

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆NOVEMBER 12, 2015 AT 8:30 A.M.◆

**CALL TO ORDER**

Shari Schapmire, Board Chair, called the meeting to order at 8:30 a.m. She announced that Richard Shoemaker would be participating in this meeting by teleconference. He was recently appointed as the City Manager of Point Arena. Jeff Berk will not be present due to a previously scheduled conference. He will be available by phone if necessary.

**ROLL CALL**

Roll call was conducted with the following members present: Randy Goodman, Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Ted Stephens, Tim Knudsen, Jerilyn Harris, Richard Shoemaker, and Shari Schapmire. Also present: James Wilbanks, Retirement Administrator, and Judy Zeller, Administrative Assistant. Absent: Craig Walker.

Mr. Shoemaker participated by conference call from the Point Arena City Hall, City Manager Office, 451 School Street, Point Arena, CA 95468.

**PUBLIC COMMENT:** John Dickerson and Tom Monpere addressed the board.

Mr. Stephens referenced Roberts Rules of Order stating that this is a tentative proposed agenda unless approved by the Board of Retirement and he requested the addition of two items to today's agenda. Mr. Shoemaker called for a point of order stating that the agenda can only be changed in an emergency. Only the order of agenda items can be changed today as items must be properly noticed to the public. Chair Schapmire suggested moving discussion of Mr. Stephens request to general board discussion. Mr. Stephens asked to move agenda items 9 and 10 to follow the Investment Performance Report by Callan Associates, item 4.

**1) MINUTES OF THE BOARD MEETING HELD SEPTEMBER 16, 2015 AND THE PLANNING MEETING HELD OCTOBER 14, 2015**

**Presenter/s:** Chair Schapmire referenced the September 16, 2015 board meeting minutes and the October 14, 2015 planning meeting minutes.

**Board Action:** Motion was made by Mr. Goodman to approve the September 16, 2015 board meeting minutes and the October 14, 2015 planning meeting minutes. Ms. Cavness seconded the motion and the minutes were approved by the following vote: Ayes: Mr. Goodman Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

**2) CONSENT AGENDA**

**A. September 2015 Retirement Report**

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- B. October 2015 Retirement Report**
- C. Quarterly Trustee Education and Training Report**
- D. Agreement with Callan Associates for Investment Consulting Services**

**Presenter/s:** Chair Schapmire referenced the consent agenda. Mr. Stephens asked to pull consent agenda items A and B for discussion.

**Board Action:** Motion was made by Mr. Sakowicz to approve the remaining Consent Agenda items. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

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

Mr. Stephens referenced consent agenda items 2A and 2B and stated that the active member vs inactive member ratio is 1 to 1.7; inactive members include retired members and members who are vested with future benefits. This creates a dilemma for us. We are not getting ahead with increased contributions and yet we continue to take earnings to pay benefits.

**Board Action:** Motion was made by Supervisor Gjerde to approve the Consent Agenda items A and B. Ms. Cavness seconded the motion and it was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

**4) DISCUSSION AND POSSIBLE ACTION REGARDING MONTHLY INVESTMENT REPORT**

- **Quarterly Investment Performance Report, Callan Associates**
- **Janus Overseas Fund Termination Update**
- **Investment Manager Status Update: PIMCO, Royce Total Return, Morgan Stanley**
- **Monthly MCERA Investment Reports**

**Presenter/s:** Greg DeForrest and Greg Ungerman of Callan Associates referenced the Quarterly Investment Performance Report. Mr. DeForrest began by stating that it is the board's fiduciary responsibility to go over the fund's performance on a quarterly basis, Asset Allocation will need to be looked at again in the upcoming year, and Callan plans on offering educational opportunities in the upcoming year as well. The number one item affecting the markets is the global economy which is slowing. There is less demand for energy and materials which effect countries outside the US.

Fixed income saw moderately positive returns, bonds were up, and the ten year treasury was down to the 2% level. Corporate bonds sold off, high yield was down 5%, and your active

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bond managers do allocate to high yield. The Gross Domestic Product (GDP) for the second quarter was not robust and inflation remained muted. There was good news in the jobs report due to wage inflation pickup which is good news for the economy, adding more inflation. The Federal Reserve would love to see more inflation. The next Federal Open Market Committee (FOMC) meeting will be in December and they are estimating the first increase in short term interest rates in ten years. Expect a volatile market in 2016.

There was discussion regarding benchmarks, total fund ranking, diversification strategy, and the ten year expected rate of return of 6.66% (before investment and administration expenses) suggested by Callan two years ago. Mr. DeForrest explained that Callan does long term updates for clients and we will go over this again next year, but don't expect any significant change. US stock and International stocks were down and bonds were up for the quarter. September was flat and since then has experienced a rebound as most areas were up in October. Page 15 compares broad asset allocation to target allocation. Long-term strategic asset allocation is the most important thing for you to do and in the next year we will conduct a study to verify that this is the appropriate allocation for MCERA.

MCERA assets were down \$27 million for the quarter. \$3.1 million in cash was not reflected here due to the Janus Overseas reallocation and a rebalance was completed during the quarter. PIMCO and Dodge and Cox underperformed the benchmark. Mr. Ungerman added that October was a completely different story and everything was up collectively. Callan meets with PIMCO on a regular basis and they have really good long term numbers for long term investors. Dr. Wilbanks distributed a copy of page 24 of the recent RV Kuhns report and explained that this report is net of investment fees. Because of this we would be second in performance over the last 10 year period and this report shows us that we just met our 7.25% target over the last 10 years.

The fund underperformed for the quarter, but outperformed for 3, 5, and 7 years periods. Royce, Morgan Stanley, and Alliance Bernstein all struggled. Real Estate is beneficial to the plan, but we cannot expect 12% returns going forward. The Asset Allocation process will take multiple meetings and will be a good process to undertake this next year. Educational resources such as Callan College can be provided to trustees and could be done at MCERA or hosted in San Francisco. Callan's National Conference will be held in January 2016 at the Palace Hotel.

**PUBLIC COMMENT:** Richard Respini addressed the board.

**9) RETIREMENT ADMINISTRATOR REPORT**

- A. Pension Administration System Monthly Update**
- B. Administrative and Operations Update**
- C. MCERA Holiday Hours**

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**D. SACRS Presentation**

**E. Retirement Administrator Update**

**F. Cancellation of Board of Retirement Meeting on October 21, 2015**

**Presenter/s:** Dr. Wilbanks referenced his administrative report to the board. The Pension Administration System is on target and we are scheduled to go live January 4, 2016. We will not be finished, just reaching a milestone as there are issues that must be addressed before go live, but no critical errors. The Retirement Specialist I position was filled by Sylvia McGee. The office will close to the public at noon on November 25, 2015, Thanksgiving Day, and the day after Thanksgiving. MCERA will also be closed to the public on December 24, 2015. Additionally, MCERA will be closed to the public on December 30-31, 2015 due to Pension Administration System go live the following week. The Fall SACRS Conference will be held next week and Dr. Wilbanks will make presentations regarding the disability application process along with Managed Medical Review Organization (MMRO).

Dr. Wilbanks addressed the October 21, 2015 meeting cancellation stating that the agenda was very light with less than 1 hour of actionable items. The decision was made with the Chair to cancel the meeting after consulting with Jeff Berk, Legal Counsel. After leaving to travel out of state and unable to advise the chair due to busy schedules, Dr. Wilbanks found that there was concern by an individual regarding the meeting cancellation. The individual did not share this concern directly with Dr. Wilbanks, but instead placed this private matter in a public domain causing significant stress to Dr. Wilbanks and his family. Dr. Wilbanks felt this was an attack on his integrity.

Mr. Stephens stated that he had concern over the cancellation and referenced the MCERA Bylaws with the understanding that they limit the cancellation of board meetings. He did not go directly to staff regarding Dr. Wilbanks' schedule, instead he went directly to the Chair. He also contacted the County Executive Officer (CEO) regarding the issue. Mr. Stephens commented that he has tried to get the Disclosure Policy on our agenda for quite some time and that he has never seen cancellation of a meeting that had been calendared for one year.

Chair Schapmire stated that any trustee can call Dr. Wilbanks directly with any questions or concerns they may have. This is made very clear in the Board Communication Policy. Please call him directly as he is always available by telephone. As the Board is aware, Dr. Wilbanks' family continues to reside in Oklahoma and periodic visits are a necessity. Due to the substantial number of hours routinely worked, there were more than enough compensatory time off (CTO) and vacation hours available to him. Mr. Knudsen commended Dr. Wilbanks for keeping in good contact with Chair and commented that he had been a department head for sixteen years and was not required to report to anyone. Chair Schapmire added that many factors were considered prior to the cancellation of the October board meeting. The two primary issues were lack of prepared agenda items and extensive board time expended during

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the recent Strategic Planning meeting. After consulting with Jeff Berk it made sense to cancel the meeting. Supervisor Gjerde commented that any board would have the authority to cancel a meeting. Mr. Shoemaker stated that this is not an unusual occurrence in other systems. Dr. Wilbanks is an independent worker, it's not his role to be in the office all of the time, and if the whole board agrees that he can keep different hours then it is ok. Mr. Sakowicz added that it is bad form to attack our administrator's integrity in the newspaper. We should trust Dr. Wilbanks to do the job and we don't want to risk losing him to another system.

Mr. Goodman mentioned that he was also concerned by the cancellation, but the Retirement Administrator works at the pleasure of every member of this board, and you should not publically chastise someone. Ms. Harris stated that before she came to MCERA she had heard that we had lost two administrators because of this board. We discussed all of this during our October planning session and Mr. Stephens chose not to attend that meeting. The public is always welcome to attend our meetings and all of our board has shown to be good fiduciaries. We walked out of the planning session a united board, committed to work together. I do not want Dr. Wilbanks to leave. Supervisor Gjerde stated that he also hoped Dr. Wilbanks stays with us as he cannot see another individual give as much commitment.

Mr. Stephens stated that he had suspected that Dr. Wilbanks cancelled the meeting in order to travel home and stressed that Dr. Wilbanks should have accountability. Supervisor Gjerde explained that within the County organization appointed department heads report to the County Executive Officer (CEO), the other department heads do not. Dr. Wilbanks does not report to the CEO, but attends department head meetings on a regular basis, which the CEO greatly appreciates.

**Public Comment:** Holly Madrigal, Jerod Carter, John Thomas, John Dickerson, John Mayfield, and Richard Respini addressed the board.

**10) DISCUSSION AND POSSIBLE ACTION REGARDING PERFORMANCE  
EVALUATION PROCESS FOR RETIREMENT ADMINISTRATOR**

**Presenter/s:** Chair Schapmire referenced the Retirement Administrator Performance Evaluation Policy stating that she had asked that it be placed on today's agenda. His performance evaluation is due and we need to evaluate the current policy and reporting form in order to improve the process. Past administrator Rich White had brought this policy forward and some trustees had expressed concern over its contents. We should review and see if any changes are needed.

Supervisor Gjerde commented on the evaluation reporting form and requested that performance level 2 be changed from "weak" to "below standard". All agreed with this suggestion. Chair Schapmire stated that Dr. Wilbanks' evaluation will be brought back to the

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board after January 1<sup>st</sup> as we need to let him know our thoughts as a full board. Ms. Cavness and Ms. Harris agreed that they would prefer to review the information in an electronic format so that suggested changes can be tracked. Chair Schapmire added that this item will be placed on the December agenda for review and changes to the policy and evaluation form.

The Chair explained the Retirement Administrator Evaluation process. Once board members have submitted completed evaluation forms the Chair and Vice Chair will review them together before they go to the full board. Once discussed by the board the Chair will share the information with Dr. Wilbanks. His sign off on the evaluation will finalize the process.

**Board Direction:** Dr. Wilbanks will email the documents to the board with tracking enabled for suggested changes.

## 5) MONTHLY MCERA FINANCIAL REPORTS

**Presenter/s:** Dr. Wilbanks referenced the MCERA Preliminary Monthly Financial Reports for August and September.

## 6) QUARTERLY BUDGET UPDATE

**Presenter/s:** Dr. Wilbanks referenced the Quarterly Budget Update and stated that we continue to improve this report as we go. Mr. Goodman identified a credit/debit formula error on schedule 1A where the total expense difference of (27,061) should be 31,005. This has been corrected and is included in our online documents.

Mr. Stephens asked where the list of checks paid out was as it is normally included in the monthly financial reports. Dr. Wilbanks explained that the decision to not include them in report was based on discussion during the October planning meeting. The discussion was to focus as a policy based board. Mr. Stephens was very uncomfortable with not having this list reviewed and did not find this acceptable as a fiduciary. Most of the board suggested that Mr. Stephens could review the vendor ledger at any time; all he had to do was request the information, and agreed that it did not matter whether the vendor ledger was included in the financial report or not. Dr. Wilbanks mentioned that board governance was also discussed at the off-site meetings. When something is reviewed on a regular basis you are accepting responsibility for that item.

Dr. Wilbanks explained that the cost of the second off-site meeting was not included in this budget update. He reported that the Hopland facility cost \$350 for one day and refreshments and food for the day totaled \$522. The Yokayo Ranch facility cost \$350 for the one day and refreshments and food for the day totaled \$450. Meeting stipends were paid to trustees and there was additional expense for legal counsel for each off-site meeting.

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**Board Direction:** Staff will include the vendor ledger with the Monthly Financial reports.

7) **DISCUSSION AND POSSIBLE ACTION REGARDING DIRECTION TO MCERA  
STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS (SACRS) BUSINESS  
MEETING DELEGATES**  
    **A. 2016 Legislative Proposals**  
    **B. Business Meeting**

**Presenter/s:** Dr. Wilbanks referenced the upcoming SACRS Business Meeting to be held Friday November 20, 2015 and the meeting packet that included two SACRS sponsored legislative proposals for 2016 that will be brought forward for consideration at this meeting. Two other legislative proposals are also included in the packet, but are not approved for consideration and have been deferred pending additional information. The first proposal approved for consideration is District Status for 1937 Act County Employee Retirement Systems (SACRS Board of Directors). The second approved proposal is Optional Employee Sworn Statements (SDCERA).

Dr. Wilbanks recommend that our delegate vote for adoption of the first legislative item as it could be a good move for MCERA. He was asked to clarify whether this would give the board the ability to approve whether they choose to be a special district or not, just by voting. Dr. Wilbanks explained that one part is district status for management and personnel only, similar to Orange and Contra Costa counties. The other option would be similar to Ventura County. Mr. Goodman mentioned his concern regarding cost and economy of scale. Dr. Wilbanks agreed that because of this he would not recommend choosing special district status for MCERA. The benefit to MCERA would be more independence for the organization regarding the employment of staff.

Discussion continued regarding the SACRS board, the SACRS legislative committee, and the SACRS President appointments to committees. Dr. Wilbanks stated that the SACRS President does appoint the Committee Chairs and the majority of SACRS board members are not vested in the plan/legislative items. Supervisor Gjerde expressed interest in MCERA taking a position on this. Dr. Wilbanks suggested beginning with introduction and communication of our interest at next week's meeting. This should be a future board agenda item regarding making a request to SACRS regarding legislative change. Dr. Wilbanks agreed to do some research and to discuss at SACRS next week to see how the idea is received. He reminded the board that their most precious resource is his time and all that is added to his schedule will take time away from other items.

**Board Action:** Motion was made by Mr. Sakowicz to oppose the first SACRS legislative item and vote no for the independent district proposal. Mr. Goodman seconded the motion and it

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was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

Dr. Wilbanks explained the second legislative item which would authorize systems to receive electronic transmittals, sworn statements, from employers. The board discussed the other two SACRS legislative proposals that were not being brought forward for approval at the SACRS business meeting. The board decided to provide direction to the voting delegate, Chair Schapmire, in the event the items were going to be discussed during the business meeting.

**Board Action:** Motion was made by Ms. Harris to take a favorable position on electronic sworn statements and vote yes for the second SACRS legislative item. Mr. Goodman seconded the motion and it was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

**Board Action:** Motion was made by Ms. Harris to vote no on the 3<sup>rd</sup> and 4<sup>th</sup> SACRS legislative items. Mr. Goodman seconded the motion and it was approved by the following vote: Ayes: Mr. Goodman, Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Walker.

Mr. Stephens reflected on the visit from SACRS President Yves Cherry in May of 2015 stating that he felt uncomfortable that Mr. Cherry had stated that he did not use SACRS funds to visit MCERA. Mr. Stephens asked for an inquiry regarding payment for Mr. Cherry's travel to visit us and for confirmation that SACRS funds were not used to pay for this travel. Chair Schapmire stated that this request for information should be made in writing to Sulema Peterson, SACRS Administrator, and Mr. Cherry should receive a copy of the request.

Mr. Knudsen asked about the proposed SACRS Bylaws change and what had happened to that item and when will they be brought back to be approved. He recalled that the past proposed SACRS Bylaw changes had not been redlined and there were multiple changes that had not been documented. This issue was not discussed at the last SACRS business meeting due to the election for SACRS President. It had appeared that the proposed changes to the SACRS Bylaws were trying to prevent a Retirement Administrator from being SACRS President or sitting on the SACRS Board of Directors.

## 8) DISCUSSION AND POSSIBLE ACTION REGARDING MCERA STRATEGIC PLAN

**Presenter/s:** Dr. Wilbanks referenced the draft 2016 Strategic Plan and thanked all who participated in the two days of meetings. He explained that we need both a strategic plan and a work plan to keep the board and staff all working together well. Approval is not expected

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today, instead provide direction regarding format, contents, and make any suggestions for improvement. Supervisor Gjerde asked to set a goal of being 100% funded. Ms. Harris stated that we need to decide when items will be due and determine which items may delay or postpone other needed items. Mr. Knudsen asked if we have back up for pension payments. Dr. Wilbanks stated that we will have off-site data storage with Pension Gold. The Board discussed disaster planning and that it could be part of the strategic plan.

Mr. Stephens commented that a few strategic plan items seem important and easy to take care of. We should consider putting those items ahead and look at the total project later. Dr. Wilbanks explained that we need to start with a holistic view and work in priority order. Part of strategic planning is mitigating risk. Following completion of the strategic plan we will review the work plan on a quarterly basis. Mr. Goodman commented that the pension system and document imaging will be two big risk items that will be taken care of.

**9) GENERAL BOARD MEMBER DISCUSSION**

Mr. Stephens requested an update on the custodial bank cost. Dr. Wilbanks stated that December 1, 2015 is our go live date. The proposal cost was \$51,000 annually. After we go live we will look at our accounts to evaluate cost savings.

Supervisor Gjerde asked about scheduling trustee education with Callan and asked for a calendar to identify potential dates. Dr. Wilbanks recommend doing the trainings on board meeting dates. Trustees would receive credit for educational hours for the trainings.

Mr. Knudsen asked for an update on reports that will be due soon. Dr. Wilbanks stated that the Valuation and Government Accounting Standards Board (GASB) 67 reports are due and will be presented at the December 2<sup>nd</sup> board meeting. He will review the draft while at the SACRS Conference and trustees be sent a draft before the final is prepared by Segal.

Mr. Stephens asked to place the Excess Earnings Policy on the agenda. Mr. Knudsen asked to see the history of excess earnings policies.

**10) NOTICE OF NEXT MEETING**

**A. The next regularly scheduled Board of Retirement meeting will be held  
Wednesday December 2, 2015 at 8:30 a.m.**

**ADJOURNMENT (1:17 p.m.)**