

TUCSON SUPPLEMENTAL RETIREMENT SYSTEM BOARD OF TRUSTEES MEETING MINUTES

DATE: Thursday, April 28, 2016
TIME: 8:30 a.m.
PLACE: Finance Department Conference Room, 5th floor
City Hall, 255 West Alameda
Tucson, Arizona 85701

Members Present: Robert Fleming, Chairman
Kevin Larson, City Manager Appointee
Rebecca Hill, HR Director
Silvia Amparano, Director of Finance (arrived 8:35 AM)
Michael Coffey, Elected Representative
Jorge Hernández, Elected Representative
John O'Hare, Elected Retiree Representative

Staff Present: Dave Deibel, Deputy City Attorney
Neil Galassi, Pension Administrator
Silvia Navarro, Treasury Administrator
Art Cuaron, Treasury Finance Manager
Bob Szelewski, Lead Pension Analyst
Dmitriy Adamia, Administrative Assistant

Guests Present: Robyn A. Scott, City of Tucson Employee
Frank Yslas, City of Tucson Employee
Stephen J. Arnoldi, City of Tucson Employee
Gilberto Robles, City of Tucson Employee

Absent/Excused: None

Chairman Fleming called the meeting to order at 8:31 AM.

A. Consent Agenda

1. Approval of March 31st, 2016 TSRS Board Meeting Minutes
2. Retirement ratifications for April 2016
3. March 2016 TSRS Budget Vs Actual Expenses

Chairman Fleming asked for a vote on the approval of the Consent Agenda. The Consent Agenda was approved by a vote of 5-0 (Chairman Fleming did not vote, Silvia Amparano absent/excused).

B. Disability Retirement Application

1. Robyn A. Scott
2. Frank Yslas
3. Stephen J. Arnoldi
4. Gilberto Robles

A motion to enter Executive Session was made by Michael Coffey, 2nd by Rebecca Hill, and passed by a vote of 7-0.

A motion to return to Regular Session was made by Kevin Larson, 2nd by Silvia Amparano, and passed by a vote of 7-0.

A motion to approve the disability retirement application of Gilberto Robles was made by Michael Coffey, 2nd by Rebecca Hill.

John O'Hare confirmed TSRS staff audits disability retirees with permanent disabilities.

Neil Galassi stated TSRS staff audits disability retirees on a yearly basis.

A motion to approve the disability retirement application of Gilberto Robles passed by a vote of 7-0.

A motion to reconsider the disability retirement of Robyn A. Scott in 6 months after medical re-evaluation was made by Michael Coffey, 2nd by Silvia Amparano.

Chairman Fleming asked what effect the 6 month delay will have on the disability application.

Rebecca Hill stated the 6 month delay should not have an effect on the disability application.

Dave Deibel stated Ms. Scott had FML and ADA issues which may be affected by the 6 month delay.

Ms. Hill stated Ms. Scott would be on unpaid medical leave, because she exhausted her FML. The City permits individuals to continue on medical leave, pending further review and additional medical information from Dr. Krasner and the City would take action from that point in time.

Mr. O'Hare asked for clarification as to whether Ms. Scott is not receiving income from the City.

Ms. Hill confirmed that Ms. Scott is not receiving income from the City.

John O'Hare amended the motion to reconsider at the meeting scheduled on May 26, 2016, 2nd by Kevin Larson.

Silvia Amparano questioned the purpose of reconsidering the application on the meeting scheduled on May 26, 2016 because the medical re-evaluation would not have been conducted by that time.

Michael Coffey asked if the re-evaluation of Ms. Scott could be done in time for the meeting scheduled on May 26, 2016.

Bob Szelewski stated the TSRS physician, Dr. Krasner, recommended Ms. Scott's re-evaluation be conducted in 6 months because of the recovery time needed for proper medical re-evaluation. Within the 6 month period Ms. Scott will have an opportunity to provide Dr. Krasner additional medical information.

Mr. O'Hare clarified the medical information should also be provided to Mr. Szelewski to be presented to the Board.

Mr. Szelewski answered in the affirmative.

The motion to reconsider at the meeting scheduled on May 26, 2016, failed by a vote of 2-5 (Chairman Fleming, Rebecca Hill, Silvia Amparano, Michael Coffey, and Jorge Hernández dissenting).

The motion to reconsider the disability retirement of Robyn A. Scott in 6 months after medical re-evaluation passed by a vote of 5-2 (John O'Hare, and Kevin Larson dissenting).

A motion to approve the disability retirement application of Frank Yslas was made by Silvia Amparano, 2nd by Rebecca Hill and passed by a vote of 5-2 (Chairman Fleming, and Kevin Larson dissenting).

A motion to approve the disability retirement application of Stephen J. Arnoldi was made by Rebecca Hill, 2nd by Michael Coffey, and failed by a vote of 2-5 (Robert Fleming, John O'Hare, Silvia Amparano, Kevin Larson, and Jorge Hernández dissenting).

A motion to reconsider the disability retirement application of Stephen J. Arnoldi pending results from the Social Security Administration in 3 months was made by Kevin Larson, 2nd by Jorge Hernández, and passed by a vote of 6-1 (Chairman Fleming dissenting).

C. Investment Activity Report

1. TSRS Portfolio Composition, Transactions and Performance Review for 03/31/2016
2. Review and Approval of New Portfolio Composition, Transaction, and Performance Report

Neil Galassi stated the Board had been provided with both the Traditional Investment Report and Executive Summary provided by staff, and New Portfolio Composition, Transaction, and Performance Report provided by Callan.

Chairman Fleming asked the Board for their evaluation of the reports presented.

Michael Coffey stated that more time is needed for an in-depth understanding and evaluation of the reports.

John O'Hare asked if the Board was discussing the report from Callan.

Chairman Fleming answered the Board is discussing the substance of both reports.

Mr. Galassi clarified staff would provide any reports requested by the Board.

Mr. Coffey suggested providing both reports until the Board had more time to evaluate the merits of each report.

Silvia Amparano stated the point of the executive summary and the Callan report was to find some efficiencies for staff since the reports are providing the same information in two different formats. Staff was just reading directly from the report during the meetings. Perhaps a combination of the executive summary and the Callan report could be provided and the Executive Summary could be read for the record.

Chairman Fleming requested that both the Traditional Investment Report, and executive summary provided by staff and New Portfolio Composition, Transaction, and Performance Report provided by Callan be presented at the meeting scheduled on May 26, 2016.

Mr. Galassi clarified once the Board made a decision on their preferred report format, the item would be moved to the Consent Agenda.

Chairman Fleming agreed with that statement.

Mr. O'Hare asked if the reports were providing net return rates.

Mr. Galassi answered they are net return rates. The Board has expressed interest in posting investment reports to the City webpage.

Chairman Fleming believed that is a great idea and staff should post the investment the reports on the City webpage.

Mr. Galassi stated he will prepare both the Traditional Investment Report, and executive summary provided by staff and New Portfolio Composition, Transaction, and Performance Report provided by Callan with an agenda item for discussion and approval at the next scheduled meeting on May 26, 2016.

D. Administrative Discussions

1. Report from Board Member on 2015 Fall Public Funds Forum

John O'Hare attended the 2015 Fall Public Funds Forum, one speaker was Barnett Frank co-author of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Mr. Frank said it was a good Act but adequate funds were not provided for the enforcement of it in the Act. Another speaker hypothesized the economy is currently in a bimodal environment instead of an environment bell shaped statistical curve.

Michael Coffey asked about bimodal distribution of the expectations of growth rates.

Mr. O'Hare answered as it relates to economies of growth, most people believe that 2% will be at the top of the bell shaped curve while the speaker thought it would be a lot higher than that or the economy will be in a recession. The Federal Reserve has gone as far as they could using the monetary policy and congress is going to have to use fiscal policy which would mean changing the tax code or spending money on infrastructure. The Board should have a plan ready for implementation if necessary, for example if the trust does not meet the assumed rate of return of 7.25% for the next 5, 10, or 15 years.

2. 50/50 Split Employee/Employer Contributions for New Hires

Chairman Fleming asked if the Board wanted to discuss a 50/50 split employee/employer contribution rate in detail.

John O'Hare stated a 50/50 split employee/employer contribution rate could be implemented for new employees split with an 11.5% cap on the employee contributions. At this point in time the TSRS trust is the only non-public safety plan in the state without a 50/50 split employee/employer contribution rate or close to it. In his opinion Proposition 124 will pass and it will extend to all public safety pensions within the state. The City will be the only public entity in the state that does not have a 50/50 split employee/employer contribution rate, costing the City around \$3M per year.

Chairman Fleming stated the question today is not whether the 50/50 split employee/employer contribution rate is a good idea, but whether the Board should have an in-depth retreat discussion.

Mr. O'Hare asked Ms. Amparano for her opinion on the subject as the Finance Director.

Silvia Amparano stated she would answer as a fiduciary first, the current pension contribution strategy was in place to recruit qualified employees and remain competitive with local jurisdictions pay. Implementing a 50/50 split employee/employer contribution rate would make it harder to recruit and would not benefit the pension plan because under the current contribution strategy the pension plan has the necessary contributions. Council Member Steve Kozachik requested information about a 50/50 split employee/employer contribution rate and staff provided him with information. Council Member Kozachik understood the rate change would not save the general fund money and decided against pursuing the idea. A lot of the TSRS members are in enterprise funds, with only \$1M related to General Fund. She asked why should the Board consider adopting a 50/50 split employee/employer contribution rate if it does not benefit the trust in the long term.

Mr. O'Hare stated a 50/50 split employee/employer contribution rate would result in an increase of \$3M in contributions per year. Additionally a 50/50 split employee/employer contribution rate would not make it difficult to recruit employees because it will be competitive once Proposition 124 passes.

Chairman Fleming stated if the 50/50 split employee/employer contribution rate would move \$3M from the city contributions to the employee contributions, total contributions will stay the same; and asked how would the 50/50 split employee/employer contribution rate increase total contributions.

Mr. O'Hare stated the 50/50 split employee/employer contribution rate would make the fund stronger because there would be more money available in the future.

Chairman Fleming clarified Mr. O'Hare was stating if the Board saves the City \$3M in TSRS contributions, the City would invest that \$3M in the trust at a later date.

Ms. Amparano clarified if Mr. O'Hare thought because the City would save \$3M they would to put that \$3M in the trust or would the \$3M go to general fund operations.

Mr. O'Hare believed the City would invest the savings back in to the trust.

Ms. Amparano stated her understanding is the City Council is trying to hold employees harmless, because they have not received merit raises in 7 years.

Chairman Fleming stated the 50/50 split employee/employer contribution rate could possibly increase the total contributions if the City can save \$3M and use the savings for employee raises than more money would flow into the trust because of increased employee wages but, liability would increase because higher wages mean increased pension payments.

Neil Galassi agreed with Chairman Fleming.

Mr. O'Hare stated if Proposition 124 passes new PSPRS members contribution rate could be up to 25%.

Ms. Amparano stated PSPRS is a separate fund with richer benefits than TSRS, and it is a state run program. She did not see the benefit of comparing the two trusts.

Chairman Fleming asked if the Board wanted actuarial calculations for the 50/50 split employee/employer contribution rate for new hires.

Michael Coffey stated he would like more information on the subject.

Kevin Larson expressed concern about the 50/50 split employee/employer contribution rate because it was extensively covered a few years ago. Essentially the Board is hoping by increasing the individual employee contribution rate the City will have a cost reduction of \$3M. Whether or not the City chooses to fund additional assets in the plan is definitely less than 100%.

Chairman Fleming stated the Board had to recognize that they talk about a \$3M savings but that would only be applied retroactively. In 20 years when there are no other people in this pension plan than the 50/50 split employee/employer contribution rate could save \$3M, but next year it would save next to nothing because the City is not hiring new employees.

Mr. O'Hare stated the Board can scale that up. The 50/50 split employee/employer contribution rate is a 20 to 30 year proposition. The City is not in a good financial situation, and any savings could not be ignored.

Ms. Amparano stated as the Finance Director she would recommend if the City was saving \$3M, the savings should go into the general fund reserves, not the trust.

Mr. Larson stated part of the decision in 2013 was that new employees were subsidizing the retirement of employees who contributed only 5% because the contribution rate of those employees cannot be raised. If it does not change the Annual Required Contribution the City, as an organization, should be responsible for subsidizing the those retirements, not new employees.

Mr. O'Hare stated in 2006 the Board recognized the trust was not sustainable with an employee contribution rate of 5%. A 50/50 split employee/employer contribution rate was adopted and the situation improved. Once the employee contribution rate increased to over 13% the actuary provided the Board with information on contributions related to normal cost, but no one understands what that is. Mr. O'Hare believed with a contribution ceiling, the 50/50 split employee/employer contribution rate would contribute to fund sustainability and employee retention.

Mr. Larson stated in 2006 the trust was fully funded and the Board did not foresee employee contributions increasing over 13%. It would have been a good idea to cap employee contributions and for the City to contribute the difference. After the market collapse of 2008 the Board was able to convince the City to lower employee contributions and make up the difference.

Mr. O'Hare stated the Board is talking about not burdening new employees but if the trust had a 15% return over a 10 year period new employees would not have to contribute 15%.

Chairman Fleming asked if the Board wanted to continue this conversation.

Rebecca Hill stated not at this time.

Jorge Hernández agreed with Ms. Hill.

Ms. Amparano stated the 50/50 split employee/employer contribution rate for new hires discussion could be a retreat topic for educational purposes, staff could provide the Board with estimates and calculations for fiscal year 2017.

Mr. Hernández agreed with Ms. Amparano about making this a retreat topic and is interested in seeing what effect the hiring freeze will have on the actuarial calculations.

Chairman Fleming asked when the next actuarial study would be performed.

Ms. Amparano stated an actuarial study is done every year after fiscal year end to get new numbers.

Chairman Fleming asked if the actuary could provide the Board with estimates for a 50/50 split employee/employer contribution rate for new hires.

Mr. Galassi stated he had notified outside legal counsel and the actuary the Board is discussing this item. He also discussed Proposition 124 with the actuary.

Mr. O'Hare believes the Chamber of Commerce is leaning toward making a recommendation that the City adopt a 50/50 split employee/employer contribution rate for new hires, and increase tier II member contribution rates.

Ms. Amparano asked if Mr. O'Hare was on the Chamber of Commerce.

Mr. O'Hare stated no but he had the opportunity to observe a few of the Chamber of Commerce meetings.

Ms. Amparano asked where the Chamber of Commerce is getting its information on the pension plan.

Mr. O'Hare stated a presentation was made to a Chamber of Commerce subcommittee on the City Budget by Joyce Garland.

Mr. Galassi asked if the 50/50 split employee/employer contribution rate for new hires discussion will be a retreat item.

Chairman Fleming confirmed the 50/50 split employee/employer contribution rate discussion will be a retreat item.

3. Volkswagen Securities Litigation Update

Neil Galassi stated Robbins, Geller, Rudman, and Dowd is a law firm the Board has contracted with to look for litigation opportunities that BNY Mellon has not covered. Robbins, Geller, Rudman, and Dowd informed the

Board they have located a potential litigation opportunity, on direction from Chairman Fleming and Mr. Deibel the Board has been provided with a summary of the potential litigation.

Dave Deibel informed the Board Stephanie Rotter from Robbins, Geller, Rudman, and Dowd will be presenting the details of the litigation next month, and Catherine Langford will be available via telephone for in-depth questions. This is a German version of a class action lawsuit, the Board will be considering recommending whether to retain this firm, essentially making the Board a place holder in that litigation on a contingent fee basis. This is not litigation, this is a German version of class action lawsuit. The trust is a member of all sorts of different classes and securities litigation, if there is a settlement at the end the trust gets money for it. The Board does not have to do anything. In American class action lawsuits members must opt-out, it is reverse in German class action lawsuits. Robbins, Geller, Rudman, and Dowd retained German council and to represent the American clients. Mike Rankin, the City Attorney, has the Code authority to hire the attorneys, so the hiring authority is the City Attorney's office and the Board will see the contract at the next scheduled meeting on May 26, 2016.

Silvia Amparano confirmed the Board as a sub division of the City of Tucson that is recommending to opt-in.

Chairman Fleming stated between two different funds TSRS, lost a total of about a \$1M on Volkswagen investments, translates to a \$1M claim, or maybe a \$250K or \$4M claim.

Kevin Larson asked is there a need for in-depth discussion if the contract is on a contingent basis.

Chairman Fleming stated because the contract is on a contingent basis, the Board could proceed with a motion to participate in the class action lawsuit.

Mr. Deibel informed the Board the contract has been reviewed and the City Attorney's office is prepared to move forward. There is a non-negotiable 27.5% contingent fee on the recovery amount. Ms. Langford is familiar with Robbins, Geller, Rudman, and Dowd, they specialize in this kind of litigation in the United States. Mr. Deibel stated Ms. Langford, Mr. Galassi, and he had a long discussion with Ms. Rotter and Mr. Robin, and they were all satisfied with moving forward.

Michael Coffey asked to confirm if there is no risk in going forward.

Mr. Deibel clarified there is no risk in going forward, the only abnormality is having to opt-in.

Chairman Fleming asked if the Board could vote today to approve subject to Mr. Deibel's review of the contract.

Mr. Deibel answered in the affirmative.

A motion to participate in the class action lawsuit against Volkswagen was made by Kevin Larson, 2nd by Silvia Amparano, and passed by a vote of 7-0.

Chairman Fleming thanked Mr. O'Hare for finding this opportunity for the Board.

Ms. Amparano and Mr. Galassi informed the Board the TSRS office received a check from a class action lawsuit for \$111K through TSRS custodial partnership with BNY Mellon.

E. **Call to Audience** – None heard.

F. **Future Agenda Items**

1. Education Plan for New Staff and Trustees
2. Duties and Selection of Advisory Board
3. Hiring an Intern to Free Staff for Education
4. TSRS Board Annual Evaluation of Staff and Consultants
5. Formal Evaluation of Active Managers – 1.5% over benchmark over a given period

6. RFQ for Actuarial Services
7. Action Plan for Black Swan Events
8. Would It Be Better to Index the Whole Fund

G. Adjournment – 10:26 AM



Robert Fleming Date
Chairman of the Board 5/26/16

 5/26/2016

Neil Galassi Date
Pension Administrator