MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

FINANCE & ADMINISTRATION COMMITTEE

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, MAY 16, 2017

12:09 P.M.

JAMES F. PETERS, CSR
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Richard Costigan, Chairperson

Ms. Theresa Taylor, Vice Chairperson

Mr. John Chiang, represented by Ms. Jeree Glasser-Hedrick

Mr. J.J. Jelincic

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

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Ms. Marlene Timberlake D'Adamo, Interim Chief Financial Officer

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

STAFF:

Ms. Tanya Black, Committee Secretary

Ms. Rose McAuliffe, Chief, Financial Planning, Policy & Budgeting

Ms. Kristin Montgomery, Controller

Ms. Arnita Paige, Chief, Pension Contract Management Services & Prefunding Programs

Mr. Wylie Tollette, Chief Operating Investment Officer

ALSO PRESENT:

Mr. Terry Brennand, Service Employees International Union

Mr. Tristan Brown, California Federation of Teachers

Mr. Al Darby, Retired Public Employees Association

Mr. Joshua Golka, American Federation of State, County, and Municipal Employees

Mr. Pat Whalen, United Nurses Association of California

Mr. Michael Young, California Labor Federation, California School Employees Association

I N D E X

P R O C E E D I N G S

CHAIRPERSON COSTIGAN: All right. Good afternoon. We are going to call to order the May meeting of the CalPERS Finance and Administration Committee.

We're going to give -- can we call the roll, please?

COMMITTEE SECRETARY BLACK: Richard Costigan?

CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY BLACK: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY BLACK: Jeree Glasser-Hedrick for John Chiang?

ACTING COMMITTEE MEMBER GLASSER-HEDRICK: Here.

COMMITTEE SECRETARY BLACK: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY BLACK: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY BLACK: Bill Slaton?

COMMITTEE MEMBER SLATON: Here.

COMMITTEE SECRETARY BLACK: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON COSTIGAN: All right. Thank you very much. All the members are present.

We're going to start with the executive report.

Good afternoon.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Good afternoon, Mr. Chair, Madam Vice Chair, and Committee members. Marlene Timberlake-D'Adamo, CalPERS team member.

I would like to first draw your attention to action item number 7 of the Committee agenda. This item will not be presented to the Committee. It was placed on the agenda inadvertently and will not be heard. The budget policy was anticipated to be revised, but it actually did not need to be revised. And therefore, we're not going to be moving forward with that, which should help us on time actually.

CHAIRPERSON COSTIGAN: Thank you.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Our first action item today, 5a, is the second reading of the 2017-18 annual budget proposal. Based on the discussion that occurred at the first reading, we have made an additional budget year projection for fiscal year 2019-20, and have provided additional details on enterprise project costs.

The next two action items, 6a and 6b will cover amendments to the Treasury Management and Treasury Management Reserve Policies, which include format updates in order to comply with enterprise delegation standards, as well as minor content changes, and the establishment of reserves for the Legislators' Retirement Fund and the Long-Term Care Fund.

These are first readings. But if it pleases the Committee, we would like to ask that it consider approving the policies today.

Agenda Item 8a, reporting on participating employers provides a status update and process improvements to further strengthen and protect the pension fund.

The last agenda item is the annual stakeholder perception survey report. This survey occurred in early 2017 and notes that the general perception of CalPERS remains positive among stakeholders.

The next Finance and Administration Committee meeting is scheduled for September 19th, 2017 and will include the annual reporting for the Customer Service Cost Effectiveness Measurement Update, actuarial valuation for the terminated agency pool, an item covering the CalPERS prefunding programs, the annual diversity report, risk profile review, and our quarterly reporting on participating employers.

Thank you, Mr. Chair. This concludes my report, and I would be happy to take any questions

CHAIRPERSON COSTIGAN: Great. Thank you.

Seeing no questions, now we're going to take up Consent Item 3a, which I believe Mr. Jelincic has a point to make. Please, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. On -- in the minutes on page three, agenda item 5b, we discussed it at the meeting, but it didn't make it to the minutes. And I'd like to amend them to include that I get paid 100 percent because I'm a PERS employee and they're going to pay 100 percent of my time no matter what I'm doing.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you.

CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.

That item has been noted. So this is an action item.

COMMITTEE MEMBER JELINCIC: So I will move it as amended.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON COSTIGAN: Moved by Jelincic, seconded by Taylor.

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries.

CHAIRPERSON COSTIGAN: On Item 4, which is a consent information, we're going to come back to the calendar right before we get to Item 9, but I do think we're going to have a June meeting. And we'll discuss that right before we get to Committee direction.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay.

CHAIRPERSON COSTIGAN: All right. Let's take up Item 5a please, which is the second reading of the budget.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes. Thank you. I have Rose McAuliffe here, Budget Chief.

CHAIRPERSON COSTIGAN: I'm sorry, Mr. Jelincic, did you have something else?

COMMITTEE MEMBER JELINCIC: No.

CHAIRPERSON COSTIGAN: Okay. You're just in the queue. Got it. Thank you, sir.

FINANCIAL PLANNING, POLICY & BUDGETING CHIEF McAULIFFE: Good morning, Mr. Chair and members of the Finance and Administration Committee. Rose McAuliffe, CalPERS team member.

Agenda Item 5a is an action item. And it's the second reading of our 2017-18 proposed annual budget for CalPERS. The proposed total budget is 1.676 billion and 2,875 positions. This represents a decrease of 110.5 million, or 6.2 percent, compared to the 2016-17 approved budget of 1.786 billion, and a reduction of five positions from the 2,880.

The 2017-18 budget proposal of 1.676 billion is comprised of five major budget categories. The first one is our administrative investment operating costs of 474.4 million for our administrative portion, and 91.2 million for the investment operations portion.

The next category is 777.5 million in investment and external management fees. We have third-party administrative fees for 282.9 million, and a price project cost for 23.3 million, and headquarter building costs for 27 million.

Our authorized positions decreased by five limited term positions from a total again of 2,880 down to 2,875. Again, there are no new authorized positions being requested, as the organization will continue to address resource needs through the realignment of existing positions, and the enterprise position pooling concept.

Based on comments from Committee members during the first reading, the following changes have been included in the second reading:

We've added an additional year to the budget projections. In addition to the current budget proposal, there is an additional two out-years projecting. And that is page beige 15 of attachment one.

We also added additional detail on the breakdown of the enterprise project costs, which starts on page 35.

The 2017-18 proposed budget is aligned with the strategic plan and business plan objectives of fund sustainability, health care affordability, reducing complexity, risk management and talent management. We request approval of the second reading of the 2017-18 annual budget proposal for CalPERS. Thank you, and we are open to questions. And Wylie Tollette, our COIO, is also here to answer any investment-related questions.

Thank you.

CHAIRPERSON COSTIGAN: All right. So before we call on Mr. Jelincic, just a couple of things.

One is, again, I appreciate all the hard work you all are doing. Over the last four or five years, we have gotten much better, as has been shown in both the awards we have received, and the amount of information that we tried to put out. We're not perfect. I mean part of it again is we're trying to find, as Mr. Jelincic pointed out at our last meeting, the ability to present some additional information that makes it easier to read.

So I would invite, not only CalPERS staff, CalPERS employees, but also members of the public, if you find our document at times difficult to read or it doesn't provide the information, please let us know. I think we're going to talk a little about the Investment Office in a moment.

But I know sometimes the -- this is a control document. The data that exists to create the control document is found in other places, similar to the way the State budget operates. When you get the budget bill, you just see appropriation items, the cap outlay, and the positions. The BCPs, budget change proposals, and others are found both at agency department websites. And that's a little bit similar here. So most of the background information is available, but in different formats.

So with that, I'm going to first call on Mr. Jelincic. And, Mr. Tollette, you may want to come up, sir.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yes. My question is on the agenda item itself, two of four, and it is the external management fees. And my question is are the fees described in '16-'17 and '17-'18 the same, or have we changed definitions? And what are -- and that's actually going back to the 75 and the 46.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Wylie Tollette, CalPERS team member.

Yes, good question, Mr. Jelincic. And as we -- we covered some of this yesterday in the Investment Committee, but I'm happy to review it here as well. So between last year's budget and this year's budget, we implemented the PEARS system, a much more robust tracking tool for understanding our private equity expenses and fees, and essentially moved away from our prior practice of using the K-1 documents, tax documents, to compile our annual -- basically, a commingled figure in prior years that commingled both management fees, where we have negotiating authority and responsibility, and partnership expenses, where we have very little control and authority. The general partners decide who they're going to hire as an auditor, and how much money to spend on that, for example.

And so as you -- as Mr. Costigan mentioned, in a control document, we thought that we should really focus on including expenses where we have some degree of control, such as management fees, and exclude expenses from the budget document that -- where we do not have control, where the general partner has control.

It's important to note, we do absolutely plan to continue disclosing those expenses in the CAFR, and in our program review. And we disclosed them yesterday in our Investment Office cost effectiveness survey. But implying -- putting them in the budget document might imply that we have some degree of control over them, and frankly we don't.

So that's the -- that's one of the primary differences in external investment management fees from the prior budget to this budget. We think this is a more realistic number to include in a budget. The number that we have included, for example, for private equity represents gross -- an estimate of gross private equity fees we will pay. It's important as well just to note that based on fluctuations in the market, that number could come in quite differently, because it's -- those numbers are based on the -- basically, the NAV and commitments that are made by our partners.

COMMITTEE MEMBER JELINCIC: Thank you.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: So I hope that answers your questions. I'm happy to take additional ones, if you have them.

COMMITTEE MEMBER JELINCIC: So the 75 million is excluded in this year's number?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

That's right.

COMMITTEE MEMBER JELINCIC: Is the 46 excluded as well?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

It is for the same reason.

COMMITTEE MEMBER JELINCIC: Okay. I just want to -- I understand why, and I listened to it yesterday.

And I continue to say that we ought to not report net fees, we ought to report gross fees, because whether you take it out of my right or left pocket is not a difference.

But one of the things we have said is we're changing the budget by basically $120 million. And part of the way we're doing that is by taking $121 million out of what we include in the budget. So there really is not that reduction. Thank you.

CHAIRPERSON COSTIGAN: And I just want to make sure we're all on the same page. That's -- that expense is captured -- I mean, there's a difference between the budget, which is our expenditures, and how these dollars are reported. Add I just want to make sure we're all on the same page. Those dollars that Mr. Jelincic -- I just want -- Mr. Jelincic, I'm happy to have you weigh in is, as I understand it, what you're saying is we've subtracted that number to lower their overall budget number, yet we're still paying it. Yet that number is accounted for in the CAFR.

And so it's the -- I just want to make sure we're all on the same page - Mr. Jelincic please weigh-in - is that this is our expenditure document. This accounts -- this document accounts for what we're going to spend over the next year. Those dollars are accounted for in the overall expense or are we not reporting -- I want to make sure that from a disclosure and transparency, it's correct. So let's have a quick discussion on this, Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: In the CAFR, we report net management fees. We do not report the actual -- we report -- we don't report the total management fees. We report the net. Some of the management fees are offset by taking money directly out of the portfolios. We don't report that in the CAFR.

CHAIRPERSON COSTIGAN: So that I can understand it in this are, how is that different in a piece of real estate that we own. We don't necessarily account for the janitorial costs, the paving of the parking lot, things of that nature, is that correct? So is that -- is this similar?

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Yeah, that's right. And just to be clear, it's really a -- this is really a question for your Committee. The budget document is a -- it's really your document, and it's the public's document, and a way for us to communicate our estimated spending for a given period of time. And so we were happy to take direction on what to include.

I think working with the Finance Office, our going in approach was to include expenses where we have some degree of control. And we do -- as I mentioned earlier, you should hold us accountable for what we pay in management fees in private equity. That is something we negotiate when we enter into and commit to private equity fund.

Partnership expenses are different than those. They are -- they are -- we treat them -- for example, in -- as you said, in real estate, we don't report how much it costs to keep the runways paved at Gatwick Airport. We don't report how much it costs to maintain the buildings that we own.

Those are partnership expenses of the real estate partnerships. So we're -- in the CAFR, and in our Private Equity Program review, and as I mentioned yesterday in my cost effectiveness report, out of an abundance of caution, and because there's so much focus in this area, we did disclose the partnership expenses for last year for private equity. Private equity is the only asset class where we do that, again, because there's so much focus on it.

Now, should we budget for and then hold staff accountable for how we're doing versus management fees? Absolutely.

Partnership expenses, again, we're happy to disclose them, but I think our approach was don't include them in the budget document. But again, we'll take direction. We'll go ahead and include them. The challenge is if they come in differently, it's very difficult to hold staff necessarily accountable for partnership expenses, because those are controlled and determined by the general partners.

CHAIRPERSON COSTIGAN: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I am not -- you know, this 75 million fund expenses not showing in the -- up in the budget is not really creating any heartburn, as long as we identify that we have done so. And part of the problem is we changed the definition and didn't note that we were changing the definition, so -- but in terms of the management fees, reporting a net really is, I think, a problem. I think it's also a GASB violation.

But if we negotiate so that we are going to pay 100 bucks in management fee, and the general partner says well, I'm going to reach into the portfolio and take 50 bucks, and so I'm only going to ask you to make up the remaining 50 bucks, to report simply the 50 bucks as the management fee is, I believe, inaccurate and misleading, because what we really paid in management fee was 100 bucks. And I think it's important that that show up in the CAFR, and we're not doing that.

One of the other problems we have with the CAFR, particularly for the private assets, is -- at least private equity, we report the private equity expenses on a calendar year, but report the CAFR on a fiscal year. And so there's like an 18 month gap, and -- but that's a whole separate issue not related to the budget.

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE:

Actually, just a quick clarification on that, Mr. Jelincic. Actually, that's one of the other advantages we found in moving to the PEARS system is the budget, and now the CAFR, are actually synchronized on the fiscal year-end. The prior year information in the budget, in our cost effectiveness presentation, in prior years, and in the CAFR were, in fact, calendar year, because again, we were using the tax documents which are also based on the calendar year.

So again, now, happily, we've synchronized all those documents, so that they're, first of all, using book accounting, we have the details, and they're based on the fiscal year-end. So I think you're exactly right, if you look backwards. Looking forwards, I'm pleased to say that I think we'll be in a better situation where these -- this information won't be nearly as difficult to reconcile from one document to the next.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON COSTIGAN: Thank you, Mr. Jelincic.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair. Yes, I just wanted to indicate Wylie just took the words out of my mouth that we're all constantly trying to improve our reporting and providing information that's especially in a public document. And we all know that a budget is an estimate. And the more important number is what do we actually spend? And that will continue to be provided for the public and anyone else who has an interest to see it in our official CAFR document.

Reiterate what Mr. Wylie indicated, that -- Mr. Tollette --

(Laughter.)

CHIEF OPERATING INVESTMENT OFFICER TOLLETTE: I respond to either.

COMMITTEE MEMBER JONES: Okay -- is that the data that was coming in previously was coming from documents that was incongruent with our calendar year for number one, and using different accounting standards for number two. And so obviously the data was not going to be correct in terms of what the budget reflects.

Also, as I recall, during the discussion is that another issue was the budget estimate is based on our hurdle rate, in terms of private equity. And you have to go over that -- just say that hurdle rate is eight percent. And who knows whether you're going to be two percent over that or three percent careers over that. So it's anyone's guess as to what that number is. And that was being used to put in a budget, which we know would not be the same at the end of the year.

So as we go forward, that's why we develop the PEARS system, and we -- the ILPA template, both of those documents are now -- are almost up and running. And hopefully we will improve upon your reporting even more so going forward.

So I just wanted to indicate that there were some inconsistencies, but the whole goal is to improve as we go forward in reporting our information on these fees.

CHAIRPERSON COSTIGAN: All right. Mr. Jones, I do appreciate that. And just a couple observations. Mr. Jelincic, it concerns me, both as the Chair and as a member of the Committee, if you think that there has been a violation, I would really encourage you to put that in writing to both myself as the Committee Chair --

COMMITTEE MEMBER JELINCIC: Okay.

CHAIRPERSON COSTIGAN: I just want to make sure that we have a very formalized process, because --

COMMITTEE MEMBER JELINCIC: I did once and got in trouble for it, but I will do it again.

CHAIRPERSON COSTIGAN: Okay. Well, I'm asking since -- I mean, from the standpoint since an assertion was made, I would just like to -- whether it's again, as Mr. Jones -- and I did want to give credit to Mr. Jelincic, because we've tried to make the document easier to read, I think let's see what your concerns are from that end.

Mr. Jones, I do think, as you pointed out, with the new PEARS system, I do agree back with Mr. Jelincic, we probably didn't make the right footnote in our attempt to be -- provide more information. It's -- I think it's sometimes easy for us to forget, because we have access to the Information on a daily basis and talk with staff, that it becomes second nature. So you're right on a disclosure or the ability to just explain.

So if there's a significant change -- and I think, Rose, maybe next year -- again, it's fantastic to show that we have reduced the private equity -- the external management fees by almost -- or a little over 119 million. Just probably a further discussion on some of the larger numbers, because what we've been able to go through first reading and second reading is, what we use the CAFR for, how much better the PEARS system has become, and address some of the concerns.

So if there are still some additional concerns as it relates to reporting that -- particularly in the net of fee issue, which sounds like this is with Mr. Jelincic, which I don't think raises to the level that Mr. Jelincic raised as a GASB issue, but I'd like an answer to it. So I do -- Ms. Montgomery, you'd like to respond, please.

CONTROLLER MONTGOMERY: Sure.

Kristin Montgomery, CalPERS team.

Our CAFR is following GASB standards, and our auditor also believes it's following GASB standards. Again, GASB is evolving in this area. I know that they have a technical project that they're looking at with regards to investment fees. And they continue to want to be more transparent, but right now, the CAFR is following GASB standards.

CHAIRPERSON COSTIGAN: Mr. Jelincic, do you have something, sir?

COMMITTEE MEMBER JELINCIC: I disagree, but I will put it in writing. And I will point out that GMO said that part of the reason they were not including the carry was, at least at that point, management didn't feel they had sufficient records that they were willing to risk audit.

CHAIRPERSON COSTIGAN: All right. Thank you, Mr. Jelincic.

Anything else on this item?

I see no further questions. This is an action item.

COMMITTEE MEMBER JONES: Move it.

CHAIRPERSON COSTIGAN: It's been moved by Jones.

VICE CHAIRPERSON TAYLOR: Second.

CHAIRPERSON COSTIGAN: Seconded by Taylor.

Any further discussion?

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries. Thank you.

All right. Next item Treasury Management. Ms. Montgomery, is that you, or is that --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you. Kristin Montgomery is here to present the items on treasury management. That's going to be 6a and 6b.

CHAIRPERSON COSTIGAN: Thank you. Ms. Montgomery.

CONTROLLER MONTGOMERY: Kristin Montgomery, CalPERS team member. Agenda Item 6a is an action item. And it's the annual review of the treasury management policy. It includes updated language and some format changes to comply with our enterprise delegation and policy standards.

And thank you, and I can take any questions on this.

CHAIRPERSON COSTIGAN: I just want to make sure, Mr. Jelincic, Mr. Jones, any questions?

Okay. Well, Ms. Montgomery, excellent presentation on that one.

(Laughter.)

CONTROLLER MONTGOMERY: This is an action item.

CHAIRPERSON COSTIGAN: Yes, and I was about to say this is an action item.

VICE CHAIRPERSON TAYLOR: I'll move it.

CHAIRPERSON COSTIGAN: Moved by Taylor.

Seconded by?

ACTING COMMITTEE MEMBER PAQUIN: Second.

CHAIRPERSON COSTIGAN: Seconded by Paquin.

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries. Thank you.

Item 7 has been removed, and we're going to go --

CONTROLLER MONTGOMERY: 6b.

CHAIRPERSON COSTIGAN: I'm sorry?

CONTROLLER MONTGOMERY: 6b.

CHAIRPERSON COSTIGAN: Oh, 6b. I'm sorry, 6b

CONTROLLER MONTGOMERY: Agenda Item 6b is also an action item. This is an annual review of our Treasury Management Reserve Policy. This includes a two-month reserve to be established for our Legislative Retirement Fund, and a one-month reserve to be established for our Long-Term Care Fund.

The proposed reserve for these two funds will ensure each fund can make its obligations, if a stressed or a crisis event occurred. We also included format changes. Again thank you, and I can answer any questions on this.

CHAIRPERSON COSTIGAN: Great. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: On the Public Employees' Long-Term Care Fund, a reserve equal to one month, which we had not included. Can you expand on why we are doing that?

And then the other point I want to make is rather than use strike-out and underline, you used strike-out and red. And for those of us who are color blind, it was much, much easier if you go back to the strike-out and underline.

CONTROLLER MONTGOMERY: Okay. We'll do that. We'll do that next time.

COMMITTEE MEMBER JELINCIC: And one other.

CONTROLLER MONTGOMERY: Okay.

COMMITTEE MEMBER JELINCIC: I would actually encourage that the strike-out/underline section be the first attachment, because that's actually what I think most people work off of.

CONTROLLER MONTGOMERY: Okay. So to answer the Long-Term Care Fund, when we evaluate -- in February of 2017, we presented our semiannual report to the Finance and Admin Committee. And in there, you will see that when we looked at the stressed and crisis event that it fell below our liquidity coverage -- ratios fell below, so we wanted to make sure that we have a one-month reserve to cover that in the event of a stressed event. So we thought one month was sufficient.

Again, we did a cost analysis of this. We don't put to put too much in liquidity. But we want to make sure that that's covered. So that's the reason for the one month.

COMMITTEE MEMBER JELINCIC: And previously, we had zero.

CONTROLLER MONTGOMERY: Correct. And that's --

COMMITTEE MEMBER JELINCIC: Thank you.

CONTROLLER MONTGOMERY: And again, the program is working because that's why we're doing the reporting on a regular basis, so...

COMMITTEE MEMBER JELINCIC: I'll move.

VICE CHAIRPERSON TAYLOR: Second.

CHAIRPERSON COSTIGAN: Okay. No further discussion.

It's been moved my Jelincic, seconded by Taylor on 6b.

All those in favor?

(Ayes.)

CHAIRPERSON COSTIGAN: Opposed?

Motion carries. Thank you, Ms. Montgomery.

Okay. Item 7 has been removed.

We're going to go now to Item 8 which is Program Administration. We're going to talk about the reporting on participating employers. It's a great report, but go ahead, please.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you.

(Thereupon an overhead presentation was presented as follows.)

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I have Arnita Paige here, who's the Chief of the Pension Contract Management Services Division.

So good afternoon. As you recall, this is the quarterly report that this team is giving to the Committee regarding the status of our employers.

In presentations passed, we've called this the delinquent and collection report. And so what we've --

what we've done with this report, after several months of work, is really reform it to a much more detailed report, and a holistic report around the status of our employers. And so in circumstances passed, we've only come to you talking about the delinquent employers.

And what we'd like to do with this report is give you a presentation around the universe regarding our employers and so the -- what we start this report with is talking about some of the improvements that we have done over the last few months, which we've talked to you about in recent conversations as we've had to make some difficult choices.

And so what we've talked about is that -- where we've strengthened and streamlined the collection and termination process, including a process timeline that we've distributed. We've adopted a risk oversight process that improves monitoring, and hopefully reduces risks to members. We've developed tools to identify risks. And we'll actually get into a little bit more detail later about that, using a standardized review criteria. And we've improved, we believe, the oversight of agencies with all inactive plans. And that's actually a separate section within this report for you to talk about.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: So in terms of our system, this is what we have identified so far as the school districts, the State, and the public agencies. And really what we want to focus on for this presentation are the public agencies. And those are the entities that we've been talking to you about over the last couple of months, as it relates to the delinquencies and the terminations that we've had to do in the past.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: The next section -- and so what we've done is organize this report in three sections.

The first section is really talking about the demographics of those 1521 public agencies. And so what we'll do, over the next few slides, is provide you some information about where those agencies stand and sort of the buckets that we've started to put them in.

The second section of this report is what we're calling our inactive plans. And so those are the employers that have no current employees or no active employees. And we went in and had sent our audit team in over the fall to take a look at this group, because from a risk perspective, we thought that that was something that we really wanted to make sure that we had a handle on.

And so section two of this report is going to be providing some analysis and detail around that segment of the population.

And then the third section of this report is the traditional information that you've been seeing around the delinquent employers. And so we have a couple of slides that provide an update on where we are with those employers. And so that's the three sections of the report.

Oh, I'm sorry. I didn't talk about this.

So in terms of the public agency demographics, what we have are we've categorized the public agencies into these sections. So we have cities and towns, counties and special districts. And if you recall, the special districts are the ones that we've been talking about a lot in the past, particularly the JPAs.

And so we've pulled that out to provide some identifying information to you, so that you can see where these employers are falling out in terms of categories. And then the information that we've provided is essentially the size of the universe, the number of the agencies, the percent that they make up, the number of participants that they include, and a percent number for that, as well as what their current funded status would be at seven and a half.

And it's important to note at this point that the information that we're using is the most current that we have, but it is as a point in time as of December 30th -- I'm sorry June 30th, 2015.

So as you know, our actuary group is right now in the process of providing the updated numbers for '16. But for right now, this is what we have in terms of what's most current. So that's why we've used the numbers that we have.

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CHAIRPERSON COSTIGAN: Hold a second. Mr. Jones, Mr. Slaton, do you want to do your questions now.

BOARD MEMBER JONES: I'll wait till she's finished.

COMMITTEE MEMBER SLATON: Wait.

CHAIRPERSON COSTIGAN: Okay. Thank you.

Sorry. Go ahead.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I can -- I can actually stop at the end of each segment and answer questions, if you prefer, or we can move all the way through.

CHAIRPERSON COSTIGAN: Would you prefer questions -- Mr. Jones first.

COMMITTEE MEMBER JONES: Yes.

CHAIRPERSON COSTIGAN: Okay. Hang on a second sir.

COMMITTEE MEMBER JONES: And this is on page four of 20. When we talked about the -- going forward with the JPA's, we were talking about including language in a contract, so that liability is identified with the sponsors of those JPAs. And my question is, do we have the same ability with the special districts, or are they organized differently where this would not be necessary, or should we also include, in our contract provisions, whoever is sponsoring those special districts has the liability ultimately?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So as it relates to contracts, and also the statutory changes that we've talked about with JPAs, I would say that we are going to look at the groups on a case-by-case basis. In terms the special districts, we'd have to look at each one to see who the underlying entity is, if there is a sponsor or an entity that is responsible for the payment, as well as what interrelationship there might be.

And then, at that point, we would look to see, in terms of amendments, or changes, or even just strengthening the communication in the relationship in terms of monitoring those agencies. So we haven't quite gotten yet to where we're specifically making those changes. What we're doing now is isolating and bucketing them into groups, and then going in and looking at them on an individual basis to see where we think we can mitigate some additional risk or identify additional risk.

COMMITTEE MEMBER JONES: Okay. Thank you.

CHAIRPERSON COSTIGAN: Mr. Slaton.

COMMITTEE MEMBER SLATON: Yeah, I just -- I want to talk for a moment about the categorization, because you've got -- you've lumped JPAs, non-profits and others together. I would suggest that special districts are -- you know, they are established under Government Code. SMUD, for example, is under the MUD Act enacted in 1922, so -- and they typically have some taxing authority or fee authority. So, to me, your category should be cities or towns, counties, special districts, and then other. And other to me includes JPAs and nonprofits.

So I would really separate out special districts, because the nature of the type of organization, and they typically don't have -- although many of them are small, they don't have the same credit characteristics that JPAs and -- that we've experienced with JPAs, as well as nonprofits or charter schools, for example. So I'm just suggesting that maybe your categorization would make it simpler.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: Well, I think it's important to note, what we've done here really is just categorize them by agency type. And so, at this point, we're just trying to give you a sense of what the population looks like.

COMMITTEE MEMBER SLATON: Right.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: And we haven't yet determined, in terms of risk categories, where we're going to pit each one, and if we would end up putting one in the same category with the other -- The hope, I think, is to look at the type and understand that the categories -- the characteristics should be quite similar in terms of the type, and that we would essentially go from there. But I do -- I do understand your comment around the specials districts.

COMMITTEE MEMBER SLATON: Yeah. The special districts are -- you know, they have a certain nature, a certain characteristic. They all tend to share that characteristics.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right.

COMMITTEE MEMBER SLATON: Whereas JPAs and nonprofits can be all over the map. So I was just hoping to separate them. Thank you.

CHAIRPERSON COSTIGAN: Before I call on Mr. --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: And I think what you're saying also is that the term "special district" is really sort of a defined term.

COMMITTEE MEMBER SLATON: It's a defined term, correct.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: And I think here we've sort of used it as an "other" almost --

COMMITTEE MEMBER SLATON: Right.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: -- as a larger "other" to the cities and towns and counties.

COMMITTEE MEMBER SLATON: Yeah, I would not lump them together is what I'm saying.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right.

CHAIRPERSON COSTIGAN: So just very quickly -- Mr. Jones, are you done, sir?

COMMITTEE MEMBER JONES: I'm waiting -- no, the chart she went to I've got another question on the next one.

CHAIRPERSON COSTIGAN: Okay, because your microphone is still on. So you might want to turn your mic off. I'll call you back on.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I want to agree with Bill. I think what you've labeled here as "others" are, in fact, by definition, special districts, and your footnote makes that clear.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay.

COMMITTEE MEMBER JELINCIC: But they overwhelmingly have independent taxing authority. And so they are very different from JPA's and nonprofits.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON COSTIGAN: Okay. Please continue.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So slide 5 then looks at that group in terms of the bands for their funding status. And so what we see here is that there is, I'll call it a, a spectrum for this funded status of these groups and categories. And so it's important to note that 388 are funded between 50 and 75 percent. And 1,091 are funded between 75 and 100 percent, 41 are funded at over 100 percent, and there is one that is funded at between 25 and 50 percent, out of this universe.

CHAIRPERSON COSTIGAN: So we have a couple questions. Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Yeah. Thank you, Marlene. So cities or towns, counties it's 198 and 21. So do we know the amount of employees that are in that status and what's the actual breakdown -- I could -- would love to see, because that's a lower funded status, that broken down better, so that we could see if it's 50 to 60 percent, 60 to 70, you know what I mean? Because the lower you get, the more likely it is they may not -- they could end up on our list.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So I do know, just from a point of looking at this a little while ago, that of the 388, roughly, I want to say, 360 are funded between 65 and 75 percent. I actually did have that information.

VICE CHAIRPERSON TAYLOR: Based on the 7.5?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes.

VICE CHAIRPERSON TAYLOR: That's still kind of low. Okay. Is there any analysis on here that says --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: 370.

VICE CHAIRPERSON TAYLOR: -- whether or -- since they're this --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I don't have the number of participants. We'd have to get that for you.

VICE CHAIRPERSON TAYLOR: Okay. And then also would there be any analysis on whether or not they have been paying? Are these all up-to-date employers?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes, right -- yes.

VICE CHAIRPERSON TAYLOR: Okay. They're just not well funded?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Correct, they're just not as well funded.

VICE CHAIRPERSON TAYLOR: And maybe we could see, especially cities and towns and counties, what -- another point of analysis would be is like are they paying three percent at 50, you know what I mean?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Um-hmm.

VICE CHAIRPERSON TAYLOR: Because that also affects their funding status. So that kind of gives us a better picture.

Thank you.

CHAIRPERSON COSTIGAN: Also just -- before I call on the next one, just a little bit of Committee direction. I think Ms. Taylor's points are very well taken, because the way this chart reads is the bulk of them are between 50 and looks like 90 percent. So I think if you're going to get rid of some columns, the 50 or less, because you've only got one, so you can eliminate the 0 to 25 pretty quickly.

And then I think, as Ms. Taylor suggested, if you could do it in bands of the 50 to 60 to 70 to 80 to 90.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Um-hmm.

CHAIRPERSON COSTIGAN: I think what she's looking -- but I'll just ---

VICE CHAIRPERSON TAYLOR: Yes.

CHAIRPERSON COSTIGAN: -- without speaking, is the 50 to 80. We want more granular.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right.

CHAIRPERSON COSTIGAN: And then potentially a breakdown on cities of towns, you know, greater than a employees, under a thousand, more than 5,000, just -- and it's just the data points. I mean, almost using the grid that Wylie used yesterday of four quadrants might be helpful on, you know, the number of employees and unfunded and funded status, I think, would be very helpful, but that's just one of the items for when we get to Board direction.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah, I recognize that this is at a point in time, and it's using June 15 -- June 2015 evaluations. They're in the process of doing the '16s --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right.

COMMITTEE MEMBER JELINCIC: -- so you wouldn't have that data yet. But one of the things that I would like to encourage you to do is look at how they would be funded at seven percent, because that's where we're going. But I would clearly wait until after you got the '16 data.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON COSTIGAN: Thank you.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Are the nonprofits, is that -- I said it before, but are those charter schools, and are they included in that category, and are they the only type, or what are the other types, if any, in nonprofits?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right. So we have, in terms of non-profits, student body association agencies, regional center rehab facility agencies, and the California Redevelopment Association Foundation, independent cities, Treasure

Island Development Authority. Does that answer your question, you're asking if they were -- let's see --

COMMITTEE MEMBER SLATON: Yeah. Where do Charter -- we have some charter schools that are in the system, and where do they fall in?

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Right, we just spoke -- the charter schools aren't included. Those were -- these are just the public agencies, so we didn't --

COMMITTEE MEMBER SLATON: Oh, okay. So they're excluded from it.

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Correct.

COMMITTEE MEMBER SLATON: Okay. So the non-profits, there aren't -- again, it's a fairly small group size.

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Um-hmm.

COMMITTEE MEMBER SLATON: Okay. And in terms of -- how come we didn't include -- how come we don't include charter schools in this analysis?

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: For this analysis, we wanted to start with the public agencies and evaluate the public agencies. And then --

COMMITTEE MEMBER SLATON: So we put them in the bucket with school -- with school -- within the same bucket with schools.

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: We do separate -- right, a separate. We just did where we separated them.

COMMITTEE MEMBER SLATON: Okay. Because are the -- I just -- it strikes me that their credit situation and whether they, in fact, are part of a district, or, in other words, what's the financial linkage to a school district. And I don't know, but it does raise a question. If they're tightly connected from a financial standpoint to a specific school district, then I would agree with that characterization. If not, then it might raise other issues for us.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Got it.

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Thank you.

CHAIRPERSON COSTIGAN: No, that's great. And I know, as Marlene as you said, this is just the first step, because it was actually one of the questions we've had is because there's much more reporting to come. So again, as Ms. Taylor has raised, our goal is to provide as much information.

One other thing as we're looking towards this, and Ms. Taylor and I were talking about it, is an additional column. I know that we have different classifications even with inside local governments. But what we try to figure out is for like -- give us some other bearing points. Like for miscellaneous is it 2.5 at 57? Is it three?

Just a little bit of a comparison. We know the State side. I know we'll start getting very granular the more we go down. But even if we could look at, as are the bulk of their employees, miscellaneous employees, you know, 2.7 just -- is that captured?

VICE CHAIRPERSON TAYLOR: Yeah.

CHAIRPERSON COSTIGAN: Great.

All right. Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. Bill, the charter schools are all in the school pool.

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Schools, yeah.

COMMITTEE MEMBER JELINCIC: So if a given charter school went belly-up, the rest of the pool picks up that liability.

COMMITTEE MEMBER SLATON: Okay. Well, in that case, it makes sense.

CHAIRPERSON COSTIGAN: But what we would -- I mean, the goal is ultimately have all the information reported.

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Um-hmm, correct.

CHAIRPERSON COSTIGAN: All right, Mr. Jones.

COMMITTEE MEMBER JONES: That's okay. I was going to talk about the charter schools.

CHAIRPERSON COSTIGAN: Okay.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So I think it's important to note that this is the first time that we're providing this information, and we really do appreciate all the questions and your thoughts around what you'd like to see, because the goal here really is to give you the kind of information that you need in order to make informed decisions and to give you comfort that we are monitoring the situation, and we are providing adequate oversight or sufficient, even better than sufficient oversight, of our employer partners. So thank you for all your questions.

CHAIRPERSON COSTIGAN: And I -- and again, this is great information. I know that you'll be working with Mr. Pacheco that -- in meeting with our stakeholders from the standpoint of both League and CSAC. And then I would encourage you to also with some of the employee groups, as we try -- the goal here is to get as much information. So when we look at whether it's fund -- the defined benefit formulas or the funding status, let's make sure the information is relevant, helpful, and drawing to a conclusion.

So again, this is a great report. Actually, I learned a lot. I mean, I think what was most telling for this report is I think, in the past, we've batted around the number of local governments that were on the verge. And sort of what this reinforces is things look a little bit better than I think we're -- we thought the pessimism may have existed.

I know a former Board member awhile back actually pegged a number that might be on the verge. And that doesn't necessarily seem to be the case, but I want to make sure the information is accurate. So you guys again fantastic work.

Any other questions on this item?

If not, thank you. Oh, you want an action item?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Well, I was going to run through the rest of the slides.

CHAIRPERSON COSTIGAN: Oh, I'm sorry. I thought you were done. Go ahead.

Sorry, I'm looking at Brad. I thought Brad was about to move. Sorry. Okay.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Well, I mean, I can --

CHAIRPERSON COSTIGAN: This is the problem when you read ahead in the presentation, I'm already done with your slides.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay. That's fine. That's fine.

I mean, so really what we've done is we've just provided the information that we've sort of talked about in the beginning in different cuts or views. And so this one looks at the funded status at the seven and a half and then again at two percent, in terms of the gray bar.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: This one really just reiterates the point I think that we just poke about regarding how the work that we're trying to do in order to provide better monitoring and communication with the employers, in terms of educating them to provide better oversight and monitoring of our employer population.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Slide eight of 20 really looks at some of the things that we're taking a look at in terms of developing and enhancing our processes. And so I think Mr. Jones had mentioned legislation or contract compliance, so those are some of the things, looking at budgets, contract amendments as well.

And so these are sort of the tools that we're looking at to put in our toolbox in terms of the better monitoring, better oversight of our employer partners.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Slide nine, here we're looking at what we're thinking about in terms of risk -- a risk response prioritization. And so a tier one for us might be one that's delinquent or is in bankruptcy or something like that. A tier two might be one where we're seeing something that's happening that we -- maybe something in the media, some information that's coming to us that we'd want to take a look at and make sure that we monitor more closely or from an enhanced perspective.

A tier three might be what we're looking at in terms of an employer who maybe routinely pays late, and that's something that we might want to talk to them about or understand what's going on.

So the idea again -- and I've spoken to you in the past about sort of the pipeline. And the idea is that we're going to bring this information to you, so that you have a good sense of what we're looking at, why we're looking at it, and what you're seeing.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Slide ten, same conversation around the oversight, early detection, and employer education. We really think that now that we are -- have been doing this review for quite some time that we're in a better position to really reach out to those employer partners and understand what their status is, what's happening with them, and where we might be able to engage and help.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Slide 11 actually begins segment two of this presentation, which is our inactive agencies. And so these are the 59 agencies that we had come across where they did not have any active employers -- employees.

And so what we wanted to do, quite frankly was to send our audit group in to make sure that the world, as we thought it was, was, in fact, the world that it was, and do a review to understand where we were with those employers. And so this is the same format as the previous section, in terms of just those 59. And so cities and towns, counties, special districts - I understand your comments around special districts. But this is the population and the participants 1898 participants.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: And inactive, their unfunded accrued liability. So this looks at it again at seven and a half versus two. And this is information about these inactive agencies. And again, they're current. They're just not -- they don't have active employees, so they're not delinquent.

COMMITTEE MEMBER SLATON: So, Richard?

CHAIRPERSON COSTIGAN: You have a question?

COMMITTEE MEMBER SLATON: No, I'm already on. I just wanted to -- so what county do we have that's inactive and they have no employees?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So this was actually the San Joaquin local health district that was folded into the County of San Joaquin. And then in the nineties, they actually moved to a closed plan -- or they moved to a plan that was a county plan. So it was -- essentially, the original entity was the San Joaquin Local Health District.

COMMITTEE MEMBER SLATON: Right.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: They folded into the County of San Joaquin, and then San Joaquin went to its own plan.

COMMITTEE MEMBER SLATON: So -- oh, I see, so the county is inactive in regard to CalPERS.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes. Yes.

COMMITTEE MEMBER SLATON: They're not inactive in terms of having employees who are --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Oh, yes, yes.

COMMITTEE MEMBER SLATON: -- covered by a retirement plan. They just went out of our system.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Correct.

COMMITTEE MEMBER SLATON: Okay. Thank you.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So not active employees.

COMMITTEE MEMBER SLATON: Gotcha.

CHAIRPERSON COSTIGAN: Lynn.

ACTING COMMITTEE MEMBER PAQUIN: Thank you.

This is a great report, and I appreciate all the work that you and your team are doing on this. And I was just curious, and I'd like to focus on the inactive agencies and trying to figure out what's going on with them. And as you get further into the program, is there any thoughts of going back to the 170 JPAs total, the 63 nonprofits total, and doing a deeper dive, even if they look like they're in good shape now? Because as we saw with East San Gabriel things could change pretty quickly.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Sure. And I think that that's a good point to note that, while we have the funded status that looks okay for some of the populations, really what we're interested in is understanding the characteristics around those populations as you noted. You know, something as quick as losing your funding for a JPA could actually mean termination of benefits.

And so those are the next things that we're looking to, in terms of understanding where the potential risks might be, as it relates to those populations.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank you.

CHAIRPERSON COSTIGAN: Mr. Slaton.

COMMITTEE MEMBER SLATON: Yeah. So back on the county, that agency that -- and then the county left, but we show UAL at two percent of $40 million Is it -- or am in the wrong -- I'm -- let's see, I'm in -- on page 12.

So we have at seven and a half, ten million and 40 million at two percent. So what's the process of collecting that money, because I assume those employees -- in other words, what's the status of this particular account?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So -- well -- so essentially, I can skip to this slide, which is the preliminary review from our audit findings. And so what we've done is that we have categorized essentially the findings from our internal audit group as it relates to those inactives. And so our commitment to you is that we're actively working to close out and to resolve the audit findings as it relates to these 59.

So I think the answer to your question is going to depend on where we end up working out with the county or the entity, the employer essentially, because in this instance, it might be a circumstance where the audit finding is that the -- that the contract hasn't quite caught up with the function. You know, the fact that the employees have moved someplace else, and so there would be some work that would have to be done in order to resolve that.

COMMITTEE MEMBER SLATON: But these are vested employees, I assume, otherwise you wouldn't have that count?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I would say that -- I mean, given the age of the -- the contract, I would say that they probably are, but I don't know -- want to make a guess.

COMMITTEE MEMBER SLATON: And some may be retired, may not.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right, but I think that the point is that even though this entity is an inactive entity, it is not delinquent. And so what we're trying to do --

COMMITTEE MEMBER SLATON: Okay.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: -- is we're trying to make sure that we've got them on our radar, we understand what their status is, and that we're communicating with them.

COMMITTEE MEMBER SLATON: So if they're -- if they're -- and this is interesting, because it's not the same situation as we've had in other --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Correct.

COMMITTEE MEMBER SLATON: -- you know, where they just can't pay and so forth.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Correct.

COMMITTEE MEMBER SLATON: So in this situation, they're continuing -- they're not -- they're not going forward. There's no benefits on a go-forward basis, but they're continuing to pay their obligation --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right.

COMMITTEE MEMBER SLATON: -- into the System. So it's really more of a tracking thing to make sure they continue to pay.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right. It's being engaged. It's making sure that we're following up with them, and that they are not delinquent when they do get their bills.

COMMITTEE MEMBER SLATON: Very good. And just again an editorial comment, this is a great analysis that you're doing, and it's extremely appropriate, and important.

So thank you for the hard work on this.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you. Thank you for your questions and your concern.

CHAIRPERSON COSTIGAN: Okay. So, I'm sorry, before you go on. So if you happen to be here for health Committee, which I know was noted for 1:00 p.m., it won't convene until 2:00 p.m. at the earliest. So if you're here for that and you want to get up and walk our, you're not going to bother any of us.

So anyway. All right. Please keep going.

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INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So that -- so with that conversation, that really concludes our discussion on the inactives, with the comment that we have our audit review, and we're working to resolve those review items as we move forward.

And then beginning on page 16 is what you normally see in terms of the delinquent and -- delinquent and collection report. And so these are the three entities that you're used to seeing. The update on East San Gabriel is that we have not received any funding from them. We continue to work with the members who are calling in and are asking questions about where they stand. But as far as we're concerned, we're still on track for the reduction to occur in July.

CHAIRPERSON COSTIGAN: Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair. Regarding East San Gabriel when the members presented to the Committee last month, I guess, and there was a follow-up meeting that we suggested to, number one, they had some Public Record Act requests, they had one to get updated information. Could you share with us how that -- those meetings went and what's the status of that?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So we had several members that spoke to us after the meeting, where we gave out information to them. They have been calling in. My understanding is that the Public Records Act request was filled.

DEPUTY EXECUTIVE OFFICER PACHECO: Yes.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Brad is nodding his head. And so we are actively working with those East San Gabriel members who are contacting us -- excuse me. I'll stop there.

So we're actively working with them.

COMMITTEE MEMBER JONES: Okay.

CHAIRPERSON COSTIGAN: Anything else, Mr. Jones?

COMMITTEE MEMBER JONES: No.

CHAIRPERSON COSTIGAN: Ms. Glasser-Hedrick please?

ACTING COMMITTEE MEMBER GLASSER-HEDRICK: Just a quick question about redevelopment agencies. Do they fall under the inactive agencies or are they represented by the successor agencies in the general portion of the report?

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: The redevelopment agencies, their category is under the other there.

CHAIRPERSON COSTIGAN: Anything else?

We just want to welcome you to California. I know it's not the same as New Jersey. No allergies.

ACTING COMMITTEE MEMBER GLASSER-HEDRICK: I've never had allergies before.

CHAIRPERSON COSTIGAN: Take your time. Yes, welcome to Sacramento.

(Laughter.)

CHAIRPERSON COSTIGAN: Do we have anything else? You want to keep going?

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Okay. Sure. We actually also provided -- pardon?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Go ahead.

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Okay.

We actually provided Niland Sanitary District as well as Trinity County Waterworks District, those are also in the process of termination. So we wanted to provide the information here what the estimated termination costs would be for those.

And moving on to slide 17.

--o0o--

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Here, we're showing the liabilities outstanding. We also want to note that Trinity County Waterworks, that employer actually terminated. And the termination liability is the actual amount owed for that -- for this employer.

To date, this employer has not paid amounts owed. We billed them in March for the final termination cost.

They did not pay monies owed and after 30 days, which was April 7th. We did send the final collection letter following our process to them on May 8th, and we've also sent the letter to the members, as well as -- the Trinity County Board of Supervisors as well we sent a copy and have been in contact with them.

CHAIRPERSON COSTIGAN: So when do you think we'll be setting that for a Committee action?

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: We're looking at to send the final demand letter in the next two weeks. So I would say we'd be ready to go in July.

CHAIRPERSON COSTIGAN: Great. Okay. Ms. Mathur.

BOARD MEMBER MATHUR: Thank you.

I want to add my appreciation for this agenda item. I think it's a really important first step and you all have done a very thorough job. Clearly, there are some subsequent things that we want to -- we want to continue to look at. I did want to ask -- and I know you haven't quite gotten -- I don't know if you were going to go over appendix one, which is the collection process timeline.

But I did want to ask a sort of deeper question about the notification of members, and what -- and how we are going -- looking to refine that process. I personally think two months is too short. Although, I know we're not required to give them more, but I do think it's very hard for members to sort of get themselves together in order to have some kind of response and engagement of their employers with just 60 days time.

So if we can figure out a way to have an earlier notification, I think that would be really helpful. So maybe you can just update me on where you are with the evolution of that process -- that part of the process.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So thank you for giving me a minute.

So we did speak about this at the last meeting, because there is a lot of concern around the time period that members have when they receive notice that their benefits might be in jeopardy or that their employer has -- is late. I think that we have been thinking about lots of different ideas that we can engage and implement, in terms of the notification process.

It really comes down to a question of the Committee and of us as well, in terms of balancing when someone finally says that they're not going to be able to pay or that they're going to be unwilling to pay versus someone who is saying that they might be able to pay or that they're waiting for something to happening.

And, of course, Mr. Slaton is nodding his head, because sometimes we get in the situation where someone is expecting to receive a payment and they don't get the payment. And then what that does is it puts us outside of a long process in terms of then having to go through the termination process. So it's really a balance that we have to meet in terms of, you know, the notice on the one hand versus the finality on the other to make sure that we're not, A, unnecessarily alarming people --

BOARD MEMBER MATHUR: Sure.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: -- but that we're also providing enough notice that they can get engaged with their employer should that be an option for them.

BOARD MEMBER MATHUR: Well, I completely get that balancing act. I do think it probably behooves us and behooves the members for them to be notified before a final decision not to pay is made, so they can engage the city council or the board, whoever the governing body is in advance of making that determination on the part of the employer. I think that might be -- that would be fruitful and probable welcomed by our members.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes, I hear you. I think that if we -- I guess if we look at the timeline, you know, at day 36, the employer basically starts to become late. And so the process itself can be pretty quick in terms of really just sending the collection letter, the demand letter, and then scheduling it for a Board hearing.

So it's really a question of how fast do we want the process to move, and where, you know, we could send the notification at the moment they become delinquent. But then if they end up paying, you know, again it comes down to the balance. Are we better off informing people that their employer is late versus giving them only 60 days or 90 days to do something about it.

BOARD MEMBER MATHUR: Yeah, I think that's --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I think that's definitely something we definitely should discuss.

BOARD MEMBER MATHUR: Yes, I would agree. And maybe -- maybe 30 days late is too early, but 60 or 90 days late is the right timing. Maybe we need to determine what is right. Well, I know the step -- the process moves a lot faster than that, but anyway. Maybe we need to slow down -- what's the appropriate pace of the whole process, and where in that process do we notify members is sort of -- I think it's the whole question.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right. So right now we notify them at 60 days.

CHAIRPERSON COSTIGAN: And again, we took it upon ourselves to do the notification. And again, I just want to reiterate it's the fact that the employer has quit making the payment. I mean, we haven't received -- even by 60 days, we have not received a payment from them. So each day that goes on is an additional cost to the System for the failure of the employer to pay.

Yeah. I mean, so we're working -- again, Ms. Mathur, you raise a great point. Again, I just want to reiterate East San Gabriel was a learning experience for all those involved. In fact, the reason we're having this discussion is we didn't really have a process in place. Now, we've got a timeline on collections. We've got a timeline on notification. We're trying to provide further information, trying to get it on a cal -- that's why we're asking when we would see Trinity just so we can go ahead -- again, public notice, put it out there, opportunity to be heard.

So we're going to continue to try to refine the process. But from where we were a year ago, I think we'll continue to provide ample notice. But the moment that payment is not made, that's what triggers the clock, is that correct?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes.

CHAIRPERSON COSTIGAN: And then as each day goes by, I mean, they don't make the payment. We send the demand notice. If the employer acknowledges they're not going to pay it, then that becomes a cost to the System.

BOARD MEMBER MATHUR: Yes. No, I understand. But I guess my point is that at 60 days with a ten-day final letter to pay, that doesn't give our members very much time to organize and to contact the employer. I mean, I know -- so --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: So it gives -- it's 60 days with ten days, and then it's a final demand letter with an additional 30 days.

BOARD MEMBER MATHUR: Thirty days.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I mean, in the scope of things, it's -- you know one could ask yourself what is enough time to save your pension? I mean --

BOARD MEMBER MATHUR: Right, but it -- you know, it takes people a few -- a little time to find each other --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Sure.

BOARD MEMBER MATHUR: -- and to figure out what kind -- their message is going to be, who they need to contact at the employer to figure out what's going on.

Anyway, I'm just -- I note the tension here. I just think we need to continue to think about what is -- what's -- what is the right level of engagement of the members and at what point, which I know you said you've already -- you're already looking at.

So thank you.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right, sure.

CHAIRPERSON COSTIGAN: Ms. Taylor.

VICE CHAIRPERSON TAYLOR: Sure. I just wanted -- I agree with Ms. Mathur. I don't know how we get our members on board early, but I do know that standard accepted policy it's not just that it costs the System. You can't collect after a certain amount of time. It just -- the longer you wait, the harder it is to collect, and the less likely it is for you to be able to collect the funds.

So if we can get the member involved earlier, I don't know -- I don't know what our parameters are around that, but I think -- I get the tension as well, but we need to figure out a way around that.

CHAIRPERSON COSTIGAN: Thank you.

Mr. Slaton.

COMMITTEE MEMBER SLATON: So what's -- what's normal in terms of paying. So, you know, you've got agencies that, you know, pay every time, consistently, there's no issues, no credit problem. What's normal?

Are agencies typically five or ten days late or 20 days late, or is everybody on time, if they don't -- if they're not under financial stress? What's the norm?

PENSION CONTRACT MANAGEMENT SERVICES & PREFUNDING PROGRAMS CHIEF PAIGE: Most pay on time. We do have a group that pay after 30 days. But our staff, we know who they are, and they're on the phone with these employers it's time to pay, so to reduce the risk of them becoming 60 days late. And I'd say there's a few hundred that pay after 30 days, but we know who they are, and we are calling them.

COMMITTEE MEMBER SLATON: Well, you know, there's another side to this, which is the sooner you let employees know, the sooner we'll get paid. You know, so there's pressure that comes from the other side too, so that you're not having out there making collection calls all the time for those who just typically pay late.

I think that this -- I would err on the side of earlier rather than later, you know, because we have a contract. We say when you're supposed to pay. If you don't pay, it's an indication that there could be a financial problem. Not saying there is one, but there could be one.

And I understand not wanting to give employees unnecessary angst, but also you want -- they should be demanding their employer to behave appropriately and meet their contract obligations, so --

CHAIRPERSON COSTIGAN: Mr. Slaton, I think again a great point. Maybe what we can do is further this discussion, and we can have some of the employee representatives here, because I think we need their input as to how they would want their members also to be notified. I mean, the -- and members, but make it as a -- I think we should have -- I'm not sure it's an action item, but a further discussion on it, because you're right we're in this bind. You've got to go through the collection. You've got to give notice. You don't want to stress folks out. At the same time, the pressure should be on those who have said they would pay the obligation, not only us. And we've gone the additional step of making the notification, but where is that blend?

It does concern me we've got a couple hundred that are late. That would be something I think the Controller should be looking at, as to why anybody's -- here comes Ms. Frost.

But that would be one, Ms. Paige, at a later date, we may want to have a discussion as to how to bring those, if they're paying, what is the -- why are we they

30 days -- or why are they late beyond the 30 days, because there is a cost, again, to the System if you're a day late. And we need to be addressing that.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: One of the things that we are actively thinking about is posting a report of delinquent employers on our website. And so I think to answer a question around providing notice to employees, if we did something like that, that probably could provide the right amount of notice without getting to, you know, making it too difficult for folks. But if it was a recurring thing that anyone could just go on the website, and go on a tab or click on a button that says is your employer late or something like that, then they could actually see. So that's something that we're actually -- actively talking about.

CHAIRPERSON COSTIGAN: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. And I just want to point out it's important that we not become the boy who cried wolf. We're notifying you your pension may be terminated. Oh, we got the check yesterday. You know, so it is a balance. And you know, so --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: I'm sorry?

CHAIRPERSON COSTIGAN: Thank you.

Okay. Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. And as Mr. Costigan pointed out, we're happy also to work from the Controller's Office with your team too to help identify, because we do track some of these agencies pretty closely as well.

But I also wanted to agree that I think that earlier notice would be better, and was wondering if you're considering doing maybe in step five once the agency is elevated to the contract management team, because it seems like if you have genuine concerns this isn't the agency that typically pays five days, 10 days late, this is somebody that you are tracking at this point, maybe the employee should be informed.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Right.

CHAIRPERSON COSTIGAN: Ms. Taylor, Ms. Gillihan raised a great point. Maybe what we could also work on is surveying both -- working with Mr. Pacheco surveying both the employers and the employees for their input, because even putting it on the website, which I think is a great idea, plus the employee knows to go and look there. The employee is still going to have some difficulty. So I think some input from our stakeholders would be great.

Mr. Bilbrey.

BOARD MEMBER BILBREY: Not to belabor the point on the members, but I did want to make the point about that members don't necessarily know where to go and actually don't know the process of even once they find out, first, the panic obviously sets in, but then figuring out what do I do now, and who do I talk to, and how do I those resources?

I think we've heard now for three months in a row, and we've been talking about this three months in a row about doing something, and figuring out what the timeline is. I think we need to figure out what the timeline is and not keep saying we're going to think about what the timeline is.

We really need to push this forward because it affects our members. It affects their daily lives on what happens. And while I agree with Mr. Jelincic, we don't want to cry wolf. I think we've heard pretty clearly they'd much rather have as much notice as possible, and it's a shared responsibility between us and the members, and they will definitely push their employers. Trust me, I think you will see a lot less of your 30 day delinquency happening.

CHAIRPERSON COSTIGAN: All right. Mr. Bilbrey, again, point is well taken. We have created a timeline. Remember, that with East San Gabriel we didn't have one before. And now staff has done a great job of outlining. We've actually gone further than what we're required and the statute requires on notification, and we're continuing to work towards that.

And I have asked staff that we will bring back, but we need some input. I mean up to now what we've heard is from an impacted employer or employees and the Board members. So it would be to get input from our stakeholders. No, you're absolutely right. All right. Any other discussion on this item?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: The only -- oh.

CHAIRPERSON COSTIGAN: I'm sorry. Go ahead.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: The only other item I would say is that we have this last point is the glossary of terms. In undertaking this project, we understand that same terms means different things depending on your perspective. And so what we've included in this is a running glossary of terms that we're going to use.

And that's it.

CHAIRPERSON COSTIGAN: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: And I would like to join everybody else IN saying this is a great report, and thank you.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you. I appreciate that.

CHAIRPERSON COSTIGAN: Mr. Jones.

COMMITTEE MEMBER JONES: Ditto.

(Laughter.)

CHAIRPERSON COSTIGAN: Okay. Last on this item.

Anything else you need on this?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: No.

CHAIRPERSON COSTIGAN: Okay. Can we go on to Mr. Pacheco's item now?

And again, if you're hear for Health Committee, it's going to be at least 2:00 o'clock before Health Committee meets, so...

CHAIRPERSON COSTIGAN: Mr. Pacheco, 8b.

(Thereupon an overhead presentation was presented as follows.)

DEPUTY EXECUTIVE OFFICER PACHECO: Brad Pacheco, CalPERS team.

Mr. Chair, I know that we're running long and that we do have another committee. The results of our stakeholder perception survey are before you. I'm happy to go through the presentation or I can simply take questions. Whatever the pleasure of the Committee is.

CHAIRPERSON COSTIGAN: I think we've read the report. Again, I always do appreciate the stakeholder report, but let's do questions first.

Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: Yeah. On page 6 of 16, the various segments.

DEPUTY EXECUTIVE OFFICER PACHECO: Yes.

COMMITTEE MEMBER JELINCIC: In the future, it might be helpful to break down members, so is it retirees, is it actives, is it schools, is it city.

DEPUTY EXECUTIVE OFFICER PACHECO: We do have that information, Mr. Jelincic. Out of the members that responded, if I have it in front of me here, it was about 36 percent State employees, 36 percent public agencies, and the rest schools.

COMMITTEE MEMBER JELINCIC: And do we have an active retiree breakdown?

DEPUTY EXECUTIVE OFFICER PACHECO: That was of the active members. I could get the retiree information for you, but I'm sure we have that.

COMMITTEE MEMBER JELINCIC: Thank you.

CHAIRPERSON COSTIGAN: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair.

Yeah. Brad, on 11 of 16, on the are you're -- are you confident that your retirement money is safe? And we see 2016 it went down. Do you have any narrative that may surround that, what people are saying or thinking to make that decision?

DEPUTY EXECUTIVE OFFICER PACHECO: Yeah, a couple things that I would note, Mr. Jones, just for context. So the environment at the time -- keep in mind, this was a snapshot in time. The survey was administered in January and February over a six-week period. So during that period of time, the system we had just made the decision to reduce the discount rate, so there was a lot of news about rising pension costs. We were signaling that there was going to be a low investment return environment over the next 10 years, and the fund was also 65 percent funded.

On top of that, and we just had this conversation, there was news that the System had to take action to reduce pensions. And so it's not surprising for us. The one thing that we saw in this survey is that from both the members and the employers, there was a decrease in confidence in the long-term sustainability of the system, and that's not surprising, given, you know, the nature of the environment at the time.

COMMITTEE MEMBER JONES: Okay. Thank you.

DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

CHAIRPERSON COSTIGAN: Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. I was curious how does the response rate for this year's survey compare to prior years?

DEPUTY EXECUTIVE OFFICER PACHECO: The response rate was very strong. So over 12 percent, and that's double what we got last year. So definitely the -- our stakeholders had a lot to say. We also received over 3,000 written comments as part of the survey.

ACTING COMMITTEE MEMBER PAQUIN: And did you do anything differently to increase the response rate?

DEPUTY EXECUTIVE OFFICER PACHECO: You know, we certainly communicated across our channels. And I'm trying to think if we did anything differently this year. I think we left it open an additional week to gather stakeholder feedback. But, in general, it was pretty much the same.

ACTING COMMITTEE MEMBER PAQUIN: Thank you.

DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

CHAIRPERSON COSTIGAN: Okay. Hang on, Brad, don't go anywhere.

Any other comments on this?

Mr. Darby, I have you on Item 8, but it doesn't say A or B. So come on down, sir.

MR. DARBY: Al Darby, Vice President, Retired Public Employees Association.

Just a quick answer to Mr. Bilbrey's question about what would these affected employees from these public agencies that may default, if -- if they do default, we are going to be aware of this default, and be in touch with leadership, or at least contact some of the members to form an organization that may need to become a nonprofit in order to defend themselves in court, if they need to do that.

But in any event, we would be giving them guidance in many respects of how to proceed to, in one way or another, address their problem.

Thank you.

CHAIRPERSON COSTIGAN: Thank you, Mr. Darby. We really would appreciate more of your input going forward.

So, Marlene, please come back up. I think we've gotten to Item 9, which is going to be Committee direction. So let's go through -- and then I have someone to call on, but let's go through what we have so far.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Okay. I have amend the minutes to reflect the fact that Mr. Jelincic is a CalPERS employee and receives 100 percent reimbursement because of that.

I have, in terms of the employer report, a couple of things. The bands 50 to 80 percent breakdown increments of 1,000 employees. I have more information about the plans in that -- in the -- in the information that we're being provided, the rate plans themselves.

And then I also have that employee and employer representatives to be brought back to discuss the right amount of notice to be provided regarding benefits.

CHAIRPERSON COSTIGAN: Great. And you're going to work with Mr. Pacheco on a survey --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Yes.

CHAIRPERSON COSTIGAN: -- of our stakeholders?

Okay. Ms. Glasser-Hedrick, please.

ACTING COMMITTEE MEMBER GLASSER-HEDRICK: Thank you, Mr. Chairman.

On behalf of the State Treasurer, I'd like to make a request regarding CalPERS contracting protocol. More specifically, I would like staff to return in June with options to include the contract -- or the concept of contract neutrality as defined in the Responsible Contractor Policy currently in CalPERS investment contracts and real estate contracts.

This would affect all contracts that CalPERS enters into, and would hopefully provide clarity with regard to CalPERS partners and contractors that, going forward, their employees would have the right to engage in collective bargaining going forward. Thank you.

CHAIRPERSON COSTIGAN: Okay. Ms. Frost.

CHIEF EXECUTIVE OFFICER FROST: Yes.

CHAIRPERSON COSTIGAN: No, we're not there yet. I know you're excited. So right now it's Committee direction that I would instruct that we have a June Committee heating to take up the Treasurer's request.

Ms. Frost, do you have a comment on that?

CHIEF EXECUTIVE OFFICER FROST: Yeah. I was going to say with Chair and Committee direction, we could bring back some options that would look at our current contract language. We do, within these contracts, already talk about the Fair Labor Standards Act and the Family Medical Leave Act.

We could certainly put language, or intent, or a value statement around the business partners who we conduct business with would not interfere with an employee's ability to organize. So I think it would be less than collective bargaining. Once you get to the collective bargaining stage, that's really in the NLRB's role, not the CalPERS role.

And I think one of the limits that we want to put on this, again with Committee direction, is that this would not be enforcement by CalPERS. That this would be more that value, that principle base, or that belief that we could put somewhere within the contract again, like we do with other federal programs.

But we could have the team work on that, come back with some options by June, if that's Committee direction to meet in June rather than waiting until September.

ACTING COMMITTEE MEMBER GLASSER-HEDRICK: No, we are going to do this in June.

CHIEF EXECUTIVE OFFICER FROST: Okay.

ACTING COMMITTEE MEMBER GLASSER-HEDRICK: Is there any prohibition regarding enforceability of the provision in the current contract?

CHIEF EXECUTIVE OFFICER FROST: There's nothing --

CHAIRPERSON COSTIGAN: So it seems like -- I'm sorry. I was going to say since this item has not been noticed, and it's a request, I think a more proper discussion should be in June. So we should, if it's okay with the Treasurer's office, what I'd like to do is set a June meeting, again have a thorough discussion on both the program, the expansion as outlined by the Treasurer's office, and what is currently provided for with the National Labor Standards Relation Board, NLRB, and that's different with our contracts. Does that capture what you all are looking for?

ACTING COMMITTEE MEMBER GLASSER-HEDRICK:

Correct.

CHAIRPERSON COSTIGAN: Is that -- can we do that in June? That will be -- actually, we will do it in June.

(Laughter.)

CHIEF EXECUTIVE OFFICER FROST: We can certainly bring back some options for the Committee to consider.

CHAIRPERSON COSTIGAN: Great, because I know this is just not a noticed item.

Okay. Before you all leave, we have I know three people that want to speak. Since we are going to have it in June, if you still want to speak -- oh, four now.

Whalen, Young, Brown and Josh -- you don't have to because we're going to have a discussion in June, but you are welcome to come down.

Mr. Brennand, I see you're getting ready to get up, but I don't see you have signed up.

MR. BRENNAND: Yeah. Well, it wasn't on the agenda

CHAIRPERSON COSTIGAN: I know, that's why I'm saying --

MR. BRENNAND: It was a little confusing. Thank you for noticing me. I'll make it very quick.

CHAIRPERSON COSTIGAN: We're going to -- Mr. Jelincic, let's just wait a moment. So there is no action item before us.

MR. BRENNAND: In support of the motion to bring this back in June.

CHAIRPERSON COSTIGAN: There's no motion. There's staff direction.

MR. BRENNAND: Okay. A direction, sorry. Staff direction to bring this back in June. I would just suggest you take a careful look at the Treasurer's proposal, because he has been in discussions with the affected labor organizations. And I discourage you from weakening the proposal that might come forward in June. Thank you.

CHAIRPERSON COSTIGAN: All right. Mr. Brennand, we look forward to seeing you next month.

Mr. Whalen.

MR. WHALEN: Thank you. Pat Whalen here on behalf of the United Nurses Association of California. I would like to thank the Treasurer's office for that recommendation to staff, and look forward to talking about it more thoroughly in June.

CHAIRPERSON COSTIGAN: Great. Mr. Young.

MR. YOUNG: Michael Young, California Labor Federation --

CHAIRPERSON COSTIGAN: Wait a second. Hang on. We've got TO turn your microphone on, sir.

Can you turn his mic on?

Thank you. There, sir.

Don't -- there you go.

MR. YOUNG: Michael Young with the California Labor Federation. We're also in support of the move to bring this issue back in June. We also appreciate the work that Treasure Office -- the Treasurer's Office has done on this, and also the work that the Board has done, and look forward to having this discussion in June.

We're also authorized to speak on behalf of the California School -- California School Employees Association, who is also in support of this motion.

Thank you.

CHAIRPERSON COSTIGAN: Thank you.

And it's Board correction just want to make sure the record reflects.

MR. YOUNG. Direction. Thank you.

Mr. Golka.

MR. GOLKA: Good afternoon, Mr. Chair and members of the Committee. Joshua Golka with the American Federation of State, County, and Municipal Employees. We would also like to thank the Treasurer's Office for bringing this forward and look forward to working with you all on it.

Thank you.

CHAIRPERSON COSTIGAN: Great. Thank you.

And Mr. Brown.

MR. BROWN: Thank you, Mr. Chair and members. Tristan Brown with the California Federation of Teachers. I will simply echo the comments you've already heard, since we're running late on time and thank you to the Treasurer's Office for bringing this item up.

Thank you.

CHAIRPERSON COSTIGAN: Thank you.

Now, Mr. Jelincic, I believe you had a question, sir?

COMMITTEE MEMBER JELINCIC: Yeah. I'm just wondering if June is actually a reasonable time to give staff to prepare a serious report. I mean, if we're jamming them, we get a, you know, a less than stellar report.

CHAIRPERSON COSTIGAN: I believe that staff has been working on this item for a couple months.

COMMITTEE MEMBER JELINCIC: Okay.

CHAIRPERSON COSTIGAN: Is that right?

COMMITTEE MEMBER JELINCIC: So the answer could be, yes, that June -- June works. I just wanted to put the issue out there.

CHIEF EXECUTIVE OFFICER FROST: Thank you, Mr. Jelincic. We can prepare some options within the next two to three weeks. We would be available to address any questions that would come up on those options.

CHAIRPERSON COSTIGAN: Thank you. Okay. Anything else?

Any other public comment?

Anything else?

Ms. Frost, anything else?

CHIEF EXECUTIVE OFFICER FROST: (Shakes head.)

CHAIRPERSON COSTIGAN: All right. This meeting is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 1:32 p.m.)

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

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of May, 2017.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063