

**PENSION REFORM COMMITTEE  
MEETING OF  
Tuesday, March 16, 2004  
4:00 PM – 6:00 PM Meeting**

**401 B Street  
Conference Room, 4<sup>th</sup> Floor**

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**MINUTES**

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**THE REGULAR MEETINGS OF THE PENSION REFORM COMMITTEE ARE  
SCHEDULED FOR EVERY TUESDAY AT 4:00 PM AT 401 B STREET, 4<sup>TH</sup> FLOOR**

THE OPINIONS AND VIEWS OF THE COMMITTEE OR ITS MEMBERS, AND PRESENTATIONS MADE AND DOCUMENTS PROVIDED TO THE COMMITTEE OR ITS MEMBERS, MAY CONTAIN PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER BACKWARD-LOOKING RECONSTRUCTIONS OR FORWARD-LOOKING STATEMENTS, ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT, AND ARE QUALIFIED IN THEIR ENTIRETY BY THIS CAUTIONARY STATEMENT. ONLY STATEMENTS MADE BY THE CITY IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT, PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION AND/OR FILED WITH THE MSRB OR THE NRMSIRs ARE AUTHORIZED BY THE CITY. THE CITY SHALL NOT BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF UNAUTHORIZED STATEMENTS.

**Item 1: Call to Order**

<u>Members Present</u>	<u>Members Absent</u>	<u>Staff Present</u>
April Boling	Richard Vortmann	Patricia Frazier
Steve Austin		Chris Morris
Robert Butterfield		Larry Grissom, SDCERS Staff
Tim Considine		Paul Barnett, SDCERS Staff
Stanley Elmore		Mary Braunwarth
Judith Italiano		Pam Holmberg
William Sheffler		
Kathleen Walsh-Rotto		

**Item 3: Approval of Minutes**

It was noted that Paul Barnett was not present at the meeting of March 9. The minutes will be amended to reflect that. There was a motion for approval of the amended minutes for the March 9, 2004 Pension Reform Committee (Committee) meeting from Tim Considine. The motion was seconded by Stan Elmore and passed unanimously.

**Item 4: Presentation from SDCERS Staff on Board Composition and Corporate Governance**

SDCERS Director Larry Grissom provided the Committee with an overview of the SDCERS Board of Administration composition and duties. The Board of Administration consists of

thirteen members. Three are elected by the General Members, one member each elected by Fire and Police, one member elected by retirees, four members (including one local banker) appointed by City Council, and three Ex-officio members; the City Manager, City Treasurer, and City Auditor. Board members who are elected or appointed serve six-year terms with no term limits. Ex-officio members serve for the period of their respective positions with the City of San Diego. The Board composition is established in the City Charter and any modification would require a vote of the citizens. The Board has the authority to administer benefits, but does not confer them. The Board directs the administration and investments of all funds, interprets the rules to determine who is eligible for retirement, establishes the budget for the SDCERS system, establishes the rates for the crediting of interest, and employs an actuary to do an actuarial analysis of the system and reviews and approves all recommendations. Mr. Grissom said most governmental agencies Retirement Board's composition and responsibilities are very similar.

Mary Braunwarth reviewed for the Committee the survey staff prepared on the composition of twelve of largest retirement systems in the State of California. She reported that most of the counties are governed by the County Employees Retirement Act of 1937 Act, which provides for a 9-person board.

#### **Item 5: Public Comment**

Heather Duckett said she felt the make up of the Retirement Board is appropriate. The size of the Board and composition creates a good system of checks and balances. She felt a 100% appointed Board would not work well for the system. The appointing authority could hand pick the Board with a specific agenda in mind. The fund is large enough that an unscrupulous Board could use the investment authority to manipulate securities. The current method allows for a diverse Board. Although a smaller Board may work a little more efficiently, the larger number allows checks and balances.

Jim Gleason asked the Committee to investigate the delegation of duties by Ex-officio members of the Board. The Charter specifies that the Ex-officio members will consist of the City Manager, City Auditor, and the City Treasurer. Mr. Gleason was concerned that the designated officials do not always serve on the board, sending their delegates instead. He asked that the Committee investigate if the Charter allows that flexibility. He also was concerned about disability retirements that go before the Board. He feels the City should do a better job of investigating and determining levels of disability before they go before the Board. There is a lot of time spent on disability retirements at every meeting that could be better spent on other business.

#### **Item 6: Discussion on Board Composition and Corporate Governance**

The Committee discussed the current composition of SDCERS' Board to determine if recommended changes are needed. Mr. Elmore felt there was no need to make any changes to the composition of the Retirement Board. He believes the Board is well rounded and has representatives from management, employees and the community. He understands Mr. Gleason's concerns about the ex-officio's delegation of duties, but he believes they are steady appointees who have done an adequate job representing management. Mr. Considine disagreed and said he feels the current Board's composition has been compromised, and they have made decisions based on self interest. He believes the Board should consist of 9 members of the general public who would be appointed by the City Council. This would give more

accountability for the process. There was discussion between the members on these difference perspectives.

Mr. Elmore made a motion that the Committee leave the Board composition as it currently is. Mr. Butterfield seconded the motion with an amendment that the ex-officio's appointment to the Board be clarified so there is no ambiguity in the system. Mr. Butterfield questioned whether a legal opinion had been issued on the delegation of the ex-officio duties. Mr. Grissom said that the City Attorney's Office had issued an opinion that it is the office that is the member of the Board, not the individual, which allows for the delegation. He will forward copies of the opinion to the Committee members. Mr. Austin said he thinks it is premature to call the question of Board governance because it could be intertwined with the other recommendations the Committee will make. Mr. Austin asked for a continuance of the vote. The motion was seconded by Mr. Considine. The motion for continuance passed by a vote of five to three.

### **Item 7: New Business**

Mr. Elmore asked if the Committee would be considering the idea of joining CalPERS. Ms. Boling asked that the subject be placed on a future agenda with a short presentation about CalPERS and an opportunity for public comment.

Mr. Butterfield reported on his follow up with the City of San Francisco regarding their labor contracts, which exchanged five additional floating holidays for no wage increases and the employees picking up 100% of the 7.5% retirement contribution. San Francisco had the opportunity to negotiate these changes because all their labor contracts were up for renegotiation at the time. The contract helped the City balance its budget and avoid layoffs. The City has a re-opener with 36 of the 47 labor unions that could allow this contract to continue for a second year.

Chris Morris provided the Committee with an overview on the conditions of the recent settlement. He said the settlement, which is pending final approval by the superior court and the fiduciary counsel, is the first step toward a long-term solution to the retirement system. They hope to have the settlement finalized in early May. The major tenets of the settlement are as follows: 1) Settlement would eliminate the language that allowed for past under funding the system; 2) The City will make a flat payment of \$130 million to the System in Fiscal Year 2005 and will make full actuarial payments starting in FY 2006; 3) Payment of these funds will be secured by \$500 million in real estate that will be held in trust by the System; \$125 million will be released on July 1 of each year beginning 7/1/04 when the City makes its payment to the System; 4) Rates will be calculated using a PUC 30-year fixed amortization beginning in FY 2005; and 5) Manager's Proposal I and II will be terminated.

Mr. Austin asked if the scope of the actuarial studies being conducted by Mr. Roeder needed to be revisited now that the Committee knew of the settlement details. The Committee will allow Mr. Roeder to continue the work he has started but will review the scope to judge if any changes or clarification needed to be made.

Mr. Austin handed out an article from the *Wall Street Journal* as well as a copy of a report from Bernstein Municipal Bond Research on The State of California's Bonds.

Ms. Boling said the FASB disclosure requirements that Mr. Austin handed out at the last meeting should be included in the final plan.

**Item 8: Non-Agenda Public Comment**

There was none

**Item 9: Adjournment**

The meeting was adjourned at 5:55

The next meeting will be on Tuesday, March 23, 2004 at 4:00 PM at the same location.