

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆APRIL 16, 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, John Sakowicz, Supervisor John McCowen, Ted Stephens, Lloyd Weer, Tim Knudsen, Richard Shoemaker and Shari Schapmire. Also present: Tom Watson, Interim Retirement Administrator, Jeff Berk, Legal Counsel, and Judy Zeller, Administrative Assistant. Absent: Craig Walker and Bob Mirata.

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 Board Meeting held March 19, 2014, 1-B Membership, 1-C Retirements Processed, and 1-D Retirement Administrator's report.

Supervisor McCowen asked to amend the minutes by including the motion and the vote in the report out of closed session and correcting the final statement under general board member discussion to read as follows; Supervisor McCowen noted that the letter from Chair Schapmire and the prior work by Mr. White resulted in unanimous approval of the Financial Investment Officer position at the last Board of Supervisors meeting.

Board Direction: Staff will amend the minutes of the Board meeting held March 19, 2014 per Supervisor McCowen's request.

Board Action: Motion was made by Supervisor McCowen to approve the Consent Agenda, including the minutes as amended. Mr. Goodman seconded the motion and it was approved by the following vote: Ayes: Mr. Sakowicz, Mr. Weer, Mr. Knudsen, Sup. McCowen, Mr. Stephens, Mr. Goodman, and Chair Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Mirata and Mr. Walker.

Mr. Stephens asked to discuss the April 22, 2014 Board of Supervisor's Strategic Planning Session mentioned in the Retirement Administrator's report which will focus on public employee pensions. Supervisor McCowen explained that this meeting will be a presentation on Board of Supervisors' options and the roles and responsibilities of the Board of Supervisors and

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the Board of Retirement. Any questions should be submitted to the Executive Office in advance.

The Board expressed disappointment in receiving late notice of this meeting and all agreed that it would be very important to attend. Chair Schapmire stated that the Board of Supervisors has addressed many important issues in the past and their next priority is retirement benefits. It was her understanding that this meeting would be discussion only with no action. The board agreed to continue this discussion during General Board Discussion at the end of the meeting.

Mr. Stephens asked about Board Education and wanted to know what would happen if the required education hours were not completed by year end. The Board agreed that its members could submit other training and education hours for credit as long as it pertains to Board of Retirement related issues. Trustees must complete an attendance at conference/training form and submit to staff in order to receive credit for that training.

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

None

3) REVIEW OF THE INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AUDIT OF FINANCIAL STATEMENTS AS OF JUNE 30, 2013

Presenter/s: Mr. Watson referenced information previously distributed to the Board regarding his review of the independent auditor's report on compliance and on internal control over financial reporting based on the June 30, 2013 Audit of Financial Statements. The Board received this information at its March 19, 2014 meeting and requested a review. He explained his review, stating that there were four issues found to need improvement and recommended that staff begin utilizing Retiree Payroll Verification Procedures and Service Provider Invoice Review Procedures. His recommendation also included adoption of additional language to the Audit and Budget Committee Charter for review of service agreements. Mr. Watson's review was sent to Crystal Ekanayake of Gallina LLP for review and comment and her response was included in Mr. Watson's report.

The board discussed the Retiree Payroll Verification Procedure and directed changes to include independent reviews of new retirees by both the Senior Retirement Specialist and Retirement Specialist II with comparison between these two and discussion of any discrepancies. Also added was annual review of 5% of new retiree calculations by the Retirement Administrator or Financial/Investment Officer. Member files and spreadsheet copies sent to the Administrative

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Assistant would be used solely for names and other public data for the Board of Retirement agenda.

Board Direction: Staff will amend the Retiree Payroll Verification Procedure and will bring it back to the Board for approval in May.

4) DISCUSSION AND POSSIBLE ACTION TO APPROVE LANGUAGE ADDITION TO AUDIT AND BUDGET COMMITTEE CHARTER

Presenter/s: Mr. Watson referenced the previous agenda item which included his recommendation to amend the Audit and Budget Committee Charter by adding additional language to item 1e. as follows: e. Meet at least annually with the Retirement Administrator to discuss the effectiveness of the internal financial and operational control policies and receive a Report of Review of Service Agreements prepared by the Financial/Investment Officer;. This language will help ensure regular monitoring of Service Agreements by someone other than those involved with contract negotiations, including the Retirement Administrator.

The Board questioned identifying the Financial/Investment Officer as the designated reviewer of service agreements. They all agreed that other staff may be assigned to this task or it may need to be contracted to an outside service provider and should not be assigned a specific title. Supervisor McCowen recommended receiving an independent report of review of service agreements.

Board Direction: The Audit and Budget Committee Charter language was changed to: (item 1e.) ...and receive an independent Report of Review of Service Agreements;

Board Action: Motion was made by Supervisor McCowen to approve the amendment to the Audit and Budget Committee Charter. Mr. Stephens seconded the motion and it was approved by the following vote: Ayes: Mr. Sakowicz, Mr. Weer, Mr. Knudsen, Sup. McCowen, Mr. Stephens, Mr. Goodman, and Chair Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Mirata and Mr. Walker.

5) MONTHLY INVESTMENT REPORT

Presenter/s: Mr. Watson referenced the monthly investment report which was previously distributed to the Board. This report included preliminary February 2014 investment information. He stated that MCERA had an unrealized gain on a cost basis of \$89,493,755 as of February 28, 2014 and total assets of \$432,450,358. Rebalancing was done at the end of February to bring investments to target allocation and generate \$6,000,000 in cash. The Market Basis

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shows an unrealized gain of \$44,885,985 for the fiscal year based on the change in fair market values of the investments.

Mr. Weer noticed a line error in the Investment Portfolio-Target Analysis. Column A, Total Managed Investments, shows a total of \$425, 948,652 and the Total Invested Funds shows a total of \$426,812,652 and should be looked at and corrected.

Board Direction: Staff will ask Scott German, Fechter and Company, to review the worksheet and make any adjustments or corrections.

6) 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**

Presenter/s: Mr. Watson referenced the monthly financial report which was previously distributed to the Board. This report included February 2014 financial information and Mr. Watson explained the various statements included in this report. Our total net assets are \$432,017,470. Our net investment income was over \$14 million and total addition to the plan was over \$15 million.

Board members discussed the Statement of Changes in Plan Net Assets, the shortfall each month to pay benefits, future retirement contributions and unfunded liability. They all agreed that these would be good issues to discuss at a joint meeting of the Boards.

7) DISCUSSION AND POSSIBLE ACTION ON THE ELECTION OF CANDIDATES TO THE STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS (SACRS) BOARD OF DIRECTORS

Presenter/s: Mr. Watson referenced information previously distributed to the Board regarding the election of candidates to the SACRS Board of Directors. He recommended approval of the slate of candidates for SACRS offices on its Board of Directors as listed and approved by the SACRS Nominating Committee by directing the Board's representative to the SACRS Business Meeting, Mr. Sakowicz, to vote for the slate of candidates.

Board Action: Motion was made by Supervisor McCowen to approve Mr. Watson's recommendation regarding election of the candidates to the SACRS Board of Directors and to direct Mr. Sakowicz to vote for the candidates on behalf of MCERA. Mr. Weer seconded the

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motion and it was approved by the following vote: Ayes: Mr. Sakowicz, Mr. Weer, Mr. Knudsen, Sup. McCowen, Mr. Stephens, Mr. Goodman, and Chair Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Mirata and Mr. Walker.

8) DISCUSSION AND POSSIBLE ACTION REGARDING TRUSTEE ATTENDANCE AT PIMCO ALTERNATIVE INVESTMENT DAY, APRIL 30, 2014

Presenter/s: Mr. Sakowicz asked for Board approval to attend the PIMCO Alternative Investment Day, April 30, 2014, stating that his reservations were already made. He reported that he was planning on meeting with PIMCO representatives during the conference.

The Board discussed the budget for Board Education and Training of \$30,000. Only about \$10,000 has been spent and attendance at this conference should cost under \$500. The board approved Mr. Sakowicz to attend and not to exceed \$500 in travel costs. Mr. Sakowicz stated that he would provide a full report to the Board. The Board also discussed learning more about PIMCO from Callan Associates and asked staff to contact Callan to arrange a report to the board on PIMCO.

Board Direction: Staff will work with Mr. Sakowicz to arrange travel to the PIMCO meeting not to exceed \$500. Mr. Sakowicz will prepare a summary report on this meeting for the Board. Staff will have Callan to bring more information to the Board regarding PIMCO.

Board Action: Supervisor McCowen motioned to approve Mr. Sakowicz to attend the April 30, 2014 PIMCO Alternative Investment Day. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes: Mr. Sakowicz, Mr. Weer, Mr. Knudsen, Sup. McCowen, Mr. Stephens, Mr. Goodman, and Chair Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Mirata and Mr. Walker.

9) REPORT ON THE BLUE RIBBON COMMITTEE FINDINGS ON ACTUARIAL ISSUES, TRUSTEE JOHN SAKOWICZ

Presenter/s: Mr. Sakowicz referenced the Blue Ribbon Panel Report on Public Pension Plan Funding, the Committee Summary of Recommendations, and his own summary of the report which was previously distributed to the Board. He first saw this report on the front of the New York Times and mentioned highlights of the report including the discount rate and a current risk free rate, riskless benefits and benefits risk, and asset smoothing. He recommended inviting Paul Angelo and Andy Yeung of Segal Consulting to make recommendations to our plan based on the panel recommendations.

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The Board agreed that this would be a good starting point in discussions with our actuary before a joint meeting so that we would have a better level of understanding. We would also need to discuss the cost of our Actuaries to participate in this discussion. The board discussed the layered approach, a risk free rate, and negative amortization. They agreed that there is a need to understand the roles and responsibilities of each board and a need to work together on how to address this issue. Mr. Stephens asked for verification of approved benefits, if policies are being followed, and if correct benefits are being provided.

Board Direction: Staff will consult with Segal Consulting regarding providing additional information and recommendations to the Board regarding the Blue Ribbon report and its recommendations. The Blue Ribbon report should be included in future joint board meeting discussion.

Chair Schapmire thanked Mr. Sakowicz for presenting this information to the Board.

10) CLOSED SESSION

- **Aaron Branscomb Service Connected Disability Application**
- **Kathleen Gordon-Burke Service Connected Disability Application**
- **Appointment of Retirement Administrator pursuant to Government Code Section 54957(b)(1)**

REPORT OUT FROM CLOSED SESSION

Mr. Goodman motioned to approve Service Connected Disability Retirement for Aaron Branscomb. Mr. Knudsen seconded the motion and it was approved by the following vote: Ayes: Mr. Sakowicz, Mr. Weer, Mr. Knudsen, Sup. McCowen, Mr. Stephens, Mr. Goodman, Ms. Schapmire. Noes: 0 Abstain: 0 Absent: Mr. Mirata, Mr. Walker.

Mr. Knudsen motioned to deny Service Connected Disability Retirement for Kathleen Gordon-Burke. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes: Mr. Sakowicz, Mr. Weer, Mr. Knudsen, Sup. McCowen, Mr. Stephens, Mr. Goodman, and Chair Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Mirata and Mr. Walker.

Direction was given to the Board Chair regarding the appointment of retirement administrator.

Board Direction: The 37 Act Disability code sections will be brought back for discussion and legislative recommendation at a future board meeting. County pre-employment medical evaluations will be an item for discussion at a joint meeting.

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11) GENERAL BOARD MEMBER DISCUSSION

Chair Schapmire resumed discussion of the April 22, 2014 Board of Supervisors meeting stating that MCERA was not spoken to about the process. She explained that Mr. Berk had received information about this meeting by email and had brought it to her attention. The Board of Supervisors is looking at Unfunded Liability and has directed Carmel Angelo to research information to present at this meeting. The executive office acknowledges that we are all working together, but they want to proceed with their own presentation. Supervisor McCowen stated that the Executive office staff had been working with Chair Schapmire and Mr. Watson. This meeting is scheduled as a Priority Setting Session, non-action, and the Executive office welcomes any questions in advance.

The Board requested that the meeting be a timed item on the agenda. Supervisor McCowen will follow up on that request and will provide the time to the Board of Retirement. He stated that this meeting should not be seen as a secretive. The Board of Supervisors has discussed this issue for quite some time and acknowledged that communication may not have been ideal.

Mr. Knudsen reported that he attended a recent California Retired County Employees Association (CERCA) Conference. A topic of interest was regarding municipalities going bankrupt and how it affects retirement systems. The District Appeals Court has ruled that the Unfunded Accrued Actuarial Liability (UAAL) is not a debt and cannot be unilaterally adjusted. Municipalities must keep paying contributions to the trust while in bankruptcy and they have no basis for stopping retirement payments to retirees. Pension obligation takes priority over general obligation bond debts.

Mr. Sakowicz asked for SACRS legislative initiative to tighten up the 37 Act code sections pertaining to disability retirement.

Mr. Stephens confirmed that Hanson Bridgett will be at the May 7 board meeting. He asked about board member attendance and the prospect of board member alternates. The Alternate Safety member seat was discussed, but there were no volunteers for this seat when the alternate safety election was noticed. There are no other provisions in the law for appointed member alternates.

Chair Schapmire confirmed attendance for the May 7, 2014 board meeting.

ADJOURNMENT (12:25 p.m.)