♦MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION♦
BOARD OF RETIREMENT MEETING MINUTES
♦FEBRUARY 20, 2013 AT 8:30 A.M.♦

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:32 a.m.

ROLL CALL

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

PUBLIC COMMENT: None

Supervisor McCowen requested the Board to consider amendments to the Audit and Budget Committee Charter and the Budget Adoption policy before approval. Copies of suggested changes were distributed by Judy Zeller for the Board to review and agenda item 8 was discussed prior to agenda item 6.

1) APPROVAL OF THE MINUTES OF THE BOARD MEETING HELD JANUARY 16, 2013
Upon motion by Supervisor McCowen, seconded by Mr. Goodman; IT IS ORDERED that the minutes of the JANUARY 16, 2013 Board meeting are approved as amended by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1.

2) INVESTMENT REPORT

- **Quarterly Performance Report, Callan Associates**

Please visit www.co.mendocino.ca.us/retirement/reports.htm for the Investment Measurement Service Quarterly Review Dec 31, 2012.

Presenter/s: Greg DeForrest and Greg Ungerman, Callan Associates, referenced the quarterly performance report previously distributed to the Board highlighting certain aspects of their report and addressing the changes due to rebalancing of investments. New investment will continue to change due to the recent decision to invest with Black Rock as additional sales will need to be accomplished in order to fund this investment during this quarter. Overall MCERA did well for the quarter with a total return of 2.78% and total return for the year at 14.53%, which is 1.5% above our benchmark. The Board asked questions regarding Active vs. Passive managers, Fixed Income and Equity.

♦RETIREMENT ASSOCIATON CONFERENCE ROOM: 625-B KINGS COURT, UKIAH, CA 95482♦
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Craig Walker entered the meeting at 8:50 a.m.

Andy Yeung, The Segal Company, entered the meeting at 9:30 a.m. Crystal Ekanayake, Gallina LLP, joined the meeting via telephone conference call at 9:40 a.m.

3) DISCUSSION AND POSSIBLE ACTION REGARDING THE JUNE 30, 2012 INDEPENDENT AUDIT REPORT, GALLINA LLP

Please visit www.co.mendocino.ca.us/retirement/reports.htm for the Financial Statements and Supplementary Information for the year ended June 30, 2012.

Presenter/s: Crystal Ekanayake, Gallina LLP, referenced the June 30, 2012 Independent Audit Report previously distributed to the Board. Mr. White referenced an Audit and Budget Committee recommendation to amend page 6 of the report by adding a sentence to the last paragraph as follows: These returns include periods during which MCERA recognized and posted excess earnings to the pension fund that were used to provide retiree health benefits.

Board members participated in a thorough review of the draft report. Mr. Sakowicz, Supervisor McCowen, and Mr. Stephens were prepared with many questions and comments. There was good dialogue between all participants resulting in amendments to the report.

Board Direction: The report will be amended by the following: A sentence will be added to the last paragraph on page 6, page 13 will include heading change to market and credit risk; Real Estate-property on page 9 will be described as 625 Kings Court, Ukiah, CA and in note 3 on page 16; page 10 will list the distribution of employee and employer contributions by normal cost and UAAL; note 1 on page 12 will state that payments were previously made from a special reserve; note 7 on page 23 will include $9.6 million as the amount of posted excess earnings and the reference to market value will be changed to fair value; page 24 will include explanation of the 6/30/10 91% percentage contributed; page 4 will include the percentage of administrative expense of the .21% actuarial accrued liability.

Staff will verify date of action to hold remaining funds while participating in VCP and the date of County Counsel Opinion regarding ultimate responsibility for the retiree health plan.

Board Action: Motion was made by Mr. Sakowicz to approve the June 30, 2012 Independent Audit Report with the proposed changes, with the approval of tax counsel. Mr. Walker seconded the motion and it was approved by the following vote: Ayes 9 Noes 0 Abstain 0 Absent 0. (Motion approved) (Tax counsel, Hanson Bridgett, agreed with the inclusion of the amount of posted excess earnings.)

BREAK (10:55 a.m.)

4) DISCUSSION AND POSSIBLE ACTION REGARDING THE JUNE 30, 2012 ACTUARIAL VALUATION, THE SEGAL COMPANY

Please visit www.co.mendocino.ca.us/retirement/reports.htm for the Actuarial Valuation and Review as of June 30, 2012.

Presenter/s: Andy Yeung, The Segal Company, referenced the June 30, 2012 Actuarial Valuation Report previously distributed to the Board briefly recapping areas which had been previously discussed. After adoption all employee tiers and rates, including PEPRA, will be included in future valuation reports. This valuation report and the PEPRA Tier rates for 2013/14 will be presented to the Board of Supervisors on Tuesday February 26, 2013.

Mr. Knudsen asked about future employer rates when we will know that they are paid at 100%. Mr. Yeung stated that using their methodology they would only report employer contributions at 100%, unless a sponsor could not afford the approved contributions and requests approval to pay less or if a sponsor makes a large overpayment for some reason.

Supervisor McCowen asked about the process of valuation adoption by the Board of Retirement and then by the Board of Supervisors to clarify his understanding. The Board felt that County Counsel should provide information to the Board of Supervisors on this process to ensure a good understanding.

Board Action: Motion was made by Mr. Mirata to approve June 30, 2012 Actuarial Valuation Report. Mr. Knudsen seconded the motion and it was approved by the following vote: Ayes 9 Noes 0 Abstain 0 Absent 0. (Motion approved)

5) DISCUSSION AND POSSIBLE ACTION REGARDING THE APRIL 1, 2013 COST OF LIVING ADJUSTMENT (COLA), THE SEGAL COMPANY

Presenter/s: Rich White and Andy Yeung, The Segal Company, referenced information previously distributed to the Board. Mr. Yeung mentioned that the Board does not have an option regarding approval of the cost of living adjustment as it is a fixture of the plan. PEPRA tiers will not have a cost of living increase.

Board Action: Motion was made by Mr. Mirata to approve the Cost of Living Adjustments (COLA) as calculated by the Segal Company as of April 1, 2013. Supervisor McCowen seconded the motion and it was approved by the following vote: Ayes 9 Noes 0 Abstain 0 Absent 0. (Motion approved)

6) MONTHLY FINANCIAL REPORT

- **Financial Statements**
- **Discussion and Possible Action regarding MCERA Staff Training Plan, Budget Item**
- **CALAPRS 2013 Leadership Academy**

Presenter/s: Rich White referenced financial statements previously distributed to the Board. Mr. Knudsen asked about the plan net assets and the change due to rebalancing which was noted in the Unrealized Gain/(Loss) Investments. Mr. Stephens added that accounting services must be brought back to the Board for further discussion when we begin planning our budget.

Mr. White discussed the Staff Training Plan with the Board and the proposed budget for this training. Mr. Goodman asked whether there was a certificate program available for staff training. Mr. White agreed that there is a program available through CEBS that could be an option.

Board Direction: An online certificate program will be sought for staff training, the budget for the Staff Training Plan will be increased from $5,000 to $15,000, and the Retirement Administrator will decide which trainings staff will attend.

Board Action: Motion was made by Mr. Stephens to approve the Staff Training Plan as amended with a budget increase to $15,000. Mr. Weer seconded the motion and it was approved by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1. (Motion approved)

Supervisor McCowen left the meeting and did not participate in voting on the Staff Training Plan.

7) DISCUSSION AND POSSIBLE ACTION REGARDING STRATEGIC PLAN

- **Review of Goals and Objectives**

Presenter/s: Rich White referenced the Board Strategic Plan Goals and Objectives timeline previously distributed to the Board highlighting items included in the timeline that have already started or that have planned implementation.

Board Action: Motion was made by Mr. Walker to approve the time line plan for the implementation of Board Strategic Plan Goals and Objectives. Mr. McCowen seconded the motion and it was approved unanimously. (Motion approved)

8) AUDIT AND BUDGET COMMITTEE REPORT

- **Discussion and Direction to Staff regarding Preparation of Reports**
- **Discussion and Possible Action regarding Audit and Budget Committee Charter**
- **Discussion and Possible Action regarding Budget Adoption Policy**

Presenter/s: Rich White referenced information previously distributed to the Board. He proposed a change to the timing and completion of our valuation and independent audit reports and mentioned that our service providers approve of this change. This would allow the latest approved actuarial valuation from the previous period to be used in the completion of the current fiscal year financial statements. Mr. Stephens stated that as an Audit and Budget Committee member he does not support this. The proposed change would allow old data to be used in our reports which would not be accurate. As the Audit and Budget Committee continues to be formed and meet, he hopes that the current report process will become more efficient.

Board Direction: Staff will allow the Budget and Audit Committee to address this item and the reporting process at a future meeting.

Mr. White discussed the Audit and Budget Committee Charter with the Board and suggested changes proposed by Supervisor McCowen. Mr. Stephens liked the fact that committee members would increase to four. Committee meetings will be noticed as a public meeting and will require an agenda and minutes.

Board Direction: The charter will be amended as follows: Introduction 2. will include the annual financial audit and budget; Introduction 3. will change to four members of the Board to the; item 4. will be deleted; Duties and Responsibilities 1a. will delete approve and replace with recommend to the Board for approval; Duties and Responsibilities 1f. will include or recruitment; Duties and Responsibilities 1h. will delete and approve; Monitoring and Reporting 1c. will delete to the Board of Retirement on its activities and will add and make recommendations as deemed appropriate.

Board Action: Motion was made by Mr. Mirata to approve the Audit and Budget Committee Charter as amended. Mr. Sakowicz seconded the motion and it was approved unanimously. (Motion approved)

Chair Schapmire asked Mr. Stephens and Mr. Weer to continue as committee members. She then appointed Mr. Goodman and Mr. Mirata to the committee and asked Mr. Weer to act as Chair per the adopted charter.

Mr. White discussed the Budget Adoption Policy and the suggested changes proposed by Supervisor McCowen. Questions were asked regarding administrative authority to move funds within a category in the budget. The Board wanted to limit this ability not to exceed $10,000 within a category which is consistent with County policy. Mr. Weer requested an addition of a quarterly review to be presented by the retirement administrator.

Board Direction: The policy will be amended as follows: Background and Purpose 1. will delete or $2 million, whichever is greater and replace with ,unless authorized by a separate vote of the

Board.; Guidelines 1. will include review and recommendation by the Budget and Audit Committee during April and for adoption by the Board; 3. will be changed to read and shall be reported to the Board in a timely manner.; 4. will include not to exceed a limit of $10,000 and will be changed to read and shall be reported to the Board in a timely manner.; will add 6. The Retirement Administrator shall endeavor not to exceed expenditure levels specified in the approved or amended budget.; will add 7. The Retirement Administrator shall provide quarterly budget reports to the Board of Retirement.

Board Action: Motion was made by Mr. McCowen to approve the Budget adoption policy with the redline changes and the amendments listed in the above Board Direction. Mr. Sakowicz seconded the motion and it was approved unanimously. (Motion approved)

9) BENEFITS AND OPERATIONS

- **Membership as of January 31, 2013:**
  Active Members = 1015 Retired Members = 1253 Retired Deceased = 2
  New Members = 15 Terminations = 12 Withdrawn Not Vested = 5 $37,655.90
  Withdrawn Vested= 2 $25,040.52
- **Membership information staff report**

Presenter/s: Rich White and Judy Zeller referenced the above membership totals and provided a brief staff report on membership over the last 5 years.

10) RETIREMENT ADMINISTRATOR'S REPORT

- **Legislative Update**
- **PEPRA Update**
- **Tax Forms**
- **Public Records Request**
- **Scheduled Education Attendance**
- **VCP Update**

Presenter/s: Rich White referenced information previously distributed to the Board.

Legislative Update
(Provided by Julie Wyne, OCERS Assistant CEO, External & Legal Operations)
There are four bills related to PEPRA cleanup beginning with SB13 and SB24, both introduced December 3, 2012, SB54, introduced December 21, 2012, and AB 160, introduced January 22, 2013. Please visit www.co.mendocino.ca.us/retirement/meetings.htm to view the complete report.
PEPRA
The County disbanded the ad hoc PEPRA working group as most of the objectives have been completed. The PEPRA legislation website will now be maintained by the Retirement Association.

Tax Forms
Staff has produced and distributed the 1099s in January as required by law.
Public Record Request
Staff received and complied with a request for investment returns from 1996 to present from The Bay Citizen, a media group.
Determination Letter/Voluntary Compliance Program Filings
Our tax counsel, Hanson Bridgett, informed us that the IRS has communicated with them about the filings with the 37 Act systems and they expect review of the filings in the very near future.

LUNCH RECESS (12:00 noon)

RECONVENE (1:01 p.m.)

11) CLOSED SESSION

- **Pending disability applications update**
- **Public Employee Performance Evaluation - Retirement Administrator – Pursuant to Government Code Section 54957**
- **Potential Litigation pursuant to Government Code Section 54956.9(a) - 1 case – Martin Bradley vs Mendocino County Employees' Retirement Association**

Mr. Shoemaker left the meeting at 3:30 p.m.

REPORT OUT FROM CLOSED SESSION

An update on pending disability applications was provided and information was shared regarding the public employee performance evaluation.

Board Direction: Direction was given to staff to resolve the Bradley litigation matter by crediting interest in the amount of $8,825.36.

GENERAL BOARD MEMBER DISCUSSION

Mr. Sakowicz announced that his Friday radio show will host a speaker on public banking. This may seem unrelated to pension systems, but both Sonoma County and CalPERS are interested in this topic.

ADJOURNMENT (3:47 p.m.)