

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆JANUARY 15, 2014 AT 8:30 A.M.◆

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:30 a.m.

ROLL CALL

Roll call was conducted with the following members present: Randy Goodman, Lloyd Weer, John Sakowicz, Ted Stephens, Craig Walker, Tim Knudsen, Supervisor John McCowen, Bob Mirata, Richard Shoemaker and Shari Schapmire. Also present: Rich White, Retirement Administrator, Jeff Berk, Legal Counsel, and Judy Zeller, Administrative Assistant.

PUBLIC COMMENT: None

1) APPROVAL OF CONSENT AGENDA

Presenter/s: Chair Schapmire referenced the Consent Agenda previously distributed to the Board which included 1-A Minutes of the Special Board Meeting held December 4, 2013, 1-B Membership, 1-C Retirements Processed, 1-D Retirement Administrator's report, and 1-E Communications.

Mr. Stephens asked that item 1-D be pulled from the Consent Agenda for discussion. Chair Schapmire asked that item 1-A Minutes of the Special Board Meeting held December 4, 2013 be amended. The second sentence in the last paragraph on page 5 should begin with Denial. Mr. Sakowicz asked if there had been any Board action or follow up following the presentation by Doug Rose on the Joint Powers Authority (JPA) concept. Mr. Stephens mentioned that a document regarding JPAs was emailed to all Board members after the Board meeting, but that there was no action taken or other follow up.

Board Direction: Consent Agenda item 1-D, Retirement Administrator's report, will be pulled for further discussion.

Board Action: Motion was made by Supervisor McCowen to approve the remaining Consent Agenda items including item the Minutes as amended. Mr. Weer seconded the motion and it was approved unanimously. (Motion Approved)

2) DISCUSSION AND POSSIBLE ACTION REGARDING ANY CONSENT AGENDA ITEM NEEDING SEPARATE ACTION

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Presenter/s: Mr. Stephens referenced Consent Agenda item 1-D Retirement Administrator's report and the information regarding the duties on the Board of Retirement for the Ex Officio member. He said that if our Bylaws state that the County Treasurer shall act as treasurer to the Board, and the duties are different, the Bylaws should be modified. Mr. Berk added that this would be a cleanup item that would need to go to the Board of Supervisors. Chair Schapmire explained that as County Treasurer she keeps the retirement system's cash in the treasury, keeps checking account, wires and receives funds, but does not act as a custodian. Mr. Stephens agreed that this is the responsibility of the County Treasurer because these items are not delegated to third parties. Chair Schapmire reminded the Board that they would not be using County Treasury services if they had their own bank account.

Mr. Stephens stated that the responsibility for oversight of the Trust rests with Board of Retirement Bylaws and they state the County Treasurer is responsible. This Board needs to have an acting treasurer which is either an elected officer or the County Treasurer. Mr. Berk mentioned that you can delegate the function to one person, but the Board of Retirement is ultimately responsible as fiduciaries. Mr. White mentioned that he was not aware of any retirement system that had a treasurer elect and added that he felt the Bylaws may contain legacy language prior to our independence. Mr. Knudsen agreed that the language goes back many years when we did not have investment managers. The County Treasurer acted as the treasurer of the retirement system and purchased investments.

Mr. Stephens asked for an update of the Bylaws and Supervisor McCowen suggested an amendment to the Bylaws as deemed appropriate. Mr. Mirata felt that simple language could be used to state that the County Treasurer "may" act as treasurer for the Board of Retirement.

Board Direction: Staff will recommend an amendment to the Board of Retirement Bylaws regarding the role of Treasurer to the Board of Retirement as deemed appropriate.

Board Action: Motion was made by Supervisor McCowen to approve Consent Agenda item 1-D Retirement Administrator's report. Mr. Mirata seconded the motion and it was approved unanimously. (Motion Approved)

3) DISCUSSION AND ACTION REGARDING APPROVAL OF THE JUNE 30, 2013 ANNUAL EXTERNAL AUDIT (GALLINA LLP)

Presenter/s: Mr. White referenced information previously distributed to the Board regarding the June 30, 2013 Annual External Audit of Financial Statements. This report was reviewed and approved by the Audit and Budget Committee at their January 7, 2014 meeting and will be incorporated into the Comprehensive Annual Financial Report (CAFR).

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Mr. Stephens commented on page 26 of the report and the percentage contributed by the employers in 2006 and 2010, stating that this is not in compliance with the 37 Act. Should we show why the required contributions not made and can we remove from the report because it is misleading. Mr. Knudsen mentioned that he looked at the valuation reports for 2006 and 2010 and could not understand how the amounts were reported. Mr. Stephens asked if we had diverted contributions and was this due to healthcare. He thought that Supervisor McCowen had directed the research to be done at the last Board meeting. Supervisor McCowen replied that he had asked to find out what was actually paid.

Mr. White stated that this issue has been discussed many times and it is believed that our prior actuary used projected payroll figures instead of actual payroll. The Segal Company reporting is based on actual. This number is trued up by Gallina LLP when the independent audit is done and because this is done on an annual basis there is no need to review. There is nothing to go back to as a baseline and Gallina is uncomfortable with changing the numbers. Segal has said that it will be very expensive to reconstruct and is not necessary as this schedule will drop off 2006 next year. This schedule is required by Government Accounting Standards Board (GASB) and cannot be taken out of the report.

Mr. Shoemaker asked if the County could generate a report of all payments to us to verify if the numbers are correct or not. Take the number from the County and footnote the report to address these issues. This should also include 2009. Supervisor McCowen stated that this should not be difficult and we must have a basis for making any changes in the report. There are 2004 and 2005 issues as well. The 2006 issue is included in the voluntary correction program because we no longer calculated excess earnings by the normal method, but by an alternative method created by our prior actuary. This appears as an underpayment to the system and it is our duty to understand why. We did approve last year's audit report with a footnote regarding the noncompliance issue. We do need an accurate report.

Mr. Mirata asked if the County Auditor could look up what was paid in 2006. Actual annual required contributions based on actual payroll. The Board asked Mr. Weer to verify the numbers and have the Audit and Budget Committee discuss at their next meeting February 5, 2014. Chair Schapmire could work on a footnote to explain our best understanding of what this reflects.

Mr. Sakowicz referenced page 14 and 15 of the report and the information regarding Market and Credit Risk. He was glad to see that we had covered this issue. He felt that this is an unanswered question here which is not included in the Board's Investment Policy. Mr. Stephens stated that we intend to discuss the Investment Policy and Cash Management at our next Board meeting.

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Board Direction: The employer contributions made in 2006 through 2010 will be verified and will be discussed by the Audit and Budget Committee on February 5, 2014. Their recommendation will be discussed at our next Board meeting February 19, 2014.

4) MONTHLY INVESTMENT REPORT

- **Investment Goal Statements**
- **MCERA Trust Fund Performance Information**
- **Callan Associates Update**
- **Discussion and Direction Regarding The Cash Management and Rebalancing Policy**
- **Monthly Investment Account Balance Report**

Presenter/s: Mr. White referenced information previously distributed to the Board regarding the monthly Investment Report including the November and preliminary December report. He stated that Callan Associates will be here next month to discuss the quarterly investment report, Investment Policy, Fixed Income portfolio, Equity, how to maximize the portfolio or make changes, the lack of a custodian, and the overall needs of the fund. We will also discuss cash management, rebalancing, and cash held for payroll and operating expense. The current policy gives good direction and objectives. We have complied with policy objective C and kept the cash account as close to zero to remain fully invested in asset classes. We have liquidity to generate cash as we need. Policy objective A directs to maintain sufficient cash to pay three months of benefits and expenses, but we don't keep that amount. It varies each month and the average is about .5% cash. Three months of net expenses would equal about 1.5%, not including incoming contributions.

Mr. Knudsen mentioned that there seemed to be a monthly cash flow difference of \$70,000 on a monthly basis. The Board agreed that we will discuss net expense and whether we should go to 1-1.5 years of cash at our next Board meeting. We will also look at fixed income and discuss with Callan to see if there is anything else prudent to do and whether we are adequately protected by active management. Mr. Sakowicz asked that we speak to Callan about the JPA subject. Mr. White mentioned that the quarterly report will show how managers are actively managing some of this and Callan can discuss it. Mr. DeForrest knows fixed income very well and fixed income managers will come speak with the Board if necessary.

5) MONTHLY FINANCIAL REPORT

- **Statement of Plan Net Assets**
- **Statement of Changes in Plan Net Assets**
- **Cash Flow Analysis**
- **Rental Income Net of Expenses**
- **Vendor Ledger**

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Presenter/s: Rich White referenced information previously distributed to the Board regarding the monthly Financial Report for November 2013.

Mr. Stephens asked why the payment to Hanson Bridgett was so much for that period. Mr. White replied that billing included additional work on the Voluntary Correction Project (VCP) including responses to the Internal Revenue Service (IRS) and member projects. The VCP work has increased and seems to be nearing completion.

6) DISCUSSION REGARDING THE STRATEGIC PLAN GOALS AND OBJECTIVES

Presenter/s: Rich White referenced information previously distributed to the Board regarding the Strategic Plan Goals and Objectives. In October the Board was provided with a progress report on the implementation of the strategic plan and was asked if there are specific goals and objectives that staff needs to bring back to you. Three members of the Board submitted a scoring sheet and the totals were averaged to arrive at an achievement score for each objective.

Mr. White reported that most objectives are currently in progress. The Pension Administration System project is very active and time consuming. We will continue to report on the pension administration system each quarter and also provide a monthly status report. Since kickoff in December our staff, the Courts, and County IS staff have been working to get data complete and sent to Levi, Ray, Shoup, Inc. (LRS) so the next phases can begin. We will have intensive meetings with consultants in February.

7) CLOSED SESSION

- Pending Disability Applications Update
- Evelyn Parsons Disability Application

REPORT OUT FROM CLOSED SESSION

Board Action: Motion was made by Mr. Knudsen to approve Evelyn Parsons for Non-Service Connected Disability. Mr. Goodman seconded the motion and it was approved unanimously. (Motion Approved)

8) GENERAL BOARD MEMBER DISCUSSION

Mr. Stephens asked for an update on our recruitments. Mr. White reported that there was an Adhoc Committee meeting scheduled today regarding the Retirement Administrator. A staffing requisition has been submitted and County Human Resources will post the job listing on January 24, 2014 which will remain open until filled. The first screening should take place

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February 14 and we hope to have something to the Board at its March meeting. The Committee will also talk about the possibility of an Interim Retirement Administrator under contract. Outreach has been done for an Interim Retirement Administrator.

Mr. Knudsen asked Mr. White if he was available for contract work, but Mr. White was uncertain of his schedule in March. Mr. Shoemaker added that he supported the idea of Mr. White staying as long as he can. Board members asked if we are at risk if there is no immediate replacement or interim. Mr. White will bring more information to the Board in February when we know more. We should make sure we have cash on hand and our investments covered.

Mr. White mentioned the accounting position is still being development by HR. They must take the position to the Board of Supervisors, but that date has not been determined.

Chair Schapmire reminded everyone that Form 700s are due Monday April 1, 2014.

ADJOURNMENT (10:22 a.m.)