Peralta Community College District
Retirement Board Meeting Minutes
June 15, 2011

Members Present: Trustee Bill Riley, Trustee Bill Withrow, and Trustee Cy Gulassa, Vice Chancellor Ron Gerhard, and Vice Chancellor Trudy Largent.
District Staff: Chancellor Wise Allen (CAA), Thuy Nguyen, William Wallace (Neuberger Berman), and Joanna Bowes (KNN Public Finance).
Visitors: Bruce Jacobs (Peralta Retirees' Org.) and Joseph Bielanski.

Agenda Item	**Discussion**	**Follow-up Action**
Meeting Called to Order	4:08PM	
III. Approval of Agenda	• Motion (Riley, Withrow) to approve the June 15, 2011 agenda. APPROVED.	
IV. Approval of Minutes	• Motion (Withrow, Riley) to approve the May 11, 2011 minutes. APPROVED.	
V. Correspondence	• None	
VI. OPEB Structure	• The original structure: all the capital appreciation bonds were converted to variable rate bonds, the interest rate line is assuming a 5.12% interest rate per variable rate. In 2006, according to the documents, the district did not want/plan to have any debt service until 2009. Lehmann found all the buyers that own the 2006-2008 bonds. The district bought them back and then issued new bonds in the form of convertible capital appreciation bonds and gave them a maturity of 2049. They were zeros for two years (no interest until Aug of 2009) and then it converted into a 6.25 coupon. • Please refer to an excerpt out of the Annual Financial Statement dated June 30, 2010. On page 38, titled ***2009 Limited Obligation Other Post Employment Bond Modification***, quoted from our auditors, "This is a unique financing structure that was developed to accommodate District wishes to reduce debt service in the initial years of the financing." • In 2006, 10 months after Peralta issued the bonds, the bonds were restructured into two series. One was five years of current interest bonds (2006-2010) and had increasing par amounts for repayment. Because there was no debt service reserve fund, provisions were put into this document that whenever you had debt service due, the principal and interest must be submitted to the Trustees (Union Bank) by May 1st. • Per Trustee Withrow, in 2009 the Board and Audit Finance Committee was lead to believe that we had to get out because the collapse of the convertible. • Trustee Withrow suggests having a policy stating that we are not to defer interest on the bonds.	VC Gerhard will draft a

	• Documents seen at the last two meetings are going into the substantive plan. As soon as the Board of Trustees approves the two recommendations to smooth the debt service and terminate the first tranche, we will put together a document and share it with ACCJC. We want to provide ACCJC with documentation that progress is being made and steps/actions are being taken to address the issues. This information will also be included in the bi-annual report to the State Chancellor's Office. • General Obligation Bonds (outstanding) are backed by taxpayers and does not affect the general fund. • Two types of structuring: 1. Regular Interest Bonds. Five maturities of current interest bonds. First matures from 11/1/2011 to 11/1/2016, with increasing par amounts and has fixed coupons (4%). 2. Outstanding five term bonds are issued as capital appreciation bonds. They are fully accreted in 2020/2025 and will convert to variable rate securities and have a coupon. All five term bonds, which have a maturity of five years after they convert, will become current interest bonds. All the bonds will mature in 2049. By 2039, they will convert and have an interest rate on them. Every year, we'll have to start paying it down. But until 2039, they are zero coupons. • Per Ms. Bowes, a lot of school districts issue forty (40) year capital appreciation bonds because they cannot afford to pay interest. You buy it at a much lower rate and are taxable. • Ms Bowes believes Allstate owns the B1 and B2 tranche. The value changes every day. Investors usually a buy and hold. The minimum par amount was $25,000.	policy and bring it back to the next meeting for discussion. Ms. Bowes will research
VII. Expansion of Membership Vice Chancellor Gerhard	• At the last Retirement Board meeting, there was a request to include in the Retirement Board bylaws language to add two advisory committees. • Motion (Withrow, Largent) to approve the Retirement Board bylaws language (revised). APPROVED • We will take the language to the next Board of Trustees meeting on June 28th. Hopefully we will receive the names of the representatives from the appropriate groups. • Advisory members nominated or recommended by their groups. We would take their recommendations forward.	A letter coming from the Retirement Board will be sent to each the subsidiary

		groups.
VIII. Investment Performance Update Bill Wallace Neuberger Berman	• Note[1]: The one month benchmark information is incorrect. Mr. Wallace checked the numbers using a weighted average for the overall return. • Note[2]: The market values used were as of the close of business on Monday evening. • Neuberger Berman (NB) did a rebalancing to raise funds. \$5.8 million was pulled out. • General Counsel Nguyen had requested a benchmark scenario for CalPERS and their equivalent organizations. Mr. Wallace had emailed it to VC Gerhard. VC Gerhard was busy working on the tentative budget and did not have a chance to review the benchmark survey yet. **Monte Carlo:** • Definition was a cut and paste edit from Wikipedia • Been around since the Manhattan project • Talked about some of the various application • Shows how returns, risks, and covariance relate to one another • Ran 500 stimulations • Shows what the potential outcomes are (one reason why it is helpful) • It is a lot easier to forecast in the long run than in the short run. • A good tool that provides a road map, though not perfect • Peralta's actuarial study is more conservative • Trustee Withrow asked is simulation consistent with GASB45? • Per VC Gerhard, it runs in parallel. We're implementing this as part of our GASB plan going forward. This is a major piece of the plan. We are planning to do another actuarial study next year instead of waiting two years so the numbers will be more consistent. From the last actuarial study, the arc percentage in terms of payroll is 16.9% based upon the portfolio and escalation in medical cost. • This year we are using 12.5% from 2008 actuarial study. To fund the unfunded actuarial liability, going from this year of 12.5% to 16.9%, we will need approximately \$9 million from the general fund. That is an additional \$3.5 million on top of the worst case scenario. We plan to gradually build up to the 16.9%. Looking at page 5, we'll still get there within the 25 year funding without going to the big jump of 16.9%.	Mr. Wallace will talk with his people regarding the classification and benchmark.

	• Per Mr. Wallace, when it comes to cash flow he can use whatever numbers we want him to use. Page 6 shows projections over the next 25 years. In 25 years, the value of the portfolio should be $516 million. According to the best case scenario, the number can be as high as $1.749 billion. The worst case, the number can be as low as $71 million. • VC Gerhard explained the $516 million is adjusted for inflation. The present value in the actuarial study is $221 million. The present value exceeds the actual liability. At one time, PERS was fully funded and did not require employer contributions. If we ever get to the same position as PERS was back then, then there would be no need for the 16.9% because we will be fully funded. • Why risk is so important? Looking at the upper and lower boundary in scenario A, if we can bring the upper boundary down and bring the lower boundary up, the chances of getting to the middle boundary would be higher. • Regarding hedge funds, per Trustee Withrow, we are a public entity. We have constituents that we need to provide an explanation to on how we can preserve their healthcare benefits. We have to approach hedge funds cautiously. • Per VC Gerhard, the first step is to revisit the investment policy. Two purposes written in the trust document: 1. Reimburse the general fund 2. Pay debt service • Assuming that the value is greater than the arc, any amount over the arc can be used to pay the general fund obligation debt service liability. • The first year is the hardest because we went from 0% to 12.5%. Next year, we will go from 12.5% to 12.9% (gradually up to 16.9%).	
IX. Request for Qualification Vice Chancellor Gerhard	• Two RFQ outstanding: 1. Underwriting – closed last week 2. Bond counsel – still outstanding, closes July 7th • The RFQ for Underwriting services is a one page document in your package. There were 15 response packets. • The full Retirement Board wants to be the screening and interviewing committee. • Each member is tasked with evaluating all 15 submissions. Each packet is 30-45 pages. We are trying to convert them and put them on a CD.	

	• We will ask each member to sign a Conflict of Interest form and use a scoring sheet. We will come back at the last week of June as an evaluation committee to select the top five candidates for interviews and complete the process. • We will then take the contract to the last Board of Trustees meeting in July. If approved, we can facilitate the termination of the first tranche. • The second RFQ (Bond/Securities Counsel) closes in the second week of July. We will go through the same process. Given the niche market, in terms of minimal qualification, we expect to have 3 to 4 responses.	
X. Agenda Items For Next Meeting	1. Policy concerning debt auction rate 2. Introduction/briefing of the advisory committees. We will send them documents beforehand to bring them up to speed 3. Investment Policy (tentative)	
XI. Information Reports	• none	
Adjournment:	5:37 PM	
Next meeting:	July 20, 2011 from 4:00 to 6:00PM	

Minutes taken: Sui Song
Attachments: All handouts for this meeting can be found at http://www.peralta.edu/apps/docs.asp?Q=1830