

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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September 8, 2010

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, September 8, 2010 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, Dave Gaynor, John Gioia, Brian Hast, Jerry Holcombe, William J. Pollacek, Jerry Telles, Maria Theresa Viramontes.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Silvina Leroux, Retirement Deputy Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Karen Levy, General Counsel; Kathy Somsen, Retirement Benefits Manager; Rick Koehler, Retirement Accounting Manager

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| Outside Professional Support: | Representing: |
| Bob Helliesen | Milliman |
| Tim Price | Milliman |
| Paul Angelo | The Segal Company |
| John Monroe | The Segal Company |

Other Attendees:

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| Christina Dunn | Contra Costa County Employees' Retirement Association (CCCERA) Staff |
| Chih-Chi Chu | CCCERA Staff |
| Justine Oyler | CCCERA Staff |
| Karen Davis | CCCERA Staff |
| Joelle Luhn | CCCERA Staff |
| Kelli Ingersoll | CCCERA Staff |
| Colette Curtis-Brown | Central Sanitary District |
| Lisa Driscoll | Contra Costa County Administrators Office (CAO) |
| Laura Strobel | CAO |
| Richard Price | San Ramon Valley Fire Protection District (SRVFPD) |
| Matt Stamey | SRVFPD |
| Robert Leete | SRVFPD |
| John Keel | SRVFPD |
| Jonas Aguiar | SRVFPD |
| Gloriann Sosser | SRVFPD |
| John Ross | Con Fire |
| Lucy Fogarty | Contra Costa County Superior Court (CCCSP) |
| Brandy Sanborn | CCCSP |
| Donna Irwin | Self |
| Nodge Irwin | Self |
| Michelle Johnston | Auditor-Controller's Office |
| Katrina Clingerman | Ice Miller LLP |
| Debbie Ratcliff | Central Contra Costa Sanitary District (CCCSD) |
| Randy Musgraves | CCCSD |
| Kathryn | CCCSD |
| Kathy Gibs | Grand Jury |
| Greg Manning | Grand Jury |

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| Marnie Huddleston | First 5 Contra Costa |
| Doug Pryor | Bartel Associates |
| Satomi Caderna | CCCREA |
| Terrance Cheung | Supervisors John Gioia |
| Randy Bradley | Moraga Orinda Fire Protection District (MOFD) |
| Sue Casey | MOFD |
| K Martin | Delta Diablo Sanitary District |
| Jim Bickert | Deputy Sheriff's Association |
| Kris Hunt | Contra Costa County Taxpayers Association |
| Ray Waletzko | Contra Costa Mosquito & Vector Control District |
| Rollie Katz | Local One |
| Vincent Wells | Local 1230 |

1. Pledge of Allegiance

Telles led all in the *Pledge of Allegiance*.

2. Public Comment

Telles requested speaker cards be filled out if anyone from the public wished to speak. No members of the public offered comment.

3. Approval of Minutes

It was **M/S/C** to approve the minutes of the August 11 and August 12, 2010 meetings. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Telles, Viramontes)

4. Routine Items

It was **M/S/C** to approve the routine items of the September 8, 2010 meeting. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Telles, Viramontes)

5. Presentation from The Segal Company regarding the results of the depooling study.

Leedom reported depooling was approved by the Board on October 14, 2009.

Monroe reported the Board action included a retroactive application of the depooling back to December 2002, but it did not involve recalculation of employer rates prior to December 31, 2008. The study reflected the separate experience of the employers in each individual cost group back to December 31, 2002. He reviewed the January 2010 report where the General member projected contribution rates were provided. The current report provides an update of the impact on the General contribution rates, as well as the impact on Safety contribution rates. Monroe noted there are two cost groups that currently have active members, but are generally closed to new members. If the Unfunded Actuarial Accrued Liability (UAAL) for these two cost groups is not pooled with another cost group that is open to new active members, then the UAAL rate

for these generally closed cost groups would increase substantially in future years. He reviewed the employer contribution rates, based on the December 31, 2008 actuarial valuation, and the illustrative employer contribution rates determined on the same valuation date after depooling. He noted there is more volatility in smaller departments and that the results of depooling depend critically on the employer by employer contribution and benefit payment data, and on the employer by employer member data reported to Segal. The actual impact of depooling will not be known until it is implemented in the actuarial valuation for December 31, 2009.

Public comment: Richard Price, San Ramon Valley Fire Prevention District (SRVFPD), stated on October 20, 2009, their company sent a letter to the CCCERA Board supporting depooling. The SRVFPD Board took extensive action to reform terminal pay items and other controversial items, resulting in a direct effect on pay and retirement benefits. He felt that Districts are incentivized by depooling and this encourages responsible behavior.

Doug Pryor, Bartel Associates, stated that they had requested time to review the report when it came out. They would like the Board to allow them the time to review the information before taking any action to change contribution rates.

6. Consider and take possible action on issues regarding depooling.

It was **M/S/C** to authorize staff to work with The Segal Co. and employers as needed for review of the depooling information. (Yes: Gaynor, Gioia, Hast, Holcombe, Pollacek, Telles, Viramontes. Abstain: Buck and Cabral)

Gioia was absent from subsequent discussion and voting.

7. Consider and take possible action regarding recommendation from tax counsel regarding service purchase and service conversion installment contracts on a pre-tax basis.

Katrina Clingerman, Ice Miller, LLP, provided a presentation on the use of pre-tax installment contracts to make service purchase and conversions. She began with an overview of the service purchase program, reviewed current CCCERA practices, stating current payment methods can be on a pre-tax or after-tax basis. She explained the reason for this presentation is the IRS no longer approves pre-tax installment payments for service purchases or tier conversions. Service purchases and conversions cannot be on a pre-tax basis, but they may still be funded through eligible rollovers, lump sum payments, and monthly payroll deductions, on an after-tax basis.

Her recommendation as tax counsel is for the Board to 1) eliminate pre-tax payroll deductions for service purchases and conversions and 2) amend Board rule V.6.G, as soon as feasible. She noted that outstanding contracts should continue through the end of

their term. Staff noted that when Board Regulations are amended, they must also be approved by the Board of Supervisors.

It was **M/S** to eliminate pre-tax payroll deductions and amend Board Rule V.6.G. with a cutoff date for all new pretax contracts of 12/31/2010.

An amended motion was **M/S/C** to change the cutoff date to 10/31/2010. (Yes: Buck, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes. Abstained: Cabral)

8. Consider and take possible action on travel policy.

Leedom reviewed the travel policy survey completed in early July and noted some of the meal reimbursement limits in place at other retirement systems. She reported on alternatives to the \$75 maximum allowance, earlier reviewed by the Board at the August 11, 2010, meeting.

The Board discussed the pros and cons of having a per diem; having staff review the Board's meal expenses, and staff bringing disputes to the full Board for approval.

It was **M/S** that all expenses submitted for reimbursement should be reasonable and subject to staff review and approval. If staff feels expenses are lavish, the Board member will have to file an appeal to the Board in writing and it would be included in the agenda for approval.

A substitute motion was **M/S/C** to raise the reimbursement level to \$100 per day, not including taxes, tips and service charges. (Yes: Gaynor, Hast, Holcombe, Pollacek, Telles. Abstain: Buck, Cabral, Viramontes)

9. Consider and take possible action on Global High Conviction Equity Manager Semi-finalist report.

Helliesen gave an overview of the search they conducted and suggested the Board could interview four of the firms. The Board noted Aberdeen is a Scottish firm, and asked Helliesen how the Board would address regulatory issues. Helliesen noted the assets would be in custody with State Street. Price added that the Aberdeen commingled fund is a Delaware Corporation.

He discussed the pros and cons of each firm and also reviewed their investment processes, noting that a high conviction portfolio would have fewer stocks and slightly more risk.

It was **M/S/C** to interview Aberdeen Asset Management, Epoch Investment Partners and Tradewinds. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)

10. Cash flow report for the 6 months ended 6/30/10.

Koehler reported on the cash flow for the first 6 months of 2010. He noted investment management fees include outside investment attorney fees. Non-investment attorney fees are listed separately.

It was **M/S/C** to accept the cash flow report for the 6 months ended 6/30/10. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)

11. Consider and take possible action on the SACRS Proxy Voting Form

The Board discussed how proxy voting was handled in the past, and it was noted the Board Chair is usually the voting person.

It was **M/S/C** to appoint Jerry Telles as CCCERA's Voting Delegate and Dave Gaynor as the Alternate Voting Delegate at the upcoming SACRS Conference. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)

It was the consensus of the Board to move to Items 13 and 14.

13. Conference Seminar Attendance

- (a) It was **M/S/C** to authorize the attendance of all Board members plus appropriate staff at the SACRS Fall Conference, November 9-12, 2010, Universal City, CA. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)
- (b) It was **M/S/C** to authorize the attendance of Buck and Gaynor at the Public Fund Boards Forum, December 11-14, 2010, San Francisco, CA. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)
- (c) It was **M/S/C** to authorize the attendance of Naramore and Telles at the CRCEA Fall Conference, October 25-27, 2010, San Rafael, CA. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)
- (d) It was **M/S/C** to authorize the attendance of 2 Board members and 1 staff member at the Invesco Client Conference, November 2-4, 2010, La Jolla, CA. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)
- (e) It was **M/S/C** to authorize the attendance of 2 Board members and 1 staff member at the Progress Investment Management Client Conference, November 21-23, 2010, Irving, TX. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)

14. Miscellaneous

- (a) Staff Report -

Leedom reported there will be a Board meeting on September 29, 2010, with presentations from the finalist Global High Conviction Equity Managers

(b) Outside Professionals' Report - None

(c) Trustees' Comments -

Buck asked for an update on AB 1987. It was reported that the bill is on the Governor's desk and he has until September 30, 2010 to sign it.

Cabral commented on the Ice Miller presentation.

Hast and Pollacek recused themselves from Closed Session and were not present for subsequent discussion and voting.

12. CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54956.9(b)

The Board moved into open session and reported the following:

In closed session, the Board agreed to enter into a final and binding agreement to settle legal claims, as follows:

In July, 2010, CCCERA first discovered that it may have been incorrectly paying retirement allowances to two elected county officials, contrary to a section of law that provides for the suspension of retirement allowances, while a retired member is serving in an elective office (if time in that office is part of the service credit on which the allowance is calculated). The two elected officials are Warren Rupf, County Sheriff, and Robert Kochly, County District Attorney. Their current terms of office end on or about January 1, 2011 and none has sought reelection.

After examining the matter further, the Board decided in August to suspend the remaining monthly allowance payments to the two officials and to reserve the right to recover past overpayments. The two officials disputed the Board's action and its right to recover any payments, and contend that they are lawfully entitled to the allowances they have been paid.

In recognition of the parties' dispute and in order to avoid the risk, delay, cost and expense of litigation, the parties have agreed to fully and finally settle all disputes, claims and controversies between them on this matter. The Settlement Agreement provides, in summary, that the retirement allowance of Messrs. Rupf and Kochly will be suspended for four months, and the parties will release each other from any and all other claims in this matter.

Additionally, also in July of 2010, CCCERA first discovered that it may have been incorrectly paying a retirement allowance to a third elected official, Mr. Stephen Ybarra, County Auditor-Controller, contrary to the same section of law. In closed

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session in August, the Board decided to suspend the remaining four monthly allowance payments to Mr. Ybarra.

The vote in closed session was as follows: (Yes: Buck, Cabral, Gaynor, Holcombe, Telles, Viramontes)

Hast and Pollacek were present for subsequent discussion and voting.

It was **M/S/C** to adjourn the meeting. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)

Jerry Telles, Chairman

Dave Gaynor, Vice-Chairman