

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆MAY 7, 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, Craig Walker, Bob Mirata, and Shari Schapmire. Also present: Tom Watson, Interim Retirement Administrator, Jeff Berk, Legal Counsel, Judy Zeller, Administrative Assistant, Greg DeForrest, Callan Associates and Judith Boyette, Hanson Bridgett.

**PUBLIC COMMENT:** None

**1) PRESENTATION OF STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS (SACRS) TRUSTEE SERVICE AWARD PINS**

**Presenter/s:** Chair Schapmire presented SACRS service award pins to Bob Mirata and Richard Shoemaker for over ten (10) years of service as a trustee. Tim Knudsen received a service award pin for over twenty (20) years of service as a trustee. The Board acknowledged that Board of Retirement service is often difficult and thanked them for their many years of service as trustees.

**2) 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 April 16, 2014, 1-B Membership, 1-C Retirements Processed, and 1-D Retirement Administrator's report.

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

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

None

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4) QUARTERLY PERFORMANCE REPORT, CALLAN ASSOCIATES

- PIMCO Update
- Summary Report on PIMCO Alternatives Investors Day, John Sakowicz

**Presenter/s:** Greg DeForrest of Callan Associates referenced information previously distributed to the Board regarding the Quarterly Performance Report. We are close to our long term assumption and Callan's summary does not recommend any changes at this time. The fund has stayed close to target with a higher cash position. He reported that the total market value of the fund is \$430,924,766 and the total fund was up 1.64% which is net of all investment management fees. International Equity managers did well and it was great to have multiple managers here. Even though Janus was down 1% for the quarter, they are an appropriate multi manager. Mr. Stephens asked if Callan had any comments on selling assets monthly to pay benefits and less contributions coming into the fund. Mr. DeForrest replied that Callan looked at your liquidity profile 1.5 years ago and recommended no change to your allocation.

Pimco underperformed by 1%, but are still beating the index, although their peers are doing better. Pimco protected you in 2008 from the effects of the stock market and we must look at the full spectrum of time periods to see what they have done for you. We may be disappointed in the near term, but are not making any recommendations for change at this time. He mentioned Pimco's change in CEO/CIO. New deputies have been assigned and Bill Gross is still your manager. He explained that Pimco is the largest bond manager out there, 1/3 of their portfolio is cash, and they have a high level of liquidity. They are larger today than in 2007. Currently there is a migration from bonds to stocks and it is the small investors who are pulling out their dollars, not the larger institutional investors.

Board members asked about hedging the portfolio and joining a Joint Powers Authority (JPA) to get into alternative investments. Mr. DeForrest stated that an asset allocation study was done for MCERA recently and we did not see any great value in doing this. Volatility would increase with no real benefit.

Mr. DeForrest provided an update on changing share classes for some of our funds. Columbia and Morgan Stanley have already completed the process. Janus has 3 lower share classes that would only be available to MCERA with the use of a Custodial Bank. The cost of a Custodian could be \$30,000 to \$100,000 per year. A Custodian would help you could save \$30,000 a year in fees with Janus and could assist with accounting and internal controls. Callan could help do a Custodian search, but this is not included in the regular consultant fee.

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Mr. Sakowicz provided a recap of his attendance at the Pimco Alternative Investments Day held May 1, 2014 and stated that a special report from Pimco would be arriving today for the board to review.

**Board Direction:** Staff will include discussion regarding a Custodial Bank during the June meeting.

Chair Schapmire took a moment to congratulate Lloyd Weer on his appointment as County Auditor Controller yesterday. Meredith Ford has announced her retirement and Mr. Weer will be completing her term beginning June 22, 2014.

**5) DISCUSSION AND POSSIBLE ACTION REGARDING THE INTERNAL REVENUE SERVICE (IRS) FAVORABLE DETERMINATION LETTER AND COMPLIANCE STATEMENT, HANSON BRIDGETT**

**Presenter/s:** Chair Schapmire referenced information previously distributed to the Board regarding the IRS Favorable Determination Letter and Compliance Statement received by MCERA in February. She explained that MCERA has been participating in an IRS Voluntary Correction Program (VCP) for Public Retirement Systems since 2011. Judith Boyette of Hanson Bridgett will explain the VCP process and the next steps to take. We will be posting our VCP Filing and Application for a Favorable Determination Letter to MCERA's website at [www.co.mendocino.ca.us/retirement](http://www.co.mendocino.ca.us/retirement) so that the process can be viewed online. The Chair asked that questions be held until the end of Ms. Boyette's presentation.

Ms. Boyette referenced the IRS Favorable Determination Letter and VCP Compliance Statement. She explained the determination letter and that it is based on information provided by MCERA to the IRS. It was very important to disclose everything to the IRS during this process as we will rely on this letter for any issues raised in the future. Hanson Bridgett was engaged in 2010 to work with the State Association of County Retirement Systems (SACRS) to identify potential IRS issues for the 37 Act Counties. There has been full disclosure to the IRS and we have worked with MCERA on their specific issues. 14 out of 20 County Retirement Systems had some specific issues, as MCERA did.

The IRS will require review of the status of the plan periodically. This Determination Letter expires on Jan 31, 2014, just two days after the letter was received. This means it took the IRS the entire three (3) year cycle to finish their review of 37 Act Systems. Government Plans had not been looked at since 1974 and all plans were required to participate. She explained that we will need to file again by Jan 31, 2016. This next application will show that you continue to comply with IRS requirements, have kept up with IRS changes for Government plans, and have worked with SACRS to establish a process for annual review, which will be discussed at the

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SACRS Conference next week. The next application must include adoption of the amendments submitted in the IRS Response letter dated 12/30/2013. The Public Employees Pension Reform Act (PEPRA) has affected some of the language and that is what this letter refers to. If the legislation is changed and adopted by 3/1/2017 we will meet our requirement and there is enough time to do so. The Defense of Marriage Act (DOMA) requires some language changes which also need to be adopted to comply with IRS rules. These changes have already been completed for MCERA as well as the compliance with PEPRA.

The Determination Letter dated January 29, 2014 prevents the IRS from retroactively disqualifying MCERA. Now MCERA can self correct any small issues that may come up. Thousands of Government Plans filed with the IRS. It was a monumental project and many plans across the nation had the same correction issues. Ms. Boyette explained that the IRS has agreed, based on all of the information provided, that they will not seek enforcement against MCERA or other 37 Act Systems.

The Compliance Statement describes the errors addressed in the VCP including 10 errors for 37 Act Systems, and 4 errors specific to MCERA. All of the 37 Act System errors have been reviewed and discussed at SACRS. She explained that the 10 system wide errors will require legislative amendment of the 37 Act with the help of SACRS, some will require adoption of revised model regulations, and some will require both. The IRS accepted MCERA's proposed corrections to MCERA specific issues including the \$9.6 million in retire health reserves that should have remained available for retirement benefits. The IRS determined to allow moving the \$658,000 to reserves and repayment of the \$9.6 million with an amortization schedule that has already been assigned and cannot be changed.

The IRS requires commitment to revision of administrative procedures and SACRS is forming sub committee to provide guidance on this issue. The use of a SACRS sub committee will be less expensive than every system doing its own review of administrative procedure. We will need to support the SACRS committee process and prepare for filing again in 2016. MCERA must support adoption of the changes in the legislation which addresses many issues and review and adopt model regulations. MCERA must verify that all MCERA specific corrections have been made and provide evidence of the corrections with our next filing.

The Board asked questions regarding the MCERA specific errors, review of the \$9.6 million issue and its amortization schedule, and excess earnings. Ms. Boyette explained that views can be expressed during the SACRS Legislative Committee meeting during the SACRS Spring Conference. Currently we are only implementing IRS requirements.

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**Board Direction:** Staff will review the MCERA specific issues to verify that the corrections have been made. Model regulations will be reviewed, finalized, and adopted by the Board in the future. MCERA will support the SACRS Committee on legislative changes to the 37 Act.

**Board Action:** None

**6) MONTHLY INVESTMENT REPORT**

**Presenter/s:** Mr. Watson referenced the monthly investment report which was previously distributed to the Board. He explained the differenced between this report and Callan's quarterly report. We did balance with them; we just had some timing issues.

**Board Direction:** Staff does not need to include the report on Shares Owned and the NAV Analysis in the Monthly Investment Report.

**7) 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.

**8) DISCUSSION AND POSSIBLE ACTION REGARDING THE PROPOSED BUDGET FOR FISCAL YEAR 2014/2015**

**Presenter/s:** Mr. Watson referenced information previously distributed to the Board regarding the Proposed Budget for Fiscal Year 2014/2015. He explained that the budget process began by providing the budget to the Audit and Budget Committee for their review and recommendation. Mr. Weer added that the committee reviewed the budget and made some adjustments. He felt the budget was a fair representation of 2014/15. Mr. Stephens commented on our historical needs and any upcoming needs for this year. It was understood that a budgeted item could come back to the Board at a later time for review.

The Personnel budget does include both of the new position's salaries. The Board education and training budget was reduced, but is still budgeted higher than projected for this year. This allows Board members to continue their education if they have not done so. The budget can always be amended if additional training is required. Mr. Sakowicz recommended the

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CALAPRS trainings and Mr. Knudsen encouraged attendance at the SACRS Conferences. Mr. Goodman stated that Mr. Watson's narrative explains the budget by line item very well.

**Board Action:** Motion was made by Supervisor McCowen to approve the Budget for Fiscal Year 2014/2015. 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, Mr. Walker, Mr. Mirata and Chair Schapmire. Noes: 0. Abstain: 0. Absent: 0.

The Board thanked the Audit and Budget Committee and Tom Watson for the exceptional organization of the budget process and reports.

**9) DISCUSSION AND POSSIBLE ACTION REGARDING EXTENDING THE SERVICE AGREEMENT WITH GALLINA LLP FOR EXTERNAL AUDITING SERVICES**

**Presenter/s:** Mr. Watson referenced information previously distributed to the Board regarding our agreement with Gallina LLP for external auditing services. He explained that Crystal Ekanayake of Gallina provided an explanation of their proposal and why it was different from the previous engagement to the Audit and Budget Committee. The committee had a lot of good input regarding the recommendation to extend our agreement with Gallina for another three (3) years.

The Board asked about using the same vendor for auditing services as the County. Mr. Stephens explained that Gallina's audit process for MCERA is completely separate from the County audit process. Each has a different, independent, team altogether. Mr. Goodman stated that he agrees with need for request for proposal (RFP) every three years, but there are few providers to choose from. A 3 year extension made sense as we did not feel the pool had changed and we estimated services by another vendor to be more expensive.

**Board Action:** Mr. Mirata motioned to approve a 3 year extension to the agreement with Gallina LLP. Supervisor McCowen seconded the motion and it was approved by the following vote: Ayes: Mr. Sakowicz, Mr. Weer, Mr. Knudsen, Sup. McCowen, Mr. Stephens, Mr. Goodman, Mr. Walker, Mr. Mirata and Chair Schapmire. Noes: 0. Abstain: 0. Absent: 0.

**10) GENERAL BOARD MEMBER DISCUSSION**

- **Citizens' Letter Dated April 22, 2014**

**Presenter/s:** Chair Schapmire referenced the Citizens Letter received by many via email on April 21, 2014. She also mentioned that Supervisor McCowen had provided the Pension 101 presentation from the April 22, 2014 Board of Supervisors meeting. Supervisor McCowen explained that this information outlines what could be done to address retirement issues. He

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did not think it made sense to take staff time to answer the citizen letter questions, especially since more information will soon be posted to the website. The Board discussed a joint meeting of the Boards and Chair Schapmire felt that our Actuary should be there. We need to define certain issues to cover at this meeting in order to accomplish anything.

Supervisor McCowen stated that the Board of Supervisor's pension review found that our retirement benefits are at the bottom. Other County benefits were found to be much higher and there is not much more that can be changed. Both Boards are aware of and are addressing the issues.

Mr. Stephens stated that we must understand our history. We should review what they are asking for in this letter. Without answers, we don't move on. The Board discussed posting more documents to the website and formulating a response. All agreed that this information has been addressed many times in the past and we can only address Board of Retirement issues. Return on investments could not be obtained from State Controller until October 2012. Tim Knudsen and Jim Andersen had given a full report comparing our return on investment with others. Some of these questions have been answered in Grand Jury reports as well.

Supervisor McCowen stated that Mr. Dickerson's examples are flawed and include some facts and some mis-interpretations. MCERA has been rated in the top ten by RV Kuhns for at least 5 consecutive years. The first year MCERA data was included in the RV Kuhns report, Mr. Dickerson stopped doing his own analysis. It is unlikely that MCERA would rank last for 10 years in a row compared to 80 other public systems including 20 37 Act Counties. Our duty is to the employees and retirees which is the biggest challenge to the Board of Retirement. There has been no recognition of any steps taken to fix issues including the retiree health care decisions made by the Board of Supervisors. Mr. Sakowicz added that he gave the most recent RV Kuhns report to the Board of Supervisors and that MCERA ranked 7 out of 79 systems for the last year.

Chair Schapmire stated that the Board of Supervisors did not give direction to staff to respond. If the letter is addressed to all, the response should come from all in a joint effort. She was concerned by the tone of the statements made and the fact that issues we no longer have are not addressed here. The Board of Retirement and the Board of Supervisors took action regarding retiree healthcare.

**Public Comment:** Holly Madrigal, Candidate for County Supervisor and Member of CA Concerned Citizens, suggested that this discussion would be appropriate for a joint meeting, stating that we want factual answers to the questions.

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**Board Direction:** This discussion will be continued to the June meeting in order to discuss if and how the questions should be answered. Staff will focus on planning a joint meeting of the Boards.

**LUNCH RECESS (12:25)**

**RECONVENE (1:00 p.m.)**

**11) CLOSED SESSION**

- **Public Employee Appointment. Interviews for the position of Retirement Administrator pursuant to Government Code Section 54957(b(1)).**

**REPORT OUT FROM CLOSED SESSION**

Direction was given to staff. There was no action taken regarding the public employee appointment.

**ADJOURNMENT (4:45 p.m.)**