

BOB MIRATA
CHAIRMAN
B.O.S. APPOINTEE

SHARI SCHAPMIRE
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TREASURER TAX COLLECTOR

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SECRETARY
ELECTED RETIRED MEMBER

SUPERVISOR KENDALL SMITH
B.O.S. APPOINTEE

DR. DON COURSEY
B.O.S. APPOINTEE

TED STEPHENS
B.O.S. APPOINTEE

LLOYD WEER
ELECTED
GENERAL MEMBER

RANDY GOODMAN
ELECTED GENERAL
MEMBER

CRAIG WALKER
ELECTED SAFETY
MEMBER

TIM KNUDSEN
ELECTED RETIREE
ALTERNATE MEMBER



JIM ANDERSEN
RETIREMENT
ADMINISTRATOR

JEANINE NADEL
COUNTY COUNSEL
JEFF BERK
LEGAL COUNSEL

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION BOARD MEETING AGENDA APRIL 20, 2011 – 8:30 A.M.

- 1) **ROLL CALL (8:30 A.M.)**
- 2) **MINUTES OF THE MEETING HELD MARCH 16, 2011**
- 3) **PUBLIC COMMENT**

Members of the public are welcome to address the board on subjects within the jurisdiction of the Board of Retirement regarding items both on and off the agenda. The board is prohibited by law from taking action on matters not on the agenda, but may ask questions to clarify the speaker's comment and/or briefly answer questions. The board limits testimony on matters not on the agenda to 5 minutes per person and not more than 10 minutes for a particular subject at the discretion of the Chair of the Board. To best facilitate public expression please complete the speaker form available at the entrance to the boardroom and present to the Clerk to the Board. If you wish to submit written comments please provide 12 copies to the Clerk to the Board prior to the start of the meeting. Public speakers are reminded to announce their names before they address the board.

- 4) **DISCUSSION AND POSSIBLE ACTION REGARDING RETIREMENT ADMINISTRATOR'S REPORT**
 - a) **Withdrawal of contributions by terminating employees**
 - b) **Billings for fees and services**
 - c) **Presentation of Administrator's report**
- 5) **INVESTMENTS/FINANCIALS**
 - a) **Presentation of financial statements**
 - b) **Action may be taken to terminate or hire investment managers at any meeting**

◆RETIREMENT BOARD MEETING AGENDA◆

◆APRIL 20, 2011 - 8:30 A.M.◆

- 6) DISCUSSION AND POSSIBLE ACTION REGARDING THE PROPOSED BUDGET FOR FISCAL YEAR 2011/12
- 7) DISCUSSION AND POSSIBLE ACTION REGARDING A LETTER OF ENGAGEMENT WITH HANSON BRIDGETT FOR LEGAL COUNSEL ON TAX RELATED ISSUES
- 8) DISCUSSION AND POSSIBLE ACTION REGARDING AN AGREEMENT WITH LINEA SOLUTIONS, INC., FOR PROJECT MANAGEMENT AND PROFESSIONAL SUPPORT IN IMPLEMENTING THE PRIMARY INITIATIVES OF THE INFORMATION TECHNOLOGY ROADMAP
- 9) DISCUSSION AND POSSIBLE ACTION REGARDING FUTURE EXPENDITURES AND LIMITATIONS ON SPENDING PRIOR TO NOTIFICATION OF THE PLAN SPONSORS, PRIMARILY THE COUNTY (TRUSTEE STEPHENS)
- 10) CLOSED SESSION (Timed Item at 10:00 A.M.)
 - a) Potential initiation of litigation (Buck Consultants) pursuant to Government Code Section 54956.9(c) - 1 case
 - b) Pending disability applications
 - 1) CANALE, MARK (05/25/10) GENERAL SERVICES SCD
 - 2) HUDSON, GARY (09/07/10) SHERIFF SCD
 - 3) KOSKINEN, KIM (10/15/08) HHSA (SOC SERV) SCD
 - 4) ZIMMERER, TIMOTHY (08/27/09) SHERIFF SCD

(Pursuant to Government Code Section 31532, individual medical records of disability applicants will be discussed during closed session and are not public information.)

11) REPORT OUT FROM CLOSED SESSION

12:00 NOON) ADJOURN TO LUNCH RECESS

1:00 P.M.) RECONVENE

- 12) DISCUSSION AND POSSIBLE ACTION REGARDING REAL ESTATE MANAGER SEARCH (CALLAN ASSOCIATES)
- 13) INTERVIEWS AND POSSIBLE ACTION REGARDING SMALL CAP VALUE INVESTMENT MANAGERS (CALLAN ASSOCIATES)

(Pursuant to Government Code Section 54954, this agenda was posted 72 hours prior to the meeting.)

James M. Andersen
Retirement Administrator



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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: April 13, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator 
Subject: Discussion and Possible Action Regarding the Administrator's Report

Financial

1. The June 30, 2010 actuarial report and rates, along with the findings and recommendations from the EFI actuarial audit were presented to the Board of Supervisors on March 22nd. Two hours were set aside to provide enough time to fully discuss the changes in the rates and the direction MCERA is heading for future actuarial services. We also discussed the diminishing payroll base of the County, and the need to evaluate methods of setting rates that ensure the full Annually Required Contribution (ARC) is paid. The Board of Supervisors approved the rates, and expressed interest in a joint meeting with the Board of Retirement as we approach the 2009-11 experience study and June 30, 2011 valuation report.
2. Applications have been completed, approved, and funds invested in Mondrian Investment Group and Robeco. The initial investment in each fund was \$14.5 million. Given the need to sell shares in other funds to raise sufficient cash to invest in Mondrian and Robeco, MCERA will experience an unusually high level of realized gains from sales of assets for March 2011.
3. During the most recent financial audit by Jim Sligh, CPA, I inquired about realized gains, losses, dividends and interest that are considered income to MCERA, but, per our instructions, are automatically reinvested into the respective funds. Mr. Sligh has historically requested a recap of all reinvested income, audited the recap, and recognized the audited income in his financial statements. I asked if it would be most appropriate for MCERA's to recognize this income/loss during the course of an accounting cycle and to consider it when posting earnings to reserves. Mr. Sligh recommended that we begin recognizing all realized income, whether reinvested or received as cash, reflect it in MCERA's financial statements, and consider that income when posting to reserves. The March, 2011, financial statements reflect reinvested income from for the current fiscal year. Going forward, each month's financial statements will reflect any reinvested income.

4. On April 4th, staff met with Andy Yeung and Shelly Chu of The Segal Company (Segal) to begin discussions of their information needs, and concerns of MCERA with historical reports. The meeting was very productive, and it appears that Segal will be much more explicit about information needs and uses for calculating liabilities and assets. Segal has already sent a request to Buck Consultants for historical data needed for the experience study.
5. The RFP for a financial auditor was released on April 1, 2011. Potential proposers have until April 15th to request any clarifications to the RFP, and until May 6th to submit a proposal.

Outreach

1. I have been in communication with R.V. Kuhns & Associates, and expect their comparative study very shortly, possibly in time to share with the Board at its April meeting.
2. I met a second time with Supervisor Smith, the CEO, County Counsel and Human Resources regarding retirement issues. The meeting primarily covered the need to review historical documents to determine, where required under the 1937 Act, if authorization was received and documented to support current benefits and practices of the retirement system. County Counsel will take a lead on this issue.
3. I composed a memo to all retirees (attached) that provides them with an update of MCERA's activities and discusses issues that we believed would be of interest to them.

Retiree Health Care

The County and MCERA reconciled transfers of County contributions to Human Resources for the 2010/11 fiscal year. The remaining balance in the Retiree Health Insurance reserve is \$658,654; the amount of accrued excess earnings remaining for retiree health care. I anticipate that the balance will be used to offset County contributions to retiree health care in early 2011/12. At that point, MCERA will simply collect those retiree health care premiums where the retiree has elected to have the premium deducted from their monthly pension check, and transfer those premiums to the County. As the Board knows, all future excess earnings will be utilized pursuant to the Board's policy adopted in June of 2010.

Miscellaneous

1. I interviewed four applicants for the position of Retirement Specialist I (trainee), and selected Christie O'Ferrall. Christie will begin in May, just in time for the initiation of the automation project.

JA
Attachment

MENDOCINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
FINANCIAL STATEMENT

		MARCH 2011 PRELIM				TOTAL	MARKET VALUE INFORMATIONAL ONLY MARCH 2011 PRELIM
1000G	CASH -GENERAL				14,618,429.84		14,618,429.84
1000B	CASH RESERVED-BRADFORD				-		-
1000D	CASH RESERVED-DODGE & COX				-		-
	TOTAL CASH				14,618,429.84		
1200	ACCOUNTS RECEIVABLE				2,700,000.00		2,700,000.00
1250	PREPAID EXPENSE				-		-
1600	OFFICE EQUIPMENT				3,786.40	3,786.40	3,786.40
		INVESTMENTS					
		PIMCO	DODGE & COX I	BRADFORD	DODGE & COX		
1400	BONDS @ COST VALUE	43,303,662.55	50,157,082.92	-	\$ 705,379.00	\$ 94,166,124.47	
	NET BONDS @ PAR VALUE	43,303,662.55	50,157,082.92	0.00	705,379.00	\$ 94,166,124.47	96,028,856.00
1800	INTERNATIONAL EQUITIES				\$ 57,430,032.91	70,863,986.00	
1900	SMALL CAP EQUITIES				15,532,191.12	22,191,136.00	
1910	MID CAP EQUITIES				16,906,469.39	22,355,076.00	
1920	LARGE CAP EQUITIES				81,113,546.50	95,216,426.00	
1930	REAL ESTATE				23,413,408.27	28,206,293.00	
1930KC	625 KINGS COURT				901,112.09	862,120.00	
	TOTAL SECURITIES & REAL ESTATE @ COST				\$ 289,462,884.75		
1300	ACTUARIAL VALUE OF UNRECORDED EARNINGS				\$ -		
1700	SHORT TERM INVESTMENT (LAIF)				\$ -		
	TOTAL ASSETS				\$ 306,785,100.99		353,046,109.24
							46,261,008.25

LIABILITIES AND UNDISTRIBUTED EARNINGS

MEMBERS DEPOSIT RESERVE							
2000	REGULAR CONTRIBUTIONS				\$ 35,066,372.94		
2100	REGULAR INTEREST				\$ 11,482,162.93		
2200	C.O.L. CONTRIBUTIONS				\$ 13,255,998.39		
2300	C.O.L. INTEREST				\$ 4,261,840.81	\$ 64,066,375.07	
2500	ACCOUNTS PAYABLE					-	
	COUNTY ADVANCE RESERVE						
3000	CURRENT SERVICE					(19,826,717.64)	
	RETIRED MEMBERS' RESERVE						
4100	ANNUITY				\$ 73,282,976.52		
4200	CURRENT/PRIOR SERVICE				\$ 98,832,563.73		
4400	SURVIVORS' BENEFITS				\$ (4,764,297.36)		
4500	COST OF LIVING				\$ 81,513,154.63		
						\$ 248,864,397.52	
MISCELLANEOUS							
5000	RETIREES INSURANCE				\$ 658,653.66		
5100	RETIREES PEDIT ACCOUNTS				\$ 20,406.42		
5200	RETIREE VISION INS				\$ -		
5300	AMCRE DUES				\$ 725.80		
5600	AFLAC INSURANCE				\$ 3,248.43		
5700	DEPENDENT INSURANCE				\$ -		
5750	RETIREE INSURANCE PAYMENT				\$ -		
5800	FEDERAL WITHHOLDING				\$ 26,759.27		
5900	STATE WITHHOLDING				\$ (179.00)		
5950	WAGE ATTACHMENT				\$ 297.76		
5960	RECOUPMENT				\$ (3,099.11)		
5970	PEDIT TRUST DENTAL				\$ -		
5980	HOLDING ACCOUNT				\$ (11,974.52)	\$ 694,838.71	
UNDISTRIBUTED EARNINGS							
6000	BALANCE-JUNE 30, 2002				\$ -		
6100	CONTINGENCY RESERVE				\$ 3,000,335.17		
6200	HLTH INS CLAIMS RESERVE				\$ -		
7000B	INTEREST/BRADFORD				\$ 404,968.61		
7000D	INTEREST/DODGE & COX				\$ 1,403,633.80		
7000P	INTEREST/PIMCO				\$ 620,097.10		
7000G	INTEREST GENERAL				\$ 24,081.65		
7000H	INTEREST APPORTIONED				\$ (8,363.22)		
7000DB	ADDITIONAL DEATH BENEFIT				\$ (3,750.00)		
7130	RENTAL INCOME				\$ 38,007.05		
7200	DIVIDEND & INTEREST REINVESTED				\$ 4,084,762.75		
7200G	CAPITAL GAINS & LOSSES REINVESTED				\$ 2,164,807.73		
7250	GAIN ON SALE OF INTERNATIONAL EQUITY				\$ 1,234,156.47		
7350	GAIN ON SALE OF EQUITIES				\$ 6,034,634.62		
7300	WRITE DOWN OF INVESTMENTS				\$ (9,558,762.25)		
7400	GAIN ON SALE OF REAL ESTATE				\$ -		
7450	RECOGNIZED MARKET VALUE APPRECIATION				\$ -		
7500B	PROFIT/LOSS-BRADFORD				\$ 1,428,774.52		
7500D	PROFIT/LOSS-DODGE				\$ 2,646,407.93		
7500I	PROFIT/LOSS INCOME FUND				\$ (67,107.44)		
7600	ADM. EXPENSE REIMB				\$ 30.72		
7650	COMMISSION RECAPTURE				\$ 1,069.12		
7700	MISCELLANEOUS				\$ (146,491.22)		
7730	BUILDING EXPENSES				\$ (21,535.54)		
7800	INVESTMENT EXPENSES				\$ (293,550.24)		
	TOTAL					\$ 12,986,207.33	
	TOTAL LIABILITIES & UNDISTRIBUTED EARNINGS				\$ 306,785,100.99		

COMPARISON OF RETIREMENT SYSTEM MONEY MANAGERS MARKET VALUE OF INVESTMENTS
MAR 2011 PRELIM

	A	B	C	D	E	F	G	H
	MARKET VALUE INVESTMENTS	CASH RESERVED	TOTAL AVAILABLE	PERCENT OF PORT.	% BY CLASS	TARGET % (2008 STUDY)	TARGET AS DOLLARS	DIFFERENCE AS DOLLARS () INDICATES
BRADFORD & MARZEC	-		-	0.00%		2.782%	9,339,839	9,339,839
DODGE & COX (SEPARATE)	86,738		86,738	0.03%		12.519%	42,029,274	41,942,536
PIMCO	46,345,913	-	46,345,913	13.80%		12.519%	42,029,274	(4,316,639)
DODGE & COX INCOME	49,596,205		49,596,205	14.77%				
					28.604%	27.820%		
SMALL CAP GROWTH								
ALLIANCE	4,136,505		4,136,505	1.23%		1.333%	4,476,319	339,814
RS EMERGING	3,748,883		3,748,883	1.12%		1.333%	4,476,319	727,436
FREMONT	7,065,676		7,065,676	2.10%		1.333%	4,476,319	(2,589,357)
					4.453%	4.000%		
SMALL CAP VALUE								
VANGUARD SMALL CAP IN	7,240,072		7,240,072	2.16%		3.000%	10,071,717	2,831,645
MAINSTAY	-		-	0.00%		3.000%	10,071,717	10,071,717
					2.157%	6.000%		
MID CAP GROWTH								
MORGAN STANLEY	5,838,482		5,838,482	1.74%		2.414%	8,102,696	2,264,214
JANUS ENTERPRISE	5,746,418		5,746,418	1.71%		2.414%	8,102,696	2,356,278
					3.451%	4.827%		
MID CAP VALUE								
FIDILITY LP STCK	5,378,996		5,378,996	1.60%		2.414%	8,102,696	2,723,700
ROYCE TOTAL RTN	5,391,180		5,391,180	1.61%		2.414%	8,102,696	2,711,516
					3.208%	4.827%		
LARGE CAP GROWTH								
GROWTH FUND OF AMERIC	10,826,711		10,826,711	3.22%		3.219%	10,805,513	(21,198)
HARBOR CAP APPRE	10,873,548		10,873,548	3.24%		3.219%	10,805,513	(68,035)
JANUS RESEARCH	10,876,464		10,876,464	3.24%		3.219%	10,805,513	(70,951)
					9.703%	9.656%		
LARGE CAP VALUE								
SELECTED AMERICAN	10,686,929		10,686,929	3.18%		3.219%	10,805,513	118,584
DODGE & COX	15,905,864		15,905,864	4.74%		3.219%	10,805,513	(5,100,351)
INVEST CO AMERICA	10,720,261		10,720,261	3.19%		3.219%	10,805,513	85,252
ROBEKO	14,521,907		14,521,907	4.33%		3.219%	10,805,513	(3,716,394)
VAN GUARD GR&INC	10,804,742		10,804,742	3.22%		3.219%	10,805,513	771
					18.658%	16.093%		
INTERNATIONAL STOCK								
EUROPACIFIC	16,272,281		16,272,281	4.85%		3.333%	11,190,796	(5,081,485)
HARBOR INTL	16,525,234		16,525,234	4.92%		3.333%	11,190,796	(5,334,438)
ACORN INTL	8,802,209		8,802,209	2.62%		3.333%	11,190,796	2,388,587
ARTISAN	-		-	0.00%		3.333%	11,190,796	11,190,796
JANUS INTL	16,051,693		16,051,693	4.78%		3.219%	10,805,513	(5,246,180)
MONDRIAN				0.00%		3.219%	10,805,513	10,805,513
OAKMARK	13,212,569		13,212,569	3.94%		3.333%	11,190,796	(2,021,773)
					21.108%	23.104%		
REAL ESTATE								
RREEF PUBLIC	12,987,108		12,987,108	3.87%		4.850%	16,282,609	3,295,501
RREEF PRIVATE	15,219,185		15,219,185	4.53%		4.850%	16,282,609	1,063,424
625 B KINGS COURT	862,120		862,120	0.26%		0.300%	1,007,172	145,052
					8.658%	10.000%		
NEW FUNDS AVAILABLE			-					
	335,723,894	-	335,723,894	100.00%	100.000%	106.326%	356,963,066	70,835,378

COMPARISON OF COST AND MARKET VALUES FOR MENDOCINO COUNTY RETIREMENT ASSOCIATION
MAR 2011 PRELIM

	A	B	C	D	E	F	G	H
	COST VALUE	MARKET VALUE	UNREALIZED GAIN	GAIN BY CATEGORY	PRIOR MONTH GAIN/LOSS	MONTHLY CHANGE	START OF FISCAL YEAR (MARKET)	FISCAL YEAR CHANGE (MARKET)
BRADFORD & MARZEC								
NET COST VALUE	0	-	-		(1)	1	16,907,925	(16,907,925)
DODGE & COX								
NET COST VALUE	705,379	86,738	(618,641)		(618,641)	-	41,310,537	(41,223,799)
DODGE & COX INCOME	50,157,083	49,596,205	(560,878)		448,258	(1,009,136)	-	49,596,205
PIMCO	43,303,663	46,345,913	3,042,251		5,731,311	(2,689,060)	45,164,284	1,181,629
NET COST VALUE				1,862,732				
SMALL CAP GROWTH								
ALLIANCE	1,967,844	4,136,505	2,168,661		1,958,099	210,562	2,980,938	1,155,567
RS EMERGING	2,500,101	3,748,883	1,248,782		1,097,369	151,413	2,457,293	1,291,590
FREMONT	5,311,845	7,065,676	1,753,831		1,458,732	295,099	2,494,201	4,571,475
				5,171,274				
SMALL CAP VALUE								
VANGUARD SMALL CAP INDEX	5,752,402	7,240,072	1,487,670		1,941,693	(454,023)	11,011,023	(3,770,951)
VACANT POSITION	0	-	-					
				1,487,670				
MID CAP GROWTH								
MORGAN STANLEY	4,254,453	5,838,482	1,584,029		2,020,136	(436,107)	7,568,653	(1,730,171)
JANUS ENTERPRISE	5,232,908	5,746,418	513,510		463,406	50,104	7,083,362	(1,336,944)
				2,097,539				
MID CAP VALUE								
FIDILITY LP STCK	3,588,432	5,378,996	1,790,564		3,152,899	(1,362,335)	7,384,148	(2,005,152)
ROYCE TOTAL RTN	3,830,676	5,391,180	1,560,504		2,704,157	(1,143,653)	7,315,773	(1,924,593)
				3,351,068				
LARGE CAP GROWTH								
AMERICAN FUND	8,378,074	10,826,711	2,448,637		2,548,702	(100,065)	6,730,586	4,096,125
HARBOR CAP APPRE	8,771,886	10,873,548	2,101,662		2,114,994	(13,332)	8,320,170	2,553,378
JANUS RESEARCH	8,535,170	10,876,464	2,341,294		2,518,114	(176,820)	7,437,093	3,439,371
				6,891,593				
LARGE CAP VALUE								
SELECTED AMERICAN	8,787,463	10,686,929	1,899,466		2,236,050	(336,584)	9,585,265	1,101,664
DODGE & COX	13,703,520	15,905,864	2,202,344		2,446,455	(244,111)	5,758,440	10,147,424
INVEST CO AMERICA	9,035,485	10,720,261	1,684,776		2,171,747	(486,971)	9,633,528	1,086,733
ROBECO	14,500,000	14,521,907	21,907		-	21,907	-	14,521,907
VAN GUARD GR&INC	9,401,948	10,804,742	1,402,794		1,510,301	(107,507)	8,867,385	1,937,357
				7,211,287				
INTERNATIONAL STOCK								
EUROPACIFIC	12,709,336	16,272,281	3,562,945		3,746,831	(183,886)	8,647,530	7,624,751
HARBOR INTL	15,027,678	16,525,234	1,497,556		1,709,663	(212,107)	8,124,842	8,400,392
ACORN INTL	5,622,539	8,802,209	3,179,670		4,145,493	(965,823)	8,843,640	(41,431)
ARTISAN	-	-	-		454,148	(454,148)	7,633,586	(7,633,586)
JANUS INTL	12,924,605	16,051,693	3,127,088		3,381,262	(254,174)	9,466,892	6,584,801
MONDRIAN	-	-	-		-	-	-	-
OAKMARK	11,145,875	13,212,569	2,066,694		2,691,369	(624,675)	9,610,807	3,601,762
				13,433,953				
REAL ESTATE								
RREEF PUBLIC FUND	9,069,048	12,987,108	3,918,060		4,173,479	(255,419)	9,882,144	3,104,964
RREEF PRIVATE FUND	14,344,360	15,219,185	874,825		1,219,185	(344,360)	12,895,169	2,324,016
625 B KINGS COURT	901,112	862,120	(38,992)	4,753,893	(38,992)	(0)	862,120	-
TOTAL INVESTMENTS	289,462,885	335,723,894	46,261,009	46,261,009	57,386,219	(11,125,210)	283,977,334	51,746,560

REALIZED GAIN ON SALE OF INVESTMENTS

(AMOUNT AVAILABLE TO CREDIT TO RESERVES)	THIS MONTH	CURRENT YEAR	TOTAL		
INTEREST INCOME		2,428,700		2,428,700	(0)
WRITE DOWN OF INVESTMENTS		(9,558,762)		(9,557,912)	(850)
GAIN/(LOSS) ON INTERNATION SALES	1,229,916	1,234,156		4,241	1,229,915
GAIN/(LOSS) ON SALE OF EQUITIES	4,154,406	6,034,635		1,880,229	4,154,406
GAIN/(LOSS) ON SALE OF BONDS	1,554	4,008,075		4,006,519	1,556
GAIN/LOSS INCOME REINVESTED	2,164,808	2,164,808			2,164,808
DIVIDEND/INTEREST INCOME REINVESTED	4,084,763	4,084,763			4,084,763
RECOGNIZED MARKET VALUE APPREC.					-
COMMISSION RECAPTURE		1,069		1,069	0
RENTAL INCOME	4,266	38,007		33,741	4,266
BUILDING EXPENSE	(9,230)	(21,536)		(12,140)	(9,396)
NET ADMINISTRATION EXPENSES	(91,808)	(440,041)		(348,234)	(91,807)
TOTAL REALIZED GAIN AND INCOME		9,973,873	9,973,873	(1,563,787)	
TOTAL REALIZED AND UNREALIZED GAIN-INCOME					
AMOUNT AVAILABLE TO CREDIT TO RESERVES		9,973,873	9,973,873	-	

James M. Andersen
Retirement Administrator



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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: April 20, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator 
Budget Ad Hoc Committee (Goodman and Weer)
Subject: Discussion and Possible Action Regarding the Proposed Budget for Fiscal Year
2011/12

Introduction

The Board established a budget ad hoc committee of members Goodman and Weer to work with staff on budget, financial reporting and auditing. We met on April 11, 2011, to discuss and finalize a recommended Proposed Budget for fiscal year 2011/12. As you will recall, the Board must adopt an annual budget per Government Code Section 31580.2, and set administrative costs of the Association subject to the limits set forth in that section. The Government Code was amended in September 2010, effective January 1, 2011, by Assembly Bill 609. The administrative cap was set at 21/100th of 1% of the Accrued Actuarial Liability (AAL) or \$2 million, whichever is greater.

Staff has received requests from the County Executive Office (CEO) for updated narratives and financial schedules for inclusion in the County Proposed Budget. The financial data was due on April 18th and the narrative changes are due on May 2nd. The draft Proposed Budget was input, but changes can be made based upon any action of this Board.

Attached is the recommended Proposed Budget. As Board members will recall, MCERA is unique in that it has a budget unit included in the County's proposed and final budget documents (Budget Unit, BU 1920), additional administrative expenses paid out of the retirement trust (2410-76-0466), and investment expenses that are not subject to the administrative spending cap. The attached spreadsheet is constructed to display projected administrative costs included in BU 1920, the retirement trust, and projected investment costs not subject to the statutory cap. It should be noted that additional investment costs are incurred as fees charged by fund manager prior to the calculation of investment returns.

Discussion

Given the change in the statutory cap under AB 609, staff no longer determines asset values and computes a spending limit. In the June 30, 2010 actuarial valuation, the AAL was \$435 million, resulting in a statutorily calculated spending cap of \$913,500; less than the \$2 million spending cap envisioned by the legislature for small systems such as MCERA. The legislature understood

that the smallest system has responsibilities driven by its pension liabilities, not assets, and established the \$2 million cap with this understanding. In addition, given that the sum of the administrative costs is less than the statutory spending limit, including nonrecurring automation costs, staff did not split its time into administrative and investment activities as it did last fiscal year. Both administrative and investment costs are closed against investment income at the end of the fiscal year.

Although the Proposed Budget schedule includes notes on line item changes, the following is a discussion of material changes in proposed appropriations from the current fiscal year.

1. Salaries and benefits include under-filling the Retirement Coordinator position, vacated last fall by Sue Thornhill, with a Retirement Specialist I (RSI). The RSI recruitment has been completed, and the preferred candidate has accepted employment beginning in May of 2011. The salaries and benefits reflect a full year's salary, with an increase from step 1 to step 2 for the final four (4) pay periods of 2011/12.
2. Salaries and benefits also include a 0.5 FTE fiscal/accounting position based upon: 1) the change in the duties of the Retirement Administrator from primarily accounting to the development of a fully independent retirement system and project management. Outstanding projects include documenting existing practices and transitioning to best practices, developing of Board and staff policies, converting to an automated retirement system, updating and upgrading our disability review processes, (with the IRS) reviewing our Voluntary Correction Program, monitoring legislation, ensuring that all applicable sections of the 1937 Act are supported by approval of the Board or Retirement, Supervisors, or both depending on law, etc. As the Board will recall, both Linea Solutions, Inc., and our independent financial auditor expressed the need for additional fiscal/accounting support in the office. I realize that filling and/or creating positions impacts the sponsor's rates, and by extension, has an impact on the sponsor's already serious budgetary conditions. Given the need as fiduciaries to address the needs of the retirement system while being sensitive to the plan sponsor's fiscal conditions, I am proposing an arrangement with the County Assessor/Clerk/Recorder to share a 1.0 FTE auditor. The objective is to meet the current and future operating needs of MCERA while helping to address immediate budget constraints on the County's general fund. I realize these costs will ultimately need to be financed either by earnings or rates.
3. As the Board discussed last fall, I have anticipated that MCERA would contract for general attorney services with Sonoma County, thereby creating continuity and consistency of legal counsel to the Association. Such an action will also eliminate any potential legal conflicts for Mendocino County Counsel in the future. The cost of attorney services for general counsel is anticipated to be \$50,000. An additional \$10,000 is being recommended for legal services from Hanson Bridgett regarding IRS issues.
4. Legal counsel for disability due diligence and hearings is anticipated to be somewhat less due to the reduced number of cases under consideration at this time. The Board may wish to consider maintaining the same expense estimate as last year given that staff has not been able to evaluate our disability processes and contracts. Actual hearing officer fees and medical examinations were greater than anticipated in 2010/11, and I recommend only a slight decrease in 2011/12 due to caseload.

5. The most significant change in the budget is the anticipated costs of automation conversion. It is anticipated that project management and technical services from Linea Solutions, Inc., will be \$475,200 (see contract, Exhibit A). The balance of the cost (\$155,000) is anticipated for extra-help, Information Services division staff time, hardware acquisition, and imaging contractors. The full \$800,000 estimated cost of automation for the primary initiatives in the Information Technology Roadmap will be incurred during the current fiscal year, 2011/12, and 2012/13.
6. Financial auditing costs are assumed to be the same pending the conclusion of MCERA's RFP process. This cost can be adjusted for the final budget if needed.
7. Imputed rent is not included as a cash expense, but is included in the calculation to determine if total administrative expenditures are below the statutory cap.
8. Investment expenses have changed significantly due to MCERA exiting its relationships with Bradford & Marzec and Dodge & Cox as fixed income managers, and moving fixed income investments to the Dodge & Cox Income Fund. The result is the cessation of directly billed management fees and the need for a custodial bank (Bank of New York Mellon). The Board will note significant savings in investment expenses (\$185,000); however some of this savings will be offset by fees charged by the Dodge & Cox Income fund prior to determining our return on investment.

Recommended Motion/Action

1. Approve the Proposed Budget as submitted;
2. Direct staff to submit the budget and supporting narrative to the CEO;
3. Authorize staff to develop an Memorandum of Understanding (MOU) for shared fiscal/accounting services with the Assessor/Clerk/Recorder (0.5 FTE), and to bring said MOU back to the Board for discussion and possible action;
4. Authorize staff to develop an agreement with Sonoma County for general legal services and to bring said agreement back to the Board for discussion and possible action; and
5. Direct staff to review alternatives for conducting due diligence on disability applications and to review all current contracts associated with the disability review process.

Alternatives

Approve alternative appropriations and expenditure objectives.

I will be happy to respond to any questions or comments you may have.

JA

PROPOSED BUDGET 2011/12

3/31/2011

CONTINUATION OF WAGE CONCESSIONS, UNDERFILL RETIREMENT COORDINATOR, FILL 0.5 FTE ACCOUNTANT

ACCOUNT #	ACCOUNT	2010/11 BUDGET	1920 PROPOSED	FOR CAP CALC	TOTAL EXPEND	INCR/ DECR
1011	GROSS REG SALARIES (1)	245,633	283,877	283,877	283,877	38,244
1012	EXTRA HELP (2)	10,000	2,000	2,000	2,000	-8,000
1021	RETIREMENT (3)	33,656	51,201	51,201	51,201	17,545
1022	SOCIAL SECURITY	13,414	15,737	15,737	15,737	2,323
1023	SOCIAL SECURITY B	3,426	3,957	3,957	3,957	531
1024	RETIREMENT COLA (3)	15,051	22,838	22,838	22,838	7,787
1030	HEALTH INSURANCE (4)	29,010	37,057	37,057	37,057	8,047
1031	UNEMPLOYMENT INSURANCE	4,925	2,951	2,951	2,951	-1,974
1035	WORKERS COMP	2,600	1,498	1,498	1,498	-1,102
SUBTOTAL		357,715	421,116	421,116	421,116	63,401
2060	COMMUNICATIONS	2,750	2,450	2,450	2,450	-300
2101	GENERAL INSURANCE	1,043	1,328	1,328	1,328	285
2150	MEMBERSHIP (5)	5,000	6,000	6,000	6,000	1,000
2170	OFFICE EXPENSE	12,500	11,550	11,550	11,550	-950
2183	LEGAL EXPENSE (6)	60,000	50,000	50,000	50,000	-10,000
2189	CONTRACTS (7)	7,500	9,750	9,750	9,750	2,250
2210	RENTS AND LEASES	0	0	0	0	0
2250	TRAVEL IN-COUNTY	250	300	300	300	50
2253	TRAVEL OUT OF COUNTY			0	0	0
	BOARD EDUCATION	15,000	15,000	15,000	15,000	0
	STAFF EDUCATION	5,625	5,000	5,000	5,000	-625
SUBTOTAL		109,668	101,378	101,378	101,378	-8,290
TOTAL 1920		467,383	522,494	522,494	522,494	55,111
	DISABILITY DUE DILIGENCE (8)	70,000		50,000	50,000	-20,000
	DISABILITY HEARINGS	25,000		20,000	20,000	-5,000
	MEDICAL REVIEWS	15,000		15,000	15,000	0
	AUTOMATION (9)	89,000		630,000	630,000	541,000
	AUDIT (10)	20,000		20,000	20,000	0
	TOTAL ADMIN EXPENDITURES	686,383		1,257,494	1,257,494	571,111
	ADMINISTRATIVE CAP	2,000,000		2,000,000		
	LESS IMPUTED RENT	-51,200		-51,200		
	BALANCE UNDER CAP	1,262,417		691,306		
	NOT SUBJECT TO ADMIN CAP					
	CUSTODIAL BANK FEES (11)	50,000			0	-50,000
	ALLIANCE BERNSTEIN FEES	30,000			35,000	5,000
	INVESTMENT CONSULTANTS	170,000			140,000	-30,000
	BUILDING EXPENSES	20,000			17,500	-2,500
	BOND MANAGER FEES (12)	135,000			0	-135,000
	ACTUARY SERVICES (13)	50,000			90,000	40,000
	ACTUARIAL AUDIT (14)	52,000			0	-52,000
	FIDUCIARY INSURANCE	32,000			35,000	3,000
TOTAL NON CAP		539,000			317,500	-221,500
TOTAL EXP		1,225,383			1,574,994	349,611

NOTES:

- (1) INCLUDES 1.0 FTE RETIREMENT SPECIALIST I, AND 0.5 FTE ACCOUNTANT (JOB SHARE WITH COUNTY)
- (2) LIMITED EXTRA HELP, MAY BE LESS IF ACCOUNTANT JOB SHARE IS APPROVED.
- (3) RETIREMENT RATE INCREASES.
- (4) HEALTH INSURANCE ADDED DEPENDENTS, ASSUME EMPLOYEE ONLY FOR RSI.
- (5) SACRS AND CALAPRS DUES AND ROUNDTABLES.
- (6) CONTINUANCE OF ATTORNEY SERVICES WITH SONOMA COUNTY (\$40K), HANSON BRIDGETT (\$10K).
- (7) BOARD MEMBER REIMBURSEMENT, SMALL WORLD SOLUTIONS, AND TELEVISED MEETINGS.
- (8) SLIGHT DECREASE IN CASELOAD AND ASSOCIATED EXPENSE.
- (9) LINEA CONTRACT/AUTOMATION COSTS, ANTICIPATED 2011/12 COSTS (X-HELP, HARDWARE, IS).
- (10) SAME AS LAST YEAR, WILL ADJUST AT FINAL BUDGET DEPENDING UPON RFP RESPONSES
- (11) EXITED CONTRACT MARCH 31, 2011.
- (12) EXITED CONTRACTS IN FISCAL YEAR 2010/11.
- (13) FEES AGREED TO WITH THE SEGAL COMPANY, INCLUDES EXPERIENCE STUDY.
- (14) NON RECURRING EXPENSE IN 2010/11.

James M. Andersen
Retirement Administrator



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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: April 14, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator
Subject: Discussion and Possible Action Regarding a Letter of Engagement with Hanson Bridgett for Legal Counsel on Tax Related Issues

Introduction

In December of 2009, the Board authorized staff to engage the firm of Hanson Bridgett for training and advice as MCERA began preparing for Internal Revenue Service (IRS) reauthorization of the pension plan. On September 15, 2010, the Board further authorized and executed an engagement letter with Hanson Bridgett, LLP, to prepare MCERA's application for a Determination Letter (DL) and Voluntary Correction Program (VCP) to the IRS. The Board provided authorization up to \$30,000. Staff was directed to return to the Board if legal services on the DL and VCP applications exceeded the \$30,000 limit.

During this same time period, from December 2009 forward, staff also sought specific legal opinions, advice and services from Hanson Bridgett regarding a new interest posting and excess earnings policy, changes to accounting practices to be in compliance with IRC 401(h), the BOR resolution authorizing the write down of accrued actuarial unrecorded earnings, the instruction letter from the County requesting the use of County pension contributions and accrued excess earnings for retiree health care for fiscal year 2010/11, and, most recently, addressing the fact that 1099R forms had not been sent out to all retirees with both taxable and non-taxable portions of their pensions. Staff viewed most of these services as related to the IRS application, but understood that they fell outside of the specific scope of services contemplated by the letter of engagement. Staff was monitoring costs and believed the additional legal services might fall within the \$30,000 spending limit. Recent billings have brought MCERA above the Board authorized limit.

Discussion

At this point, Hanson Bridgett has provided legal services outside the specific scope of the original engagement letter and has been compensated for those services. The Board was made aware of our use of Hanson Bridgett on each of these projects. In addition, legal services to complete the IRS applications for a DL and VCP have exceeded the \$30,000 that was originally estimated and authorized by the Board. In all cases, care was taken to use Hanson Bridgett's services only for tax related services that were outside the expertise of general counsel.

Staff is seeking authorization by the Board to address the expanded scope of services and the unanticipated cost of services. From a practical standpoint, staff also is working to meet the internal control requirements of the Auditor-Controller that require a letter of engagement or contract to support payments to vendors (Hanson Bridgett).

Recommended Motion/Action

1. Authorize staff to enter into a new or amended letter of engagement with Hanson Bridgett for services already rendered with an increased expenditure limit of \$15,000.
2. Direct staff to develop a draft letter of engagement with Hanson Bridgett for services through the 2011/12 fiscal year, and to place the item on the Board's agenda for discussion and possible action.

Fiscal Impact

The fiscal impact for recommendation number 1 will not exceed \$15,000. The fiscal impact for recommendation number 2 is estimated to be \$10,000.

I will be happy to respond to any questions or comments you may have.

JA

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Date: April 15, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator 
Subject: Discussion and Possible Action Regarding an Agreement with Linea Solutions, Inc., for Project Management and Professional Support in Implementing the Primary Initiatives of the Information Technology Roadmap

Introduction

At its January 2011 meeting, the Board accepted the Information Technology Roadmap (IT Roadmap) prepared by Linea Solutions, Inc. (Linea), approved moving forward with all of the primary initiatives outlined in the IT Roadmap, and approved moving forward with a sole source contract with Linea for project management and professional support given their extensive experience with other 1937 Act retirement systems and their unique knowledge of MCERA developed while preparing the IT Roadmap.

Staff was directed to develop an agreement with Linea, and return to the Board for discussion and possible action. The Board briefly discussed its interest in spreading the cost and resource demand over a multi-year period of time. Staff, working with Linea has worked to spread the cost and resource demand while not compromising the outcome of the project.

As of the writing of this staff report, the agreement was being reviewed by Risk Management and County Counsel. The Board members will have a copy of the agreement at the Board meeting or earlier if possible.

Discussion

Staff has been working with Linea to develop an agreement for the Board's discussion and possible action. The key elements of the agreement are:

1. At the core of the agreement is the standard MCERA contract that contains all the appropriate safeguards of MCERA's interests;
2. A detailed scope of work (see Exhibit A) describes the roles and responsibilities of Linea during the contract period, the deliverables, timelines, estimated budgets, and terms for payment for services. The maximum amount payable to Linea, based upon monthly work-in-progress billings, is \$632,896 through June 30, 2013. Anticipated costs, including travel expenses, by fiscal year are \$78,936 for 2010/11, \$475,200 for 2011/12,

and \$78,760 for 2012/13. The 2011/12 costs for Linea and other project related costs are included in the Proposed Budget which is also on the Board's agenda for consideration.

3. Professional Liability Insurance of \$1 million for errors and omissions.

Recommended Motion/Action

Approve the agreement with Linea Solutions, Inc. for project management and professional support in implementing the primary initiatives of the Information Technology Roadmap.

Fiscal Impact

As described above, the maximum fiscal impact is \$632,896 through June 30, of 2013.

Alternatives

Do not approve the contract at this time, or request revisions to the contract and/or scope of work.

I will be happy to respond to any questions or comments you may have.

JA

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Date: April 13, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator 
Subject: Discussion and Possible Action Regarding a Communications Policy with the Board of Supervisors

At its March 2011 meeting, the Board asked me to survey other systems to determine if they had a formal communications policy between the Board of Retirement and the Board of Supervisors, and specifically if the policy included notification to the Board of Supervisors of any expenditure over a certain limit.

A copy of the email survey sent to all CALAPRS systems is attached. The following 13 systems responded:

Fresno CERA	BART
City of Fresno	East Bay MUD
Marin CERA	San Diego CERS
San Joaquin CERA	Kern CERA
Orange CERS	City of San Jose (2 systems)
Sonoma CERA	San Mateo CERA
San Bernardino CERA	

None of the systems that responded have formal communications policies between the two Boards. Systems were more inclined toward informal meetings with Board members and/or executive staff. Others primarily communicate on an "as needed" basis, including the annual valuation study, rates, and financial audit. None of the systems that responded report out expenditures to the Board of Supervisors; several communicating that they wish to maintain clarity of the authority of the Board of Retirement.

I have copies of all responses available for your review.

JA

Jim Andersen - Survey Request - Mendocino CERA

From: CALAPRS <acorley@calaprs.org>
To: andersej@co.mendocino.ca.us
Date: 3/17/2011 12:38 PM
Subject: Survey Request - Mendocino CERA

The following is a survey from Mendocino CERA to determine if other retirement systems have a policy on Board of Retirement to Board of Supervisors communication. Please send your answers to andersej@co.mendocino.ca.us:

"Does your retirement system regularly communicate with the chief executive and/or the board of your sponsoring agencies? Is this a formal or informal process?"

Do you have a policy that governs communications with your sponsoring agencies? If so, would you please provide a copy to Jim Andersen at andersej@co.mendocino.ca.us.

More specifically, do you have a policy that requires communicating to your sponsoring agencies when the retirement system incurs an expenditure over a specified amount?"

Thank you.

Jim Andersen
Retirement Administrator

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