
6 100 percent funded, most of them, at that point, would not
7 be in the superfunded category, and so they could still
8 make additional contributions.

9 COMMITTEE MEMBER JELINCIC: Okay. And --

10 CHAIRPERSON COSTIGAN: Thank you, Mr. Milligan.

11 COMMITTEE MEMBER JELINCIC: Thank you.

12 And one other statement of preference for it. I
13 would actually like to hear the public comments before we
14 actually take the vote?

15 CHAIRPERSON COSTIGAN: I think that's how we
16 would normally do it. Don't go far Mr. Milligan. I don't
17 want you all popping up and down.

18 Mr. Slaton.

19 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.
20 I should have, in the last comments I made, if it's
21 appropriate, and I'm not suggesting we take a vote now,
22 but I'd like to move staff's recommendation, so we have a
23 motion on the floor. And then we can take the public
24 comment.

25 And I also wanted to address the issue that Ms.

1 Taylor raised. And I think that our role here, I think,
2 is to serve up the vehicle. The vehicle is a 115 Trust.
3 I think it's worth the debate about what the process
4 should be for an agency to participate, but I think that
5 responsibility lies with the legislature to decide that,
6 rather than for us to inject ourselves into what the
7 process of an employer participating.

8 I think if we serve up the creation of the trust,
9 then let the legislative process work. And if it's
10 determined that there should be some additional rules
11 about participating, so be it. But anyway, so I would move
12 staff's recommendation.

13 CHAIRPERSON COSTIGAN: Okay. So we do have -- it
14 has been moved. But before we get a second, I'm going to
15 ask Mr. Brennand, Ms. Conley, and Mr. Gibbons to please
16 come down.

17 Terry, you're up first. You signed up first.

18 Dillon, why don't you come down and have a seat
19 next to Alan. You guys can sit down here.

20 Okay. Mr. Brennand, three minutes, please.

21 MR. BRENNAND: Mr. Chairman and members, Terry
22 Brennand on behalf of SEIU California. Let me begin by
23 saying this is a great idea. Not unlike the OPEB Trust,
24 prefunding when you have excess earnings is something
25 we've supported in local agencies. We have agencies that

1 actually did that for OPEB. When their pension
2 contributions were reduced in good times, they set aside
3 that money they otherwise would have sent to the pensions,
4 and put it in the OPEB Trust. This is sort of the reverse
5 of prefunding some of the pensions.

6 Our problem with this proposal, and frankly it is
7 just spot language right now, but I it would say it's more
8 of a problem with conversations with your local government
9 sponsors and staff, is the resistance to even including
10 this as a subject of collective bargaining.

11 It's not so much that the money is taken off the
12 table, but once you put it into this trust, all the
13 benefits, as outlined by Mr. Jelincic and agreed to by
14 staff, inure to the employer. None of those -- that money
15 goes away, but even if you go back and get it the next
16 day, it can only be used to pay the employer's sure. It
17 can only be used to pay down the employer's unfunded
18 liability. It can only be used to benefit the highly
19 compensated.

20 For that reason, we're asking you to direct staff
21 that when you sponsor this bill, you consider ensuring
22 that the public employees who are at the table have a
23 voice in whether or not and how much money is set aside.
24 You're not going to get a lot of resistance in most cases,
25 because it is the right thing to do.

1 But for every agency at every moment, there's
2 going to be a discussion about whether it's now, and how
3 much it should be, and whether they shouldn't rather just
4 increase employer and employee contributions as a better
5 alternative.

6 Taking this money off the table gets rid of that
7 conversation. And for that reason, we're asking you to
8 direct staff to include employer participation in this --
9 employee participation in this program. And without that
10 amendment, my union and several others are likely to
11 oppose that legislation in the legislature.

12 Mr. Lind asked how do you unsponsor a bill? It
13 will -- it dies. That's how you unsponsor a bill. It
14 doesn't get out of committee, and it's likely the -- I
15 would say the -- what's going to happen to this bill if we
16 don't come to resolution on employee participation.

17 Thank you.

18 CHAIRPERSON COSTIGAN: Thank you, sir.

19 Oh, actually, Ms. Conley, you're up first.

20 MR. CONLEY: Thank you. Faith Conley with the
21 California State Association of Counties.

22 I want to start off by saying at the local level,
23 this can be bargained. They can agree to bargain over
24 this at the local level. It doesn't have to be put in
25 State legislation.

1 Second of all, the prefunding of retirement
2 benefits and the hugely -- huge amount of unfunded
3 liabilities counties have amassed, especially after the
4 recession that happened in 2008-2009 is staggering. Not
5 only is it staggering for our budgets, it's actually
6 reducing the amount of services we can provide to our
7 residents.

8 And as you know, counties provide health
9 services, public safety services, most of the services
10 that are mandated by the State. So taking money off the
11 table could happen with the provision of any benefits that
12 we provide to all of our residents in our counties.

13 Requiring the sign-off of employee
14 representatives to put money towards paying off these huge
15 unfunded liabilities it displaces the governing board's
16 fiduciary duty to have a healthy county budget. And
17 again, I'll just clarify that that healthy county budget
18 is providing those Medi-Cal dollars. It's providing the
19 Sheriffs on the street to protect our residents. This
20 isn't just taking money off the collective bargaining
21 table to provide the wages of our employees who -- by the
22 way, we -- we don't want to reduce those wages. We don't
23 want to reduce the fair benefit packages that we provide
24 to our employees.

25 I'll end by saying nothing -- again, nothing

1 prevents this from happening at the local level. We can
2 bargain it now. We would oppose any language that would
3 require us to go through our employee representatives to
4 actually payoff the huge amount of unfunded liabilities
5 that we've amassed in the past 10 years that's actually
6 crippling our county budgets at this time.

7 With that, thank you.

8 CHAIRPERSON COSTIGAN: Thank you, Ms. Conley.

9 Mr. Gibbons, you have three minutes.

10 MR. GIBBONS: Hi. Dillon Gibbons with the
11 California Special Districts Association. I'm going to
12 largely echo a lot of the things that Faith said.

13 We support the ability to have a trust set up to
14 prefund our massive debt. I think we're all in agreement
15 on that. It is just when we get down to the language of
16 how that's going to happen that we have the disagreement.
17 Again, we can locally bargain this, as it is without the
18 language that would require the agreement of the
19 collective bargaining units.

20 As Mr. Slaton mentioned, the funds, once they go
21 into the trust fund, are fungible. They can be -- if the
22 money is taken out of there, it can be used to fund the
23 pensions. If a -- if a unit decides -- if during
24 collective bargaining, there's a decision that more money
25 is needed to come from that trust fund to pay the

1 obligations, it can come out. It doesn't only apply to
2 the employer's share. I think there's -- it's important
3 to remember that a majority of employees are not PEPRA
4 employees at this time. The funds coming out of this
5 trust fund can be used to pay employee shares for the
6 non-PEPRA employees.

7 It is the responsibility of our Board members and
8 our districts to manage the funds for the public. Our
9 primary responsibility is to provide services to the
10 public. That's our -- that is our responsibility.

11 To allow the employee -- employee groups to
12 manage those funds and have veto authority over the way
13 that those funds are used is irresponsible to the public.
14 Again, we support prefunding. We want to look out for our
15 employees. They're the ones who provide the services. We
16 have a history of coming to agreement on wages and
17 salaries. We just do not want to give up our authority
18 and our responsibility to the public regarding our massive
19 obligations and debts.

20 Thank you.

21 CHAIRPERSON COSTIGAN: Thank you.

22 Controller Yee.

23 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

24 A question for Mr. Brennand. Just a suggestion.

25 But on the one hand, I really have a problem with

1 impinging on local officials fiduciary duty. That's
2 just -- I just have a fundamental issue with that. So
3 having said that, is there any openness to looking at
4 language being developed that at least suggests that
5 what's being proposed here does not preclude the
6 consideration of other options for dealing with these
7 pension costs, it doesn't preclude collective bargaining,
8 I mean, just so it's clear that these are still avenues
9 that are open?

10 MR. BRENNAND: Well, in conversations with staff,
11 we suggested a process like mutual agreement, so that it
12 could be done outside the bargaining table. Let's say you
13 have three-year contract and a good year, as Mr. Gillihan
14 suggested, a side letter just saying, you know, we have
15 agreement with the employees to do this would be
16 sufficient. It doesn't have to be a signed MOU.

17 I mean, our sort of sense is, yeah, we understand
18 there -- negotiations are a very strict timeline in terms
19 of your contract or a signed MOU. But the ability to sit
20 down, meet and confer with the employees and agree we're
21 going to set aside this amount of money could happen at
22 any time, if you inserted words such as, "mutual
23 agreement".

24 COMMITTEE MEMBER YEE: I guess I'm looking for
25 something that allows that to be one of the things that

1 could happen, but not directed or mandated. Just to -- I
2 just want to allow local officials as much flexibility to
3 deal with their budgetary issues, with other obligations
4 they have. And I don't know that it's really -- I mean, I
5 just think that in terms of what we're trying to provide,
6 and I think we all agree, this could be a really useful
7 tool.

8 But I also think that, as we put legislation
9 through, that we also want it to be flexible, so that
10 other options can be considered. But I don't know that
11 it's necessarily appropriate for us to suggest that mutual
12 agreement be required. It could be one of the outcomes,
13 but I'm just trying to work with you here in terms of
14 where we can go.

15 And I'd hate to see kind of this program get
16 jettisoned, because -- I just think over the long run, it
17 could be just really helpful to both members and
18 employers.

19 MR. BRENNAND: Well, we are at that impasse since
20 the employer organizations wouldn't even accept meet and
21 confer, where there doesn't have to be agreement. We're
22 insisting on agreement. They're insisting on unilateral
23 action.

24 COMMITTEE MEMBER YEE: Is there openness to meet
25 and confer.

1 CHAIRPERSON COSTIGAN: So let's turn Dillon on.
2 Okay. The only thing I want to say is I don't want to
3 have a negotiation here.

4 COMMITTEE MEMBER YEE: No, I don't either, but I
5 mean --

6 CHAIRPERSON COSTIGAN: And so short of just
7 responding to Mr. Brennand's comments, very precisely,
8 Dillon. I don't want to have a back and forth here.
9 There's a process in the legislature for that. So you
10 don't have to respond, unless you want to. And we have a
11 few more questions.

12 MR. GIBBONS: I will say, to my knowledge, there
13 is no discussion of a meet and confer.

14 CHAIRPERSON COSTIGAN: Great. Thank you. But
15 you all don't go anywhere, in case there are more
16 questions.

17 Mr. Jones.

18 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
19 Chair. I, too, would support this concept, because it is
20 designed to help us meet our future obligations. But I do
21 have a question for Ms. Conley, is it, and Mr. Gibbons.
22 Because you said that you already have to bargain, or --
23 with this -- I didn't quite understand what you were
24 saying in that regard.

25 MR. CONLEY: Sure. I was commenting that at the

1 local level we can agree to -- we can agree to meet and
2 confer over this issue, if we so decide, rather than
3 having it applied in the legislature as a mandated issue
4 that has to happen before we even decide to contribute to
5 unfunded liabilities.

6 At the local level, we can set ground rules with
7 our bargaining units that prior to sending funds to this
8 trust, we can meet with the unions to discuss what that
9 would look like, decide on a process, et cetera, just so
10 they have more buy-in if that's -- if that's the case.
11 But applying it in a bill and making it an absolutely
12 mandatory issue before we can even decide to contribute to
13 the trust would be a big issue for my counties.

14 COMMITTEE MEMBER JONES: But the allocation of
15 these dollars would be in a public domain, so it would be
16 sunshined for anybody to comment on to make --

17 MR. CONLEY: Sure.

18 MR. GIBBONS: All budget expenditures are.

19 CHAIRPERSON COSTIGAN: Anything else, Mr. Jones?

20 COMMITTEE MEMBER JONES: No, that's it.

21 CHAIRPERSON COSTIGAN: Ms. Mathur.

22 BOARD MEMBER MATHUR: Thank you.

23 I think what we've found through the OPEB
24 prefunding trust, the CERBT, is just how valuable this can
25 be to making meaningful progress to funding these promises

1 to our members, our retirees. And, you know, we're
2 sitting here with what 73 percent funding status over all
3 of our plans, as an average. Some are lower, some are
4 higher.

5 And I applaud employers who want to make progress
6 towards better funding these promises. We certainly don't
7 want to be in a position -- I'm not suggesting that we
8 will be, but we certainly don't want to be in a position
9 of not being able to meet those promises. And so I -- I
10 think some kind of structure like this, which could help
11 facilitate, you know, achieving full funding status is a
12 positive thing, and good for our members, because our
13 members want those promises met, need those promises to be
14 met. They're relying on that.

15 At the risk of contributing to sort of the what
16 is the language -- what is the right solution, I would
17 like to proffer another suggestion, and that is perhaps a
18 notification provision, whereby any time money is moved,
19 either from the employer into the trust, or out of the
20 trust to pay contributions, that there be a notification
21 of the appropriate bargaining units.

22 You know, I think -- I can imagine -- I can
23 imagine -- you know, we've seen significant economic
24 cycles where employers have really struggled to meet their
25 obligations across their budgets, have reduced services,

1 have laid our members off, furloughed our members. And I
2 can imagine the -- I can see that it could be really
3 beneficial to set money aside such that -- while times are
4 kind of good, such that when times are bad, we can pay
5 those contributions and avoid perhaps some layoffs and/or
6 furloughs.

7 So I see this as win-win, and I really hope that
8 we can achieve some kind of agreement on -- so we can move
9 forward with this proposal.

10 Thanks.

11 CHAIRPERSON COSTIGAN: Thank you.

12 Controller Yee.

13 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

14 I know there's a motion on the table. I wanted
15 to see if there is any openness to putting this item over
16 to see if there could be a little bit more work on coming
17 to a meeting of the minds? I'm not prepared to support
18 the motion today, but I do think that there's recognition
19 across the board about the value of this trust vehicle.

20 I do think there's an openness on the part of
21 certainly the employers, in terms of where the member
22 organizations want to go. I think there could be a
23 win-win here. And I don't want this Board to, you know,
24 as you suggested, Mr. Chairman, to negotiate the
25 provision, but I'm just wondering if more time might be

1 able to allow staff to try to work with both sides on some
2 acceptable language.

3 I know there's a legislative process for that to
4 happen, but I'm just not prepared to support the motion
5 today without a little bit more work on this.

6 CHAIRPERSON COSTIGAN: Okay. Let's see, Mary
7 Ann, so I guess we have three routes. One is we have a
8 motion on the table, move the language, and we can deal
9 with this tomorrow, and see what happens at full Board. I
10 can kind of guess where this may go.

11 I know you need direction to move forward --

12 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.

13 CHAIRPERSON COSTIGAN: -- to get the bill out.

14 There is a legislative process. It's not as
15 though this will be the last time we hear this, because I
16 am sure you will be coming back with us with amendments.
17 Ms. Mathur's comments on notification really is something
18 that, at least what I heard from local government, is you
19 can bargain for already with it. What I've heard from
20 Terry is he wants more of a mandate.

21 And so, again, I don't think we're in a position
22 to negotiate. I think at least we're in a position of
23 we've got to give direction to staff to move this forward.
24 We're facing a deadline of February 19th. It will be
25 coming back. What I would like to avoid, and I'm looking

1 to the right side of the table, because you aren't voting
2 today, is what do we think will happen tomorrow? Because
3 if, at the end of the day, we're just going to put this
4 item over until March, I'd rather do it now than to move
5 an item today, move something different, and have staff
6 confused. And so I'm not going to poll anybody, but I
7 want an eyebrow or a nod.

8 (Laughter.)

9 CHAIRPERSON COSTIGAN: But, Mary Ann, what is it
10 that you need to move forward? Because I do know once the
11 bill is introduced, it will be in print for 30 days. The
12 parties have an opportunity. We'll have a committee. You
13 will be there. You will bring it back. I don't want to
14 delay moving it because it is a good policy. But again, I
15 don't want to have a negotiation.

16 A meet and confer, a side letter, that's not --
17 but giving you another 30 days, can you still move forward
18 with a spot bill? Our next deadline though is February
19 29th, isn't that correct?

20 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: In
21 order to move forward with legislation at all this year,
22 we need to get an author to introduce a vehicle by this
23 Friday. So if we miss that deadline, we can't have
24 legislation this year.

25 CHAIRPERSON COSTIGAN: But in asking an author to

1 introduce for us, we can have very general language that
2 we're going to amend this PERL, for example --

3 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

4 Correct.

5 CHAIRPERSON COSTIGAN: -- just to have a vehicle.

6 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: And
7 we already have language -- intent language ready to do
8 that.

9 CHAIRPERSON COSTIGAN: So what I'm asking you,
10 and I'll look at Anne, give me a nod too, is giving you
11 direction to move forward with a vehicle, spot vehicle,
12 and bring this back for specific language next month.
13 However, if I understood correctly, our next deadline is
14 February 29th --

15 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

16 Correct. That's --

17 CHAIRPERSON COSTIGAN: -- or otherwise a spot
18 bill will not move out --

19 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

20 Correct.

21 CHAIRPERSON COSTIGAN: -- without a rule waiver.

22 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:

23 Correct. We just have to have some language that
24 is more substantive that actually does something. Spot
25 bills don't do anything.

1 CHAIRPERSON COSTIGAN: I know that well. So the
2 problem we have before us is we have a spot bill, but we
3 don't have a Board meeting before the deadline. We have
4 to get more specific language on the 29th to give you
5 direction.

6 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: We
7 have intent language, which is --

8 CHAIRPERSON COSTIGAN: Do you believe that will
9 get us past this -- the --

10 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I
11 would need to talk with the author's office, but it could.
12 So really the most pressing deadline is whether or not the
13 Board wants to pursue legislation. And if so, then we
14 need to have something introduced by Friday. And then
15 after that, we could continue to work with stakeholder
16 groups and amend the bill further as needed.

17 CHAIRPERSON COSTIGAN: Because I think what --
18 just looking at both sides, is I would actually prefer to
19 move the staff recommendation, get a bill introduced, let
20 you all decide at the legislature. We don't lose the
21 opportunity to further this discussion, but we're up
22 against a deadline.

23 And the problem that we all face is the potential
24 is the issue could just go away on its own, because I know
25 how the legislature has gotten. They don't want to deal

1 with spot bills anymore. A lot of credit for doing that.
2 And so that is the hesitancy is to move something today.
3 Tomorrow, the full Board takes it differently and we're
4 sort of back in the same place.

5 So I throw that out. We have a few more
6 questions, so we'll keep moving along.

7 Mr. Slaton.

8 COMMITTEE MEMBER SLATON: Yeah. I just -- I
9 really think we should move it forward. We can't let the
10 imperfect be the enemy of the good. I think everybody
11 agrees that this concept is important and is valuable for
12 both members and agencies, that it's a good idea. We have
13 an OPEB Trust that's been in place for a number of years.
14 It works. We have 400 -- how many did you say,
15 400 agencies.

16 AFFILIATE PROGRAM SERVICES DIVISION INTERIM CHIEF
17 SWEDENSKY: Four hundred and seventy-five employers.

18 COMMITTEE MEMBER SLATON: Four hundred and
19 seventy-five employers who are participating in it. It's
20 a plain trust. I haven't heard a whisper that it creates
21 a bargain issue, that it's a problem. The last time I
22 checked, agency budgets are fungible. If I have money
23 available over here that I would spend in this area, to
24 save money to be able to spend it over here. That's my
25 simple knowledge of budgeting, and therefore, everything

1 is, in effect, negotiable.

2 So I think that while I respect that there are
3 issues surrounding whether labor should participate in the
4 process of putting money in, I just don't see where this
5 is the place today to cause us to not be able to move
6 forward, that -- ultimately with something that will be
7 productive.

8 So right now, I'm looking for a second out of
9 Committee to see if we can further the discussion
10 tomorrow.

11 CHAIRPERSON COSTIGAN: We're going to get there.
12 Ms. Taylor.

13 BOARD MEMBER TAYLOR: Yeah, I just -- I think I
14 wanted some clarity on the language -- the language that
15 would be presented by Friday, right, does it -- is it just
16 pretty much what we're seeing here? Is it -- and
17 then -- or is it even more skeletal than that? Is it less
18 than that? Is it -- what is the language that we're
19 looking at?

20 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I'd
21 be happy to read the actual language. It would create a
22 new section in the PERL that states, "It is the intent of
23 the legislature to encourage State and local public
24 employers that provide a defined benefit pension plan to
25 their employees to effectively manage their payments

1 toward their annually required pension contributions by
2 investing surplus funds into a trust fund to be developed,
3 established, and administered by the Board of
4 Administration of the Public Employees' Retirement
5 System".

6 BOARD MEMBER TAYLOR: Okay. So it's --

7 CHAIRPERSON COSTIGAN: And, Ms. Taylor, that's --
8 it's intent language, and it would move --

9 BOARD MEMBER TAYLOR: Yeah, so that's the intent
10 language.

11 CHAIRPERSON COSTIGAN: And the language that
12 we're voting on was -- is not at leg counsel yet, because
13 we've -- or do you have it?

14 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.
15 This has been submitted so that we would -- right.

16 CHAIRPERSON COSTIGAN: No, sorry, the intent
17 language, but the more specific has not, until we sort of
18 give them more direction as to where to go.

19 BOARD MEMBER TAYLOR: Right.

20 CHAIRPERSON COSTIGAN: So that -- the question
21 that I was asking earlier is that language sufficient to
22 survive the next deadline as an intent bill to get to the
23 policy committee? And that's what I heard Mary Ann say
24 she's got to talk to the author about. And that's when
25 the parties begin -- absent us having a negotiation, have

1 that discussion at the policy committee.

2 And then Mary Ann would have to come back, if the
3 bill is amended, ask us again our position, whether we
4 support/oppose/neutral. So we'll have multiple
5 opportunities -- this is going to be a multiple -- this
6 discussion will go on. I think this is, what -- we're in
7 an even year, so we go until September 15th this year?

8 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yeah,
9 it's approximately end of August.

10 CHAIRPERSON COSTIGAN: It's something like that.
11 So we'll be spending months working on this. Does that
12 help answer your question?

13 BOARD MEMBER TAYLOR: That does help answer.
14 Thank you.

15 CHAIRPERSON COSTIGAN: Thank you.

16 Mr. Jones.

17 COMMITTEE MEMBER JONES: Yeah, thank you, Mr.
18 Chair. Yeah, I -- in order to meet the deadline, I would
19 be in favor of moving something forward.

20 CHAIRPERSON COSTIGAN: Is that a second?

21 COMMITTEE MEMBER JONES: Not yet.

22 (Laughter.)

23 COMMITTEE MEMBER JONES: But I -- they've
24 indicated that they're open to having -- assuring that
25 this process includes communications with the bargaining

1 unit. And Terry is saying that that is a show stopper if
2 they don't.

3 And I also like Priya's comment about some kind
4 of way to bring those two together by some kind of
5 notification or even in the language. Because having
6 worked in a public agency that you have to notice a budget
7 transfer, that's what's going to be required to get this
8 money from A to B, and that is a public debate or notice
9 about moving money from one account.

10 And especially if it goes into reserve, it's
11 probably going to require a higher approval rate, you
12 know, a majority -- two-thirds or something like that,
13 rather than a simple majority.

14 So maybe that's where we could address the
15 concerns is in some kind of language that allowed that
16 process to happen. And I would then suggest that that's
17 what Priya's comments, and I have a couple, and anyone
18 other give to staff, and then let them -- because they
19 said they haven't had an opportunity to discuss this. So
20 let them see if they can come up with some language to --
21 they both would agree on to be inserted in this bill, and
22 then we can, as a Board, provide our input to staff. And
23 then we come back and have another debate.

24 CHAIRPERSON COSTIGAN: All right. So, Mr. Jones,
25 so looking at the calendar, which I -- the 19th is bill

1 entry deadline. The policy deadline is April 22nd. So
2 again, what at least, I would recommend as the Chair, is
3 we move forward with the staff recommendation, because
4 just the deadlines. The bill has to be in print for 30
5 days. By the time the bill rolls around, it's spring
6 break. Give you the opportunity -- it also gives us
7 another Board meeting. It actually gives us two Board
8 meetings prior to the policy deadline -- right, Mary Ann?

9 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Yes.

10 CHAIRPERSON COSTIGAN: -- for the Board to take
11 further action. But I think staff needs direction to at
12 least get the ball rolling. So we'll keep going.

13 Mr. Jelincic.

14 COMMITTEE MEMBER JELINCIC: If this were a
15 proposal to support legislation that did this, I think it
16 would be a no-brainer, and I would be all for it, but it's
17 not. It's actually a proposal that we sponsor it. We
18 take ownership of it. And so that, in fact, gives me
19 pause.

20 The language that Mary Ann read is vague enough
21 that I don't know that -- you know, it doesn't say enough
22 to really get agitated about one way or the other. But
23 one of the things that I would hope that we would agree to
24 is that before we actually submit the detailed language,
25 rather than the simple intent, that that actually comes

1 back. And if it's the Board's bill, then we ought to have
2 a real discussion and a vote on this specific language. I
3 also recognize that no matter what we do, the legislature
4 is going to do whatever the legislature does or doesn't
5 do. So that's sort of the dilemma.

6 CHAIRPERSON COSTIGAN: Well, I believe that staff
7 can't amend the bill, cannot, until we take another vote
8 on it. And at this point, you're only having direction
9 for the intent language.

10 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I'm
11 sorry, could you repeat that?

12 CHAIRPERSON COSTIGAN: Right now, the vote is
13 just for the intent language.

14 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:
15 That's correct.

16 CHAIRPERSON COSTIGAN: Okay. So in answer to Mr.
17 Jelincic's questions, if there's a substantial amendment
18 to the bill, it has to come back to the Committee.

19 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY:
20 Correct. And to meet the other timeline, the
21 other deadline of the 26th or --

22 CHAIRPERSON COSTIGAN: 22nd of April.

23 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: Well,
24 to get it -- I'd need to confer with the author's office
25 to make sure that the intent language would not need to be

1 amended prior to the 26th of February, which is the
2 deadline for spot bill language.

3 CHAIRPERSON COSTIGAN: Okay. Mr. Lind.

4 BOARD MEMBER LIND: Thank you. So earlier Mr.
5 Costigan was kind of trying to read tea leaves about
6 what's going to happen tomorrow, which makes sense. And,
7 you know, my original question was sort of designed to
8 give Terry the opportunity to not subtly state the
9 obvious, that without support of employee groups, this
10 thing is DOA, right?

11 You know, I was -- I spent 35 years as a
12 professional negotiator, and I always did my best work
13 when there's some sort of deadline or pressure. Is it
14 possible to bump this decision to the full Board tomorrow,
15 and, who knows, maybe the parties get together, maybe the
16 Controller mediates something tonight, and they work
17 something out --

18 (Laughter.)

19 BOARD MEMBER LIND: -- and everybody is happy,
20 and we have something that we can unanimously support
21 tomorrow.

22 CHAIRPERSON COSTIGAN: Well, we're going to -- I
23 think what we have to first do is we have a motion. We've
24 got two more folks that are going to speak -- three now.
25 Then we'll move it, because I think we have a motion on

1 the floor with staff recommendation. We'll have to see
2 what happens tomorrow at full Board

3 MR. BRENNAND: Mr. Chairman, do you mind if I
4 just speak to the motion?

5 CHAIRPERSON COSTIGAN: Sure, Terry.

6 MR. BRENNAND: I don't want to hold this up and
7 not have it happen. I was looking for direction from the
8 Board to ensure that there was employee participation in
9 the final language of this bill. I understand working in
10 the legislature meeting deadlines. So I would be
11 comfortable with the legislation moving forward in its
12 current form, as long as PERS reserves their sponsorship
13 of this legislation until you have agreement on final
14 language, because these organizations could introduce this
15 and sponsor it themselves.

16 They're asking you to be sponsors, because of
17 your imprimatur in the legislature and your influence.
18 That's what I would like is let's deal with the deadlines,
19 negotiate. This is not a tomorrow issue. And despite the
20 Controller's deft negotiating skills, I'm not sure we
21 could get this done in 24 hours.

22 But that prior to submitting actual language that
23 would effectuate this trust, that we come back to you
24 before the, you know, policy deadlines. I think this
25 language is probably sufficient to get through rules into

1 the PERS Committee, frankly. It's not -- we're going to
2 do -- we're going to vaguely amend the PERL.

3 It's saying we're going to create a trust. So I
4 just thought you should know that I'm not trying to stop
5 this --

6 CHAIRPERSON COSTIGAN: It scares me that last
7 week you and I have agreed twice. I don't want to hug
8 you.

9 (Laughter.)

10 MR. BRENNAND: -- for the record.

11 CHAIRPERSON COSTIGAN: No more hugging.

12 (Laughter.)

13 CHAIRPERSON COSTIGAN: I appreciate that. And I
14 appreciate the process here.

15 So, Ms. Yee.

16 COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

17 First of all, let me second the motion of Mr.
18 Slaton.

19 CHAIRPERSON COSTIGAN: Great.

20 COMMITTEE MEMBER YEE: But I agree with Mr.
21 Jelincic, my assent to move this forward is not indicating
22 sponsorship. I would like to see this item agendized for
23 our next meeting, and would ask staff to see if you could
24 just help to facilitate further conversation between the
25 parties. I think we can get there. There's an openness.

1 We've heard some strategies by a couple of my colleagues.
2 And I hope that those can be incorporated in terms of the
3 language that we see back before this Committee next
4 month.

5 CHAIRPERSON COSTIGAN: And Controller Yee, both
6 as the Chair and on behalf of the Committee, we will
7 continue to do that. I know working with Cheryl and Mary
8 Ann, they're not -- any substantial changes or any
9 substantive changes will come back to us. We're certainly
10 going to -- there's one follow-up I'd like, based on what
11 the Controller raised, is -- for the March meeting is
12 actually the cost. I would like us to have more of a --
13 once you have direction, now we know to start looking at
14 the fiscal analysis.

15 So sort of that break-even point that you were
16 raising is what are our internal costs, so we could have a
17 little bit of a comparison along the lines also with what
18 Ms. Slaton raised about the fact that counties and local
19 districts already have the opportunity to do it and what
20 those costs may be.

21 A couple more questions. Mr. Jones.

22 COMMITTEE MEMBER JONES: No, I was just going to
23 second it.

24 CHAIRPERSON COSTIGAN: Mr. Jelincic.

25 COMMITTEE MEMBER JELINCIC: And I got confused.

1 The intent language, as I said, I have -- you know, it's
2 vague enough, I really don't have a problem with it, other
3 than it's our sponsorship.

4 But then you said that you weren't sure that the
5 intent language -- you thought there was at least a
6 possibility -- I don't know how significant a
7 possibility -- that we may actually need to develop some
8 specific language before it has a chance to come back to
9 the Board, or amended into the bill.

10 Now, then Terry said, well, he doesn't think so.
11 But Terry is wearing a suit for the second day in a row.

12 What was the issue you were raising and the
13 likelihood that we need to expand beyond just the intent
14 to get past the deadline?

15 LEGISLATIVE AFFAIRS DIVISION CHIEF ASHLEY: I
16 don't know that there's a likelihood of that. I would
17 just be comfortable confirming with the author that we did
18 not need to have anything other than this intent language
19 to meet the deadlines imposed by Assembly Rules Committee.

20 CHAIRPERSON COSTIGAN: And I think, as Terry
21 outlined, this language, even though it was the word
22 intent in it, it actually has more specificity. It should
23 survive at least the first one. And I believe if the
24 employee and the employer groups and PERS all agree, to be
25 able to move it to policy Committee for this discussion,

1 we should be able to get past Rules.

2 MR. BRENNAND: Should there be more language
3 necessary to move it to the policy committee, I think we
4 can come to agreement on that. I would just want to make
5 sure that this Committee and this Board had a chance to
6 review the final language before it was heard in any
7 policy committee, and before you were listed as the
8 sponsor of that bill.

9 CHAIRPERSON COSTIGAN: Correct. So before the
10 22nd -- before either March or April, we'll have a
11 hearing.

12 Mr. Jones.

13 COMMITTEE MEMBER JONES: Yeah, thank you, Mr.
14 Chair.

15 This is a technical question for Alan. J.J. had
16 asked about can organizations or agencies now make
17 additional contributions until they're super funded. What
18 is the process now for them to do that?

19 CHIEF ACTUARY MILLIGAN: In general, they will
20 contact their actuary, and we're work with the actuary.
21 Let the actuary know that they're making the additional
22 contribution. We do have to -- we have to accommodate
23 that additional contribution in their actuarial valuation.
24 There's more than one way that that can happen. And so we
25 kind of need to work with them a little bit to find out

1 what's their intent, and then they just submit the
2 additional contributions through the regular process.

3 So it's actually fairly easy for an employer to
4 make an additional contribution. I don't know precisely
5 how many, but there's hundreds of those every year.

6 COMMITTEE MEMBER JONES: And this process will be
7 doing a similar thing, just setting up a separate fund to
8 manage the resources.

9 CHIEF ACTUARY MILLIGAN: This process would be
10 more similar to the contributions to the CERBT program
11 than the additional contribution to the pension program,
12 because just by it's very nature, it would not impact the
13 amortization -- other amortization basis, that sort of
14 thing. It won't impact the actuarial valuation, because
15 these funds will be totally outside of the actuarial
16 valuation.

17 COMMITTEE MEMBER JONES: Okay. Thank you.

18 CHAIRPERSON COSTIGAN: Okay. I do believe that
19 is all clear. No other questions. Thank you very much
20 for the discussion and the debate.

21 It has been moved and seconded.

22 All in favor?

23 (Ayes.)

24 CHAIRPERSON COSTIGAN: Opposed?

25 Motion carries.

1 Thank you very much.

2 All right. Next item. Ms. Eason, you're up
3 again, 6b. Actually, Ms. Malm, it's your turn.

4 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

5 Good morning, Mr. Chair, members of the Finance
6 and Administration Committee. Kim Malm, CalPERS staff.
7 Again, congratulations to the both of you on your
8 reelection. In front of you is an action item.

9 In February, 2009, the Board adopted the trimmed
10 average scoring methodology for all of their RFPs where
11 they retained authority. This is the methodology that's
12 been used for the last six years.

13 While calculating the trimmed average, each Board
14 member independently scores the individual candidates,
15 which does not allow for discussion or transparency of
16 selecting the candidate. Basically, you blind score
17 without discussion. Therefore, we were recently asked to
18 come up with a couple of different options.

19 The two options listed in your agenda item have
20 been recently used by the Committee and Board. Option 1
21 was used in March 2015 by the Risk and Audit Committee,
22 and option 2 was used in August 2015 by the Perf and Comp
23 Committee.

24 Option 1 is where staff evaluate the technical
25 proposals with two Board members acting as advisors.

1 There's a total of 200 points for the technical
2 proposal -- proposal, in which 140 points must be achieved
3 to move forward and to pass into moving to the fee
4 proposal. Those points do not move forward. However,
5 it's a pass/fail.

6 Once you get to the fee proposal, there's 300
7 points for fees, which is regulated by the public contract
8 code. And then there's 700 points available for the
9 interview score by the Board.

10 In option 2, the Board, or a subcommittee of the
11 Board, does the entire evaluation. And therefore, 200
12 points are available for the technical score, 300 points
13 again are available for the fee score, and 500 points are
14 available for the Board interview.

15 The agenda has a typographical error that says
16 700, but it's supposed to be 500 for a total of 1000
17 points in each option.

18 These two options provide an opportunity for the
19 discussion of points awarded and to increase transparency
20 in the selection of the vendor. These two options will
21 replace the trimmed average methodology. Staff brings to
22 the Board or Committee the minimum qualifications, the
23 services to be provided, the schedule of events, and the
24 scoring methodology for each and every RFP that you retain
25 authority.

1 At that time, of course, the Board always has the
2 option to make changes to the scoring methodology in order
3 to meet the best needs of the Board for that solicitation.

4 This concludes my presentation, Mr. Chair, and
5 I'm happy to answer any questions.

6 CHAIRPERSON COSTIGAN: Thank you very much.

7 Mr. Jelincic.

8 COMMITTEE MEMBER JELINCIC: I thought I
9 understood this, and now I'm not sure I do.

10 In proposal 2, the technical proposal would be
11 evaluated by the Board rather than staff.

12 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

13 Correct.

14 COMMITTEE MEMBER JELINCIC: Which means the Board
15 or some subcommittee will actually get the responses, go
16 through it, and come up with a score.

17 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

18 That's correct. That's what the Perf and Comp
19 Committee did in August.

20 COMMITTEE MEMBER JELINCIC: Okay. Having
21 participated -- okay. So now that I understand that, I
22 can -- I'll have to think about it.

23 The -- having participated in the first proposal
24 with Risk and Audit, I thought it was actually very
25 helpful to have staff do the technical evaluation, because

1 the people have to work with them, and they actually know
2 what it is they do. And although one of the drawbacks to
3 that was the pass/fail, so that when it came to the
4 Committee, we really didn't have the staff's insight into
5 which ones were better. We were told these -- any of
6 these people can do it. But just because any of them can
7 do it, doesn't mean that they're equally -- you know,
8 equally qualified. And so that was one of the
9 frustrations I had with the first proposal.

10 And then the second proposal actually, you know,
11 gets into, quite frankly, the skill set of the Board to
12 evaluate it. So I need to think this one through. And
13 maybe what we actually need to do is somehow combine the
14 two, or maybe have the staff serve as advisor to the Board
15 on the technical. So I think we need to work that
16 through.

17 CHAIRPERSON COSTIGAN: Anything else?

18 COMMITTEE MEMBER JELINCIC: No.

19 CHAIRPERSON COSTIGAN: All right. Thank you.

20 COMMITTEE MEMBER JELINCIC: At least not yet.

21 CHAIRPERSON COSTIGAN: Mr. Slaton.

22 COMMITTEE MEMBER SLATON: Yeah, a couple of
23 things. I think to build on what J.J. was saying, to me,
24 it makes sense to have that staff input with the two Board
25 members. I think that's a good process. I think it works

1 well. So we could do the option 2, but have that
2 technical be done by staff with 2 Board members. So
3 essentially, you're combining characteristics of both.

4 What I see missing here is to me the thing that I
5 was most concerned about was the end process of the Board
6 interview. And I don't see that discussion about that
7 process, because in the past, we had a situation where we
8 each blindly assigned points, collected the pieces of
9 paper, and then it was read out. And none of us -- we had
10 no discussion. We each made an individual decision. And
11 the collective decision ended up being one that, at the
12 end of the day, we all looked at each other and said,
13 well, that's not really what we wanted to do.

14 So subsequent to that, I think we've done it once
15 where we've had a motion by an individual board member to
16 assign points, which clearly weighted it toward a
17 particular proposer -- proposal, and then we had a
18 discussion, and the Board decided on a vote whether or not
19 they liked that idea or not. And I don't see that -- that
20 piece of the process here.

21 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

22 So that is the procedures that we implemented in
23 these last two Board RFPs is that's how we have -- the
24 Board has utilized and implemented their 700 points. So
25 what this agenda item talks about is the point value,

1 and -- but the implementation of making your motion --

2 COMMITTEE MEMBER SLATON: It's already done.

3 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

4 -- during the interview points is part of our

5 procedures that we follow now for all of the Board RFPS.

6 COMMITTEE MEMBER SLATON: Okay. So that's

7 already done. That's off the table. It's taken care of.

8 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

9 Sure.

10 COMMITTEE MEMBER SLATON: So the only issue here

11 is the points. And I think that the -- and I assume it's

12 200, 300, and 500, is that what heard you say?

13 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

14 It's two, three, five, sir.

15 COMMITTEE MEMBER SLATON: Yeah, two, three, five.

16 I would be comfortable with two, three, and five

17 provided that 200 is done by a staff with Board -- with

18 the a two Board member participation is what I would

19 suggest.

20 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

21 So that's option 1.

22 COMMITTEE MEMBER SLATON: Well, no, option 1 says

23 pass/fail on the technical.

24 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

25 Oh, sorry. Yes. Okay.

1 COMMITTEE MEMBER SLATON: So I'm suggesting the
2 200 points on the technical -- what I want to accomplish
3 is what J.J. was saying, that we want to see how the staff
4 ranked them, and what the pluses and minuses were. And
5 if -- does that happen in the pass/fail, or am I -- do I
6 need to take J.J.'s position?

7 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

8 Well, it can absolutely happen in the pass/fail,
9 where the program can provide the Board with more details
10 in regards to the evaluation of the technical evaluation
11 piece. You can be provided that level of detail, so that
12 you know what happened during the technical evaluation, as
13 opposed to giving it a point value that counts towards the
14 number of points awarded for technical. The other just
15 gives the Board a little bit more flexibility in the
16 points.

17 COMMITTEE MEMBER SLATON: Um-hmm. I'm happy
18 either way, as long as we get the knowledge coming out of
19 staff.

20 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

21 Absolutely.

22 CHAIRPERSON COSTIGAN: Okay. Mr. Jones.

23 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
24 Chair. Yeah, I would be in favor of option 1 with any
25 minor modifications that may be necessary, because this --

1 Ms. Malm, is this the option one the process we used when
2 we went out for the RFP for our Board investment
3 consultant? Is that what we used? Because I know --

4 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

5 Option 1 was used by the Risk and Audit Committee
6 for the parallel evaluation. The one that you sat on was
7 the staff as the -- and two Board members as advisors.
8 However, there were points awarded for technical, 200
9 points, and they moved forward into the evaluation phase.
10 It was not a pass/fail.

11 COMMITTEE MEMBER JONES: Okay. I remember that.

12 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

13 It moved forward. And just so I'm clear, both of
14 these options are options on the table for -- are two
15 options you can choose from this point forward. I'm not
16 asking you to select one or two. Both of these are
17 available for you to utilize in the future.

18 COMMITTEE MEMBER JONES: Okay. Well, I like the
19 concept of the 200 -- two, three, and five, I guess it
20 would be, from my point of view. I would like to,
21 however, revisit the Board's interview. And I know Mr.
22 Slaton has indicated his preference, but I think that it
23 doesn't give the other -- all the Board members an
24 opportunity to give their -- the value of their input,
25 because someone can make a motion, and someone second it

1 and so how do you value what I was thinking? Because I
2 know when we left the room, there were some members
3 saying, well, gee whiz, I had given the person who came in
4 that was not recommended the highest score.

5 So how do we know that? We don't, because
6 it -- so I'm suggesting maybe we could have a -- continue
7 the scoring, but have it a public scoring, so then we know
8 what the values are, and then move to a person making a
9 motion to select. So --

10 DEPUTY EXECUTIVE OFFICER HOFFNER: If I can
11 interrupt?

12 COMMITTEE MEMBER JONES: Yes.

13 DEPUTY EXECUTIVE OFFICER HOFFNER: Doug Hoffner,
14 CalPERS staff.

15 That's exactly what we're proposing to do, is
16 rescind the blind scoring methodology that was used
17 historically and speaks directly to what you're saying,
18 Mr. Jones, in terms of that direct, accountable,
19 transparent scoring in the public setting.

20 COMMITTEE MEMBER JONES: Okay.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: So a motion
22 would be made and seconded, a discussion would be had.

23 COMMITTEE MEMBER JONES: Okay.

24 DEPUTY EXECUTIVE OFFICER HOFFNER: Subsequent
25 motions could be made. Every member of the Board who's on

1 that Committee, or the full Board, could have input as to
2 how they then scored.

3 COMMITTEE MEMBER JONES: Okay.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: And then that
5 would be -- the deliberate debate would go on.

6 COMMITTEE MEMBER JONES: Yeah.

7 DEPUTY EXECUTIVE OFFICER HOFFNER: And then there
8 would be a vote at the end.

9 COMMITTEE MEMBER JONES: Okay.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: And that's --
11 all we're trying to do is rescind the one and say here are
12 some other options you've used most recently and seemed to
13 have liked. We just want to make sure that we'll give you
14 flexibility when we move forward with future RFPs. We
15 want to use these two as the models. But when we come
16 forth with those RFP documents, we'll outline this for you
17 and you can decide at that point in time which one of the
18 two were so -- based on the modifications I've heard today
19 you want to use in that transparent setting.

20 CHAIRPERSON COSTIGAN: So, Mr. Hoffner, don't go
21 far. So just one of the questions that I would have --
22 Mr. Jones, do you have any more?

23 COMMITTEE MEMBER JONES: No, go ahead

24 CHAIRPERSON COSTIGAN: Okay. Now is --
25 currently, we set aside 30 minutes to do the interviews.

1 Okay, which has actually -- I've been frustrated a little
2 bit because there are some interviews where I haven't been
3 able to ask a question. Where is the 30 minute set? How
4 is that set, and then how does this impact that, because
5 now if the Board interviews have more weight, to make sure
6 that all 13 get to ask?

7 DEPUTY EXECUTIVE OFFICER HOFFNER: You want to
8 go?

9 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
10 Yeah.

11 The 30-minute time limit is not set in any policy
12 or law.

13 CHAIRPERSON COSTIGAN: Okay.

14 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
15 And so if you wanted to extend for the Committee
16 that you're on the length of time for interviews, we're
17 happy to do so.

18 CHAIRPERSON COSTIGAN: Okay. So this -- because
19 in this case, the Board interview actually has more
20 weight, so we'd want to put a greater emphasis on it.

21 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
22 Yes.

23 CHAIRPERSON COSTIGAN: Mr. Jelincic.

24 COMMITTEE MEMBER JELINCIC: I just want to make
25 sure that in option 2, and maybe what we need is a third

1 option, that it's clear that staff is involved in the
2 technical proposal evaluation, and, you know, the -- a
3 couple of Board members are, I call it kibitzing, we're
4 more formal -- provide guidance and oversight, which I
5 think is the definition of kibitz. But I just want to
6 make sure that that's in there, and I don't see it.

7 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

8 So option 2 that was utilized by the PERF and
9 Comp Committee in August did not -- had staff as support,
10 but the subcommittee read the proposals, evaluated each of
11 the questions on their own merit, and had negotiations and
12 conversations as a noticed Board meeting to evaluate the
13 technical. And then we scored the fee, and then came back
14 on a subsequent day and scored the interviews. So the
15 subcommittee did do the evaluations with some support from
16 staff, but they did the majority of the work.

17 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, so if I
18 could clarify that. So the work that the staff did was to
19 ensure that they met the requirements of the RFP. So we
20 didn't just deliver in a public setting, you know, eight
21 RFP responses that ranged in, you know, eight different
22 binders. So we ensured that they met the minimum
23 qualifications.

24 And then, in that case, it was a Board consultant
25 that they were looking to select. And they made that

1 determination and evaluation. We then did the fee scoring
2 option, because that's a staff obligation requirement, and
3 we brought back what that -- those total points were
4 allowed to be, based upon the fee structure. Those got
5 combined. And then they went to the -- at that point, the
6 subcommittee evaluation process scoring, and rolled all
7 three buckets together and came up with a selected
8 finalist that recommended to the full Board for that
9 solicitation.

10 COMMITTEE MEMBER JELINCIC: Okay. Then I would
11 like to propose an amendment, which is to create a third
12 option for the Board to choose from, which would be
13 current option 2, but with staff doing the evaluation and
14 the -- a couple of Board members kibitzing. So we have
15 all three options, and each RFP we can decide which of
16 those makes the most sense for that particular option.

17 DEPUTY EXECUTIVE OFFICER HOFFNER: Sure.

18 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
19 Sure.

20 CHAIRPERSON COSTIGAN: I just want to, so that I
21 can clarify, Mr. Hoffner, under option 2, what Mr.
22 Jelincic is proposing, doesn't that already exist because
23 of the creation of the subcommittee, it's the Board or the
24 Board subcommittee?

25 DEPUTY EXECUTIVE OFFICER HOFFNER: No, what he's

1 talking about is having the staff -- it's my understanding
2 based on both Bill Slaton's and J.J. Jelincic's comments
3 is having staff do the technical proposal scoring for the
4 200 points, and then providing that as an input to the
5 that subcommittee or committee, and then the fee proposal
6 would be what it is.

7 And then the Board -- the subcommittee of the
8 Board would have the remaining points to allocate based on
9 those three different things. And that would be a third
10 option, and we're happy do include that as well.

11 CHAIRPERSON COSTIGAN: Mr. Slaton.

12 COMMITTEE MEMBER SLATON: Yeah, I would move
13 staff's recommendation with the modification that J.J.
14 recommended.

15 COMMITTEE MEMBER JONES: Second.

16 CHAIRPERSON COSTIGAN: Okay. So we have a
17 motion. And, Mr. Jones, are you seconding and do you have
18 a comment?

19 COMMITTEE MEMBER JONES: No, I would -- I'm okay
20 with the suggestion

21 CHAIRPERSON COSTIGAN: The three options

22 COMMITTEE MEMBER JONES: Yeah.

23 CHAIRPERSON COSTIGAN: Okay. So I'm going to ask
24 Mr. Hoffner or Ms. Malm to state what they believe the
25 motion is. I want to make sure we're all on the same

1 page. So it's to move staff recommendations which is
2 adopt option 1, option 2, and then option 3.

3 Mr. Hoffner.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: So option 3
5 is -- to my understanding would be the technical proposal
6 fee -- the technical proposal for the 200 point scored by
7 staff with, in this case, two Committee Board members
8 overseeing from a technical advisor role, very similar to
9 option 1. The fee proposal stays the same and the
10 Committee or the Board retains the final remaining 500
11 points for the discussion scoring. That's what I heard.

12 CHAIRPERSON COSTIGAN: All right, Mr. Jones.

13 COMMITTEE MEMBER JONES: That's my understanding.

14 COMMITTEE MEMBER SLATON: Yep.

15 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

16 Okay. Can I ask one piece of clarification? Do
17 you still want the 140 points minimum for technical score
18 in order to move forward into the fee proposal?

19 COMMITTEE MEMBER SLATON: Sure.

20 CHAIRPERSON COSTIGAN: That would be under the
21 minimal qualification.

22 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

23 Okay.

24 CHAIRPERSON COSTIGAN: Question, Ms. Hollinger?

25 VICE CHAIRPERSON HOLLINGER: My only --

1 CHAIRPERSON COSTIGAN: Hang on a second. Sorry.
2 I turned you off by accident.
3 Okay.

4 VICE CHAIRPERSON HOLLINGER: My only concern is
5 could we end up in a deadlock?

6 COMMITTEE MEMBER SLATON: No.

7 VICE CHAIRPERSON HOLLINGER: No. Okay. Then I'm
8 fine.

9 DEPUTY EXECUTIVE OFFICER HOFFNER: I think
10 it's --

11 CHAIRPERSON COSTIGAN: Ms. Malm, go on the
12 record. Can we end up in a deadlock?

13 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
14 You cannot end up in a deadlock. Look, you're
15 asking me math questions. However, it does take away --

16 CHAIRPERSON COSTIGAN: Look at the actuary.

17 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
18 It -- in the two options that I proposed to you,
19 the Board had 700 out of the 1,000 points.

20 VICE CHAIRPERSON HOLLINGER: Yeah, but you said
21 it's really five.

22 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

23 No, it's 500 plus the 200 for -- for technical,
24 if they evaluate it themselves, which is 700 or 700 for
25 the interview for option 1.

1 VICE CHAIRPERSON HOLLINGER: Got it. Okay.

2 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

3 And this would just reduce that to 500.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: So I would say

5 no to that question, because you will know what the first

6 buckets of points are when you get to the third level of

7 interviews.

8 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

9 That's true.

10 CHAIRPERSON COSTIGAN: Yep.

11 DEPUTY EXECUTIVE OFFICER HOFFNER: And if

12 you're -- it's down to one point or something, you're

13 going to know what that is.

14 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

15 That's true.

16 DEPUTY EXECUTIVE OFFICER HOFFNER: From the --

17 you'll know what the math is and the total points

18 available, so that determination will be made by that

19 Board or Committee as to who the selected vendor would be.

20 CHAIRPERSON COSTIGAN: Great. Okay. We have --

21 it has been moved and seconded for options 1, 2, and 3.

22 All those in favor?

23 (Ayes.)

24 CHAIRPERSON COSTIGAN: Opposed?

25 Motion carries. Thank you very much.

1 All right. Next item, Item 7a is an
2 informational item on the 2015-17 business plan mid-year
3 update. Mr. Hoffner, is that -- ooh, Ms. Stausboll is
4 joining us.

5 Ms. Stausboll.

6 (Thereupon an overhead presentation was
7 presented as follows.)

8 CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you.
9 Anne Stausboll.

10 As Cheryl mentioned, when she did the
11 introduction this morning, we've got two business planning
12 items today. So just for context, we're nearing the end
13 of the fourth year of our five-year strategic plan, which
14 was for 2012 through '17. So the first item we have today
15 is 7a, which is a routine mid-year status report on the
16 business initiatives that the Board has already approved
17 for the 2015-17 cycle.

18 And in your materials, you have a very high level
19 report, as well as a document summary of each of the
20 initiatives and its status. So this is straightforward,
21 and we didn't plan to make a presentation on that part,
22 unless there are questions.

23 So what we'd like to do today is spend --

24 CHAIRPERSON COSTIGAN: Hang on. Hang on. Got a
25 question.

1 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yes, sir.

2 CHAIRPERSON COSTIGAN: Mr. Jones.

3 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
4 Chair. Yeah, my only question was -- on this piece was at
5 risk, compensation policy review. And you said it's at
6 risk. And looking at the narrative that represents this
7 item, it seemed like all the things had been done already.
8 So, you know, you selected a consultant. You have --
9 you're on time to come to a finalization of your process
10 in June. So why is it at risk?

11 DEPUTY EXECUTIVE OFFICER HOFFNER: So thank you
12 for that question. So this report is as of December 31st.
13 While we had -- as actually the Committee had selected the
14 vendor, and some pre-interviews had been done with members
15 of the Performance, Comp and Talent Management Committee.
16 They had not actually even presented to the full Board.
17 That didn't happen until the January off-site.

18 So though we know these things occurred, we
19 wanted to say sort of true to the timing of when this
20 mid-year report is reflective of, and the fact that
21 there's more work to be done between now and June 30th of
22 this year. And so we highlighted from that perspective,
23 but acknowledge other work has been done since then.

24 COMMITTEE MEMBER JONES: Okay. Thanks.

25 CHIEF EXECUTIVE OFFICER STAUSBOLL: And I would

1 just say though it is an ambitious undertaking this
2 project. And so, you know, the goal of getting a whole
3 new compensation plan in place by June 30 is still
4 somewhat ambitious, but we're optimistic.

5 COMMITTEE MEMBER JONES: Thank you.

6 CHAIRPERSON COSTIGAN: All right. Mr. Jelincic.

7 COMMITTEE MEMBER JELINCIC: I thought there was a
8 thing in this agenda item about the PEARS system. And as
9 I'm thumbing through it, I'm not seeing that. Because it
10 indicated, you know, some problems with having lost some
11 of the leadership, and the system going down. But the
12 information we got at Finance Committee was not, you know,
13 terribly consistent with that. And I could be wrong, it
14 could be in the next agenda item.

15 CHIEF FINANCIAL OFFICER EASON: No, it's just
16 page seven of the 32 on Attachment 2 of this Item 7a.

17 COMMITTEE MEMBER JELINCIC: Attachment 2, page
18 seven?

19 CHIEF FINANCIAL OFFICER EASON: Of 23?

20 CHAIRPERSON COSTIGAN: Titled, "Enhance
21 Investment Platform and Controls"?

22 CHIEF FINANCIAL OFFICER EASON: Yes.

23 COMMITTEE MEMBER JELINCIC: And I'm -- you know,
24 I'm particularly concerned about PEARS, because we've been
25 told this is the answer to so many of my questions on not

1 just the fees, but also where we're making money. And so
2 can you expand a little bit about the loss of the project
3 lead and the fact that it apparently went down a few
4 times?

5 CHIEF EXECUTIVE OFFICER STAUSBOLL: Wylie will
6 take that.

7 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

8 Yes, I can take that Mr. Jelincic. Wylie
9 Tollette, Investment Office staff. And the answer is very
10 similar to what Doug mentioned that these reports are
11 prepared as of the end of the year. And there were five
12 sev 1 outages of the PEARS system.

13 COMMITTEE SECRETARY BLACK: Sev one outages?

14 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

15 Severity one. It means -- basically means that
16 the system is unavailable to the folks that want to use
17 it, and -- in October and November. There were none in
18 December and there were none in January, and there have
19 been none in February. So we believe that the technical
20 issue that was creating those outages that are mentioned
21 in this report have been addressed. This system is stable
22 and working well now.

23 The project lead was Rajiv Prabhakar, who works
24 for me. And left because he lived in Boston and basically
25 wanted to go back home. And we've --

1 CHAIRPERSON COSTIGAN: Didn't like the warm
2 weather.

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I'm
4 sorry?

5 CHAIRPERSON COSTIGAN: He didn't like the warm
6 weather here?

7 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
8 Yeah, he went back at a very difficult time in
9 Boston weather exactly.

10 COMMITTEE MEMBER JELINCIC: It serves him right.

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
12 Perhaps regretting his decision now.

13 But we've -- because otherwise he would be here
14 telling you all this. But we've now substituted in Matt
15 Flynn, a very experienced project lead, and the project is
16 going well. So again, it's kind of when you take the
17 snapshot of the status report, it means a lot. We feel
18 like the project is on track. And we're well under way on
19 our phase 2 effort, which will basically replace the
20 existing manual reporting that the PEARS -- that the
21 private equity team is doing, and as you stated, Mr.
22 Jelincic, should bring much greater transparency and
23 understanding of our fee structures in private equity.

24 COMMITTEE MEMBER JELINCIC: And I'm also really
25 interested in the attribution.

1 But you said it went down and was unavailable,
2 did we identify what caused that, so that we actually can
3 fix it.

4 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: We
5 did. We did. It was an issue with the two different
6 software packages that are involved in the PEARS system,
7 ones called eFront, and the other provider is called
8 Capital Analytics, and we're having a problem with the
9 databases synching up properly. There was a technical
10 issues that's now been sorted out, so that the databases
11 are synching properly and the system has been working
12 well.

13 COMMITTEE MEMBER JELINCIC: I heard you say
14 databases. Does that mean we have two databases, rather
15 than one database where both systems are using the same
16 data?

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:
18 We have two databases that are built on the same
19 platform, and they're intended to mirror one another. One
20 is used for the accounting, that's the Capital Analytics
21 system, and one is used for the reporting, that's the
22 eFront system that the private equity team actually logs
23 into and uses. And basically, they need to stay in synch,
24 and there's technology to do that. And they have the same
25 exact information, it's just two different instances of

1 the technical platform. So they now stay in synch well.

2 COMMITTEE MEMBER JELINCIC: And let me raise an
3 issue that ought to be thought about going forward, and
4 that's getting them on the same databases, because if you
5 are reading different databases, they will not stay in
6 synch. And if you've got the same -- if you're looking at
7 the same data, then you're going to be much more
8 consistent. So I think going forward that really needs to
9 be thought about.

10 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

11 Thank you.

12 CHAIRPERSON COSTIGAN: So before you run, what I
13 would like you to work with Ms. Eason on, I'd actually
14 like at a future Board meeting, some time in the next --
15 could we have a demonstration, just to see how it works?

16 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

17 Absolutely.

18 CHAIRPERSON COSTIGAN: That would be great. Just
19 a very short presentation. Just -- I mean, great work
20 that you guys have done. Appreciate working through the
21 problems we had the system. And I know IT is working
22 close with you all. But I'd like to see a demonstration,
23 because we talk about it in the theoretical. Just a
24 presentation would be fantastic.

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1 Yeah, happy to share that.

2 CHAIRPERSON COSTIGAN: And then would just follow
3 up on this report. Thank you.

4 CHIEF EXECUTIVE OFFICER STAUSBOLL: Just on that.
5 A demonstration of the PEARS system, I wonder if that
6 should be at the Investment -- full Investment Committee.

7 CHAIRPERSON COSTIGAN: We can work it out with
8 Mr. Jones. The risk is here in this committee.

9 CHIEF EXECUTIVE OFFICER STAUSBOLL: You'll work
10 it out. Okay.

11 CHAIRPERSON COSTIGAN: But either one. I just
12 think whether it would be in investments -- I would like
13 to see, given that we've had a report on it here, whether
14 it's in Investment and a follow-up here. But I just want
15 to make sure since it is part of our business plan, one,
16 it's another -- back to the points we've made before, as
17 we've become more transparent and more nimble, we've
18 delivered on a project. And at some point, just making it
19 available to others, I wouldn't even know how to log on to
20 it right now.

21 And so even from that -- and you probably did
22 send us a memo on it, but I would just like a
23 presentation. And Mr. Jones and I can get that worked
24 out.

25 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

1 Yeah, I'm happy to present to whatever committee
2 the Board decides to is appropriate.

3 CHAIRPERSON COSTIGAN: Great. Thank you.

4 Mr. Jelincic, did you have something else?

5 COMMITTEE MEMBER JELINCIC: Yeah. I have asked,
6 and been told I'm going to get, but I never quite do. We
7 obviously have a manual that describes the database and
8 the elements we're capturing and where they're coming
9 from. And I just would like to have access to that
10 manual, so I know what we're capturing in this database.

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: The
12 manual, the software --

13 COMMITTEE MEMBER JELINCIC: And if it exists --
14 if the definition of the database exists electronically,
15 send me the link, and, you know, you won't have to copy
16 6,327 pages.

17 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

18 We're happy to share --

19 CHIEF EXECUTIVE OFFICER STAUSBOLL: Maybe we
20 could take this -- if I might, Mr. Chair. Maybe we could
21 take this request off-line, figure out what you're really
22 trying to get at, and work with the Chair on how to handle
23 that.

24 CHAIRPERSON COSTIGAN: So, yes. So Ms. Eason,
25 let's at least calendar it for next month as a follow-up,

1 because I'm sure there may be some proprietary information
2 we're going to need to discuss.

3 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

4 (Nods head.)

5 CHAIRPERSON COSTIGAN: All right. Anything else
6 on this item, as it was informational?

7 Ms. Stausboll

8 CHIEF EXECUTIVE OFFICER STAUSBOLL: We're ready
9 for 7b, if the Committee is.

10 CHAIRPERSON COSTIGAN: Okay. Next Item, 7b.

11 CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

12 Thank you.

13 CHAIRPERSON COSTIGAN: It's going to be on.

14 CHIEF EXECUTIVE OFFICER STAUSBOLL: Thanks,
15 Wylie.

16 Okay. Thank you. So what we wanted to spend
17 more time on today is 7b, which is an outline of the new
18 initiatives that we're proposing for the last year of the
19 five-year strategic plan. So I -- it starts on page 215
20 of your Board book. I'll touch on a few highlights, then
21 turn it over the Doug Hoffner for more detail. And then
22 at the end of the presentation, I'd like to take just a
23 couple of minutes to talk to you about the approach for
24 the next strategic planning cycle that's coming up.

25 So in Item 7b, Attachment 2 we'll show you what

1 we've accomplished so far on the strategic plan. It's in
2 a spreadsheet format over the last three and a half years.
3 But what we want to talk about today are the 15 new
4 initiatives for the coming year, get your input, then
5 we'll come back next month with a refined plan along with
6 the proposed budget.

7 I think that you know already about most of these
8 initiatives. They probably have been all discussed in
9 their various committees, but we haven't brought them to
10 you as a package. So, as you know, we've been driving
11 towards improving the sustainability of the fund,
12 cultivating a higher performing and innovative workforce,
13 and enhancing customer service.

14 On fund sustainability over the last three and a
15 half years, we feel that we've really successfully
16 integrated now the actuarial and investment functions, and
17 that we've moved to a true asset liability management
18 approach. And most of that is now operationalized. This
19 coming year the focus is on what was discussed yesterday
20 at the Investment Committee on developing the risk factor
21 model that can be used in the next ALM work and cycle.
22 And then by the next ALM cycle, all of this work should be
23 truly operationalized.

24 Also, in the area of sustainability for the
25 coming year, the proposed plan includes the development of

1 the pension prefunding trust that you just talked about.
2 Hopefully, we'll get the legislation through for that, as
3 well as ongoing work in investments to reduce costs,
4 streamline, and redirect additional work in-house. And
5 then also, we'll be doing the long-term planning exercise
6 for investments that the Investment Committee has
7 requested.

8 So a second key theme has been over the last few
9 years around operational excellence, including customer
10 service. We've made a lot of progress. We've focused on
11 risk management and innovation. This is really more of an
12 organizational goal -- or sorry aspirational goal. And
13 there will always be more to do on this.

14 What we want to do for '16/'17 is continue the
15 focus on talent management. Highlights include developing
16 a new leadership program that would be for our journey
17 level staff.

18 We also are looking at expanding the Diversity
19 and Inclusion Program, and continuing to build out the
20 compliance function. In customer service, we're using the
21 work that we've done in the Investment Office as a model.
22 So what we embarked on in this current year is looking at
23 the data out of the CEM, Cost Effectiveness Measurement,
24 project for customer service to identify opportunities
25 where we can streamline and save costs in the

1 administration of the pension program.

2 It's really a multi-year project, but we'll be
3 starting to implement in the coming year. And then
4 finally our third theme is around policy development and
5 education. So a big focus this year is on the excise tax
6 in the ACA. We'll continue to assess impacts, build
7 coalitions, and provide input to policymakers.

8 And on the member side, we're really excited
9 about building and developing a financial literacy
10 program. So those are the highlights that we see for
11 '16-'17.

12 With that, I'll turn it over to Doug and he has a
13 PowerPoint for you.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you,
15 Anne.

16 So I will try not to reiterate everything she
17 just said. But there's our 15 new initiatives. The last
18 year of our strategic plan of the five years. As Anne
19 talked about, we're highlighting various buckets in terms
20 of themes for the remaining year.

21 --o0o--

22 DEPUTY EXECUTIVE OFFICER HOFFNER: I'll just
23 touch on a few of them here.

24 --o0o--

25 DEPUTY EXECUTIVE OFFICER HOFFNER: Sustainability

1 of the fund; enhancing our customer service and
2 engagement; talent management, which covers the entire
3 organization; looking at a more risk -- risk reductions
4 in development of a risk-aware organization, again in the
5 talent management space; and then engagement on the
6 internal -- external policy side --

7 --o0o--

8 DEPUTY EXECUTIVE OFFICER HOFFNER: -- which
9 really gets into the ACA and some other issues there.

10 So there are six new initiatives within goal A.
11 And I'm going to kind of run through these, because Anne
12 touched on some of them. But I also want to highlight the
13 fact that as she's mentioned some are multi-year in
14 nature.

15 And one of the things you asked us to do at the
16 end of last year's budget cycle was don't have the
17 business planning coincide exactly with the same month
18 that you bring your budgets. And so this year, we're
19 bringing these things to you a month ahead of time. And
20 so you're going to see these themes play out in the budget
21 proposals that you're going to get as a first reading next
22 month.

23 And so a couple of them you're going to -- have
24 already heard about in agenda items earlier today or as of
25 yesterday. But you're going to be seeing more detail

1 myself here.

2 Health care costs, education, and outreach. So
3 one of the concepts here, and you've heard Doug McKeever
4 report on this numerous times at the Pension and Health
5 Benefits Committee, relates to employers asking for
6 additional information as it relates to their health care
7 costs in the organization.

8 And so the concept here is to provide more
9 transparency at an aggregate level for these employers to
10 understand the health care costs and impacts associated
11 with those issues.

12 And this would be the beginning of additional
13 information we could be sharing out related to health care
14 costs, as well as providing additional outreach to the
15 membership, which is something that Doug and his team have
16 been doing quite recently and will continue to do.

17 --o0o--

18 DEPUTY EXECUTIVE OFFICER HOFFNER: Looking at the
19 remaining 2 in Goal A, As Anne mentioned, investment
20 program long-term planning. To the Investment Committee
21 and the Chair's perspective and Mr. Jones, this is going
22 to be looking at the long-term considerations of what
23 those business operations might look like beyond just
24 where we're currently housed should that come to fruition.
25 What would that mean, what are the challenges associated

1 with that work?

2 But really, I think it starts with what is the
3 business model that we have to today and what might that
4 look like in the future? And there's work that the
5 investment team is going to be doing on that bringing back
6 to you, I believe at the July off-site, related to some of
7 that, just to tee that up and what future considerations
8 might look like.

9 Should things move forward from here, this would
10 dramatically move into the next strategic plan, because
11 this is really teeing up an idea, but implementation of
12 any such idea would take a longer term framework.

13 And then here again, you've heard about this, the
14 external manager monitoring reduction strategy. You know,
15 this is moving from our 700 plus external managers down to
16 100 or so over the next, you know, five or so years, based
17 on the work that the investment team is doing. And the
18 concept here is how do we bring and migrate more of that
19 work in-house? Again, this is a concept you'll be seeing
20 more about in our upcoming budget proposal next month, but
21 it's not inconsistent with that you've heard previously
22 from their roadmap, and their 2020 plan.

23 --o0o--

24 DEPUTY EXECUTIVE OFFICER HOFFNER: Unless there's
25 questions, I'll jump to Goal B.

1 We're talking here about highlighting customer
2 service and engagement. And I'll take the first sort of
3 three together. We're talking about implementing a
4 financial literacy education program for our membership to
5 bring a greater level of financial literacy and
6 understanding to the 1.7 million members and our
7 stakeholders.

8 And the roll-out of this would be a combination
9 of working with our Public Affairs team, as well as
10 Donna's branch. But essentially, this kind of -- it's
11 sort of in between goal A and C in terms of engagement and
12 communication with external groups. Items 2 and 3 capture
13 customer feedback and improving customer engagement and
14 communications.

15 This is essentially again to what Anne's point
16 was previously. It's reducing customer service survey
17 data to help drive outcomes. And so there would be IT
18 components of this. There would be internal modifications
19 to some of the work that -- in the customer support
20 services area. But the concept is using that data to
21 drive decision making here, and then provide that
22 engagement and communication back to the stakeholders as
23 they know their feedback has been heard, and it's
24 translated to efficiencies and improvements, based on our
25 CEM modeling. So that's the concept there. Very

1 operational in nature, but it has, you know, the great
2 opportunity for engagement with our stakeholders.

3 --o0o--

4 DEPUTY EXECUTIVE OFFICER HOFFNER: The next
5 couple items -- yes.

6 CHAIRPERSON COSTIGAN: So do you want to wait?

7 COMMITTEE MEMBER SLATON: I'll wait.

8 CHAIRPERSON COSTIGAN: All right. Well, I have
9 Slaton, Jones, and Jelincic.

10 Wait, Mr. Jones?

11 COMMITTEE MEMBER JONES: It's on the previous
12 page.

13 CHAIRPERSON COSTIGAN: Okay. Let's do it right
14 now then.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: Rollback?

16 COMMITTEE MEMBER JONES: The one that --
17 education to members.

18 DEPUTY EXECUTIVE OFFICER HOFFNER: Financial
19 literacy education for members, yes.

20 COMMITTEE MEMBER JONES: Yeah. And just a quick
21 question to Anne. Anne, a couple years ago when I
22 mentioned this concept to you, and there was a vendor that
23 was going to send you some information, did he ever send
24 you anything or you just moved on this on your own?

25 CHIEF EXECUTIVE OFFICER STAUSBOLL: To be honest,

1 I don't remember the exact conversation, but I don't think
2 a vendor sent me anything.

3 COMMITTEE MEMBER JONES: Okay. I Just wanted
4 to --

5 CHIEF EXECUTIVE OFFICER STAUSBOLL: But I do want
6 to distinguish this around financial literacy and not
7 advising -- it's not about, you know, advising our members
8 on how to specifically invest --

9 COMMITTEE MEMBER JONES: Right, right.

10 CHIEF EXECUTIVE OFFICER STAUSBOLL: -- their
11 money, which is usually what the vendors want to get
12 involved in.

13 COMMITTEE MEMBER JONES: Okay. Thanks.

14 CHAIRPERSON COSTIGAN: Do you want to do it now?

15 DEPUTY EXECUTIVE OFFICER HOFFNER: Other
16 questions?

17 CHAIRPERSON COSTIGAN: Okay. Hang on a second.
18 Let's do questions.

19 Mr. Slaton.

20 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

21 You know, the other Board members and staff know
22 that I sit on the SMUD Board here in Sacramento. And we
23 had a committee meeting last night where we -- the staff
24 presented to us an analysis of changing how we look at our
25 customers.

1 And as you may know, we are rated by JD Power's
2 right at the top in terms of customer satisfaction. But
3 we have a third-party consultant now working with us to
4 turn it around differently, and look at it from the
5 opposite side, and it's called customer experience. So
6 it's driving it from what does the customer think is
7 important versus what we think is important.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Right.

9 COMMITTEE MEMBER SLATON: And I think that
10 there's value here for any organization to have it be a
11 customer driven experience evaluation. And what we found
12 is in that area, we're kind of a B student, not an A
13 student. And so it's kind of changed how we're looking at
14 things. So I wanted to know if that is something you're
15 looking at or considering or might consider?

16 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah, we like
17 the perspective. And I think our staff has been following
18 the SMUD work. They went to a customer experience
19 presentation that you had a couple of months ago.

20 COMMITTEE MEMBER SLATON: Well, I'll plug them in
21 now, because I think we've taken it to another level --

22 CHIEF EXECUTIVE OFFICER STAUSBOLL: Right.

23 COMMITTEE MEMBER SLATON: -- because we met with
24 the third-party consultant. And it was a quite
25 extraordinary experience for us and a wake-up call that,

1 you know, we thought we were here, but it turns out we're
2 not quite where we want to be, and so it had value.

3 So I'll do that off-line and patch staff in
4 again.

5 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah, that's
6 fantastic. Donna, do you want to add anything or you're
7 good?

8 DEPUTY EXECUTIVE OFFICER LUM: Thank you. Donna
9 Lum, CalPERS staff.

10 So as Ms. Stausboll mentioned, we've had some
11 engagement with SMUD, and we've been really impressed with
12 what we've seen there. But as we have also been evolving
13 over the last year and a half within customer service,
14 you've also heard us say customer experience. Many of the
15 things that we're doing we are attempting to look at it
16 from the customer's perspective with the feedback that
17 we've been receiving. And then we've been using customer
18 service and customer experience interchangeably.

19 So as we're going forward in this business plan,
20 we are looking at a customer experience level of
21 engagement, trying to see it from the customer side as
22 well. But certainly, Mr. Slaton, I'd be very interested
23 in making contact or getting information that you may have
24 that you've been exposed to as well.

25 COMMITTEE MEMBER SLATON: Well, I think the great

1 thing is we have two organizations based here in
2 Sacramento, both of whom are trying to be really at top of
3 the game. So it may be sharing the other direction as
4 well. So --

5 CHIEF EXECUTIVE OFFICER STAUSBOLL: We always
6 wonder about that, does he -- at the SMUD meetings, does
7 he ever say this is what CalPERS does?

8 COMMITTEE MEMBER SLATON: Oh, yeah. No, they --
9 they say they're learning as well, so it works both ways.

10 DEPUTY EXECUTIVE OFFICER LUM: Great.

11 CHAIRPERSON COSTIGAN: Mr. Jelincic.

12 COMMITTEE MEMBER JELINCIC: I can wait till the
13 end of the presentation.

14 CHAIRPERSON COSTIGAN: Okay.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: So I think
16 that's a great point.

17 CHAIRPERSON COSTIGAN: Ms. Paquin.

18 ACTING COMMITTEE MEMBER PAQUIN: Thank you. I
19 had a quick question on the financial literacy education.
20 I was wondering if this is going to be primarily web based
21 or will it be in-person trainings?

22 DEPUTY EXECUTIVE OFFICER HOFFNER: I believe the
23 toolkit said that it's going to be web based, but that's
24 one of the things in a mechanism to help provide feedback
25 back to the member, but there's a variety of mechanisms

1 that would be in play there.

2 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

3 DEPUTY EXECUTIVE OFFICER LUM: Again, Donna Lum,
4 and just to expand on Doug's response. So as we are
5 entering this initiative, what we've already done is we've
6 looked at all of the different areas, publications,
7 training, webinars, things in which we touch the member in
8 some fashion or form of education.

9 The next phase of this is we'll be going on then
10 to identify which of those would be good, viable options
11 for us to enhance the messaging and the education and the
12 training. So it would be multi-level. We would do it
13 in-person. We would be able to provide members with
14 resources and links to other educational material. We
15 would do it within our publications, webinars. So it's
16 pretty multi-faceted, but we really want to reach as broad
17 of a membership as we can to provide the level of
18 financial awareness as much as we can.

19 CHAIRPERSON COSTIGAN: Ms. Lum. So -- sorry.
20 Are you done?

21 ACTING COMMITTEE MEMBER PAQUIN: Yes.

22 CHAIRPERSON COSTIGAN: Okay. One thing I would
23 say -- I'm going to give a lot of credit over here to
24 Director Gillihan as Ms. Hagen. If you have not looked at
25 the new Savings Plus 401/457 site, I really find, with the

1 new vendor, a lot of what we're talking about on financial
2 literacy. I use it every day. I think it's a fantastic
3 set up. It probably needs to go a little bit deeper. But
4 instead of necessarily reinventing the wheel amongst of
5 our members, if there would be a coordination a little bit
6 with CalHR and others, because again, if you haven't
7 looked at their new site, I find it fantastic.

8 Doug, before you go, you're next up, we have
9 about 11 more minutes, until we need to hit our two-hour
10 break.

11 So I just want to just go ahead and not that.

12 DEPUTY EXECUTIVE OFFICER HOFFNER: I can make
13 that happen.

14 (Laughter.)

15 CHAIRPERSON COSTIGAN: I'm sorry?

16 DEPUTY EXECUTIVE OFFICER HOFFNER: I can make
17 that happen.

18 CHAIRPERSON COSTIGAN: It wasn't directed towards
19 you.

20 DEPUTY EXECUTIVE OFFICER HOFFNER: I get it.

21 (Laughter.)

22 DEPUTY EXECUTIVE OFFICER HOFFNER: Okay. Through
23 the Chair.

24 Okay. Let's hit goal B in terms of the talent
25 management portion, there's another three items here. The

1 main focus is Organizational Health Index and engagement
2 survey of the employees. We'll be doing that later this
3 spring with the results by the end of the fiscal year.
4 This is really about identifying those things that we can
5 improve upon as an organization as identified by employee
6 feedback.

7 We're already looking to make some modifications
8 to the survey and reduce the number of questions, which is
9 one of the concerns they raised previously. But the work
10 that will come out of this, and maybe the two top
11 enterprise items, would be something identified in this
12 summer for that work to be -- work done through the
13 enterprise from, you know, July on.

14 But this is something we've done twice before.
15 And again, we've had considerable employee engagement at,
16 you know, 80 plus, 90 plus participation percentage of the
17 staff. So it's something that they've engaged in.

18 Emerging leader. This is looking to sort of
19 build upon what we reported out of the Performance, Comp,
20 and Talent Management Committee in December in terms of
21 our strategic measures about turnover. We provided a view
22 as it related to sort of career buckets of individuals.
23 And if you recall, both the internal and external movement
24 of the younger demographic employees who were earlier in
25 their careers stages, I think the turnover is like 50

1 percent. There's a lot of movement in that first five
2 years of their career.

3 So what we're looking to develop here is built
4 upon something that the State Compensation Insurance Fund
5 has developed. And this is a journey level training
6 program to bring people in to management, and help them
7 get an idea of what that would be like, if that's going to
8 be something they would be interested in.

9 So this would be building upon other work we've
10 done in succession planning and leadership development,
11 but bringing it down to another level in the organization.
12 And we're looking to pilot this come this year.

13 And then expanding on our internal diversity
14 program. So we've done a lot of work, I would say, by
15 myself, the Investment Office, the Diversity and Inclusion
16 Program and Outreach, our HR staff, Legal, and our Public
17 Affairs team. So we've really brought a collaborative
18 approach to this concept here. And so that's something
19 you're going to be hearing more about in terms of
20 diversity. I think it's always a challenge how we measure
21 that. But I think the things that we do on a daily basis
22 that drive a greater net to bring people in to want to
23 explore an opportunity to work here is going to see some
24 tangible benefits. So that's something I'm excited about.

25 And then I will halt for questions, if there are

1 any.

2 CHAIRPERSON COSTIGAN: Mr. Jelincic.

3 COMMITTEE MEMBER JELINCIC: I can still wait till
4 the end.

5 CHAIRPERSON COSTIGAN: Christina?

6 ACTING BOARD MEMBER ELLIOTT: I can wait.

7 CHAIRPERSON COSTIGAN: Mr. Jones

8 COMMITTEE MEMBER JONES: Yeah, on this page. On
9 the diversity --

10 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah.

11 COMMITTEE MEMBER JONES: -- is this where we
12 would have the discussion about the Chief Diversity
13 Officer that the Chair had said, yeah, we need to pursue
14 looking into that?

15 DEPUTY EXECUTIVE OFFICER HOFFNER: The question
16 would be around, you know, that -- well that level of the
17 organization. So who takes on that responsibility, that's
18 one of the concepts. And so we have a Diversity and
19 Outreach Program currently that reports to me directly,
20 and we've recently filled that position, which was vacant
21 for some time this last summer.

22 We'll be introducing that individual to the full
23 Board later this week. And for that on, it's more that
24 collaborative approach, how do we expand upon the work
25 we're doing within the organization, and how does

1 translate to the stuff we've reported to the Board?

2 COMMITTEE MEMBER JONES: Yeah, but the concept
3 that I was referring to is when we had our diversity and
4 inclusion program over at the convention center, and
5 almost to the point every organization that spoke talked
6 about having a Chief Diversity Officer that was high
7 enough in the organization, so that the organization
8 placed greater emphasis and importance on that role.

9 So that's the discussion we had at a previous
10 Finance Committee. And I recall the Chair saying, yes, we
11 need to bring something to look at that and evaluate it.
12 So that's my question.

13 DEPUTY EXECUTIVE OFFICER HOFFNER: So this
14 doesn't propose to have a Chief Diversity Officer. We
15 have the existing position currently in the organization.
16 This concept is more about how do we build that up within
17 all of CalPERS. We have an office of nine people, but how
18 do we expand that role beyond that. And really about the
19 workings within the 3,000 or so employees that are here
20 that take advantage of the trainings and the
21 opportunities, and then talent development, and then it's
22 outreach and recruitment.

23 So those are the component pieces that would also
24 be built into this, Mr. Jones, in terms of how do we cast
25 a broader net to help bring more people into the

1 organization? And this is a long-term discussion and
2 plan. It's not something that's a one year kind of
3 business plan initiative. This is how do you build that
4 further into the culture of the organization.

5 So that's kind of the model we're looking at
6 right now, but it doesn't specifically call out a -- like
7 a C-Suite level individual.

8 COMMITTEE MEMBER JONES: Okay. Well, I -- I
9 would ask the Chair again, because I would like to have
10 that discussion regarding the parameters and variables and
11 issues related to a Chief Diversity Officer.

12 CHAIRPERSON COSTIGAN: So I will -- I will work
13 with Mr. Hoffner and Ms. Eason. It is a conversation to
14 have. I would also like to work with CalHR and SPB,
15 because, I mean, it -- part of the issues that we run into
16 is within a State merit system with State classifications.
17 Is this new position a CEA? I can't --

18 DEPUTY EXECUTIVE OFFICER HOFFNER: It's not a new
19 position. We filled a position.

20 CHAIRPERSON COSTIGAN: Is it a CEA?

21 DEPUTY EXECUTIVE OFFICER HOFFNER: It's not a
22 CEA.

23 CHIEF EXECUTIVE OFFICER STAUSBOLL: It's a
24 manager.

25 DEPUTY EXECUTIVE OFFICER HOFFNER: It's a manager

1 level position.

2 CHAIRPERSON COSTIGAN: It's a manager level
3 position.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: Right.

5 CHAIRPERSON COSTIGAN: So that is something that
6 we may want to discuss is about potentially elevating it
7 to something higher. But that is a collaborative effort
8 I'd also like to have with CalHR. And -- but we will work
9 on getting that scheduled for early summer for a
10 follow-up, Cheryl.

11 Christina.

12 ACTING BOARD MEMBER ELLIOTT: Oh, is this the end
13 of the presentation?

14 CHAIRPERSON COSTIGAN: You've got four minutes.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: No, we've got
16 a couple more to0.

17 ACTING BOARD MEMBER ELLIOTT: Okay. I can wait
18 then.

19 CHAIRPERSON COSTIGAN: Okay. J.J., you can wait
20 as well?

21 COMMITTEE MEMBER JELINCIC: I can wait as well.

22 CHAIRPERSON COSTIGAN: Okay. Doug.

23 --o0o--

24 DEPUTY EXECUTIVE OFFICER HOFFNER: Ready?

25 Okay. So the other two under goal B related to

1 developing a risk intelligent organization, the first one
2 here related to enterprise compliance capabilities
3 internal controls. This is an item you'll be seeing.
4 We've talked about this a year or so ago in the Risk
5 Committee. We have a five year risk plan. And this is
6 really taking more of an embedded approach to the risk --
7 addressing the risk issues within the organization, in
8 terms of greater controls. This includes embedding staff
9 within the operational area, which is my branch, as well
10 as Donna's, in addition to help build out enterprise
11 compliance staff within Cheryl's area.

12 So this is basically entering into phase -- or
13 year two of the five-year plan. And you'll be seeing
14 reportable information on this in the budget proposal
15 coming forth next month. So this is again building upon a
16 common framework.

17 The final one on this section relates to business
18 continuity. And so the concept here is to build upon our
19 general and divisional plans. We've got two things
20 happening. We've essentially got a third-party vendor
21 that's contract is expiring to do the business resumption
22 and disaster response work. They're out of -- you know,
23 out of New Jersey. We have a solicitation on the street
24 right now that we're halfway through in that procurement,
25 and we need to ensure that as things change from a

1 technology and program perspective, those are aligned and
2 in synch with the potential work that would be done by
3 that vendor in the future, should we have a disaster that
4 requires us to be off-site and execute against that issue.

5 --o0o--

6 DEPUTY EXECUTIVE OFFICER HOFFNER: And finally,
7 I've got one more, and then I can take questions.

8 Going to goal C, relates to the employer excise
9 tax issue. This was previously discussed by Mr. McKeever
10 in the prior committee. The point of this though was
11 really to build upon an educational program to spend the
12 time now that the excise tax has been delayed, to work
13 with our stakeholders to create coalitions with those
14 groups to effectively help advocate for change in this
15 organization in terms of the employer tax and impacts to
16 CalPERS and others.

17 As Mr. McKeever reported this morning -- I
18 probably can't get all these down right -- but the
19 President's budget, as proposed, included three additional
20 changes to this item. And so that would be something we'd
21 be tracking as it gets through the Congress or not, but it
22 would have implications to excise tax issues, so how would
23 those play out.

24 But the concept there is really about engaging
25 our stakeholders and bringing them to the table with us in

1 terms of these issues.

2 Happy to answer any questions.

3 CHAIRPERSON COSTIGAN: All right, Mr. Jelincic,
4 you're up first.

5 COMMITTEE MEMBER JELINCIC: Okay. Three
6 observations and four questions. When they give us the
7 long-term plan for the Investment Office, I would request
8 that they include identification of any statutory changes
9 we need. The financial literacy, I will point out that
10 they are doing a survey, and I got the survey. For some
11 reason, this week and last week have been a little busy.
12 I haven't responded to it yet, but they are surveying the
13 members.

14 The OHI survey I will again encourage you to ask
15 the question about favoritism and nepotism. It was there
16 the first time. It disappeared the second time.
17 Hopefully, it come backs the third time.

18 Now, the four questions. If you had to
19 eliminate -- since this is a planning document, if you had
20 to eliminate one priority, which one would it be? And
21 just to warn you the other questions are coming, if you
22 had to eliminate a second one, what would it be? And then
23 if you could add one or add two, what would they be?

24 CHIEF EXECUTIVE OFFICER STAUSBOLL: Can we just
25 combine some and --

1 (Laughter.)

2 DEPUTY EXECUTIVE OFFICER HOFFNER: Right. I
3 mean, that would be our typical slash, add something to
4 the other side of it. I don't know. I'm looking at this
5 off hand, the 15 new things here, J.J. Many of them are
6 variations of a theme that have been work that we've been
7 doing for the last four years, in summary level.

8 So I think to the fact that if you said we had to
9 eliminate it, we'd have to then recognize that maybe that
10 has an impact to the final five-year strategic plan. I
11 don't know that I should be the one individual to say,
12 hey, you should cut back on this or not do that.

13 I think these are reflective of the
14 organizational priorities as we've developed them. You
15 know, some may have more of an operational nature than a
16 strategic business planning cycle part of it, but I don't
17 know offhand what I would nix or nix two, I mean.

18 COMMITTEE MEMBER JELINCIC: Give it some thought.
19 And Anne, I'd certainly appreciate your comments on it as
20 well. I mean, give it some thought. I mean, if it's a
21 planning document, then we're saying these are the things
22 we want to do, but, you know, we don't have unlimited
23 resources. Some people seem to think we do. But, you
24 know, if we had to cut back, where would we cut? And if
25 we had additional resources, what would we add? And, you

1 know, quite frankly, that can be part of the budget
2 discussion that's coming.

3 CHIEF EXECUTIVE OFFICER STAUSBOLL: Maybe it's
4 easier to answer first the question about adding. I mean,
5 we talked a lot, the executive team, and we got input from
6 others as well just about our capacity -- a combination of
7 our capacity right now, everything we have going on, and
8 the fact that we're coming to the end of a five-year
9 strategic I plan. And it didn't seem like that was the
10 right time to take on another big thing, if you will.

11 So I don't think that we would add -- recommend
12 adding to the plan at this point.

13 COMMITTEE MEMBER JELINCIC: But we do have
14 control over our own budget. So, I mean, if it's a
15 resource -- I mean, if we thought something was really
16 important, we could find the resources. So I really --
17 I'm trying to get to sense of the priorities.

18 CHAIRPERSON COSTIGAN: Well, on this document,
19 Mr. Hoffner, reflects the priorities of the organization
20 as you see them?

21 DEPUTY EXECUTIVE OFFICER HOFFNER: Yes. I mean,
22 this is the first reading. We've -- we're in the final
23 year, and we've put forth 15 new things to do, or
24 variations of new things. So I think the idea is that we
25 still think these are significant and important to be

1 resolved and done by the end of that business planning
2 cycle, some of which will be multi-year in nature, so
3 you'd be seeing them in the future as well, and not to
4 hold off for a year and say let's just wait till the next
5 strategic planning cycle to start up the next round of
6 things.

7 CHAIRPERSON COSTIGAN: We're going to take --
8 anything else?

9 COMMITTEE MEMBER JELINCIC: No.

10 CHAIRPERSON COSTIGAN: We're going to take a
11 question from Christina, then we're going to break.
12 Christina.

13 ACTING BOARD MEMBER ELLIOTT: I -- you know, it
14 was already sort of answered, and it was more of a
15 statement. I didn't know there was a survey that would
16 gauge the financial literacy of the members. And so that
17 was my question. And I think that's great, so thanks.

18 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah, it's a
19 baseline, so that we can measure progress.

20 ACTING BOARD MEMBER ELLIOTT: Right, to measure
21 success.

22 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah, measure
23 success.

24 ACTING BOARD MEMBER ELLIOTT: Yeah, go it.

25 DEPUTY EXECUTIVE OFFICER HOFFNER: Can we just

1 hit the next steps before --

2 CHAIRPERSON COSTIGAN: We're right at -- we're at
3 over two hours, so I would like -- well, here's what, we
4 still have two items left. Doug, I'd like to take a break
5 right now. It's 12:36. Take a break for 45 minutes.

6 What time is that Pam?

7 Come back at 1:20.

8 We'll come back at 1:30. So we're going to
9 adjourn until 1:30.

10 CHIEF EXECUTIVE OFFICER STAUSBOLL: Okay.

11 CHAIRPERSON COSTIGAN: Okay. Thank you.

12 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you.

13 (Off record: 12:37 PM)

14 (Thereupon a lunch break was taken.)

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1 A F T E R N O O N S E S S I O N

2 (On record: 1:30 PM)

3 CHAIRPERSON COSTIGAN: The Finance and
4 Administration Committee is going to reconvene.

5 Okay. Mr. Hoffner --

6 VICE CHAIRPERSON HOLLINGER: Do we have to take
7 roll?

8 CHAIRPERSON COSTIGAN: No, we don't need -- do we
9 need to take roll?

10 We can take roll. Since the Vice Chair wants us
11 to take roll, let's take roll.

12 COMMITTEE SECRETARY BLACK: Richard Costigan?

13 CHAIRPERSON COSTIGAN: Here.

14 You need to turn your mic on.

15 COMMITTEE SECRETARY BLACK: Dana Hollinger?

16 VICE CHAIRPERSON HOLLINGER: Here.

17 COMMITTEE SECRETARY BLACK: Richard Costigan?

18 CHAIRPERSON COSTIGAN: Here.

19 COMMITTEE SECRETARY BLACK: Dana Hollinger?

20 VICE CHAIRPERSON HOLLINGER: Here.

21 COMMITTEE SECRETARY BLACK: Richard Gillihan?

22 COMMITTEE MEMBER GILLIHAN: Here.

23 COMMITTEE SECRETARY BLACK: J.J. Jelincic?

24 COMMITTEE MEMBER JELINCIC: Here.

25 COMMITTEE SECRETARY BLACK: Henry Jones?

1 COMMITTEE MEMBER JONES: Here.

2 COMMITTEE SECRETARY BLACK: Bill Slaton?

3 COMMITTEE MEMBER SLATON: Here.

4 COMMITTEE SECRETARY BLACK: And we have Lynn
5 Paquin for Betty Yee?

6 ACTING COMMITTEE MEMBER PAQUIN: Here.

7 CHAIRPERSON COSTIGAN: So thank you.

8 So Mr. Hoffner, I'll have a final question, but
9 we'll let you finish up this item, and then I've got a
10 couple observations. So anything else on this item?

11 DEPUTY EXECUTIVE OFFICER HOFFNER: No, we were
12 just going to transition to next steps between now and
13 July.

14 CHAIRPERSON COSTIGAN: Okay. So one thing I
15 would like for the next Board meeting, if possible -- or
16 Committee meeting, is of the 15 priorities, maybe just a
17 little more detailed information. I think following up
18 one of the Committee members prior questions about what is
19 it that you would either jettison or what is it you would
20 add?

21 First of all, the issue is all 15 of these are
22 important to the system, but maybe a little more
23 specificity, if possible, as to what is more of a -- has
24 been a Board issue and what's more of a staff issue? I
25 don't know if you want to comment on that a little bit.

1 Do you have any observations?

2 For example, I know like the risk factor
3 development for asset liability management was actually
4 sort of established through a Board policy, where the
5 redesign and enhancement of the actuarial value system is
6 really more staff driven.

7 Yes, ma'am.

8 CHIEF EXECUTIVE OFFICER STAUSBOLL: We can think
9 about your question for next time. We don't -- we haven't
10 really through about these as Board versus staff driven.
11 When we put together this plan, our goal is to put -- our
12 objective is to put together the initiatives and projects
13 that we think are appropriate and necessary to deliver on
14 the strategic plan that the Board set. That's what's
15 really driving these initiatives is implementing the
16 strategic plan.

17 CHAIRPERSON COSTIGAN: And I know that the Board
18 does retain oversight over many of the items, because
19 there will be some proposals coming when the budget is
20 brought forth before the Board.

21 CHIEF EXECUTIVE OFFICER STAUSBOLL: For many of
22 these, we need resources for either personnel, consulting,
23 technology, and we'll be back with that. And when we come
24 back next month with the second reading of the business
25 plan, it will be aligned with the budget presentation. So

1 you'll see that together.

2 CHAIRPERSON COSTIGAN: Okay. So just, Mr.
3 Hoffner, as we just sort of move forward, maybe from time
4 to time just mention where this may relate back to a
5 priority that the Board has set out versus just the normal
6 runnings of the operation, but we'll work on more detail.

7 All right. Item 8a.

8 CHIEF EXECUTIVE OFFICER STAUSBOLL: Oh, could I,
9 Mr. Chair?

10 CHAIRPERSON COSTIGAN: Yes.

11 CHIEF EXECUTIVE OFFICER STAUSBOLL: I just had a
12 couple of things for wrap-up.

13 CHAIRPERSON COSTIGAN: Yes, ma'am.

14 CHIEF EXECUTIVE OFFICER STAUSBOLL: Just a couple
15 of things for you to think about. So we'll be back next
16 month, as I said, with the second reading, and with the
17 first reading of the budget.

18 Next month, we'll also be giving you an overview
19 or kind of kicking off the development of the next
20 strategic plan, and we'll bring that next month. But a
21 couple of things for you to think about. As we've talked
22 about it, we currently envision that the next strategic
23 plan will also be a five-year plan. We talked about maybe
24 three, but it seems too short for the organization.

25 And then we're also viewing it -- the next

1 strategic planning process, probably as more of a refresh
2 or an enhancement, as opposed to a complete overhaul or
3 starting from square one. So those are things we'd like
4 your input on, when we talk about it next month.

5 And what we'll be doing over the next few months
6 is engaging with stakeholders. We'll be doing a risk
7 analysis, environmental scan. Put all that together,
8 bring it to the Board in July for a kick-off on strategic
9 planning. So we'll go into more detail in March.

10 CHAIRPERSON COSTIGAN: Great.

11 CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you.

12 CHAIRPERSON COSTIGAN: Any questions of Ms.

13 Stausboll?

14 Okay. Thank you.

15 All right, Item 8a, CalPERS Budget Policy, First
16 Reading.

17 CHIEF FINANCIAL OFFICER EASON: Thank you.

18 Cheryl Eason, CalPERS staff. During the last budget
19 process, staff was asked by this Committee to develop a
20 budget policy that would lay out the organization's budget
21 adoption process. As we begin the process going into the
22 next business planning and budget cycle, today's agenda
23 item is in response to that original request and
24 represents the first reading of the CalPERS budget policy
25 for Committee feedback before bringing back the policy for

1 a second reading next month, and consideration for your
2 approval.

3 The establishment of a CalPERS budget policy
4 serves to formalize the budget process, and as a financial
5 plan, ensures a strong alignment to the long and
6 short-term goals of the strategic and business planning
7 processes, addresses budgetary controls, and establishes
8 the roles and responsibilities in the preparation,
9 adoption, and application of the organization's financial
10 commitment to its annual budget.

11 Based on initial feedback from the Committee
12 during last week's briefings, two suggested changes for
13 consideration have been received, which staff will address
14 and bring forward for the Committee's second reading next
15 month.

16 First, we were asked to include a distinction in
17 the policy regarding the constitutional authority over
18 pension funds and the requirement for legislative approval
19 for funding and position authority regarding the CalPERS
20 health programs Contingency Reserve Fund.

21 And secondly, a further articulation of the
22 process on the development of criteria and the assumptions
23 used to support the development -- development of the
24 budget.

25 So with that initial feedback, I look forward to

1 today's for the -- any additional Committee feedback and
2 comments for further refinement prior to next month's
3 second reading of the budget policy.

4 I'd be pleased to take questions or comments.

5 CHAIRPERSON COSTIGAN: Thank you.

6 Mr. Jelincic.

7 COMMITTEE MEMBER JELINCIC: I recognize the two
8 different budget processes, the interim and the annual.
9 And I think that's a good distinction. As we've gone
10 through this process, I've consistently asked and will
11 continue to ask, because it will be kind of nice to see it
12 incorporated in the policy is the things that are not --
13 decided not to be done, because those really -- the
14 decision not to do something is as much of an allocation
15 and resource issue as a decision to do something. I'm not
16 sure the Board would change any of those, but I think it's
17 important to at least say these are the other things we
18 considered and decided not to do, because that may give us
19 some insight into, well, maybe we -- maybe the staff
20 priority and the Board priority are not the same.

21 I don't expect it to consistently be a problem,
22 but I, for one, like to know, well, what did we decide not
23 to do, because that's as much a priority issue as anything
24 else.

25 Thank you.

1 CHAIRPERSON COSTIGAN: Thank you.

2 Mr. Gillihan.

3 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

4 Ms. Eason, I just wanted to thank you for your comments
5 kicking off. Something that we were sensitive to when we
6 looked at this proposal was the fact that a significant
7 aspect of the budget process wasn't included. And that
8 includes the Governor's sort of deliberative process for
9 the budget he or she proposes to the legislature, and, of
10 course, the legislature's constitutional authority to
11 appropriate funds. So I look forward to that being well
12 reflected in the revised policy, and I thank you for that.

13 CHAIRPERSON COSTIGAN: I just want to say high
14 praise from Mr. Gillihan from his prior role at the
15 Department of Finance. Very good for what you all have
16 done. So thank you.

17 Mr. Jones.

18 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
19 Chair. I just want to thank you for bringing forward this
20 policy, because I think it will help guide the policy
21 decisions that we're going to make going forward. And I
22 don't know where to put it, but I think there may be a
23 need for a little bit more detail to kind of address with
24 some of J.J.'s questions, so that we as a body can decide
25 what we want to see and what we don't want to see.

1 For example, if you add new positions, that's
2 something the Board may want to see, but I'm not so sure
3 we need to see everything. So I'd give it some thought to
4 see what may be added to kind of address J.J.'s concern,
5 but I -- I don't know if we need to see everything, but if
6 something like some broad parameters, policy statements.
7 For example, if a division is -- a budget adjustment is
8 more than say \$20,000, then that's something you may want
9 to bring. So I'm not going to dictate what that is at
10 this time, but just some thoughts to try to address some
11 of the concerns that J.J. had.

12 The other question, the mid-year budget is fine,
13 but what about mid-year projected expenditures, because
14 that's, to me, in mid-year more important than just
15 looking at the budget numbers? But mid-year projected
16 expenditure is more important, because it tells us where
17 we're going to end up for that particular fiscal year. So
18 that's another element that I would -- and I think you
19 gave us some information last year around that. But I'm
20 just thinking as part of a budget policy, we may want to
21 add something along those lines.

22 The other -- you have a statement in here that
23 mid-year information is brought to the Committee for
24 budget adjustments after review and analysis of the
25 preliminary budget data. But what I'm not sure or clear

1 on is are you talking about those adjustments coming to as
2 the total budget or by division?

3 CHIEF FINANCIAL OFFICER EASON: What we've done
4 is we do break it out among the five budgets, and then as
5 a consolidated bring it forward. And I think that's part
6 of -- and we can be -- we can articulate that more to your
7 earlier point. That's really -- some of those adjustments
8 are as a result of the forecasting that we do, which
9 really sort of sets out the basis -- the baseline for the
10 mid-year, but that's what that was to address, but we can
11 articulate that a little bit more precisely.

12 COMMITTEE MEMBER JONES: Okay. Yeah, because you
13 also go on to say that it's done on a quarterly basis, but
14 we don't get involved in that.

15 CHIEF FINANCIAL OFFICER EASON: No, that's the --
16 internally, we do forecasting internally on a quarterly
17 basis.

18 COMMITTEE MEMBER JONES: Okay. Thank you.

19 And also on thinking about what parameters you
20 could have added to this policy, another one may be, for
21 example, to tell us what your projected credits are in a
22 budget, so -- because I know Mr. Costigan always wants to
23 know, well, what's your vacancy rate. And so we recognize
24 that you're going to have vacancies. But rather than
25 budgeting for a full year knowing that you will not have

1 that position filled for a full year, there's going to be
2 some balances, so why not reduce the requirement by taken
3 a credit for that vacancy.

4 But I think by doing that, and you have been --
5 started to do that last year, that that would be a piece
6 of information that's part of the budget policy each year
7 to say what your vacancy credit is going to be. And the
8 budget will help us understand to what degree we've got
9 vacancies planned for the coming year. Those are a few
10 comments.

11 CHIEF FINANCIAL OFFICER EASON: Thank you. Yes,
12 that's very helpful. And, yes, thank you for recognizing
13 that we, in practice, have done that, but we can certainly
14 articulate that in the policy as well. Thank you.

15 CHAIRPERSON COSTIGAN: Mr. Slaton.

16 COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

17 I just -- on the issue that Mr. Jelincic raised,
18 I disagree. I think that the internal budget process of
19 an agency, you know, once you go into that, how far down
20 do you go? You know, there's lots of decisions made
21 department by department, group by group, some of which
22 get approved by a manager, some of which do not. And, to
23 me, that's management's purview to serve to us what is the
24 appropriate budget being proposed, and then for us to
25 question the priorities that are established with it, the

1 costs that are incurred and the -- you know, whether the
2 objectives are going to be accomplished. But I don't
3 believe it's our job as a Board to even review the
4 internal decision process to arrive at the budget
5 document. I think that places us in a managerial role,
6 which is not our role as a Board.

7 CHAIRPERSON COSTIGAN: Mr. Jelincic.

8 COMMITTEE MEMBER JELINCIC: Well, we will
9 continue to disagree on this.

10 COMMITTEE MEMBER SLATON: I'm sure.

11 COMMITTEE MEMBER JELINCIC: But, I mean, if they
12 decide not to fill a position, it's that kind of detail
13 I'm really not concerned about. But if they decide not to
14 go forward with a program, it may be a perfectly
15 reasonable decision, but it's a definition of priorities.
16 And if they're not -- if we're not told that we considered
17 this and decided not to do, then we're not really in a
18 position to evaluate the priorities. You know, so that's
19 really my purpose is to help us ID the priorities.

20 CHAIRPERSON COSTIGAN: So before I call on Mr.
21 Jones, just a couple observations. I know we struggle
22 with this. As a former budget staffer and then working in
23 the Executive Branch, we would work with our agencies and
24 departments, but we did not go back -- this is the
25 difficulty. We did not go back into the Department of

1 Health Care Services or Department of General Services and
2 say, well, you should have done 10 PYs or 15 PYs. Why was
3 this denied?

4 There was a process, which I believe we have in
5 place. The departments come. They go up to the executive
6 committee. The executive committee makes a decision and
7 comes forward. The difficulty is -- it is as Mr. Slaton
8 says, where do you draw the line?

9 And that is we're not going to have quad for
10 those -- I know Mr. Gillihan knows well. We can't
11 replicate necessarily the legislative process, but the
12 difficulty is how far deep into the organization do we go?

13 If this Board decides we want a priority, we want
14 to spend more money -- and I'm just looking at Alan,
15 because you're sitting there, but this is not a promise of
16 anything. But if we want to spend more money on
17 actuaries --

18 (Laughter.)

19 CHAIRPERSON COSTIGAN: -- the question is when
20 that budget item comes up, then the Board decides. But
21 for us to go -- I would at least say for us to go back in
22 and micromanage, it's difficult because of the process.
23 But let us continue the discussion.

24 Mr. Slaton.

25 COMMITTEE MEMBER SLATON: Yeah. Just the other

1 point I want to make is our place to look at the strategy
2 is in the strategic plan. That is the document that we
3 should be perusing. Does this represent what we want the
4 organization to do? That's where we set the priorities.
5 Then it's the responsibility of management, through their
6 managing process, to come up with a budget that meets the
7 strategic plan. So that's where the interaction is at the
8 strategic plan level, not at the internal budgeting level.
9 That's my opinion.

10 CHAIRPERSON COSTIGAN: Mr. Jones.

11 COMMITTEE MEMBER JONES: Yeah. No, I concur.
12 That's why I was trying to set some parameters to be a
13 guiding light to this whole debate, because I don't
14 believe that you should be looking at every none decision,
15 in you will, that's been made by the budget process.

16 I agree with Bill that we should be looking at
17 what's the strategic goal. And we set these goals, and
18 the outcomes is whether or not you deliver. And that's
19 when we will judge whether you added the resources
20 necessary to meet that goal.

21 For example, if we were to indicate that we want
22 more audits in our agencies, and you say that we need 10
23 more positions to do that -- accomplish that goal, then we
24 authorize that. And then if you don't accomplish those
25 additional audits, that's the outcome where we should be

1 judging you on your performance, not going and say, well,
2 who you hired or where did these people come from?

3 So I kind of agree, that's why I'm trying to get
4 to some parameters in this regard.

5 CHAIRPERSON COSTIGAN: I think Mr. Jones'
6 comments are well taken. I mean, we do this as two
7 readings, a mid-year and a budget adoption. Is it all
8 right if I do my process?

9 CHIEF FINANCIAL OFFICER EASON: Yeah. So we
10 have -- we have the annual budget that comes forward and
11 then we have a mid-year process as well.

12 CHAIRPERSON COSTIGAN: Okay.

13 CHIEF FINANCIAL OFFICER EASON: But to -- so what
14 I'm hearing and what we can do -- come back on second
15 reading to look at some parameters that would be able to
16 give us sort of that high level setting, if you will, to
17 be able to support so that staff can support the Board in
18 terms of ensuring that we're accountable for that at a
19 parameter -- higher parameter level.

20 CHAIRPERSON COSTIGAN: So not to get too much in
21 the weeds, I guess one of the things, sort of along the
22 lines that they're asking is, if you look at the State,
23 you have hundreds of BCPs come forward. And then they're
24 whittled down to a group that then just goes up on appeal.
25 And then the decision is made on those that go in the

1 budget and those that are rejected. I don't know inside
2 where your process is.

3 Again, I know every department submits something,
4 and then there's a threshold, then there's a group that
5 goes up. You guys make a decision, and then there's a
6 group that actually comes in front of us. And so back to
7 sort of Mr. Jones' priorities or parameters is how do we,
8 not necessarily we take a second look at it, but if it's
9 meeting -- as Mr. Slaton raised, if you reject something
10 that we think is within the strategic plan, how is that
11 brought to us or if you need additional resources? But
12 the question is you didn't feel it was appropriate to
13 spend those, what's the triggering mechanism?

14 I mean, that's -- I think that's one of the
15 difficulties is is what -- what is it again? I don't want
16 to know that, you know, Donna's unit submitted 100 budget
17 change proposals, you know, for 500 new staff, and by the
18 time it got to you guys, it was 10, and only five showed
19 up in front of us. It might be a question as why were
20 those five rejected not the other 90.

21 CHIEF FINANCIAL OFFICER EASON: Yeah, I think
22 just -- you know, it's really part of the process, as you
23 described it, Mr. Costigan. We have that internal process
24 that there's a number of reviews at several levels within
25 the organization. And there's a vetting process that we

1 go through, and with priorities and criteria all -- that
2 are all discussed.

3 And I think part of the process, which is really
4 integral to a good budget process is to be able to then
5 articulate with the budget coming forward what that review
6 entailed, and again not at that really detailed level, but
7 certainly what's the thinking behind the budget that's
8 being brought forward and how does that meet -- how does
9 that meet the goals and objectives of the business
10 planning and strategic planning?

11 So I think it's part of that discussion -- that
12 robust discussion that we would want to have with the
13 committee when we bring the budget forward.

14 CHAIRPERSON COSTIGAN: Thanks.

15 COMMITTEE MEMBER JONES: And another thing I just
16 want to congratulate you on, is that I see you are looking
17 at the long-term issues. So you got those built in,
18 because sometimes capital projects may require three,
19 four, five year funding. And we too often pay for one
20 year and forget about year -- second and third, fourth
21 years. So that's good thinking. So thank you for that.

22 CHIEF FINANCIAL OFFICER EASON: Thank you.

23 CHAIRPERSON COSTIGAN: Ms. Elliott.

24 ACTING BOARD MEMBER ELLIOTT: Just so I'm able to
25 report back correctly, what was just discussed is that

1 instead of going over all of the proposals, maybe what the
2 Board needs is a better understanding of what that budget
3 process is internally, and to be comfortable with that
4 process. Is that what was just decided or discussed, that
5 that information will be provided to the Board?

6 CHIEF FINANCIAL OFFICER EASON: I think it is. I
7 think it's the process that we go through when we
8 develop -- every time we develop a budget, and we would
9 articulate that as part of the budget document that comes
10 forward.

11 ACTING BOARD MEMBER ELLIOTT: Got it. Okay.

12 CHAIRPERSON COSTIGAN: And I think as you're
13 reporting back, it's -- it will be evolving, because we
14 each have different comfort levels. Having done a budget,
15 I understand a little bit more and under -- deal with the
16 process. I think for others it's a little bit of a
17 mystery.

18 Although, again, I just want to point out, I
19 think where we've gone in the last four years,
20 particularly in that last three years, echoing what Mr.
21 Gillihan said, both the transparency of the information,
22 what Rose and others have been working on. Really, I
23 think, if you were to compare a product today to where we
24 were four or five or six years ago, it's an amazing
25 difference. And so it continues to be an evolving

1 process.

2 CHIEF FINANCIAL OFFICER EASON: Thank you.

3 CHAIRPERSON COSTIGAN: All right. Any other
4 questions on this item?

5 If not, I believe Item 9a, Mr. Milligan, is
6 yours. So we're going to move to Item 9a, Actuarial
7 Policies Framework Review, and it's an information item
8 only.

9 INTERIM CHIEF COMPLIANCE OFFICER NIEBANK: I'll
10 go ahead and kick-off this item. Kami Niebank, CalPERS
11 staff. And I'm really pleased to introduce the actuarial
12 policy review, and to just provide a bit more background
13 for the Committee.

14 So in June of 2015, the Board approved a new
15 enterprise compliance plan. And a key area of focus for
16 the compliance plan is to establish policy management and
17 delegation of authority frameworks and standards. And the
18 significance of this effort is that it allows us to
19 document Board and management decisions and authorities,
20 and it clarifies roles and responsibilities and who has
21 the authority to act. And most importantly, it promotes
22 transparency, accountability, and good governance
23 practices.

24 And so the Actuarial Office was kind enough to
25 allow us to partner with them as we tested our new

1 approaches and templates. And as a part of their -- as
2 part of their policy review project. And so we really
3 took a comprehensive review at all of their existing
4 delegations of authority, their policies, and their
5 resolutions. And we assessed where we found some gaps in
6 policies and delegations, and where things aligned. We
7 identified where authorities to establish policies
8 resided, and we identified key stakeholders who should be
9 involved in the policy development process.

10 And we also used our new templates and standards
11 and we have suggested where language could change between
12 putting delegations in delegation documents, and putting
13 policies with policy, and then procedures within
14 procedures.

15 And so you'll hear more through various
16 committees about some of the accomplishments in the
17 compliance plan, but I wanted to really kick this off and
18 turn it over to Alan to kind of give a bit of a background
19 on how some of the documents that you have in front of
20 you.

21 CHIEF ACTUARY MILLIGAN: Thank you, Kami. So
22 over the past several months, we've been working on
23 working with Enterprise Compliance to review and organize
24 the actuarial -- the Board policies that relate to
25 actuarial matters.

1 This has been a really very helpful and
2 productive process with the Enterprise Compliance Office.
3 Really been very helpful in terms of having the expert
4 guidance on, you know, taking into account some of these
5 things about the difference between a delegation and what
6 should be in a policy.

7 Our actuarial policies were -- kind of grew up
8 organically over a period of many years. And so this is
9 the first time we've really been able to take that
10 comprehensive look from the outside. We recently -- a few
11 years ago we went through all of our policies and renewed
12 them, but we didn't -- weren't able to sort of step
13 outside of the policies the way we've been able to do with
14 the help of the Enterprise Compliance Office. So I'm
15 really pleased with the process that we've gone.

16 So in addition to just straightening out the
17 delegations, which I felt was really important, we're also
18 going through doing a comprehensive review of our
19 policies. We're consolidating our policies so that
20 similar policies reside in a single policy. We're
21 converting from our out-of-date resolution format to a
22 standardized policy template to ensure consistency with
23 other parts of the organization.

24 And as I said, we're looking closely at the
25 delegations of authority, since we had a number of those

1 buried into actuarial policies that really should have
2 been stripped out and put into delegations.

3 The approach that we took is really best
4 illustrated by Attachment number 2. That's the second to
5 last page on your Board books. I think it -- I've
6 forgotten the actual page number, but it's the second to
7 last page.

8 All of those gray boxes represent existing
9 artifacts. Most of them are Board policies. And what
10 we're doing is we're consolidating those into the green --
11 the five green boxes, which will be the new policies
12 moving forward, as well as shifting some of it into our
13 delegations, into the Chief Executive Officer's
14 delegation, which would then be subdelegated to the Chief
15 Actuary.

16 We think that this new approach will be much more
17 logical, and it will be more transparent to our
18 stakeholders, since they will be much better able to find
19 an appropriate element of an actuarial policy. Instead of
20 having the big grab bag of stuff that we had before, there
21 will be, you know, only five policies where they need to
22 look at.

23 We do think -- we will be working with both
24 employer and employee organizations, consulting with them
25 as a part of this process, because some of the changes

1 that we will be proposing, you know, are substantive.
2 Other changes that we will be proposing are really just
3 reorganizing the policies.

4 With that, I'm going to turn this over to Scott
5 Terando, who is the Interim Deputy Chief Actuary replacing
6 David Lamoureux, who unfortunately has left us.

7 INTERIM DEPUTY CHIEF ACTUARY TERANDO: Thank you,
8 Alan. Following the approach that Alan laid out, what
9 staff is going to do over the next several months is we
10 are going to present revised policies to the Committee.
11 And this will be for a first and second reading.

12 Coming up in March, the Actuarial Office will
13 present two of these policies. The first one, the
14 actuarial cost method is a consolidation of two existing
15 policies and there won't be many changes to this one. It
16 will be pretty much just a revamping --

17 CHAIRPERSON COSTIGAN: Can you move the mic in
18 front of you.

19 INTERIM DEPUTY CHIEF ACTUARY TERANDO: -- just a
20 revamping of the policy.

21 The second one, the amortization policy, we are
22 looking at combining two Board policies, and one
23 directive. And there will be -- this one will have some
24 content changes. We're looking at adding changes due to
25 the funding risk mitigation policy that was recently

1 adopted, as well as looking at changes due to dollar
2 billing for the employer unfunded liability. And we will
3 definitely be reaching out to the employers through
4 outreach to contact them and let them know that these
5 changes are coming before it's presented to the Board.

6 In April, we'll follow up with a second reading
7 of these two policies. And we'll likely be presenting
8 the -- a third one in April on the actuarial assumption
9 policy.

10 That concludes this agenda item, if you have any
11 questions.

12 CHAIRPERSON COSTIGAN: Mr. Jelincic.

13 COMMITTEE MEMBER JELINCIC: Alan, looking at the
14 chart you gave us, which is 236 of the iPad, next to last
15 page, you said some of this is being moved over to be
16 included in the Chief Actuarial delegation. Can you
17 explain to me what's moving from Board policy to your
18 delegation -- or the Chief Actuary's delegation? How do I
19 read this chart?

20 CHIEF ACTUARY MILLIGAN: We'll go through that
21 once we go through each of the individual policies. But
22 buried in some of our current policies, there is a direct
23 delegation from the Board to the Chief Actuary. But those
24 delegations, you know, should be -- because of the change
25 in the structure that we went through a few years ago,

1 those delegations really should be from the Board to the
2 Chief Executive Officer, and then subdelegated to the
3 Chief Actuary. And so we're making that -- those changes.

4 I'm trying to think of a specific example. I
5 think in the load for mortality fluctuation, which is part
6 of the termination, there is an assignment of authority to
7 the Chief Actuary directly. And again, all of those
8 delegations of authority should be consolidated, so that
9 you can look at them in one place and know what authority
10 you've delegated instead of having to search through
11 multiple different policies to try to find those
12 delegations.

13 That's what it is. It's not -- in terms of the
14 delegations, we're not looking at establishing any new
15 delegations of authority, but we are take -- stripping the
16 ones that we do find in our current policies and making
17 sure that they're in the Chief Executive Officer's
18 delegation.

19 COMMITTEE MEMBER JELINCIC: Thank you.

20 CHAIRPERSON COSTIGAN: Okay. Any other
21 questions?

22 Mr. Milligan, anything else?

23 CHIEF ACTUARY MILLIGAN: That's it.

24 CHAIRPERSON COSTIGAN: Ms. Eason, I think we've
25 gone over everything we need to cover for next Board

1 meeting. Do you need any other direction?

2 CHIEF FINANCIAL OFFICER EASON: I just have a
3 list of some of the items that we want to go through.

4 CHAIRPERSON COSTIGAN: Do that.

5 CHIEF FINANCIAL OFFICER EASON: So I have on 6a
6 the pension prefunding, that we will continue to work on
7 the specific language and come back to the Committee next
8 month. We were also asked to do some analysis on costing
9 and break-even for the prefunding trust.

10 On 6b on the RFP methodology, that staff are to
11 add a third option as was discussed today. The -- there
12 was also discussion on the -- around the Chief Diversity
13 Officer position. Mr. Hoffner will bring back to --
14 facilitate a discussion for early summer regarding that
15 particular position, as well as 8a, which is to -- based
16 on Committee feedback to bring back the modified budget
17 policy for a second reading.

18 CHAIRPERSON COSTIGAN: All right. I believe that
19 captures it all.

20 We have no public comment.

21 CHIEF FINANCIAL OFFICER EASON: Oh, I'm sorry?

22 CHAIRPERSON COSTIGAN: Go ahead.

23 CHIEF FINANCIAL OFFICER EASON: There was for the
24 PEARS as well, the -- to determine --

25 CHAIRPERSON COSTIGAN: Yes, Mr. Jones is going

1 to -- we're going to do that through the Investment
2 Committee.

3 CHIEF FINANCIAL OFFICER EASON: Okay. Okay.
4 Great. Thank you.

5 CHAIRPERSON COSTIGAN: Anything else?

6 CHIEF FINANCIAL OFFICER EASON: No, that's fine.

7 CHAIRPERSON COSTIGAN: No public comment.

8 We will convene in 10 minutes with the Governance
9 Committee at 2:10 in room.

10 THE COURT REPORTER: Fifteen minutes?

11 CHAIRPERSON COSTIGAN: Fifteen minutes?

12 You just had a break.

13 THE COURT REPORTER: I have to set up in the
14 other room.

15 COMMITTEE MEMBER SLATON: 2:15 in Room 1140.

16 CHAIRPERSON COSTIGAN: 2:15 in 1140. This
17 meeting is adjourned.

18 Thank you all very much.

19 (Thereupon the California Public Employees'
20 Retirement System, Board of Administration,
21 Finance & Administration Committee meeting
22 adjourned at 2:00 p.m.)

23

24

25

1 C E R T I F I C A T E O F R E P O R T E R

2 I, JAMES F. PETERS, a Certified Shorthand
3 Reporter of the State of California, do hereby certify:

4 That I am a disinterested person herein; that the
5 foregoing California Public Employees' Retirement System,
6 Board of Administration, Finance & Administration
7 Committee meeting was reported in shorthand by me, James
8 F. Peters, a Certified Shorthand Reporter of the State of
9 California;

10 That the said proceedings was taken before me, in
11 shorthand writing, and was thereafter transcribed, under
12 my direction, by computer-assisted transcription.

13 I further certify that I am not of counsel or
14 attorney for any of the parties to said meeting nor in any
15 way interested in the outcome of said meeting.

16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 22nd day of February, 2016.

18
19
20 

21
22
23 JAMES F. PETERS, CSR
24 Certified Shorthand Reporter
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