

BOB MIRATA
CHAIRMAN
B.O.S. APPOINTEE

SHARI SCHAPMIRE
VICE-CHAIRMAN
TREASURER TAX COLLECTOR

DENNIS HUEY
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 JUNE 15, 2011 – 8:30 A.M.

- 1) ROLL CALL (8:30 A.M.)
- 2) DISCUSSION AND POSSIBLE ACTION TO APPOINT A CHAIR IN THE ABSENCE OF ALL OTHER OFFICERS (Estimated Time 5 min.)
- 3) MINUTES OF THE MEETING HELD MAY 18, 2011 (Estimated Time 5 min.)
- 4) PUBLIC COMMENT (Estimated Time 5 min.)

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.

- 5) DISCUSSION AND POSSIBLE ACTION REGARDING RETIREMENT ADMINISTRATOR'S REPORT (Estimated Time 20 min.)
 - a) Withdrawal of contributions by terminating employees
 - b) Billings for fees and services
 - c) Presentation of Administrator's report

◆RETIREMENT BOARD MEETING AGENDA◆

◆JUNE 15, 2011 - 8:30 A.M.◆

- 6) INVESTMENTS/FINANCIALS (Estimated Time 5 min.)
 - a) Presentation of financial statements
 - b) Action may be taken to terminate or hire investment managers at any meeting
- 7) DISCUSSION AND POSSIBLE ACTION REGARDING ENTERING INTO AN AGREEMENT WITH GALLINA, LLP, FOR AUDITING SERVICES FOR JUNE 30, 2011, 2012, AND 2013. (Estimated Time 15 min.)
- 8) DISCUSSION AND POSSIBLE ACTION REGARDING THE PROPOSED BUDGET FOR FISCAL YEAR 2011/12 (Estimated Time 30 min.)
- 9) DISCUSSION AND POSSIBLE ACTION REGARDING A MEMORANDUM OF UNDERSTANDING WITH THE ASSESSOR/CLERK RECORDER FOR FISCAL AND ACCOUNTING RESOURCES (Estimated Time 30 min.)
- 10) BREAK (Timed Item at 10:20 A.M.)
- 11) CLOSED SESSION (Timed Item at 10:30 A.M.) (Estimated Time 1.5 hours)
 - a) Potential initiation of litigation (Buck Consultants) pursuant to Government Code Section 54956.9(c) - one (1) case
 - b) Pending disability applications
 - 1) HUDSON, GARY (09/07/10) SHERIFF SCD
 - 2) KOSKINEN, KIM (10/15/08) HHSA (SOC SERV) SCD
 - 3) NOONAN, KRISTIN (05/05/11) HHSA (SOC SERV) NSCD
 - 4) ZIMMERER, TIMOTHY (08/27/09) SHERIFF SCD
- 12) REPORT OUT FROM CLOSED SESSION
- 13) ADJORNMENT (Estimated Time 12:00 Noon)

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

(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: June 7, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator *JA*
Subject: Discussion and Possible Action to Appoint a Chair in the Absence of all Other Officers

Introduction

Staff became aware today that Board member Mirata would not be present at the June meeting. We were already aware that Board members Schapmire and Huey would not be present. That presented the unusual situation of no officers at the June meeting, and no policy governing the succession of an alternate Chair for the meeting.

Discussion

There is nothing we are aware of in Roberts Rules of Order that governs the ascension to the Chair other than through the elected officers. The County Board of Supervisors has a rule which they have adopted, which calls for the most tenured member on the Board to chair any meeting where both the Chair and Vice-Chair are absent. This allows a quorum of the Board to continue to conduct business.

Recommended Motion/Action

1. For the June 30, 2011 meeting, designate the most tenured Board member, Tim Knudsen, as Chair of the meeting; and
2. Direct staff to bring back a "governance policy" for discussion and action by the Board which includes language that addresses the succession to Chair in the event all elected officers are absent.

Alternative

Establish an alternative, temporary method for selecting a Chair for the June 2011 meeting.

JA

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

Date: June 8, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator 
Subject: Discussion and Possible Action Regarding the Administrator's Report

Financial

1. Staff is working with Callan Associates and Cornerstone, the Board's selection for additional private real estate investments. We expect to complete the application process this week. The opening for investing dollars in the fund has not been determined yet, but, at the latest, would be at the end of the third quarter (September 2011). Callan is working with Cornerstone to determine if an earlier investment date is possible.
2. The CAFR for fiscal years ending June 30, 2010 and 2009 has been reviewed by our independent auditor and is complete. The CAFR will be posted on the MCERA website by the close of business on Friday, June 10, 2011. Staff will notify the plan sponsors, other CALAPRS and SACRS retirement systems, and any other known stakeholders to let them know the document can be viewed or downloaded from our website.
3. Staff has conservatively estimated net income available for posting to employee, employer and retiree reserves for the period ending June 30, 2011. The estimated net income available for posting, consistent with the Board's policy, is roughly \$11.85 million. This will provide an interest allocation of just over 4% to the reserve accounts. Given that previous interest posting policies and procedures were developed in consultation with our prior actuary, staff will be asking The Segal Company to review the policy and practices with staff, after which we will bring any recommended changes to the Board for discussion and possible action.
4. Staff assisted the ad hoc committee of the Board to evaluate proposals for independent fiscal auditing services, and conducted reference checks of the committee's preferred proposer. The committee's recommendation and a contract for auditing services are on the Board's agenda for discussion and possible action.
5. Staff received direction from Hanson & Bridgett regarding corrective measures for 1099R forms that were not issued to retirees with service connected disabilities and who had both taxable and non taxable pension income. There are eleven (11) individuals in

all, and we are working to provide them with the tax documents needed to file amended returns within the statute of limitation years (2008 forward).

6. Staff has implemented procedures, consistent with Government Code Section 31706, to notify members who have funds on deposit with the system or are in a deferred retirement status and have reached the age of 70 that they are eligible and must begin to receive a mandatory allowance consistent with GC Section 31706.
7. I assisted the County and its financial advisor, KNN, by reviewing and commenting on the Preliminary Official Statement (POS) for Tax Revenue Anticipation Notes (TRANS) where the pension program and County rates were discussed. At the County's request, I will participate in a conference call or meeting to address pension questions by rating or lending agencies.

Outreach

There is nothing new to report at this time.

Retiree Health Care

As the Board requested, I asked Sue Goodrick from Human Resources if she would be available to provide an update on retiree health care to the Board. Although she is very willing to do so, her availability is limited. It will likely be the August or September meeting before we can receive an update on the program. Sue did provide an update to the Board of Supervisors (BOS) on May 23rd, and all reports and documents are available on the County website, under the BOS' tab.

JA

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
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Date: June 6, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator 
Subject: Preliminary Financial Reports for May 2011

Due to the (early) timing of the June meeting and the receipt dates of monthly reports from investment managers/funds the Preliminary Financial Reports for May 2011 will be distributed at the Board meeting.

Thank you for your patience.

JA

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Retirement Administrator



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

Date: June 15, 2011
To: Board of Retirement
From: Budget & Audit Ad Hoc Committee
Subject: Discussion and Possible Action Regarding Entering into an Agreement with Gallina, LLP, for Auditing Services for June 30, 2011, 2012 and 2013

Background

The Mendocino County Employees' Retirement Association (MCERA) has contracted with V. James Sligh, CPA, MBA, for independent financial auditing services for at least thirteen (13) years. While Mr. Sligh has provided competent auditing services, which have been subject to peer review, the Board believes it is a prudent and reasonable business practice to solicit proposals from other vendors for independent financial auditing services from time to time.

The Board established an ad hoc committee of members Randy Goodman and Lloyd Weer to provide direction and assistance in issuing a Request for Proposals (RFP) for financial auditing services. The independent financial auditor will be reviewing and commenting on the work of staff, and it was therefore thought to be most appropriate for the committee to take a lead role in the RFP process, evaluation of proposals, and recommendation of the preferred proposer to the full Board.

The Importance of Process

In conducting an RFP, it is critical that processes be communicated clearly and followed closely in order to retain fairness to any and all proposers. Adherence to process ensures that the recommendation to the governing board, and ultimately its action, are defensible to observers and will stand up in the event of any challenge, legal or otherwise. In an RFP process that takes several months to complete, there may be variations to scheduled milestones and processes; in this case there were no changes to the process or milestone dates.

The Process

The RFP process consisted of four primary tasks:

1. Releasing the RFP document and solicitation of proposers
2. Receiving and responding to any questions regarding the RFP document or process
3. Reviewing and scoring proposals and developing of a short list of proposers

4. Determining the value of interviewing the short list of proposers prior to recommending a preferred proposer and contract to the full Board

Releasing the RFP document and solicitation of proposers

The RFP document was posted to the Association website on April 1, 2011, and potential proposers were directed to electronically access the document. Prior to the release of the RFP, all auditing firms/individuals designated by the Board at its March 16, 2011 meeting were informed of the release date and website location of the RFP.

Receiving and responding to any questions regarding the RFP document or process

All potential proposers were encouraged to submit any questions regarding the RFP document or process in writing by April 15, 2011. Staff received two written inquiries; they focused primarily on the motivation of the Board in moving to a new auditor. There were no clarifications to the document or process that were deemed to be relevant to all proposers, and therefore no questions and answers from proposers were posted on the website.

Reviewing and scoring proposals and developing of a short list of proposers

On May 25, 2011, the review team/ad hoc committee, along with staff support from the Retirement Administrator, met to discuss the proposals. Two firms submitted proposals by the deadline: Gallina LLP (Gallina) and Brown Armstrong Accountancy Corporation (Brown Armstrong). The review team members were sent a package in advance of the meeting that contained a copy of the RFP, both proposals, and a ranking sheet. The ranking sheet provided space to score the proposals (1 to 5 scale) on each of the following areas, as described in the RFP:

1. Ability
2. Related Experience
3. Qualified Personnel (firm level)
4. Firm Stability
5. Assigned Individuals (team level)
6. Fee Proposal
7. General Quality and Adequacy of Response
8. Quality of References
9. Other factors (written and scoring spaces provided)

There was no need to develop a “short list” of proposers since only two proposals were received. This is consistent with financial auditor solicitation processes of other retirement systems, where two to four firms typically responded. The review team was able to focus on ranking the firms and selecting a preferred proposer.

While both firms submitted high quality proposals, the ad hoc committee agreed to recommend Gallina to the full Board. Both firms are large, growing, regional accounting firms. While Brown Armstrong demonstrated strong knowledge and ability to audit 1937 retirement systems, being the current auditor for ten (10) systems, Gallina demonstrated a strong government auditing background in California counties and cities (including the County of Mendocino) and private retirement systems. The Gallina audit team would be led by a CPA who is also a

Certified Employee Benefits Specialist (CEBS). In addition, Gallina, having a strong desire to expand its business of governmental accounting into the closely related arena of public pension plans, offered a higher level of customer service and a significant “professional discount.” Gallina proposed to provide auditing services for \$20,000 per year over the next three years, while Brown Armstrong proposed fees of \$54,000, \$56,000 and \$58,000 for the years 2011 through 2013, respectively.

After much discussion, the ad hoc committee believed that interviews were not necessary given the preferred proposer was clear and the County (plan sponsor) had extensive experience with Gallina and could attest to the firm’s commitment to excellence in auditing practices and work products. Staff conducted reference checks of Gallina to determine the satisfaction of current clients.

Recommended Motion/Action

The Budget & Audit Ad Hoc Committee of the Board recommends entering into an agreement with Gallina, LLP, for independent financial auditing services for the fiscal years ending June 30, 2011, 2012 and 2013.

Financial Impact

The anticipated expenses to be paid to Gallina are \$20,000 per year for the next three fiscal years, for a total of \$60,000. This is consistent with the fees anticipated in the 2011/12 Proposed Budget. In an effort to submit as competitive a proposal as possible, Gallina agreed that all travel and per diem, office expenses, phone consultations, general customer service, and CAFR support would be included in the \$20,000 fee. The only additional costs that could be incurred would be for work requested outside the scope of services outlined in the agreement.

Alternatives

1. Reject all proposals – not recommended. The RFP process has produced highly qualified auditors and reasonable fee proposals.
2. Select an alternative proposer – not recommended. Although Brown Armstrong represents a very capable alternative to Gallina, the level of customer service anticipated under the Gallina contract, the price, and the absence of unforeseen billings for services causes Gallina to be the preferred provider of the ad hoc committee.

JA/RG/LW

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

Date: June 15, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator 
Subject: Discussion and Possible Action Regarding the Proposed Budget for fiscal year 2011/12

Introduction

At its April meeting, the Board approved a proposed budget for fiscal year 2011/12. In the motion and action to approve the proposed budget, the Board directed staff to:

1. Submit the approved budget with an updated narrative to the CEO (**completed**);
2. Develop an MOU for a job share arrangement with the Assessor/Clerk/Recorder providing 0.5 FTE fiscal/accounting support (**June 2011 agenda for action**);
3. Develop an agreement with Sonoma County for independent legal services (**completed and reported out to the Board at its May meeting**): and
4. Review the current disability process and contractors (**project for 2011/12**).

During its budget discussion, the Board deleted funding for automation projects from the 2011/12 budget, but members of the board asked staff to review alternatives for moving forward with some level of automation improvements while recognizing the funded status of the system and the rate impact to the sponsors. In the future, staff will work closely with the Chair when the full Board acts on an item, and any subsequent requests arise for staff. We want to ensure that such requests have the support of the majority of the Board.

At its May meeting, staff recommended the Board reconsider the proposed budget, with Board member Goodman declaring a conflict and leaving for the discussion and action. This is due to the appearance that Mr. Goodman may benefit from approving expenditures for the salary and benefits (of the job sharing arrangement) where he will be the employee whose time is shared. As a result, the proposed budget is being brought back before the Board for discussion and action without Board member Goodman.

Discussion

1. The proposed budget is attached, and includes notes on all line items that have changed significantly from the prior year. Also attached are the April staff report which outlines in detail the significant policy issues (Exhibit A), the breakdown of employee costs

(Exhibit B), and the tasks that would be assigned to the fiscal/accounting support (Exhibit C).

2. In addition, I spoke with Akio Tagawa, President, Linea Solutions (Linea), regarding alternatives for taking the first step in automation of MCERA records and processes (Exhibit D). The first initiative proposed by Linea in the strategic plan presented to the Board in January of 2011 was to create electronic files of all historical member information. In addition, the initiative would include creating processes and procuring software and hardware to image all future member information. This initiative was viewed by Linea as the most fundamental automation task given that it would provide for system continuity in the event of disasters and/or accidental destruction of records, as well as create the cornerstone of any future automation improvements.

If the Board chose to reconsider including anticipated expenditures in the proposed budget for the Electronic Data Management System, spread over two fiscal years, the costs would be as follows:

	<u>2011/12</u>	<u>2012/13</u>
Linea Solutions (project management and technical support)	\$ 86,988	\$ 63,096
MCERA, IS and other costs	<u>123,130</u>	<u>41,876</u>
Total Initiative by fiscal year	\$210,118	\$104,972

3. The only change from the proposed budget adopted in April and the proposed budget presented today is the anticipated expenditures for employee health care. The prior budget anticipated a cost of health care for the Retirement Specialist I; now the selection of a health care option by that employee is known.

Recommended Motion/Action

1. Adopt the proposed budget as submitted (with the change to the health insurance line item); and
2. Provide staff final direction regarding automation costs, if any, to include in the 2011/12 budget.

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

JA

Attachments

PROPOSED BUDGET 2011/12
 APPROVED BY THE BOARD OF RETIREMENT 04/20/2011

ACCOUNT #	ACCOUNT	2010/11 BUDGET	2011/12 BUDGET	INCR/ DECR	% INC/DEC
1011	REG SALARIES (1)	245,633	283,877	38,244	
1012	EXTRA HELP (2)	10,000	2,000	-8,000	
1021	RETIREMENT (3)	33,656	51,201	17,545	
1022	SOCIAL SECURITY	13,414	15,737	2,323	
1023	SOCIAL SECURITY B	3,426	3,957	531	
1024	RETIREMENT COLA (3)	15,051	22,838	7,787	
1030	HEALTH INSURANCE (4)	29,010	48,689	19,679	
1031	UNEMPLOYMENT INSURANCE	4,925	2,951	-1,974	
1035	WORKERS COMP	2,600	1,498	-1,102	
	SUBTOTAL SAL & BENEFITS	357,715	432,748	75,033	20.98%
2060	COMMUNICATIONS	2,750	2,450	-300	
2101	GENERAL INSURANCE	1,043	1,328	285	
2150	MEMBERSHIP (5)	5,000	6,000	1,000	
2170	OFFICE EXPENSE	12,500	11,550	-950	
2183	LEGAL EXPENSE (6)	60,000	50,000	-10,000	
2189	CONTRACTS (7)	7,500	9,750	2,250	
2210	RENTS AND LEASES	0	0	0	
2250	TRAVEL IN-COUNTY	250	300	50	
2253	TRAVEL OUT OF COUNTY		0	0	
	BOARD EDUCATION	15,000	15,000	0	
	STAFF EDUCATION	5,625	5,000	-625	
	SUBTOTAL SVCS & SUPPLIES	109,668	101,378	-8,290	-7.56%
	TOTAL BU 1920	467,383	534,126	66,743	14.28%
2410-76-0466	DISABILITY DUE DILIGENCE (8)	70,000	50,000	-20,000	
2410-76-0466	DISABILITY HEARINGS	25,000	20,000	-5,000	
2410-76-0466	MEDICAL REVIEWS	15,000	15,000	0	
2410-76-0466	AUTOMATION (9)	20,000	0	-20,000	
2410-76-0466	AUDIT (10)	20,000	20,000	0	
	TOTAL ADMINISTRATIVE BUDGET	617,383	639,126	21,743	3.52%
	STATUTORY CAP	2,000,000	2,000,000		
	LESS IMPUTED RENT	-51,200	-51,200		
	BALANCE UNDER CAP	1,331,417	1,309,674		
	INVESTMENT BUDGET				
2410-76-0466	CUSTODIAL BANK FEES (11)	50,000	0	-50,000	
2410-76-0466	ALLIANCE BERNSTEIN FEES	30,000	35,000	5,000	
2410-76-0466	INVESTMENT CONSULTANTS	170,000	140,000	-30,000	
2410-76-0466	BUILDING EXPENSES	20,000	17,500	-2,500	
2410-76-0466	BOND MANAGER FEES (12)	135,000	0	-135,000	
2410-76-0466	ACTUARY SERVICES (13)	50,000	90,000	40,000	
2410-76-0466	ACTUARIAL AUDIT (14)	52,000	0	-52,000	
2410-76-0466	FIDUCIARY INSURANCE	32,000	35,000	3,000	
	SUBTOTAL INVESTMENTS	539,000	317,500	-221,500	-41.09%
	TOTAL ADM & INV BUDGET	1,156,383	956,626	-199,757	-17.27%

NOTES:

- (1) INCLUDES 1.0 FTE RETIREMENT SPECIALIST I, AND 0.5 FTE FISCAL SVCS (JOB SHARE WITH COUNTY)
- (2) LIMITED EXTRA HELP, MAY BE LESS IF FISCAL JOB SHARE IS APPROVED.
- (3) RETIREMENT RATE INCREASES.
- (4) HEALTH INSURANCE ADDED DEPENDENTS, FAMILY FOR RSI AND NONE FOR FISCAL SVC.
- (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, NOT APPROVED BY BOARD ON 04/20/2011.
- (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.

Exhibit A

James M. Andersen
Retirement Administrator



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A blue stamp with the word "COPY" in a stylized font, preceded by a small square icon containing the letter "C".

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

Exhibit B

Name	Beg Step	End Step	Barq	Regular	Premium	Subtotal	Fica	Medicare	Retirement	Retirement Cola	Healthcare	Total
ANDERSEN, JAMES	0	0	611 DH	120,976.11	7,837.83	128,813.94	6,621.60	1,824.94	22,733.46	10,140.31	8,957.52	179,091.77
RICHARDSON, KATY	5	5	404 CONF	42,678.72	2,134.98	44,813.70	2,595.18	606.94	8,217.55	3,665.45	8,957.52	68,856.34
ZELLER, JUDITH	4	5	404 CONF	41,705.01	2,085.50	43,790.51	2,400.19	561.34	8,030.95	3,582.21	15,386.99	73,752.19
OFFERRAL, CHRIS	1	2	404 CONF	33,808.48	1,014.25	34,822.73	2,159.01	504.93	6,417.83	2,862.43	15,386.99	62,153.92
GOODMAN, RANDY	5	5	SEIU	31,635.81		31,635.81	1,961.42	458.72	5,801.10	2,587.60	-	42,444.65
				<u>270,804.13</u>	<u>13,072.56</u>	<u>283,876.69</u>	<u>15,737.40</u>	<u>3,956.87</u>	<u>51,200.89</u>	<u>22,837.99</u>	<u>48,689.02</u>	<u>426,298.87</u>

Exhibit C

Fiscal/Accounting Duties

Monthly:

1. Collect asset valuations from all funds and prepare statements 1) comparing investment percentages to the Investment Policy Statement and 2) depicting changes in asset values to determine realized and unrealized income.
2. Input all receipts, disbursements, and journal entries into the Peachtree accounting software program. Receipts, disbursements and journal entries need to be reviewed for reasonableness, with any unusual/nonrecurring items discussed with the Retirement Administrator.
3. Reconcile the cash shown in Peachtree to Munis, and address any variances with the Auditor.
4. Prepare a final statement of assets and reserves.
5. Prepare a sources and uses of cash statement.
6. Work closely with benefits staff to interpret the 1937 Act, legal opinions, IRS letter rulings, etc., to ensure proper financial decisions are made regarding pension benefits.

Annually:

1. Conduct closing of the books. This includes identifying all revenues and expenditures that should be accrued into the previous year, preparation of a preliminary financial statement, pre-closing financial statement, and closing financial statement.
2. Prepare all documents needed by the external auditor for review. Along with the Retirement Administrator and Audit committee, participate in all briefings with the external auditors.
3. Prepare asset information for the actuary for their annual valuation. Ensure the consistency of asset information contained in the audited financial statements to the information contained in the valuation report.
4. Review the actuarial report for accuracy, bringing in benefits staff to review liability data, and offer corrections to draft actuarial reports.
5. Prepare the annual report to the State Controller's Office. Work with the State Controller's Office on any clarifications to past reports.
6. Determine the amount of earnings to post to employee and employer reserves prior to December 31 and June 30 of each fiscal year. Review the information with the Retirement Administrator.
7. Subsequent to the completion of the actuarial valuation, prepare employer rates for use in the subsequent year's budget. This entails forecasting future revenues and expenses, determining the rate needed for principal and interest payments on POBs, and allocating rates to tiers and types of members.
8. Prior to March, and with the actuary, review Cost of Living (COLA) adjustments for retirees each year.
9. Prepare the annual Comprehensive Annual Financial Report (CAFR), and seek GFOA certification for excellence.

10. Prepare a proposed budget for review by the Retirement Administrator. Conduct quarterly budget reviews to determine any variances. Make recommended adjustments or solutions to the Retirement Administrator.

Projects:

1. Evaluate all current accounting reports and develop changes to create reports that are consistent with those produced by our external auditor, as well as any fiscal reports that assist the Board, sponsors, members and the public better understand the financial position of MCERA.
2. Provide financial expertise to the IRS in the upcoming review of the system. Duties are critical to ensuring IRS compliance and reauthorization of the tax-deferred status of the plan.
3. Should MCERA proceed with automation initiatives, provide support to the project manager, IS, and any other vendors regarding accounting and financial reporting practices and our current uses of automation.
4. Prepare a Public Annual Financial Report (PAFR) that is a user friendly guide to the public to understand the financial condition of MCERA.

Exhibit D

Jim Andersen - Updates for EDMS estimates

From: Akio Tagawa <atagawa@lineasolutions.com>
To: Jim Andersen <andersej@co.mendocino.ca.us>
Date: 4/27/2011 12:47 PM
Subject: Updates for EDMS estimates
CC: Judy Zeller <zellerj@co.mendocino.ca.us>

Dear Jim:

I'm sorry to hear about the news from the last Board of Retirement meeting, but I guess that is how things sometimes go. I've put together some information as a follow-up to our conversation the other day.

My understanding was:

- You wanted to make one last effort to see if you could initiate just the EDMS / document management project.
- You wanted to know what the per fiscal year cost would be if you stretched this out to a longer duration than we would normally estimate
- And you wanted to know if doing just this project had any additional cost overhead that you may not see if you did all of the projects together, and if there were any risks being introduced because the other projects had not gotten started.

I did some modeling based on what you say above, and here is what I would estimate at this point:

- The best way to split the cost over two fiscal years is to start around December 2011 or Jan 2012, because then, even though the total cost is still \$150,084.00, the cost per fiscal year is better balanced:
 - FY2011-12: \$86,988.00
 - FY2012-13: \$63,096.00
- Note: If you delayed a little further to Feb 2012 starting, then you will make it even more balanced, but then you also run the risk of it going on to FY2013-14 by one or two months.

For non-Linea resources, the original estimate was a total of \$165,000. If you have a start date of Jan 2012, then the breakdown is as follows:

External Resource Cost	FY2010-11	FY2011-12	FY2012-13	TOTAL
Extra Help	\$ -	\$ 20,880	\$ 9,126	\$ 30,006
Imaging	\$ -	\$ 58,500	\$ 31,500	\$ 90,000
County IS	\$ -	\$ 28,750	\$ 1,250	\$ 30,000
Hardware	\$ -	\$ 15,000	\$ -	\$ 15,000
	\$ -	\$ 123,130	\$ 41,876	\$ 165,006

Please call me if you have questions on this.

Take care,
Akio

James M. Andersen
Retirement Administrator



Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

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

Date: June 15, 2011
To: Board of Retirement
From: Jim Andersen, Retirement Administrator
Subject: Discussion and Possible Action Regarding a Memorandum of Understanding (MOU) with the Assessor/Clerk/Recorder for Fiscal and Accounting Resources

Introduction

When considering the proposed budget for fiscal year 2011/12 at its April Meeting, the Board discussed the need to include an appropriation for additional fiscal and accounting resources. The Board members agreed with staff that insufficient resources are available for the Retirement Administrator to address all monthly and annually recurring fiscal and accounting duties, along with ongoing benefit, administrative and project work, without creating an environment that is ripe for errors, last minute delivery of work products, insufficient analyses, and failure to complete projects that are critical to an evolving, independent retirement system. Examples of key fiscal areas needing attention and resources include, but are not limited to:

- Improving monthly financial statements to include a statement of plan assets (balance sheet) and changes in plan assets (income statement), with a detailed statement of sources and applications of cash
- Providing quality and timely review of data submitted to and by the primary actuary
- Reviewing the interest crediting and excess earnings policy adopted in June of 2010
- Improving the CAFR and seeking the GFOA award of excellence
- Transitioning to a new primary actuary
- Transitioning to a new financial auditor
- Assisting the IRS regarding any fiscal/accounting issues in the VCP
- Developing and maintaining a Public Annual Financial Report (PAFR) to better communicate the Association's financial condition to the members and general public

Examples of administrative projects needing attention and resources include, but are not limited to:

- Developing a full set of policies and procedures to guide Board and staff actions, and reviewing those policies and procedures on a regular basis
- Reviewing the current disability application and review process and providers
- With counsel, reviewing all policies and practices to determine if they were appropriately enacted; suggesting courses of action, if any
- Providing better legislative tracking for advocacy and/or implementation (e.g., AB 1584)

- Providing more time for County, member and public interaction
- Providing guidance on benefit issues – benefit management has “taken a back seat” to fiscal and accounting issues and requires attention (e.g., minimum distributions, new statutes for establishing reciprocity, 1009R statements, non-spouse contingent annuitants, review of forms for IRC and GC compliance, purchases of service time, etc.)

Discussion

Consistent with the Board’s motion and action on the proposed budget in April, staff prepared a draft MOU for review by the Assessor/Clerk/Recorder (Assessor), County Counsel and the CEO. With minor modifications from Counsel, the MOU (attached) was reviewed and signed by all parties, and is before the Board for review, discussion and action.

As you will note, the MOU creates a job sharing arrangement between MCERA and the Assessor. Both the association and the department would receive 0.5 FTE service from an Auditor-Appraiser, Randy Goodman. The MOU outlines the schedule, financing, reporting, evaluation, and supervision of the employee. In addition, the MOU acknowledges that this is a trial job-sharing arrangement intended to meet the business and budgetary objectives of both parties, and, as such, contains an exit clause and a review period.

Given Board member Randy Goodman is the employee who would be shared, I also contacted Counsel to determine whether or not an employee of the Association can sit as a Board member. Counsel shared an Attorney General opinion (email version attached) that confirms “any” employee is eligible to be elected to the Board. She further offered her observation that the likelihood of conflicts is minimal due to the fact that final recommendations to the full Board will come through the Retirement Administrator. In addition, Counsel noted that if we find conflicts in fact or appearance and they are not conducive to the functioning of the office and/or Board, then we can simply exit the MOU or Mr. Goodman can choose to resign his position on the Board.

Recommended Motion/Action

Approve the memorandum of understanding between MCERA and the Assessor/Clerk/Recorder.

Fiscal Impact

MCERA would reimburse the Assessor for the salary and benefits of a 0.5 FTE Auditor-Appraiser, for a total of \$42,445 for fiscal year 2011/12 (detail attached).

Alternatives

1. Do not approve the MOU in favor of an alternative means of securing fiscal and accounting resources; or
2. Do not approve the MOU with the understanding that projects will need to be reviewed to determine what can reasonably be accomplished with existing staff.

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

JA