

**MINUTES OF A PUBLIC MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS, AUDIT, & LEGISLATIVE COMMITTEE**

**Wednesday, July 21, 2021
2:30 p.m., Arizona Time**

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met telephonically in public session.

Mr. Rene Guillen, Chair of the OALC, called the meeting to order at 2:32 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Rene Guillen, Chair (via teleconference)
Ms. Ashley Ruiz (via teleconference)

One vacant position.

A quorum of the Committee was present for the purpose of conducting business.

Ms. Melanie Alexander, ASRS Committee Administrator, provided all attendees with telephonic meeting guidelines.

2. Approval of the Minutes of the April 14, 2021, Public Meeting and Executive Sessions of the OALC

Motion: Mr. Rene Guillen moved to approve the Minutes of the April 14, 2021, Public Meeting and Executive Session of the OALC. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

3. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:

- a. **The ASRS Appropriated and Continuously Appropriated Budget and Spending Plans for Fiscal Year (FY) 2022.**
- b. **The ASRS Appropriated and Continuously Appropriated Budget Request and Spending Plans for FY 2023.**

Mr. Anthony Guarino, ASRS Deputy Director and Chief Operations Officer, introduced the topic discussion stating the staff is seeking approval to proceed with budget and spending plans for FY 2022 and FY 2023, which include plans for administration and investment management. Mr. Guarino announced the presentation would consist of three main presenters: Ms. Martha Rozen, Chief of Administrative Services, Mr. Chris Gustafson, Budget and Procurement Manager, and Ms. Lupita Breland, Investment Operations Manager. Mr. Guarino turned the presentation over to Ms. Rozen.

Ms. Rozen opened the presentation by thanking the Committee for the opportunity of presenting the spending plans for FY 2022 and FY 2023 and budget request for FY 2023. In addition to the speakers Mr. Guarino mentioned in his introduction, Ms. Rozen took a moment to recognize Ms. M. Harrison, Investment Management Division, who assisted in the preparation of the materials being presented today. Ms. Rozen also took a moment to introduce Mr. Jeremy Gunderson, currently employed with the Arizona Joint Legislative Budget Committee but will be the new ASRS Budget Manager as of Monday, July 26, 2021, who was in the audience.

Ms. Rozen proceeded with the presentation of the materials and explained the various attachments included in the book before addressing the first action item; changes to FY 2022 Spending Plan. Ms. Rozen reviewed the changes as follows:

- Adding resources to Technology Services Division for one year to work through a backlog of highly critical projects
- Increases to the Investment Spending Plan due to the growth in assets under management
- Added column for anticipated costs for the self-insurance program for non-medicare individuals

Ms. Rozen turned to Mr. Gustafson to present the Administrative Spending Plan for FY 2023 and budget request details. Mr. Gustafson stated that the ASRS is focused on continuing to manage budgets and implement strategies that make the ASRS more cost-efficient, which has allowed the agency to reduce expenditures in the past; however, in FY 2022 and FY 2023, it is necessary to increase spending in order to enhance data security and technology. Mr. Gustafson stated that as more information has been obtained for the cloud migration, the agency has more accurately identified the annual costs associated with the migration. Additionally, Mr. Gustafson addressed one of the agency's preferred service management intranet software products that is critical to the internal processes of the ASRS must also be migrated to the cloud. This incurs not only a cost for the migration but also an ongoing annual cost as well. Closing out this portion of the presentation, Mr. Gustafson noted the Production Support Team for the ASRS lacks sufficient developer resources to complete services requested to keep up with business needs; therefore, the ASRS is requesting two FTE's to fill this need.

Mr. Gustafson turned to Ms. Breland to present the Investment Spending Plan. Ms. Breland noted the costs to manage the investment program are authorized by the state as continuous appropriations. The investment-related funding requirements do not require formal requests to or approval from the Governor's Office or the Legislature. However, the prior year's actual investment-related expenses and estimated expenses for the coming year's are reported to both of those entities as part of the annual ASRS budget request and submission process; therefore, the ASRS wanted to provide the Committee the opportunity to review the administration and use of the appropriations for investment program purposes. As shown in attachment C, the most significant expense related to this program is management fees which will see a slight increase in FY 2023 over FY 2022 due to committing funds to private market assets. Ms. Breland noted operational costs remain relatively steady.

Mr. Gustafson concluded the presentation by advising the Committee there are two staff recommendations for this topic, with the first as follows: For agenda item 3.a., staff recommends that the OALC accept and forward to the ASRS Board of Trustees the following:

- 1) The proposed updated administrative spending plan of \$32,787,700 for FY 2022 that includes the addition of resources for IT and data security enhancements with the understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive adjustments and the updated continuously appropriated investment spending plan of \$133,036,600 for FY 2022 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

Before moving to the motions, Mr. Guillen wanted to acknowledge the savings noted to the members with the upcoming self-insurance initiative, noting this will significantly impact members' lives. He further indicated the agency is moving in the right direction to "provide excellent care while providing an economical solution." Mr. Guillen asked if Ms. Ruiz had any comments or questions before considering motions; she had none.

Motion: Ms. Ashley Ruiz moved the motion forward to approve the spending plans as stated by staff. Mr. Rene Guillen seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

Mr. Gustafson provided the second staff recommendation as follows: For agenda item 3.b., staff recommends that the OALC accept and forward to the ASRS Board of Trustees the following:

- 1) An appropriated budget request for FY 2023 in the amount of \$25,606,000, with an understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive recommendations.
- 2) The proposed administrative spending plan of \$34,165,900 and continuously appropriated investment spending plan of \$137,450,000 for FY 2023 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

Motion: Ms. Ashley Ruiz moved the motion as stated by staff. Mr. Rene Guillen seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

4. Presentation, Discussion, and Appropriate Action Regarding the 2021 Five-Year Rule Review Report and Request for Expedited Rulemaking

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, announced the ASRS

completed the Five-Year Rule Review Report as required for rules in Articles 6 and 7, relating to Public Participation in Rulemaking and Contributions Not Withheld, respectively. The report was submitted to the Governor's Regulatory Review Council on time and was approved on May 4, 2021. Ms. Thomas advised the report proposed a few non-substantive changes. The ASRS is recommending the agency comply with the proposed course of action, which would consist of expedited rulemaking to address the issues identified in the report no later than December 2021.

Ms. Thomas noted that staff is recommending approval to proceed with the expedited rulemaking process to address the issues identified in the Five-Year Rule Report before responding to questions from the Committee.

Motion: Ms. Ashley Ruiz moved the motion as stated by staff. Mr. Rene Guillen seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

5. Presentation, Discussion, and Appropriate Action Regarding the Request for Rulemaking Regarding Self-Insurance

Ms. Thomas opened the presentation by stating that the Legislature passed SB 1054 in 2021, clarifying how the ASRS may fund a self-insurance program. The bill will become effective on September 29, 2021. Ms. Thomas further stated that in anticipation of funding a self-insurance program, the ASRS needs to establish an appeals process specifically for the program; therefore, staff is recommending approval to proceed with the regular rulemaking process to establish appeals rules relating to retiree health insurance program under a self-insured model.

Ms. Thomas responded to questions from the Committee.

Motion: Ms. Ashley Ruiz moved the motion as stated by staff. Mr. Rene Guillen seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

6. Presentation, Discussion, and Appropriate Action Regarding an Update on the 2021 Regulatory Agenda

Ms. Thomas noted the 2021 Regulatory Agenda approved by the Board in November 2020 identified four rulemaking initiatives and two Five-Year Review Reports to be completed in 2021. The rulemaking is already in progress, and Ms. Thomas anticipates bringing proposed language for those rules to the Committee at its October meeting.

Ms. Thomas opened up to questions from the Committee; there were none.

7. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Harold Mackey, Chief Internal Auditor, reviewed the current activities identified on the internal quarterly audit report with the Committee, noting the team has obtained audit software that will move them away from paper-based auditing and into more electronic delivery. This will also assist in better tracking and reporting. With the transition to the new custody bank, BNY Mellon, the Audit Team has received BNY NEXEN training, and the team continues to evaluate the fraud hotline.

Mr. Mackey noted the newest Internal Auditor, Ms. Nancy Solheim, has been working closely with Mr. Andrew Burch, ASRS Internal Auditor, on her first audit, which is near completion. It is expected to be completed and presented to the OALC at its October meeting.

Mr. Mackey noted there was one audit the team was unable to put on today's agenda. He explained the results still need to be presented to the ASRS Senior Management Team as this is a part of the process to ensure management is aware of the audit results before bringing them to the OALC. Due to time constraints, this could not be accomplished for this meeting; therefore, it will be presented at the October meeting.

Mr. Mackey briefly reviewed the supplement memo regarding the Health Insurance Premium Benefits for Arizona Department of Administration audit placed on hold and indicated that since the packet was distributed, the team has received clarifying information. He further explained this audit was the final audit of a series related to Health Insurance. The additional work that needs to be done on this audit will not be completed until approximately September 2021.

Mr. Mackey briefly reviewed the "Budget/Hours Allocation" slides.

Mr. Mackey opened it up to questions from the Committee; there were none.

8. Call to the Public

No members of the public requested to speak.

Due to time constraints, Mr. Guillen elected to move forward and address agenda items #10 and #11 prior to agenda item #9 and its executive session.

10. Requests for Future Agenda Items

None were requested.

11. The next regular public OALC meeting is scheduled for Wednesday, July 21, 2021, at 2:30 p.m.

Mr. Rened Guillen noted the next OALC meeting is scheduled for Wednesday, October 13, 2021, at 2:30 p.m.

9. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program

Motion: Ms. Ashley Ruiz moved to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) for the purpose of discussion or consideration of records exempt by law from public inspection. Mr. Rene Guillen seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

The Committee convened to Executive Session at 3:16 p.m.

The Committee reconvened to Public Session at 3:45 p.m.

12. Adjournment of the OALC

Mr. Guillen adjourned the meeting at 3:47 p.m.

Respectfully Submitted,

Melanie Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM