

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆  
BOARD OF RETIREMENT MEETING MINUTES  
◆DECEMBER 18, 2013 AT 8:30 A.M.◆

**CALL TO ORDER**

Shari Schapmire, Board Chair, called the meeting to order at 8:31 a.m.

**ROLL CALL**

Roll call was conducted with the following members present: Randy Goodman, Lloyd Weer, John Sakowicz, Ted Stephens, Craig Walker, Tim Knudsen, and Shari Schapmire. Absent: Supervisor John McCowen, Bob Mirata, and Richard Shoemaker. Also present: Rich White, Retirement Administrator, Jeff Berk, Legal Counsel, Judy Zeller, and Doug Rose, SACRS President. Paul Angelo of The Segal Company participated by teleconference.

**PUBLIC COMMENT:** None

Supervisor McCowen arrived at 8:33 a.m.

**1) APPROVAL OF CONSENT AGENDA**

**Presenter/s:** Chair Schapmire referenced the Consent Agenda previously distributed to the Board which included 1-A Minutes of the Special Board Meeting held December 4, 2013, 1-B Membership, 1-C Retirements Processed, 1-D Retirement Administrator's report, and 1-E Communications.

**Board Direction:** Consent Agenda item 1-A, Minutes of the Special Board Meeting held December 4, 2013 will be pulled for further discussion.

Supervisor McCowen requested revision of page 4 of the December 4, 2013 minutes. The first sentence should read; Supervisor McCowen stated that he appreciated Mr. White's recommendation to combine positions. Mr. Stephens requested revision of page 2 of the minutes to more accurately reflect his comments and the discussion regarding the employer Unfunded Actuarial Liability (UAAL) payment. Mr. Stephens will work with staff on making his changes to the minutes.

**Board Action:** Motion was made by Supervisor McCowen to approve the Consent Agenda including the December 4, 2013 Minutes as amended and recommended that staff work with Mr. Stephens on changes to page 2 of the minutes. Mr. Knudsen seconded the motion and it was approved unanimously. (Motion Approved)

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

None

**3) DISCUSSION AND POSSIBLE ACTION REGARDING ELECTION OF BOARD OF RETIREMENT OFFICERS FOR 2013/2014**

**Presenter/s:** Chair Schapmire referenced information previously distributed to the Board regarding election of Board Officers.

Mr. Stephens asked about the statement in the Bylaws regarding the County Treasurer acting as treasurer to the Board of Retirement. It suggests a function performed by the Treasurer. Chair Schapmire stated that the County Treasurer does hold funds for the Association, but does not act as Treasurer for MCERA. There is no Board policy for this. Mr. Berk said that he would take a look at the County Employees Retirement Law (CERL) and report back to the Board.

**Board Direction:** Mr. Berk will review the CERL regarding the County Treasurer's role as Treasurer to the Board of Retirement.

**Board Action:** Motion was made by Mr. Knudsen to keep the same slate of officers nominating Ms. Schapmire as Board Chair, Mr. Weer as Vice Chair, and himself as Secretary. Mr. Sakowicz seconded the motion and it was approved unanimously. (Motion Approved)

Mr. Shoemaker arrived at 8:40 a.m.

**4) DISCUSSION AND POSSIBLE ACTION REGARDING 2014 BOARD MEETING CALENDAR**

**Presenter/s:** Mr. White referenced information previously distributed to the Board regarding the 2014 Board of Retirement meeting calendar which included dates of educational opportunities for Board members.

**Board Action:** Motion was made by Mr. Walker to approve the Board meeting calendar for 2014. Mr. Goodman seconded the motion and it was approved unanimously. (Motion Approved)

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**5) PRESENTATION ON JOINT POWERS AUTHORITY BY DOUG ROSE, STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS (SACRS) PRESIDENT**

**Presenter/s:** Chair Schapmire introduced Doug Rose, SACRS President, to the Board. Mr. Rose explained that he is a San Diego County Board of Retirement Trustee and he is currently a Deputy District Attorney for the County of San Diego. He spoke to the Board regarding the Joint Powers Authority (JPA) concept and provided examples on how a JPA could be utilized by Retirement Systems of similar size to fill system needs and keep costs down. He acknowledged the fact that most retirement systems outsource for the services they need due to the difficulty in obtaining qualified applicants for positions which are subject to County payroll provisions. Proposition 62 gives complete plenary authority to a Board, but they cannot offer higher wages. Some Counties have become Special Districts through State Legislation and can set their own wages, but this will not pass for all counties. This same language was included in the Public Employee Pension Reform Act (PEPRA), but the Governor removed it prior to signing. Mr. Sakowicz asked if this language will be added back to PEPRA, but that is unknown.

Mr. Rose explained that there are approximately 1,800 JPAs in California. A JPA has separate authority, its own employees, and its own Board. Two or more agencies with common powers can create a complete and separate agency controlled by a JPA. For example, one common goal to hire Real Estate Investment staff could be shared by multiple retirement systems, increasing salary to one main staff person and lowering cost to each retirement system participating in the JPA. This JPA would be a public agency subject to same requirements as retirement systems.

Mr. Stephens asked how many of the 37 Act counties are interested. Mr. Rose replied that some individual Board members are interested, but not one whole Board. Mr. Sakowicz stated the he felt a JPA would give our small system access to investments that we could not get on our own. Managers may not talk to a small system if you are not looking to invest many millions. A collection or pooling of assets may be more interesting to managers. Mr. Berk reminded the Board that their Fiduciary Duty is paramount and of most importance.

Mr. Stephens asked about professional staff in a JPA and how you replace them. Mr. Rose replied that good charter decisions will put the mechanisms in place for these processes and would ensure that fiduciary duty is kept a priority. Mr. White asked about control issues and funding. Mr. Rose replied that you would want to find natural partners with similar goals to avoid control issues and that the funding would be based on what you are already spending. Mr. Shoemaker suggested that we see how other systems are spending to get their services.

Mr. Sakowicz left the meeting at 9:40 a.m.

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**6) DISCUSSION AND POSSIBLE ACTION REGARDING THE ADOPTION OF THE JUNE 30, 2013 ACTUARIAL VALUATION (THE SEGAL COMPANY) (Timed Item 10:00 am)**

**Presenter/s:** Paul Angelo of The Segal Company referenced information previously distributed to the Board regarding the June 30, 2013 Actuarial Valuation report. He stated that this valuation was previously discussed on December 4, 2013 with Andy Yeung and he asked if the Board had any questions. Mr. Stephens asked about the active member vs. retired member challenges ahead and the fiduciary duty of keeping the plan funded. Mr. Angelo replied that the plan is prefunded if all assumptions come true. A mature plan has large liabilities relative to active members with more impact as a percent of payroll. Mr. Stephens asked if this was an effect of the Unfunded Actuarial Accrued Liability (UAAL). Mr. Angelo replied that this is driven by the Actuarial Accrued Liability (AAL) and the plan assets. If a plan is 100% funded and the market is down, the market decrease is larger relative to payroll. The funded portion of the liability causes volatility. We do not compare to the unfunded, we compare to the liability itself. Mr. Stephens asked if there are more members in the plan using benefits does this compound the effect. Mr. Angelo stated that the percent of payroll on a smaller payroll drives up the contribution rate.

**Board Action:** Motion was made by Supervisor McCowen to approve and adopt the June 30, 2013 Actuarial Valuation report as prepared by The Segal Company. Mr. Goodman seconded the motion and it was approved unanimously. (Motion Approved)

**7) DISCUSSION AND POSSIBLE ACTION REGARDING ACCOUNTANT POSITON RECRUITMENT**

**Presenter/s:** Rich White referenced information previously distributed to the Board regarding recruitment for the accountant position. At the December 4, 2013 meeting the Board directed staff to discuss the accountant position with County Human Resources and the Executive Office. Based upon the discussions, it was recommended that should MCERA decide to proceed with an accountant position, the Association utilize the Financial/Investment Officer position classification. This recommendation was made because the position description was extensively researched and developed as a position dedicated to our retirement association, specifically designed for MCERA, and certified by the Civil Service Commission last year for this purpose. Additionally, it was recommended that this position be brought to the Board of Supervisors as a non-consent agenda item to be presented for approval utilizing the "add/delete" process. The previously approved accountant position would be deleted and this position would take its place. The recruitment process would begin subsequent to this action.

Mr. White added that this is a more senior position with some supervisory duties which may allow for some succession planning. Supervisor McCowen stated that a combined

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Administrator and Accounting position would increase the salary and save money. Duties appear to be duplicated in the job descriptions. Mr. Knudsen agreed, adding that monitoring investments is the only difference in duties and Mr. Stephens felt that a strong Administrator could take on all of the duties.

Mr. Shoemaker supported the Financial/Investment Officer position as a backup to the Retirement Administrator. Mr. Goodman added that we need someone strong in an Accounting Position to assist in the recruitment of a qualified Retirement Administrator. Mr. White reminded that Board that the County Auditor Controller did try to recruit for two Accountant positions and were only able to hire one. We are competing in the same marketplace for qualified candidates and we want more than an entry level accountant.

Mr. Goodman stated that if one staff member leaves we suffer a huge impact and some duties may not get done. The plan has more demands and is being run better now than ever. Mr. White stated that with Independence in 2007 we did not bring infrastructure from the County. We have had to build infrastructure for this system and we still pay for and rely on County services, but the County does not have the capability to provide accounting services.

Mr. Shoemaker stated that this staff has been hobbled when they come to us with what they need and they don't get it. Our staff may not be leaving if we had filled this accounting position. Mr. Weer advised avoiding an entry level position for our best opportunity to recruit. Chair Schapmire expressed concern that over the past few years well respected professionals have been adamant that we need this type of position and they have not been heard. Our staff needs direction and we have upcoming GASB concerns with new requirements. Mr. Knudsen agreed that it may take a year to find a Retirement Administrator and the Financial/Investment Officer position could help hold the department together.

Chair Schapmire expressed concern that the Board of Supervisors may not approve this plan as she does not feel that they respect the Board of Retirement. Denial of the Financial/Investment Officer position by the Board of Supervisors one and a half years ago was unprecedented. Supervisor McCowen stated that the Board of Retirement has been extremely professional over the past few years and there have been a lot of positive changes in how the Board operates, but the County has reduced staff by one third, we expect to do more with less, and a new position is a tough sell. Mr. Goodman stated that Retirement system demands have increased with 400 new retirees and additional legislative requirements. Mr. White added that we have no infrastructure to reduce from. County departments may be reducing, but we are not at a minimum level of staff yet. We have a \$420,000,000 Trust to keep track of and a \$2,000,000 automation project to oversee.

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**Board Action:** Motion was made by Mr. Goodman to submit this item for approval on the Board of Supervisors agenda and recruit for a full time Retirement Association Financial/Investment Officer. Mr. Weer seconded the motion and it was approved by the following vote:

<u>Ayes</u>	<u>Noes</u>	<u>Abstain</u>	<u>Absent</u>
Mr. Goodman	Sup. McCowen		Mr. Mirata
Mr. Weer	Mr. Stephens		Mr. Sakowicz
Mr. Walker			
Mr. Knudsen			
Ms. Schapmire			

**8) DISCUSSION AND POSSIBLE ACTION REGARDING RETIREMENT ADMINISTRATOR RECRUITMENT**

**Presenter/s:** Rich White referenced information previously distributed to the Board regarding recruitment of a Retirement Administrator. This position will be open in March 2014 due to Mr. White's resignation. At the December 4, 2013 meeting and Ad Hoc Committee of Board members Shari Schapmire, John Sakowicz and Tim Knudsen were appointed to facilitate the search and recruitment.

Mr. White stated that the Board needs to decide who will be in charge of this recruitment, County Human Resources (HR) or a search firm. There would be a cost associated with both, but a search firm would be higher. They generally take a percentage of the offered salary. HR will charge us for advertisement in publications. The County has a new online web based application procedure which emails job class specifications to those who subscribe.

**Board Direction:** HR will conduct the Retirement Administrator recruitment. Staff and the Ad Hoc Committee will meet with HR after the scheduled county wide winter break.

**9) DISCUSSION AND POSSIBLE ACTION REGARDING AMENDMENT TO AGREEMENT WITH FECHTER AND COMPANY FOR ACCOUNTING SERVICES**

**Presenter/s:** Rich White referenced information previously distributed to the Board regarding an amendment to the existing agreement with Fechter and Company for accounting services. We began using their services on September 19, 2012. The current agreement will end December 31, 2013 and it is necessary to request the Board to approve an additional six months of accounting services through the fiscal year end. The terms and conditions of the new contract will remain the same. Mr. German is available beyond the fiscal year end should the Board wish to pursue a longer term at this point or in the future. Mr. White reminded the Board that in September and October 2014 we will begin our annual financial audit and

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actuarial valuation. We would need additional service at this time to begin and complete this process.

**Board Action:** Motion was made by Mr. Knudsen to approve the extension of the professional accounting services agreement with Fechter and Company for an amount not to exceed \$37,500 for January through June 2014. Mr. Goodman seconded the motion and it was approved unanimously. (Motion Approved)

**10) DISCUSSION AND POSSIBLE ACTION REGARDING AGREEMENT WITH JEFFREY RAPP, M.D. FOR MEDICAL ADVISOR SERVICES**

**Presenter/s:** Rich White referenced information previously distributed to the Board regarding an agreement with Jeffrey Rapp, M.D. for medical advisor services. The use of a medical advisor is an important resource for the Board when considering disability applications. The current agreement with Dr. Rapp ends December 19, 2013. Staff recommends a new agreement for 2014 with the same terms and conditions, an hourly rate increase of \$50 per hour, and the same maximum of \$20,000. He added that we have used about \$8,000.00 of the contract in 2013 and the hourly rate does not have a negative effect.

Mr. Stephens asked about the hourly increase stating he felt the \$50 per hour increase to cover liability insurance was high. Perhaps we need recruit outside for a new contract due to this material increase. Mr. White replied that there was not an available pool of physicians a year ago that were willing and interested in providing this service. Dr. Rapp was willing and available at the time.

**Board Action:** Motion was made by Supervisor McCowen to approve the Medical Advisor Agreement with Jeffrey Rapp, M.D. for the term of January 1, 2014 through December 31, 2014 in an amount not to exceed \$20,000, billed at an hourly rate of \$300.00. Mr. Knudsen seconded the motion and it was approved by the following vote:

<u>Ayes</u>	<u>Noes</u>	<u>Abstain</u>	<u>Absent</u>
Mr. Goodman	Mr. Walker		Mr. Mirata
Mr. Weer	Mr. Stephens		Mr. Sakowicz
Sup. McCowen			
Mr. Knudsen			
Ms. Schapmire			

**11) MONTHLY INVESTMENT REPORT**

- **Investment Goal Statements**
- **MCERA Trust Fund Performance Information**
- **Columbia Wanger Firm Changes**

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- **Callan Associates Update**
- **Monthly Investment Account Balance Report**

**Presenter/s:** Rich White referenced information previously distributed to the Board regarding the monthly Investment Report including the October report and preliminary November report. He explained that the cash account is over due to the timing of rebalancing of investments. Rebalance was completed in November and is now to target. We generally keep .5% to 1% as cash for payment of benefits and operations. Mr. Stephens asked how much we need to sell to pay benefits and administrative expense each month. Mr. White replied that we need around \$400,000 depending on dividends and incoming contributions. We have an investment strategy target for zero cash. Mr. Stephens added that if we had more money incoming there would be no concern regarding this allocation and asked if we should modify our zero cash policy due to the market. Mr. White added that we have liquidity and can sell on demand. Mr. Stephens suggested we increase cash to a maximum amount so we don't have to sell in a down market.

**Board Direction:** Cash Allocation will be discussed with Callan Associates at the January 2014 meeting and the Retirement Administrator will monitor our cash until this item is discussed further with Callan. Staff will include an action item allowing investment decisions to be made at every meeting in future agendas.

## 12) 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:** Rich White referenced information previously distributed to the Board regarding the monthly Financial Report. Mr. Knudsen asked about a loss of \$2,000,000. Mr. White explained that it was not a result of closing the accounts we had. We did have gains. The loss was a result of purchasing more than we sold.

## 13) CLOSED SESSION

- **Pending Disability Applications Update**
- **Michael Tobin Service Connected Disability Application**

Mr. Weer left the meeting at noon.

Mr. Goodman left the meeting at 12:10 p.m.

## REPORT OUT FROM CLOSED SESSION

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**Board Action:** The Board approved the Service Connected Disability application of Mike Tobin by the following vote:

<u>Ayes</u>	<u>Noes</u>	<u>Abstain</u>	<u>Absent</u>
Mr. Walker	Mr. Knudsen		Mr. Mirata
Sup. McCowen			Mr. Weer
Mr. Stephens			Mr. Goodman
Ms. Schapmire			Mr. Sakowicz

**14) GENERAL BOARD MEMBER DISCUSSION**

Mr. Stephens expressed concern over the Audit and Budget Committee meeting scheduled at 3:00 today. It was found that the Committee would not have a quorum so the meeting was cancelled and will be rescheduled after the holidays.

Supervisor McCowen asked that we discuss the Disability Policy regarding receiving an entire record in a disability case during our next Board meeting. He suggested allowing staff to determine which pertinent records we receive and keep the ability to request additional information as necessary.

**ADJOURNMENT (12:40 p.m.)**