

MINUTES OF THE REGULAR MEETING
City of Aurora General Employees' Retirement Board

Held Thursday, April 20, 2017
12100 East Iliff Avenue, Suite 108
Aurora, CO 80014

1) 8:00 AM - Meeting Called to Order

Roll Call

Chairperson	David McConico	Present
Legislative Members	Helen DiBartolomeo	Present
	Cliff Haight	Present
	Joe McCleary	Present
	Michelle Reding	Present
	Sue Sandstrom	Present
	Trevor Vaughn	Present
Nonvoting Members	Janice Napper (for Skip Noe, City Manager)	Present
	Jackie Ehmann (for Terri Velasquez, Finance)	Present
	Dan Quillen (Human Resources)	Present
	Dan Brotzman (City Attorney)	Present
Staff	Thomas Connell	Present
	Aaron Kahn	Present

2) Approval of the Minutes

Trevor Vaughn moved and Cliff Haight seconded a motion to approve the minutes of the regular meeting held on March 16, 2017. The motion was passed unanimously.

3) Treasurer's Report

Tom Connell reviewed the financial statements and investment performance for February 2017. As of April 18, 2017, the fund was valued at approximately \$436.6 million.

Tom included in the Board packet an article explaining the differences between various rate of return calculation methods.

4) Review of Lump Sum Distributions for March

Thirteen participants received lump sum payments totaling \$139,460.32.

5) Approval of Retirement Benefits

Aaron Kahn presented the retirement calculations. Sue Sandstrom moved and Joe McCleary seconded a motion to approve retirement benefits for **Margaret L. Alt, Mary M. Averginos, Ronald G. Duley,**

Marilyn S. Meverden, Harley E. Northrop, Yvonne P. Olivas, Ilse C. Oshel, Jeffrey L. Prink and David E. Schuman. The motion passed unanimously.

6) New Business

A) 12/31/2016 – Financial Audit Report

Christopher Telli, Bud Hollenkamp and Lisa Horn BKD, LLP

Bud Hollenkamp told the Board that GERP's 2016 financial statements received an unmodified, or "clean" opinion. As of December 31, 2016, the Plan's net position was \$425,231,226.

Mr. Hollenkamp explained that BKD conducted the audit in accordance with both Generally Accepted Auditing Standards and Governmental Auditing Standards. He noted that GERP had implemented Governmental Accounting Standards Board (GASB) Statement No. 72 for the 2016 audit. This standard increases investment disclosure requirements relating to the fair value of assets. GASB 72 has a hierarchy of valuation inputs: Level 1 inputs apply to actively traded investments with prices determined by markets; Level 2 inputs considers the values of similar assets to price investments that aren't actively traded; and Level 3 inputs are unobservable inputs with significant underlying assumptions. GERP had no Level 3 investments.

Christopher Telli complimented the Board and staff and noted that considering this was the first year of the audit engagement, things went very smoothly. BKD had no recommendations for improvements.

B) 1/1/2017 Actuarial Valuation (preliminary results)

Joel Stewart and Katie Antoline Milliman

Joel Stewart reviewed preliminary actuarial valuation results based on current assumptions. He reminded the Board that the purposes of an actuarial valuation are to measure the Plan's liabilities, to determine the adequacy of contributions and to provide information required under accounting standards for governmental pension plans. While GERP's market value of assets on 1/1/2017 was \$425.2 million, the actuarial value of assets using 3-year smoothing of investment gains and losses was \$435.2 million.

Mr. Stewart discussed the impact of changing the inflation and investment return assumptions. He explained that under GASB Statement No. 82, if the assumptions used in financial reporting deviate from assumptions that would be selected under Actuarial Standards of Practice, the financial reporting will not be considered compliant with generally accepted accounting principles.

Mr. Stewart noted that the Plan's inflation assumption of 3.25% is significantly higher than the historical average annual increase of the Consumer Price Index (CPI-W) which had been 2.1% over 20 years and 2.6% over 30 years. He also mentioned that the Social Security Administration uses a 2.6% inflation estimate and other intermediate forecasts are even lower.

Minutes of the Regular Meeting
Held Thursday, April 20, 2017
Page 3

In response to Board questions, Mr. Stewart stated that a 4.5% real (minus inflation) return assumption for investments is reasonable given the Plan's historical performance and the positive contribution of its active managers. He noted that Callan Associates and Milliman are projecting real returns of 4.23% and 3.97% respectively.

Board members discussed the implications of changing these assumptions, weighing the advantages and disadvantages of making immediate changes vs. incremental adjustments. Most Board members favored leaving the real return assumption at 4.5%, but were divided between using 2.5%, 2.75% or 3% for inflation.

Trevor Vaughn moved and Cliff Haight seconded a motion to adopt 7.25% as the nominal investment return and 2.75% for inflation. Initially the motion failed to pass, with three members voting in favor and four against. After further discussion there was a revote and the motion was approved with Joe McCleary, Sue Sandstrom, Cliff Haight and Trevor Vaughn in favor, and Michelle Reding, Helen DiBartolomeo and David McConico opposed.

Mr. Stewart noted that, for GASB reporting purposes, the investment return assumption should be net of investment related expenses and that the Board should establish an assumption about other administrative expenses. Sue Sandstrom moved and Michelle Reding seconded a motion to establish an explicit actuarial assumption for administrative expenses. The motion passed unanimously.

The Actuarially Determined Contribution is the sum of the normal cost and an amortization of the unfunded liability. Mr. Stewart recommended reducing the amortization period from 30 years to either 20 or 15 years. Trevor Vaughn moved and Michelle Reding seconded a motion to change the amortization period to 20 years. The motion passed unanimously.

C) Review Updates to GERP Personnel Policy

Tom asked the Board to approve updates to the personnel policy manual for GERP staff members in order to reflect the practices and policies that are currently in place. Michelle Reding moved and Cliff Haight seconded a motion to adopt the revisions to policy manual as presented. The motion passed with Trevor Vaughn abstaining. Trevor explained his concern that GERP staff benefits may not be in alignment with those offered to City of Aurora employees.

Janice Napper suggested adding language regarding maternity leave and leave due to adoption at a future date.

Public Comments

There were no public comments.

7) Old Business

There was no old business.

8) **Report on Travel**

There was no report on travel.

9) **Staff Report**

Tom announced that Laura Steege has accepted the position of Administrative Coordinator. She will replace Karen MacDonald starting on May 1st. Karen has agreed to continue to work on a temporary basis to help train Laura. Tom thanked Helen DiBartolomeo for her assistance in the interview and hiring process.

Cliff Haight moved and Michelle Reding seconded a motion to adjourn. The motion passed unanimously.

Meeting Adjourned 10:47 AM
Minutes Submitted by Aaron D. Kahn

Minutes Approved

David L. McConico
Chairperson of the Board

5-18-17
Date