July 28, 1986
Room 15
State Capitol

MINUTES of the July 28, 1986 Meeting:

The chair, Senator Donald Moe, opened the meeting at 2:15 p.m.

PRESENT: Senators Donald Moe, Lawrence Pogemiller, Earl Renneke, Allan Spear
Representatives Terry Dempsey, Gil Gutknecht, Gerald Knickerbocker, Wayne Simoneau, Steve Sviggum

Senator Moe introduced the agenda as follows:

Commission action on Actuarial Standards;
Report from Howard Bicker on the South African Investment Task Force;
Report from Jim Heidelberg on Social Security;
Update on Duluth Firefighters investment performance by Jim Heidelberg
Reactions from the Minneapolis Police, Firefighters, City and Teachers to the Legislative Auditor's report.

Senator Moe introduced Larry Martin who brought the Commission's attention to a memo in their packets from Bob Perkins regarding comparative values for the post retirement funds. At the last meeting, the problem of not tracking the market value of the assets in these plans in the actuarial work was noted. The post amendment provided by Mr. Perkins will correct this problem. Mr. Martin introduced Mr. Perkins.

Mr. Perkins read the memo to all meeting attendees and explained that the actuarial present value would still be used to determine assets for evaluation purposes and within the evaluation report the other two asset numbers, cost and market, would be disclosed. Mr. Perkins recommended adopting this amendment as well as the amendment deferred the previous week which had to do with the asset valuation of the post funds.

Senator Moe moved approval of this amendment as well as item number 5 from the previous week as prepared. Motion carried.

Senator Moe moved to the next item on the agenda and introduced Howard Bicker.

Mr. Bicker reported on the South African Task Force. He began by explaining the four phase resolution adopted by the State Board of Investments in October of 1985 with final enactment or divestment scheduled for 1989. The resolution relates basically to the Sullivan Principles. Phase 1 of the resolution called for the Task Force to send letters to the 107 corporations the SBI had investments in and responses were received from 97. Thirteen of those companies had not signed the Sullivan Principle. The resolution called for the SBI to sponsor shareholder resolutions asking those corporations to sign the Sullivan Principles. By Jan. 1, 1986, all but three companies had signed the Sullivan Principles. Phase 2 called for corporations not only to sign the Sullivan Principles but to abide by the monitoring of the Sullivan organization. In addition to the three companies that have not signed the Sullivan Principles, six new companies that fall under the resolution have been added and have not signed the Sullivan Principles.

The Task Force also asked the SBI to review the ramifications of implementing the resolution for the index fund as the resolution has not been implemented for the index fund.

In addition, the Task Force asked SBI to review the effect divestment or implementation of the resolution would have on the 22 companies that directly support apartheid.

Questions and discussion followed.

Senator Moe introduced Jim Heidelberg to update the Commission on the issue of mandatory Social Security coverage for public employees. The congress is again considering that all public employees be covered by Medicare. Wed. July 23, the Finance Committee voted overwhelmingly that all public employees be covered by Medicare beginning May 1, 1987. The Ways and Means Committee voted down the measure in a voice vote. The issue will come up in a conference in the budget bill before the Congress. The cost of the measure will be borne by the employers and employees. The latest figure on what the cost will be is 1.45% of payroll to the employer and 1.45% to the employee. The estimate of total cost for this measure is 10.3 million dollars for the employers and employees for a total of 20.6 million dollars. The measure would not have a direct impact on public employee pension plans in the state.

Senator Moe asked Jim Heidelberg to update the Commission on the Duluth Firefighters rate of return figures.

Mr. Heidelberg reported that earlier in the week Mr. Martin, Mr. Burek, Mr. Long, Mr. Derby and Dain Bosworth representatives had met regarding this issue. Mr. Heidelberg began by saying Dain Bosworth has been collecting old records to calculate rate of return numbers. Mr. Heidelberg stated that the Dain Bosworth numbers may be a more refined version of the numbers that were done by the State Auditor. He went on to say that the State Auditor's rate of return number for the five year period is 6.1% and Dain Bosworth's rate of return number for the same period is 7.2% and it apparently may not be possible to reconstruct the data to generate a better number to work with.

Senator Moe asked if the conclusion then is that the Duluth Firefighters Relief Association has a substandard rate of return in comparison to other pension funds. Mr. Long responded that this conclusion is correct and went on to say that there is very little dispute left between the State Auditor's figures and Dain Bosworth's.

Mr. Burek stated that the key point is how the fund administrators were managing the pension funds during this time period. Discussion continued.

Senator Moe introduced Mr. Jerry Bridgeman, President of the Minneapolis Police Relief Association, and asked him for his comments regarding the Legislative Auditor's Report. Some of Mr. Bridgeman's comments follow.

In response to the criticism of the absence of formal investment objectives, Mr. Bridgeman passed out to the Commission copies of the Investment Policy of the Minneapolis Police Relief Association. Mr. Bridgeman went on to say that the Association does not delegate their fiduciary responsibility. They have hired professionals but the Board has control. Mr. Bridgeman introduced Mr. Noah Ron from Investment Advisors Inc., Mr. Dean Derby from Standard Valuations Inc., Mr. Gail Freidrich from Norwest Bank, Mr. Bryan Rice, legal advisor, and Mr. Richard Nelson, from the Association. Mr. Bridgeman continued to explain that the policy passed out to the Commission was developed by the Association over several years and is the basic policy they have with their investment advisor and was recently written as a result of the Legislative Auditor Report's suggestion.

In response to the question regarding the City of Minneapolis participation in Relief Association affairs, Mr. Bridgeman stated that the City of Minneapolis was beginning the process of appointing two members from the City to participate on the Board of the Association. In the past, the City was represented by three members, the Chief of Police, the Mayor, and the City Treasurer, and when the City eliminated the Treasurer's position, only two representatives of the City remained. These City representatives attend the Annual meeting, quarterly strategy meetings, they review legislative issues to conform with the City's overall objectives and financial objectives, they review Association actuarial reports, and the Financial Officer of the City signs Association checks.

In response to the question regarding administrative expenses of the Association, Mr. Bridgeman stated that a large part of those expenses were legal fees relating to two 1984 occurrences the Association was involved in.

Mr. Bridgeman introduced Mr. Dick Nelson, Executive Vice President of the Retired Minneapolis Relief Association. Mr. Nelson summarized the history of the Association for the Commission.

Mr. Bryan Rice, Attorney for the Association, made a few comments relative to the Legislative Auditor's Report.

Questions and discussion followed.

Senator Moe introduced Mr. Tom Fyle, Secretary for the Minneapolis Firefighters Relief Association.

In response to the questions from Commission staff, Mr. Fyle stated that the Firefighters Relief Association has two money managers who were hired after an extensive search in 1980. One of the managers is conservative the other is aggressive. The Association does not have a write off policy with these managers, the managers do have full discretion, but the Association does meet with their managers semiannually and beginning this year will meet with them quarterly. Mr. Fyle referred the Commission to a copy of the Statement of Pension Fund Investment Policy of the Minneapolis Fire Department Relief Association passed out by staff prior to the Commission meeting along with a copy of a letter from the Association to Alliance Capitol Management Corporation, the investment manager for the Association, and a copy of tables showing Total Rates of Return for First Class City Police and Fire Pension Funds. He went on to state the Association has hired Standard Valuations, Inc. to track the performance of the Association's funds.

In response to the question regarding administrative expenses for the Association, Mr. Fyle stated that the Association rents an office and has a full time secretary. Mr. Fyle introduced Mr. Bob Wetherille, President of the Board of Trustees for the Minneapolis Firefighters Relief Association to further clarify the administrative expenses. Mr. Wetherille stated the administrative expenses as shown in the Legislative Auditor's report included money from the Firefighters General Fund and further questioned the accuracy of the expenses as shown in the Legislative Auditor's Report.

Senator Moe asked Mr. Long to respond to the administrative expense issue. Mr. Long stated that the expenses as shown in the Legislative Auditor's Report for each of the Police and Fire Funds were taken from reports filed by each of the Funds with the State Revenue Department but are not necessarily consistent with the State Auditor's financial statements. Mr. Long further pointed to a footnote to the tables on page 14 and 15 of the Legislative Auditor's Report that points out that General and Special sub-funds and expenses are included in the table as Mr. Wetherille mentioned.

Questions and discussion followed.

Senator Moe introduced Mr. Duke Addicks, Legislative Liaison for the City of Minneapolis.

Mr. Addicks stated that the role of City participation will increase with the appointment of two voting members to the Fire and Police Associations. It was the belief of Mr. Addicks that one of the appointees would be a finance officer of the City of Minneapolis and the other would be from the private sector.

Senator Moe introduced Mr. Harry Adams, Executive Secretary of the Minneapolis Teachers Retirement Association.

Mr. Adams introduced Dudley Parsons, President of the Association, Jim Heller, Vice President, Mrs Joy Davis, School District's Representative, Larry Risser, a working teacher, Bob Butterbrod, General Counsel, Morgan Fleming, Lobbyist, and Mark Meyer, actuarial helper, all of whom accompanied him to the meeting.

Mr. Adams referred to a copy of a letter passed out to Commission members prior to beginning the meeting in which were written responses to the questions raised by the Legislative Auditor's Report.

Mr. Adams began with responses to the appropriateness of the internal management of the Association and advised the Commission that the Association is in the process of appointing an outside real estate manager to manage the Association's ninety-five million dollars of sale/leaseback investments. The Association has liquidated a portion of its common stock portfolio and that is being managed by Wilshire Associates.

Mr. Adams went on to say they have now written objectives that are compatible with the State Board of Investments.

In response to the sale/leaseback questions, Mr. Adams responded that they do not plan to exceed 30% investment in this type of investment. He stated the 30% investment involved 170 businesses in 25 different states. He also stated that the Association anticipated continuing to diversify away from restaurants.

With regard to the question of measuring the sale/leasebacks performance, Mr. Adams responded that they do have an idea of what the portfolio is worth, they have offers in hand for the major pieces at cost, and they can buy appraisals on a cap rate basis from professionals.

Questions and discussion followed.

Mr. Adams introduced Mr. Mark Myer the actuary for the Minneapolis Teachers Retirement Association.

Mr. Myer began by stating the statutory contributions for the Fund are not sufficient for 1985 by an amount of 11.79% of payroll or about ten million dollars. Mr. Martin asked Mr. Myer about the sizable reserve for investment and other losses which is shown in the annual report for the Fund and which in 1984 was almost 57 million dollars. Mr. Myer responded that the figure probably represented the state incurred deficit. Mr. Martin further questioned Mr. Myer regarding the school district contribution to the fund which according to the annual reports were often late or not collected. Mr. Myer was unfamiliar with this and said he would have to respond after looking into this matter. With regard to high legal fees, Mr. Myer stated this was related to the real estate investments.

Questions and discussion followed.

Mr. Adams introduced Mr. James Heller, Vice President of the Board of Trustees and Chair of the Committee of Thirteen. Mr. Heller summarized the background and duties of the Committee of Thirteen. Questions and discussion followed.

Senator Moe recognized Mr. Dudley Parsons, Chair of the Board of Trustees for the Minneapolis Teachers Retirement Fund.

Mr. Parsons responded to Senator Moe's question of why the Minneapolis Teachers invested in real estate. He began by providing the background on the Fund's reasons for investing in real estate. He went on to state that real estate provided the Fund with a hedge against inflation, a current income, and a fixed income investment.

The meeting adjourned at 5:15 p.m.

Wayne Simoneau
Commission Secretary
Jean Liebgott
Staff Secretary