MINUTES
PUBLIC MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, May 26, 2017
8:30 a.m.

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012. Mr. Kevin McCarthy, Chair of the ASRS Board, called the meeting to order at 8:31 a.m.

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Kevin McCarthy, Chair
Mr. Clark Partridge
Mr. Harry Papp
Mr. Jim Hillyard
Mr. Michael Lofton
Mr. Michael Miller
Mr. Rene Guillen (Joined the meeting via teleconference at 8:49 a.m.)

Absent: Mr. Tom Manos, Vice-chair

One vacant position.

A quorum was present for the purpose of conducting business

2. Approval of the Minutes of the April 28, 2017 Public Meeting of the ASRS Board.

Motion: Mr. Clark Partridge moved to approve the minutes of the April 28, 2017 Public Meeting of the ASRS Board. Mr. Harry Papp seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 2 excused, and 1 vacancy, the motion was approved.

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

Mr. Nick Ponder, Government Relations Officer, provided an update regarding the 2017 Legislative Session. Mr. Ponder noted the Legislature adjourned on May 10, 2017 at 7:00 p.m., on the 122nd day of the session. He also noted the ASRS had pursued six initiatives this session. Five of the six passed and one failed.
The following ASRS bills were discussed:

- **HB2166: ASRS; Return to Work (Sponsor: Livingston)**
  HB2166 makes changes to A.R.S. § 38-766.02 to ensure the language of the statute conforms to the original intent, that retirees of the ASRS who return to work for an ASRS employer are paying an Alternate Contribution. The language passed by the legislature closes any potential loopholes. This bill was passed and signed to become effective August 9, 2017.

- **HB2167: ASRS; Contributions; Adjustments (Sponsor: Livingston)**
  This bill establishes Internal Revenue Code conforming language to A.R.S. § 38-738 for the purposes of employer credits and contributions not withheld. Additionally, it stipulates that a member who previously received a return of contribution may only receive an adjustment of employer contributions or service credits for qualifying employment and compensation occurring after the member’s most recent return of contributions. This bill was passed and signed to become effective August 9, 2017.

- **HB2168: ASRS; Reinstatement; Contribution Amount (Sponsor: Livingston)**
  This bill clarifies language in A.R.S. § 38-742 relating to the reinstatement of forfeited service in a scenario where an individual’s prior distribution was split for the purposes of a domestic relations order. This bill was passed and signed to become effective August 9, 2017.

- **SB1052: ASRS; Optional Retirement Benefits (Sponsor: Kavanagh)**
  This bill requires the ASRS to withhold any overpayments and federally required taxes from a member’s Partial Lump Sum distribution or return of contributions, before distributing funds to the member. This bill was passed to become effective August 9, 2017.

- **SB1053: ASRS; Board Powers (Sponsor: Kavanagh)**
  This bill permits the ASRS Board of Trustees to establish a committee of the Board for the purposes of delegating agency appealable action determinations relating to long-term disability and transfers. The committee will have the full legal authority of the Board relating to appeal decisions. This bill was passed to become effective August 9, 2017.

- **SB1178: ASRS; Nonparticipating Employers (Sponsor: Lesko)**
  This bill attempted to redefine what constitutes an ASRS nonparticipating employer under A.R.S. § 38-751 for the purposes of charging a nonparticipating employer a liability. Additionally, the bill clarified the calculation methodology for the liability. This bill failed to pass legislature.

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

- **HB2010: ASRS; Political Subdivision Entities (Sponsor: Rita)**
  This bill proposed to remove political subdivision entities from ASRS participation for all new employees of the entity. This bill was presented in both the 2013 and 2014 legislative sessions and failed to pass legislature.

- **HB2169: ASRS; State Retirement; Waiting Period; Repeal (Sponsor: Livingston)**
  This bill repealed the 2012 law requiring state employees to wait twenty-six weeks before becoming eligible for ASRS participation. This bill passed the senate on May 8, 2017 and was ultimately vetoed by the Governor on Monday, May 22, 2017.
• **SB1072 ADMINISTRATIVE DECISIONS; SCOPE OF REVIEW (Sponsor: Petersen)**
  This bill makes changes to laws relating to agency appealable actions and deals with payment of attorney’s fees for cases brought against a state agency. It requires the court to award fees and other expenses in a successful challenge to an agency decision where civil action is brought on the grounds that the agency decision is not authorized by statute, violates the United States Constitution or violates the Arizona Constitution. This bill was passed and signed by the Governor.

• **SB1078 ELECTRONIC; DIGITAL SIGNATURES; REQUIREMENTS; ADOA (Sponsor: Worsley)**
  This bill requires agencies to treat electronic signatures the same as a physical signature and directs ADOA to adopt rules for accepting electronic and digital signatures. Effective Date: March 27, 2017. This bill was passed and signed with an emergency clause.

• **SB1084: ELECTRONIC RECORDS; RETENTION; STORAGE (Sponsor: Worsley)**
  This bill makes changes relating to electronic transactions and record retention and states that electronic records satisfy any law requiring a record to be retained. This bill was passed and signed to become effective August 9, 2017.

• **SB1243 MISCONDUCT INVOLVING WEAPONS; PUBLIC PLACES (Sponsor: Kavanagh)**
  This bill proposed an exemption for holders of a Conceal Carry Weapons (CCW) permit, allowing them to enter public buildings without restrictions on their weapons. Current law lets each public building determine their weapons allowance consistent with A.R.S. § 13-3102. This bill did not pass legislature.

• **SB 1437: AGENCIES; REVIEW; GRCC; OCCUPATIONAL REGULATION (Sponsor: Barto)**
  This bill grants authority for individuals to petition GRRC to review an agency’s final rule. It requires the Office of Administrative Hearings to include conclusions of law in any final administrative decisions, and requires an agency to submit a written letter with justification if the agency rejects or modifies the recommended decision from the Office of Administrative Hearings. This bill was passed and signed to become effective August 9, 2017.

• **CORP Proposition SB1442, & SCR1023 CORP MODIFICATIONS (Sponsor: Lesko)**
  Among the numerous CORP modifications, for employees hired on or after July 1, 2018, the bill creates a new DC plan for correctional officers and allows probation and security offices to opt-out of the DB plan in exchange for the DC plan. The bill also removes the PBI in place of a more predictable COLA; the proposition for this will appear on the November 6, 2018 general election ballot. Effective Date: August 9, 2017, however actual changes in membership tiers don’t begin until July 1, 2018.

Mr. Ponder responded to questions from the Board.

Prior to moving to agenda item #4, ASRS staff was notified phone connection for those participating telephonically was lost. Phone connection was resumed at 8:49 a.m. and Mr. Rene Guillen joined the meeting at that time.
4. Presentation, Discussion, and Appropriate Action Regarding Arizona Open Meeting Law Education

Ms. Jothi Beljan, Assistant Attorney General, introduced herself to the new members of the Board. She offered, for any Board members who were interested, to meet at a later date to give an overview of the ASRS statutes that govern the agency and key pension court decisions in Arizona that govern public retirement systems. She reviewed Arizona Open Meeting Law, the applicable statutes, and their purpose. Additionally, Ms. Beljan provided a brief summary of various legal topics such as public records and conflict of interest and responded to questions from the Board.

5. Presentation, Discussion, and Appropriate Action Regarding ASRS Board Governance Policy Handbook Revisions

Mr. Paul Matson, Director, presented the recommended revisions to the ASRS Board Governance Policy Handbook and outlined some of the substantive recommendations as follows:

- Remove the External Affairs Committee (EAC) due to its narrow focus and migrate the substantive items from the EAC to the Operations and Audit Committee (OAC); renaming it the Operations, Audit, and Legislative Committee (OALC).
- Modify the Asset Class Committee section to reflect that the ASRS will have such staff committees, but remove reference to the number of asset class committees. This removal will allow staff to have the flexibility to have any number of committees as needed.
- Remove the process language from the Strategic Planning Policy section of the Handbook. The written process language is cumbersome, therefore, the Director recommends removing it and he will work with the Chairman to determine the Strategic Planning process as the strategic planning document is reviewed and rewritten every five years.

In addition, Mr. Matson reviewed the technical changes to the ASRS Board Governance Policy Handbook with the Board.

Motion: Mr. Jim Hillyard moved to approve the recommended revisions to the ASRS Board Governance Policy Handbook. Mr. Clark Partridge seconded the motion.

By a vote of 7 in favor 0 opposed, 0 abstentions, 1 excused, and 1 vacancy, the motion was approved.

6. Presentation, Discussion, and Appropriate Action Regarding Possible Revisions to Board Meeting Scheduling

Mr. Paul Matson reviewed the two possible revisions to the Board meeting scheduling as presented in Option #1, with Board meetings to occur the first Friday of the month; and Option #2, with Board meetings to occur on the last Friday of the month. Mr. Matson suggested an amendment for Option #2, which would move the December meetings for both 2017 and 2018 to the first Friday of the month to avoid possible quorum issues due to the holidays.
Motion: Mr. Michael Miller moved to approve the Board meeting schedule as presented in Option #2, with Board meetings to occur the last Friday of the month and move the December meetings to the first Friday of the month. Mr. Clark Partridge seconded the motion.

By a vote of 7 in favor 0 opposed, 0 abstentions, 1 excused, and 1 vacancy, the motion was approved.

7. Presentation, Discussion, and Appropriate Action Regarding Appointment of Board Committee Officers and Membership

Mr. Kevin McCarthy noted, for the record, appointment to the ASRS Board Committees as follows:

Investment Committee (IC)
Chair: Harry Papp
Vice-chair: Clark Partridge
Member: Michael Lofton

Operations, Audit, and Legislative Committee (OALC)
Chair: Clark Partridge
Vice-chair: Jim Hillyard
Member: Rene Guillen
Member: Harry Papp

Appeals Committee (AC)
Chair: Tom Manos
Vice-chair: Jim Hillyard
Member: Michael Miller

8. Presentation and Discussion Regarding the Director’s Report as well as Current Events

Mr. Matson briefly introduced the topic and asked Mr. Karl Polen, Chief Investment Officer to provide any updates on the rates of return or any investment strategies. Mr. Polen provided the estimated value of the trust fund and the net return for the fiscal year. He then congratulated and welcomed the new members of the IC. Mr. Polen stated that the investment team will have the most recent investment numbers as of March 31 2017, ready in the next couple of weeks. He will provide the IC with a full scale review of the portfolio and discuss strategies at an upcoming IC meeting, approximately mid-June.

Mr. Matson introduced Mr. Anthony Guarino, Chief Operations Officer who gave a brief overview on the Operations Report.

9. Board Requests for Future Agenda Items

No requests were made.
10. Call to the Public

No one from the public requested to speak.

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

Mr. McCarthy noted that based on the previous decision regarding the Board meeting schedule, the June 30, 2017 meeting will be canceled; therefore, the next meeting is scheduled for Friday, August 25, 2017, at 8:30 a.m.

12. Adjournment of the ASRS Board

Motion: Mr. Clark Partridge moved to adjourn the May 26, 2017, Board Meeting at 9:50 a.m. Mr. Jim Hillyard seconded the motion.

By a vote of 7 in favor 0 opposed, 0 abstentions, 1 excused, and 1 vacancy, the motion was approved.

Respectfully Submitted by:

Alicia Guzman
Board Administrator
ARIZONA STATE RETIREMENT SYSTEM