

SPECIAL MEETING
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD
MARCH 3, 1989

CALL TO ORDER AND ROLL CALL

The Administration, Investment and Fiscal Management Board met in special session in the City Council Chambers, City Hall, at 2:23 p.m. on March 3, 1989

PRESENT: Stamper, Wolford, Friery, DeCamilla

ABSENT: Frierson

POLICY MATTERS TO BE CONSIDERED AND ACTED UPON

PLAN FOR PROJECTION AND DIVISION OF SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM ASSETS

APPROVED

The Board received for review and consideration four reports pertaining to the plan for projection and division of SCERS assets:

- 1) Report to Steve Lakich, Employee Relations Director, from Thomas P. Friery, City Treasurer, dated February 17, 1989.
- 2) Report to Equity Managers of SCERS from Thomas P. Friery, dated February 27, 1989.
- 3) Report to AIFM Board from Thomas P. Friery, dated March 3, 1989.
- 4) Report to City Council from Steve Lakich, Employee Relations Director and Anne J. Mason, Acting City Clerk, dated March 7, 1989.

Mr. Friery reviewed and discussed with the Board the implications and complexities of the item which will go before the City Council on Tuesday, March 7, 1989 pertaining to a Charter amendment and ballot measure to permit the transfer of active safety employees of SCERS to Public Employees' Retirement System (PERS). If approved by City Council a

special municipal election will be held on June 6, 1989 and if approved by the electorate the transfer to PERS is estimated to occur on January 13, 1990. Mr. Friery commented the reason for the transfer is strictly a personnel issue related to the 1977 Measure E ballot where new City hires joined PERS instead of SCERS. As it pertains to safety employees the retirement benefits for new City safety employees hired after January 29, 1977 are currently better than SCERS safety employees.

If approved by the voters, the transfer would require the sale of investment assets and transfer of cash to PERS. PERS does not accept securities in lieu of cash for these transactions. This process had been discussed with the SCERS asset managers and all felt the plan was prudent, but requested Board concurrence. The managers wanted the Board to be aware of the possibility of the impact on investment performance. Mr. Friery presented to the Board an equitable plan he developed for the sale of assets and the transfer implementation; he requested the Board's approval of the plan.

Mr. Friery informed the Board of the methodology used to develop the plan to project the SCERS asset transfer value, the manner in which the Treasurer's office will track the market value of the assets to be transferred between now and the vote of the electorate, and the mechanical procedure planned to accomplish the transfer. This phase was acceptable to the SCERS asset managers.

Mr. Friery also stated the SCERS' system actuary determined that approximately \$114 million or 33% of SCERS assets is the proportionate and equitable market value share of the transferring members. This amount was

based on the market value as of December 31, 1988 and the projection of future contributions, the costs for safety member retirees since June 30, 1988, and estimated income earnings. Using the December 31, 1988 valuation, the total transfer of approximately \$114 million would result in a loss on sale of securities of \$3.1 million dollars; any changes in interest rates or stock prices, in the next six months, could dramatically impact the actual values of the targeted securities. A one percent increase in interest rates would reduce the value of fixed income investments by more than nine percent. Therefore, it is impossible to project the market value six months in the future.

Mr. Friery explained that specific securities have been identified which would have to be sold to accommodate the transfer. The selection of these securities was prepared by each asset manager and prepared so that prudent diversification was considered not only for the transferring members but also for the members remaining in the SCERS system. In discussing the methodology with all the equity managers, the plan was deemed to be prudent.

Mr. Friery briefly discussed the real estate fixed and equity holdings. Real estate investments will not be liquidated; however, there is a portion of the real estate fund in cash which has been earmarked for transfer.

The Board asked William Carnazzo, Counsel to the Board, could the Board be held liable by adopting this proposal to divide SCERS assets? Mr. Carnazzo responded that the Board would not be liable if the Board adopts this proposal and follows Mr. Friery's advice in the belief that this is a reasonable approach to projecting and dividing SCERS assets.

The Board asked what position the PERS Board has taken on this issue. Richard Snyder, Secretary to the AIFM Board, informed the members that City staff has met many times with PERS. The PERS Board has taken the position to support Assemblyman Isenberg's bill (AB252), which will facilitate the transfer. Mr. Carnazzo stated all issues have been worked out with PERS.

Mr. Friery requested that it be emphasized, in the ballot or charter language if appropriate, that a favorable vote of the electorate will require the liquidation of the safety members' assets immediately after June 7, 1989. This action is deemed to be prudent because it would reduce further interest rate exposure in what has been a highly volatile environment. The proceeds from the liquidation of these assets will be placed in a separate and independent fund under the umbrella of SCERS. However, this fund will not be administered in the same manner as the remaining SCERS fund. This special fund will be invested in short term securities, until the transfer on January 13, 1990. Mr. Carnazzo stated the investment issue is not addressed in the ballot or charter language.

The Board inquired as to why they had not been appraised of this issue sooner. Mr. Snyder informed the Board that final details of negotiations had only been concluded during the last 60 days and the cost had only been determined in the last three weeks. Mr. Carnazzo advised the Board that the transfer of active SCERS safety members was a negotiated item between the City and the safety employee groups and the fiduciary issue could not be presented to the Board until an agreement was reached.

For the record, Mr. DeCamilla stated that the Board is not taking a position on the ballot measure to transfer SCERS safety employees to PERS. Rather Mr. DeCamilla stated that the Board recognizes their

fiduciary responsibility that in the event the initiative passes, a prudent and rational plan to sell SCERS assets must be in place to mitigate any risk to the fund as a whole.

After this comment, Mr. Friery moved as a result of negotiations between the safety groups and the City of Sacramento, which necessitates the potential liquidation of \$103 million (at December 31, 1988 market values), that the AIFM Board recognizes the need to develop a plan. In recognition to the risk posed to the SCERS funds, the Board directs the asset managers to implement the plan outlined by the City Treasurer to mitigate those risks. The AIFM Board concurs with the plan for projection and division of the SCERS assets described by the City Treasurer. The motion was seconded by Mr. Wolford and was passed by the following vote:

AYES: Stamper, Wolford, Friery, DeCamilla

NOES: None

Mr. Wolford suggested that the Board look into valuing SCERS assets at market value as opposed to cost because it adequately reflects the value and the accounting standards of FASB and GASB are going in that direction. The Board will take this under consideration.

There being no further business the meeting was adjourned at 3:45 p.m. to meet again at the call of the chair.