The meeting of the Board of Trustees convened at 8:30 a.m. in the Retirement System offices in Jefferson City, Missouri. In attendance were Board members Aaron Zalis, Yvonne Heath, Beth Knes, Jason Hoffman, Scott Hunt and Jason Steliga. Chuck Bryant, Board Member, was absent. Also present were Executive Director, M. Steve Yoakum; Assistant Executive Director, Investments, Craig Hustling; Assistant Executive Director, Operations, Dearld Snider; General Counsel, Alan Thompson; Chief Financial Officer, Anita Brand; Director of Member Services, Sarah Swoboda; Director of Employer Services, Omar Davis; Director of Legislation and Policy, Maria Walden; Director of Internal Audits, Jeff Hyman; Chief Technology Officer, Bill Betts; Director of Administrative Planning and Design, Nicole Hamler; and various other PSRS/PEERS staff members.

Ms. Yvonne Heath moved that the minutes from the August 27, 2018 meeting be approved. Mr. Scott Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

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Ms. Yvonne Heath moved that the minutes from the August 27, 2018 meeting be approved. Mr. Scott Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.
Dr. Aaron Zalis recognized Ms. Yvonne Heath on her recent awards. Ms. Heath received the 2018 Unsung Heroes of Missouri State Teachers Association and the Lyon Hero of the Month.

**Investments**

**Ongoing Investment Activity**

Mr. Craig Husting, Chief Investment Officer, and Mr. Barry Dennis from Verus reviewed ongoing investment activity, which included estimated investment performance through September 30, 2018. The estimated return for the first quarter of Fiscal year 2019 (July 1, 2018 through September 30, 2018) was approximately 2.5%. Mr. Husting discussed the current asset allocation of the PSRS/PEERS portfolio, in which he reviewed the long-term strategy, portfolio themes, and the broad portfolio expectations. Mr. Husting also reviewed the tentative Board investment calendar.

**Actuarial Assumed Rate of Return Review**

Mr. Husting reported that the actuarial assumed rate of return (discount rate) for PSRS/PEERS was moved from 7.75% to 7.6% for the period beginning July 1, 2017, with a bias toward moving the rate lower in the future as financial conditions warranted. He showed a summary of 10-year and 20-year capital market expectations and hypothetical portfolio returns, based on a National Survey of Pension Consultants. Mr. Husting also presented assumed rate of return information for public plans from both the National Association of State Retirement Systems (NASRA) database and the Center for Retirement Research at Boston College database. Mr. Husting stated that the actuary (PWC) would present additional analysis of lower discount rate options later in the Board meeting.

**Proxy Voting Review**

Mr. Husting reviewed the Systems’ Proxy Voting Policy. The Systems’ active public equity investment managers are each responsible for voting proxies in the best interests of the members of the Systems. The managers are required to provide an annual report to the investment staff detailing how their proxies were voted during the year on behalf of PSRS/PEERS. Mr. Husting reported that the Systems received proxy voting reports from all public equity managers for fiscal year 2018. The internal PSRS/PEERS staff has not identified any operational issues with the proxy voting process during the review that was conducted this year and all investment managers are in compliance with the policy.

**Hedged Assets Program Review**

Mr. John Tuck and Mr. Chad Myhre from the PSRS/PEERS investment staff reviewed the Systems’ Hedged Assets portfolio including program objectives, guidelines and long-term results. The five-year annualized return for the Hedged Asset composite for the period ended June 30, 2018 was 6.6% (net of all fees).

**Credit Program Review**

Mr. Frank Aten and Ms. Jessica Wilbers from the PSRS/PEERS investment staff reviewed the Systems’ Credit portfolio including program objectives, guidelines and long-term results. The five-year annualized return for the Credit composite for the period ended June 30, 2018, was 2.8% (net of all fees).

**Real Estate Annual Review**

Mr. Jack Koch and Mr. Seth Marcus from Townsend (the Systems’ Real Estate Consultant) presented a number of items to the Board, including an update on Aon’s acquisition of Townsend in December 2017. Mr. Koch and Mr. Marcus also provided a Real Estate market overview and then discussed the PSRS/PEERS Real
Estate portfolio. Townsend reported that the PSRS/PEERS’ Real Estate portfolio had produced an annualized return of 11.2% (net of all fees) for the five-year period ended June 30, 2018.

Report of Actuary
2018 Valuation

Mr. Yoakum, Ms. Anita Brand, Chief Financial Officer, in conjunction with Mr. Brandon Robertson, Ms. Cindy Fraterrigo and Ms. Rebecca Brenza from PricewaterhouseCoopers (PwC) were present to discuss the results of the June 30, 2018 actuarial valuations for the Systems. Mr. Yoakum discussed the Board’s fiduciary responsibility and discretion. Mr. Yoakum also reviewed the Board of Trustees’ Goals. Mr. Yoakum discussed the prior year recommendation from PwC to review lowering the investment return risk when determining future contribution rates and the ability to maintain a consistent COLA policy. At the Board of Trustees’ and staff’s request, PwC reviewed investment return assumptions of 7.5%, 7.4%, and 7.25%, in addition to the Systems’ current assumption of 7.6%.

Ms. Fraterrigo provided an overview of the purpose of the annual actuarial valuations and the key components. Ms. Brenza reviewed the June 30, 2018 actuarial valuation information prepared by PwC. She noted the information being presented was based on no changes to the Systems’ current funding policies and therefore is noted to be preliminary. Mr. Robertson reviewed the changes in membership, assets, liabilities, and the pre-funded status of each System. He reported that the June 30, 2018, preliminary pre-funded status based on the actuarial value of assets of PSRS was 84.9% and PEERS was 87.1%. The funded status of both Systems is viewed to be healthy and is a direct result of appropriately set actuarial assumptions, consistent funding of the required contributions and diligent plan governance. The current market value of assets approximates the actuarial value of assets for both Systems. Ms. Fraterrigo discussed projections of contribution rates, funded status and the sensitivities of both to the overall investment returns for the plans.

Assumed Rate of Return

The Board discussed lowering the assumed rate of return effective July 1, 2018. Following discussion, Mr. Steliga moved to lower the assumed rate of investment return from 7.6% to 7.5%. Ms. Heath seconded the motion. Mr. Hoffman supported motion with a bias of lowering the return in the future. Mr. Hunt stated that he would also like to go below 7.5%. He expressed that it is important to keep in mind that financial conditions may not always be there – they cannot always be the driving factor. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Contribution Rate

Mr. Hoffman moved that the contribution rate for PSRS remain at 29% and PEERS remain at 13.72% as recommended by the actuary. Ms. Knes seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

COLA

Mr. Steliga moved that the COLA be set at 2.0% for eligible retirees effective January 1, 2019, as recommended by the actuary in accordance with the Board’s COLA policy. Ms. Knes seconded the motion. Voting “Aye”—Zalis, Hoffman, Hunt, Heath, Knes, and Steliga; “Nay”—None. The motion carried unanimously.
Funding Policy

Mr. Hoffman moved to update the Funding Policy to reflect changes made to the assumed rate of return. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Hunt, Heath, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Purchase Interest Rate

Ms. Knes moved that the purchase interest rate be set at 7.5% effective June 30, 2018, as recommended by staff which coincides with the assumed investment return. Ms. Heath seconded the motion. Voting “Aye”—Zalis, Hoffman, Hunt, Heath, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Management Report

Mr. Dearld Snider, Asst. Executive Director, Operations, provided an update on the strategic planning project. He provided a brief overview of the last couple of months, during which PSRS/PEERS management worked with a consultant to begin developing the plan. Mr. Snider briefly reviewed the mission statement, goals, focus areas and strategies with the Board. Mr. Hunt moved that the strategic plan be implemented as presented. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Strategic Plan Policy

Mr. Snider also reviewed the Strategic Planning Policy that was prepared by Cortex Applied Research and sets out expectations regarding the process and timing for developing and executing the Systems’ strategic plan. Mr. Hunt motioned to accept the policy urging all to remember that this is a long-term document and encouraging the Board to resist making changes until the 3-year review. Ms. Knes seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Facility Analysis and Planning

Mr. Snider, presented information about facility and planning needs for PSRS/PEERS. He discussed areas of concern with the present building regarding our ability to continue to provide exceptional services to our members in line with our System goals. Mr. Snider reviewed the options presented at the August 2018 Board Meeting; Option 1: Remain in current facility and lease permanent space at a separate location; Option 2: Renovate current facility and build an addition onto the back of the building; Option 3: Construct a new facility on the adjacent land we currently own. At the August 2018 meeting, the Board requested more information on the following options: constructing a new facility and renovating the current facility, inclusive of an addition. Mr. Snider reviewed cost details of both options and specifically addressed updates to the cost and plans of renovating and building an addition. He also reviewed the budgeting schedule of this option which spans over the next three to four fiscal years. After an in-depth discussion regarding the cost of the project as well as the pros and cons of each option, Mr. Hunt motioned to delay the decision pending additional information on cost efficiencies as well as
additional savings of a new building. Mr. Hunt also suggested having the full Board present for the final vote. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Mr. Al Thompson, General Counsel, presented the proposed amendment to the PSRS critical shortage rule which specifically allows PSRS retirees to work less than full time in a critical shortage position and allows PSRS retirees to be employed in any position (not just a position requiring a certificate) under critical shortage. The proposed amendments to both the PSRS and PEERS critical shortage rules specifically require school districts to provide notice of the districts’ intent to use critical shortage prior to hiring a retiree to fill a critical shortage position.

These amendments to the PSRS critical shortage rule will provide greater flexibility to the districts when filling critical shortage positions and make the PSRS rule more consistent with the PEERS critical shortage rule. Mr. Hunt motioned to approve the following amendments to regulation:

16 CSR 10-5.010 Service Retirement The Public School Retirement System of Missouri is amending section (18).

PURPOSE: This amendment allows a PSRS retiree to work under section 169.596, RSMo, in any position and up to full-time for a PSRS-covered school employer.

(18) Pursuant to section 169.596, RSMo, a [retired certificated teacher] person receiving a retirement benefit from the Public School Retirement System of Missouri (PSRS) may teach up to full-time for [up to two (2) years] no more than twenty-four months for a PSRS-covered [school district] employer without a suspension of his or her retirement benefit provided that such [school district] employer certifies that it has met the requirements set forth in section 169.596, RSMo, and provided that such [school district] employer does not exceed the limit on the number of PSRS retirees that may be hired pursuant to section 169.596, RSMo.

(A) As used in section 169.596, RSMo, “teacher” shall have the same definition as provided in section 169.010(17), RSMo.

(B) As used in section 169.596.1, RSMo, “full-time” shall have the same definition as provided in 16 CSR 10-4.005(4).

(C) As used in section 169.596, RSMo, “early retirement incentive” shall have the same definition as “consideration for agreeing to terminate employment” provided in 16 CSR 10-3.010(9)(B)6., except that it shall not include retirement notice or separation notice incentives of total value of five thousand dollars ($5,000) or less for providing notice of intent to retire or separate employment.

(D) As used in section 169.596, RSMo, “teach” shall mean to be employed in any position [that requires a certificate issued by the Missouri Department of Elementary and Secondary Education (DESE)] for an employer covered by PSRS.
(D) The employer shall notify PSRS in a manner acceptable to PSRS of the employer’s intent to hire a PSRS retiree under section 169.596 prior to the first date of such employment.

(E) An [school district] employer hiring a PSRS retiree under section 169.596, RSMo, shall certify to PSRS through the Online Automated System Integrated Solution (OASIS) or in another manner acceptable to PSRS that—
1. It has met the requirements of section 169.596, RSMo; and
2. It has not exceeded the limit on the number of PSRS retirees it may hire under section 169.596, RSMo; and
3. The retired certificated teacher has been employed by the school district in a position that requires a certificate issued by DESE.

16 CSR 10-6.060 Service Retirement The Public Education Employee Retirement System of Missouri is amending section (14).

PURPOSE: This amendment allows a PEERS retiree to work under section 169.596, RSMo, in any position and up to full-time for a PEERS-covered school employer.

(14) Pursuant to section 169.596, RSMo, a [retired certificated teacher] person receiving a retirement benefit from the Public Education Employee Retirement System of Missouri (PEERS) may employed up to full-time for [up to two (2) years] no more than twenty-four months for a PEERS-covered [school district] employer without a suspension of his or her retirement benefit provided that such [school district] employer certifies that it has met the requirements set forth in section 169.596, RSMo, and provided that such [school district] employer does not exceed the limit on the number of PEERS retirees that may be hired pursuant to section 169.596, RSMo.

(A) As used in section 169.596.1, RSMo, “full-time” shall mean “regularly employed” as defined in 16 CSR 10-6.010(1).

(B) As used in section 169.596, RSMo, “early retirement incentive” shall have the same definition as “consideration for agreeing to terminate employment” provided in 16 CSR 10-3.010(9)(B)6., except that it shall not include retirement notice or separation notice incentives of total value of five thousand dollars ($5,000) or less for providing notice of intent to retire or separate employment.

(C) The employer shall notify PEERS in a manner acceptable to PEERS of the employer’s intent to hire a PEERS retiree under section 169.596 prior to the first date of such employment.

[(C)](D) An [school district] employer hiring a PEERS retiree under section 169.596, RSMo, shall certify to PEERS through the Online Automated System Integrated Solution (OASIS) or in another manner acceptable to PEERS that—
1. It has met the requirements of section 169.596, RSMo; and
2. It has not exceeded the limit on the number of PEERS retirees it may hire under section 169.596, RSMo.

Mr. Thompson reviewed an updated version of the proposed Senate Bill 892 Working After Retirement Amendment that does not eliminate the conversion formula in subsection (7). The remainder of the changes were previously approved by the Board at the August Board Meeting. Ms. Heath motioned to approve the following amendments to regulation:

16 CSR 10-5.010 Service Retirement The Public School Retirement System of Missouri is amending section (6) and deleting section (7).

PURPOSE: This amendment is required due to Senate Bill 892 enacted August 28, 2018, which amends restrictions on post-retirement employment as provided by section 169.560, RSMo.

(6) Part-time employment is any employment which is less than full-time. Temporary-substitute employment is any employment either in a position held by a regularly employed person who is temporarily absent or in a position which is temporarily vacant.

(A) A [retired member] retiree may be employed by an [district] employer included in the system to serve on a part-time or temporary-substitute basis in [any capacity] any position that would normally require that person to be duly certificated by the Department of Elementary and Secondary Education (DESE), including substituting in a teaching position, not to exceed five hundred fifty (550) hours in any one (1) school year and through such employment may earn an amount not in excess of the compensation limit set forth in this rule and section 169.560, RSMo, without a discontinuance of the retired member’s retirement allowance. The limit on compensation shall be determined as set forth in section 169.560, RSMo. If the position or positions did not previously exist, a retired member may earn up to fifty percent (50%) of the annual compensation payable for the position within the [district] employer that is most comparable to the position filled by the retired member without exceeding the compensation limit. If such employment exceeds either the limitation on hours worked or the limitation on compensation, payment of benefits to the retired member shall cease until the employment terminates or a new school year begins.

(B) The provisions above shall apply to any person retired and currently receiving a retirement allowance under sections 169.010, RSMo to 169.141, RSMo who is employed by a third party or is performing work as an independent contractor, if such person is performing work in an [district] employer included in the retirement system as a temporary or long-term substitute teacher or in any position that would normally require that person to be duly certificated by the Missouri Department of Elementary and Secondary Education if such person was employed by the [district] employer. The retirement system may require the [district] employer, the third-party employer, the independent contractor, and the retiree, subject to this section, to provide documentation showing compliance with this section. If such documentation is not provided, the retirement system may deem the retiree to have exceeded the limitations provided in this section.

(C) A retiree receiving a retirement benefit, other than a disability benefit, from the Public School Retirement System of Missouri (PSRS) may be employed by an employer included in that system in any position that normally does not require a person employed in that position to be duly
certificated by the Department of Elementary and Secondary Education and
to such employment may earn during the school year not more than
sixty percent (60%) of the minimum teacher’s salary for a teacher without a
master’s degree as set forth in section 163.172 without a discontinuance of the
retiree’s retirement allowance. The employer shall contribute to the Public
Education Employee Retirement System of Missouri (PEERS) at the rate set
for that system on all salary as defined in section 169.010 and 16 CSR 10-
3.010(9) of the person so employed. Such employee shall not contribute on
such earnings and shall earn no service credit in either system for such
employment. If such employment exceeds the limitation on compensation, the
retiree’s retirement benefit from PSRS shall cease until the employment
terminates or a new school year begins, and such person shall become a
member of and contribute to any retirement system described in this
subsection if the person satisfies the retirement system’s membership
eligibility requirements. A PSRS retiree who meets PSRS eligibility
requirements after exceeding the limits set forth above shall not be eligible to
elect membership in PEERS under section 169.712, RSMo.

(D) This rule shall not apply to employment with a state college, a state
university, or any state agency.

(E) The employer covered by the Public School Retirement System of
Missouri, the third-party employer, the independent contractor, and the retiree shall
maintain a log of all dates worked, hours worked, wage earned, and the employer.
The employer covered by the Public School Retirement System of Missouri, the
third-party employer, the independent contractor, and retiree shall provide a copy
of the work log upon request of retirement system.

Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt,
Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Mr. Al Thompson, General Counsel, reviewed a brief history of the PSRS/PEERS
third-party mailing policy. He discussed two proposed policies, both of which would
assist PSRS/PEERS eligible nonprofit retiree organizations with a yearly mailing.
Mr. Thompson asked for Board direction on the following: (1) maintain the current
policy of providing no third-party mailing assistance; (2) Adopt the third-party
mailing policy number 1, requiring at least 3 qualifying education associations to
create a single mailing; (3) Adopt the third-party mailing policy number 2,
allowing individual qualifying education associations to create a single mailing
(not requiring educational associations to work together for a single mailing); or
(4) Ask staff to draft another third-party mailing policy for review in December
2018.

Following discussion, Mr. Hoffman motioned to accept policy number 2, not
requiring educational associations to work together for a single mailing with an
amendment that increases the minimum number of association members who are
members of PSRS/PEERS from 1,000 to 2,500. Mr. Steliga seconded this motion.
The motion carried unanimously.
CPI-U Update

Mr. Yoakum, discussed the current COLA policy. Mr. Yoakum explained that the Consumer Price Index for Urban Consumers (CPI-U) is calculated by the Bureau of Labor Statistics (BLS). The CPI-U is the measure of the change in prices of goods and services purchased by urban consumers between any two time periods. PSRS/PEERS’ regulation requires that the time period for the CPI-U calculation used in the determination of a COLA be from June to June. Based on the values provided by the BLS, the CPI-U is up 0.178% for the first three months of Fiscal year 2019.

Public Comment

Mr. Jim Kreider of the Missouri Retired Teachers Association (MRTA) encouraged the Board to consider perception of an office expansion versus building a new facility. Membership understands more space is needed, however, would be more supportive of an office renovation utilizing current space.

Mr. Kreider also spoke on the Show Me Institute’s upcoming symposium entitled, ‘The Looming Pension Crisis in Missouri: Costs Risks, and Pay’ and stated, “the threat is real.” He also voiced his appreciation to the Board on their vote to reinstate the mailing policy, as there is strength in numbers as we continue to fight.

Mr. Yoakum congratulated Ms. Nicole Hamler on her new role as Director of Member Services and thanked her for her work as Board Secretary. Mr. Yoakum also introduced Ms. Stacie Verslues as the new Director of Administrative Planning and Design, who will be assuming the role of Board Secretary at the December Board of Trustees meeting.

Mr. Yoakum presented a plaque to Mr. Allen Allred, lawyer for Thompson Coburn, recognizing him on his retirement and for two decades of dedication to the protection of Missouri educators and their pensions.

Mr. Steliga requested that due to a conflict the April 8th Board Meeting be moved to April 15th. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Ms. Heath moved that the meeting continue in closed session consider personnel issues, technology security issues, and legal matters under Sections 610.021 (1), (13), (14), (21) and 169.020.15, RSMo. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Closed Session

The following motions were made in closed session:

- PSRS4796/PEERS3031 - Minutes (Zalis, Hoffman, Heath, Hunt, Knes and Steliga; voting to approve the previous closed session minutes)
- PSRS4797/PEERS3032 – Adjournment (Zalis, Hoffman, Heath, Hunt, Knes and Steliga; voting to adjourn closed session)

The following items were discussed in closed session that did not require a vote by the Board: Legal Report, Internal Controls Report and Personnel Report.
Mr. Hunt moved that the meeting adjourn. Ms. Heath seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.