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 15, 2018

1:40 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

A P P E A R A N C E S

COMMITTEE MEMBERS:

Ms. Theresa Taylor, Chairperson

Mr. Richard Costigan, Vice Chairperson

Mr. Rob Feckner

Mr. Richard Gillihan

Mr. Henry Jones

Mr. David Miller

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Ms. Priya Mathur, President

Ms. Margaret Brown

Mr. John Chiang, represented by Mr. Matthew Saha

Ms. Dana Hollinger

Mr. Ramon Rubalcava

Mr. Bill Slaton

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Mr. Brad Pacheco, Deputy Executive Officer

Ms. Lisa Hammond, Senior Staff Attorney

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

STAFF:

Ms. Kimberly Malm, Chief, Operations Support Services Division

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

Ms. LaRiesha Simmons, Committee Secretary

Mr. David Teykaerts, Stakeholder Strategy Manager

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

ALSO PRESENT:

Ms. Jill Abel, Yuba County

Ms. Faith Borges, California Association of Joint Powers Authorities

Mr. Terry Brennand, Service Employees International Union

Ms. Donna Colson, City of Burlingame

Mr. Gregg Cook, Northern California Power Agency

Mr. Al Darby, Retired Public Employees Association

Mr. Todd Cusimano, Town of Corte Madera

Mr. Dillon Gibbons, California Special Districts Association

Mr. John Healy, San Mateo, Foster City, Belmont Fire

Mr. Dane Hutchings, League of California Cities

Ms. Dorothy Johnson, California State Association of Counties

Mr. George Linn, Retired Public Employees Association

Ms. Anna Ritzma, City of Foster City

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

ALSO PRESENT:

Mr. Isaac Moreno, City of Selma

Ms. Lori Sassoon, City of Rancho Cucamonga

Mr. Dan Schwartz, City of Larkspur

Mr. Austin Webster, City of Hayward'

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P R O C E E D I N G S

CHAIRPERSON TAYLOR: I'd like to call the Finance and Administration Committee to order.

First action -- business is roll call.

COMMITTEE SECRETARY SIMMONS: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY SIMMONS: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY SIMMONS: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good afternoon.

COMMITTEE SECRETARY SIMMONS: Richard Gillihan?

Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY SIMMONS: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY SIMMONS: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON TAYLOR: Okay. I'd go head and move on to the executive report. And I'm going to ask Ms. Marlene Timberlake D'Adamo to go ahead and do that.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I had written good morning, but it's now good afternoon, so...

(Laughter.)

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Good afternoon, Madam Chair and Committee Members. Marlene Timberlake D'Adam, CalPERS team member. I'm servicing as the officer in charge for the Chief Financial Officer. And as officer in charge, I will be conducting today's Finance and Administration Committee meeting.

Before we get started, I wanted to take this opportunity to provide an update on Committee direction provided at the April meeting.

The team is reviewing the Board member employer reimbursement process. We plan to come back to the Committee in the following months with the process and reporting definitions as instructed by you.

Additionally, the legislative team is reviewing your request to look at the monthly stipends for retiree and appointed Board members for possibly the next legislative cycle.

This brings me to the agenda before you today. We have six action items for your consideration. We will start this afternoon with the second reading of the 2018-2019 annual budget proposal.

The second item is the asset and liability transfer to the San Bernardino County Employees Retirement Association, SBCERA.

The third is a request for an extension of the third-party administrator contract for the Supplemental Income Plans Programs.

In addition, we have two legislative updates, one on Assembly Bill 1912 Public Employees Retirement Joint Powers Agreements Liability. The second is the Senate Bill 1413 Public Employees Retirement Pension Prefunding.

Our final action item is the amended notice of election for the 2018 CalPERS Boarded of Administration State School and Public Agency elections.

We will conclude today's agenda with one information item, the annual stakeholder perception survey report. The next Finance and Administration Committee meeting is scheduled for September 25th, 2018 -- here in Sacramento, and will include a report on the participating employers and the annual actuarial valuation for the Terminated Agency Pool.

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

CHAIRPERSON TAYLOR: Thank you, Ms. Timberlake D'Adamo.

I'd also like to note in attendance our other Board members, Ramon Rubalcava, Matthew -- I'm trying to see -

PRESIDENT MATHUR: Saha.

CHAIRPERSON TAYLOR: -- Saha?

PRESIDENT MATHUR: Yes.

CHAIRPERSON TAYLOR: -- Saha for the Treasurer, Margaret Brown, Dana Hollinger, Priya -- Ms. Priya Mathur and that's it, right, nobody on that side?

Oh, wait. And Mr. Gillihan is here.

All right. So that moves us to Agenda 3, consent item action items.

COMMITTEE MEMBER JONES: Move it.

CHAIRPERSON TAYLOR: It's been moved by Mr. Jones.

COMMITTEE MEMBER MILLER: Second.

CHAIRPERSON TAYLOR: It was seconded by Mr. Miller.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All right. All those opposed?

All right. The action carries. Thank you.

And that moves us on to Agenda Item 4, action consent items -- information consent items. We -- I had nothing pulled. So that -- then we are going to move on to Agenda Item 5. And that's Accounting, Financial Reporting, and Budgeting. And I believe that's Ms. Timberlake D'Adamo again.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Yes. Thank you. Good afternoon. The CalPERS fiscal year 2018-19 annual budget proposal is being presented today as a second reading. The proposed fiscal year 18-19 CalPERS total budget of one billion six hundred eight-one represents an overall increase of approximately 4.8 million, or 0.3 percent, from the fiscal year 2017-18 approved budget of 1.676 billion.

The budget includes no change in authorized positions, which remains at 2,875. The fiscal year budget proposal is comprised of operating costs of 1.647 billion, enterprise project costs of 9.6 million, and headquarters building costs of 24.4 million. As mentioned, no new authorized positions are proposed, as the organization will continue to address resource needs through realignment of existing positions.

Based on comments from Committee members during the first reading, the following have been included in the reading. On page 44 of your Board Books we included the footnote regarding the -- explaining the total budget decrease from 2015-16 actuals to the 16-17 actuals, which, as I mentioned, is page 44 of your Board Books.

The 2018-19 proposed budget is aligned with the strategic plan, and business plan objectives to fund sustainability, health care affordability, reduce complexity, risk management, and talent management. In summary, CalPERS recommends approval for the proposed fiscal year 18-19 budget of one thou -- of 1.681 billion and 2,875 positions as a second reading, along with the transmittal to this Committee for Board approval.

Thank you, Madam Chair. This completes my presentation. I'm happy to take any questions.

CHAIRPERSON TAYLOR: All right. I have one question from the Committee so far.

Wait. There you go, Mr. Jones

COMMITTEE MEMBER JONES: Thank you, Madam Chair. Not a question, just a comment. I want to thank you for the follow-up -- thank you for the follow-up information we received coming off our last meeting.

And with that, I move approval.

COMMITTEE MEMBER GILLIHAN: Second.

CHAIRPERSON TAYLOR: Great. Approval of staff recommendation was moved by Mr. Jones, seconded by Mr. Gillihan.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: Okay. All those opposed?

Motion carries.

And we are moving on to Agenda Item 6. So this is Ms. Paige, Ms. Timberlake D'Adamo, and Mr. Terando, are you there?

Oh, no, somebody else?

All right. Go ahead.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Yes. I'm going to turn this over the Arnita.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: Good afternoon. Arnita Paige, CalPERS team member.

Agenda Item 6a is an action item. Here presenting with me is Kerry Worgan, a Supervising Pension Actuary.

We recommend that Committee adopt the transfer agreement of membership benefits representing approximately 4,276,500 to be transferred to SBCERA. In March 2018, the Big Bear Community Service District requested the transfer of the retirement benefits for their active safety employees to SBCERA. The law provides the authority for the Board to enter in an agreement with the County Retirement Systems Board.

Additional background information was provided in the agenda item. The attached agreement for transfer of membership benefits was reviewed by all parties, and is similar to prior agreements the Board has approved for benefit transfers. The Board has the discretion to approve the transfer request.

The district's board did sign the transfer agreement on May 7th, and provided a copy for us for your -- a copy to us for your consideration.

And lastly, the impacted members do support this transfer. And we're here to answer any questions.

CHAIRPERSON TAYLOR: So this is an action item, but I do have a request to speak.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Actually, you answered my question, which is the membership has agree -- the individual members have agreed to it, and we've heard no objection.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: Yes, sir.

VICE CHAIRPERSON COSTIGAN: So with that, I would move staff recommendation.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: The action has been moved by Mr. Costigan, seconded by Mr. Jones.

Seeing no discussion on the item. All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

Thank you very much. So we are on Agenda Item

6b, Extension of the Third-Party Administrator Contract.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Yes. Good afternoon. Arnita Paige, Chief for Pension Contract Management Service is here to present -- to assist me in presenting this item.

The Financial Office is requesting an 18-month extension for the third-party administrator contract for the Supplemental Income Plan Program, and is due to expire July 31st, 2018. The approval of the extension will allow sufficient time to conduct a formal RFP for this contract that is currently held by Voya Financial Services, and implement -- and it will also give us time to implement the new contract if the new vendor -- if a new vendor is chosen.

In 2016, we received a two-year extension from the Committee. The extension provided time to review the program, because at the time in 2016, this boyd of work was being moved from another area within CalPERS and came over to the Financial Office. At that time, we conducted a review and went out for an RFI to see if we -- if there were any other vendors that would be interested in this body of work.

At the time, we had two -- we had sent it out to six vendors, two responded, one of which was the current contractor Voya. And having gone through all of this and having a long-standing relationship with Voya, whom, by the way, we're very satisfied with, but given that it is a very long-standing relationship, we really would like to go out for an RFP to validate the fees and the services that we're being provided to make sure that we're really getting our money's worth in this endeavor.

I will note that Voya has consistently provided excellent service to 791 contracting agencies, and approximately 30,000 -- 36,000 participants.

Because of the limited response to the RFI, our next step is to work with a consultant to deliver -- to develop the RFP that will improve our market's response to the request. The cost of the extension will be funded through our budget.

And this concludes our presentation. We're happy to answer any questions should you have any.

CHAIRPERSON TAYLOR: All right. This is also an action item. I do have a request to speak.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Madam Chair. So I think I know -- I had expressed my concerns earlier that it's an 18-month contract. I'd rather see it done in 12. But I guess the bigger concern I have is if you only had one vendor last time, why do you believe that changing it and even extending it to 18 months, that we're going to get more than one -- one person inside the pool?

I moon, I just want to know what situation has changed other than just Voya? I mean, does 18 months --

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

So --

VICE CHAIRPERSON COSTIGAN: I'm sorry?

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

What we'd like to do is take the additional time to develop our RFP in a way that perhaps will be attractive to other vendors. What we have found is that perhaps our RFP the way that it's worded and the terms what we're asking for is not as attractive, which is why it could be one reason why we're receiving so few interested parties. So we'd like to take the opportunity with a consultant to actually structure an RFP that might be a little bit, what's the word, more attractive, I guess, for a vendor to pursue, and be --

VICE CHAIRPERSON COSTIGAN: So the current -- I'm sorry, the current contract expires when?

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

July 31st, 2018.

VICE CHAIRPERSON COSTIGAN: Okay. So they are, in fact, getting a -- sort of a no bid contract for 18 months?

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

It's an extension of our existing contract.

VICE CHAIRPERSON COSTIGAN: Okay. And will this be the first extension that's been granted or the second.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: No, the -- go ahead.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: No. This is actually the second extension we're requesting.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: The first -- the original contract was from was 2011 to 2016. At the time that the contract was expiring in 2016, we were undergoing a shift in the body of work that was moving from the program area up to the Financial Office. And with that shift occurring at the same time, we really came to this Committee to ask for an extension to do a review of the program and to make sure that we really understood what we were doing in terms of the work and the vendor.

And so we had, in the intervening two years, since we got the extension, gone out for the RFI. We sent it to six vendors. We'd gotten two responses, one of which was Voya. An at time really decide that we -- because Voya is still in the hunt, I'll say, and it's a long-standing relationship, we really wanted to validate the work in awarding them with another contract with being able to prove -- approve the concept that they're actually the right vendor for us.

VICE CHAIRPERSON COSTIGAN: All right. I did note that you all -- we did get a fee reduction on the last extension. Does that continue under the terms of the 18-month extension, or is there rate -- or a fee increase?

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I don't -- I don't believe there's a fee increase.

PENSION CONTRACT & PREFUNDING PROGRAMS CHIEF PAIGE: No, there's no fee increase.

VICE CHAIRPERSON COSTIGAN: Okay. Thank you.

All right. With that, I'll move staff recommendation.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: So this is an action item. It was moved by Mr. Costigan, seconded by Mr. Jones.

Seeing no discussion.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

I had a request, and I apologize Mr. Linn to speak -- I'm sorry, Mr. Budget[SIC], it looks like. Is that Budger[SIC]?

VICE CHAIRPERSON COSTIGAN: No, on budget, Mr.

Linn, on 5a.

CHAIRPERSON TAYLOR: Oh, on budget. Mr. Linn on 5a. I'm sorry. So if you want to come down on 5a and speak, Mr. Linn, are you still here? George?

There you are.

MR. LINN: Board members, you're going to think I'm getting my exercise coming to the table here.

My name is George Linn. I'm President of the Retires Public Employees Association.

CHAIRPERSON TAYLOR: Will you start the time?

MR. LINN: Good afternoon, Chairman Theresa and Committee Members, Board members.

I wanted to speak on the budget just in general terms. At one point in time, I was a controller for an organization, so I had to put together not a budget with this many zeros behind it. But nevertheless, a budget that was in the tens of millions.

So I always take a look where I think the smoke is hidden. And I certainly don't like this discretionary item. If you take a look at the budget, you'll see that, you know, salaries are up six. And then if you take the investment stuff and lump it together, it comes out fairly close to zero. And so then the rest of it is project cost and building and so on.

But I'm concerned about this discretionary thing.

One of the things that's happened over the last several years is every opportunity CalPERS seems to find to charge our members for certain things that they had been receiving free of charge that comes through the systems.

If we're talking about a lot of labor, yes, that's a cost. Somebody coming through the systems I don't think has much cost. So when I look at this budget and I see that discretionary item, I just want the Board to understand that we, as an organization, are going to watch closely to see where the hidden things pop out, because we think while the budget is reasonably sound, there obviously are places that we are concerned about.

So I thank you for your time.

CHAIRPERSON TAYLOR: Thank you, Mr. Linn.

Seeing nobody else requesting to speak on 5a, I'm going to move on to 6c. And that is Assembly Bill 1912, Public Employees Retirement Joint Powers Agreements Liability, and Mr. Pacheco and Mr. Jacobs, is supposed to be up here.

DEPUTY EXECUTIVE OFFICER PACHECO: I think I'm going to handle it.

CHAIRPERSON TAYLOR: You're going to handle it?

DEPUTY EXECUTIVE OFFICER PACHECO: Madam Chair and members of the Committee, yes. If we need Matt to come up to answer questions, we can.

Good afternoon. We're bringing two legislative bills to the Committee today for consideration. The first Bill is Assembly Bill 1912 authored by the Chair of the Assembly PERS Committee Assembly Member Rodriguez, and sponsored by SEIU. We've discussed this bill in this Committee before as it relates to the pension liabilities of joint power agreements, or JPAs. And it's going to be heard tomorrow in the Assembly Appropriations Committee.

Before I get into the details of the bill, let me begin by saying that I think it's a fair and accurate statement that this organization, CalPERS, our member associations, both active and retired, and all of our employers do not want to see a member's pension reduced. There's mutual agreement that we don't want to be faced with cutting a member's pension, as this organization had to do last year.

How we protect our members as it relates to JPAs and consider policy changes that may impact them, and our employers is still being debated. We've provided you a number of copies of letters from various groups expressing their concerns and questions around this legislation. And there have been significant amendments in the last week since we wrote this agenda item.

So I want to take a moment to provide a high level of the major provisions. The latest version no longer requires that CalPERS file a civil action against a JPA member agencies for payment of its obligations. It does say that we need to exhaust all measures and consider a civil action, but not require it.

The new amendments apply joint and several liability provisions prospective only to new JPAs entering the system after January 1st, 2019. And just to remind the Committee, we already require that as part of our contracting process for new JPAs.

And the new version also creates a process to appropriation -- or a portion, excuse me, liability for existing JPAs in the system, and requires CalPERS to step in if the parties can't agree.

So since this bill has gone through a number of amendments, we're still looking at the language, both our program and Legal areas. I think it's appropriate for this Committee to go down one or a couple of paths. To take a position on this bill is outlined in the agenda item. You can also provide direction to the legislative team to continue to work with the stakeholders around the language. And we could come back to you in June. So I'll stop there and answer any questions you may have.

CHAIRPERSON TAYLOR: Thank you, Brad.

I appreciate it. That's new news, even since I think we last spoke. So one quick question, one change in the language was that it's now in -- it's not going back to current existing JPAs. It's only protective?

DEPUTY EXECUTIVE OFFICER PACHECO: It is prospective, and it would be joint and several liability, but it does include the retroactive provision. But under the retroactive provision, it would be a portions -- liabilities between the member agencies. If they can't decide how to apportion that, then CalPERS would step in.

CHAIRPERSON TAYLOR: Okay. So it does -- it does actually call for that. And then additionally, there was the pulling out of the requirement for CalPERS to sue, correct?

DEPUTY EXECUTIVE OFFICER PACHECO: Correct.

CHAIRPERSON TAYLOR: Okay. I'm leaning towards working with our stakeholders a little longer, but I have a bunch of people that want to talk first.

So let me call on Mr. Costigan, Vice Chair.

VICE CHAIRPERSON COSTIGAN: Thank you, Madam Chair. Just a few questions, Mr. Pacheco. I mean we're still in first house. I understand it's a little early. It is my understanding that the proponents and the impacted agencies -- local agencies are having discussions. I think it would be my preference to wait until June to take action on this, because I have some questions that are still out there.

The -- sort of some of the legal issues I think have not -- and I want to say nice analysis. I appreciate the work that was done. And I was reading the Committee analysis and the appropriations analysis earlier today. And there are a lot of unanswered questions. I think the mutual goal of protecting the members. I mean, this all -- let's just remember the reason we're here is because of East San Gabriel and what went on there.

And it's trying to reach mutual agreement to -- for the benefit of the employees. What I'm concerned about is making sure you have a -- what is it that we currently do. And it's my understanding that there are certain things in the system that we're currently able to do, such as new JPAs coming in, how we address some current other JPAs. I think one of the questions is, as we've talked about, is the inventory of not just JPAs, but what other entities -- we're going to have a hole -- sort of have a holistic approach to addressing this situation. The JPAs just happen to pop up, but there might be some other factors that are out there.

And I think as the Chair indicated, continue to work over the next few weeks. So I just wanted to say at this time, I'm not prepared to support the bill. I support the concept. I think we're still in -- early in first house. I know we're in the fiscal committee second house -- or fiscal committee first house waiting for the bill to go to second house to continue to work through it.

But I do want to applaud you Mr. Pacheco, your staff, for the work that you have done, and the proponents and those working on it. So with that, Madam Chair, I'll have some questions after. I would like if -- when the folks come up to address I have the questions on retroactivity, and on the legal reach-back I'd like addressed. And Mr. Jacobs, we talk about that after questions. Thank you, ma'am.

CHAIRPERSON TAYLOR: Thank you.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yeah. Thank you for the work on this. And I see it is a moving target, if you will. And I appreciate this coming before us in this timely manner, because you may recall that I was one of the members said that we should impose some kind of parameters around these sponsoring agencies that they would incur the liability if, in fact, JPA was to go under.

So I applaud all of that. I didn't think through when I requested this about the retroactivity. And seeing this -- and I think Mr. Costigan made reference to it is that there's a lot issues maybe need to be explored around that about what happens when former agent -- former contributing agency no longer exists. And it was five for example, and now it's only four. So does the four -- do the four then absorb the responsibility of the fifth who's out. So there's a whole host of issues that I think need to be addressed in terms of retroactivity. But certainly I applaud you for moving on this, and hopefully some clarification could be made on that retroactivity, because I just -- looking at it from where I sit now, it seemed like it was a whole host of problems that would surface that we wouldn't be in control of.

And so I hate to have the responsibility for something that I can't control. So that would be my comments.

CHAIRPERSON TAYLOR: All right. Thank you, Mr. Jones.

Ms. Paquin for Ms. Yee.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam Chair. I wanted to also thank the staff, and the bill sponsor, and the stakeholders for working together on this. It's such an important issue, and it's been a high priority for the Controller as well, too.

We also do have some concerns though about the legality of some of the retroactive issues with the bill. So also supportive of taking the next couple of weeks to work through that.

Thank you.

CHAIRPERSON TAYLOR: All right. Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair.

I'm glad that we're -- looks like we're moving toward working on it further and waiting and see. This is a very fluid situation. I've expressed to others that I have the similar concern regarding the retroactivity issue. But I also have concerns about the issue of liability, and how that would get apportioned, whether it's joint and several, or whether it's proportional. And I'll give you two examples. The Northern California Power Agency has 16 members -- agencies that are members of it.

The Peninsula Clean Energy in San Mateo County plus 20 cities. So, you know, how you work through those issues maybe has a great deal of complexity that may not be fully thought out. So I'd be in favor of just seeing what happens in June and following this legislation and see how the stakeholders are able to work through to reach some accommodation that advances the cause of people being able to be assured of their retirement.

CHAIRPERSON TAYLOR: All right. Thank you, Mr. Slaton.

Ms. Brown.

BOARD MEMBER BROWN: Thank you. I believe that for AB 1912 to be effective, it must include retroactivity for protection of employees. You know, these employees had no idea when they left their public agency to join this JPA that they could potentially have their pensions cut dramatically. And I think the complexity can be resolved, because if you don't resolve it, it means you're going to cut employees' pensions.

What was it in East San Gabriel up to 70 percent? I mean, it was absolutely tragic for those workers. And we cannot forget though, those public agencies can find the money to pay the pensions and make those employees whole.

I mean, these people are 70 and 80 and 90. I mean, they cannot go back to work and make more money. And I -- we can't forget that. We can't forget them. Thank you.

CHAIRPERSON TAYLOR: Thank you, Ms. Brown. I do want to concur with Ms. Brown. And I also agree. I think we all started exploring this avenue to begin with, because of how it impacted us to have to cut these pensions, and having the member agency -- the member cities and counties for these JPAs completely deny any kind of responsibility made me think that they were like some kind of large corporation and behaving as such, and -- you know, under the law.

So I think it's time that we protect our workers against something like this. Nobody -- and my members weren't even impacted for this, but every member I'm sure - and I think I even read about it in the Sacramento Bee today - when they heard about the reduction of those pensions was terrified that their pensions were at stake. So this has to be resolved.

In the meantime, we do have requests for speakers. I'm going to call three at a time. And you can come sit up here to my left. It would be to your right. So it's George Linn, Dane Hutchings, and Dorothy Johnson first.

Okay. George.

MR. LINN: Again, my name is George Linn. I'm the President of the Retired Public Employees Association. Good afternoon, Ms. Taylor, Chair, and Committee members, Board members.

We're one of the folks that you see on the list that's sponsoring this. We feel it's very important. We've been in contact with the individuals down at L.A. Works since the very beginning of this fiasco. And Ms. Brown, you're very close. According to Kay Ford, the loss was 63 percent. And I think that she should know, since she's one who is looking at her bank statement. And that they had been employed by the agency for 15 to 35 years these employees.

There's a little confusion having talked with a couple of the community folks. This bill relates to JPAs; that have a contract of their own with CalPERS. So if a city or a county loans people to a JPA and continue to include them as their employee and pay their pension, if City A goes out of business that has no affect on City B, because that employee for B is no longer -- is not part of City A's employment.

So this applies only to the JPAs that have independent stand-alone agreements with CalPERS. And I think there's a confusion there. I think that the issue about retroactivity, yes, we're working very hard with Kay Ford, because, you know, that's a devastating thing. We started this chopping of pensions way back with Loyalton, and so on. And I think that we need to find a way to make certain that those individuals that have worked, and all of sudden find themselves in this JPA situation with no pension or tremendously reduced pension have some protection.

And as I said, it's only those that work for a JPA that has an independent contract agreement and is a contract agency with CalPERS. If the JPA doesn't have that, they're not part of this problem. Their problem relates back to their city and county where they came from.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

Mr. Hutchings

MR. HUTCHINGS: Good afternoon, Chair and members. Dane Hutchings with the League of California Cities. First of, I want to start off by saying that we completely agree with my colleague here that L.A. Works should have never happened. And we all want to ensure that retirees are taken care of. Unfortunately AB 1912 doesn't solve that for L.A. Works nor does it solve it for some of the other folks. I think one of the most problematic provisions has been touched on by most of the members of the Board, is the retroactivity of apportioned liability.

There are JPAs with as many as hundreds of agencies. And so trying to, you know, retroactively assign some sort of sense of apportioned liability would be incredibly challenging for those agencies to do. And so if they don't come -- if they cannot come to agreement, then the retirement agency would then impose their methodology of apportioned liability. I would presume that most of those agencies would contest the retirement agency's discretion as far as their apportioned liability, which would lead to more litigation. And so again, it doesn't solve the issue.

We have been actively working -- I mean, I can say for the League of Cities, I've been actively working with the chief consultant of the Assembly PERS Committee as well as the author directly on trying to find some concepts around that -- that can solve the issue without applying a retroactive portion of liability.

I can't tell you that if this Board were to move today to support this measure, it really does hamper our ability to continue to negotiate with the author and sponsors. It would put is at a disadvantage as far as being able to negotiate a reasonable solution. Again, I want to echo the fact that our cities certainly do not want to see what happened in L.A. Works happen again, but we want to give us some time to work with the stakeholders to see if we can't come to a reasonable solution.

You're going to hear from a few more of my members later on to talk specifically about some of the challenges that this bill would face, that it would have on their -- on their ability to operate their cities and provide regional services to their communities should this become law.

So again, we ask that the Committee hold off action on this item today to allow the League and other employers to work with the author and sponsor on alternative solutions to ensure that retirees' pensions are protected.

I know that Mr. Costigan had some questions. I'm happy to stick around and answer questions or you all can just call me back up. I'm happy to answer questions if you have them.

Thank you.

CHAIRPERSON TAYLOR: Sure. So I'm going to hit all of you. And then at the end of that, I'll have Mr. Costigan ask some questions. Ms. Johnson, go ahead.

MS. JOHNSON: Thank you. Dorothy Johnson with the California State Association of Counties. I want to thank Mr. Pacheco for opening this whole conversation and reiterating what my colleague and other sponsors said that our best interest is to protect the benefits of the members of this System. And that is what I think we're all trying to do.

But respectfully, AB 1912 does not offer that solution. I'd offer instead it creates unintended consequences. And something that is truly unworkable, and will leave it to our local officials to explain why in greater detail.

So we are respectfully requesting that this body do not take action today and delay until June. We may have a solution that may not even require legislation, which would allow us, I think, to really find a comprehensive way secure benefits for all the members, and not place at risk, not only JPA -- JPAs, but also the fiscal solvency of the counties, special districts, and cities that they are partnering with or even perhaps the State.

I'm happy to answer any questions, but in light of the recent amendments in light of our efforts to move forward on a collaborative solution, and in light of the fact it is still very early in the legislative process, do ask that a vote is delayed on this measure.

Thank you.

CHAIRPERSON TAYLOR: All right. Thank you.

Mr. Gibbons.

MR. GIBBONS: Madam Chair, members of the Committee, Dillon Gibbons with the California Special Districts Association. I'd like to echo the comments of my colleagues from the League and CSAC. Not too much to add on there. We agree that what happened with L.A. Works was terrible. We want to, and we are actively working on trying to come up with a solution to prevent that from happening again, and prevent this Board from being put in that situation to have to make those cuts to employee benefits. It was a terrible thing.

We do ask that you put over taking a position on this bill at this time. We are looking to craft amendments that hopefully can solve the issue. But this bill, at this time, is not it. So with that, thank you very much.

CHAIRPERSON TAYLOR: Sure. Thank you. I also want to just say, I think I -- Mr. Hutchings, I just wrote it down. You want to work on an amendment, so that it has -- the bill has going forward without retroactive liability? Did I hear that correctly?

MR. HUTCHINGS: So the issue -- I think the heart of our issue is the retroactivity of apportioned liability. I think Mr. Slaton mentioned the fact that there are some complications. I mean, there's JPAs out there that have as many as hundreds of agencies coming and leaving. And so how -- I mean, the fundamental question comes up is how do you assess liability for -- to an agency when liabilities are growing, when that agency was never even a part of the JPA. So it's highly complicated on the retroactivity piece.

I think -- I think that there is some out-of-the-box sort of ideas that we have that we're still trying to explore and flesh out in a way to try to find really take more of a scalpel to this issue more than a sledge hammer, if you will, but try to look at some of these agencies that are at risk and assess their specifically liabilities. And the agencies that are -- you know, the agencies that are a party to this JPAs, and try to be proactive on this, to try and figure out ways to ensure that those retirees are taken care of.

I think just blanket retroactive liability is -- really is the heart of our opposition. I know that the retirement boards, including CalPERS moving prospectively are already establishing liability on the front end, which is great, because then agencies can come together and they know what they're getting into.

It's when you try to go backwards, that's really the biggest challenge. So we're trying to figure out a way to ensure that that happens.

CHAIRPERSON TAYLOR: Okay. So I guess I'm a little confused. There aren't that many JPAs, and you're stalking about JPAs with hundreds of member agencies. How many of those are there?

MR. GIBBONS: I don't know how many of those there are, but there -- we know that there are some. On that list of 167 that you included -- those include risk pool JPAs who do have hundreds of members. They also have liability assigned in those, but that wasn't listed in the 10 JPAs that you have.

CHAIRPERSON TAYLOR: So they already have liabilities.

MR. GIBBONS: Yes, but it was not listed on your form that said that there were only 10 JPAs that had that liability? They weren't included on that list. So there are a number of JPAs. Of the 167 that do have lability assigned that aren't --

CHAIRPERSON TAYLOR: Then the law wouldn't apply, right?

MR. GIBBONS: What's that?

CHAIRPERSON TAYLOR: Then the law that we're looking -- talking about right, AB 1912, wouldn't apply to those groups?

MR. GIBBONS: It apply -- it would -- the way that this is drafted now, it would apply to all of them.

MR. HUTCHINGS: To all JPAs regardless of what retirement system they're in, not just CalPERS but any retirement system.

CHAIRPERSON TAYLOR: Okay. So my concern is not making an -- and I'm going to move on to Mr. Costigan here for questions as well. My concern is not making any part of this law ends up like L.A. Works, where they tell us over and over again we're not responsible. This isn't -- uh-huh, not me. You're it. And then our members suffer.

So I have a -- I think we have a real problem. I don't have a problem with you guys working on this, but if the end result of you working on this is getting rid of retroactive, I'm not sure that I'm willing to go there.

MR. GIBBONS: Chair, If I may. And we agree. We want to make sure that this covers everyone and that every employee would be covered. As far as the -- I think what my colleague was referring to is a blanket removal of retroactivity. You know, one of the things that we've been looking at is our JPAs that are now larger than the member agencies that are members, where maybe there's three member agencies and the JPA is now -- has greater assets and employees, than the member agencies. Applying liability to those member agencies would not help serve those employees.

So in that case, they would need to have a different application and this law would be structured.

CHAIRPERSON TAYLOR: Well, it sounds like you have some little carve outs, right?

MR. GIBBONS: Right. So -- and that's what we're working on. We're trying to find a solution that would work in all cases.

CHAIRPERSON TAYLOR: Okay. Okay. And I'm -- Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: All right. Thank you. And --

CHAIRPERSON TAYLOR: And you went away. Hold on. Push your button again.

VICE CHAIRPERSON COSTIGAN: No, it's lit up.

CHAIRPERSON TAYLOR: It is lit up.

VICE CHAIRPERSON COSTIGAN: So actually you addressed a few of the questions. So again, what I wanted to go back over was -- well, first is we all agree what the goal is. The goal is to protect the member. So I mean some of the -- I always hate these terms, but the low-hanging fruit that we still need to look at is, is the notice and disclosure. I mean, what we've realized in East San Gabriel is many of the members didn't know who they were actually working for.

Then you look at sort of a second question that we talked about, which is contractual relationship versus revenue source, right? I mean, that's one of the issues is if the JPA has independent revenue making authority, not necessarily an issue, sort of step in the shoes, because again East San Gabriel was based on a contractual relationship.

So what I'm somewhat concerned about, or confused, is when we talk about addressing those employees that may be part of the contractual relationship, you never get past the retroactivity, right? I mean, the -- but the retroactivity is actually a legal issue that may cause the entire bill to collapse.

I mean, I'm just trying -- there's the goal --

and this is not a negotiation on it though. These are just some questions I'm raising is it's the goal is to protect the employee. The problem is the retroactivity creates the issue, because it's also my understanding, and Mr. Hutchings please correct me, is that if the bill were to adopt, in its amended form, the form currently before appropriations, you would un -- you would increase the liability of local governments, because -- because I didn't hear you all address that.

MR. HUTCHINGS: Correct. So, you know, for example, if we use -- and I believe there is a representative from Northern California Power Authority that may be able to be a little bit more specific. So excuse me if I'm being a little bit general. But from my understanding, the Northern California Power Authority, for example, has 16 member agencies.

You have an agency -- I did the -- I went to the liberty of kind of Googling -- I found some CAFRs. And, you know, for example, the City of Gridley who is in the Northern California Power Authority, they have an annual operating -- an annual operating general fund of $3 million. The Northern California Power Authority has assets in excess of 1.2 billion.

And so again, when you're assessing, you know, retirement -- and I believe Northern California Power

Authority by -- in their most recent actuarial said they had about a $67 million unfunded liability. Yet, they have $1.2 billion in real assets. So they're not in jeopardy of defaulting.

However, when you apply retroactive apportioned liability, I mean, even if you were just to evenly divide it between 16 agencies, you'd be having the City of Gridley inherit a $4.5 million liability on their books, when they only have a $3 million operating budget. I mean, it would -- they would be -- and they would be getting that liability all in one year, even if it's --

VICE CHAIRPERSON COSTIGAN: Can I ask you just a clarifying question then. Prospective apportionment is okay or still problematic?

MR. HUTCHINGS: So if it's prospectively apportioned I -- you know, I believe we would be okay with that, because each agency at the time that they're creating this organization or this independent organization would know -- you know, they would kind of know the rules of the game when they're getting into it.

VICE CHAIRPERSON COSTIGAN: So only prospective apportionment for new JPAs coming into the system.

MR. HUTCHINGS: So if any new -- and again, whether that's codified through State law or not, that's -- its regardless, because any new JPA prospectively moving forward has to have some sort of liability clause in their contracts. CalPERS has made that clear as has other retirement agencies. It's looking at trying to assess it retroactively to a multitude of agencies. And quite frankly, I don't know if, you know, for example NCPA, if they've have had member agencies enter and exit that JPA in the last, you know, 30 or 40 years. I don't know. But if they did, those former members are also on the hook for a certain percentage of liability.

So conceivably saying all current and former members you get in a room and you all mutually agree on how you're going to apportion liability. If not, we're going to -- we're going to apportion liability. I think it's a no win situation on that for -- in that particular example.

VICE CHAIRPERSON COSTIGAN: Great. Thank you for right now. Thank you, Madam Chair.

CHAIRPERSON TAYLOR: All right. Seeing no further requests from the Board to speak, I'd like to call the next three request to speak speakers from the public.

Donna Colson, Ann Ritzma, and John Healy.

All right, Donna Colson. Ms. Colson.

MS. COLSON: Thank you. Thank you, Madam Chair and members of the Board. My name is Donna Colson. And I am Vice Mayor of the City of Burlingame.

JPAs have played a vital role in addressing public needs in a cost effective manner that cannot be effective achieved by local -- a local agency acting on its own. For nearly 15 years, Burlingame has used a JPA structure to partner with neighboring cities, first Hillsborough, and then later Millbrae, so that we can deliver outstanding fire service that has saved tens of millions of dollars.

At a time when CalPERS has lowered the expected actuarial investment rate of return resulting in larger unfunded liabilities and increased pressure on employer contribution rates, we at the City of Burlingame are in dire need of these savings, and Burlingame is using these excess proceeds to aggressively fund a newly formed 115 pension trust account, so that we can smooth impending contribution cost increases, and protect our current active workers.

We understand the need to hold cities accountable for their pension liabilities and support an amended AB 1912 that would still give the retirement agency unilateral authority to assign an equitable pro rata share of liability amongst current and former JPA members in the unlikely event that agencies cannot agree on how to apportion liabilities.

As written, this vague and ambiguous direction will inevitably lead to a cycle of protracted and costly litigation contesting the retirement agencies discretion of proportional liability.

This is a departure from the current law and would effectively eliminate the JPA structure. And the City of Burlingame is deeply concerned that JPAs would no longer be a viable tool for cost saving efficiencies should AB 1912 become law.

We ask that the Board adopt a no position on this bill to allow cities to work with the author and find feasible alternative solutions that would maintain pension solvency in a fair and equitable manner. This would help us to continue the JPA structure, which creates efficiencies and cost savings, some of which we are using to help manage our rising pension costs.

My background is similar to yours. I have 25 years of pension management experience. In fact, over the years, I actually consulted CalPERS on the investment portfolio. And I served for a decade on the San Mateo County Employees Retirement Association Board in your Chair. My family are all union. My mother is a member of STRS, so is my sister. I really understand this work, and I'm really committed to it. It's one of the reasons I ran for governmental office. But this particular situation in this particular bill would be -- make it very unwieldy for us as the city, and we are trying desperately to pre-fund our pensions. And I hope you will continue to work with us to have a cost effective solution so that we can reinvest in our city employees.

Thank you.

CHAIRPERSON TAYLOR: All right. Thank you, Ms. Colson.

Ms. Ritzma.

MR. RITZMA: Good afternoon, Chair and committee members and members of the Board. My name is Ann Ritzma and I am the human resources director for the City of Foster City. I am here today to strongly encourage the Board to take no position on AB 1912 as it continues to have significant impacts to local government's ability to provide cost effective services through JPAs.

AB 1912, as it is written and was recently amended, reduces the viability of a JPA as a tool for local government to provide shared services. I represent three cities, the City of Belmont, Foster City, and San Mateo who have been working for the past seven years to form the San Mateo Consolidated Fire Department JPA.

The processes involved years of collaborative efforts between our elected officials, our labor groups, and staff to bring together a cost effective efficient fire service that provides outstanding fire services to our three communities.

The key to bringing together the three departments has been the JPA's ability to contract with CalPERS for the -- our current existing pension formulas. We have been working with the CalPERS staff for the past 18 months to finalize our JPA process and file an application for a new pension contract.

The joint and several liabilities provisions of AB 1912 has paused our consolidation process. As drafted, AB 1912 joint and several provisions would force each of our agencies to take on obligations that could exceed an individual's agency's fiscal authority.

In our consolidated organization, we recognize our proportional obligations and responsibilities for the new pension liabilities of the agency, as well as other long-term obligations of the organization. We have included language in our JPA agreement to address our shared obligations and responsibilities.

The provision of AB 1912 that would give a retirement agency unilateral authority to assign equitable liability amongst current or former JPA members would undermine the conversations that we've had to date between our three agencies. Our agencies also have a concern that as drafted, AB 1912 will prohibit new agencies from joining an existing JPA because of the exposure to the liabilities of all unfunded obligations for the JPA. The additional exposure to legal action and liens on real assets also could provide a challenge.

Our agencies have come together to form a consolidated fire service to provide our communities with exceptional fire and emergency services. The JPA model also provides cost savings to each of our agencies that is currently being used to cover increased CalPERS employer contribution rates.

This cities of Belmont, San Mateo, and Foster City are very concerned that JPAs will no longer be a viable option should this legislation pass.

We ask that the Board adopt a no position, and we are actively working to provide solutions through our partners to this legislation that will address both or agencies' concerns and our protect the retirement of our employees.

CHAIRPERSON TAYLOR: Okay. Thank you, Ms. Ritzma.

Mr. Healy.

MR. HEALY: Madam Chair and members of the Board. I'm John Healy the Fire Chief for San Mateo, Foster City and Belmont currently. We're doing all this through a shared service agreement. And we are trying to become one through -- by forming a JPA, which we did this past fall. We're trying to occupy -- or commence operations as that JPA. And this legislation has all three city attorneys recommending to the councils to hold on and wait and see, because of the negative effects of upon it.

So what Ann Ritzma just shared with you, instead of repeating the same things, I'm just going to echo what she said, and say I hope that you can take a no position on this today, and give the process time to make that bill work better for all.

Thank you.

CHAIRPERSON TAYLOR: So I'm a little confused. I'm going to call on you in just a second. I'm a little confused. You haven't yet formed your JPA, so you know that we are requiring joint and several liability for new JPAs going forward, right?

MR. HEALY: So -- Correct. So we started the process about seven years ago. And then in September of -- or excuse me, in January of 2017, we came up and met with CalPERS staff and were -- laid out all the steps that we needed to take. So we wrote a JPA agreement for all three city councils. And in it we addressed all the concerns that were raised by staff.

Then just this year, now AB 1912 comes in and has joint and several liability spelled out to all obligations. And we had it written in our JPA proportional to each city. So we've already spelled out our proportional obligation of all three cities and what we'll pay and what we'll have forever on our debt. One of our member agencies, Belmont, was part of the old South County Fire Authority who still pays on their former CalPERS obligations.

So we know that the Fire JPAs can be successful and that they know that it's, you know, till your grave you own these obligations. No one is trying to get out of their obligations. I don't even like the comparison, you know, that we're a JPA similar to San Gabriel. But that's -- you know, unfortunately JPAs are all being thrown in this same lump and that's not necessarily what we are.

So ours was approved by council, we are waiting for CalPERS to approve our packet -- application packet, and then this all took place. So we're kind of on a pause waiting till we can find out if this is going to become law, and then our cities are going to say don't commence operations.

CHAIRPERSON TAYLOR: So -- and we'll ask a couple more questions. I'll also ask staff to look into that. I'm not sure that that actually applies to going forward.

But Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Actually, so we'll work in reverse order. Appreciate you all being here. If this is going forward, how are you impacted by 1912? How is this new JPA impacted?

Either one.

MR. HEALY: Just the joint and several language the city attorneys are recommending to the council that although we have it spelled proportionally in ours, should one city not -- it's telling the other two cities that the would be responsible for the third city's obligation, when, in fact, each city is responsible for their own obligation. And the way we've written our language to our agreement

VICE CHAIRPERSON COSTIGAN: So I -- just so I -- want to understand, and appreciate again you all being here, because I know it's a long drive up. So the -- if the City of San Mateo or --

MR. HEALY: Correct.

VICE CHAIRPERSON COSTIGAN: -- were to walk a away, okay. Those employees, your firefighters that are inside of that JPA. Okay. So since one city now says I'm no longer a part of it, how are you going to ensure that you're firefighters are fully compensated for their retirement, if you're allowing San Mateo to walk away with no liability.

MR. HEALY: Well, we're not. In our -- in our JPA agreement, there's language that San Mateo is liable for 60 percent of the total of the JPA. But the 1912 basically would say is that Belmont and Foster City have to also be able to have enough funds on hand to cover San Mateo's loss should they hypothetically go bankrupt. And they can't honor their obligation. But, I mean, it's kind of -- for essential city services, we know this isn't going to happen. But, I mean, I guess, you know, hypothetically it could.

VICE CHAIRPERSON COSTIGAN: All right. And then just the question to the HR please. Is it a contractual or a revenue that the JP -- is the JPA getting it through a fire service fee or? What's the revenue --

MS. RITZMA: No, we're contractual.

VICE CHAIRPERSON COSTIGAN: Okay. So it is a contractual relationship.

MS. RITZMA: It is.

VICE CHAIRPERSON COSTIGAN: Okay. Thank you.

CHAIRPERSON TAYLOR: Okay. Seeing no other questions from the Board, I'd like to call up the next three speakers, and that's Lori Sassoon, Isaac Moreno and Jill Abel.

I'm sorry. I'm looking to see who else has to speak still. So. Lori Sassoon.

MS. SASSOON: Good afternoon. Thank you. Yes. My name is Lori Sassoon. I'm the Deputy City Manager for Administrative Services with the City of Rancho Cucamonga, and also a proud member of CalPERS for 27 years.

I want to thank the Committee for the opportunity to speak and share a little bit about what's happening Rancho Cucamonga and how this bill would impact us.

As a midsized community, we rely on several JPAs to share expertise and costs with a number of our other agencies. For example, we are party to two JPAs for risk pooling, one of which has more than 200 member agencies. We're also part of a regional JPA for fire dispatch. And we're proud to say these JPAs are well run and well funded.

With the important role that JPAs play in our cities, it is important that any legislation impacting them be very carefully considered. And at this time, we have a number of concerns as our member -- our friends and other agencies do regarding AB 1912, and how this may adversely impact this important form of government.

We want to note that we do not disagree with the overarching goal of ensuring that pensions promised and earned are paid. However, this bill needs a great deal of work, and we respectfully recommend you take no position at this time, and allow the stakeholders to work together on better solutions.

Thank you.

CHAIRPERSON TAYLOR: All right. Thank you, Ms. Sassoon.

Mr. Moreno.

MR. MORENO: Thank you. Chair, Committee, Board members. Thank you for allowing me to speak today. For the current action that CalPERS taken regarding discount rate and amortization schedule, a toll has been taken on our community as well as others. JPAs are an important tool that allow us to partnership with other entities to collectively help our communities and ensure the debt and the liability for providing services that we couldn't obtain on our own.

With our current pension issues, we are looking to -- at all and any tools available to us to weather this storm. By restricting our toolkit, you limit our options to stabilize our city. In addition, you limit the services that we can provide to our community. We are asking the Board to adopt a no position on the AB 1912 to allow the stakeholders to work with the authors and find the alternative solution.

Thank you.

CHAIRPERSON TAYLOR: Thank you, Mr. Moreno.

Ms. Abel.

MS. ABEL: Good afternoon, Madam Chair and Committee members and Board members. My name is Jill Abel. I'm the HR Director and Risk Manager for Yuba County. Thank you for hearing this issue today. And I just want to say with steep increases in pension and other costs public agencies are struggling to find cost effective and creative ways to solve problems. And we're really afraid that in its current form AB 1912 will put an end to local agency's abilities to use JPAs as a viable tool to provide cost effective services to the public that we're -- that we are, you know, serving.

So today, we're respectfully asking that this Board take no position on this measure, so that we can have some time to look at options and try to work together collaboratively on this issue.

CHAIRPERSON TAYLOR: All right. Thank you.

Seeing no requests to speak from the Board, I'm going to call the next -- last two speakers up on 6c, and that's Austin Webber[SIC] and Gregg Cook.

Oh, and Faith -- I'm having a hard time reading this -- Barges?

MS. BORGES: Borges.

CHAIRPERSON TAYLOR: Borges. You can come up as well. Thank you.

And I'm going to call Austin Webber[SIC]

MR. WEBSTER: Thank you, Madam Chair and members. Austin Webster on behalf of the city of Hayward. In the interests of time, I will just align my comments with some of my colleagues. Like many local jurisdictions, the city faces some unique challenges in a limited budget. But we continue to provide high quality service to our residents through the use of JPAs.

In the actual testi -- or in the actual bill language originally proposed, the author identifies JPAs as paying a vital role in addressing public needs. Unfortunately, this bill right now jeopardizes the use of that tool to address those needs. So we would align ourselves with everyone else in asking that this Board at this time refrain from taking a position and allow us to continue to work with the author to find some viable solutions.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

Mr. Cook.

MR. COOK: Madam Chair and members. Gregg Cook representing the Northern California Power Agency. Our agency was the subject of some discussion with the first panel that you had up here. And if there are any specific questions that you would have of the agency's representative, I'd be happy to address it.

We are celebrating our 50th anniversary this year. We have 16 local agency members. We have assets in excess of one and a half billion dollars. We certainly support the intent of Assembly Bill 1912. We're seriously concerned with some of the implementation. As your staff has reported, the bill is going to be heard tomorrow in appropriations. I'm told the bill is going to go on the appropriations suspense file, which isn't uncommon. And that during that time, some additional amendments are going to be considered.

So I think it would be premature to make a decision today based upon the bill in its present form. But I'd like to share with you what NCPA is doing. We recognize and acknowledge that we have an unfunded liability. We have put in place a 15-year plan. That plan calls for the payment and total payment of that unfunded liability. It calls for an annual audit of the status of that 15-year plan.

And we offered to report that -- the status, and report the audit findings each year along with a copy of the resolution signed by each of our members.

We are committed to protecting our employees and their retirement benefits. We would hope that you would continue to give this legislation consideration. I personally have not met with your staff. I apologize for that. I'd like very much to meet with them to share with them the specifics of the NCPA plan.

And I'd be happy to Address any questions that you may have. Thank You.

CHAIRPERSON TAYLOR: Thank you very much.

Ms. Borges.

MS. BORGES: Thank you very much, Madam Chair and members. Faith Lane Borges on behalf California Association of Joints Power Authorities. You've heard a number of the witnesses here today speak about risk pooling entities. And that's who our membership is comprised of. So I'd like to share a little bit of history about how we came to be.

And in the '70s and '80s, public entities found that they were not able to obtain insurance for their liabilities, such as tort liabilities, workers compensation, general liability, and had a difficult time purchasing health benefits.

So our members came together to utilize the JPA model to effectively self insure for these liabilities, providing cost savings of -- in the range of 30 to 50 percent of having to purchase this coverage on the commercial market.

As has also been shared by many of the members who speak before me, we have concerns that this bill, as in print right now, would limit our ability to provide this very significant cost savings to all of our members who include cities and counties, school districts, and other local public entities, special districts as well.

We've been working very closely with the author because we understand again, as has been stated, that this goal is very laudable, and we also want to protect members and their retirement obligations. I, myself, am a PERS member since 2012.

But that being said, the bill in print right now, because of the reference to joint and several liability, which is a legal term that allows plaintiffs to sue any member for the entirely liability, it gives a lot of members heartburn about joining JPAs and the vital services that we provide, and the significant cost savings that are returned to our members to use for other things like their pension obligations and contributions. And we want to encourage that to continue.

And if we are unable to exist, because of this increased liability on all of our members, there was a reference made earlier to some JPAs have over 500 members. Those are our types of JPAs, because of the specific service model that we provide yielding such great cost savings for those obligations that I mentioned earlier.

With that Alternative in mind, we're asking you to not take a position at this time assuring you that we have the same goal of making sure pension obligations are met, but we need to do some working to get to more of an apportioned and fair allocation of what those retirement obligations are. We would also like to make ourselves available to you to answer any questions.

But again, to assure you that we are working with the author and his staff to reach the intended goal, but make sure we don't have these unintended consequences as we believe would be the effect of the bill in print.

CHAIRPERSON TAYLOR: All right. Thank you. I have a Board member that would like to speak. Mr. Miller.

COMMITTEE MEMBER MILLER: This is not directed to any specific one of the commenters a board, but I appreciate that everyone understands the intent, the objective, that people have earned their benefits, and they deserve to get them, whether they earn them in 1952, 1968, or 2018. And that is the goal.

And so I would really encourage if there are creative solutions, if there are alternatives, even if that introduces a level of complexity, because the unintended consequences we're concerned with, and we're trying to prevent are devastating, as was mentioned earlier, tragic for our members, members of CalPERS. Whether they come to us by way of joint powers agency or not, they're our number one concern.

And so while I'm quite to the challenges, the local government, municipal governments everyone are having in this economic environment. I will not be very favorably disposed if some solutions don't come up that can assure us that every one of those members who have served in joint powers agencies is not protected. And I'm more comfortable with unintended consequences of a solution where the unintended consequences, you know, will be, frankly, those of the organizations that enjoyed the benefits, the significant financial and other benefits of peeing part of joint powers agreements now and in the past, than the employees who became part of those, and would be impacted.

So I really encourage you to, you know, work with the authors, work with our staff, and come up with something, because if you don't, I think, I, for one, would be inclined to support the legislative effort to impose a solution that may not be optimal for you.

CHAIRPERSON TAYLOR: Thank you, Mr. Miller.

I'd like to call we have three more requests to speak. Terry Brennand, Dan Schwartz, and Todd Cusimano from the city -- town Corte Madera

VICE CHAIRPERSON COSTIGAN: Corte Madera.

CHAIRPERSON TAYLOR: Corte Madera. I can't read their writing. Sorry.

Who wants to go first? Terry. Mr. Brennand.

MR. BRENNAND: I was going to let them go first.

CHAIRPERSON TAYLOR: You want to -- all right.

MR. CUSIMANO: Okay. Thank you. Thank you. Todd Cusimano. I'm the Town Manager for the town of Corte Madera. And I'm just going to focus on a couple of examples of the entire discussion today, and try to narrow it in scope.

And I think if I could -- if I could summarize it, I think we're using the wrong tool -- the wrong legislative tool. We all agree we need to do something, and we should be responsible as member agencies for our share.

The joint and several liability language is like taking a sledgehammer into open heart surgery. I think Dane touched on it. It truly is, it's the wrong tool. And it's problematic. And I'll give you an -- I'll give you a couple of examples of what I'm talking about. So the town of San Anselmo, that's in Marin County, where we all work, we have many member agencies, JPAs.

San Anselmo, their miscellaneous employees, they have an unfunded liability within their own town. They're also member agencies of members of two fire authority and a police authority.

So today, if you looked at what their unfunded liability is with retiree health as well, it's about $30 million. If you went back and you took the joint severable liability language, and you did the retro. And I know things are changing. Everything seems to be changing every week, but if you took joint and several and you went retro in the situation that the town that San Anselmo is in, their unfunded liability would go from 35 million to over 100 million dollars. They're a population of 13,000. Their operating budget is $18 million. That is what you're talking about up and down the state of California.

In Marin County, we have a population of 260,000 people. We rely on JPAs to provide our essential core services, police, fire, sanitary. Joint and several going backwards is just a deal breaker. You would destroy every -- every -- you'd destroy jobs, services. JPAs would no longer exist.

Now, if we talk going prospective moving forward, we've worked with your staff. We're in the process Corte Madera and Larkspur, of forming a JPA, a fire authority, similar to your police authority. And so for eight months we've been working with the CalPERS staff and problem solving, going what is the issue, help us understand, and can we get to the table with our friends in the State to problem solve this issue, right?

How do we figure out apportionment, because that should be -- it should be go backwards. We should handle that and we should be responsible for it. But what does it look like? I'll tell you right now, according to the staff of CalPERS, that joint several is play moving forward, it's also -- it incurs all liabilities, so it's retiree health, it's civil, it's all liabilities. That is the stance of your staff right now. And that's why our JPA is on hold, and we can't provide that service that we want to to our communities.

So if I could summarizes it, I ask you take no action. What is the rush? We need to do something, but this is a much greater -- we're trying to solve something that's a much greater issue. And we need to step back and find the right legislative tool. Joint and several liability is not your tool. There are some tools out there, and that you've heard some really smart people in this room, really smart people on your staff. Let's work towards that. So thank you.

CHAIRPERSON TAYLOR: Okay. Thank you.

Mr. Schwartz.

MR. SCHWARTZ: Thank you. My name is Dan Schwartz. I'm the City Manager for the City of Larkspur. Corte Madera is our neighbor. We're often referred to as the twin cities by Marin County residents. We collaborate in more than a dozen JPAs together, and with other agencies in Marin and around the state. My agency participates in at least six more JPAs that are all solvent, all responsible. And those that have employees in retirement systems have made provisions to ensure that those people are taken care of.

However, as Todd has already pointed out, the position of your staff, to clarify for Mr. Costigan, is that all liability will be joint and several not just the retirement liability. And that's a serious problem. And, in fact, we propose to your staff that they only deal with retirement liability and we were rejected on that point.

The original iteration of AB 12 to speak specifically to your item also spoke to all liability, not just to retirement liability. I've only heard you speak to retirement liability, and I think that's understandable. That's what you should be concerned about.

And I think what you're hearing from our colleagues from the League, CSAC, Special Districts Association is they want to work on a solution with you that speaks specifically to retirement liability and gets us away from trying to look at all of the other liabilities and obligations that these solvent government agencies provide.

I don't know if any analysis has been done by anyone else. I have two staff people doing analysis now on what AB 1912 would mean to the City of Larkspur. We already notified one joint powers authority that we would withdraw if 1912 passes.

I know other agencies are already in Marin looking at that. I'd submit to you that while I agree that you need to protect the retirement benefits of your members, it won't do them any good if the JPAs dissolve and their jobs no longer exist. And I can think of at least two joint powers authorities that my agency belongs to that would likely dissolve and terminate these jobs upon the passage of AB 1912 as it stands.

So for those who are interested in protecting your members, please keep that in mind. That is a major part of how they earn their retirement is being employed.

I have nothing else to add that hasn't been added before. We would very much like to solve this problem, but please don't destroy one of the most valuable tools to my city because of a bad actor in Los Angeles.

CHAIRPERSON TAYLOR: Thank you. I just do -- I want to point that as I'm reading this, it appears that right now CalPERS is not -- our staff is suggesting we don't back the bill, because it doesn't include anything but pension liabilities. So that's right now as the bill stands. I just wanted to clarify that.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: I've got a couple questions, and I also like our General Counsel to come up. So I want to understand.

MR. BRENNAND: That would be a good time.

VICE CHAIRPERSON COSTIGAN: It would be a good time. Of course it would be. Thank you, Mr. Brennand.

All liabilities, I mean, what we're generally looking at is health care and retirement. Would you expand on what you believe all liabil -- is it workers' compensation --

MR. SCHWARTZ: I'll speak more directly and where I think the fire chief may not have had the benefit. I think we even share some of the same attorneys. So I've had this hammered into my head several times. The language being proposed by your staff is all of the joint liabilities and obligations of the JPA. I'm not talking AB 1912. I'm talking about the language that they want inserted into the con -- into the JPA, so that we can obtain a contract.

In the original iterations of 1912 were similarly structured. That's everything. That means that if Corte Madera has brought other liabilities and obligations to the table as part of one of our partnerships that have nothing to do with the employment issue, we would potentially be open and subject to being sued for those obligations if Corte Madera were to have a financial issue.

VICE CHAIRPERSON COSTIGAN: Let me get to my General Counsel. But if you were to limit it just to health care, retirement -- what's related to the employer -- or, excuse me, the employee, you'd be okay with that?

MR. SCHWARTZ: That -- I'm not thrilled but I can at least understand the logic of that. I can understand why CalPERS would take that position.

VICE CHAIRPERSON COSTIGAN: Can we ask our General Counsel please to opine on why we're using that provision.

GENERAL COUNSEL JACOBS: Yes. I'm -- the IRS actually requires that all obligations of agencies, JPAs in particular, that would want to be a member of CalPERS be joint and several for them to -- well, for them to come into the system without jeopardizing our tax-exempt status. So that's a big deal.

VICE CHAIRPERSON COSTIGAN: So the I -- I'm sorry, the IRS requires, back over here to the city --

GENERAL COUNSEL JACOBS: Hold on, I got that a little wrong. I can tell from.

VICE CHAIRPERSON COSTIGAN: Yeah, I want to make sure.

CHAIRPERSON TAYLOR: Yeah, that doesn't sound right.

VICE CHAIRPERSON COSTIGAN: Because it's everything or just --

CHAIRPERSON TAYLOR: Yeah. Are we just talking pensions and health care or are we talking everything?

GENERAL COUNSEL JACOBS: I think we're talking everything, but let me refer to the expert here, Lisa Marie Hammond.

SENIOR ATTORNEY HAMMOND: Lisa Hammond, CalPERS team member.

The IRS does require all debts and liabilities of the entities to be fiscally supported by the state or political subdivision, not just the pension. It's very explicit on that point.

CHAIRPERSON TAYLOR: What you -- what does that have to do with this particular law though?

SENIOR ATTORNEY HAMMOND: With respect to -- that's our position currently. With respect to our -- the existing law, it's only limited to pensions, which would not satisfy the IRS factor.

CHAIRPERSON TAYLOR: What do we care?

SENIOR ATTORNEY HAMMOND: We care -- we care -- just -- it's been a while, but back in 2011, the IRS came out with guidance and have subsequently aligned our contract eligibility process to align with the guidance in 2011 for two reasons. One because we asked for a grandfather to say -- you know, for all the agencies in CalPERS to date, can they stay in, regardless of what they look like? If we say going forward we apply a reasonable good faith interpretation of your rules, which would include requiring fiscal responsibility by the State or political subdivision for all debts not just pension liabilities.

CHAIRPERSON TAYLOR: Go ahead.

VICE CHAIRPERSON COSTIGAN: Just a few more question so I can understand it. If the IRs already requires this, I guess this -- I mean, if this is what we've required for the last five years, what's different then? What --

MR. SCHWARTZ: I was making the point that I think the -- you had a previous speaker who spoke to this point and confused you. You expressed confusion about why -- why he was telling you that his attorneys are having consternation with dealing with your staff. It's because, frankly, all of us belong to 12, 18, 24 joint powers authorities, and we've never been subjected to this before. And so to walk in in 2017 and be told this is a new requirement has been a bit startling.

VICE CHAIRPERSON COSTIGAN: And I'm sorry, I hate the tennis aspect of it. But if this has been the requirement since 2011 by the IRS, what's different? That's why I don't understand. If this is what -- you're saying the IRS requires this.

SENIOR ATTORNEY HAMMOND: It does. We -- we announced this in our circular letter I believe it was later in 2012. It might have been early 2013 that we aligned the process. It took us about six months to a year to actually fully align. We've gone out with two circular letters to inform the community that's our new standard, and all new applicants complete the questionnaire.

VICE CHAIRPERSON COSTIGAN: It's not our standard. It's the IRS's standard.

SENIOR ATTORNEY HAMMOND: Correct and we aligned it with that, yes.

VICE CHAIRPERSON COSTIGAN: So could you just explain to me what's different? If that's what the standard is, and that's what the IRS requires, and that's what we need to do to be in compliance, when you say all liabilities, what is -- just so I can understand the difference.

MR. SCHWARTZ: I'm not -- I'm not disputing your staff saying this is what the IRS guidelines report. I suspect the fire chief would join me in suggesting that not every city attorney in the State of California necessarily agrees with all of that interpretation. I'm not here to debate that today. I'm simply here to tell you that this language as it moves forward to suggest to smaller agencies that we can take on tens of millions of dollars in additional liability and book it in our audits is just something we can't do.

My city is on the verge of going out to market for bonds. We need our bond rating to be sufficient to make sure that we get a good rate on those bonds. If I have to start showing in the audit all of the debts and obligations of all the joint powers authorities we belong to, we have no credit rating. That's a direct impact to the taxpayer. And once it gets out to the taxpayer that AB 9112 and/or any other actions that we take are resulting in them paying five, six, seven more dollars for the same thing they were buying for a dollar in the past, they're going to be irate about that.

VICE CHAIRPERSON COSTIGAN: All right. Thank you. That's -- now thank you.

CHAIRPERSON TAYLOR: Before I call on another Board member, I'm going to call on Mr. Brennand.

MR. BRENNAND: Thank you, Madam Chair, and members. First let me -- I don't want to use all my three minutes thanking your staff, but I will. We've been working on this since January all the way from your CEO down to your attorneys and folks on making this bill more workable.

And we've also been working with the opponents that long. So I know they've asked for a month. I'm fine with that. I can't imagine what out-of-the-box idea they're going to come up with in the next 30 days that they haven't been able to generate on paper or even conceptually in the last six months, but let's do it. I'm willing -- I'm willing to give it a shot.

I wanted to do address the concerns that the staff put in the analysis based on, by the way, the actual language in the bill now, which only about one of your speakers actually spoke to.

And the three concerns primarily were the -- removing the discretion of CalPERS to litigate or not. The new amendments basically say litigation is part of the process you have to consider prior to reducing a benefit, therefore putting what you did in these other situations as a last resort. I've heard how complicated this is, how hard it is. You know, what's not complicated, cutting these people's benefits by 63 percent.

That was too damn easy. I want it to be the last choice you have, not the first one. And we've amended it to the satisfaction of your Legal staff, I believe. The second one is that JPA liability goes to whether they're eligible under the Internal Revenue Service. Because our proportional only refers to the existing ones -- existing JPAs are grandfathered, there's no conflict with the joint liability, which only applies going forward. The reason that language is in there, that was told to me to be your current practice.

I am statute -- putting in statute what your current practice is per the IRS regulations and your current operations. So it does not change anything going forward to a single JPA that would be forming.

And then thirdly is this sort of conflict between proportional liability and joint and several liability. We've separated that by bifurcating the two populations. You currently have about 25,000 employees in 167 JPAs with zero protection. This bill is intended to go back and give you at least two options on how to deal with those employees.

One is the members of the JPA get together and decide on their proportional liability. If they can't come to agreement, then you get to. And frankly, I don't care how you do it, as long as you get to a hundred. You can do it proportionally, you can do it by population, you can do it by service levels. We did not prescribe that in the bill for a reason, because it is complicated. You're absolutely right, Mr. Slaton, it's not an easy thing to do, which is why we put it on the member agencies to decide.

And I've heard about these agencies with like the joint powers agreement where there's 58 counties in it because it's a purchaser. Well you know how many employees they have? Five. So it's a liability on five workers splits between 58 counties.

I think we can figure that out.

CHAIRPERSON TAYLOR: All right. Thank you, Terry. Don't go anywhere.

VICE CHAIRPERSON COSTIGAN: Questions

CHAIRPERSON TAYLOR: So Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Madam Chair.

Well, I think we've heard a lot of commentary on this. I -- and, Mr. Brennand, you've raised some very good points on this. But there's not question this thing is fluid still. And I've heard from enough local agencies that they're very concerned about this. And I think it comes back to you've got to find a significant -- an appropriate solution to this. Otherwise, you end up having unintended consequences that end up hurting employees as well as employers. And I think that's where we need to try to figure -- figure out the problem.

And part of the solution may be more analysis of the points you just made, to see if, in fact, it does protect the existing JPAs. And of the ones going forward, if they can't reach agreement, it's a pretty big burden on CalPERS to try to figure that out. I think what may happen is you may end up having the unintended consequence of driving new JPAs to not be in CalPERS, and to find other solutions potentially D.C. plans. I'm not sure that's where we want to go. I don't think we necessarily want that particular conclusion to occur.

So I think that probably the best move at this point is to let's give it this 30 days, see how the legislation moves. And I would ask the Chair to direct the staff to work with the stakeholders, come back in 30 days, and -- in June, and see where we are then. See if we've got -- if we've reached a conclusion. And maybe your position will prevail, and maybe not, but let's see where it is.

CHAIRPERSON TAYLOR: Thank you, Mr. Slaton.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: I'm just going to ask the same things along the lines of Mr. Slaton, that we -- since no action be required, just direct the staff to continue to work. And actually a couple of the issues that I had was to look at the contractual relationship tied into the retroactivity and the apportionment.

The other question I have Mr. Jacobs is that we keep talking about our practice. And I just want to make sure that the practice that we have as it relates to JPAs is how have we looked either codifying that, or how have we put that practice into place. I want to make sure that we haven't developed a regulation that it's a practice. So I want to ensure -- I'm looking at -- through you Terry at Marlene -- that the process is -- actually has met what our -- we keep talking about guidelines and process. So I want to know what the process is.

But at this point, I would echo Mr. Slaton's comments. And I don't think any motion is necessary, and to just take no action on it, because actually taking a no position means we took a position. And I'm not taking any position. I just say give the staff another 30 days. That would be my recommendation.

CHAIRPERSON TAYLOR: All right. So thank you, speakers.

Marlene, if you could come back up.

Oh, Brad, I'm sorry.

MR. BRENNAND: Should I just say for the next one.

CHAIRPERSON TAYLOR: No, because we're going to go through the next one first, Terry, but thank you.

(Laughter.)

MR. BRENNAND: Trying to ease it.

CHAIRPERSON TAYLOR: So, Brad, we -- I think you heard the Board's direction, which is we would like to not have this an action item, and have you guys go back, work with the stakeholders, bring it back in June for us, is that okay?

DEPUTY EXECUTIVE OFFICER PACHECO: Yeah, I said at the onset this is an important discussion. We all have a mutual goal, so we'll work with the stakeholders and bring something back in June.

CHAIRPERSON TAYLOR: Great. Thank you, Brad.

DEPUTY EXECUTIVE OFFICER PACHECO: Sure.

CHAIRPERSON TAYLOR: So we are on 6d, Senate Bill 1413, Public Employees' Retirement Pension prefunding.

DEPUTY EXECUTIVE OFFICER PACHECO: So, Madam Chair, members of the Committee, the second bill before you is Senate Bill 1912 authored by Senator Nielsen and sponsored by the California Special Districts Association. As we've mentioned in the past, this bill would authorize CalPERS to establish and implement a pension pre-funding trust to help our employers invest and prefund their future pension contributions.

Our employers have asked for this. It's a tool that they believe is important to help them with our pension costs, especially given the increases expected over the next five years.

Our team had some initial concerns about some amendments that were added that called for the trust to have four investment options, including one that would match the asset allocation of the PERF. We believe we -- we've been working with the stakeholders on that language. We believe that we can come to a workable solution that satisfies them and also gives this Board and our Investment staff some flexibility around those investment options. So we're asking the Committee take a support, if amended, position on this piece of legislation.

And I'll stop there and ask for any questions.

CHAIRPERSON TAYLOR: All right. Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you. You know, we need to do this. This needs to happen. It's -- everybody benefits from it.

So just to get it started, I'd like to move staff's recommendation

COMMITTEE MEMBER MILLER: Second.

CHAIRPERSON TAYLOR: Okay. The staff's recommendation has been moved by Mr. Slaton, seconded by

Mr. Miller.

Is -- we can discuss on the Board in a minute. I have -- uh-oh. I have requests to speak from Dane Hutchings, Dorothy Johnson, Dillon Gibbons and Terry Brennand.

If you four want to come up.

CHAIRPERSON TAYLOR: I'm going to start with Dane.

MR. GIBBONS: If you don't mind.

CHAIRPERSON TAYLOR: Dillon, well that's not in order.

(Laughter.)

MR. GIBBONS: You Dane writes these things up -- Chair, if you don't mind. Dillon Gibbons with the California Special Districts Association, you know, sponsoring the bill.

I first would like to start, this is a great bill.

(Laughter.)

MR. GIBBONS: Thank you so much. I'd like to thank the staff for all of their work on this bill, thank this Board for hearing this, and thank you, Mr. Slaton, for moving to support this bill.

When we brought this up a couple of months ago as a spot bill to assist this Board in providing a tool for public agencies, we knew we had a lot of work ahead of us. And that work has been getting done. I'd like to thank Terry Brennand with SEIU for his efforts in working with employers and CalPERS to help bring this bill to fruition. We still have some work to do to get it done. It's currently going to be heard in Appropriations. And we're optimistic that we can get it to move forward.

So thank you very much, and hopefully we can get your support on this bill.

CHAIRPERSON TAYLOR: Thank you, Mr. Gibbons.

Do I move down the line now or is there a specific order you want me --

MR. HUTCHINGS: That's all right.

MS. JOHNSON: Pleasure of the Chair.

Dorothy Johnson with the California State Association of Counties. For the sake of time, I'll echo the comments of my colleague from the special districts. But I really want to emphasize how this came together as a collaborative solution, and how critical this will be for our counties to give them another tool in their toolbox, as they meet their pension obligations. So we appreciate the motion by Mr. Slaton.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

MR. HUTCHINGS: Good afternoon. Dane Hutchings, League of California Cities. Again, echo the comments of my colleagues. You know, I've come up here dozens of times asking for more tools. You know, local agencies have the ability to do this right now through a private company. Those companies however do charge a little bit of and administrative fee. And right now, we're squeezing pennies.

And so, you know, having -- seeing the success of the trust set up on the OPEB side is something that we've seen some great success in. I want to try to be able to provide as many tools as possible for our cities, and certainly support this measure. Thank you.

CHAIRPERSON TAYLOR: Thank you very much.

Mr. Brennand.

VICE CHAIRPERSON COSTIGAN: Mr. Slaton is not on the Committee.

CHAIRPERSON TAYLOR: No, he's not.

VICE CHAIRPERSON COSTIGAN: So I'll make -- I'll move adoption of staff recommendation.

(Laughter.)

MR. BRENNAND: Oh, he's not on this Committee?

BOARD MEMBER SLATON: I'm not on the Committee.

MR. BRENNAND: And I still had to answer to him?

(Laughter.)

CHAIRPERSON TAYLOR: So -- and it's seconded.

(Laughter.)
MR. BRENNAND: Mr. Costigan.
CHAIRPERSON TAYLOR: Okay. So now it's been moved by Mr. Costigan --
COMMITTEE MEMBER MILLER: Second.
CHAIRPERSON TAYLOR: -- seconded by Mr. Miller.
Mr. Brennand.
MR. BRENNAND: Madam Chair and members. Terry Brennand on behalf of SEIU California. And unlike the last bill, there's general agreement on this one I would say with one exception. When I was talking to your staff, we did not want CalPERS to get in the business of chasing yield, which is what some of these agencies, do not kid yourself, are about. They think they can do better. They think they can earn more than you are in the PERF. So the bill was amended in committee, not at my request, but by the author to restrict it to the three funds you had already done in the CERBT.
I think we'll come to agreement on language that basically says probably a number of funds, three. I'm not sure. But that the risk and return profile won't exceed that in the highest sort of CERBT funds, so we're not out there.
If they want to go out and chase 8, 10, 12 percent interest, they can do it with PARS and they can

pay the fees. That's not your job in my estimation. So we'll get there. I believe Brad is correct we're wordsmithing as of an hour ago.

Thank you.

CHAIRPERSON TAYLOR: Great. Mr. Slaton.

BOARD MEMBER SLATON: Sorry about that. I'm channeling last year when I was on the Committee, so --

(Laughter.)

BOARD MEMBER SLATON: -- I thought I would be grandfathered in.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: Retroactivity.

BOARD MEMBER SLATON: Yeah. So, yeah, I think that the modifications need to happen, and I think we can work through those. Investing -- having one of the funds be equivalent to the PERF just doesn't work, you know, structurally you can't do it, because of private equity and real estate.

So I think the others -- again the discretion needs to be by CalPERS in the creating of those accounts. And I think that you see the experience of our Investment Office, how we've done OPEB, that we know -- we understand how to construct funds that take a reasonable amount of risk, and don't try to shoot for the moon. That's not our objective here at CalPERS.

So we just have to do it within our fiduciary guidelines. And I think it will happen. So I encourage the Committee to have a yes vote. Thank you.

CHAIRPERSON TAYLOR: Thank you.

Ms. Mathur.

PRESIDENT MATHUR: Thank you very much, Mr. Chair -- Ms. -- Madam Chair. Forgive me.

I want to, first of all, thank Mr. Gibbons for sponsoring this bill. I think this is a really important bill for public employers. And also for members. I've heard from locals all across the state that they also want their employers to have this option. And it's important for a couple of reasons.

One is that CalPERS is the trusted manager of assets on behalf of public employees, and public employers in this state.

Number two is that we charge -- we generally do it at a cheaper price than that was offered in the private sector. And as you say, every one is looking to save money these days. It's a particularly tough environment. And employers and employees alike want to know that the funds are being managed effectively at a low cost.

And number three, and this is really important for employers is that the assets can be accounted for on the CAFR, can be offset -- can offset the liabilities, which cannot be done in the private sector. And so that is, I think, a really important advantage that a CalPERS administered 115 trust can offer. So for those reasons, I completely support and -- support this bill.

Thank you.

CHAIRPERSON TAYLOR: Great. Thank you. Thank you, all. I appreciate it.

So we have a motion on the floor. This is an action item.

All those in favor of the staff recommendation action item?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion carries.

There's -- we are moving on to 6e. Almost forgot we had 6e.

Ms. Malm.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Good afternoon, Madam Chair, members of the Finance and Administration Committee. Kim Malm, CalPERS team member.

Before you is an action item to amend the notice of election for the 2018 State, school, and public agency elections. At the February FAC meeting the, Board approved the current notice of elections, and it was sent out to the employers on March 26th kicking off the election cycle.

Since the conclusion of the 2017 member-at-large election, the Board elections team has listened to feedback regarding the paper ballot intake and processing process. We have determined that we can make a process change for the 2018 State, school, and public agency election instead of waiting for the full program review scheduled to be conducted during the 2020 election off-year.

This process change includes the return envelopes well be scanned for the bar code only in order to ensure that not more that one vote. They will not be opened. The sealed paper ballot return envelopes will be secured at Integrity Voting Systems, headquarters in Everett, Washington until the conclusion of the voting period, beginning at 9:00 a.m. on October 2nd for the primary, and December 11th, if a runoff election is necessary.

The sealed signed envelopes containing the voted ballots will be opened, the ballots removed, and processed at the Integrity Voting Systems headquarters in Everett, Washington. Public viewing is permitted through this opening process.

Upon completely of the ballot, paper ballot process, an electronic tabulation will be held at Everyone

Counts, headquarters in La Jolla, California. The time for the electronic tabulation and public viewing of the electronic tabulation will be announced promptly following the completion of the paper ballot process.

Due to changes in the paper ballot intake process, and the additional time it will now take to process the ballots, it will no longer be a couple of hours, like it was in this last election. It will now be a few days.

The candidate random drawing has changed from October 4th to October 9th to accommodate these additional days. In accordance with the California Code of Regulations section 554.37(d), any amendments to the Notice of Election require an amendment to the notice of election and adopted by the Board.

Once approved the amended notice of election will be transmitted to employers for distribution. This concludes my presentation, Madam Chair, and I'm happy to answer any questions.

CHAIRPERSON TAYLOR: Sure. We do have one question.

Ms. Brown.

BOARD MEMBER BROWN: Oh, thank you. Thank you, Ms. Malm. I did have a chance to talk with Mr. Hoffner earlier this morning to tell him thank you for the change in this process, for listening to both Board members and our constituents who love to vote, and -- and for really taking a look at the process and fixing it by actually counting the paper ballots. I believe -- what percentage of them are voted via paper, via the mail? I mean a large percentage.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

A majority. Seventy-two percent, I think

BOARD MEMBER BROWN: Yeah. Okay. So I appreciate you making sure those ballots are secured, and then opened after the election -- the election has concluded. And then you say a process. So is that -- are they going to actually be counted in Everett, Washington. It just says a process, so I'm not sure what that process is.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

So the envelopes will by sliced open, the ballots will be removed, they will be scanned into the system, and any adjudication that's necessary will be done in Washington to those ballots, and it will be uploaded into the database like it was in this last year. But it will -- it won't happen until after the conclusion.

And then we will go to La Jolla, as we did last year, and they will have the -- they will do their electronic tabulation process, which will take the paper ballot database, and the IVR, and the on-line and combine them and give us a report on the findings -- on the results.

BOARD MEMBER BROWN: So just so you know, I still have some concerns about the electronic tabulation process. And then I also went on to note, are you going to be able to have time to fix the script for the phone voting? I know we got that data, and I'm hoping we'll be able to get that fixed before this election, especially with the fact that names are actually not mentioned until about the 25th prompt, and also that the volume levels are much different, depending upon which -- where you are in the process. You couldn't hear. It was very confusing. And they kept calling it a contest, by the way. A majority of our voters are older, they're worried about contests, Publishers Clearinghouse, and other ones, so they -- they hang up the phone, so...

And I wonder if we have any data analytics about how many no votes, how many hang-ups, and the results by method. So all those things are very important.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

So the contest was for the member-at-large, and would be only for that election, because there's two elections within the same phone voting.

Every other election is a single election. And that's why they used the word "election" and the word "contest" in the voting for them out.

We have been working with them on the script, because we been receiving -- we received feedback from the constituents in regards to being able to vote immediately versus having to go through all of the steps. And so Mr. Darby provided some great information to us and we are trying to make that change, and we are making that change with the vendor, so that the members can vote immediately as opposed to going through all the steps.

They have to first log on. Well, they have to first log on, in order to do that, but yeah.

BOARD MEMBER BROWN: And then volume was the other one. We just -- we want to make sure that the volume is loud enough and can be adjusted. It really -- it clearly was not. If anybody took the time to listen to all those, audio prompts -- Doug did.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: I did.

BOARD MEMBER BROWN: Some of them are very, very soft and hard to hear, so...

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thank you.

BOARD MEMBER BROWN: Thank you.

CHAIRPERSON TAYLOR: All right.

Thank you. I don't have any more requests to speak on this item. So we have an action item on the table for amendment of notice of election.

VICE CHAIRPERSON COSTIGAN: I'll move it.

CHAIRPERSON TAYLOR: It's moved by Mr. Costigan.

COMMITTEE MEMBER GILLIHAN: Second.

(Laughter.)

CHAIRPERSON TAYLOR: I'm going to say seconded by Mr. Gillihan.

Seeing no discussion.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion carries.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Thank you.

CHAIRPERSON TAYLOR: Excuse me.

We are moving to Agenda Item 7a, Annual Stakeholder Perceptions Survey Report relation team.

And I think that's Brad and Kelly.

DEPUTY EXECUTIVE OFFICER PACHECO: Yes. Madam Chair, Brad Pacheco, CalPERS team. I'm joined by my colleague David Teykaerts with our Stakeholder Relations Team.

Before you is our annual perceptions survey. I know that it's been a long day, and that we have one other Committee meeting. So just -- I'll turn to the pleasure of the Committee. We're more than happy to go through the presentation, or we're also happy to take questions, whatever the desire of the Committee is.

CHAIRPERSON TAYLOR: Pardon me.

I think we can just have people ask questions. I think I've read it. Anybody?

Oh, you have a question.

All right. Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: All right, Mr. Pacheco, first of all, I appreciate the report on this. Ms. -- as the Chair said, we've read the report, and I was actually just looking at some of the press comments that are out there. And I just want to sort of reiterate, there's this inverse action in stakeholder response. The more you actually take action, the more you're moving towards what we believe are positive actions. You're going to get people that push back.

And so what I read in the report, first of all, is I like the engagement. I would like to see the number of employers -- considering the number we have, I'd like to see ways on how we could get the response higher. But I would say the fact that 82 percent of us still see us in a positive light, I think you guys have done a really good job.

I do want to commend the social media team as I was -- I was actually just joking with our Chair that you're the King of cryptocurrency, and --

(Laughter.)

VICE CHAIRPERSON COSTIGAN: See, he knows exactly what I'm talking about.

You all do a fantastic job. And I think as our members as we evolve, we have to continue to stay ahead of what is the media curve. And I don't mean as in TV media, but whatever media that we're using to continue to communicate. I have to say from an email perspective, or the perspectives that come out, it's more is how are we moving to new visual mediums, how are we using apps.

But I just want to say overall it's good. I think the report -- the report was just fantastic in outlining trends and all of that.

So, Madam Chair, I know this is just an informational item, but again, I just want to appreciate the hard work you and the entire team is doing on the communications.

DEPUTY EXECUTIVE OFFICER PACHECO: Thank you very much.

CHAIRPERSON TAYLOR: I also want to tell you guys I appreciate the hard work that went into this. I think, as I was reading through this, I think it was last year, we had some of our members not happy with us. And I think that as I recall, and as I read in the Sacramento Bee today, that was as a result of us having to reduce pension benefits for these smaller JPAs that was occurring.

So this year, as we are trying to shore up the fund, and doing what we're supposed to be doing to make sure that we can deliver our benefits, it's come down on our employers side, and I think that's probably a result of what we are seeing here, or that's the result of that.

So I just -- I think that that will -- that perception will eventually change. And as we continue to work with the cities and counties, I will tell you I've been here for four years now. And it's the first time I've seen the cities and counties really, really involved.

So they maybe not happy with us right now, but it's -- they have been very engaged with us, and have had wonderful response from our staff, and Marcie, and everyone. So I think they should be pretty happy about what they are getting from us. And I think that this will change. Their perception will eventually change.

Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. I also agree, it is nice to see more activity, and more communication with the employers. I think that's been very important. And I was looking on page 11, the last page of the presentation, the opportunities and action steps. And was curious what additional touchpoints for stakeholders you were planning on and --

STAKEHOLDER STRATEGY MANAGER TEYKAERTS: Thank you. Members of the Committee, and Madam Chair, and visiting Board members, David Teykaerts, CalPERS team member.

So one thing that we're exploring right now is adding a local elected officials track to our annual educational forum. This is our annual conference, which has traditionally been marked more to the operational level staff of employers, and recently we've added in more of a component for the professional management leadership of where we're looking to bring in true that elected official piece this year.

We're also developing more materials that we can distribute to these folks, so that they could have a quick understanding of how the complicated CalPERS mechanism works, the -- our office has produced an excellent four-page document that lays out some of the foundational and core numbers of where the system is today, but this would be a broader piece that would really kind of explain it from A to Z.

From the perspective of somebody who's been newly elected mayor or city council member something like that, that just kind of goes through it and just gives a pure straight line facts about how the process works at CalPERS.

ACTING COMMITTEE MEMBER PAQUIN: And when you communicate with the members and stakeholders, specifically with the elected officials, are you just sending it to the city manager's office, and assuming that they share it with their elected Board or is it going directly to the elect members?

STAKEHOLDER STRATEGY MANAGER TEYKAERTS: We have several different communication channels. We maintain a database of the four or five top folks at the various public agencies and at the school districts, so that would be the city manager, finance director, HR director, or their equivalence at the districts, counties, or schools.

So we have their emails that we curate ourselves, and we can communicate with them. For the local electeds right now, we really count on our employer agency and employer association partners Dane, Dillon, Dorothy, the folks that you've heard from today. So they're really a great conduit for us to get information to those local elected folks.

ACTING COMMITTEE MEMBER PAQUIN: Okay. And I'm assuming that if you have a good response that the community -- at the Education Forum with the elected officials, that they'll become a bigger part of the database and outreach.

STAKEHOLDER STRATEGY MANAGER TEYKAERTS: That's correct.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank you.

CHAIRPERSON TAYLOR: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yes, thank you for the report put together really well. I do have one question on slide 9, or page 9. It's 127 of the iPad. And looking at the last item, do you have confidence in answers you receive from CalPERS? And I was wondering if you could take a little deeper dive into that. Where is that coming from, is it dealing with health, or is it dealing with pensions, or is it, you know, where -- what's causing that, if you can?

DEPUTY EXECUTIVE OFFICER PACHECO: Yeah. So let me start there and David can jump in. I think there was a remark made yesterday by one of our stakeholders about member confidence. And I want to distinguish those results from what you're seeing here.

So the -- we saw an uptick on member's confidence on almost all of the long-term questions. This particular graph on stakeholders is really asking our stakeholder leaders, so the leaders of RPA, the leaders of the California State Retiree Associations. Its not necessarily the 50,000 members that we randomly select.

And so I think that, you know, we engage with them on a regular basis. They're very close to the material here. You hear some of the concerns that they have. And so it's something that we need to work on with those associations to better understand the concerns they have, and how we can make sure that we provide the answers that they need, and that gets communicated out to their membership.

So it's a little mixed, as you can see from the graph. The other thing I should note, and we don't have this detail here, we only received responses from 10 stakeholders this year through the survey, out of about 75 to 80 that we asked to participate. So this is a -- I don't want to -- this is a relatively small sample group that you're seeing here, but still it's important.

COMMITTEE MEMBER JONES: Sure. And so that is a very small sample size. And being aware of our stakeholders who appear to be very active, because I see them, and so why aren't they responding? Have you asked the question at one of your stakeholder meetings about why they're not responding to this survey?

DEPUTY EXECUTIVE OFFICER PACHECO: I don't know that we've asked that follow-up question, but we certainly will.

STAKEHOLDER STRATEGY MANAGER TEYKAERTS: I'll certainly remind them the next year about this conversation that we're having right now. Yeah, so we -- I think there may have been - pardon me - an element of survey fatigue because one practice that we have in place very well with all of our stakeholder groups is when various committees want to know kind of what is stakeholder sentiment on any particular topic we ask. We will often create a survey and ask our stakeholder partners to push that out on our behalf, and to take it themselves.

So I think that, to a certain extent, this may have been somewhat missed in the cavalcade of surveys that we ask them to do on our behalf.

COMMITTEE MEMBER JONES: Okay. Thanks.

CHAIRPERSON TAYLOR: Ms. Mathur.

PRESIDENT MATHUR: Thank you. I'm really encouraged by what you were just sharing, Mr. Teykaerts, about the new primer on CalPERS for newly elected city council members and other electeds. One of the challenges I think we continue to face is how do we communicate with labor at the local level -- labor leaders at the local level, because obviously we spend a lot of time with those who are here, sort of at their State Council in Sacramento, but it's hard -- I know it's hard for us to keep up with who is elected at the -- at each local agency, at each bargaining unit.

But I do think that there is -- there might be different understanding or concerns at the locals, and I -- and those -- they represent our members as well as the State folks do. So if we -- I think we -- I would suggest that we work to improve how we communicate with them, you know, on an ongoing basis.

And perhaps for newly elected leaders to also share with them this -- you know, this primer on CalPERS. That might be a good introduction. Some of them might have been, you know, on the Board of the local for a while, might have more familiarity, but others maybe not.

But then also sort of as things are changing, as we're -- as we are reaching out to stakeholders around any significant decision that this Board might be undertaking, for example, the Amortization Policy, just figure out how we can communicate better with -- you know, at the local level with our members I think would be important.

DEPUTY EXECUTIVE OFFICER PACHECO: That's great. Point well taken. We'll look at it from both employer and the labor side.

PRESIDENT MATHUR: Thanks so much.

CHAIRPERSON TAYLOR: Thank you.

So seeing no more questions from the Board.

We do have a request to speak from Mr. Linn. If you'd come down.

MR. LINN: I'll have Mr. Darby.

CHAIRPERSON TAYLOR: Mr. Darby. All right. I will replace you.

CHAIRPERSON TAYLOR: You are irreplaceable.

MR. DARBY: Good afternoon, Madam Chair and Board members. Al Darby, Vice President, Retired Public Employees Association.

We are pleased with some of the results in the stakeholder questions. However, the one related to confidence that your retirement money is safe, I think, we've expressed in the past and in other committee meetings here, that we are concerned about the safety of our PERF. And our members certainly express that to us.

So anything we can do to reassure our members that the PERF is going to improve and reach the healthy level of at least 80 percent funded, that's certainly going to improve the results next year in that particular category.

The other concern is the rather precipitous drop here in the confidence in what they hear about CalPERS. And the only thing I can say there is that some of the negative press that's come out just recently is certainly contributing to that. And we certainly need to try to put that behind us, with good relations on the Board, and perhaps a little stronger PR campaign out there. Perhaps if we do produce some improvement in those health care rates over the next three to -- next 30 days, then that should be the -- certainly, you know, advertised to the world. If we produce some impressive investment gains, that as well should be better communicated to the outside world

I'm sure -- I feel that we are a little bit weak in the PR category.

Thank you.

CHAIRPERSON TAYLOR: Thank you. Point taken, Mr. Darby.

So that brings us to Agenda Item 8, Summary of Committee Direction. Ms. Timberlake D'Adamo.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

I've taken down one. Although, it wasn't directed at me, which was to work with the stakeholders on the JPA legislation, and come back in June with, I guess, the results of that work. And I don't think it was -- it's going to be an information item, I think, in June is what I had taken -- written down?

CHAIRPERSON TAYLOR: Yeah, I don't know that it's a support or action item in June.

It would -- it's an information item now. It would be an action item.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
Action in June. Okay.

CHAIRPERSON TAYLOR: Probably.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
Anything else?

CHAIRPERSON TAYLOR: I don't believe so. Anybody -- okay. Nothing that I see. Great. Is there any -- I'm sorry.

Okay. Seeing no public -- requests for public comment, this meeting is -- of the Finance and Administration Committee is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 3:41 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, 2018.

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