

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 1

September 8, 2004

The Board of Retirement met in regular session at 8:30 a.m. on Wednesday, September 8, 2004, in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Brian Hast, Paul Katz, Louis Kroll, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles, Maria Theresa Viramontes and Clifton Wedington

Staff: Pat Wiegert, Retirement Administrator; Marilyn Leedom, Assistant Retirement Administrator; Kathy Somsen, Retirement Benefits Manager; Rick Koehler, Retirement Accounting Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support:
Ashley Dunning
John Monroe
Drew James

Representing:
Steeffel, Levitt and Weiss
Segal Company
Segal Company

Other Attendees:

Tracy Kroll	CCCERA Staff
Joelle Luhn	CCCERA Staff
Luz Casas	CCCERA Staff
Mary Lou Williams	CCC Retirees' Association
Stephen Bava	Self
Dave Gaynor	Self
Sandra Leonard	Self
Margaret Platt	CCC Retirees' Association
Debbie Ratcliff	CCCSD
Colette Curtis-Brown	CCCSD
Peter Felsenfeld	Contra Costa Times
Lisa Driscoll	Administrator's Office
Bob Campbell	Auditor Controller
Phil Carvey	Auditor Controller
Sharon Budd	Auditor Controller
Joan Woods	San Ramon Valley Fire
Lois Mederious	Contra Costa Grand Jury
Richard Soderholm	Self
Jerome Stark	Self
Ken Hambrick	Alliance of Contra Costa Taxpayers Assoc.
Terry Buck	CCCCFPD
Robert Kennedy	Grand Jury
Jim Bonato	Grand Jury
Richard Fowler	Grand Jury
Kris Hunt	Contra Costa Taxpayers Association
Mike George	CCCCFPD

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 2

September 8, 2004

1. Public Comment

No members of the public offered comment.

2. Approval of Minutes

It was M/S/C to approve the minutes of the August 25, 2004 meeting. (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Wedington; Abs: Viramontes)

3. Routine Items

It was M/S/C to approve the routine items of the September 8, 2004 meeting. (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Viramontes, Wedington)

The Board moved into closed session pursuant to Govt. Code Sections 54957 and 54956.9 to consider the Medical Advisor and/or staff's recommendations regarding disability retirement applications and to consult with counsel regarding cases currently being litigated.

The Board moved into open session.

4. Disability Retirements

It was M/S/C to accept the Medical Advisor's recommendation and grant the following disability benefits:

- (a) Eric Lewis Service Connected (Yes: Cabral, Hast, Katz, Pollacek, Telles, Rey, Viramontes, Wedington)
- (b) Allan Burt Service Connected (Yes: Cabral, Hast, Katz, Kroll, Telles, Pollacek, Viramontes, Wedington)
- (c) Sandra Leonard Service Connected (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Viramontes, Wedington)
- (d) John Pagliero Service Connected (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Viramontes, Wedington)
- (e) Stephen Bava Service Connected (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Viramontes, Wedington)
- (f) Rodney McKinney Service Connected (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Viramontes, Wedington)
- (g) Jack Walker Service Connected (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Viramontes, Wedington)
- (h) Nancy Howell Non-Service Connected (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Viramontes, Wedington)
- (i) Norman Hendershot Service Connected (Yes: Cabral, Katz, Telles, Rey, Viramontes, Wedington; No: Hast, Pollacek)
- (j) Sandrino Angeli Service Connected (Yes: Cabral, Hast, Katz, Telles, Pollacek, Rey, Viramontes, Wedington)

5. CCCERA et al. v. WorldCom Officers and Various Banks

No reportable action taken.

San Ramon Valley Fire Protection District v. CCCERA

No reportable action taken.

6. Retirement Communications Coordinator

Leedom reviewed the history, prior actions taken and her recommendation to complete the reclassification of the Retirement Communications Coordinator.

After discussion of the changed job duties, the Department of Human Resource assessment and the differences between management and non-management benefits, it was M/S/C to accept the recommendation of staff to complete the reclassification of this position to an unrepresented management classification. (Yes: Viramontes, Katz, Hast, Pollacek, Wedington; No: Telles, Cabral, Rey)

7. 12/31/03 Valuation Report

Drew James highlighted the purpose of an actuarial valuation, noting that the Association's unfunded actuarial accrued liability is being amortized over a decreasing 20-year period with 19 years remaining as of December 31, 2003. The recommended rates would be effective July 1, 2005 through June 30, 2006. The ratio of actuarial value of assets to actuarial accrued liabilities decreased from 89.6% to 85.5%.

He noted that this study used the actuarial assumptions adopted by the Board after the December 31, 2003 Experience Analysis was completed. The impact of these assumption changes coupled with the prior years' investment losses was significant.

James summarized the key valuation results noting that the average aggregate employer rate increased from 23.06% to 29.31%. The average aggregate member contribution rate increased from 6.55% to 7.43%. In response to a question, he noted that these aggregate rates reflect a 50% employer subvention of employee rates.

He then reviewed each component of the increase in rates both for employers and members and concluded by noting that, for the first time, the report shows the Contra Tracking Account of -\$16,742,131, reflecting the result of the Board's interest crediting policy. Under that policy, any excess earnings in the future will first be used to assure full funding of the retiree Dollar Power benefit and next be used to bring the Contra Tracking Account to zero.

8. Contribution Rates, Effective July 1, 2005

Kris Hunt commented that the Board has no legally defensible reason to not adopt the recommended rates. The Board should not consider another phase-in of rates as had been done several years ago. She urged the Board to consider its fiduciary duty and adopt the rates as recommended.

Ken Hambrick commented that the Actuarial Report was well done and clearly explained. The Board has an excellent opportunity for sound financial planning to act positively and adopt the recommended rates.

It was M/S/C to adopt the contribution rates, effective 7/1/05, as recommended by the actuary. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)

9. Financial Audit

Koehler reviewed his memo to the Board, which provided the history of the Board's retaining its first independent auditor, the original RFP process and the results of a recent survey of other California systems on their use of outside auditing firms. He recommended forming either an ad hoc or permanent audit committee and rebidding the contract.

It was M/S/C to create an ad hoc audit committee, to review responses to the RFP for the financial audit of CCCERA beginning with the year ending December 31, 2004 and to not invite Macias Gini and Company to bid. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)

The Board noted that Macias Gini has done a good job and directed staff to send a letter thanking them for their service. Board members Telles and Hast will join accounting staff members on the ad hoc audit committee. The committee will make a recommendation to the full Board.

10. Employment Agreement with the New Retirement Administrator

It was M/S/C to adopt the employment agreement for the Retirement Administrator as drafted. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)
Pollacek thanked Dunning, Katz and Hast for their extensive work.

11. Tier 1 vs. Tier 3 Membership for New Members with Reciprocity

Wiegert noted that the County's adoption of AB2100, which eliminated Tier II for County employees prompted a question on whether new hires with reciprocity could be given the choice to elect Tier I coverage as had been available to new hires before the effective date of the County's adoption. After review of the law and concurrence by counsel, we determined that electing Tier I coverage was no longer possible.

The thirty-seven members who had been hired since October 1, 2001 have been notified that they had been incorrectly placed in Tier I, that they have since been placed in Tier III, and checks were issued to refund the contributions collected in error including interest. Wiegert noted that this matter is being brought to the Board's attention in the event they are contacted by any of the members affected by this correction action.

12. Conference Seminar Attendance

- (a) No one was able to attend the Client Conference and Real Estate Forum, Fidelity Real Estate, September 26-28, 2004, Chatham, MA.
- (b) It was M/S/C to authorize the attendance of Kroll at the Annual Partners' Meeting, INVESCO Real Estate Fund I, October 27-28, 2004, Austin TX. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)
- (c) No one was able to attend the 2004 Client Investment Workshop, Capital Guardian, October 12-13, 2004, Los Angeles, CA.
- (d) It was M/S/C to authorize the attendance of Leedom and Wedington at the Plan Sponsor Manager Conference, Progress Investment, November 20-23, Scottsdale, AZ. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)
- (e) It was M/S/C to authorize the attendance of Rey at Guns & Hoses, October 3-6, 2004, San Diego, CA. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)
- (f) It was M/S/C to authorize the attendance of Naramore at the Fall Conference, CRCEA, October 18-20, 2004, Fresno, CA. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)
- (g) It was M/S/C to authorize the attendance of all Board and appropriate staff at the Fall Conference, SACRS, November 9-12, 2004, Anaheim, CA. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)
- (h) It was M/S/C to authorize the attendance of Viramontes and Kroll at the Clarion Educational Retreat 2004, ING Clarion, September 29-October 1, 2004, Napa Valley, CA. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, Wedington)

13. Miscellaneous

- (a) There were no requests for counsel opinions.
- (b) Leedom reported the transition from SSGA to TCW is underway and should be completed within 2 weeks.

The top six candidates for the CIO position were interviewed last week and the top three will be interviewed next week. She hopes to have a choice made by the end of September.

Starting on Thursday, September 9, scaffolding will be erected around the building to allow replacement of the mansard roof. In addition, the building's interior public areas will be painted and carpeting will be replaced.

CCCERA has received notification from Hearthstone that their Florida office did not suffer damage with the most recent hurricane. Intech commented that, during the hurricanes, business was conducted out of Princeton with no breaks in service.

- (c) Trustee Comments - Pollacek will be a speaker on "Managing Unfunded Pension Liabilities in a Difficult Environment" at a pre-conference workshop of the California Debt and Investment Advisory Commission (CDIAC) on Sunday, September 12 in downtown San Francisco at the Hyatt Regency. He invited all to attend.

Rey commented it was refreshing to see the good attendance of Board members today. He noted that Wiegert had reported at a previous meeting that the Internal Operations Committee of the Board of Supervisors has requested a monthly report on its appointees' attendance.

Rey also asked that Board members be sensitive to the impact on staff time when they ask for special reports or studies. Such requests should go through the Administrator or division head. Wiegert added that the same concern extends to contacts with any of the Board's consultants or counsel since the resulting work may be outside the retainer agreement and therefore impact the budget.

A request was made to place further discussion of this matter on a future agenda.

Telles asked that investing in Paladin's Homeland Security Fund be placed on the next meeting agenda to enable the full Board to take action. He noted that several Board members were absent when the matter was last considered.

This was followed by general discussion on the Alternative Investments asset class, the already established need to formulate a policy on how this asset class should be constructed, the stated need to determine whether a specialist consultant should be retained in this effort, and whether a decision to hire Paladin is premature.

In response to a question, Dunning observed that the Board took no action on Paladin the last time the matter was on the agenda since the only motion offered failed to get five affirmative votes. The Chair has the authority to place this matter on a future agenda if desired.

- (d) Consultants' Comments - None

It was M/S/C to adjourn.

Bob Rey, Chairman

Brian Hast, Secretary