

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, MARCH 14, 2017  
1:45 P.M.

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

COMMITTEE MEMBERS:

Mr. Richard Costigan, Chairperson

Ms. Theresa Taylor, Vice Chairperson

Mr. John Chiang, represented by Mr. Eric Lawyer

Mr. J.J. Jelincic

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. Rob Feckner, President

Mr. Michael Bilbrey

Mr. Richard Gillihan

Ms. Dana Hollinger

Mr. Ron Lind

Ms. Priya Mathur

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matthew Jacobs, General Counsel

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

Mr. Scott Terando, Chief Actuary

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

STAFF:

Ms. Tanya Black, Committee Secretary

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

ALSO PRESENT:

Mr. Manuel Palmarin

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

CHAIRPERSON COSTIGAN: All right. Good afternoon. We're going to convene the March 14th meeting of the CalPERS Finance and Administration Committee.

Let us please start with the roll.

COMMITTEE SECRETARY BLACK: Richard Costigan?

CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY BLACK: Theresa Taylor?

VICE CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY BLACK: Eric Lawyer for John Chiang?

ACTING COMMITTEE MEMBER LAWYER: Here.

COMMITTEE SECRETARY BLACK: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY BLACK: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY BLACK: Bill Slaton?

COMMITTEE MEMBER SLATON: Here.

COMMITTEE SECRETARY BLACK: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON COSTIGAN: All right. Everybody is present. So the first item is our Executive Report.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: Good afternoon, Mr. Chair, and members of the

1 Committee and Board members. Marlene Timberlake D'Adamo,  
2 CalPERS team member. As a housekeeping item, I would like  
3 to point out that there's a correction to Agenda Item  
4 number 3a, approval of the February 14th minutes. On the  
5 second page, third sentence down under the motion, it  
6 lists Ms. Hollinger as Vice Chair, and will be corrected  
7 to reflect the fact that Ms. Taylor is indeed Vice Chair.

8 Today's FAC agenda consists of only one action  
9 item, which is recommending the termination of the East  
10 San Gabriel Human Services Consortium contract with  
11 California Public Employees' Retirement System.

12 Last month, the team presented an update on  
13 agencies that are significantly delinquent in payment of  
14 retire -- retirement contributions to the System. The  
15 purpose of this agenda item today is to recommend  
16 termination pursuant to the update that we've been  
17 providing you.

18 Staff is further requesting that the Board  
19 declare the consortium in default, which will require a  
20 reduction in retirement benefits of the consortium's  
21 employees and retirees.

22 The next Finance and Administration Committee  
23 meeting is scheduled for April 18th, 2017 and will include  
24 updates for: The employer and employee contribution rates  
25 for Judges, Legislators, States, Schools; and valuation

1 report for the 1959 Survivor Benefit Program; the first  
2 reading of the 2017-18 annual budget proposal; annual  
3 review of the Board Member employer reimbursements; review  
4 of the Finance and Administration delegation; and second  
5 reading of the Asset Liability Management Policy.

6 Thank you, Mr. Chair, and this concludes my  
7 report.

8 CHAIRPERSON COSTIGAN: Okay. Thank you. We  
9 actually do have two action items, which would include the  
10 minutes.

11 So can I have a motion on the consent.

12 COMMITTEE MEMBER JONES: Move it.

13 CHAIRPERSON COSTIGAN: Moved by Jones.

14 VICE CHAIRPERSON TAYLOR: Second.

15 CHAIRPERSON COSTIGAN: Seconded by Taylor.

16 All those in favor?

17 COMMITTEE MEMBER JELINCIC: As corrected.

18 CHAIRPERSON COSTIGAN: As corrected.

19 All in favor?

20 (Ayes.)

21 CHAIRPERSON COSTIGAN: Opposed?

22 Motion carries. Thank you.

23 Item 4 is just a consent -- informational  
24 consent.

25 Any questions on that?

1           Okay. So we're going to move to Action 5a.  
2 Before we get started, just very briefly, I know this is  
3 going to be a very difficult decision. I do appreciate  
4 the amount of time that staff has put into this. This  
5 next item is not taken very lightly, so we're going to  
6 take our time and move through this fairly methodically.  
7 We have several presentations.

8           And then we're going to give the public -- if  
9 there's no objection, anybody that wants to speak to the  
10 item, I'd like to give them, rather than 3 minutes, 5  
11 minutes. So if there's no objection, then when the public  
12 comes up, Pam, please note we're going to give them 5  
13 minutes each to speak.

14           We're going to start with our CEO, Ms. Frost.

15           (Thereupon an overhead presentation was  
16 presented as follows.)

17           CHIEF EXECUTIVE OFFICER FROST: Thank you, Mr.  
18 Chair, members of the Committee and Board. Marcie Frost,  
19 CalPERS CEO.

20           I thought I would like to start today's agenda  
21 item with a few opening remarks before I turn it over to  
22 Ms. Timberlake D'Adamo, Ms. Paige, and I think Mr. Terando  
23 will have some additional remarks to make as well, or to  
24 answer some questions.

25           So first of all, I think it's important that we



1 set some context around this agenda item. The majority of  
2 our employers do pay their contributions and report their  
3 data on time. In addition, there are terminating  
4 employers who've gone through our processes before, who  
5 have fully paid the unfunded liabilities for those  
6 retirees and for their employees. So there are  
7 individuals in the terminated pool that reflect 100  
8 percent value of the benefit at the time they entered that  
9 pool.

10 So I thought context setting would be important:  
11 3,900 public employers, the vast majority of those  
12 employers are paying their contributions, and reporting  
13 their data on time.

14 So in November of last year, you all had to make  
15 a very difficult decision around the City of Loyalton, and  
16 its default on its obligation, not only to CalPERS, but  
17 more importantly to the employees of that city. It did  
18 impact the lives of those retirees in a way that they did  
19 not anticipate, and also that they had every right to  
20 expect that the city would pay for the obligations and the  
21 commitments that they had made to their employees.

22 CalPERS action did, of course, receive widespread  
23 attention. So I think it's really important that we talk  
24 about the roles and responsibilities of this shared  
25 environment that we all work within.

1           First, while the focus was on CalPERS and the  
2 tough decision that you all had to make, again, we have a  
3 shared responsibility, the cities, the counties, the  
4 special districts, the employees, and CalPERS to make sure  
5 ultimately that we are accountable for maintaining and  
6 fulfilling the obligations.

7           And then secondly, CalPERS, you as the Board, we  
8 as the team here at CalPERS, have a fiduciary  
9 responsibility to the greater good, to the -- all  
10 beneficiaries of the System, and to the total fund.

11           Unfortunately, you are all faced today with a  
12 recommendation coming from staff to terminate another  
13 contract for failure to pay. Now, this team before you  
14 will outline extensive efforts that they have taken within  
15 the process, within talking with a number of individuals,  
16 including the four cities who've formed the JPA, the East  
17 San Gabriel Human Services Consortium, also known as L.A.  
18 Works. And so it's very important that if you have  
19 questions about the processes, the involvement, the  
20 conversations that have been happening that you find time  
21 to ask those questions.

22           These are not easy decisions for us to make. We  
23 at CalPERS we love our mission here. We love to pay  
24 benefits. We pay the benefits that have been earned and  
25 paid for. And to take an action or to recommend an action

1 like this is very difficult.

2 In the meantime, we will continue to work with  
3 our employer partners. Again, they are, you know, in a  
4 healthy place. Again, context setting I think is  
5 important on an action such as this.

6 And with that, I will turn it over to Marlene  
7 Timberlake D'Adamo to get you started on the presentation.

8 CHAIRPERSON COSTIGAN: Thank you, Ms. Frost.  
9 Go ahead, please.

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
11 D'ADAMO: Thank you, Ms. Frost.

12 --o0o--

13 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
14 D'ADAMO: So what we thought we would do, as I had  
15 mentioned in my executive report, we've been coming to you  
16 for a few months now, and providing you with information  
17 on employer partners that are in poor financial health.  
18 And so what we have been doing is providing you with  
19 quarterly updates and tracking those employers.

20 Where we are with East San Gabriel, last month,  
21 we had provided the report to you, and had indicated that  
22 we were working -- were that we were in a process with  
23 East San Gabriel. At the last meeting, we had actually  
24 sent information to the sponsoring agencies for the JPA.  
25 And so this slide here really tries to set the stage in

1 terms of the structure of the organization.

2 And so for -- in September of 1979, the JPA was  
3 formed, the East San Gabriel Valley Human Services  
4 Consortium. It was formed by the four cities that are  
5 indicated: City of West Covina, City of Azusa, City of  
6 Glendora, and City of Covina.

7 It was formed for the purpose of providing job  
8 training and human services for local residents, as well  
9 as entering into contracts for the same services with the  
10 County of Los Angeles.

11 And so the consortium, as we call it, had  
12 basically operated up until 2014 doing the mission that it  
13 had set to do. And it was admitted into CalPERS in 1979.  
14 So from 1979 to 2014, it continued to do its business. In  
15 September of 2014, however, the consortium lost a major  
16 contract with the County of Los Angeles. The loss of that  
17 contract really forced the consortium to shut down its  
18 operations and close its headquarters.

19 At that point in time, it had separated all of  
20 its staff. It was somewhere around the end of 2014 that  
21 this occurred. And so what this did, the loss of this  
22 single contract, really devastated the entity and made it  
23 so that it really didn't have any budget.

24 So in July -- what this says is that in July of  
25 '16 -- so in -- they had received their bills, and so what

1 we were doing with the bill that they had received is  
2 really working with them. And there's a slide later on  
3 where I'll speak to the work that was done. But the point  
4 really is, is that we had been working with this JPA for  
5 some time to try to help them come to a solution that  
6 would not result in the recommendation that we're really  
7 forced to make today.

8 And we had worked really hard to try to have that  
9 resolution, including reaching out to various members of  
10 the agencies. We reached out to the legislative bodies of  
11 those agencies, and we've also reached out to others that  
12 we thought could help.

13 --o0o--

14 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

15 D'ADAMO: The next slide really talks about the efforts  
16 that were made. And we really honed our process in terms  
17 of the collections and the demand letters, because we  
18 really feel that it is important to do this in a way that  
19 is very transparent, and that is really soliciting of all  
20 the information that we had.

21 --o0o--

22 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

23 D'ADAMO: Really, where we are is that we are asking you  
24 to --

25 CHAIRPERSON COSTIGAN: Can we just -- actually, I

1 just want to back up one second please. On that last  
2 side, particularly the last point, where we notified the  
3 stakeholders, city council members, and impacted members,  
4 that's something that CalPERS did. We weren't required to  
5 do it. But in our effort to continue to be transparent  
6 and make sure that everybody knew what was going on, we  
7 went -- is that -- that's correct?

8 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

9 D'ADAMO: Yes. And, in fact, what we did is we had sent a  
10 letter -- as part of the process, we had sent a final  
11 collection letter in November. We'd also sent a final  
12 demand letter in January. And with the final demand  
13 letter, which essentially gives the agency 30 days to pay,  
14 we also sent a copy of that final demand letter to every  
15 single member that was part of that JPA. That occurred in  
16 January of 2017.

17 As an additional step, we also sent a copy, which  
18 is part of the agenda item, we sent a letter requesting  
19 payment to each of those four sponsoring agencies. And we  
20 have received a written response from each of those four  
21 agencies indicating that they will not pay, and that they  
22 do not feel that they have any obligation to pay.

23 Those letters are also included as part of this  
24 agenda item. And so we've included, for your review, the  
25 collection letter, the demand letter, the four letters to

1 each of those agencies, as well as the four responses that  
2 they sent us back.

3 CHAIRPERSON COSTIGAN: And you've continued to  
4 talk. It was my understanding that they've hired a  
5 consultant to help wind down the organization, and that  
6 you've continued to talk with that consultant.

7 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
8 D'ADAMO: Yes. So in 2014 when they -- they lost the  
9 contract, they began their operations to wind down, in  
10 which they'd hired a management consultant to do so. We  
11 have been in touch with that management consultant  
12 frequently. And the last time we'd actually had contact  
13 with him was only two weeks ago to ask him if there was  
14 anything else that was going on, if there was anything  
15 that he'd heard.

16 He has indicated to us that the JPA board  
17 continues to meet. And so while the entity has wound down  
18 its operations, their board is still meeting and is still  
19 active. And so we've asked him to make those inquiries of  
20 the Board to make sure that they knew as well that this  
21 was going on.

22 CHAIRPERSON COSTIGAN: But I do believe that the  
23 chairman of L.A. Works said, "It's a really unfortunate  
24 situation. If we were still alive, we would be paying,  
25 but there is no money".

1           So we actually have a discrepancy between the  
2 consultant and the actual chair, Mr. Stapleton of L.A.  
3 Works whose basic position is the organization no longer  
4 exists.

5           Mr. Jelincic, is your question related to  
6 presentation through --

7           COMMITTEE MEMBER JELINCIC: Yes.

8           CHAIRPERSON COSTIGAN: Okay -- through now?

9           COMMITTEE MEMBER JELINCIC: Yeah.

10          CHAIRPERSON COSTIGAN: Mr. Jelincic.

11          COMMITTEE MEMBER JELINCIC: Yeah, I just want to  
12 make sure that I understand. When we sent the demand  
13 letter, which we also sent to all the members, it  
14 identified the very real possibility that we would have to  
15 cut benefits, if they didn't pay --

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

18          COMMITTEE MEMBER JELINCIC: -- is that correct?

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

21          COMMITTEE MEMBER JELINCIC: Okay.

22          INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
23 D'ADAMO: The letter warned that if we did not receive  
24 payment, it could result in a reduction of benefits.

25          COMMITTEE MEMBER JELINCIC: Okay. I just wanted



1 to make sure that everybody had at least been warned that  
2 this is real possibility.

3 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

4 D'ADAMO: And so at that time, we also -- I'm looking at  
5 Arnita -- we also had included the hotline number. And so  
6 we had started to receive questions where we were helping  
7 people to understand what it meant, and what they should  
8 do or could do in order to address their very, very real  
9 concerns.

10 And I hadn't said this yet, but, you know, I --  
11 you know, I am very concerned about this. I feel very  
12 badly about it, as well, as Marcie had indicated. This is  
13 not something that we undertake to do lightly. And so we  
14 really did -- the team took every effort that we could,  
15 every rock, stone, whatever we thought we could try to  
16 undue to get this done.

17 And at the end of the day, as Mr. Costigan  
18 indicated, the entity basically ceased operating. And  
19 there really wasn't anyone else that we could go to, other  
20 than those four entities, which we did. And we did note  
21 that the entities do maintain part of the board. And so  
22 in our communications with the consultant, we had -- he  
23 had indicated to us that the entities had maintained  
24 membership on the board of this JPA. And so he would  
25 essentially speak to them about that as well.

1 CHAIRPERSON COSTIGAN: Ms. Taylor.

2 VICE CHAIRPERSON TAYLOR: So I just wanted to  
3 reinforce what you said. So you had said that -- two  
4 things, that we had notified specifically of the impact of  
5 what this could mean?

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

7 D'ADAMO: Yes.

8 VICE CHAIRPERSON TAYLOR: And that went to the  
9 retirees as well, or just the city?

10 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

11 D'ADAMO: The retirees.

12 VICE CHAIRPERSON TAYLOR: That did go to the  
13 retirees. So they had their opportunity to -- their  
14 redress with their -- with this organization?

15 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

16 D'ADAMO: Yes. Yes.

17 VICE CHAIRPERSON TAYLOR: And then my other  
18 thought was on top of what Mr. Costigan had said earlier,  
19 the City of Glendora, when we contacted them separately,  
20 not only said that the contract was with the consortium  
21 not the City of Glendora. Then they said that the money  
22 owed, the transfer could be considered a gift of public  
23 funds, which is completely wrong. That is absolutely  
24 incorrect.

25 But then they did close that statement by saying

1 we are not legally obligated to pay, if we can't pay it,  
2 to be nice guys. We're not legally obligated to pay. We  
3 can't pay it to be nice guys. I just --

4 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
5 D'ADAMO: Right.

6 CHAIRPERSON COSTIGAN: So I know -- that's a  
7 great point, because I do know that you are going to go  
8 through that, Ms. Frost.

9 CHIEF EXECUTIVE OFFICER FROST: Would you like  
10 General Counsel to respond to your comment, Ms. Taylor?

11 VICE CHAIRPERSON TAYLOR: Yes, please.

12 CHAIRPERSON COSTIGAN: Mr. Jacobs, are we  
13 getting -- I just want to make sure that we're pacing this  
14 right. Do you want to go ahead and cover this now?

15 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
16 D'ADAMO: We're fine. We can do this now.

17 CHAIRPERSON COSTIGAN: All right. So Mr. Jacobs,  
18 if we can talk a little about the JPA and the comment Ms.  
19 Taylor made. Because it's what -- it's my understanding  
20 is the four jurisdictions are saying that the creation of  
21 the JPA relieves them of their liability or obligations to  
22 pay for the retirement benefits, or for any contribution  
23 to the 191, 6 -- 197 employees.

24 GENERAL COUNSEL JACOBS: Yes, I think what Ms.  
25 Taylor was specifically addressing was the response of at

1 least one city, if not more, that we can't possibly do  
2 what CalPERS has asked us to do, because it would be a  
3 gift of public funds. As Ms. Taylor has indicated, I  
4 think that's pretty farfetched.

5           They're -- the dividing line for the purposes of  
6 determining whether something is or is not a gift of  
7 public funds is basically whether it's for a public  
8 purpose or for a private purpose. There's a court  
9 decision on very similar facts that said that the payment  
10 in that case, which was to judges, and it was above and  
11 beyond what the State pays them. So the argument was that  
12 you don't have to pay them, and so it's a gift of public  
13 funds. The court said no, that's not a gift of public  
14 funds, because it's for a public purpose.

15           So similarly here, the services provided by the  
16 employees of the JPA you would certainly contend, we  
17 certainly contend, were an important public benefit for  
18 the respective cities. And hence, the expenditure of  
19 these funds that we requested that -- from them would be  
20 for public benefit and not be a gift of public funds.

21           CHAIRPERSON COSTIGAN: Don't go anywhere, Mr.  
22 Jacobs. We have some questions.

23           Mr. Jelincic.

24           COMMITTEE MEMBER JELINCIC: Yeah. If I  
25 understood Theresa's question right, the demand letter,

1 which warned of a possible reduction she said went to all  
2 the retirees. And I heard an affirmative. But did it go  
3 to just the retirees or did it go to all 191 impacted  
4 employees?

5 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

6 D'ADAMO: The letter itself says that a copy of it went to  
7 current and past employees. So it went to all of them.

8 COMMITTEE MEMBER JELINCIC: So all 191?

9 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

10 D'ADAMO: Yes.

11 COMMITTEE MEMBER JELINCIC: Thank you.

12 CHAIRPERSON COSTIGAN: And again, remember, Mr.  
13 Jelincic, that was something where it went over and  
14 beyond. We weren't required to do. But in order to make  
15 sure folks knew what was going on, we took it upon  
16 ourselves, as the System, to notify the members.

17 Mr. Jones.

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

20 Yeah, you know, I recognize where it may not be  
21 in their contract arrangement where they profess to say  
22 that there's not a legal obligation, but I believe they  
23 have a moral obligation to pay these benefits to these  
24 members. And the benefits that we're talking about is --  
25 has already been earned. This is not paying for something

1 knew. We're asking them to pay their bill, because they  
2 accrued this bill some time ago over a number of years.

3 The other question I have is that the Board  
4 members that are still active, are they being compensated  
5 do you know?

6 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
7 D'ADAMO: I don't know if they're being compensated.

8 COMMITTEE MEMBER JONES: I would like to know  
9 that, okay?

10 CHAIRPERSON COSTIGAN: All right. We'll get that  
11 information.

12 Mr. Slaton.

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

14 I want to go back just in a bit of history here,  
15 because I want to make sure -- and I understand from staff  
16 we're not going to do this again. But in 1979 when we  
17 accepted those employees into CalPERS, my guess is that  
18 CalPERS did not think through and look at all of the  
19 documents, or at least look with a critical eye, to all  
20 the documents that were applicable to this JPA.

21 And so we accepted, as members, employees of a  
22 JPA when we had -- when there were operating documents,  
23 that I'm sure were in the public domain that we could have  
24 looked at, that said those cities have no obligation for  
25 any contracts entered into by the JPA. Am I correct about

1 the document, that, in fact, that -- that's the hat  
2 they're hanging on is that they have the operating  
3 documents that created the JPA said that those four cities  
4 don't have any liability for contracts entered into by the  
5 JPA? Am I correct in that?

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

8 COMMITTEE MEMBER SLATON: Okay. So I guess we at  
9 CalPERS assumed a JPA was going to be in existence about  
10 the same amount of time that cities and counties are in  
11 existence, in other words essentially in perpetuity,  
12 because we don't have a plan that can operate with  
13 organizations that have a fixed term of life. It doesn't  
14 work, given our pension system.

15 So I just want to make sure that we recognize  
16 that irrespective of the decision that we make that we  
17 take today, that, in fact, we should have, in hindsight,  
18 not accepted them as members of CalPERS with that type of  
19 restriction not having the cities? Because we also would  
20 know, if we looked at the organizational structure, is  
21 that they had no tax base. They had no revenue source,  
22 other than contracts they would enter into for service, so  
23 they had no taxing authority.

24 So by definition, they were a higher risk  
25 organization than the normal organizations that we do

1 business with.

2 And so I just want to make sure on the record  
3 that from now on, any joint power authorities in  
4 California that we are -- before we permit employees to  
5 come under CalPERS, that, in fact, we have cities, or  
6 whoever the sponsoring members are, that those agencies,  
7 which are public agencies and have taxing authority, are,  
8 in fact, standing behind the obligation that they're  
9 entering into with us. So is that -- am I on solid ground  
10 here going forward?

11 CHIEF EXECUTIVE OFFICER FROST: I'll go ahead and  
12 take that. Yes, Mr. Slaton.

13 So one of the items that we have here at CalPERS  
14 is that a public employer, whether you're a city, county,  
15 school district, State -- well, maybe not State, but  
16 special district, you have the option to come into  
17 CalPERS, and you also have the option to exit. Not all  
18 systems have the option to exit. Some systems, once you  
19 enter membership as an employer, it's an irrevocable  
20 decision and you're in.

21 So one of the things that we're looking at, of  
22 course, with recent -- with City of Loyalton and now with  
23 East San Gabriel, is making sure that that contract  
24 language, and the financial screens that happen before we  
25 enter into any kind of contract situation or contract



1 agreement are very sound; so sound that, during the life  
2 of the JPA, if it's specified that they have the ability  
3 to pay the unfunded liability basically that was created  
4 due to the service credit, that we'll do those financial  
5 screens, and actually have implemented those processes  
6 today.

7 COMMITTEE MEMBER SLATON: So am I hearing  
8 correctly that we would not have someone -- we would not  
9 accept into membership, unless there was some body that's  
10 a public entity, city, county, special district, somebody  
11 other than the agency who's only revenue source is by  
12 court, to stand behind the obligation?

13 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
14 D'ADAMO: Yes, we have revised our procedures to make sure  
15 that we have considered those items that Ms. -- Mrs. Frost  
16 indicated.

17 COMMITTEE MEMBER SLATON: Is there any reason or  
18 rational to go back to JPAs - we have a lot of JPAs that  
19 are in CalPERS - to see if we can do some repair work  
20 prior to there being a problem?

21 CHIEF EXECUTIVE OFFICER FROST: So I know that  
22 Ms. Timberlake D'Adamo is going to talk about that in her  
23 presentation as far as next steps. They are doing some  
24 work to collect all of these special district employer  
25 types, and then put some criteria of when we need to pay

1 closer attention to some of the activities that are  
2 happening within that community. So she will give you a  
3 full update on next steps with the team.

4 COMMITTEE MEMBER SLATON: Okay. I just want to  
5 make sure we're differentiating between special districts  
6 that have a revenue source from -- typically from citizens  
7 versus someone whose sole revenue source comes only from  
8 contracting for services with another agency. I think  
9 those are two separate --

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

12 COMMITTEE MEMBER SLATON: -- things. I want to  
13 make sure we're clear about the difference between them.

14 CHIEF EXECUTIVE OFFICER FROST: Yes.

15 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
16 D'ADAMO: Yeah. And so while we're talking about it, what  
17 I would like to say is, so what we've been doing is  
18 providing the Board -- or the Committee with an update on  
19 where we are with respect to these delinquent employers.  
20 One of the things that we're really trying to do as part  
21 of our path, is that we are taking a look at the entire  
22 population of employers and we're really looking to put  
23 them into, what I call, buckets and categories. And we're  
24 trying to identify, exactly like you said Mr. Slaton,  
25 criteria and variables that make them similar, so we can

1 put them in these categories. And then what we want to do  
2 is wrap processes around them -- more processes I should  
3 say around them to make sure that we're really identifying  
4 where there might be issues and we're addressing and  
5 mitigating those issues as we see them.

6 COMMITTEE MEMBER SLATON: Okay. Thank you very  
7 much. Thank you, Mr. Chair.

8 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
9 D'ADAMO: Sure.

10 CHAIRPERSON COSTIGAN: Mr. Slaton, that's a great  
11 point, because that is something that staff has been  
12 working on. I think the term awhile back was the  
13 barnacles on the bottom of the CalPERS barge, because  
14 there is a host of organizations that, over the decades,  
15 have managed to get themselves into the system not just  
16 JPAs --

17 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE  
18 D'ADAMO: Right.

19 CHAIRPERSON COSTIGAN: -- but there other  
20 organizations that are, by contract only, no revenue  
21 source, that their employees are members of the System.  
22 So this is a longer term project, that we're looking at,  
23 and also trying to figure out, until like a circumstance  
24 with this one, someone doesn't pay, they pop up. So I  
25 know that Ms. Frost and the CFO are trying to put those

1 processes in place.

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO: Right. And we will bring that information back  
4 to you as we're developing that information, and those  
5 processes.

6 CHAIRPERSON COSTIGAN: Ms. Paquin.

7 ACTING COMMITTEE MEMBER PAQUIN: Thank you, Mr.  
8 Chair. I think to Mr. Slaton's point, we're also very  
9 concerned specifically about the JPAs and the relationship  
10 with the member agencies. And I was wondering if your  
11 review will include looking at whether there could be a  
12 legislative or perhaps even a legal fix to go back to the  
13 existing contracts to make sure that the member agencies  
14 would be responsible in a situation like this.

15 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

16 D'ADAMO: I would say that we haven't closed out any  
17 options right now. We're going to try to do everything  
18 that we can do.

19 COMMITTEE MEMBER SLATON: Ask Matt.

20 ACTING COMMITTEE MEMBER PAQUIN: Okay. As Mr.  
21 Slaton is suggesting that, what do you have to say about  
22 that?

23 GENERAL COUNSEL JACOBS: As for this, Ms.  
24 Timberlake D'Adamo, she's got the answer to that question.  
25 I can't add anything to it. Is there -- would there be

1 possibly a legislative fix? I mean, we'd have to look  
2 pretty hard into it. But, yeah, nothing is off the table.

3 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank  
4 you.

5 CHIEF EXECUTIVE OFFICER FROST: All right. And  
6 I'll just add that in talking to some of the legislators,  
7 because again we did notify the legislators for those  
8 districts, there is some interest, potentially  
9 legislatively, to find another way of collecting.

10 ACTING COMMITTEE MEMBER PAQUIN: Have you spoken  
11 directly to the Assembly Member and senator covering this  
12 area, are they are interested in this.

13 CHIEF EXECUTIVE OFFICER FROST: Yes.

14 ACTING COMMITTEE MEMBER PAQUIN: All right.  
15 Thank you.

16 (Thereupon the power went out.)

17 (Off record: 2:12 p.m.)

18 (On record: 2:35 p.m.)

19 CHAIRPERSON COSTIGAN: All Right. We're going to  
20 come back into session very quickly.

21 Okay. So I'm going to stand up. Here's what  
22 we're going to do. We have one member of the public, Mr.  
23 Palmarin, if you will come on down. We're going to have  
24 him speak for 5 minutes. The court reporter is going to  
25 take his comments down. We are then going to adjourn

1 until 8:30 --

2 PRESIDENT FECKNER: Recess.

3 CHAIRPERSON COSTIGAN: -- recess until 8:30.  
4 I'll give you guys a half hour. 8:30 tomorrow morning.

5 COMMITTEE MEMBER JONES: Not tonight.

6 (Laughter.)

7 CHAIRPERSON COSTIGAN: Mr. Palmarin come up.

8 COMMITTEE MEMBER SLATON: Right.

9 MR. PALMARIN: Over there.

10 COMMITTEE MEMBER SLATON: Right over here.

11 CHAIRPERSON COSTIGAN: So I need everybody --  
12 Anthony --

13 Now, the mics have work. So we all have to be --

14 All right. So just for the record, we're going  
15 to go back on. We're going to take public comment, which  
16 I know is out of order. And we're going to give Mr.  
17 Palmarin 5 minutes to speak on Item 5a, and then we are  
18 going to recess until 8:30 tomorrow morning, because of  
19 the power outage.

20 So Mr. Palmarin, thank you for being here and  
21 thank you for going with us.

22 MR. PALMARIN: Well, first of all, thank you very  
23 much. I name is Manuel Palmarin. I'm a former employee  
24 of the Consortium. I apologize. There's a certain amount  
25 motions come out of me under the situation.

1           But I guess my big question that I have -- and I  
2 have multiple questions, but the largest question that I  
3 have is that since the board of directors consortium/L.A.  
4 Works are made up of the primaries of four cities, as well  
5 as the County of Los Angeles, I guess I do not understand  
6 why there isn't any fiduciary responsibility if those four  
7 are the board members.

8           You know, I understand that -- that part of the  
9 JPA that quote the cities are not responsible for any --  
10 for any of the -- their, I guess, item that they've  
11 incurred. But I guess, as Mr. Jones has mentioned before,  
12 you know, I'm wondering about the moral responsibility,  
13 because I, as an employee of the consortium, in good  
14 faith -- I think Mr. Jelincic mentioned it also -- that in  
15 good faith I worked for them, not think that anything was  
16 going to occur in the future, but I understand why you're  
17 making this decision.

18           But again, that's my primary question that I  
19 have. I mean, also Mr. Costigan also answered some other  
20 questions for me that I read in your minutes regarding the  
21 60-day notice. So I understand that.

22           But again, it just primarily is the fiduciary  
23 responsibility of the board members. And considering that  
24 the board members are still gathering together, that's  
25 another item I don't understand.

1           So basically, that's all I have to say. And  
2 again, I want to thank you very much for giving me the  
3 opportunity for addressing all of you.

4           CHAIRPERSON COSTIGAN: Mr. Palmarin, thank you  
5 very much. You raise some excellent points. I'm sorry  
6 that you won't be able to hear them. We're going to  
7 probably go through those tomorrow. So if you have the  
8 opportunity, the webcast should be back on. And I just --  
9 the questions you've raised are some of the questions that  
10 some of these Board members have that we'll take up  
11 tomorrow.

12           So thank you. And we are in recess -- oh, I'm  
13 sorry. Mr. Jelincic.

14           COMMITTEE MEMBER JELINCIC: I'm going to do a Jim  
15 a favor.

16           CHAIRPERSON COSTIGAN: Wait a second. Was it a  
17 second. Your microphone is not working.

18           Sorry.

19           COMMITTEE MEMBER JELINCIC: I'm going to do Jim a  
20 favor and ask that you spell your name.

21           MR. PALMARIN: The last name is spelled P as in  
22 Paul, A-l-m-a-r-i-n. And it's Manuel with an E, not an A.

23           COMMITTEE MEMBER JELINCIC: Thank you.

24           CHAIRPERSON COSTIGAN: All right We stand in  
25 recess until 8:30 on Wednesday.



1 Thank you.

2 (Thereupon the California Public Employees'  
3 Retirement System, Board of Administration,  
4 Finance & Administration Committee meeting  
5 recessed at 2:39 p.m. and will reconvene  
6 on Wednesday, March 15, 2017 at 8:30 a.m.)  
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## 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 20th day of March, 201



JAMES F. PETERS, CSR

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