PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES OPERATIONS, GOVERNANCE POLICY and AUDIT COMMITTEE
MEETING
February 29, 2012

MINUTES

Members: Mr. Greg Ferguson, Chairman, Trustee
Present: Mr. Jeff McHenry, Acting Chair, Member, Trustee
Ms. Randie Stein, Member, Trustee
Others Present: Mr. Jim Hacking, Administrator
Mr. Jared Smout, Deputy Administrator
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Mr. Robert Ortega, Local Board Training Coordinator
Ms. Leslie Clark, Senior Accounting Database Administrator
Mr. John Hendricks, Senior Investment/Financial Accountant
Mr. Alex Neff, IT Network Specialist
Mr. Gerry Page, IT Network Specialist
Mr. Tom Willard, Systems Development Manager
Ms. Patrice Robinson, Audio Visual Consultant

1. Call to Order, Roll Call, Opening remarks ........................................ Mr. Gregory Ferguson  
.......................................................................................................................... Committee Chairman

The meeting was called to order by Chairman Ferguson at 11:05 a.m.

2. Review, discussion and possible approval of the Operations, Governance Policy and Audit
Committee Minutes from January 25, 2012 ........................................ Mr. Gregory Ferguson

No action was taken and this agenda item was tabled until April 4, 2012.

3. Presentation of the Month-to-Date Budget Report for FY 2012 and possible
Recommendations (Tab 11) ................................................................. Mr. John Hendricks  
.......................................................................................................................... Manager Finance and Accounting

Mr. Hendricks and Ms. Clark reported legal expenditures continue to be over budget and no
change is expected until an in-house investment counsel is hired. The budget is $75,000 over
as a result of modification of the construction plans for an additional three offices on the
second floor. Fringe benefits are up due to insurance elections by staff and new hires.

4. Status report on the filling of vacant staff positions and possible legislation that may affect the
filling of vacant positions ................................................................. Mr. Jim Hacking  
.......................................................................................................................... Administrator

The only vacant position is that of in-house investment counsel which will be discussed during
Executive Session at the afternoon Board of Trustees meeting.
5. Status report regarding proposed 2012 legislation and possible Recommendations

It was reported by Mr. Hacking that SB 1115, SB 1116 have passed the Senate and are awaiting Committee of the Whole action in the House. HB 2087 is the vehicle which states explicitly that the Board has authority to enter into employment agreements with the Administrator and Assistant Administrators. This has passed in the House but is being held in the Senate Finance Committee. There is an adopted striker amendment to HB 2571 in the House Employment and Regulatory Reform Committee. The proposal and its provisions conflict with our authority to enter into employment agreements and this will be discussed today in Executive Session. Regarding SB 1211, which not proposed by PSPRS, the bill has passed the Senate and is awaiting a hearing by the House Committee. The bill will allow persons who enter DROP program on or after January 2012 to get a refund of their employee contributions which are now required as a result of the pension reform bill passed last year. The refund of those contributions will be made with interest which according to the PSPRS actuary, Gabriel, Roeder, Smith & Co. will increase employer contribution requirements by an average of 1.7% of payroll.

6. Written update on the progress of the Local Board Training Program and discussion and possible Recommendations regarding same (Tab 14)

Local Board training and inquiries have continued to be handled by Mr. Ortega and Mr. Mineer. They are currently reviewing the Joinder process in order to modify the procedures.

7. Review, discussion and possible Action regarding the February 2012 Kutak Rock bill for legal services performed in January 2012 (Tab 15)

The legal bill from Kutak Rock for services performed in January 2012 is $41,163. This billing requires approval. A complete report regarding all law firm bills has been presented to members of the Board.

| MOTION: 2-1-12 | At 11:25 a.m. |
| Motion: | To approve payment of the Kutak Rock bill for services performed in January 2012 as presented. |
| Moved by: | Mr. McHenry |
| Seconded by: | Ms. Stein |
| Discussion: | None |
| In Favor: | Unanimous |
| Motion: | Passes |

8. Discussion and possible Recommendations regarding setting of the employer paid premium for FY 2013 for the Fire Fighter and Peace Officer Cancer Insurance Plan

Operations, Governance Policy and Audit Committee Meeting
February 29, 2012
Mr. Hacking told the Committee members that last year the Board declared a premium holiday during FY’12 for the Fire Fighter and Peace Officer Cancer Insurance Plan as a result of lower than anticipated disbursements and the steady build-up of the reserve. For FY’11, the premium was set at $75 per participant with the employers making their payments in August. The Staff recommends that the premium holiday not be extended, since the expectation is that the program’s outlays will continue to rise as more and more members learn of the program’s existence and begin to apply for benefits. Staff members are exploring new ways of bridging the communications gap. More research will be done on this agenda item before it is brought back to the committee for the April 4, 2012 meeting.

<table>
<thead>
<tr>
<th>MOTION: 2-2-12</th>
<th>Motion: At 11:30 a.m.</th>
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<tbody>
<tr>
<td>Moved by:</td>
<td>To table this agenda item until the April 4, 2012 meeting.</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. McHenry</td>
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<tr>
<td>Discussion:</td>
<td>Ms. Stein</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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9. Status report regarding the fiduciary insurance for the PSPRS Board of Trustees

Mr. Jared Smout, Deputy Administrator

Mr. Smout reported that the Arizona Department of Administration (ADOA) Risk Management Division has been contacted and assurance was given by them that all PSPRS parties are protected under § 41-621. PSPRS pays ADOA premiums for Risk Management coverage. It has been reported by Kutak Rock that there are some gaps in coverage, for example, legal defense expenses prior to ADOA’s approval to pay. Mr. Hacking also noted that some things are not insurable such as illegal acts. The staff was directed to continue to research this matter and report back to the Committee at the April 4th meeting.

10. Status report on the legal challenges to the various provisions of SB 1609

Mr. Jim Hacking

This topic will be discussed this afternoon during Executive Session. Four law suits have been filed. They are on the behalf of retired and active judges and on the behalf of retired and active police officers.

11. Status report with respect to the distribution of the Annual Member Statements

Mr. Jared Smout

The statutes are silent as to how to distribute the Annual Member Statements. Staff has sent a notice to employers that last June 30th was the last time that Member Statements were sent in PDF format to the Local Boards. The June 2012 Statements will be made available on-line. Our Governance Manual requires timely distribution. By making the Statements available on-line, the Statements will be timely distributed and members will be able to view them at any time. We will not have to rely on the Local Boards to complete the distribution process.

Mr. McHenry suggested a change in the statute to explicitly allow on-line distribution.
12. Status report with respect to the Lease Extension Agreement with Dinan & Company, LLC

Mr. Jim Hacking

Dinan & Company leases space on the first floor of the PSPRS' building. They are in the fourth year of a five year lease and Mr. Dinan has asked for an extension. One of the PSPRS property management/appraisal firms has completed an analysis of the square footage commercial office rental rates available in the Camelback corridor. An extension was presented to Mr. Dinan and a lease agreement through September 2017 was signed.


Mr. Hacking stated that the last review and revision of the Governance Policy was completed three years ago in June. This current review will begin with the updating of the Charters which will then be disseminated to the members of the Committee. The same process will be conducted for other portions of the Governance Policy such that the entire Manual will have been reviewed and up-dated by the June Board of Trustees meeting.

14. Status report on the confirmation process with respect to the Governor’s newest nominee to the Public Safety Personnel Retirement System Board of Trustees, William C. Davis and with respect to the re-nomination of Gregory S. Ferguson to the Board of Trustees

Mr. William Davis has been appointed to the Board of Trustees by the Governor; however, the confirmation process in the Senate has been delayed because of issues related to the state budget process. Mr. Hacking told the Committee members that it is his understanding that anyone appointed to any Board while the Legislature is in session may not serve until confirmed by the Senate. That was what happened when Alan Maguire was appointed to replace Mike Galloway while the Legislature was in session. He added that in the meantime, he has asked Mr. Davis to attend the regular Board meetings for which he will be provided the materials in advance. Mr. Hacking also told the Committee that Mr. Ferguson has been renominated for a new term on the Board.

15. Status report on the Public Safety Personnel Retirement System staff compensation review

Mr. Jim Hacking

A Request for Proposal was issued seeking responses from independent compensation consulting firms for a review of the salary ranges for PSPRS staff positions and a review of the Investment Department’s Incentive Compensation Plan. The System has undertaken such a review every three years to assure that the compensation structure remains competitive. Three responses were received but were subsequently modified to add, at staff request, an assessment of staff attitudes with respect to PSPRS as a place to work. However, in view of HB2571 and the uncertainty that has created, action on the responses to the RFP has been suspended, although it is still likely that a compensation review will end up being done, probably sometime this summer.
16. Report, discussion and possible **Recommendation** regarding compliance and internal audit examination and procedures

Ms. Bridget Feeley

Internal Audit and Compliance Officer

Following discussion with Ms. Feeley and the members of the Committee, an additional column will be added to the approved audit plan which will indicate the estimated time of completion of each audit item. Ms. Feeley said that the programming of additional access controls into the System is continuing and at this point it looks good. Once the programming is complete, an audit will be conducted and a report will be presented to the Committee. Everything else is satisfactory.

17. Call to the Public.

This is the time for the public to comment. Members of the committee may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01(H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for a later date for further consideration and possible recommendations to the Board of Trustees.

There was no response to the Call to the Public.

18. Schedule next meeting. *(Currently scheduled for Wednesday, April 4, 2012)*

19. Adjournment.

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<tr>
<th>MOTION: 2-3-12</th>
<th>At 12:02 p.m.</th>
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<tbody>
<tr>
<td>Motion:</td>
<td>To adjourn the meeting.</td>
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<tr>
<td>Moved by:</td>
<td>Ms. Stein</td>
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<tr>
<td>Seconded by:</td>
<td>Mr. McHenry</td>
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<tr>
<td>Discussion:</td>
<td>None</td>
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<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
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Mr. Greg Ferguson, Chairman

Mr. Jeff McHenry, Member

Ms. Randie Stein, Member