♦MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION♦
BOARD OF RETIREMENT MEETING MINUTES
♦AUGUST 21, 2013 AT 8:30 A.M.♦

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:33 a.m.

ROLL CALL

Roll call was conducted with the following members present: Shari Schapmire, Lloyd Weer, Ted Stephens, Supervisor John McCowen, John Sakowicz, Bob Mirata, Tim Knudsen, Randy Goodman, Richard Shoemaker, and Craig Walker. Also present: Greg DeForrest and Jim Van Heuit of Callan Associates, Rich White, Retirement Administrator, Jeff Berk, Legal Counsel, and Judy Zeller, Board Clerk.

PUBLIC COMMENT: None

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 Board Meeting held July 17, 2013, 1-B Membership, 1-C Retirements Processed, 1-D Retirement Administrator's report, 1-E Communications, 1-F Audit and Budget Committee Report from the meeting of July 17, 2013, and 1-G Disability Procedure Edits.

Board Action: Motion was made by Supervisor McCowen to approve the Consent Agenda. Mr. Mirata seconded the motion and it was approved unanimously.

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

Board Action: None

3) DISCUSSION REGARDING QUARTERLY PERFORMANCE REPORT (CALLAN ASSOCIATES) (See the June 30, 2013 Investment Measurement Service Quarterly Review at http://www.co.mendocino.ca.us/retirement/reports.htm.)

Presenter/s: Greg DeForrest and Jim Van Heuit, Callan Associates, referenced the June 30, 2013 Quarterly Performance Report previously distributed to the Board.

Mr. DeForrest explained that the Bond market was down, International Equities had a negative return, and diversification finally mattered this quarter. Standard and Poor's (S&P) was up 20%, International Investments were up 19%, bonds remained flat, and we saw robust 1 year returns at the end of the fiscal year. He mentioned that our allocation for domestic equity was over by 3%, bonds were over by 4%, and a rebalance is in order. The fund balance as of June 30, 2013 was $383 million. Withdrawn cash to pay benefits was matched by investment return over the quarter. Selected American and Investment Company of America are scheduled for liquidation and should be used as source of funds to pay benefits. Our total fund was up 1.14% above the benchmark reflecting net of fee returns.

Mr. Stephens asked about increase in value of 625 Kings Court. Mr. DeForrest explained that this was the result of an increased appraisal of $864,000 which won't affect rates of return. He stated that we are overweight in small mid cap managers who performed very well over the year. International and domestic equity managers also did well for you. He reminded the Board of calendar year 2011 and the underperformed relative returns every quarter. Mr. Mirata commented that this is a reflection of how we chose to invest. We are seeing returns similar to the model we chose. Mr. Stephens added that we have always been careful to not expose ourselves to risk. Mr. Stephens asked Mr. DeForrest to explain Oakmark? Mr. DeForrest replied that Oakmark is a benchmark unaware value manager. They over performed for the quarter because of what they bought. They bring greater diversification. Janus struggled in the quarter and the two funds together compliment each other. Mr. Stephens asked if Janus on watch? Mr. DeForrest replied that MCERA doesn't have a formal watch list policy and effectively that all managers are on watch as we monitor and evaluate their performance every quarter, at a minimum; Janus Overseas fund has struggled over the past 1-2 years and their performance pattern is either worst or first.

4) DISCUSSION AND POSSIBLE ACTION REGARDING ASSET ALLOCATION AND LIABILITY STUDY (CALLAN ASSOCIATES) (See the August 21, 2013 Asset Allocation and Liability Study at http://www.co.mendocino.ca.us/retirement/reports.htm.)

Presenter/s: Greg DeForrest and Jim Van Heuit, Callan Associates, referenced the Asset Allocation and Liability Study previously distributed to the Board.

Mr. DeForrest stated that a few months ago we shared information on asset return expectations; we modeled the returns and are back with our recommendations. Mr. Van Heuit added your investment decisions should be based on the funding of benefits and the modeling of returns takes into consideration your benefits policy and investment policy. Assumptions taken from your actuarial report provided by Segal are considered and we then build a valuation model for each year going forward, assuming assumptions are realized, and use future asset valuations. Actuarial value, valuation value, and market value are used in the modeling which looks at 10 years of plan liabilities, active & inactive.

Mr. Stephens mentioned negative amortization and how it affects growth in funding. Unfunded liability won't be paid on for 9 years from now. Mr. Van Heuit stated that he would need to look at further, but he felt that negative amortization would affect funded status. He added that our inactive population is growing and that explains the actuarial liability. The current amortization schedule is closed and this is exactly what was modeled. Mr. White added that no new unfunded liability was included because it is hard to model. Mr. Van Heuit mentioned that the plan liquidity (cash flow) is not a problem going forward. 2013 expected returns were lowered across all asset classes and a lot of volatility in the market was expected. Fixed income has some negativity, but is important to diversify equity. Mr. Sakowicz asked about alternative expectation correlations. Mr. Van Heuit and Mr. DeForrest agreed that more aggressive investment will bring more volatility.

The Board was presented asset allocation mix 1 through 5 including an optimal target mix very close to our current allocation. It was mentioned that allowing cash allocation would cause a drain on our returns. Mr. Stephens asked if there is a standard on probability of hitting the target rate of return for payment of benefits. Mr. Van Heuit stated that we are talking about a very different timeline. The standard 10 year rate of return expectation says that the next 3 years you will under perform and then the next 7 years you will out perform. The actuarial target rate is a 30 year expectation. The accepted practice is 50% probability. You want assumptions that are as accurate as possible. Mr. Stephens added that the target rate should be accurate so that the sponsor does not have to pick up the additional payment. Mr. Van Heuit added that this timeframe issue looks short term with little volatility or looks long term and has a great deal of volatility around assumptions. Long term, if maintained, gets stability from amortization. Mr. DeForrest added that 10 years is a reasonable time to make investment decisions. We look at how assets will perform over 10 years and we bring in the assumptions. Mr. Van Heuit added that long term amortization smoothes gains and losses. More aggressive market asset mixes show significant volatility. Net cost combined with contributions and unfunded liability are future considerations that argue for taking less risk. With these considerations, Callan recommends keeping the existing target mix.

The Board discussed alternative investments, outsourcing for pooling with another fund, real estate. Mr. DeForrest stated that they could be looked at and you would gain greater diversification, but you have outperformed them. Mr. Stephens mentioned that our fund is too small to have increased fees and costs of alternatives. Mr. Sakowicz asked to wait to make a target mix decision and to schedule Doug Rose, SACRS President, to speak to the Board regarding alternative investments via a Joint Powers Authority (JPA) or a pool. He had recently heard Mr. Rose speak on this topic at the SACRS Public Pension Investment Management Program and he felt this would be important information to consider. Mr. White stated that we should make decisions today and find out more about alternatives later. They are still under development and the opportunity is further down the road. Mr. Shoemaker felt that we should add hedge funds and follow the investment to test the market. Mr. Stephens felt that we could not accept the increased risk. Mr. DeForrest explained volatility drag.

Board Action: Motion was made by Mr. Mirata to approve to keep our existing asset target mix. Mr. Stephens seconded the motion and it was approved by the following vote: Ayes 8 Noes 1 (Sakowicz) Abstain 0 Absent 0 (Motion Approved)

5) 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 final financial reports for June 30, 2013. He mentioned that the cash flow analysis report was not provided because the report will need adjustment in the Peachtree accounting system to correct errors found in the report due to the way the report incorporated year-end adjustments. Mr. Stephens asked about the accountant position. Mr. White replied that recruitment should begin this week.

6) DISCUSSION AND POSSIBLE ACTION REGARDING BOARD ELECTIONS AND RELATED CHANGE TO BYLAWS

Presenter/s: Rich White referenced information previously distributed to the Board regarding changes to our election procedures and proposed change to the Article X of the Association Bylaws.

Mr. White explained that the terms of the second, fourth, sixth, seventh and seventh alternate member seats on the Board of Retirement expire on November 30, 2013. The fourth and sixth members are appointed by the Board of Supervisors and the second, seventh and seventh alternate members are elected by the respective membership of MCERA. The seventh alternate member seat is vacant. The MCERA Bylaws have not been updated to reflect the membership of the Board and the election procedures followed by MCERA. This agenda item proposes updates to the bylaws, election procedures, and provides an election timeline to be approved by the Board.

Mr. White mentioned that the government code allows for alternate members for both the safety member and the retiree member. He explained how the election process works for the alternate safety member. The safety member with the highest number of votes would be elected as the seventh member. The runner up from any other eligible safety group would be elected as an alternate. He stated this alternate safety member would be able to vote as an alternate only if the second, third, seventh, or eighth member is absent from a board meeting. There was some discussion amongst the Board. Mr. Shoemaker asked about the retiree alternate and the ability to vote for other absent members. Mr. White and Mr. Berk agreed that the legislation would need to be changed. Mr. Knudsen felt there was conflict in the government code and asked if this could be taken to the SACRS Legislative Committee. Mr. White said that the issue had been reviewed by SACRS and the Legislature.

Board Direction: Staff will amend the changes to the bylaws by deleting Government Code Section 31470.4 from section 2(a)(6), deleting "in the County" from section 2(a)(6), correct typos and formatting.

Board Action: Motion was made by Supervisor McCowen to approve the recommended action to approve changes to MCERA Bylaws Article X with the following amendments; delete Government Code Section 31470.4 from section 2(a)(6), delete "in the County" from section 2(a)(6), correct any typos and formatting as directed by the Board Chair, and to approve the timeline for the Board of Retirement election. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes 9 Noes 0 Abstain 0 Absent 0 (Motion Approved)

7) CLOSED SESSION

- **Pending disability applications update**
- **Tim Goss SCD**
- **Possible Initiation of Litigation - Cook/McCarthy - Pursuant to Government Code Section 54956.9(d)4**
- **Public Employee Performance Evaluation - Retirement Administrator – Pursuant to Government Code Section 54957**

REPORT OUT FROM CLOSED SESSION

Mr. Walker and Mr. Shoemaker left the meeting during closed session discussion.

Board Direction: The Board provided direction to staff on the service connected disability application of Tim Goss. The Board provided direction to staff and counsel regarding the Cook/McCarthy matter.

Board Action: The Board approved settlement of the Cook/McCarthy matter, but has approved proceeding with litigation if necessary by the following vote: Ayes 8 Noes 0 Abstain 0 Absent 1. There was no action taken on the public employee performance evaluation or any other closed session items.

8) GENERAL BOARD MEMBER DISCUSSION

- **Report on SACRS Public Pension Investment Management Program by Board Member John Sakowicz**

Mr. Sakowicz will report to the Board on the SACRS Public Pension Investment Management Program at the next Board meeting.

ADJOURNMENT (1:32 p.m.)

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
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Date: September 18, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator RAW
Subject: Administrator Report

Meetings attended since the last Board of Retirement meeting:

- I attended the Board of Supervisors meeting on August 27, 2013 and updated them on MCERA activities during public expression.
- I attended the Russian River Cemetery District meeting on August 27, 2013 and updated them on MCERA activities during their Board meeting.
- I joined SACRS Chief Investment Officers (CIO) on a conference call on September 3, 2013.

Future meeting attendance prior to next Board of Retirement meeting:

- I will be attending the CALAPRS Administrator Institute being held in Carmel on August 25 – 27, 2013.

Update regarding Small Claims Court Judgment: MCERA v. Craig Lindburg:

Mr. Lindburg was been served with an order to produce statement of assets and appear for examination in the Mendocino County Superior Court on September 6, 2013. The action was necessary due to Mr. Lindburg's failure to comply with the enforcement of judgment rendered by the Superior Court. The court action was cancelled as the judgment was paid on September 3, 2013.

Update on Board of Retirement Election:

The scheduled notifications about the election were made on September 6, 2013. Declarations of Candidacy are due on September 20, 2013.

Update on Pension Administration System:

The contract with Linea Solutions, Inc. was completed on August 9, 2013. We are now in contract negotiations with Levi, Ray & Shoup, Inc on the PensionGold Solutions contract. The legal work is being done by our outside counsel, Manatt, Phelps & Phillips LLP.

Update on Accountant position:

The County of Mendocino Human Resources opened the recruitment for the position and advertising for the recruitment is underway.

DFEH Complaint filed with MCERA:

Peggy Yee filed a discrimination complaint with the Department of Fair Employment & Housing against MCERA and the County of Mendocino alleging disability discrimination. A response to the complaint was required within 30 days, which MCERA complied with. Generally, our response explained that MCERA is not an "employer" under the discrimination laws. It also explained the disability retirement application and hearing process, and that, regardless, MCERA did not engage in any discriminatory action.

Staff Education and Training:

- Judy Zeller attended the *Course in Retirement Disability Administration* presented by CALAPRS in San Jose on September 12, 2013. The course added to Judy's knowledge in the disability area which is especially helpful with the new disability procedure in place. The course agenda is included for your review.
- Katy Richardson and Christie O'Ferrall attended the *Benefits Roundtable* presented by CALAPRS in San Jose on September 13, 2013. The roundtable is a meaningful opportunity to exchange information and knowledge regarding specific issues related to the operations and benefit administration of pension funds. The agenda is included for your review.

Legislative Review:

The Legislative Report for August, 2013 on matters relevant to 1937 Act systems is included for your review. This report was prepared and provided to MCERA by Andrew Kjeldgaard, Esq. of Public Pension Consultants and an experienced attorney for various 1937 Act pension systems.

Attachments

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COURSE IN RETIREMENT DISABILITY ADMINISTRATION

Thursday, September 12, 2013
9:00 AM to 4:00 PM
DoubleTree San Jose Hotel

AGENDA

8:30 am Continental Breakfast

9:00 am Meeting Begins

I. Introduction

A. What is a disability?
B. What is the standard for disability in your system?
C. Who is an applicant?
D. Who is eligible to apply for disability?

II. Communication with the Member

A. Defining Communications
B. Benefits/Options under disability retirement
C. Comparison of Disability Retirement vs. Service Retirement
D. The Disability Process
E. Retirement staff responsibility in the process
F. Member's responsibility during the process
G. Attorney representation
H. Board Member's responsibility

12:00 – 1:00 pm Networking Lunch

III. The Application Intake Process

A. Keeping log of activity, critical to your reporting
B. System's requirements

IV. Gathering the File

A. What pertinent records do you need?
B. Flexibility with requirements as policies and Board members change.
C. When do you obtain the records?
D. How do you obtain the records?
E. Confidentiality of records and information.
F. Security of information (HIPPA).

V. Questions and/or comments from audience

4:00 pm Adjourn

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BENEFITS ROUNDTABLE

Friday, September 13, 2013
8:30 a.m. – 3:30 p.m.
Doubletree Hotel, 2050 Gateway Place, San Jose, CA 95110
1-408-453-4000

AGENDA

8:30 a.m. **Registration & Continental Breakfast**

9:00 a.m. **Roundtable Discussion**

1) DOMA
   - Are systems making any changes?

2) PEPRA - Where Are We Now
   - Has any system reduced benefits due to anti-spiking?
   - Are systems having any issues with PEPRA Verification?
     - Have any systems informed employer that a member has to stop working due to 180-day requirement?
   - Has any system made any changes to compensation earnable since Marin court ruling?

3) Death Benefit
   - Does any system allow Option 2 benefits to be chosen when a member dies while in service?
   - What benefit does your system provide if a member established incoming reciprocity (from PERS) and dies in service?
   - How does each system handle the Active Death process?

4) Split Plan Members
   - Does your system allow a safety member to retirement with 20 years of service if a portion of that service time was general service time?
   - If your system allows the above, does your system pay the general portion if the safety member is under the age of 50?

5) Divorce
   - For those systems that split account, what benefit would your system provide to the non-member if the vested deferred (from both your system and PERS) member took a refund of contributions? Would you pay the non-member a monthly benefit or would you return contributions plus interest?

12:00 p.m. **Lunch**

1:00 p.m. **Roundtable Discussion (Continued)**

6) Modified Worker
   - What benefits would your system pay to a member who was granted a SCD, but continued to work as a modified worker, once the member chooses a service retirement?

7) Reciprocity
   - Are systems having a hard time establishing reciprocity with PERS or receiving FAC information?

8) Uncashed Checks
   - What methods of follow-up does each system use when retirees have several uncashed checks?

3:20 p.m. **Select chair(s) for next Roundtable *(February 2014, SoCal)***

3:30 p.m. **Adjourn**

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Legislative Review of Proposed Legislation for 1937 Act Systems

August 26, 2013

AB 160, Alejo. PEPRA: exceptions.

Re: Exceptions to Employee Groups Covered by PEPRA.

Status: Re-referred to APPR.

This makes exceptions to employee groups covered by PEPRA. The term "public retirement system" in PEPRA would not include: multiemployer plan authorized by Section 302(c)(5) of the Taft-Hartley Act (29 U.S.C. Sec. 186(c)(5)) if the public employer began participation in that plan prior to January 1, 2013, and that plan is regulated by the Employee Retirement Income Security Act of 1974 (29 U.S.C. Sec. 1001 et seq.) or a retirement plan for public employees whose collective bargaining rights are protected by Section 5333(b) of Title 49 of the United States Code and the agreements entered pursuant to that provision.

This bill would also exclude a supplemental defined benefit plan, as defined in federal law, pursuant to a collective bargaining or similar agreement.

This bill would declare that it is to take effect immediately as an urgency statute.

AB 205, Pan. Public employees' retirement: pension fund management.

Re: CERL Board of Retirement to prioritize investment in an in-state infrastructure project.

Status: In Senate. Com. PUBLIC EMPLOYMENT AND RETIREMENT. Ordered to third reading.

Consistent with their fiduciary duties and the standard for prudent investment, this bill would extend the authorization to prioritize investment in an in-state infrastructure project over a comparable out-of-state infrastructure project to the board of retirement or the board of investments of a retirement system established pursuant to the County Employees Retirement Law of 1937.

AB 382, Mullin. State and local government: alternative investments: public access.

Re: More alternative investment exceptions to the Public Records Act and the Brown Act.

Status: Assembly concurred in Senate amendments, to enrollment.

Existing law, the Ralph M. Brown Act, requires the meetings of the legislative body of a local agency to be conducted openly and publicly, with specified exceptions. Existing law authorizes the legislative body of a local agency that invests pension funds to hold a meeting in closed session to consider the purchase or sale of particular, specific pension fund investments.

This bill would include prescribed documents dealing with alternative investments within the exceptions to the requirement for disclosure of documents related to public meetings.

Existing constitutional provisions require that a statute that limits the right of access to the meetings of public bodies or the writings of public officials and agencies be adopted with findings demonstrating the interest protected by the limitation and the need for protecting that interest.

AB 696, Mansoor. Public employment: pensions.

Re: More technical changes to PEPRA.

Status: From Printer.

This bill would make technical, non-substantive changes to PEPRA.

AB 822, Hall. Local government retirement plans.

Re: Local ballot measures on public pension plans must include actuarial impact.

Status: In Senate. Placed in Com. on APPR suspense file.

This bill would require, whenever a local ordinance or measure qualifies for the ballot that proposes to alter, replace, or eliminate the retirement benefit plan of employees of a local government entity, whether by initiative or legislative action, the governing body of the local government entity to secure the services of an independent actuary to provide a statement, or a summary of the statement, not to exceed 500 words in length, of the actuarial impact of the proposed measure upon future annual costs of the retirement benefit plan, and to have this statement printed in the voter information portion of the sample ballot.

The bill would require a specified notice regarding obtaining a copy of the measure to be printed in the voter information portion of the sample ballot, if the text of the measure is not printed on the ballot, nor in the voter information portion of the sample ballot. The requirements of the bill would apply to a city, including a charter city; a county, including a charter county; a city and county, including a charter city and county; a community college district; or a special district.

AB 1248, Cooley. Controller: internal control guidelines applicable to local agencies

Re: Controller to develop internal control guidelines applicable to local agencies.

Status: Assembly concurred in Senate amendments, to enrollment.

Existing law requires the Controller to superintend the fiscal concerns of the state, suggest plans for the improvement and management of the public revenues, and at least annually, summon county auditors to discuss problems with, among other things, the reporting of financial transactions of the counties.

This bill would require the Controller, on or before January 1, 2015, to develop internal control guidelines applicable to a local agency, as defined, to prevent and detect financial errors and fraud, based on specified standards and with input from any local agency and organizations representing the interests of local agencies. This bill would require the Controller to, by the same date, post the completed internal control guidelines on the Controller's Internet Web site and update them, as he or she deems necessary, as specified.

AB 1333, Hernandez, Roger. Local government: contracts.

Re: Local government must review upcoming contracts to make sure contractor is pay prevailing wage.

Status: In Senate. Amended June 26, 2013. Com. on GOV & F.

This bill would require, with a specified exception, if a contract or memorandum of understanding with a total annual value of $250,000 or more between a private party and a city, county, city and county, or district contains an automatic renewal clause, the legislative body of the city, county, city and county, or district to, on or before the annual date by which the contract may be rescinded, adopt a resolution that either exercises or declines to exercise the option to rescind the contract, as specified.

AB 1380, Com. on P.E., R. & S.S. County employees' retirement.

Re: SACRS bill to clean up CalPEPRA

Status: Enrolled August 23, 2013.

This bill would amend various provisions of CERL to coordinate and subordinate that law with PEPRA. Generally, the bill would specify that certain provisions of CERL do not apply to members who are currently subject to PEPRA by virtue of being first employed on or after January 1, 2013.

The bill would provide that provisions allowing a new formula for calculation of retirement benefits to be applied to service already performed are inoperative as of January 1, 2013, and would prohibit the purchase of nonqualified service credit, as specified.

The bill would except retirement systems established under CERL from specified provisions of PEPRA concerning the calculation and adjustment of contribution rates.

SB 13, Beall. Public employees' retirement benefits.

Re: Corrective Clean-up Legislation for PEPRA.

Status: In Assembly. Re-referred to Com. on APPR. suspense file.

This bill makes several technical changes or corrections to the California Public Employees' Pension Reform Act of 2013 (PEPRA).

In addition, this bill would specify that the PEPRA provisions are not to be construed to prohibit an employer from offering a defined contribution plan on or after January 1, 2013, either with or without a defined benefit plan, if the employer did not offer a defined contribution plan prior to that date.

This bill would repeal the new PEPRA statute that authorizes a safety member of a public retirement system who retires for industrial disability to receive a disability retirement equal to the greater of specified benefit amounts.

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The bill would clarify the application of PEPRA to employees who were employed prior to January 1, 2013, who have service credit in a different retirement system. The bill

would authorize a public retirement system to adopt regulations and resolutions in order to modify its retirement plan or plans to conform with PEPRA.

This bill would specify that PEPRA provisions are not to be construed to prohibit an employer from offering a defined contribution plan on or after January 1, 2013, either with or without a defined benefit plan, if the employer did not offer a defined contribution plan prior to that date.
Begin.

This bill would specify the method by which adjustments to pensionable compensation limits based on the Consumer Price Index are to be made. The bill would revise how limits on an employer's contributions to a defined contribution plan are to be determined, as specified, and would specifically authorize a retirement system to limit the pensionable compensation used to calculate contributions for new members in this regard.

The bill would specify, with regard to the definition of normal cost, that a retirement system's actuary may use either of 2 rates of contribution, as may be applicable to the retirement system. The bill would require that, for purposes of calculating the normal cost rate, the actuarial valuation of retirement benefits include any elements that impact the actuarial determination of the normal cost, including, but not limited to, the retirement formula, eligibility and vesting criteria, ancillary benefit provisions, and any automatic cost-of-living adjustments.

This bill would clarify that, for a retiree who is a public safety officer or a firefighter, he or she must be hired to perform a function or functions regularly performed by a safety officer or firefighter in order to avoid the 180 day period of separation between retirement and reemployment.

PEPRA requires that a public employee, including one who is elected or appointed to a public office, who is convicted of any state or federal felony for conduct arising out of, or in the performance of, his or her official duties in pursuit of the office or appointment, or in connection with obtaining salary, disability retirement, service retirement, or other benefits, forfeit rights, and benefits earned or accrued from the earliest date of the commission of the felony to the forfeiture date, as specified. This bill would provide that these provisions supplement the application of specified forfeiture provisions with respect to a judge and, if there is a conflict, the provisions that result in the greatest forfeiture or provide the most stringent procedural requirements shall apply.

This bill would declare that it is to take effect immediately as an urgency statute.

SB 24, Walters. Public employees' retirement: benefit plans.

Re: New lower cost DB plans after PEPRA can be approved by local agency.

Status: Referred to Com. on P.E. & R.

Under PEPRA a new defined benefit formula must be approved by the Legislature. This bill would eliminate the requirement that the Legislature approve these changes. This bill would also authorize a local agency public employer or public retirement system that offers a defined benefit pension plan to offer a benefit formula with a lower benefit factor at normal retirement age and that results in a lower normal cost than the benefit formulas that are currently required, for purposes of addressing a fiscal necessity.

SB 215, Beall, Public employee benefits.

Re: Legislation to authorize regulations that allow telephone communications to make transactions on CERL rights and benefits.

Status: Senate concurred in Assembly amendments, to enrollment.

The County Employees Retirement Law of 1937 prescribes a comprehensive set of rights and benefits for county and district employees who are members of a retirement system subject to that law and establishes retirement boards for the administration of those systems. Existing law authorizes a retirement board to promulgate regulations regarding the administration of benefits and specifically authorizes regulations for the use and acceptance of a document requiring a signature that is submitted by a member using an electronic signature, as specified.

This bill would permit a retirement board to promulgate regulations regarding the use of recorded telephone communications for the processing of authorized transactions affecting a member's account if the board approves procedures adequate to protect the member and the system, as specified.

SB 481, Huff. California Public Employees' Reform Act of 2013.

Re: More nonsubstantive changes to PEPRA.

Status: Referred to Com. on RLS.

More nonsubstantive changes to PEPRA.

SB 647, Wolk. County retirement.

Re: Can't be a member of two county retirement systems.

Status: Referred to Com. on RLS.

Government Code section 31203 provides that if a member of a county retirement system becomes a member of another county retirement system, the membership in the first retirement system ceases.

SB 751, Yee. Meetings: publication of action taken.

Re: Board must report out the vote of every Board member on every motion.

Status: In Senate. Concurrence in Assembly amendments pending.

The Ralph M. Brown Act requires all meetings of the legislative body of a local agency, as defined, to be open and public and prohibits the legislative body from taking action by secret ballot, whether preliminary or final.

This bill would additionally require the legislative body of a local agency to publicly report any action taken and the vote or abstention on that action of every member present.

Federal Legislation

HR 205, Sanchez. To amend the Internal Revenue Code of 1986 to clarify the treatment of certain retirement plan contributions picked up by governmental employers. **Formerly HR 2934**

Re: Pre-tax payroll deduction for employer contributions to retirement plan.

Status: Referred to the House Committee on Ways and Means.

Amends the Internal Revenue Code to permit the treatment of certain employer contributions made to public retirement plans as picked up by an employing unit regardless of whether the participating employee is allowed to make an irrevocable election between the application of two alternative benefit formulas involving the same or different levels of employee contributions.

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HR 1628, Nunes. Public Employee Pension Transparency Act. (Also S. 779)
Formerly HR 567

Re: IRS penalties on public bonds for non-compliance on pension transparency.

Status: Referred to the House Committee on Ways and Means.

Public Employee Pension Transparency Act - Amends the Internal Revenue Code to deny tax benefits relating to bonds issued by a state or political subdivision during any period in which such state or political subdivision is noncompliant with specified reporting requirements for state or local government employee pension benefit plans.

Requires plan sponsors of a state or local government employee pension benefit plan to file with the Secretary of the Treasury an annual report setting forth: (1) a schedule of the funding status of the plan; (2) a schedule of contributions by the plan sponsor for the plan year; (3) alternative projections for each of the next 20 plan years relating to the amount of annual contributions, the fair market value of plan assets, current liability, the funding percentage, and other matters specified by the Secretary; (4) a statement of the actuarial assumptions used for the plan year; (5) a statement of the number of plan participants who are retired or separated from service and are either receiving benefits or are entitled to future benefits and those who are active under the plan; (6) a statement of the plan's investment returns; (7) a statement of the degree to which unfunded liabilities are expected to be eliminated; and (8) a statement of the amount of pension obligation bonds outstanding.

Directs the Secretary to develop model reporting statements and create and maintain a public website, with searchable capabilities, for purposes of posting plan information required by this Act.

Richard A. White, Jr.
Retirement Administrator

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

Date: September 18, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator RAW
Subject: Communications

The following items are provided for your reading and reference:

1. Economic and Market Perspective Update by Jim Paulsen, Wells Capital Management, August 20, 2013.

WELLS CAPITAL MANAGEMENT

UPDATE

Economic and Market Perspective

"Bringing you national and global economic trends for more than 25 years"

August 20, 2013

Where Wall Street Meets Main Street... Corner of Capital & Labor

Often Wall Street and Main Street are antagonists. The stock market frequently rallies at the worst point of a recession when the unemployment rate is spiking and monetary accommodation appears only a benefit to stock investors. Likewise, when Main Street is hot, it often proves too hot for Wall Street pushing bond yields higher, forcing price-earnings multiples lower, and forcing the Fed to take away the punch bowl. This combative nature is commonly great fodder for media stories, often stimulates plenty of political rhetoric from both sides of the aisle and promulgates the idea that America is truly a divided country.

However, at the corner of capital and labor, the interest of both Wall Street and Main Street seem to converge. Since at least 1950, a rising capital to labor ratio has simultaneously proved beneficial both for stocks and for laborers. Indeed, after almost 14 years of turbulence tied to a capital-labor (KL) ratio which peaked in 2000 and trended sideways since, excitement again seems to be building at the corner of capital and labor among both investors and laborers. The U.S. KL ratio has been slowly reviving in the last couple years and there is growing hope it may soon embark on a more sustained advance. If it does, could the U.S. be on the cusp of a more mutually beneficial and harmonious relationship between Main Street and Wall Street?

The U.S. capital-labor ratio

Chart 1 illustrates a proxy for the U.S. KL ratio since 1950. It shows the ratio of the industrial capacity index divided by the U.S. labor force. The speed and character of economic growth is certainly impacted by the growth in all resources. The "go west young man land grab," the post-war baby boom and the 1990s new-era productivity miracle are examples of economic cycles dominated by resource growth. However, the resource intensity per laborer (i.e., the KL ratio) is also important.

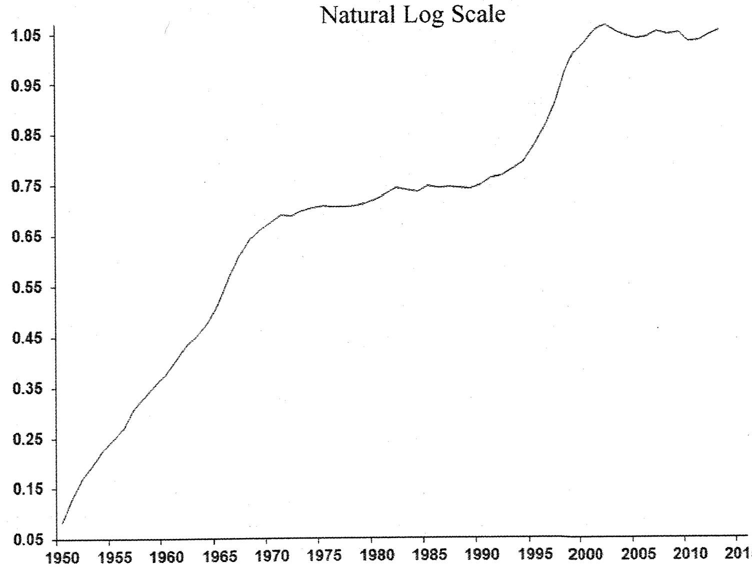
Chart 1

U.S. Capital-Labor Ratio*

*Annual Average of Monthly Series

Total Capacity Index divided by U.S. Labor Force

Natural Log Scale



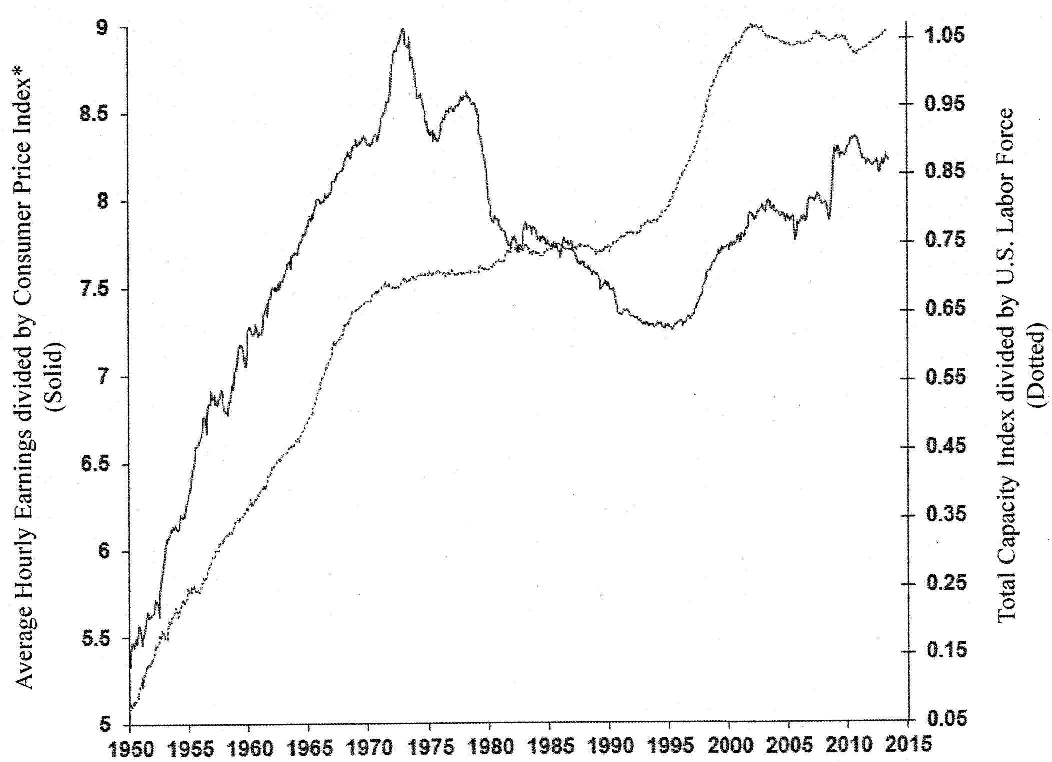
In post-war history, the U.S. has experienced two major episodes when the KL ratio rose—from 1950 to the late-1960s and again during the latter-1990s. Both proved to be good for Main Street and Wall Street. Post-war economic history has also been marred by prolonged eras when the KL ratio stopped growing—from 1970 to the early-1990s and again since 2000. Although the stock market did match bond returns in the 1980s it was ravished during the 1970s and during the 2000s. Similarly, labor suffered from a loss of purchasing power in the 1970s and from a significant worsening in the income distribution away from the middle class in both the 1980s and since 2000.

Main Street and the KL ratio

Changes in the KL ratio impact Main Street in two significant ways. First, a rising KL ratio has been associated with rising real wage rates and second, when the KL ratio has risen the concentration of the income distribution has improved.

Chart 2 overlays the KL ratio with the real U.S. wage rate. The golden era of post-war rising real purchasing power for labor coincided with a persistent rise in the KL ratio between 1950 and the early-1970s. Once the KL ratio flatlined, real wages began a chronic decline which would not bottom until the KL began rising again in the latter-1990s. While not widely recognized, the real purchasing power of labor actually improved significantly during the 1990s new-era tech boom from 1995 to 2000 consistent with a substantial rise in the KL ratio. Since 2000, however, excluding the brief deflation in consumer prices relative to wages during the 2008 crisis, as the KL ratio has flatlined so has the real wage rate.

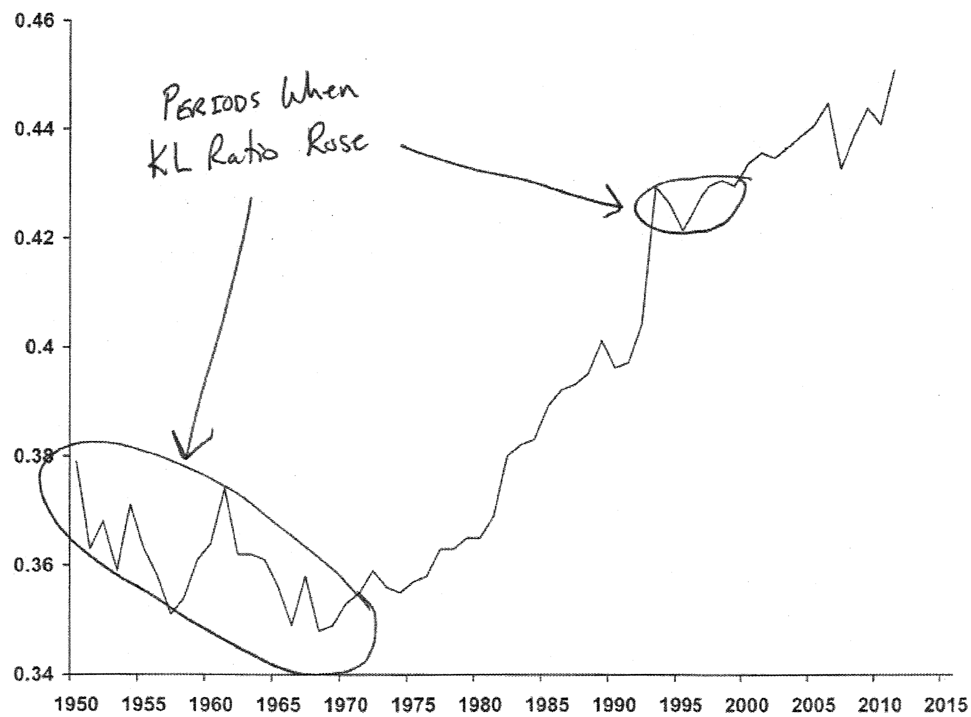
Chart 2
Real U.S. Wage Rate* vs. Capital-Labor Ratio
*1950 to 1963—Average Hourly Earnings of Manufacturing Industry divided by CPI Index.
1964 to date—Average Hourly Earnings of Total Private NonFarm Payrolls divided by CPI Index.



As shown in Chart 3, a rising KL ratio has also benefited middle income households by reducing concentration in the income distribution. Between 1950 and the early-1970s, as the KL ratio rose, the Gini ratio, which records the degree of income inequality, trended lower (improved). Similarly, the Gini ratio stopped its prolonged advance between about 1993 and 2000 as the KL ratio experienced another significant rise. Outside of these two periods when the KL ratio rose, the income distribution within the U.S. has tended towards greater inequality since 1950.

Throughout the post-war era, making labor more productive by complementing it with capital (i.e., a rise in the KL ratio) has helped Main Street America by checking concentration in the income distribution and by expanding labor's real purchasing power.

Chart 3
Gini Ratio of Income Inequality
*Ratio ranges from 0 to 1.
The closer to 1.0, the greater the level of income inequality.

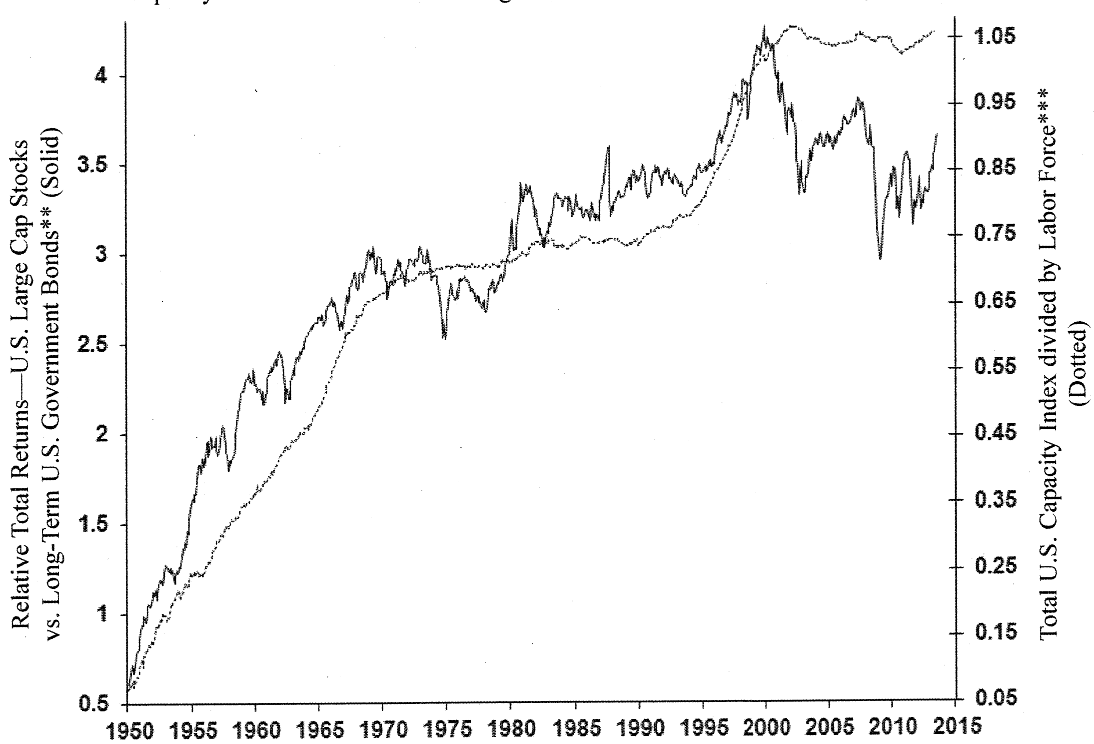


Wall Street & the KL ratio

The relationship between Wall Street and the KL ratio is shown in Chart 4. Stocks have provided returns solidly in excess of bonds during each of the two major eras when the KL ratio was rising. Conversely, when the KL ratio flattened, stocks have either only matched bond returns (e.g., between the late-1960s and essentially the early-1990s) or have underperformed bonds (like since 2000).

A rising KL ratio has not prevented bear markets (stocks suffered setbacks during both the 1950s and 1960s despite a rising KL ratio) and the stock market can achieve strong advances even while the overall KL ratio is essentially flat (there are multiple examples in the 1970s, 1980s, and since 2000). However, the best sustained bull markets for stocks have mostly been associated with a secularly rising KL ratio.

Chart 4
Relative Stock-Bond Return Performance vs. Capital-Labor Ratio
*Both series are shown on a natural log scale.
**Source: Ibbotson.
***Capacity Index is U.S. Manufacturing Index until 1967 and Total Industry thereafter.

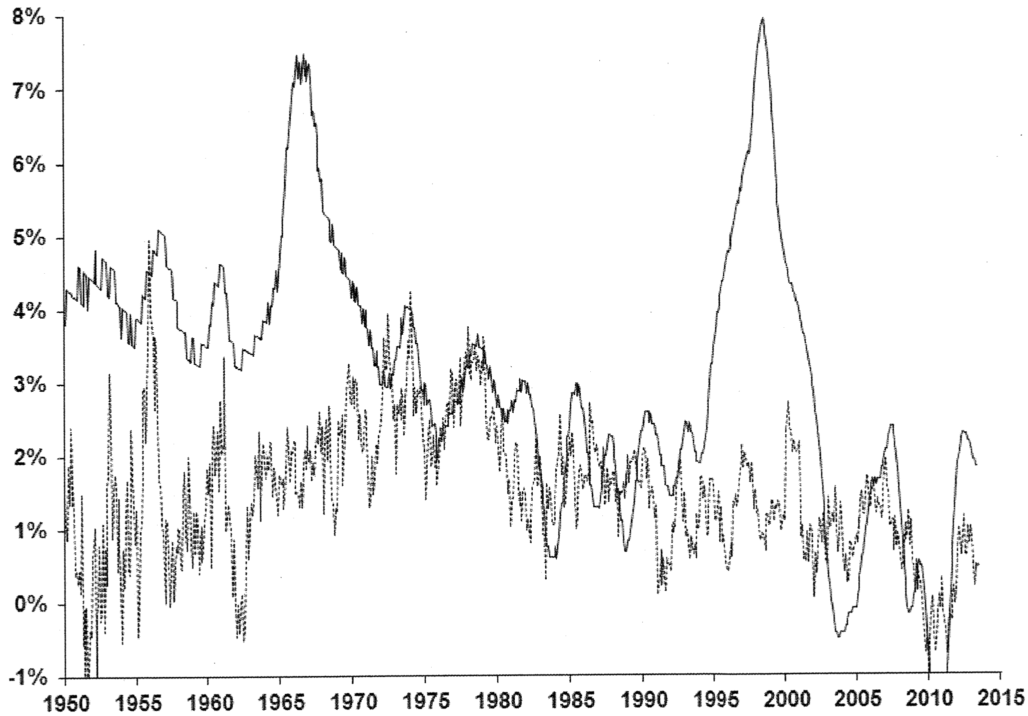


Will KL ratio soon rise again?

Overall, a rising KL ratio seems to play a central role in improving both the real purchasing power of labor and in producing solid excess returns (alpha) in the stock market. Boosting capital investment and promoting a rising capital-labor ratio should be welcome by both "Wall and Main." As shown in Chart 1, the U.S. KL ratio has trended sideways since 2000 marking its second longest period of stagnation in the post-war era. Although the KL ratio may continue to languish in the next few years, there are a few reasons to be optimistic a period of renewal is nearing.

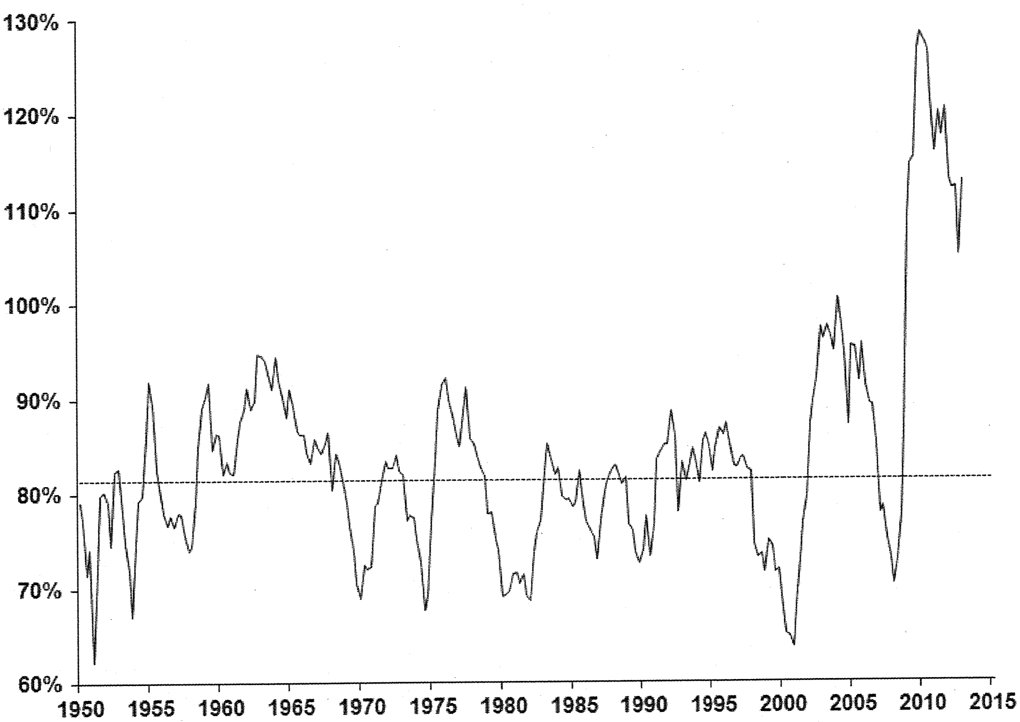
First, the KL ratio may begin rising again simply because aging U.S. demographic trends ensure very slow future growth in the U.S. labor force. Chart 5 shows the annual growth in the separate components of the KL ratio. In the last year, the labor force has only grown by about 0.5%. Because of such slow labor supply growth the KL ratio has recently been rising despite a very modest growth in capital (solid line) of only about 2%. By contrast, if the labor force were still rising at a pace comparable to its growth during the 1970s (around 3%), the KL ratio would be suffering a major decline today. Slow growth in the labor supply does lower the achievable economic growth rate (i.e., the speed of the economy is limited by the pace of resource growth) but it may also allow a rising KL ratio even without a major capital spending boom. Moreover, should capital spending experience a surge for a period, the KL ratio would rise quickly and significantly since the U.S. labor supply is growing so slowly.

Chart 5
Annual U.S. Capacity Growth
vs. Annual U.S. Labor Force Growth
Capacity Growth (Solid)
Labor Force Growth (Dotted)



Second, as illustrated by Chart 6, corporate balance sheets are strong, very well capitalized, and extremely liquid. These characteristics have often been a precursor to a major capital spending boom. Since the 2008 crisis, the cash flow to capital spending ratio among corporations has persisted at levels far higher than ever witnessed in the post-war era. This suggests that while business confidence is still fragile, the ability of corporations to significantly augment the KL ratio is certainly not lacking.

Chart 6
U.S. Corporate Net Cash Flow to Capital Spending Ratio



Third, the build out of emerging world economies since 2000 has required the U.S. to run chronic trade deficits effectively providing these new economies persistent spending stimulus. However, this "emerging market policy" has also drained spending away from domestic businesses and accelerated the contraction of the U.S. manufacturing sector (and consequently flattened overall U.S. capacity growth). After years of constant U.S. stimulus, however, some emerging world economies are beginning to show signs of maturing from predominantly production economies to consumer economies. As these new economies slowly emerge into a global demand force, U.S. businesses may have to add capacity simply to meet rising emerging consumer demands. Obviously, this is a slow moving trend which will not likely dominate the U.S. economy anytime soon. But, a slow progression in the emerging world story from production to consumption may prove a steady stimulant in future years to growth in the U.S. KL ratio.

Fourth, as was illustrated by the 1990s, a major capital spending cycle is only a "tech breakthrough" away!

Finally, while public sector finances are not very healthy, the need for public infrastructure spending may become so acute that it simply can no longer be delayed.

Summary?

After a prolonged drought since 2000 contributing to the "Lost Decade," the U.S. KL ratio appears poised to embark on a new period of sustained advance. This would be good news for both Wall Street and Main Street.

While many believe a rise in the capital stock is mainly beneficial only to corporate America and Wall Street, history illustrates that a rising KL ratio is also quite favorable for labor. Adding more capital to the labor force has consistently been associated with rising real wage rates and with a greater balance in the U.S. income distribution. A rising KL ratio has also led to some of the best stock markets of the post-war era.

Wall and Main are often contentious cousins. Higher wages mean less profits. Faster growth on Main frequently implies rising interest rates and lower values on Wall. This conflict has raged unchecked in recent years since the KL ratio flatlined beginning in 2000. And, this fierce battle has held back progress on "both" Wall and Main. Gridlock in Washington, uncertainty among business leaders, and mistrust among workers has chronically depressed future economic confidence.

While the squabble between Wall and Main will never completely go away, could it ease some in the next several years should the KL ratio improve? As it did in the 1950s, 1960s, and 1990s, could a rising KL ratio improve prospects enough, both Wall and Main, that a constructive truce develops? One which allows animal spirits and risk-taking (among both businesses and households) to replace fear and uncertainty as the primary drivers of the economy?

Thanks for taking a Look!!

Resolution of the Mendocino County Board of Retirement
Stating Authorized Signature, No. 2013-03

By resolutions duly and regularly adopted and still in effect, the fullest authority at all times has been invested in:

Richard A. White, Jr., Retirement Administrator		______________________
Name Title		Signature
	Or	
Shari Schapmire, Board Chair		______________________
Name Title		Signature
	Or	
Lloyd Weer, Board Vice-Chair		______________________
Name Title		Signature

with respect to any transaction deemed to be proper in connection with said account, including (but without limitation thereto) authority to give written or oral instructions to you as brokers with respect to such transactions, and generally to do and take all action necessary in connection with the account or considered desirable by said officer or agent with respect thereto. You, as broker, are authorized thereunder and hereby to deal with any and all persons by the said resolution empowered or through dealing with the Mendocino County Employees' Retirement Association itself.

The Mendocino County Employees' Retirement Association is required to certify to you promptly, when and as made, any change in the officers or powers of persons hereby authorized and such modifications when received by you shall be adequate both to terminate the powers of the persons theretofore authorized and to empower the persons thereby substituted.

Pursuant to the aforesaid and hereunder, the powers and authority granted shall continue fully effective until receipt by you of written notice of change or rescission thereof.

The foregoing resolution introduced by Board Member ______________________, seconded by Board member __________________________, and carried this 18th day of September, 2013, by the following vote:

ayes:
noes:
absent:

WHEREUPON, The Chair declared said Resolution adopted, and SO ORDERED.

______________________	Attest: ______________________
Shari Schapmire, Board Chair	Judy Zeller, Clerk to the Board
Mendocino County Board of Retirement	Mendocino County Board of Retirement