

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

**September 19, 2012**

**MINUTES**

<i>Members Present:</i>	Mr. Greg Ferguson, Chairman, Trustee Mr. Jeff McHenry, Member, Trustee Ms. Randie Stein, Member, Trustee
<i>Others Present:</i>	Mr. Jim Hacking, Administrator Mr. Jared Smout, Deputy Administrator Ms. Ivy Voss, Assistant Attorney General Mr. Robert Ortega, Local Board Training Coordinator/HR Manager Mr. Don Mineer, Local Board Training Specialist Ms. Leslie Clark, Senior Financial Accountant/Great Plains DBA Mr. John Hendricks, Senior Investment/Financial Accountant Ms. Bridget Feeley, Internal Audit and Compliance Officer Mr. Tom Willard, Systems Development Manager Mr. Sam Meier, IT Network Specialist Mr. Paul Hemmes, Systems Programmer Ms. Annette Jorgensen, Insurance Manager

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

The meeting was called to order at 11:00 a.m. by Chairman Ferguson.

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

**MOTION: 9-1-12** At 11:01 a.m.

**Motion:** To approve the Operations, Governance Policy and Audit Committee Minutes from July 25, 2012.

**Moved by:** Mr. Mc Henry

**Seconded by:** Ms. Stein

**Discussion:** None

**In Favor:** Unanimous

**Motion:** Passes

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

Revisions to the FY 2013 budget were discussed. Since a position in the Call Center is unfilled, the position of Risk Manager is open and there is an agreed upon credit of Mellon Bank fees, it was suggested the budget be reduced by \$190,000. Discussion was held regarding the process to establish budget projections and budget adjustments.

<b>MOTION: 9-2-12</b>	At 11:01 a.m.
<b>Motion:</b>	To recommend to the Board of Trustees approval of a reduction of \$190,000 to the Fiscal Year 2013 budget.
<b>Moved by:</b>	Ms. Stein
<b>Seconded by:</b>	Mr. McHenry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

4. Discussion and possible **Recommendation** regarding five percent (5%) employee retention payments as referenced in SB 1523 and possible **Recommendations** for amendments to the FY 2013 PSPRS Administrative Budget.....Mr. Jim Hacking

Mr. Hacking stated that HB 2571 has a provision for covered personnel who elect to become uncovered and who would, as an incentive, receive a onetime 5% payment. All staff members of PSPRS are already uncovered, at will employees. SB 1523 mandates each state agency to provide the 5% onetime retention fee to uncovered employees if the money is available. But PSPRS does not receive any funds from the state. The Arizona Constitution in Article 29 states that the legislature cannot appropriate money from the Trust. The money in the Trust may only be used to pay benefits and reasonable costs of the administration of the Fund. The 2013 PSPRS budget includes a 2% increase in pay on the employee's anniversary date payable upon satisfactory performance. PSPRS did not consider the 5% retention payment in forming the FY 2013 administrative budget because we did not think the HB 2571 provision would be applicable to PSPRS. We have asked Attorney General Horn to review this situation and until we receive a reply, no action is necessary. If PSPRS is subject to the 5% employee retention payment, it would likely be at the discretion of the Board of Trustees.

5. Written update on the progress of the Local Board Training Program and discussion and possible **Recommendations** regarding same.....Mr. Robert Ortega  
 .....Local Board Training Coordinator and Human Resources Manager  
 .....Mr. Don Mineer  
 .....Local Board Training Specialist

Mr. Ortega reported that membership meetings have been well attended and that the Local Board Training Program may develop a Train-the-Trainer Program and have meetings regarding this topic next year. Mr. Mineer added that PSPRS is testing some compliance effectiveness questions for determining the success of the Local Board Training Program.

6. Presentation of the Requests for Local Board Rehearing Report for the current month.....  
 .....Mr. Jim Hacking  
 .....Administrator

Mr. Hacking told the Committee that there are four requests outstanding.

7. Review, discussion and possible **Action** regarding the August and September 2012 Kutak Rock and other law firms' billings for legal services performed in July and August 2012.....  
 .....Mr. Jim Hacking

<b>MOTION: 9-3-12</b>	At 11:35 a.m.
<b>Motion:</b>	To approve payment of the August bill for legal services performed in July of \$90,042 and the September bill for legal services performed in August of 2012 of \$73,574.
<b>Moved by:</b>	Ms. Stein
<b>Seconded by:</b>	Mr. McHenry
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

8. Discussion and possible **Recommendation** regarding modifications to the PSPRS Trust document.....Mr. Jim Hacking

It was explained by Mr. Hacking that the amendment was necessitated by IRS changes and to change the words "Fund Manager" to "Board of Trustees".

<b>MOTION: 9-4-12</b>	At 11:37 a.m.
<b>Motion:</b>	To recommend to the Board of Trustees approval of the amended Trust document.
<b>Moved by:</b>	Mr. McHenry
<b>Seconded by:</b>	Ms. Stein
<b>Discussion:</b>	None
<b>In Favor:</b>	Unanimous
<b>Motion:</b>	Passes

9. Presentation on, and discussion of, FY 2012 financial and investment-related information.....  
 .....Mr. Jim Hacking

Mr. Hacking told the Committee that, for the fiscal year ending June 30, 2012, the Trust had, gross of fees, a negative return of -0.32% relative to the benchmark of +2.89%. The net of fee return was -0.79%. Even if we had gotten the benchmark return, it would have been less than the assumed actuarial rate of return for 2012 of 8%. For the last 3 out of 5 fiscal years we have had actuarial losses due to investment returns. Those losses have been due primarily to poor financial market performance (which in turn reflects the poor performance of the U.S. and global economies) and the write downs in the values of the legacy residential real estate holdings that we acquired in the past. Mr. Hacking also pointed out that the FY'12 actual investment return (-0.79% net of fees) was significantly less than the benchmark return (2.89%) for the System. He added that although we cannot control the financial markets, we do have a good deal of control over investment performance relative to the benchmark and therefore steps have been taken and will continue to be taken to address the factors that contributed to the underperformance relative to the benchmark.

Significant factors included: the write down of legacy property values (this should be the last write down barring another shock in the southwestern real estate market); the delay in the movement to fully invested status of the indexed domestic equity assets from BNY Mellon to State Street Global Advisors at a time when the U.S. equity market was rising; the use of an inappropriate benchmark for the Credit Opportunities Portfolio; and the failure of the managers of the Portable Alpha portfolios in the U.S. equity asset class to add value relative to the index for that class. The Board will reevaluate the Portable Alpha strategy later this fall. The new limited partnership real estate exposures are underperforming the NECRIF index because of the short term J curve effect; however, we expect the relative performance to improve as those new portfolios mature. This will be discussed in the NEPC Quarterly Performance Report.

Mr. Hacking reported that the funding ratio for PSPRS was 61.9% as of June 30, 2011 and that he expects that, as of June 30, 2012, it will be below 60%. EORP as of June 20, 2012 will be around 60% funded. PSPRS employer contribution rates for July 1, 2012 will be over 27% of payroll up from 22.7%; CORP will be 11.3% up from 9.7% of payroll and the new unsubsidized rate for EORP will be just under 40% of payroll and the EORP subsidized rate will be over 21% of payroll. As long as the actuarial value of assets is higher than market value on June 30 of any fiscal year, the official funding ratios will continue to decrease.

Mr. Hacking also reported to the Committee that, as of September, 2011, the CORP and EORP COLA reserves were exhausted. The asset balance remaining in the PSPRS COLA reserve will be used up to fund a final adjustment for eligible beneficiaries this month. After that, the PSPRS reserve will have a zero balance. He cautioned, however, that although the pension reform bill stopped the inflow of new assets to the reserves, that could all change if the courts overturn what the Legislature did in this regard. If that happens, the funding ratios of the Plans will be adversely affected and employer contribution rates will rise even more than would otherwise be the case.

- 10. Report by the Administrator on his meetings with constituent and employer group representatives.....Mr. Jim Hacking

Mr. Hacking reported that he had met with representatives of the Fraternal Order of Police, the Firefighters Association, and PLEA. In the future he will meet with other groups and in December will hold meetings with employer and employee representatives and constituent groups. He has asked the groups' leaders to come up with legislative proposals that would provide supplemental revenue sources for the Plans that would relieve some of the upward pressure on employer contribution rates.

- 11. Status report on the actuarial valuation of the Firefighter and Peace Officer Cancer Insurance Policy Program.....Mr. Jared A. Smout  
.....Deputy Administrator

Discussion was held regarding provisions of the Firefighter and Peace Officer Cancer Insurance Policy Program and the actuaries' analysis of the plan. The Operations, Governance Policy and Audit Committee will continue working with the actuaries and the financial numbers. The current premium is \$50.

12. Status report on new GASB pronouncements.....Mr. Jared A. Smout

This discussion was informational and PSPRS will implement the new GASB requirements the next fiscal year. Reporting is being changed for consistency.

13. Report and **Recommendation** on FY 2013 Compliance and Internal Audit Plan.....  
.....Ms. Bridget Feeley  
.....Internal Audit and Compliance Officer

Ms. Feeley reported that EPIC access control is good.

14. Discussion regarding Board of Trustee meeting mailings.....Mr. Jim Hacking

Discussion was held regarding options for providing electronic meeting materials mailings for the Committee and Board meetings. Suggestions were made. The IT staff will research options and develop estimates of cost of electronic mailings versus current paper mailings.

15. 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.

Mr. Michael DiGrassi said that the 5% retention payment is a good idea as a thank you to the PSPRS employees.

16. Schedule next meeting. (*Currently scheduled for Wednesday, October 31, 2012.*)

17. Adjournment.

The meeting was adjourned at 12:41 p.m.

---

Mr. Greg Ferguson, Chairman