CITY OF PHILADELPHIA

SINKING FUND COMMISSION

In Re: Quarterly Meeting

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Wednesday, May 13, 2015

Philadelphia, Pennsylvania

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This Meeting of the Sinking Fund Commission, held pursuant to notice in the above mentioned cause before Susan A. Hurrey, RPR, in and for the Commonwealth of Pennsylvania, held at Two Penn Center, 16th Floor Conference Room, on the above date, commencing at 11:04 a.m., pursuant to the State of Pennsylvania General Court Rules.

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APPEARANCES:

COMMISSION MEMBERS:

Benjamin Gilbert, Chairman

Alan Butkovitz, Commissioner

Nancy Winkler, Commissioner

Bill Rubin, Alternate for Mr. Butkovitz

ALSO PRESENT:

Charles Jones, Executive Director

Christopher DiFusco, Chief Investment Officer, PGWPP

Frank Domiesen, Gallagher Fiduciary Advisors

ALSO PRESENT:

John Golden, PGW

James Leonard, City Law Department

Ellen Berkowitz, City Law Department

Jo Rosenberger-Altman, City Law Department

Kate Janoski, City Law Department

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MR. JONES: Mr. Chairman, I think the floor is yours.

MR. GILBERT: The first order of business will be to approve the minutes from the quarterly meeting held February 11th. They were circulated by way of e-mail.

Are there any questions, corrections, and/or additions to those minutes?

Hearing none, may I have a motion to accept the minutes from the February 11th meeting?

MS. WINKLER: So moved.

MR. RUBIN: Second.

MR. GILBERT: Any questions on the motion? All those in favor?

MR. RUBIN: Aye.

MR. GILBERT: Motion carries. The PGW Sinking -- actually, the Sinking Fund statements from March 31 were circulated by e-mail.

Any questions on those statements?

MS. WINKLER: Can we just ask Charlie to walk us through them?

MR. JONES: The Sinking Fund

statements, that is a set of statements regarding the activity and, basically, the general obligation Sinking Fund accounts. The balance that's shown on Exhibit-A of a million ninety-four thousand dollars is the amount that's in the variable rate -- the general obligation variable rate Sinking Fund account.

MS. WINKLER: What is that related to?

MR. JONES: That's related to the general obligation 2009B variable rate bonds.

MR. GILBERT: Any other questions?

MS. WINKLER: Just keep going.

MR. JONES: Exhibit-B shows you the activity in the current quarter and year-to-date in that account.

MS. WINKLER: So this is just the 2009 -- Exhibit-A is just the 2009 account?

MR. JONES: Yes. That's the balance in the cash account at the end of the quarter.

MS. WINKLER: And there are no other balances in any other general fund accounts?

MR. JONES: No. Nickels and dimes.

MS. WINKLER: Okay.

MR. JONES: Exhibit-B shows you the activity going through the general obligation accounts, Sinking Fund accounts on famous. Okay.

MS. WINKLER: Again, this is just on the 2009Bs?

MR. JONES: No. This activity is also on the other Sinking Fund accounts that we have for the general obligation bonds, too. And that activity is detailed in Exhibit-C.

MS. WINKLER: This is balances, not activity.

MR. JONES: On Exhibit-B?

MS. WINKLER: Yeah.

MR. JONES: B is activity. You see additions and deductions.

MS. WINKLER: What's the total amount of debt service paid by the Sinking Fund for the general obligation during the course of the year?

MR. JONES: I'm going to say it's about a hundred twenty-seven million dollars.

MS. WINKLER: So if this is the activity --

MR. JONES: Most of the activity -- most of the activity is in the first quarter of fiscal year. The largest amount of debt service, principal debt service, is paid August 1st.

MS. WINKLER: Well, if it's -- it's a hundred and how much?

MR. JONES: A hundred twenty-seven million.

MS. WINKLER: A hundred twenty-seven million. If B is an activity, why wouldn't we see the hundred twenty-seven million coming in and out if this is a full-activity statement?

MR. JONES: The activity on Exhibit-B is the activity for the swaps related to that account.

MS. WINKLER: Oh, I thought you said it was for the entire account. It's just for the swaps.

MR. JONES: This is just for the swaps.

MS. WINKLER: Does it say that on here?

MR. JONES: No.

MS. WINKLER: When you create this report the next time, please make it clear what it's for.

MR. JONES: Exhibit-C is --

MR. RUBIN: So on Exhibit-B, that shows our expenses are roughly three million dollars more than what we're bringing in, is that right?

MR. JONES: No. We pretty much -- three million dollars?

MR. RUBIN: Right. I'm looking at January 1st to March 31st, for that quarter, it looks like it's three million dollars more than what we brought in, and we sold securities during that period.

MR. JONES: We funded the swap account about a million eight -- a million 892.

MR. RUBIN: Am I looking at the same thing you are?

MR. JONES: Yeah. This is the PGW pension plan account. You want the Sinking Fund account.

MS. WINKLER: It's a different memo.

MR. JONES: It's slightly different.

MS. WINKLER: It's this one.
MR. JONES: We'll talk about that.
MR. RUBIN: We'll talk about that one in a minute.
MR. JONES: Okay. So Exhibit-B shows the activity for the swaps for the general obligation 2009Bs.
MR. RUBIN: Okay.
MR. JONES: Exhibit-C shows the activity in all the Sinking Fund accounts for the general obligation box. And that's where, if you look at the disbursements for year-to-date, there is the 120-some million dollars. Now there's very little activity in the fourth quarter of this year. So this includes all the general obligation bonds, just not the '09 Bs.
MS. WINKLER: Again, I would really ask that you sit down with the accounting department and have them change the titles on these to make them more accurate, so that we understand what it is it's reporting on.
MR. JONES: Okay. And Schedule B1 is a -- shows the activity in the '09 -- the

variable rate bonds. It's basically the same information that's shown in Exhibit-B.

MS. WINKLER: Okay. Thank you.

MR. GILBERT: Any other questions? Motion to accept the statements? The Sinking Fund quarterly financial, March 31.

MS. WINKLER: So moved.

MR. RUBIN: Second.

MR. GILBERT: About to move the second. Any question on the motion? All those in favor?

MR. RUBIN: Aye.

MR. GILBERT: Carries. Next we will review the PGW pension plan statements for quarterly March 31, 2015. They were also circulated by way of e-mail.

Are there any questions on those statements?

MR. RUBIN: Yes.

MR. GILBERT: What is that?

MR. RUBIN: So Exhibit-B. So the gain on sales of securities, that's securities that we needed to sell to make our payment, or why was that part of the process?

MR. JONES: I guess I would -- I would attempt to answer that. We have made withdraws from the pension plan, contributions to the pension fund, and I don't know that any of the managers have had to sell anything in order to meet those contribution needs. What you're seeing here, Bill, is just normal activity by the managers, buying and selling for, you know, market conditions.

You're looking at that 25.4 million dollar number?

MR. RUBIN: I'm looking at the 4.5.

MR. JONES: Four-and-a-half million?

MR. RUBIN: Yeah.

MR. JONES: That could be just normal activity.

MR. RUBIN: So that wasn't a sale on our part? We didn't ask the managers -- we didn't redeem from the managers?

MR. JONES: No.

MR. RUBIN: Okay. So the sale was in their normal course of --

MR. JONES: Course of business, right.

MR. RUBIN: Of business. So why are they selling -- it would seem to me if they were making profit on the investment, that that would just increase our balance in that individual --

MS. WINKLER: I guess -- can I comment?

MR. RUBIN: Yeah.

MS. WINKLER: It looks to me there is a -- that we are making withdraws from the PGW pension fund to fund a portion of the pension benefits that are paid to PGW retirees, and that that would be shown on line pension benefits paid. There are deductions that are occurring, so there must have been securities sold. I guess I'd like to ask the investment officer to speak.

MR. DIFUSCO: Regarding -- well, I mean, I can't speak -- I didn't prepare these statements. I can tell you that we have made withdraws.

MS. WINKLER: Which would require liquidation of assets, which could lead to gains on sales.

MR. DIFUSCO: It could. In some

cases, for example, like an index fund manager would almost certainly rhumbline and would almost certainly liquidate. Other managers may have enough cash on hand. I would wonder if when it says gain on sale, if it doesn't -- it could mean what Charlie said. It might also mean just simply -- Bill I think alluded to investments gained --

MS. WINKLER: As the chief investment officer of the fund, are you able to tell us whether all the payments that the benefits paid, the twenty million one hundred thousand from July 1 to March 31, 2015, were made from cash in the fund or from liquidating investments?

MR. DIFUSCO: They would be made from both.

MS. WINKLER: Okay. So there were --

MR. DIFUSCO: Yes. Yes, it would be a combination --

MS. WINKLER: Whether realized or unrealized gains.

MR. DIFUSCO: Correct. In some

cases the managers have cash within their portfolio, so they don't have to liquidate securities. In other cases, they have to sell off in order --

MS. WINKLER: Do we track the realized and unrealized gains during the course of the year in an aggregate basis?

MR. DOMIESEN: Say that again.

MS. WINKLER: Do we track the realized and unrealized gains during the quarter --

MR. DOMIESEN: We have that information. We don't report it in our reports, but we do have that information.

MS. WINKLER: Is that your question?

MR. RUBIN: No. So if I can go back to my original -- I guess I lost track of where we just went. But the 4.5 that I'm seeing says gain on sale of securities. What does that number represent? Where do we come up with that number? Somebody put it on the paper. Somebody had to get that number from somewhere. So where did the number come from?

MR. JONES: It came from the

accounting department.

MS. WINKLER: Who prepared it in the accounting department?

MR. RUBIN: Wait a minute. The accounting department from PGW?

MR. JONES: No. The office of finance.

MR. RUBIN: So how does the accounting department of the Office of Finance get those numbers?

MR. JONES: From the custodian, Wells Fargo. They analyze the monthly statements.

MR. RUBIN: So Wells Fargo would be able to answer where --

MR. JONES: No, I don't think so, because Wells Fargo is just a custodian, Bill.

MR. RUBIN: But how could we -- somebody.

MR. SENSENBRENNER: I'm Rich Sensenbrenner from the accounting office.

MR. RUBIN: Rich, how are you?

MR. SENSENBRENNER: Good. Thank you. Now, this is produced in my office. Now, in my two-and-a-half years there though, I mean, we have a lot of people doing different stuff. So I have personally never analyzed this report before. But what occurs is, there's an accountant in my office who prepares this and then presents it to the accounting director there or then forwards it to Charlie. So they're taking -- as Charlie said, they're taking the Wells Fargo custodial statement and basically summarizing it into this report.

So what we could do for you, for the next meeting, obviously, is we could take -- we could just do a trace of the 4.5 million there and trace that back to what we're grabbing from the Wells Fargo statement. And then you would see exactly what activity we're capturing in the Wells Fargo statement.

MR. RUBIN: So who gives you direction on the account that we have with Wells Fargo as to whether we should be accruing a higher balance with that individual investment, or if we should be drawing down off of our proceeds from that or -- I mean, somebody has to say we've made "X" amount of dollars on this investment. We want to leave that in the investment and it will continue so we would have a higher balance, or we want to take off the table our proceeds from that and leave the balance we had in there. So, therefore, we draw down the money and then that becomes the gain on the sales. Is that --

MS. WINKLER: It's my understanding that that's done --

MR. RUBIN: Let me just get to Rich. So is that a fair understanding of what should be taking place?

MR. SENSENBRENNER: I think it's a great question. And again, we're just, again, recording the activity. So your question will be redirected --

MR. RUBIN: That's the problem that we have on this fund from where we start. I don't know what the history was. Wasn't here for all of that. But each time we come up with a question it becomes a matter of well, that's somebody else's job. Somebody else does that. We're not really sure. Nobody seems to have a total understanding of how the reports are generated, where the numbers come from. When we ask at the big fund -- when we go into our fund and we say where did this number come from, our CIO, or our executive director, or somebody in that field, is able to say these people prepare it, this person did it, this is why we did it, and we move through. But each time we come to something on a balance sheet, we're kind of lead to a different answer. And that's --

MS. WINKLER: Could I just say -- I would like to say that I hear your point, and I personally believe the person who's responsible for answering the question that you raised is not the accountant who simply is recording the activities and reporting them, but it's the chief investment officer of the fund, Chris DiFusco, who makes that decision. And, Chris, is that correct?

MR. DIFUSCO: Correct. On a monthly basis now, we get -- we have a standing draw request from PGW through the end of the year, August 2015, for 1.5 million a month to pay benefits. At that point, usually at the beginning of each month, within the first ten days or so of the month, Charlie and I have a phone call or sit-down about how we're going to raise the 1.5 million dollars that's due to PGW. We look at where the market is, where we're overweight, where we're underweight in terms of asset classes, which managers perform well, not well, who we expect to do better, worse. Who has excess cash on hand. And we make a decision looking at a variety of factors as to where we're going to draw that million and a half dollars from. We then send confirmation instructions to the manager or managers. In this case, I think I sent out an e-mail earlier this month and we took it all from one of the index managers -- rhumbline. The manager, either through cash on hand or the sale of securities, or a combination of both, then has that money available for PGW to draw by roughly the 20th of each month.

MR. RUBIN: So if we're now putting one-and-a-half million dollars a month aside, so this ten million five hundred thousand that we're looking at for pension benefits paid, from January to March, how do we not get three -- 4.5

million that we sent over if we have done that for the last three months?

MR. JONES: We started this in --

MR. RUBIN: Let me back that up. Would that be the right question?

MR. JONES: It's a question.

MR. RUBIN: You're saying 1.5, three months.

MR. DIFUSCO: Correct. No, it's a fair question. It's a fair question.

MR. JONES: Earlier this calender year, PGW requested nine million dollars for the first six months of the fiscal year.

MR. RUBIN: From July --

MR. JONES: From July to December.

MR. RUBIN: -- to December.

MR. DOMIESEN: They requested nine million dollars.

MR. RUBIN: Okay.

MR. JONES: And I think that was in February? January or February? And then, like Chris said, they then instituted a million-and-a-half draw a month since then.

MS. WINKLER: Okay. And here, I

think, is the question that we have is -- or that I have, which is what is the tie between the administrative decision to make a draw from the Sinking Fund by PGW? PGW -- it appears to be an administrative action on the part of PGW to come to staff at the Sinking Fund and withdraw money from the Sinking Fund. And what I'm looking for is a tie between the actuarially -- the actuarial obligation of PGW to make an annual payment to fund its normal cost, as well as its actuarially-accrued, amortized unfunded portion that's due in that year.

And it's my understanding that what PGW does is, they pay the benefits and then they net from what they pay the amount that would, in aggregate, cause the total dollar amount of PGW payments from the enterprise, PGW the plan sponsor. So that in the course of the year, PGW has paid out its actuarially-obligated amount, both for the normal cost, as well as the funding -- funding its share of the unfunded. Which means there's an annual net draw each year from the pension fund.

None of that, to my knowledge, is

presented to us as Sinking Fund trustees and tied to the -- presented -- I'm not sure if we are authorized or obligated to approve these draws. They seem to occur without the trustees having any involvement, which seems, from an administrative and management perspective, to be something that we need to examine and understand what our duties are, you know, in thinking about this issue. And so I think we are, you know, very much asking questions to complement one another. And what is -- what is our duty? I mean, I don't know whether that's a law firm -- I mean, our city law department, you know, to help us --

MR. RUBIN: So, Charlie, when you say they asked for nine million and we sent that over, that would have been January, February, whatever the time frame was. So we put the 1.5 that you guys are talking about in place in January, right?

MR. JONES: Something like that, yeah, Bill.

MR. RUBIN: So it would be January, February, March, right? So that would be 4.5

million. And the nine million they asked for would take us to 13.5. But I'm looking at 10.8.

MR. JONES: What happened, Bill, they got nine million -- if you want to do it that way, they got nine million in February and a million-and-a-half in March. That's your ten-and-a-half million dollars.

MR. RUBIN: Right. But the report is from January 1st. So what happened to the 1.5 in January?

MR. JONES: It didn't start until March.

MR. RUBIN: So we didn't start in January. We started later than January.

MR. JONES: Right.

MR. RUBIN: Which would be basically March. So we sent them nine million January, February, another 1.5 in this process that you're now started, and then 300,000 somewhere mixed in there. Okay. So that number is a good number.

MR. JONES: The ten-and-a-half, yeah.

MR. RUBIN: Ten-and-a-half, right.

MR. JONES: And to not muddy the waters, but the 20.1 million dollars, that's ten-and-a-half million dollars, plus 9.6 million dollars that they took --

MR. RUBIN: Prior.

MR. JONES: -- prior, yes.

MR. RUBIN: For June, July to whatever.

MR. JONES: Yes. They probably took that in August of last year.

MR. RUBIN: Okay. I got you. Okay.

MR. JONES: So it's in our fiscal year this year, their fiscal year last year.

MR. RUBIN: So we're going to find out about the 4.5 million. We have an answer to the ten five. And so now our actual balance is 470 million point five.

MR. JONES: As of March 31st, yes.

MR. RUBIN: What percentage is that that we would be funding? What is our outstanding liability?

MR. JONES: Well, you're going to see reports later on that show it being 75 percent funded.

MR. RUBIN: So right now we're 75 percent funded.

MR. JONES: As of the date of this report.

MR. RUBIN: March 31st, right?

MR. JONES: No, this report you're going to look at in a few minutes.

MR. VINCENTE: I'm the actuary for PGW's plan. So the last statement is what we brought here. Just handed out. Show the statement of June 30, 2014 which shows 75 percent --

MR. RUBIN: 75 percent.

MR. VINCENTE: So we haven't tracked any changes in that.

MR. RUBIN: 75 percent, June 30th of '14.

MS. WINKLER: Using what discount rate?

MR. VINCENTE: That was the 7.95 percent discount rate, which was in effect at the time.

MS. WINKLER: Seven point what?

MR. VINCENTE: 95. We'll go over

all that in item five.

MS. WINKLER: Okay. I have a question. We took an action to lower the discount rate for PGW Sinking Fund 7.60 percent, correct or incorrect?

MR. JONES: 65.

MS. WINKLER: 7.65. What year will that be used for determining the actuarial liability of the fund?

MR. VINCENTE: June 30, '15.

MS. WINKLER: June 30, '15. Okay.

MR. VINCENTE: So we were told that was made effective September 1st, '15, but because of the accounting periods we're going to use it for June 30, '15.

MS. WINKLER: Okay. Thank you.

MR. GILBERT: Any other questions? So what's your pleasure relative to these statements? You want additional information?

MR. RUBIN: Yeah, I want to hold them until we get the additional information. Motion the table for September's meeting.

MR. GILBERT: Motion the table. Second?

MS. WINKLER: Second.

MR. GILBERT: Properly move to second. Any questions on the motion? All in favor?

MS. WINKLER: Yes, in favor.

MR. GILBERT: Motion counts. We're going to go into executive session -- I'm sorry. Yes, executive session. We're going to do that here or --

MS. WINKLER: Do we have to follow this order? Would it be possible to do the executive session after we get the GASB 68 presentation? How do we change the -- is that okay with the lawyers over there? Okay. Is that okay with you?

MR. GILBERT: We'll hear the impact of the GASB 68.

MR. SENSENBRENNER: Charlie, do you want to jump in?

MR. JONES: The commission has asked to be briefed on the impact of GASB 68 -- the implementation of GASB 68. And I thought that the best people to do that would be the actuary and the accountant. So I asked Tom Vicente from

AON Hewitt and Rich Sensenbrenner from our finance department to come in and talk to you, because I know you folks have some questions and they would be -- Tom prepared a little packet for you to follow.

So, Tom, you can get started, but I'm sure the Commission is going to have some questions for you.

MR. VINCENTE: Rich is going to do a brief review of some of the accounting and we'll go to the figures in the packet.

MR. SENSENBRENNER: Thank you. Again, Rich Sensenbrenner with the finance department accounting office, and I definitely have the easier part of this presentation. I leave all the hard stuff, hard questions, to Tom. But just as a reminder, last year about this time, you had a visit from myself and from Eric Strauss, the auditing firm, to talk about GASB 67. And so just as a quick reminder to -- kind of just refreshing the memory a little bit, your annual statement, which was produced -- you know, the finance department is your accountant for your fund and WithumSmith is your auditors that audit the books -- the accountants we put together.

Now, I do want to say that we owe a great debt of gratitude in the accounting office to WithumSmith because they definitely help us tremendously in putting together your guys' financial statements. So I don't want to steal any of their glory that they deserve.

So as you probably are aware we -- you know, the most important -- you could say the most important pages we produce are, of course, what I'll call your balance sheet and your income statement in your financial statements. And those, because of GASB 67 last year, did not change one iota. What changed in your financial statements, because of GASB 67, was what's behind your financial statements in your footnotes and your other disclosures. And just very briefly, we had to beef up your plan description in your footnote with some additional information. Nothing of great shakes there, just beefing it up.

We had to put additional information in your footnotes about your asset allocation, and your annual money-rated rate of return, and additional information on your portfolio, which was never required before in your financial statements. All a part of GASB 67.

We also had to add specific footnotes in your financial statement regarding the heart of GASB 67, which was the determination of net pension liability. A very similar concept to the unfunded accrued actuarial liability, which we have often referred to in the past. And if you want to know the differences between NPL and UAAL, I would refer to Tom in a second.

MS. WINKLER: And what was the net pension liability?

MR. SENSENBRENNER: Well, as your statement indicated, and I think was just mentioned a little bit ago, and I'm looking right here, 164 million dollars. And that would be 6/30/14. And we also -- and to just conclude, we also had some, what they call, supplementary information that we also -- which was new due to GASB 67, which, again, gives more detailed information on your net pension liability, your net pension liabilities compared to your covered payroll, or your pensionable payroll, basically, and then your contributions compared to your covered pension or your pensionable wages, so to say, of course, PGW.

So with that, we hopefully -- and we got a clean opinion successfully that everything we needed to do for GASB 67, and that was, of course, the responsibility of the retirement fund. And we will continue to do that going forward until they change pronouncements on what we need to do. GASB 68 really won't affect this at all. We have done our duty. Now, obviously, the numbers will change and stuff like that. But in terms of the content, nothing will change.

Now, just as you know -- just so you know, in the City's coffer, which -- the City's financial statements -- you can ignore my cat on the top, that's my own personal book -- but we basically take these statements and incorporate them in the City's financial statements. So you'll see, dollar for dollar, what was in this statement is reflected as the fiduciary fund in the City's coffer.

MS. WINKLER: Under GASB 68, will there be changes to the City's coffer?

MR. SENSENBRENNER: No. Well, let me back up.

MS. WINKLER: PGW's coffer?

MR. SENSENBRENNER: PGW 68, yes. For PGW, they will have it -- just like for the municipal pension fund, I will have changes in my coffer.

MS. WINKLER: What will be the changes on PGW's financial statements?

MR. SENSENBRENNER: That's what the -- I'm going to switch hit -- well, let me -- okay. And then I'm going to kick it to Tom here. That's a good segue, Nancy. So this 164, the net pension liability here which we put in in our financial statements -- now that will obviously change. It will be one year adjusted for activity for 2015.

PGW, for their financial statements, they'll take that number and that will basically -- well, it will be what they put on their balance sheet as a liability. Now they will have some offset entries, obviously. But that is the significant impact of GASB 68. They will certainly have some additional footnote requirements and disclosure requirements, but that ultimately is their huge -- say huge, that's their huge addition to their balance sheet. Then they'll have to, of course, book a pension expense which is really, to some degree, the change between one year and the next of the net pension liability. But that's the big -- the big number everyone looks at, at GASB 68, is really driving in -- that we -- that GASB felt that the readers of financial statements will be better served by putting that on the balance sheet of financial statements, instead of burying it back in the footnotes.

Tom, I hope that was kind of a good segue to you.

MS. WINKLER: Can you just remind me that -- so on the PGW, their fiscal year is an August 31st ending?

MR. JONES: Yes.

MS. WINKLER: And so the -- for PGW, they will be using the report as of June 30 --

MR. JONES: Yes.

MS. WINKLER: -- for their next financial statement.

MR. VINCENTE: What the accounting statement is, you use the June 30 reporting with an adjustment to reflect the cash contributions, which are a little different for PGW. The cash contributions made between July 1st and August 31st. So that's the adjustment that's made. So what we'll see when we look at the numbers compared to GASB 67, that PGW's numbers will be exactly additional except additional line items will say a term called deferred outflows, which will be the cash contributions made in that two-month period between the two fiscal year ends. It will show as a separate line item and you'll see the summation of it. Other than that, they really should look very much the same.

MS. WINKLER: And because -- I guess something we would want to make sure we talk about and understand. PGW will be -- we will be making arrangements so that there will be no unusual cash outflows in those two months, either, you know, diminishing the -- it should be reflective of two months that's reflective of one-sixth of the full fiscal year of PGW, right?

MR. VINCENTE: I can't answer that question.

MS. WINKLER: Would that be appropriate or not?

MR. VINCENTE: You're going to reflect it. You're going to show the numbers.

MS. WINKLER: I understand that you show the number. What I'm really asking is can you manipulate the numbers by having less than or more than a one-sixth of --

MR. VINCENTE: Certainly to the extent that PGW controls the timing of the contribution, if they wanted to say we don't want to have that number at all, let's put our whole contribution in before June 30th, I don't know the mechanics or the other pressures that drive that, but to the extent they have that flexibility --

MS. WINKLER: I think we'll want to understand that better.

MR. DIFUSCO: I understand your

question. I got it.

MR. VINCENTE: So just in terms of the piece we handed out, I think the first three or four pages are really just background on what GASB 67, 68 are doing. I don't know if that's what you want to go over or if you just want to move to the back where the figures are. I can certainly walk through that.

MS. WINKLER: I wouldn't mind if you would just highlight for me whatever material changes from what the practice was by AON for the purposes of valuing the net pension liability prior or the old liability prior to current, and what would be material changes that have occurred that would either increase or decrease the net pension liability versus the former actuary pre-liability.

MR. VINCENTE: So from an accounting basis, the big change is that in the past what was on PGW's balance sheet as their pension liability was a cumulative historical difference between what the accounting charge was per year versus the cash contributions. And that's what showed up as the net pension obligation that was on the balance sheet. And now they have switched to, say, instead of showing that number called the NPO, which could be zero, if you always made a contribution equal to your expense, you would have no liability. No matter how well funded or underfunded your plan was, your balance sheet would show zero.

MS. WINKLER: What was it on PGW's before?

MR. VINCENTE: It was zero.

MS. WINKLER: Okay.

MR. VINCENTE: In the footnote disclosure it said liabilities, assets, difference. Now that liabilities, assets, difference is now going on the balance sheet. So zero is being replaced by 164 million dollars in unfunded liability. So that's the big change that happened there in the financial statements. Number 164 was always available to anyone who wanted to read it. Now it's on the balance sheet front and center.

MS. WINKLER: Are you expecting under GASB 68 to be using the -- be able to use the 7.65 percent rate?

MR. VINCENTE: I am. I am. Based on -- so what the discount rate under GASB 67, 68, is you have to demonstrate that the contribution policy that's being made is such that it will keep the plan from going belly up, so to speak, from running out of money, over the total projected period of the existing employee body and retiree bodies getting payout. So your actuarially -- you're getting actuarially-sound basis. If that's the case, you can use the discount rate tied to your presumed investment return.

MR. BUTKOVITZ: Why is listing 164 million dollars as a liability more truthful than the former way of listing it? Why is that more truthful than zero?

MR. VINCENTE: I don't know that it is more truthful. GASB said this is what the readers of financial statements want to see, so we want you to put this on here.

MR. BUTKOVITZ: So we're going to be drawn into all sorts of defenses about why we, all of a sudden, have this -- we have to have a working knowledge of the mechanics of how this works, and this doesn't demonstrate sudden malpractice on the part of --

MR. VINCENTE: It didn't change anything. It's a number that --

MR. BUTKOVITZ: It did change something, right? Because now that 164 million is going to show as a liability in the sheet that's going to drag down our overall health of our fund. So we're no longer going to be 75 percent funded. We're going to be much lower, because that's now coming --

MR. VINCENTE: No, 75 percent funded is 164 million dollars. That represents the 25 percent underfunded. When you say what's changed, the accounting treatment has changed where you're showing --

MS. WINKLER: Isn't the real reality now that an investor or an interested party who wants to understand the health of PGW, now can go to the financial statements of PGW and see the liability, rather than having to read the pension statements which are a separate report? They can now find that information on the balance sheet at PGW, as opposed to having to root around and find the pension statement?

MR. VINCENTE: Right.

MS. WINKLER: It's tying the pension statements more directly to the plan sponsor.

MR. VINCENTE: Correct. Absolutely. So that's what's happening. If you were really interested, you could have found the 164 before, and you could have said, oh, I know how this works and I'm going to add this in. Instead, now it's there, you don't have to do that. It's there for everybody.

MS. WINKLER: So it's not anything new. It's not a new aha moment. It's just much more straightforward in the way the reporting of the liability is being made by the plan sponsor?

MR. VINCENTE: Correct.

MR. BUTKOVITZ: Look, we had those professors a couple years ago declare the pension fund was going to be broke in five years because they forgot to account for the annual contribution. People will misuse this information. It will take quite a bit of simplicity to try to avoid a misuse of that. That's why we have to have this working knowledge.

MS. WINKLER: Right. I just see that Joe is raising his hand.

MR. GOLDEN: Joe Golden, Philadelphia Gas Works. I just want to make one technical correction to the last comment. The 164 million dollar liability was not only in the pension statements that are separate. It would have been several places.

MS. WINKLER: In the footnote.

MR. GOLDEN: In separate schedules. It was already there, we just moved it to a balance sheet with an offsetting asset, which is a deferring outgoing. It's not creating an imbalance or is it going directly against the city equity?

MR. DOMIESEN: Are you asking myself?

MR. VINCENTE: I'm deferring to you.

MR. SENSENBRENNER: The --

MR. GOLDEN: Obviously it's not a one-sided entry.

MR. SENSENBRENNER: Right. Right. Well, that's a great question. So, obviously the easy part is to say you're going to add to your liabilities. That's the easy part. The more interesting part, from an accounting standpoint, is if that's your credit, what's your debit. And I believe there's two ways that it can be handled. And it might be that PGW and the City actually handle it differently. You could either, one, do a prior period adjustment on your income statement and handle it that way. Or, two, you can just restate prior -- your prior period statements. And so, that's probably clear as mud and I apologize. But ultimately what happens, if -- in this case -- and Joe -- please, correct me if you think I'm not explaining this correctly. Joe has got a book, you know, 165 million dollar liability. Well, accounting 101, you know the other side is an expense. Well, it's not going to book in 2015 an expense for a 165 million dollars. That would blow up your income statement. And that expense relates to many, many years in the past. That's just not accruing one year. It's just we're finally recording it. That accrued over five, 10, 15, 20, however many years that liability grew. So that's what I'm saying is -- I mean, so really, that's going to be a hit when I talk in terms of the City. I can't speak for PGW. But we call that, you know, fund equity.

MS. WINKLER: Where will that show up on PGW's financial statement?

MR. GOLDEN: I don't have the final answer either. It's either the City equity and amortized over the 20-year period. Or as PGW is regulated by the PUC, we could have it established as a regulatory asset so it will be accrued base rates going forward. I don't have that answer at this time.

MS. WINKLER: Okay. As a regulatory asset. Okay. That's an interesting and helpful piece of information.

MR. GOLDEN: I don't have that final answer yet.

MR. DIFUSCO: Tom, what do you expect the 164 number to look like when you -- I know it's rough because you haven't finished in your reports, but what do you expect the 164 unfunded liability number to look like when you start using a 765?

MR. VINCENTE: So the 765 -- so a 30 basis point change, we looked at that and thought that will increase the liability by about 24 million dollars.

MR. DIFUSCO: So then our number is 188.

MR. VINCENTE: Exactly.

MS. WINKLER: Well, that's a partial answer, correct? Because you then have to go back and look at the experience in the past year.

MR. VINCENTE: Correct. So in isolation, that's what 30 basis points --

MS. WINKLER: So the 765 adds 24 million.

MR. VINCENTE: Right. We're refreshing the actual study as of June 30th of this year because there have been a lot of turnover and personnel changes at PGW.

MS. WINKLER: When you say as of June 30, 2015 --

MR. VINCENTE: Correct.

MS. WINKLER: So the normal rate of retirement in the actuarial analysis for the prior period, which created a net pension liability of 164 million --

MR. VINCENTE: Right.

MS. WINKLER: -- assumed how many people retire a year?

MR. VINCENTE: I don't know the number off the top of my head. There are a set of rates that apply across the --

MS. WINKLER: It's my understanding, over a thousand people retired in December.

MR. GOLDEN: No. There were 1600 employees, give or take, and from January 1st through May 1st, 177 retired. So about 11 percent of the workforce.

MR. GOLDEN: Only 1600 employees.

MS. WINKLER: Okay. Sorry. I'm sorry.

MR. GOLDEN: Eleven percent retired.

MS. WINKLER: What is a normal rate of retirement?

MR. GOLDEN: Probably a third of that, 50 to 60 a year. 50 to 60 per year.

MS. WINKLER: So two-thirds of that.

MR. GOLDEN: So one-third of that.

One-third of 180.

MS. WINKLER: 180. I thought I heard a hundred.

MR. GOLDEN: 175 retired from January 1st through May 1st. So the normal rate in this time of year will be about a third. And we attributed that to sale exploration and the end of the union contract, which is at this time period. So we had an excess number of retirees.

MS. WINKLER: Versus a normal 50. And that's a full year?

MR. GOLDEN: Yes. We have numbers. I could provide them at the next meeting or send them to the commissioners after this meeting. We have a history of the retirements.

MS. WINKLER: Will that have a material impact on the net pension liability?

MR. VINCENTE: We believe it will. To say which direction depends on which 175 people left. If they're all people who were older, then it probably has a more minimal impact. If it's all people who are on the younger end of eligibility for retirement, the youngest available to retire, it's going to have a more marked impact. So that mix is going to be important. So that's what we need.

I guess next month we'll get that from Joe in terms of the actual census through June. And then we'll be able to say okay, here's who actually left and here's -- because of the mix of who left, what the impact was. With that number of people leaving, we will -- the very least, it will reduce the payroll of the folks who are part of the pension plan because that -- even if all these folks are replaced, the new folks coming in have a choice of either making contributions to the plan, which the prior tier of employees did not have to do, that's more money going to the plan, or they join a different plan altogether and they're no longer part of the equation. So that replacement, in combination with who it is who actually retired, is going to be the important thing. But we believe that we have a material difference. We just don't know which way it's going to swing.

MR. BUTKOVITZ: Is there a place in the statements where there would be an explanation of the unique circumstances that brought that about?

MR. VINCENTE: Typically you would acknowledge that, I think, in an accounting statement. I don't know what the plans are for that. But usually you would say something to the effect that there was a -- there's no special program, but that experience differed and here was the impact of something like this.

MR. BUTKOVITZ: Well, experience differed because there was a potential sale. So would you note that?

MR. VINCENTE: Yes. We couldn't say -- of course, you're looking back and saying how many of these folk would have retired if it would not have been -- we'll be able to say here's the deviation of retirement experience in the period ending June 30 versus what we expected. This is being attributed, in part at least, to the sale. The authors of the financial statements decide how to say how strongly they want to make that statement. Because you can't necessarily tell what's on people's minds, saying this person was going to leave anyway and this person only left because of this. And the other part is that union contract which, Joe, historically you have that when union contracts expire or spike up?

MR. GOLDEN: Yeah.

MR. VINCENTE: So that's separate and apart from the sale. But again, it's a periodic thing that happens. But we'll be able to say here's the impact of retirement. Differs from experience.

We have talked about what's different with the new accounting. The thing that's not different is that it doesn't really change anything you would -- that PGW is planning on doing, require PGW to do anything different in terms of its schedule of a policy, in terms of putting cash in the plan, how it funds the plan. So that runs completely independent from the accounting. There's nothing in the accounting that says you must fund the plan in a certain fashion. So the funding policy, how PGW comes up with the cash that they're saying this is our commitment to the plan for the year or for the next year and the next year, that is not tied in any regulatory way to the accounting figures, other than it could impact the discount rate.

MS. WINKLER: Okay. So what does determine the amount PGW contributes to the plan?

MR. VINCENTE: So that's their funding policy, and their funding policy in the past has been the normal cost and the cost to be earned plus a 20-year paydown, a 20-year amortization.

MS. WINKLER: With a final amortization ending?

MR. VINCENTE: It's an open amortization.

MS. WINKLER: It's re-amortized each --

MR. VINCENTE: Right.

MS. WINKLER: So unlike the big City pension fund which has a closed amortization, is that correct, at least for most of its liability, if not all?

MR. SENSENBRENNER: I believe you are correct. But I would have to double-check before I answer that with one hundred percent certainty.

MS. WINKLER: So PGW has an open-ended, and there is no regulatory or other standards, it's just a policy set by PGW?

MR. VINCENTE: That's what PGW's standard has been. As I understand, PGW does not fall under Act 205, so they do not do reporting to the State the way the City does. Otherwise, they would have other requirements they would have to fit into.

MR. BUTKOVITZ: Why don't we fit under that act?

MR. VINCENTE: I don't know offhand. It's been determined.

MR. BUTKOVITZ: Jim has an answer.

MR. LEONARD: I'm sorry, you didn't finish your thought. And I was just going to add something.

MR. VINCENTE: That was really it.

MR. LEONARD: So under the plan ordinance, the sponsor of the plan, the City, is required to cause -- every year, annually, cause funds to be contributed from PGW revenues as are necessary to provide for the annual retirement costs of the participants. And there's really two components that are expressly listed. One is an amount with respect to retired participants and the amount necessary to meet current benefit obligations. And the second category, with respect to active and deferred vested participants, an additional amount as determined by the director of finance to be appropriate to fund future benefits.

MS. WINKLER: So the director of finance for the City of Philadelphia has input into the PGW -- I mean, PGW pension funding policy?

MR. LEONARD: Yeah.

MS. WINKLER: He controls it?

MR. LEONARD: Yes. And then the director -- just an additional --

MS. WINKLER: I would like to ask a question. Is the director of finance consulted when PGW sets its funding policy each -- and funding amount each year?

MR. GOLDEN: Not each year, no. It's been a continuing policy that we have been following.

MS. WINKLER: I just think it's interesting that the City is amortizing down its unfunded liability to a closed end date and that's -- that's what the City is doing. And it's -- it is -- the City is a -- has two pension funds: The PGW fund and the big City pension fund. And the policy is different and I'm not sure that's been revisited with the finance director.

Has anyone brought -- does anyone know if this has been brought up with the finance director?

MR. GOLDEN: Not to my knowledge. Not recently.

MS. WINKLER: Okay.

MR. BUTKOVITZ: So essentially, the finance director has delegated to you the mechanism of determining whether these numbers each year will result in adequate funding of those two components?

MR. GOLDEN: I'm not sure delegated to me. It's been a policy that we have been following since I have been there. I'm not sure where the delegation started or whether it's a part of the budget process. It's not a particular line item. There is a pension expense that's in our statements. The budget, as presented, is in forming content approved by the finance director. So as a component of the budget, it's there. Not as a particular, you know, bless this policy going forward. When we submit our budget to the Commission, it's in the form of content acceptable to the finance director, with a letter from the finance director.

MS. WINKLER: Okay. Thank you.

MR. BUTKOVITZ: Jim, does that require explicit approval by the finance director? Are there liability issues?

MR. LEONARD: I don't think there's anything that prohibits in the ordinance the director of finance from -- I mean, essentially, the sponsor of the City through the director of finance is required to cause PGW to pay whatever the required amount is. I think there's nothing that prohibits he or she from delegating, if that's essentially what happened here, delegating that responsibility to some degree to PGW.

MS. WINKLER: Can I ask a question? So how different would the annual contribution for PGW be if we were to no longer use an open-ended amortization period and move to a closed amortization period, but keeping it at 20 years?

MR. VINCENTE: So if we were going to start it today, of course today there's no difference because it's the fist year of the 20 years either way.

MS. WINKLER: Correct.

MR. VINCENTE: Next year, the difference next year -- you know -- again, it's all theory. We're projecting forward. If we projected forward, then we would see -- if we use the open versus the closed, we would see a more steady, gradually higher -- so when we project forward with the open, we're essentially re-amortizing and so have lower future expected contributions. We're always 20 years away from fully funding the plan. If we had to close, we would, of course, eventually fully fund the plan if all our assumptions worked out. So instead contributions gradually going down, they would stay more level. It would be a relatively gradual -- if you looked out 15 years, there would be certainly a difference. Year one, year two, year three there would be a very minor difference between the two. And of course, what happens with your actual experience during those different years would probably overshadow the difference between the open and closed in the first, say, five years. But over time it would show a much bigger difference.

MR. RUBIN: Can we go back to the original question of why we're not covered under Act 205? Did we ever get an answer to that?

MR. LEONARD: I mean, we have looked at that. This goes back to sort of the sale process when I last looked at it. But I forget precisely why, in the language in the statute, I don't recall off of my head, but it's clear -- it's always been a position of the City that the PGW plan falls outside of the terms of Act 205. Otherwise, I mean, the plan is governed by a general fiduciary standards in Pennsylvania that

-- and as set forth in the plan. But from a actuarial valuation perspective, there's not a state law that governs the valuation of the PGW pension plan.

MR. VINCENTE: The plan is 75 percent funded, so it's not as if it had not been funded during that period.

MS. WINKLER: Over the past ten years, has the funded status of PGW pension plan gone up or down?

MR. VINCENTE: Both.

MS. WINKLER: Okay.

MR. VINCENTE: So pre-'08, it was going up. '08 it went down. It's been generally rising since then, gradually.

MS. WINKLER: So where was it in 2005?

MR. VINCENTE: That I don't have in front of me. I can get that for you. But I do not have it. It was probably -- looking at where it was in '07, which was 86 percent funded, it was probably close to 90 percent funded in '05. That's a little bit of guesswork there.

MS. WINKLER: And that was at a higher assumed rate of return?

MR. VINCENTE: Yes. Yeah. That was something, I think eight-and-a-half percent, if I remember correctly.

MR. JONES: Eight-and-a-quarter.

MR. VINCENTE: Eight-and-a-quarter. Thank you.

MS. WINKLER: So we are expecting the funded status of the PGW plan to decline, in answer to my question earlier --

MR. VINCENTE: Correct.

MS. WINKLER: -- that there will be a 24 million dollar reduction due to the change in the assumed rate of return, which I think we have heard now is more in line with the investment strategy of the fund. And so we maybe have a more, one might say, accurate picture of what the funded status is?

MR. VINCENTE: More in line.

MS. WINKLER: And then it will be further reduced, most likely, by the experience of 175, 180 employees retiring, versus the normal course of 50?

MR. VINCENTE: Correct. And there will be a further reduction. We haven't gone through the numbers yet, so I can't give you any numbers now. But there has been a new study released by the Society of Actuaries, the longevity, how long we're all living. Generally speaking, the new study said people are living longer and their longevity improved faster than the last study projected it would.

MS. WINKLER: So we're going to assume people will be receiving benefits longer.

MR. VINCENTE: I don't have numbers on that yet. But that's what we're looking into. Because there's various shapes and sizes of that particular study that will have to see which shape and size fits best with PGW's population. But it will likely mean a decrease in the funding status.

MS. WINKLER: When will you have that work finished, Tom?

MR. VINCENTE: That will be for the June 3rd.

MS. WINKLER: And when will you have it finished?

MR. VINCENTE: The goal was, when we last discussed it, to have everything wrapped up by the end of July.

MS. WINKLER: Okay. When is our next meeting?

MR. SENSENBRENNER: September --

MR. DIFUSCO: 9th.

MR. JONES: 9th.

MR. DIFUSCO: We're planning on asking for -- the Commission has authorized a special meeting this summer for one or two.

MS. WINKLER: Okay.

MR. RUBIN: What mortality table are you using now?

MR. VINCENTE: We're currently using what we call the Retirement Plan 2000 Table with projected improvements. So the RP 2000 table was the most current standard table, if you want to call it that. The aggregate table blending both blue and white-collar groups together. The new table is imaginatively called the RP 2014 table, to coincide with the year it was released. What it has, it showed people -- so there was an improved skills RP 2000 which we were using. What's shown is that the blue scale was not aggressive enough. Actual improvement in the last decade-and-a-half was more so than what that table projected. So that's why we're going to find a shift. We're not as well-funded as we thought because we thought people's lives were improving this way and they have actually improved a bit more.

SPEAKER: Excuse me. May I say something? I'm the representative of retirees. Pertaining to the mortality tables, I believe the government just updated those in the last half a year, and the life expectancy for the average female, I believe, is 2.2 years and two years on a male, or somewhere like that. So obviously that would hurt the overall funding of this plan, would it not? Should we not be using the more up-to-date actuarial tables for mortality?

MR. VINCENTE: That's what we were just saying.

SPEAKER: Oh, okay. I thought you said you were using the one for 2000.

MR. VINCENTE: We were using the one

from 2000 in the stuff we did last year because that new table wasn't published until the fall of last year. So now that it's published, we look forward to June of '15, we'll use the new table for June of '15. And what we have to figure out is there's a table that -- they did different slices of the table and we'll have to look at PGW's experience, to the extent that it's credible, and say which of the different versions of this new table fits the best with PGW, to the extent that PGW's data is credible. And with a 1600 life population, it's not really big enough to produce enough depth to give you a good sampling, but it's enough to give us a little bit of a flavor to have an idea of how we should -- what we should do with it. As well as looking at the population makeup of the group, type of work they do.

MR. GILBERT: Any other questions?

MS. WINKLER: Is there anything we should be asking, we haven't asked?

MR. LEONARD: To the extent that there are policy changes at the Commission, to the extent that they affect, I guess, the income statement balance sheet of PGW, or of the fund itself, PGW also has the overriding base rate concept with the PUC. So to the extent that we were changing fund policy, it may or may not be acceptable as a proper allocation of expenses over gas customers over that same time period.

MS. WINKLER: So Joe, has the PUC taken a position on pension funding assumptions?

MR. LEONARD: For ours, our base rates have been accepted as they are, so that's why my point --

MS. WINKLER: Have they raised a concern about -- what I'm asking is, are there guidelines or do they just react to whatever you present --

MR. LEONARD: They react to filings. So we have not petitioned recently. 2007 was our last increase with the existing fund policy and existing rates, existing actuary assumption. As things change, I'm just highlighting to the Commission the relationship between the three entities.

MS. WINKLER: So the pension funding component is in the base rate?

MR. LEONARD: Correct.

MS. WINKLER: And when is the plan for the next base rate increase application and what year would that be effective, if approved?

MR. GOLDEN: I believe it would be effective in our fiscal '18. And it's about a nine-month process. So to start September 1 of '17, we would start somewhere around March of '16. March of '17. Sorry.

MS. WINKLER: Okay.

MR. GOLDEN: Yes, March of '17.

MR. JONES: I have a question. I don't know who it's for. But, Tom, you said earlier that you're going to calculate the net pension liability for the pension plan as of June 30th.

MR. VINCENTE: Okay.

MR. JONES: And then for PGW, you were going to take that number and then adjust it for two month's contribution. That's what you said.

MR. VINCENTE: Correct.

MR. JONES: Which entity's contribution are you talking about, PGW's or the pension plan's?

MR. VINCENTE: PGW's. That's for purposes of PGW's financial statements, which are an August 31 basis. So the plan year is June 30th. That's why we have the June 30th basis. Then PGW has to make that extra entry.

MR. GOLDEN: If I may jump in. In terms of entries -- it's not specifically an entry. It would be two months of pension payroll that PGW pays, minus the payment coming from the fund to PGW, which at this point is 1.5 million per month. So the minor disconnect here is PGW pays the pension payroll. If the pension fund or the retirement fund did the pension payroll and just requested funding from PGW, the disconnect wouldn't exist. So it's not something -- it's something we can manage with the million five we have per year -- million five per month, that we're saying at that point that's about 18 million dollars netted against our 48 million dollar payroll. So, in theory, we made a 30 million dollar contribution. So we're actually paying 2.5 million a month to the beneficiaries, which is really our pension expense. So that's the disconnect.

MS. WINKLER: I think that from our perspective, we should see a report each month of the PGW net pension expense. Net of whatever draws are being made. The total amount that's being paid, net of the draws that are being made from the fund. It's odd that the fund only -- that the fund isn't paying the pension expense. That it's being paid by the sponsor and that then there's a draw by the sponsor. It's a different way of thinking about it. I think we should see that in our -- in reports that we get.

MR. GOLDEN: I would agree to be in the reports. We do provide that to the staff. So we can certainly include that in the meeting package.

MS. WINKLER: Do we need a motion on that or the minutes just have to reflect that?

MR. GILBERT: Any other questions?

MR. JONES: So just to follow up on my question. So it wouldn't make any sense if the plan advanced their contribution to PGW? It wouldn't matter? Okay. All right.

MR. GILBERT: Tom, Rich, thank you.
MR. VINCENTE: Thank you.
MR. SENSENBRENNER: Thank you.
MS. WINKLER: Thank you very much. Thanks for all your work.
MR. GILBERT: Now move to executive session.
(A break was taken.)
MR. GILBERT: We'll reconvene the meeting. We were in executive session for purposes of receiving legal advice and discussing personnel matters.
MR. BUTKOVITZ: Motion the treasurer be authorized to hire a successor for Mr. Jones to deal with administrative issues and other debt service issues in the treasury office.
MR. GILBERT: Heard the motion. Second?
MS. WINKLER: Second.
MR. GILBERT: Properly move the second. Any questions on the motion? All those in favor?
MS. WINKLER: Aye.
MR. BUTKOVITZ: Aye.

MR. GILBERT: Motion carries. Anything else?

MR. BUTKOVITZ: Are we done?

MR. RUBIN: No. I don't know. Do we have to put --

MR. GILBERT: There was a motion to synchronize reports and increase the level of information that we get. Is there a motion?

MS. WINKLER: We would like to create a working group to come up with -- working with the staff and the law department to come up with a recommendation of reports that would be coming to this advice fund, maybe rendering to the finance director for certain actions on the finance director's part.

MR. GILBERT: Okay.

MR. BUTKOVITZ: Is that the motion? I'll second.

MR. GILBERT: Properly moved to second. Any questions on that motion? All those in favor?

MS. WINKLER: Aye.

MR. BUTKOVITZ: Aye.

MR. GILBERT: Motion carries.

Anything else? That's it.

MS. WINKLER: I guess there was one other, which is that we understand and believe it's later in the agenda, that we want to schedule a meeting in the summer where that working group would be considering some of this, and also hearing from John Nixon.

MR. GILBERT: Okay. Is this the same special meeting item number seven?

MS. WINKLER: I guess that is. Sure. Sorry.

MR. GILBERT: Okay. That information will be added to the agenda for the special meeting? Okay. We don't need a motion.

MR. BUTKOVITZ: Is it my time?

MR. GILBERT: Go ahead.

MR. BUTKOVITZ: I'll move to adjourn.

MR. GILBERT: We're not there yet.

MR. BUTKOVITZ: Well, tell me.

MS. WINKLER: We have item six, right?

MR. GILBERT: Actually, we need to hear the pension investment consultant report.

MR. DOMIESEN: Thank you. You should have a booklet in front of you with a spiral bound, and that's through March, and I'll give you some verbal April estimated numbers, as well. Page two -- lower left of each page is where the page number is. Page two.

A couple noteworthy items on the market during the quarter, the first quarter ending March 31st. The S&P -- and I'm looking at the three-month column -- the S&P was up one percent. Right below that it's the Russell 2000. That was up four percent. Small cap stocks out performed large cap. One of the reasons is less exposure by small cap to international global sales and businesses. So with the strong headwind, with strong increasing dollar value, the little smaller companies are not as exposed to international marketplace can perform better.

If you look under non-U.S. equities, the first, the developed market index was up 4.9 percent for the quarter, ahead of U.S., despite the strong dollar, which would be a headwind. The international markets, in particular in

Japan and also in Europe, central Europe, banking system having a quantitative easing program that commenced providing liquidity, provided a strong return for international-developed markets.

Right below that in the chart is the merchant market index. That lagged. It lagged the developed markets. Up two percent. Fixed income, interest rates fell during the quarter. We saw bond prices, therefore, rise 1.6 percent. Corporate bonds did better than treasury bonds.

You don't have this information in front of you, but just to share with you what happened in April, the S&P for the month of April was up one percent. The small-cap stocks were up for 2000. They were up -- I'm sorry, they were down 2.6 percent and gave up that lead that they had in the first quarter. International-developed markets were up 2.3 percent. And immersion markets were up five percent. And bonds were slightly down, flat to down, as interest rates rose.

So with that, I'll probably skip the rest of the introductory remarks on the market background in the interest of time. And if we go to page nine, the position of the portfolio, and in the upper left we put in the valuation, $518,436,681. And we showed three major asset classes and they're all within the range. And the targets for domestic equity is 65 -- I'm sorry, is 50 percent. And you're currently at 54. So you're within the policy. International is at 14 and the target is 15. And fixed income, you're at 32 percent and the target is 35. So you're within the policy ranges on all categories.

Moving to page ten. On the top level about the individual managers, we show on this page benchmarking versus the total return to the index and the peer group. So pluses are favorable. Minuses are not favorable. Fred Alger has been performing since inception ahead of benchmark. Cooke & Bieler had a good one-year period. They have underperformed on the longer run, but strong first quarter this year and a strong 2014.

Eagle, we did have a conference call with Eagle. This is a change in that we have it on a watch list. We conducted a conference call with the investment manager -- or the portfolio manager at Eagle, both myself, along with Chris and Charlie, to talk to them about their recent performance. They had a bad quarter. They had a good 2014, but a very weak first quarter of 2015. So we had a call with them to try to understand better the positioning of the portfolio and what was happening with the under performance. We got some responses, including kind of a shift in what the marketplace had favored, that worked for them last year in 2014 was not working for them in 2015. As a part of that, they had repositioned the portfolio. They had under weighted the large pharmaceutical exposure companies. They had shifted into smaller pharmaceutical exposure to try to limit the tracking error. This resulted -- this result put a watch list -- put us on a watch list with them. We'll be following up in subsequent months with them to track their performance. And given some of these changes, I would say that we'll have to address this in the next several months. So we're watching that one.

Vaughan Nelson is the other small-cap manager. They performed favorably in both absolute and relative. Mondrian, the value international manager, has done well, particularly in the last year and five years. On the three year, they're a little behind the benchmark, but still in the top half of the universe.

On page 11 we continue with the international mandates. First with Harding Loevner, which is the large cap -- or the developed growth manager. Its more recent performance is improving. DFA is the conversion market manager. Longer run, the performance is good. In the immediate quarter, they underperformed slightly by about point two percent, point two percent. They have a value bias versus growth, and one of the themes was growth had outperformed value domestically and international.

Finally, in the fixed income, we have favorable review here in terms of quantitative numbers. The only one exception is

Lazard that missed the benchmark on the trailing one year. One of the reasons is their position short maturities. Meaning that their bond holdings have a shorter duration than the benchmark, and in a period when interest rates fall, bond prices rise. The shorter the surety profile. It's a headwind in that regard. Otherwise, the total portfolio here you can see is positive on a one to three-year basis.

On the next two pages --

MR. JONES: Would there be any reason not to have rhumbline and Northern Trust on that schedule?

MR. DOMIESEN: We can add them. They're index so, yeah -- yeah, we can add them, if you like. They're going to show -- that's a good point. I mean, we track them to make sure that they are performing in line with benchmark. The peer group ranking is less relative.

MR. JONES: Right.

MR. DOMIESEN: Is less relative importance.

MR. JONES: I think if we're going to focus on these two pages, it would be nice to have those two managers on there.

MR. VINCENTE: Sure. We'll have that. On page 12 and 13, we do show all individual managers, including on the top of the page, rhumbline and Northern Trust. Benchmark to the Russell 1000 Index performing in line -- and these are all net of fees here on this page in line with the index. Fred Alger, I mentioned, outperformed for the quarter.

Interestingly, the best two stocks hurt them the most in the month of April. So the best two stocks, one of them was Actavis, which is an oncology products manufacturer, as well as pharmaceutical acquisitions that they have. That was the best performing stock in the first quarter in the month of April. It actually underperformed. We're monitoring that, Fred Alger, for the month of April, their performance. However, it's been -- see here over the one-year period, they have outperformed and since inception have outperformed as well.

Cooke and Bieler's out performance --

MS. WINKLER: Did you say there were

two stocks?

MR. DOMIESEN: Pardon me?

MS. WINKLER: I thought you said there were two stocks.

MR. DOMIESEN: There were two stocks that really gave the performance -- out performance in the quarter. The second one was Apple.

MS. WINKLER: Thank you. I didn't hear the second one.

MR. DOMIESEN: I did miss that. Sorry. Actavis is the oncology product manufacturing and that's the one that hurt them this month.

MS. WINKLER: Okay.

MR. DOMIESEN: Helped them dramatically in the first quarter. As I mentioned -- so, I mentioned Eagle underperformed. See here, the quarterly performance. They did recover in 2014 when they outperformed for the full year. This first quarter went back under performance, so that warranted a call that, as I mentioned, Chris and Charlie and myself were on. We're going to monitor that some more. Want to make sure that the -- nothing has changed philosophically in terms of investment stock or strategy. We're not a hundred percent convinced that -- it's a wait and see in this case.

Small cap overall, the combined effect between the two small-cap managers were up 4.9 and the benchmark overall was 4.3 for the quarter.

Page 13. Mentioned already that Mondrian had strong performance, not just for the quarter in an up market, but also over the one-year period when the international markets were negative. They protected principal and performed in the top ten percent of its peer group during that time period.

Also, Harding Loevner, which is the growth international develop manager, up 5.2 for the quarter with the index up 5.9. In the peer group of international growth managers, that ranks in line with the median. One of the reasons for the quarter under performance was about 14 percent merchant market exposure. Mentioned earlier that merchant markets under performed developed markets.

Long term we have on both Mondrian a successful record, as well as Harding Loevner. They have a successful record. I mentioned DFA, the merchant market manager. More recent short-term history here for the quarter, the value bias under performed growth.

When I look back over a five-year period -- we show N/A, but the composite number for the manager would have been plus 2.3. So outperforming the benchmark over a five-year period, which is shown here as 1.8. So combined basis, the international equity exposure outperformed for the quarter, as well as the trailing one year. They were up one percent when the market was down negative one percent.

Some changes have been made, so when you look at the three and the five-year numbers, one of the managers was replaced. Piramis, which was the developed growth manager and was replaced by Harding Loevner.

Fixed income group as a group, again, equal or outperformed, the exception being Barksdale. In the quarter, they were up

1.2., the index was up one six. The other managers equalling the benchmark. And the overall combined fixed income in line with the benchmark, as well.

Same can be said for the trailing one year, that all the managers contributed performance that ended up matching on a combined basis and on a three-year basis actually ahead of the benchmark.

Total fund again, 2.4 percent for the quarter. Benchmark 2.2 percent. And one year, 8.2 versus 7.6. So outside of Eagle that we have on watch list, we have no other immediate concerns of the investment managers. I can show you where the value added came from, from the trailing one-year period, if you would turn to page 15.

On page 15, this is the one-year attributes. And if we look on the upper left, and you can see the value added was point six percent. Value added. Where did it come from? Look in the upper right. It came from both S&L allocation, two-tenths of a percent, but also manager value added. So the manager is outperforming point five percent in aggregate.

And if we look at the lower right of page 15, the boxes here show that value added, manager value added came from small cap, as well as international. And I'll -- one more, page 16.

MS. WINKLER: Can I ask you a question? I know everybody is running out of time. The total fund benchmark, I just don't recall how that was created.

MR. DOMIESEN: How the what?

MS. WINKLER: The benchmark was created, custom benchmark.

MR. DOMIESEN: Oh, that's using the target-weighted asset class benchmark. So, for example, large cap S&P, Russell 1000 index.

MS. WINKLER: Okay. At the target weighting.

MR. DOMIESEN: Right.

MS. WINKLER: Okay.

MR. DOMIESEN: What you'll see here is, there came a contribution mostly from manager value added, the individual managers outperforming, but also slightly from asset allocation. And if you look at the left on page 15, lower left, the asset allocation was slightly overweight in the large cap and under weighted at fixed income. Over the last year, equities outperformed bonds.

MS. WINKLER: Okay. Thank you.

MR. DOMIESEN: That's how that works.

MS. WINKLER: Okay.

MR. DOMIESEN: Page 16 is the peer group comparison. You see in the lower left chart you are the -- your fund is the blue square and the dot is the index. Red dot. And the peer group is showing here out performance versus the median over the one, three, and five-year period.

The next thing we look at is on a risk-adjusted basis, are we taking on any undue risk that the fund is not being compensated for. And that's the sharp ratio on the right. So typically here you'll see that for the one, three, and five-year periods that as we measure it, it's in line with the total fund index, the sharp ratio. So it's a return per unit of risk.

And it's in line. And so we're comfortable that on a risk-adjusted basis we're not taking on -- the fund is not taking on any undue risk that's not being compensated for.

Finally, on page 20, I'll finish with a valuation. Started the year January 1, 2015 with a $516,489,000. There were net outflows of 10.6 million. And that matches the number that was discussed earlier in terms of outflows, primarily pension payments. And then value gains losses of 12.5 million. That would be realized and unrealized. Value $518,437 on March 31st.

That's all I have for the March 31st first quarter value report.

MR. GILBERT: Any questions for Frank?

MR. RUBIN: Frank, when we look at Exhibit-B that we received earlier, it said we had 470.5 million, and this says market value 518.4. So what's the difference?

MR. DOMIESEN: I don't have that.

MR. JONES: Cost. Cost versus -- I think the balance sheet shows you the cost value and Frank is talking about market value.

MS. WINKLER: Oh, this is gain on sale of securities. I'm sorry, our balance sheet carries things like cost, not at market? Really?

MR. JONES: I think so, yeah. Because when you look at the cost value of the portfolio, it's in line with that number, with the 473 million dollar number.

MS. WINKLER: So then the 25 million of gain on sale of securities for the year would be any actually-realized gains. And this shows unrealized -- the market values shows any unrealized.

MR. JONES: I can't say, Nancy.

MS. WINKLER: That makes sense. That makes sense.

MR. JONES: That is one of the questions --

MS. WINKLER: Maybe, again, on the title, Charlie, it can say cost basis in the title would help the reader understand the difference between the two. So you can work with Josephine on that.

MR. GILBERT: Any other questions?

MR. DOMIESEN: For the month of April, the fund was up plus point six ten percent.

MS. WINKLER: So where did it end?

MR. DOMIESEN: We have an estimated value end of April of $519,471,640. $519,471,640, up six-tenths of a percent.

MR. DIFUSCO: I think it's up slightly more than that through close of business yesterday. It's over 522, 522 million as of -- point eight, I believe, as of close of business yesterday.

MS. WINKLER: The actuary is not here, but if I recall correctly the valuation, the actuarial value, they -- there's no smoothing of gains and losses, which is a big difference between the -- with the other fund, the way the other fund does their valuations. Important to remember that.

MR. GILBERT: Any other questions? Have a motion to accept the report?

MS. WINKLER: So moved.

MR. GILBERT: Second?

MR. BUTKOVITZ: Second.

MR. GILBERT: Any questions on motion? All those in favor?

MS. WINKLER: Aye.

MR. GILBERT: Motion carries. Thank you.

MS. WINKLER: Thanks, Frank.

MR. GILBERT: Chris, we have an extension of contract for --

MR. DIFUSCO: So this is an older real estate fund that the Commission entered into numerous years ago, well before I think most of us were here. It only has in terms of our value or exposure under $200,000 worth of value left. The fund has done very, very well. It's generated a net IRR for the fund of 16 percent. They're not charging management fees at this point because it's beyond, you know, the normal shelf life. They're asking to extend for a year. There's about six to seven million dollars worth of investments that need to be disposed of. I believe it's something that we should accept and I would ask for approval to, you know, authorize that by the Commission.

MS. WINKLER: Motion to extend, what is it, one year?

MR. DIFUSCO: Correct.

MS. WINKLER: Motion to extend for one year? From what date to what date?

MR. DIFUSCO: I believe I have that paper upstairs. I will send you the date immediately. I brought down everything but the letter itself. I apologize. I will send it to you immediately.

MS. WINKLER: Okay.

MR. BUTKOVITZ: Second.

MR. GILBERT: Properly moved to second. Any questions on motion? All those in favor?

MR. BUTKOVITZ: Aye.

MR. GILBERT: Motions carries. Thank you. Special meeting for the summer --

MR. JONES: Yeah. We have -- the searches that you have approved over the last few meetings, they're coming to fruition. We got 42 proposals for large-cap value and 31 for small-cap value. So I would like to schedule a meeting in the summertime in July to go over the candidates that we will bring to the table.

Right now dates I'm going to throw out here for your approval is the 8th or the 15th of July. They would probably be the best dates for us, with a backup plan of the 24th of June.

How do those dates look for you folks?

MR. GILBERT: I'm okay for the 8th of July or 24th of June.

MR. JONES: Okay.

MS. WINKLER: I'm sorry, what are the dates?

MR. JONES: The 8th or the 15th of July.

MS. WINKLER: I thought the --

MR. GILBERT: I'm not available on the 15th.

MR. JONES: Not available on the 15th.

MR. DIFUSCO: June 24th or July 8th.

MR. GILBERT: And June 24th I'm okay.

MR. BUTKOVITZ: They're all okay

with me.

MS. WINKLER: I can do either. The two that Ben can do, I can do.

MR. JONES: Fine. Then let's tentatively say the 8th of July.

MS. WINKLER: Would you send calender invites on that?

MR. JONES: You betcha.

MS. WINKLER: Thank you.

MR. GILBERT: Will that include the addendum items that we needed?

MR. JONES: Is that when you want to discuss it?

MS. WINKLER: Yes.

MR. JONES: Okay. Yes.

MR. GILBERT: We need a motion to --

MS. WINKLER: Make a motion to adjourn.

MR. BUTKOVITZ: Second. I wasn't going to do that a third time, Nancy.

MR. GILBERT: The motion is to schedule the meeting on July 8th.

MR. JONES: I guess because it is an open meeting and it has to be advertised and all that, I imagine you guys do have to approve that.

MR. GILBERT: Properly moved? Second? Any questions? All in favor?

MS. WINKLER: Aye.

MR. GILBERT: Motion carries. Another motion to adjourn?

MS. WINKLER: Motion to adjourn.

MR. BUTKOVITZ: Second.

MR. GILBERT: We are adjourned. Next meeting is July 8th.

(Meeting concluded 1:37 p.m.)

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C E R T I F I C A T I O N

I hereby certify that the proceedings, evidence and objections noted, are contained fully and accurately in the notes taken by me on the hearing of this matter, and that this copy is a correct transcript of the same.

____

SUSAN A. HURREY, R.P.R.
NOTARY PUBLIC

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