SUMMARY OF DISCUSSION BY NON-QUORUM
ARIZONA STATE RETIREMENT SYSTEM (ASRS) BOARD MEMBERS,
ASRS STAFF, PRESENTERS, AND PUBLIC

Friday, January 27, 2017
8:30 a.m.

A non-quorum of the ASRS Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Jeff Tyne, Acting Chair of the ASRS Board, called the discussion to order at 8:31 a.m.

The discussion was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Acting Chair
Professor Dennis Hoffman (via teleconference)
Dr. Richard Jacob
Mr. Tom Manos

Five vacant positions.

When the discussion was called to order, a quorum was not present for the purpose of conducting business. Mr. Jeff Tyne, Acting Chair, announced the meeting would move forward without a quorum as a discussion.

2. Approval of the Minutes of the October 28, 2016, Public Meeting of the ASRS Board

Mr. Jeff Tyne accepted the Minutes of the October 28, 2016 Public meeting of the ASRS Board with an amendment to page 5, agenda item #9, second sentence, to remove the “s” at the end of Dr. Jacob’s name and no other changes.

3. Approval of the December 2, 2016 Summary of Discussion by Non-Quorum ASRS Board Members, ASRS Staff, Presenters, and Public

Mr. Jeff Tyne accepted the Summary of Discussion by Non-Quorum ASRS Board Members, ASRS Staff, Presenters, and Public, as written.
4. Presentation Regarding PRIDE Award for Diversity

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the 2016 PRIDE Diversity award: Kim Beck, Kristiana Zeller, Kim Harding, Richard Musto and Jana George.

The nominees were recognized by their peers as exemplifying the following PRIDE qualities of diversity:

- An attitude of openness to encourage a free flow of ideas and opinions
- Working effectively to accomplish goals with teams comprised of dissimilar individuals or groups
- Recognizing and promoting new skills in others attained on and off the job to achieve desirable results
- Treating others different from you with dignity and respect

Mr. Guarino presented the PRIDE Award for Diversity to the award winner, Jana George.

5. Presentation, Discussion, and Appropriate Action Regarding ASRS 2017 Legislative Initiatives and Legislative Update

Mr. Patrick Klein, Assistant Director, External Affairs Division, introduced the topic by stating some events have transpired in the last couple of weeks resulting in an additional committee assignment to one of the ASRS bills, as well as a very lengthy bill just released pertaining, in part, to the Board of Regents, for which Mr. Nick Ponder, Government Relations Officer, will provide an overview. Mr. Klein turned to presentation over to Mr. Ponder.

Mr. Ponder announced three of the ASRS bills will start in the House Banking and Insurance Committee and are being sponsored by Representative David Livingston. The other three bills will start in the Senate Finance Committee, two of which will be sponsored by Senator John Kavanagh and one will be sponsored by Senator Debbie Lesko. Mr. Ponder made note the LOLA report that tracks the ASRS bills is not currently reflecting an accurate calendar for next week’s meetings. The report reflects HB2166 and HB2167 will be heard. Mr. Ponder advised the Board that HB2168 and HB2169 will also be heard.

The following ASRS bills were discussed:

- **HB2166: ASRS; Return to Work** – This bill removes the language “in a position ordinarily filled by the employee of the employer” from A.R.S. § 38-766.02, as it relates to charging an employer an alternate contribution rate when hiring an ASRS retiree. The current statutory language creates an opportunity for a loophole if employers choose to lease specific classes of employees. This bill is scheduled to be heard by the House Banking and Insurance Committee on January 30, 2017.

- **HB2167: ASRS; Contributions; Adjustments** – This bill offers proposed language to A.R.S. 38-738(A) & (B) to provide clarity to the Internal Revenue Code with regard to how the ASRS would process not only employer credits, but contributions not withheld and requests for contributions not withheld on forfeited membership from members returning to work for an ASRS employer. This bill is scheduled to be heard by the House Banking and Insurance Committee on January 30, 2017.
• **HB2168: ASRS; Reinstatement; Contribution Amount** – This bill modifies the language in A.R.S. § 38-742(B) to indicate a member reinstating their service must repay the amount the “ASRS paid” rather than the amount the “member received.”

• **SB1052: ASRS; Optional Retirement Benefits; Overpayment** – This bill modifies the language in A.R.S. § 38-760(B)(3) to allow the ASRS to collect an overpayment from a member’s Partial Lump Sum distribution before rolling the remaining monies into a qualified plan upon retirement. In addition, it allows the ASRS to collect an overpayment from a member’s refund distribution before rolling the remaining monies into a qualified plan.

• **SB1053: ASRS; Board Powers** – This bill modifies the language in A.R.S. § 38-714 to permit the ASRS Board to establish a Committee of the Board for the purposes of determinations following an administrative hearing for the Long Term Disability statutes in Article 2.1, in addition to transfers in Article 7. When A.R.S. § 38-714 was amended in 2016, it only included Article 2. The passage of this bill would permit the Appeals Committee to hear all appeals under ASRS articles. The bill passed through the Senate Finance Committee on January 18, 2017, received a full Senate vote on January 26, 2017 and will move to the House.

• **SB1178: ASRS; Nonparticipating Employers; Liability** – This bill modifies the language in A.R.S. § 38-751 to update and broaden the definition of a nonparticipating employer for purposes of charging a liability; to provide clarity regarding how the ASRS actuary would calculate a nonparticipating employer’s liability; and indicates the employer and employee contribution rate would remain the same as the plan with the employer being invoiced an additional amount annually to account for their share of the liability. Mr. Ponder anticipates this bill will be heard in the Senate Finance Committee on February 8, 2017.

The following are bills that affect the ASRS but not initiated by the ASRS:

• **HB2010: ASRS; Political Subdivision Entities** – This bill, if passed, would exclude membership in the ASRS of new employees of political subdivision entities. Employees who are currently members of the ASRS and become employed with a political subdivision entity will maintain their membership in the ASRS. The ASRS has identified 15 employers that would be impacted by this bill.

• **HB2169: ASRS; State Retirement; Waiting Period; Repeal** – This bill, if passed, would remove the 6-month waiting period for participation in the ASRS for state employees.

• **SB1243: Misconduct Involving Weapons; Public Places** - This bill allows a person who possesses a valid concealed weapons permit to openly carry a weapon into a public establishment other than a vehicle, or craft, or at a public event.

• **HB2359: Universities; Governing Boards** – The intent of this bill is to allow the Governor to name three members to a governing board; the President of the Senate to name a member to the governing board; and the Speaker of the House to name a member to the governing board for each university. Each Governing Board would direct their respective university, with oversight from the Board of Regents.

Mr. Jason Ostroski, CliftonLarsonAllen Audit Manager, introduced himself to the Board. Mr. Ostroski spoke on behalf of CliftonLarsonAllen, LLP, the ASRS’ external auditor. Mr. Ostroski presented an unmodified Independent Auditor’s Opinion for the fiscal year ending June 30, 2016, on the ASRS financial statements that collectively comprise the ASRS’ financial statements in the Comprehensive Annual Financial Report (CAFR). With regard to the report on internal controls, Mr. Ostroski reported there were no material weaknesses or significant deficiencies identified.

Mr. Ostroski stated, as in past audits, it was a pleasure to work with staff and the audit process ran smoothly.

Mr. Jeff Tyne took a moment to congratulate staff on their efforts of maintaining strong financial records.

Ms. Nancy Bennett, Chief Financial Officer, Financial Services Division, responded to questions from the Board.

7. Presentation, Discussion, and Appropriate Action Regarding the Director’s Report as well as Current Events

Mr. Paul Matson addressed the revised investment report provided to the Trustees by advising them some of the data was extracted incorrectly. The section of the report that was updated is on pages 37 through 51. The remaining pages of the report remained unchanged.

8. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings

a. Operations and Audit Committee (OAC)

Mr. Jeff Tyne announced the next OAC meeting will be held February 14, 2017, at 10:30 a.m. in the 14th floor conference room.

b. External Affairs Committee (EAC)

Dr. Richard Jacob announced the next EAC meeting will be held on February 10, 2017, at 10:30 a.m. in the 14th floor conference room and will focus on the legislative initiatives and the 2017 regulatory agenda.

c. Investment Committee (IC)

Mr. Karl Polen, Chief Investment Officer, announced the next IC meeting is scheduled to be held on February 17, 2017 at 2:30 p.m. in the 14th floor conference room will include the standard reporting items, an update on securities lending program, and a presentation on the equity factors risk factor investing program.
d. Appeals Committee (AC)

Dr. Richard Jacob announced that the AC meeting for February 14, 2017, was recently canceled as there were no available appeals on the schedule.

9. Board Requests for Agenda Items

No requests were made.

10. Call to the Public

No one from the public requested to speak at this time.

11. The next regular ASRS Board meeting is scheduled for Friday, February 24, 2017, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

12. Adjournment of the ASRS Board

Mr. Jeff Tyne adjourned the January 27, 2017, discussion at 9:09 a.m.

Respectfully Submitted by:

Melanie A. Alexander
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM