

**FIRE AND POLICE PENSION ASSOCIATION  
BOARD OF DIRECTORS  
July 22, 2010  
Agenda - updated**

<u>Time</u>	<u>Agenda item</u>
7:30 a.m.	<b>Call to order</b> Approval of May 27, 2010 Board Meeting Minutes
7:35 a.m.	<b>Consent calendar</b> Security Fire Department re-entry
7:40 a.m.	<b>Investment Risk Committee Report</b>
8:00 a.m.	<b>Investment Report</b> <ol style="list-style-type: none"><li>1. Review of May and June 2010 Performance</li><li>2. Review of managers</li><li>3. Alternative Investment Updates and Recommendations</li><li>4. Absolute Return Portfolio Construction Recommendation</li><li>5. Fixed Income Portfolio Construction Recommendation</li><li>6. Update on Global Equity Search</li><li>7. Other Matters</li></ol>
9:00 a.m.	<b>Break</b>
9:15 a.m.	<b>PIMCO presentation</b> Presenters: Rick Fulford, Liz Philipp
10:00 a.m.	<b>Audit Committee Report</b>
10:15 a.m.	<b>Legal Report</b> <ol style="list-style-type: none"><li>1. Litigation update</li><li>2. Legislative update</li><li>3. Discussion of memo re proposals for 2011 legislation</li><li>4. Approval of publication of <i>Notice of Proposed Rulemaking</i></li></ol>
10:45 a.m.	<b>Discussion of resolution endorsing opposition to Proposition 101 and Amendments 60 and 61</b>
11:00 a.m.	<b>Break</b>
11:10 a.m.	<b>Approval of Colorado Springs contribution rates and SRA allocation</b>
11:20 a.m.	<b>Discussion of plan for possible SWDB member contribution election</b>
11:50 p.m.	<b>Lunch</b>

12:35 p.m. **Staff report**

1. CEO report
2. SB 10-146 – PERA contribution rate
3. Update on the status of the DC RFP
4. Other matters

12:50 p.m. **Chairman's report**

1. Monthly discussion
2. Evaluation of Clifton Gunderson
3. Educational Evaluation Form
  - Lyle Hesalroad – Stars & Stripes evaluation
  - Leo Johnson – Market Makers evaluation
4. Election of Vice Chairman
5. Other matters

1:35 p.m. **Governance manual review**

1:50 p.m. **Strategic plan review**

2:35 p.m. **Break**

2:50 p.m. **Board educational session**

**a. Legal standard for considering benefit matters**

- **Due Process Considerations for Benefit Decisions**  
Presenter: Kevin Lindahl
- **Fiduciary considerations when making benefit decisions**  
Presenter: Terry Mumford, Ice Miller

**b. FPPA plans and benefits**

Presenter: Gina McGrail

**c. FPPA in perspective – public safety plan design and comparison**

Presenter: Joe Newton, Gabriel, Roeder, Smith & Co.

5:20 p.m. **Adjourn**

6:00 p.m. **Board dinner**

**Fire and Police Pension Association  
Minutes – Board of Directors Meeting,  
Strategic Planning Session  
and  
Educational Training Session  
July 22, 2010**

**FPPA Office**  
**5290 DTC Parkway, Suite 100**  
**Greenwood Village, CO 80111**

**Board Members Present:** Chairman Leo Johnson, Vice Chairman Tim Nash, Kirk Miller, Jack Blumenthal, Todd Bower, Sue Eaton, Cliff Stanton.

**Board Members Absent:** Lyle Hesalroad (excused) and Monica Cortez-Sangster (excused).

**Staff Members Present:** Dan Slack, Kevin Lindahl, Scott Simon, Gina McGrail, Kim Collins, Austin Cooley, Claud Cloete, Jeff Kaszubowski, Sean Ross, and Janette Hester. Present at the Educational Training Session: Elane Ables, Melanie Winters, Barb Greer, Beth Hemenway, Gina Witsell and Kyleigh Shipp.

**Others Present:** Liz Phillip and Rick Fulford, PIMCO; Tim O'Brien, FPPA Internal Auditor (9:50 a.m.). Present at the Educational Training Session: Terry Mumford, Ice Miller; Joseph P. Newton and Dana Woolfrey, Gabriel Roeder Smith & Company (GRS).

*Notice of this meeting and a copy of the agenda were posted in the building lobby of the FPPA office and on the FPPA website at least twenty-four hours prior to the meeting.*

At 7:33 a.m., Chairman Leo Johnson called the meeting to order and noted that there was a quorum present. Chairman Johnson called for a motion to approve the minutes.

Todd Bower moved approval of the minutes of the May 27, 2010 board meeting. Vice Chairman Tim Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Bower moved to approve the resolution requesting coverage under the FPPA Defined Benefit System as submitted by the Security Fire Protection District, such coverage to be effective on December 15, 2010. Kirk Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

FPPA General Counsel Kevin Lindahl introduced Terry Mumford, attorney with Ice Miller, outside legal counsel for FPPA. Mr. Lindahl stated that Ms. Mumford would

be presenting at the afternoon educational training session and had requested the opportunity to observe today's board meeting.

### **Investment Risk Committee (IRC) Report**

IRC Chairman Todd Bower reported that the Investment Risk Committee (IRC) met via webcast on June 9, June 23 and July 8, 2010. Mr. Bower commended the commitment of the investment staff in reaching the portfolio construction goals. Mr. Bower and Mr. Miller concurred that they were comfortable with the IRC process and the opportunity to present information in a timely manner to the entire board. Mr. Bower noted that supporting documents discussed are available on the board website. He reported that further changes to the new Master Investment Policy Statement (IPS) would be forthcoming, as necessary, to address guidance issues and limitations in implementing the policy. He reported that the IRC reviewed and supported the board adoption of revised language to the Master IPS regarding the modified approval process for consultant recommendations on alternative investments. Scott Simon stated that near-term revisions to the language in the Master IPS could be made more frequently than once per year to keep the entire board actively involved and educated to the investment process. Mr. Bower reported that the IRC focused on global equity portfolio construction; the global equity manager search; and clarification of IPS language regarding the modified approval process for consultant recommendations on alternative investments. The IRC reviewed the portfolio construction plan for fixed income and concurred that the recommendation was in compliance with board policies. The IRC reviewed four consultants' investment recommendations that were presented by staff. Mr. Bower reported that the committee expressed concern over the timing of recommended fixed income allocations until the passive manager search was completed and advised staff to continue the search for a passive manager before implementing terminations and reductions.

Mr. Bower concluded the IRC report at 7:41 a.m.

### **Investments Report**

Mr. Simon provided the monthly investment report for May and June and an economic and market summary. He reported volatile market performance during May and June, as the markets reacted unfavorably to the sovereign debt issues of Europe and continued struggling employment situation in the U.S. He reported the equity markets declined in May and June, while the fixed income markets appreciated in May and June. Mr. Simon reported the total fund declined 5.02% in May and declined an estimated 1.51% in June, bringing performance to -1.82% YTD. The total fund closed the month of June with \$2.74 billion in net investible assets. He reported that international managers have performed better than their benchmarks and small cap managers have added incremental value. Fiduciary Asset Management (domestic large cap equity) underperformed. He reported that the existing mandate with GAM (hedge fund-of-funds) was redeemed with proceeds

being held in anticipation of moving to their global macro strategy later this year. Mr. Simon reported that in August 2010, State Street Global Advisors (SSgA) will again offer full redemptions related to their index funds. He reported that staff conducted an on-site visit July 1, 2010, which addressed the recent departure of senior executives from the securities lending division of SSgA. Mr. Simon reported that staff remains comfortable with the securities lending program and personnel of SSgA. Mr. Simon reported a flat month in May for private equity returns (+0.22%) and the appreciation of the real estate portfolio (1.15%). Mr. Simon reported that staff concurs with a Townsend recommendation to commit \$15 million to H2 Special Opportunities Fund II within the private equity real estate portfolio. He reported that staff concurs with Hamilton Lane's recommendations to commit \$15 million to JMI Equity Fund VII, \$10 million to Ethos Private Equity Fund VI and \$15 million to Energy Capital Partners II within the private capital portfolio. He answered questions from the board.

Mr. Simon and Kevin Lindahl provided an update on the law firm search to conduct legal reviews on fund documents of potential investments. Mr. Lindahl provided a memo and gave an update on the Request for Proposals (RFP) utilized. He reported that responses from 16 qualified law firms had been received. Mr. Lindahl reported on the screening and evaluation criteria process, which included experience, qualifications, team organization, management structure, and client relations. Mr. Lindahl reported that the field was narrowed to three finalist firms and each firm made a presentation on June 30, 2010, to Dan Slack, Mr. Lindahl and Mr. Simon. Mr. Lindahl reported that the firm of Ballard Spahr was deemed best suited to the needs for investment counsel. The firm of Mayer Brown will remain available for projects where Ballard Spahr has a conflict or where more specific expertise is required.

Mr. Simon reported that the IRC had reviewed and approved the proposed absolute return strategy portfolio construction. Mr. Simon noted that, while there would be some implementation hurdles and upfront legal and administrative burdens, this structure would allow the portfolio to be customized to the specific needs of FPPA, be more cost effective and provide greater liquidity and governance. Mr. Blumenthal requested a memo from staff outlining the details of the strategy, the impact on organizational controls, and the impact upon similar pension funds employing the same investment strategy. Mr. Simon, Mr. Slack and Mr. Lindahl answered questions from the board regarding due diligence on this strategy and appropriate options. Mr. Simon asked for board approval of the absolute return portfolio construction. Staff will then continue the due diligence process and gather information to determine what is appropriate for the portfolio. Mr. Simon stated that staffing is currently appropriate but an increase might need to be considered in the future.

Mr. Bower made a motion to approve the absolute return portfolio construction and to proceed with due diligence. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Claud Cloete reviewed a memo regarding analysis of the fixed income portfolio construction. He reported that under the new investment structure, an interim target allocation to fixed income is moving from 25% to 22% within the portfolio. Mr. Cloete reviewed an analysis of WAMCO and highlighted the significant volatility of performance. He stated that Pension Consulting Alliance (PCA) concurred with this analysis and with staff's recommendation to eliminate the role of WAMCO within the new portfolio. To support the revised role of fixed income as risk reducer, Mr. Cloete reported that staff recommends the following for the fixed income investment class:

- a. Terminate TCW, as FPPA no longer has a strategic allocation to high yield fixed income.
- b. Terminate WAMCO, as their performance and portfolio construction does not meet the criteria of a risk reducing manager.
- c. Reduce exposure to PIMCO below 10% of the total portfolio to reduce the concentration risk of exposure to a single manager's strategy.
- d. Move the allocations of MetWest and Mountain View to the opportunistic investment class.
- e. Initiate a search for a passive fixed income manager to increase the flexibility and liquidity options within the fixed income portfolio.
- f. Initiate a search for an active manager(s) to complement the exposure to PIMCO.

Mr. Simon stated that staff would continue the manager search process and come back to the board with recommendations. He and Mr. Cloete answered questions from the board.

Mr. Bower made a motion to approve the fixed income recommendations as written. Cliff Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Bower made a motion to approve the termination of TCW at the discretion of staff on the timing and contingent upon having another vehicle in place. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Bower made a motion to approve the termination of WAMCO at the discretion of staff on the timing and contingent upon having another vehicle in place. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Simon provided an update on the global equity manager search. He reported that the 144 respondents were narrowed to 14 managers. Staff will be conducting on-site diligence with 3 managers during early August. Mr. Simon anticipates staff will make a recommendation to the board at the August meeting.

Mr. Simon reported on the proposed change to the new Master IPS language regarding the approval process of consultant recommendations on alternative investments. Mr. Simon reported that the investment staff and IRC encountered some practical limitations of implementation of the recently enacted policy, due to a short period of time between when the investment consultant presents the final recommendation and the closing of the fund. Mr. Simon proposed a language revision to eliminate the requirement for the IRC to provide concurrence on consultant recommendations. The CIO will still be required to approve consultant recommendations. The IRC would monitor portfolio construction implementation through regular deal log reports. Mr. Simon and Mr. Slack answered questions and requested direction and policy clarification from the board. Mr. Bower, Mr. Blumenthal and Mr. Miller expressed support of the IRC's purpose to provide guidance to staff, to reduce workload for the board and to keep the board informed.

Mr. Bower made a motion to approve changes to the Master Investment Policy Statement, as indicated in the memo in the board packet. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Stanton requested further information on an IRC issue regarding the disagreement between the FPPA investment staff and Townsend (real estate consultant). Mr. Simon provided an update on a redemption request out of real estate exposure to which Townsend raised objection. Townsend is preparing a memo on its position and the investment staff will prepare a response. Both analyses will be presented at the next IRC meeting and to the board at the August meeting.

Mr. Blumenthal called for discussion on the funded status of the defined benefit plans. Mr. Slack noted that this issue would be addressed in the strategic plan portion of the meeting and that staff will make a recommendation at that time. Chairman Johnson, Mr. Miller and Mr. Bower concurred that the issue of adequate funding was a discussion topic that should be explored.

The meeting recessed for break and reconvened at 9:25 a.m.

### **PIMCO Presentation**

Mr. Simon provided background information on the capabilities and the role of PIMCO in the restructured fixed income portfolio and answered questions from the board. Mr. Simon then welcomed PIMCO managers Liz Phillip and Rick Fulford to the board meeting. Ms. Phillip provided a summary PIMCO's current mandate with FPPA, the factors contributing to market volatility in recent weeks, and the status of the fragile economic recovery. She stated that PIMCO has out-performed the benchmark on an annualized basis for over 10 years. She discussed the FPPA goals and investment strategy going forward and the major factors affecting the portfolio. Mr. Fulford stated that PIMCO delivered a less volatile portfolio because it maintains a fundamental approach oriented to managing risk. Ms. Phillip and Mr. Fulford

answered questions from the board and staff and concluded their presentation at 10:27 a.m. Mr. Bower left the meeting.

### **Audit Committee Report**

Audit Committee Chairman Jack Blumenthal reported that the audit committee met on June 30, 2010. Mr. Blumenthal provided a copy of the new draft charter for board review and approval. He explained how the charter document was developed and the powers, duties and reporting obligations to which the audit committee would be obligated. Mr. Blumenthal reported that the audit committee should accept responsibility for review and approval of reports from the internal and independent auditors, and subsequently submit details to the board. The audit committee should accept responsibility for overseeing the accounting and financial reporting of FPPA. Mr. Blumenthal noted that the board as a whole would be responsible for the review and approval of the FPPA annual budget. He reviewed several agenda items discussed at the meeting and answered questions from the board. Mr. Blumenthal reported the committee's recommendation that the charter be reviewed annually in a formal manner, and then reviewed every 3 years thereafter.

Vice Chairman Nash made a motion to adopt the charter of the audit committee. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Tim O'Brien, Mr. Cooley, Mr. Cloete, Mr. Kaszubowski and Mr. Ross left the meeting.

### **Legal Report**

Mr. Lindahl provided the litigation report. In the G-1 Holdings case, he reported that the Bankruptcy Court has rejected the IRS objections to the reorganization plan and has adopted the final plan. The IRS's appeal of the adoption is now pending. In the Countrywide Derivative case, he reported the case is on hold pending matters unrelated to FPPA's issue. Mr. Lindahl reported that he attended the Tronox Kerr-McGee settlement conferences. He reported that a settlement was not reached and that discussions continue. Defendants' motions to dismiss have been ruled upon. The motions to dismiss were denied in part and granted in part. The Court has permitted the Complaint to be amended.

Mr. Lindahl reported that the legislature is in recess. He provided a memo regarding proposals for 2011 legislation for board consideration. Two pieces of legislation for board consideration included:

1. *Audit Authority for FPPA.* To ensure compliance with contribution requirements for participating employers, it would be beneficial to have express authority to conduct audits of employers to ensure the proper definition of base salary is being used in calculating contributions and that contributions are being timely submitted.

Staff recommends that this be the only piece of legislation proposed by FPPA in 2011.

2. *Statewide Death and Disability Plan.* Restructuring the statutes governing the SWD&D Plan would help eliminate redundant provisions and make the flow of information more logical and easier to understand and communicate (per the Plan Simplification Committee). Staff recommends deferring this matter due to anticipated implementation of the new administrative approval process in 2011 and the extensive amount of time it will take to draft and review the document prior to the bill's introduction.

Mr. Lindahl reminded the board that the Pension Reform Committee will meet in January 2011, because interim committees have been canceled by the governor due to budget reductions. He reported that bills would need to be submitted by October in order to be properly drafted. Mr. Lindahl asked if there were other legislative issues that the board would like addressed. He answered questions from the board.

Mr. Miller made a motion to authorize staff to draft 2011 legislation. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Lindahl provided a copy of the 2010 Notice of Proposed Rule Making that will be published on August 5, 2010. He reviewed the benefits decision making process amendments that make changes in the process for administrative decisions, evidentiary hearings, and review of hearing officer recommendations. This affects both the death and disability applications and could impact pension benefits where staff determinations were made on a particular issue. He provided a handout for determination of benefits to aid in the discussion. The amended rules increase the authority of the DDRC and simplify the board's responsibilities in the hearings' process. Mr. Lindahl stated that the board reviews the findings and recommendations and may affirm, modify or reverse the recommendation for specific reasons, or remand the case to the hearing officer. The amended rules would repeal the provision allowing for a discretionary second full hearing conducted before the board. He reported that other rules changes included return to work; chief election option; operating rules of the board; and clarification issues of other rules. Mr. Lindahl reported that the proposed amendments to the rules will be presented at the September board meeting.

Mr. Miller moved that the board direct staff to finalize and publish the Notice of Proposed Rule Making in substantially the form presented to and reviewed by the board. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Lindahl provided a memo regarding his participation at an advanced legal course of study; his attendance at an annual conference of public pension attorneys; and his attendance at an investment seminar. He expressed his

appreciation that the board is supportive of continuing education as an investment for the organization. He concluded the legal report at 11:10 a.m.

**Discussion of resolution endorsing opposition to  
Proposition 101 and Amendments 60 and 61**

Mr. Slack and Mr. Lindahl provided copies in the board packet of Proposition 101 (Colorado Revised Statutes concerning limits on government charges); Amendment 60 (property taxes); and Amendment 61 (state and local debt limitations).

Mr. Slack reviewed the concerns that local governments have expressed regarding the effects that the passage of these amendments and proposition will have on their budgets. Mr. Lindahl reported on the benefits of declaring an official FPPA position on the proposition and the amendments, should any phone calls be received by the organization.

Mr. Blumenthal moved to approve Resolution No. 2010-2 Statement of Resolution in Support of Coloradans for Responsible Reform. Sue Eaton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. The meeting recessed for break and reconvened at 11:30 a.m.

**Approval of Colorado Springs contribution rates and SRA allocation**

Kim Collins provided a memo for the board's consideration regarding results from January 1, 2010, actuarial valuations report on the Colorado Springs New Hire Pension Plans. Ms. Collins stated that the city of Colorado Springs had reviewed the reports. She answered questions from the board and, subsequently, requested board approval for contribution rates that would become effective January 1, 2011.

1. Colorado Springs New Hire Pension Plan for Police Component Contribution Rate.

Gabriel Roeder Smith & Company (GRS) reported the Police Component actuarial required contribution should be \$10.2M or 28.906% of pay effective January 1, 2011. The current actuarial required contribution is \$10.6M or 29.160% of pay. The minimum contribution rate for the plan is 16%. Staff recommends the board establish a contribution rate of 28.906% for this plan effective January 1, 2011. The split between employer and member will be 20.906% employer and 8.0% member.

Mr. Miller made a motion to change the Colorado Springs New Hire Pension Plan for Police Component contribution rate to 28.906% effective January 1, 2011, which will be split as follows: an 8% member contribution rate and a 20.906% employer contribution rate. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

2. Colorado Springs New Hire Pension Plan for Police Component Stabilization Reserve Account Contribution Rate

The board may allocate additional deposits to the new hire benefits account between the actuarial account and the stabilization reserve account ("SRA") based upon the results of the actuarial study for the previous year. GRS is recommending an SRA rate of 0% effective January 1, 2011. The current SRA rate is 0%.

Mr. Miller made a motion to set the Stabilization Reserve Account (SRA) contribution rate for the members of the Colorado Springs New Hire Pension Plan for Police Component at 0% effective January 1, 2011, through December 31, 2011. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

3. Cost-of-Living-Adjustment for Colorado Springs New Hire Pension Plan for Police Component

Per the Colorado Springs New Hire Pension Plan Document for Police Component, on an annual basis, certain retired Members will receive an additional benefit if there is an increase in the Cost of Living. The increase will be the product of the monthly retirement benefit, reduced monthly retirement benefit, or vested separation benefit times the increase in the Cost of Living. The additional amount shall start on the October 1 immediately prior to the earlier of (i) the date on which the Member reaches age sixty (60), or (ii) the date on which the Member has received a monthly retirement benefit, reduced monthly retirement benefit, or vested separation benefit for a period of ten (10) years, and shall be re-determined effective October 1 of each year thereafter.

"Cost of Living" means an increase of not more than three percent (3%) in the cost-of-living over the previous year, rounded (i) for purposes of the Fire Component, down to the nearest one-half percent (0.5%), or (ii) for purposes of the Police Component, to the nearest one-half percent (0.5%). The increase will be determined as of December 31 of each year by the Plan Administrator by using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Ms. Collins reported that the CPI-W as of December 31, 2009 was -0.7%. FPPA will implement the COLA for retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Police Component at 0% effective October 1, 2010 through September 30, 2011. She stated that no board action was required.

4. Colorado Springs New Hire Pension Plan for Fire Component Contribution Rate

The City of Colorado Springs has agreed to fund the additional funding requirements of closing this plan. All other costs of the plan will continue to be equally shared by the members of the plan and the City of Colorado Springs. The difference between the open and closed plan contribution rate is 4.015%.

GRS reported the Fire Component actuarial required contribution should be \$5.6M or 25.095% of pay effective January 1, 2011. The current actuarial required contribution is \$5.9M or 25.133% of pay. The minimum contribution rate for the plan is 16%. Staff recommends the board establish a contribution rate of 25.095% for the plan effective January 1, 2011. The split between employer and member will be 15.095% employer and 10% member. The contribution split is determined as follows: 1) the contribution rate of 25.095% is reduced by the amount of the additional funding requirement (4.015%); 2) The rate is then divided equally between the member/employer, but the member's rate cannot exceed 10%. Since the divided rate exceeds 10% in this case (10.54%), the member's rate will be 10%. The employer rate (15.095%) equals the actuarial contribution rate minus the member rate.

Mr. Miller made a motion to increase the Colorado Springs New Hire Pension Plan for Fire Component contribution rate to 25.095% effective January 1, 2011, which will be split as follows: a 10% member contribution rate and a 15.095% employer contribution rate. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

5. Colorado Springs New Hire Pension Plan for Fire Component Stabilization Reserve Account Contribution Rate

The board may allocate additional deposits to the new hire benefits account between the actuarial account and the stabilization reserve account (SRA) based upon the results of the actuarial study for the previous year.

GRS is recommending an SRA rate of 0% effective January 1, 2011. The current SRA rate is 0%.

Mr. Miller made a motion to set the Stabilization Reserve Account (SRA) contribution rate for the members of the Colorado Springs New Hire Pension Plan for Fire Component at 0% effective January 1, 2011, through December 31, 2011. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

6. Cost-of-Living-Adjustment for the Colorado Springs New Hire Pension Plan for Fire Component

Per the Colorado Springs New Hire Pension Plan Document for Fire Component, on an annual basis, certain retired Members will receive an additional benefit if there is an increase in the Cost of Living. The increase will be the product of the monthly retirement benefit, reduced monthly retirement benefit, or vested separation benefit times the increase in the Cost of Living. The additional amount shall start on the October 1 immediately prior to the earlier of the date on which the Member reaches age sixty-five (65), or the date the Member has received a monthly retirement benefit, reduced monthly retirement benefit, or vested separation benefit for ten (10) years, and shall be redetermined effective October 1 of each year thereafter.

“Cost of Living” means an increase of not more than three percent (3%) in the cost-of-living over the previous year, rounded (i) for purposes of the Fire Component, down to the nearest one-half percent (0.5%), or (ii) for purposes of the Police Component, to the nearest one-half percent (0.5%). The increase will be determined as of December 31 of each year by the Plan Administrator by using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Ms. Collins reported that the CPI-W as of December 31, 2009 was -0.7%. FPPA will implement the COLA for retirees and beneficiaries of the Colorado Springs New Hire Pension Plan for Fire Component at 0% effective October 1, 2010, through September 30, 2011. She stated that no board action was required.

### **Discussion of plan for possible SWDB member contribution election**

At the request of the board, Mr. Slack and Gina McGrail provided a memo regarding a possible statewide election to increase the member contribution in the Statewide Defined Benefit Plan. Mr. Slack stated that, if an election were pursued, it would be expensive and that a 2010 election might require budget amendments, if the costs exceed \$3000. Mr. Slack reviewed the timeline of steps that would be needed to create and conduct a task force to gather opinions and support for the election. Ms. McGrail stated that an election would be time-consuming for staff to educate the membership on the issues and the importance of casting a vote. She reviewed that a “non” vote is a “no” vote so voter turnout is critical. She explained that all ballot items must pass by 65% of the eligible members and by over 50% of the employers. Ms. McGrail estimated that the preparation and execution process of an election would take about 15 months. Mr. Slack noted that as a part of the strategic plan, the staff would be recommending that the board authorize conducting an actuarial experience study in 2011. Mr. Slack suggested that it would be appropriate to conduct and incorporate the results of the experience study before considering the election process. Mr. Slack and Ms. McGrail answered questions from the board.

The meeting recessed for lunch and reconvened at 12:40 p.m.

### **Staff Report**

Mr. Slack reported that he and Ms. McGrail had attended meetings with Aurora City Council regarding the possible re-affiliation of Aurora Fire with FPPA. He stated that other departments continue to make inquiries about re-entry. Mr. Slack reported that he and Ms. McGrail had been called as witnesses and testified on July 20<sup>th</sup> and July 21<sup>st</sup> at an arbitration hearing. They responded to questions concerning contribution rate, actuarial studies and the stability of FPPA.

Mr. Slack reported that the operations and benefits departments were developing web-based video presentations that would be available on the organization's website to communicate general FPPA information and explain various benefits provisions.

Mr. Slack provided a memo in the board packet regarding the SB 10-146 PERA contribution rate change. He reviewed the bill that was signed by Governor Ritter on March 31, 2010, to help balance the state's budget. FPPA is an employer in the State division of PERA but FPPA is not a part of the state budget. Application of this legislation to FPPA does not accomplish the stated purpose of the legislation. The bill reduces employer contributions by 2.5% and increases employee contributions by an equivalent amount for the year 2011 (July 1, 2010 – June 30, 2011). The bill would require members to contribute 10.5% rather than the current 8%, and employers to contribute 7.65%, down 2.5% from the current contribution. This change is effective for one year only. The same contribution change is required of working retirees beginning January 1, 2011. Mr. Slack and Mr. Lindahl researched the matter, spoke with counsel at PERA, and conferred with FPPA tax counsel at Ice Miller. They subsequently drafted proposed Resolution No. 2010-3 for board consideration. The Resolution would allow FPPA to pay the additional 2.5% employee contribution as an employer, without increasing the taxable compensation of FPPA employees. The FPPA budget for 2010 will not be affected negatively, and Mr. Slack anticipates that FPPA would budget for and pay the additional 2.5% employee contribution for the first six months of 2011. He recommended that the board adopt Resolution No. 2010-3.

Vice Chairman Nash made a motion to approve Resolution No. 2010-3.  
Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Ms. McGrail reported that consulting firm Bidart & Ross had been retained to assist staff in developing and issuing a RFP for a recordkeeper and investment provider for the defined contribution plans administered by FPPA. This RFP was issued in May and sent to 12 firms including the current provider, Fidelity Investments. It was also posted on the FPPA website. Seven (7) firms including Fidelity responded by the June deadline. An initial report from B&R was due to staff next week. Once that is received, staff will meet with B&R to review the report and responses and determine the next steps in the evaluation process.

### **CHAIRMAN'S REPORT**

Chairman Johnson requested that the board consider changing the date of the September board meeting as it conflicted with the Special Districts Administration (SDA) Conference. Attendance at this conference may involve several board members and staff, and the agenda topics would have an impact on the rules making hearing scheduled for September. It was the consensus of the board to change the board meeting date to September 30<sup>th</sup>. Chairman Johnson provided a written evaluation of his attendance at 2010 Market Makers Conference in June.

He reported that the topics of interest on the agenda included a debate regarding the 8% return on investment in public pension funds, the unemployment rate in the U.S., and the big drop in conference attendance due to budgets.

It was the consensus of the board to elect Vice Chairman Tim Nash as the next chairman of the board. His term as chairman will run from September 1, 2010, until August 31, 2011. The election of vice chairman was deferred until the August board meeting. The customary rotation would have an employee representative as the next vice chairman.

Ms. McGrail reported on the search to replace the FPPA Medical Advisor following the notice of resignation from Roderic Gottula, M.D. She also stated that Dr. Gottula will continue to serve until his replacement is confirmed and if his schedule permits would be willing to assist with training the new Medical Advisor. Ms. McGrail has extended the deadline for applications until July 30, 2010. She answered questions from the board.

Chairman Johnson asked questions of staff regarding the reemployment of a member who is retired on disability and FPPA's processes to review benefit eligibility. Ms. McGrail and Mr. Lindahl responded to Mr. Johnson's questions.

### **Governance Manual Review**

Mr. Slack provided a several page of updates to the governance manual for board review. The changes were approved at the April board meeting with a plan to make further revisions for approval at the July meeting. Mr. Slack reviewed the summary of draft changes, updates and deletions and answered questions from the board. He reported that a complete redlined version of the governance manual had been placed on the secure board website for review in its entirety. A printed version will be made available to any board member who requests one. Mr. Blumenthal raised a question regarding the ethics policy that was discussed at length during the audit committee meeting. Mr. Blumenthal reported that the audit committee felt it was appropriate to require completion of disclosure forms by any board or staff member who received a gift with a value exceeding \$15. Mr. Slack was directed to revise the ethics policy language in the governance manual and bring those changes to the August board meeting. Mr. Slack completed his review of updates and recommended approval of the additional changes to the governance manual, with the exception of the ethics policy.

Mr. Stanton made a motion to approve the changes to the governance manual, with the exception of the ethics policy section. Sue Eaton seconded the motion.  
MOTION CARRIED IN FAVOR UNANIMOUSLY.

## **Strategic Plan Review**

Mr. Slack provided a 2Q strategic plan 2010-2012 update in the board packet. He provided a power point handout at the meeting with additional objectives and staff recommendations having potential 2011 budget implications. For the benefit of new trustees, he provided background information regarding the creation of the document during the summer planning meeting in 2009 and explained that the implementation process was in the early stages. Mr. Slack reviewed the objectives of the six goals and updated their status.

**Goal #1 – Sustain current benefit levels and, whenever feasible, improve benefits, communications and services.** Mr. Slack reported that staff is developing web based videos that will explain the benefit provisions. The ASPEN Member Account Portal continues to be developed and refined. Staff is revising the process and rules to modify the hearing processes. Staff continues to explore sustainability of plan benefits and to explore plan design alternatives to accommodate those who want to work after retirement. Staff is evaluating the administration of current defined contribution plans.

**Goal #2 – Prudently manage fund assets for the benefit of the membership.**

Mr. Slack noted that the mission statement has been revised to ensure consistent language with the strategic goals. A revised investment decision-making process was incorporated with the updated Master Investment Policy Statement. Staff has established a risk-based approach to portfolio management and developed additional reports and tools of analysis. New asset allocation is being implemented. Absolute return asset class portfolio construction continues.

**Goal #3 – Maintain highly efficient and effective operations and technology to support staff, board and membership.**

Mr. Slack reported that the ASPEN system has been upgraded and the help features of the Member Account Portal are near completion. Information technology security policies are under formal development. The Disaster Recovery Plan is being tested and updated. Quotes for adequate fire suppression mechanisms in the computer room are being reviewed. The network password policy and procedures are under review. Security cameras have been installed in the lobby and additional security cameras in the FPPA office suite are planned. The required changes to medium and high level internal system risks have been completed. Technological resources are being maintained at an efficient level. Implementation of technological enhancements and business processes per legal, legislative and membership requirements are ongoing.

**Goal #4 – Maintain ethical standards and ensure legal and policy compliance.**

Mr. Slack reported that a document retention policy and a corresponding program is under development. The first draft of a model Old Hire plan document is being reviewed.

**Goal #5 – Seek legislative and other changes that are in the best interest of FPPA.**

Mr. Slack reported the plan simplification objective is ongoing. Return to work legislation was passed and corresponding rules have been drafted. Simplification of the SWD&D hearing process has been drafted in the form of rules.

**Goal #6 – Maintain and improve the leadership of FPPA.**

Work has begun with HR to compile data and survey information to assess appropriate compensation and benefits and to compare recruitment and retention policies with similar entities. Development of individualized board education sessions and review of trustee orientation program is ongoing. Staff continues to seek public speaking and service opportunities that broaden expertise and enhance the FPPA public relations strategy.

Mr. Slack referred the board to the power point handout that included staff recommendations having potential 2011 budget implications for board consideration. He reported on the additional objectives and requested feedback from the board.

**Goal #1**

- Mr. Slack reported that the self-directed investment fund is increasing. Staff recommends establishing a retainer relationship with a consultant for the defined contribution and deferred compensation plans. Engaging the assistance of a consultant would allocate expenses appropriately between the self-directed investment fund and the benefit investment fund. Knowledge of the fee structure within the industry would ensure that members pay as low a fee as possible.
- Mr. Slack and Ms. Collins reported on the reasons in support of staff's recommendation for two actuarial studies: (1) experience study of assumptions (approximate cost of \$46,000) and (2) an actuarial audit – full replication to discover problems to the plans (approximate cost of \$100,000-125,000).

**Goal #2**

- Mr. Slack reported staff's recommendation to acquire a Bloomberg terminal for investment reporting and monitoring (cost of \$22,000). Staff also anticipates increased due diligence travel in oversight of portfolio (cost of \$20,000).

**Goal #3**

- Mr. Slack provided a list of operations issues and technology items with their estimated costs to maintain support to staff, board and membership. He explained that the recommendations would reduce organizational costs after implementation.

**Goal #4**

- Mr. Slack reported that the imaging system is obsolete and needs to be replaced (capital expenditure of \$350,000). He reported that all departments would benefit from a new records management system.

**Goal #5**

- Mr. Lindahl reported that additional legal resources needed in the future to support all departments.

**Goal #6**

- Mr. Slack reported that board governance/management consulting services would be needed to identify and institute or maintain best practices.

Mr. Slack encouraged board members to contact him after the meeting with questions or to discuss any strategic plan recommendations. He concluded the strategic plan update.

**EDUCATIONAL TRAINING SESSION**

Chairman Johnson welcomed guest presenters Terry Mumford, Joe Newton and Dana Woolfrey, and several FPPA staff members who joined the educational training session. Kevin Lindahl, FPPA General Counsel, gave a presentation entitled: *Due Process Considerations for Benefits Decisions*. Terry Mumford, attorney with Ice Miller, made a presentation entitled: *Fiduciary Considerations When Making Benefit Decisions*. Gina McGrail, FPPA Chief Benefits Officer, made a presentation entitled: *FPPA Benefit Plans "Thirty Years Strong"*. Joe Newton, actuary with Gabriel, Roeder, Smith & Co., gave a presentation entitled: *FPPA in Perspective – Public Safety Plan Design and Comparison*. The education session concluded at 5:32 p.m.

Vice Chairman Nash moved to adjourn the board meeting and education session. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.