

**MINUTES**

**REGULAR BOARD MEETING`  
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**One McInnis Parkway, 1<sup>st</sup> Floor  
Retirement Board Chambers  
San Rafael, CA**

**October 14, 2009, 9:00 A.M.**

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**EVENT CALENDAR**      9:00 A.M.      Retirement Board Meeting

**CALL TO ORDER**      Chair Phillips called the meeting to order at 9:08 A.M.

**ROLL CALL**      PRESENT: Arrigoni, Bolger, Given (non-voting), Gladstern, Haim, Hufford,  
Phillips, Richardson, Smith, Sweet, Webb (non-voting),  
Wofford (non-voting)

ABSENT: None

**MINUTES**

It was M/S Hufford/Richardson to approve the June 10, 2009, Regular Meeting Minutes as submitted.

AYES:      Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips, Richardson,  
Smith, Sweet  
NOES:      None  
ABSTAIN:    None  
ABSENT:     None

It was M/S Arrigoni/Haim to approve the August 12, 2009, Investment Committee Meeting Minutes as submitted.

AYES:      Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson, Smith,  
Sweet  
NOES:      None  
ABSTAIN:    Hufford  
ABSENT:     None

It was M/S Webb/Hufford to approve the August 28, 2009, Special Board Meeting Minutes as submitted:

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips, Richardson, Smith, Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: None

It was M/S Gladstern/Smith to approve the September 9, 2009, Regular Board Meeting Minutes as amended.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips, Smith  
NOES: None  
ABSTAIN: Richardson, Sweet  
ABSENT: None

The Chair directed discussion to Agenda Item E.1.

**E. OLD BUSINESS**

1. Supplemental Ad Hoc COLA for 2009 (Action)

Consider and take possible action on Finance and Risk Management Committee recommendation not to grant Supplemental Ad Hoc COLA as of July 1, 2009

Trustee Arrigoni stated that the Finance and Risk Management Committee recommended no Ad Hoc Cost of Living Adjustment be granted this year, based on careful consideration of the actuary's analysis and recommendation and legal considerations. Counsel Dunning reviewed the provisions in Government Code section 31874.3(b) authorizing the Board to grant an Ad Hoc COLA to a segment of MCERA's retired members under certain circumstances. Dunning stated, however, that the condition of MCERA reserves to fund basic benefits, and the actuary's recommendation on this topic, may raise concerns regarding the Board's proper exercise of its fiduciary responsibilities if it were to grant an ad hoc COLA at this time.

Trustee Haim stated that the long-retired retirees affected by the decision have suffered serious setbacks to their purchasing power in Marin County. While acknowledging the advice of counsel and the actuary on this issue now, Haim expressed a desire for the Board to consider establishing a dedicated reserve to fund the Ad Hoc COLA in the future.

Trustee Smith voiced concern about retirees' increasing healthcare costs and stated that the Board's policy should take this into consideration. Trustee Hufford asked if there were a way to compromise on the issue by providing the benefit only to those most seriously impacted by inflation. Counsel advised that the statute itself defines the retirees who would be eligible to receive the benefit if it were granted. Counsel reiterated that the fiduciary responsibility of the Board is to make decisions based on the

overall best interests of all members of the system, both retired and not yet retired, though the balance between these interests may not be obvious and at times their interests may be cross-cutting. Chair Phillips added that the decision must be made while first taking reasonable steps to ensure on the competency of the fund's assets to pay vested benefits.

Administrator Benner presented a letter from the City Manager of San Rafael and one member who would be affected asking that the Ad Hoc COLA not be granted. Trustee Arrigoni acknowledged the emotional nature of this issue, but argued that all beneficiaries should be treated the same way and that the Board should acknowledge the actuary's opinion and recommendation that no Ad Hoc COLA be granted this year.

Trustee Gladstern reminded the trustees that there are retirees who have negotiated no COLA who also will not be receiving an annual COLA increase. The Actuary confirmed that the calculation was based on members eligible as of December 31, 2008. He stated that the statute is not specific as to the calculation for the amount of the benefit, but only specifies who is affected as of what date.

The Chair welcomed members of the public to comment. Bob Briar, Marin Firefighters President, spoke against the Finance and Risk Management Committee's recommendation not to grant the Ad Hoc COLA. He stated that the retirees who are affected by this supplemental COLA set the foundation for the work that is done today and are most impacted by increasing prices, adding that we should stand by our retirees both in good times and bad.

Ken Martin of the San Rafael Firefighters union also spoke against the Committee's recommendation. He stated his belief that some systems such as San Jose guarantee retirees a 4% increase regardless of inflation levels, and pointed out that there has been no increase to cover rising health care costs for 5 years in San Rafael. He stated that these people are falling behind, and many of them are not able to come to meetings to represent themselves.

Emilio Augustine, President of MCREA, pointed out that the Ad Hoc COLA is an adjustment, not a raise, that living expenses in Marin County are unusually high, and stated that his organization opposed the Committee's recommendation.

John Grey, an attorney who stated he has represented many of the affected retirees, said that the increase should be granted as the amount of money involved is insignificant, whereas the retirees involved are dramatically affected.

Andy Rogerson, President of the San Rafael Firefighters Association, asked the Board to grant the increase.

Sydney Fowler, an MCERA active member, asked the actuary what the effect would be on employee contribution rates. He replied that contribution rates would increase for the employers, but should not have an impact on employee rates.

Chair Phillips stated that the Board is initiating discussions to explore the possible establishment of a designated excess reserve fund from which to pay for the Ad Hoc COLA in the future. Trustee Bolger noted that society needs to take care of the less fortunate and that the sustainability of the retirement systems portfolio is paramount so that adequate pensions of MCERA's members may be maintained. She pointed to the 2005 Grand Jury report questioning the sustainability of the public retirement systems generally as additional context for her conclusion that the Ad Hoc COLA should not be granted by the MCERA Board this year.

Trustee Hufford argued for granting the Ad Hoc COLA, pointing to the magnitude of the decision as many of the retirees affected are survivors of MCERA members, who already receive reduced benefits. In effect, he said this group may be at a 60% purchasing power level. Trustee Sweet stated that as trustees the primary duty is the fiduciary duty, and as there are no dedicated reserves from which to grant the Ad Hoc COLA that would not deplete reserves used to pay for vested benefits, she supported the Committee's recommendation. She stated that it is fiscally irresponsible to remove money from the system that will be needed to fund vested retiree benefits in the future. Trustee Smith said that this decision is a one-time decision, and he is concerned about the affected retirees. While asking whether some savings might be made in order to fund the increase, Smith also commented that he was concerned there will be fewer dollars available in the future. Trustee Arrigoni said that there were no funds available to fund the Ad Hoc COLA this year.

Counsel noted that unrestricted reserves still exist within MCERA that may be used for the Ad Hoc COLA by statute, but that they have been valued to pay for basic benefits and a depletion of those reserves at this time may create fiduciary issues given the current funding level of those benefits. The actuary cautioned that when the FY09 valuation is complete, there is a good chance that there will not be sufficient assets to cover existing inactive benefits for some of the plan sponsors. Trustee Gladstern voiced her concern about the Board's fiduciary duty to all members in light of the information provided by the actuary regarding MCERA's funding level.

Chair Phillips expressed the Board's appreciation for the involvement of the public.

Chair Arrigoni reiterated the Committee's recommendation that no Ad Hoc COLA be granted for the fiscal year 2009. The Board voted 8-1 to adopt the Committee's recommendation.

AYES:	Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson, Smith, Sweet
NOES:	Hufford
ABSTAIN:	None
ABSENT:	None

Smith qualified his vote based on the establishment of a reserve policy to fund the Ad Hoc COLA in the future. The Chair directed discussion to Agenda Item E.2.

Trustees Gladstern and Haim left the meeting in session at 10:18 a.m.  
Trustee Haim returned to the meeting in session at 10:20 a.m.

2. Determine Amortization Period of UAAL for Three Special Districts (Action)  
Consider and take possible action on Actuary's recommendation to re-set amortization period of UAAL for Marin City Community Services District, Marin/Sonoma Mosquito & Vector Control District, and Tamalpais Community Services District from 10 to 18 years

Graham Schmidt of EFI reviewed the issue, explaining that he recommended the increase in order to reduce volatility in contribution rates and to match the County's amortization period, which will also simplify the calculation and administration of the Plan. Administrator Benner explained that during the transition from the prior actuary (Mercer) to the new actuary (GRS), the amortization period was allowed to decline, which was not the original intent. She reported that upon notification of the proposed change, one system had no objection to resetting the amortization period, and the other two systems did not respond.

It was M/S Smith/Hufford to adopt the actuary's recommendation to re-set the amortization period of UAAL for Marin City Community Services District, Marin/Sonoma Mosquito & Vector Control District, and Tamalpais Community Services District from 10 to 18 years effective with the FY08 valuation.

AYES:	Arrigoni, Bolger, Haim, Hufford, Phillips, Richardson, Smith Sweet
NOES:	None
ABSTAIN:	None
ABSENT:	Gladstern

Trustee Gladstern returned to the meeting in session at 10:24 a.m.

Discussion continued regarding counsel's recommended questions of the actuary as follows:

- 1) Trustee Arrigoni asked the actuary if he recommended the change in existing methodologies and why. Actuary Graham Schmidt replied that he recommended the change in order to reduce volatility in contribution rates and to match the county's amortization period.
- 2) As to the impact of the proposed change, Schmidt stated that while a full projection was not calculated, the same contributions would be received but over a longer time period, with an expected reduction in contributions of approximately \$300,000 or .0024% per year, extended over 18 years.
- 3) Trustee Hufford asked whether the recommendation complies with ASOP and GASB standards and the actuary said it would, complying with the GASB rules of a maximum of 30 years and stable amortization.

- 4) Trustee Gladstern asked whether the change would impact the actuarial soundness of the retirement system, and Schmidt stated that there should be no overall impact to the system.
- 5) Trustee Sweet asked whether the recommended change results in a funding policy that conforms to the Government Finance Officers Association (GFOA) and the Committee on Retirement Benefits and Administration (CORBA) recommended practices for Funding of Public Employee Retirement Systems, and Schmidt replied it did, with the goal being to achieve inter-generational equity.
- 6) Trustee Richardson asked if the recommendation would impact the solvency of the fund and the ability to pay benefits in the future. Schmidt estimated the effect of the proposed change on fund solvency to be neutral.

Due to the extended discussions, the Chair directed that a second vote be taken.

It was M/S Gladstern/Sweet to adopt the actuary's recommendation to re-set the amortization period of UAAL for Marin City Community Services District, Marin/Sonoma Mosquito & Vector Control District, and Tamalpais Community Services District from 10 to 18 years.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips,  
Richardson, Smith, Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: None

3. Approve FY08 Annual Valuation Report (Action)  
Consider and take possible action to adopt Annual Valuation Report for FY08

Graham Schmidt noted that following the full discussion of the report at the prior Board meeting, he issued a sticker to accompany the Summary of Reserves and Other Liabilities on page 47 with the following wording: *This Summary of Reserves was generated by MCERA and is currently under review by the board; adjustments may be made to it following additional actuarial and legal review.*

It was M/S Arrigoni/Gladstern to approve the Annual Valuation Report for FY08.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips,  
Richardson, Smith, Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: None

The Chair directed discussion to Agenda Item A.2.



It was M/S Arrigoni/Smith to deny service connected disability and to grant non-service connected disability to Rick Russell and to advise the applicant of his right to request a hearing before the Administrative Law Judge.

AYES: Arrigoni, Bolger, Gladstern, Phillips, Richardson, Smith  
Sweet  
NOES: Hufford  
ABSTAIN: Haim  
ABSENT: None

It was M/S Hufford/Arrigoni to grant service connected disability to Brian Reed.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips,  
Richardson, Smith, Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: None

It was M/S Bolger/Smith to deny service connected disability and to grant non-service connected disability to Monte Payne and to advise the applicant of his right to request a hearing before the Administrative Law Judge.

AYES: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson,  
Smith, Sweet  
NOES: Wofford  
ABSTAIN: None  
ABSENT: None

It was M/S Hufford/Sweet to grant service connected disability to James Maloney.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips,  
Richardson, Smith, Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: None

The Chair recessed the meeting for lunch from 12:40 P.M. to 1:13 P.M.

The Chair reconvened the meeting in closed session at 1:13 P.M. and directed discussion to Agenda Items D.1 and D.2

Trustee Wofford disclosed a personal financial interest in Agenda Item D.2. because the litigation directly involves her employing department, and she recused herself from the closed session meeting at 1:14 P.M.

**D. LEGAL MATTERS**

1. Conference with Legal Counsel – Anticipated Litigation (Closed Session)  
Consider initiation of litigation pursuant to subdivision (c) of Section 54956.9:  
one potential case  
No reportable action
  
2. Conference with Legal Counsel – Pending Litigation (Closed Session)  
Shelden v. MCERA, County of Marin, First District Court of Appeal Case No. A124912  
No reportable action.

Trustee Wofford rejoined the meeting in session at 2:20 P.M.

The Chair reconvened the meeting in open session at 2:22 P.M. and directed discussion to **BOARD OF RETIREMENT MATTERS**, Agenda Item A.1.

1. Administrator’s Report (Oral)
  - a. Status update on staff teambuilding activities  
Administrator Charnel Benner reported that the staff teambuilding meeting will be held on October 21, and the proposed mission-vision-values statements will be presented by the consultant to the Board at the Strategic Workshop on October 22. Responding to Trustee Smith’s query, the Administrator reported the consultant’s fee to be \$65,000 to date, with the maximum contract amount limited to \$100,000.
  
  - b. Consider December 11 for Special Board meeting (disabilities)  
The Administrator reported that there are a considerable number of disability cases to be completed by the end of the year and that December 11 is the date requested for an additional meeting to accommodate the applicants.
  
  - c. Update on CPAS project  
While the momentum of the project continues, Administrator Benner nevertheless recommended delay of implementation until July 1 due to these factors: a delay in active payroll information received from agencies; the need for one additional software build; and the time required to cleanse and update the inferior quality of the BenCal data. Her decision to delay the project is based on reducing risk to the project and supporting the enduring competency of the system. No additional costs will be incurred due to the delay, she stated.

Administrator Benner announced that Counsel Dunning will argue the *Lexin* case on November 4 in San Francisco and trustees are welcome to attend.

3. Committee Reports
  - a. Finance and Risk Management Committee Report
    1. Consider and take possible action on Amendment to Administrator’s contract re investment related services (Action)

Trustee Arrigoni, Committee Chair, reported that his Committee had convened several meetings on the budget issue with the participation of consultant John Maher, CPA. Trustee Arrigoni explained that there are two approaches to configuring the budget, with one deducting a portion of the Administrator's salary which is attributable to investment related activities from the fund balance. The proposed amendment to the Retirement Administrator's contract clarifies the issue should the Board determine this to be the appropriate avenue. Another approach results in a \$126,000 cushion within the 18 basis point budget limit. Details will be provided to the Board at the Strategic Workshop, he said.

2. Recommend action on administrative budget for FY 2009-2010 (Action)

According to Trustee Arrigoni, one of the Committee's concerns is that the available budget may be significantly reduced next year. For this reason the Committee considered whether to examine the possibility of making reductions in staffing. Concerns regarding the probable negative impact on service levels were addressed by seeking the opinion of the Retirement Manager, and her sentiments will be presented to the Board for their consideration, Trustee Arrigoni stated. He pointed out that since the County, Courts and San Rafael are adding to MCERA's workload with various retirement/separation incentive programs, a letter should be sent to request relief from their overhead charges.

While a number of budget issues have been resolved and a proposed FY09-10 budget can be made within statutory guidelines, Trustee Arrigoni concluded that issues related to hiring decisions are beyond the scope of the Committee. As a result, he reported that there was no action on the proposed budget at this time, and his Committee recommends that the Board commence budget deliberations. Chair Phillips and several board members thanked Trustee Arrigoni and the Committee for their continuing efforts to develop a revised budget.

Administrator Benner reported that she was developing a proforma budget for FY10-11/ She cautioned that reductions in staffing would be in conflict with the Member Services Committee's mandate to provide increasingly higher levels of member services.

3. Update on pending matters  
Nothing to report.

4. Trustee Comments

1. Report by Investment Committee Chair on recent RREEF America III Shareholder Meeting

Trustee Richardson reported on his attendance at the meeting, stating that a \$1.6 B note was coming due, with RREEF attempting to restructure the debt and extend the maturity. Debt-holder Bank of America was not inclined to negotiate, however, he said. As an alternative to debt restructuring, RREEF planned to turn over keys to a number of properties. During part of the meeting stockholders discussed a possible change in management, Trustee Richardson

reported, adding that more information will be available after a RREEF November meeting. Chair Phillips noted that at this point there is no recourse. Trustee Richardson stated that he did not believe a write-down was necessary at this time.

Trustee Haim requested that the November 19<sup>th</sup> meeting of the Governance Committee be reschedule so that he could attend. He also reported he will speak at the Public Funds Conference in San Francisco on December 13.

Chair Phillips scheduled a meeting of the Ad Hoc Retirement Administrator Evaluation Committee to discuss Annual Business Objectives with Trustees Webb, Sweet and Hufford for October 19 at 3:30 P.M. The Chair also announced that a meeting of the Assistant Administrator Ad Hoc Committee with Trustees Smith and Bolger will be held soon.

Trustee Arrigoni was excused from the meeting at 2:54 P.M. and returned at 2:56 P.M.  
Trustee Hufford was excused from the meeting at 2:57 P.M.

**B. OPEN TIME FOR PUBLIC EXPRESSION**

No one spoke.

**F. NEW BUSINESS**

1. Approve FY08 Condensed Annual Financial Report (Action)  
Consider and take possible action to adopt Condensed Annual Financial Report for FY08

It was M/S Haim/Gladstern to adopt the Condensed Annual Financial Report for FY08.

AYES: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson,  
Smith, Sweet, Wofford  
NOES: None  
ABSTAIN: None  
ABSENT: Hufford

2. SACRS Voting Proxy (Action)  
Board vote to select delegates for SACRS November meeting

It was M/S Haim/Wofford to nominate Trustee Gladstern as MCERA delegate to the SACRS November meeting.

AYES: Arrigoni, Bolger, Gladstern, Haim, Phillips, Richardson,  
Smith, Sweet, Wofford  
NOES: None  
ABSTAIN: None  
ABSENT: Hufford

Trustee Hufford rejoined the meeting at 3:05 P.M.

3. Revised SACRS Bylaws Regarding Board of Directors Election Process (Action)  
Consider and take possible action to approve revised SACRS Board of Directors election process

Trustee Gladstern reported that she was on the Bylaw Committee for this issue. She reported that the change in election provides additional transparency for the entire process.

It was M/S Smith/Richardson to instruct the MCERA delegate to vote to approve the revised SACRS Board of Directors election process.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips,  
Richardson, Smith, Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: None

4. Revised SACRS Reciprocity Language (Action)  
Consider and take possible action to approve proposed amendment to 1937 Act regarding reciprocity

Administrator Benner reviewed the circumstances which apply to reciprocity, explaining that the language proposed was developed by the SACRS Legislative Committee over the last two years in order to clarify and/or provide uniformity regarding how reciprocity would be handled by member systems. Trustee Smith requested the Administrator's opinion on the matter. She stated that the proposal would allow reciprocity in cases where overlapping service would otherwise prohibit establishment of reciprocity, which would benefit members. She clarified that service credit would not be given by both systems for the same period of time. The Administrator reported that a problem arises when employees run out accrued vacation after having accepted a position with a reciprocal system. She said she believes that although 6 months is a long time, several hundred vacation hours can be accumulated in the normal conduct of business and that would allow for the possibility of three months of overlapping service both incoming and outgoing. The 37 Act systems vary as to whether overlap is allowed and to what extent. Benner stated that the intent of the legislation is to provide uniformity while allowing each system to develop customized rules. She recommended that the Board advise their delegate to ask for clarification of the issues involved.

It was M/S Bolger/Smith to instruct the MCERA delegate to vote against the proposed amendment to the 1937 Act regarding reciprocity.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips,  
Richardson, Smith, Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: None

5. Approve Client Conferences and Other Educational Opportunities and Authorize Expenditures (Action)

- a. Global Investors' 2009 Client Conference  
Barclay's Global Investors November 16-18, 2009
- b. SACRS Fall Conference November 10-14, 2009
- c. Pensionomics: Measuring the Economic Impact  
of State and Local Pension Plans March 8, 2009  
NACo Legislative Conference, Labor and Employment  
Steering Committee Meeting
- d. Protecting Shareholder Value October 22-23, 2009  
Forum for Institutional Investors

It was M/S Richardson/Bolger to approve the conferences as submitted.

AYES: Arrigoni, Bolger, Gladstern, Haim, Hufford, Phillips,  
Richardson, Smith, Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: None

**G. INVESTMENT INFORMATION**

Trustee Gladstern voiced concern that assets are falling in value while the stock market is going up. Trustee Arrigoni asked the Administrator whether there have been any inquiries about the vacant office space at One McInnis Parkway. The Administrator reported that there has been some activity but no final leases.

**H. FINANCIAL INFORMATION**

- 1. Treasurer's Monthly Report  
Short Term Investments for period ending August 31, 2009

The Board accepted the Treasurer's Monthly Report on Short Term Investments for the period ending August 31, 2009.

**I. OTHER INFORMATION**

- 1. Approved Trustee Training Calendar
- 2. *Keeping in Touch* – October Issue, Retired Employees Association newsletter
- 3. Updated Trustee Handbooks
- 4. "Increased Opportunities for Active Management," by Lawrence Remstedt, AXA
- 5. *The NAPPA Report*, August 2009
- 6. RREEF Market Watch, September 2009
- 7. RREEF America III Shareholder Meeting Overview, Sara Angus, Callan Associates

8. RREEF America III Shareholder Meeting Trip Report, Gerald Richardson, Trustee

**J. CONSENT CALENDAR (Action)**

The Board voted unanimously to approve the Consent Calendar as submitted.

There being no further business, the meeting was adjourned at 3:16 P.M.

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James Phillips, Chair

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Michael Smith, Secretary