CALL TO ORDER
Chair Gladstern called the meeting to order at 9:02 A.M.

ROLL CALL
PRESENT: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore, Smith

ABSENT: None

MINUTES
It was M/S Bolger/Brenk to approve the May 30, 2013 Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

A. OPEN TIME FOR PUBLIC EXPRESSION
No public comment.

B. OLD BUSINESS
1. Administrative Budget FY 2012/13 Year-End Review
Consider and review budget for year ending June 30, 2013

Retirement Administrator Jeff Wickman presented the Administrative Budget for the fiscal year ending June 30, 2013 for review. The final budget of $3,787,121 is within the legal cap of 21 basis points of the accrued liability. Total expenditures were within 1% of the Board approved budget.

Mr. Wickman reviewed items affecting the budget in the current quarter. These included a vacation payout for former MCERA employee Alex Levin and the one-time additional payment to County employees negotiated as a result of the payroll date change. There were also higher-than-expected expenses related to disability cases, including additional medical transcriptions and a sub rosa investigation. Benefit costs are being monitored by staff and any necessary adjustments to the budget will be brought back to the Committee for review and approval. Trustee Given supported the overall final administrative budget as reasonable.
It was M/S Given/Brenk to recommend that the Board approve and accept the change in the Administrative Budget for the Fiscal Year ending June 30, 2013 consisting of an additional allocation to the Salaries and Benefits category.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Shore, Smith

NOES: None

ABSTAIN: None

ABSENT: Piombo

Trustee Piombo joined the meeting at 9:15 A.M.

During the quarter the 401(h) medical trust that was administered by MCERA on behalf of the City of San Rafael was transferred back to the City. The transfer was completed after MCERA and the City entered into an agreement that included among other things the direction for how the transfer would occur in order to meet Internal Revenue Service requirements. In response to Trustee Shore’s inquiry, Mr. Wickman explained that MCERA managed the medical trust using the same asset allocation as the pension benefit dollars but tracking the amounts separately because the medical dollars are not part of the pension valuation assets. On an annual basis the City would provide verification to MCERA of their retiree medical costs and MCERA would reimburse the City for those costs from the medical trust. Trustee Bolger added that plan sponsors may participate in the medical trust managed by CalPERS.

Mr. Wickman reviewed the non-budgeted expenses that are also charged to the Fund as provided for in the County Employees Retirement Law (CERL), or ’37 Act. In this category the monthly retiree payroll is the largest single expense. The monthly payroll amount is consistent throughout the year with the only change coming in April if retirees receive a Cost of Living Adjustment (COLA) as provided in the retirement tier offered by the employer.

Mr. Wickman reviewed the legal expenses outlining the items that caused an increase during the fiscal year. He noted that the General Counsel costs were comparable to the prior fiscal year with any increase resulting from the analysis necessary to implement the Public Employees Pension Reform Act (PEPRA) and AB 197. This included the work on the Board policies relating to pensionable compensation and compensation earnable and educational sessions with plan sponsors. The biggest single impact on legal expenses was the cost of defending MCERA in the lawsuit that challenged the Board’s implementation of AB 197 and PEPRA. According to Counsel Dunning the potential reimbursement of MCERA’s attendant legal fees is being pursued with MCERA’s fiduciary liability insurer.

Other legal activities during the fiscal year include the cost associated with negotiation of agreements and side letters with newly hired investment managers. Mr. Wickman
explained that Manatt, Phelps, and Phillips has experience in this area that benefits MCERA in the analysis and negotiation of these agreements. In response to Trustee Bartfeld’s inquiry, Mr. Wickman stated that most favored nation status is an area of pushback from investment managers but has been secured in most instances. Trustee Bolger suggested that County Counsel be used for such purposes. Trustee Given asked if the Retirement Administrator reviews all legal invoices and if so does the Administrator consider the charges to be accurate based on the services provided. Mr. Wickman affirmed that he does review all legal invoices and believes MCERA received the services that have been paid for.

Mr. Wickman reviewed the legal expenses related to MCERA’s external tax counsel Ice Miller. He noted that Ice Miller’s costs were lower than the prior fiscal year. They continue to work on MCERA’s favorable determination letter filing with the Internal Revenue Service (IRS). During the year this included re-filing the Plan Document to the IRS to include the new AB 197 and PEPRA provisions and addressing compliance issues including the transfer of the health benefit trust from MCERA to the City of San Rafael. Trustee Given supported these efforts, emphasizing the protective nature of the Determination Letter that is being sought by MCERA.

The last areas of legal expense are services provided County Counsel. The biggest single service is representing MCERA in disability cases including any follow-up action as a result of the Board’s decision. Mr. Wickman reminded the Committee that MCERA also received invoices from the County for services that had not been previously billed. This increased the total expenditure for the year but should not represent an ongoing increase.

In his review of investment manager fees, Mr. Wickman reported that lower custodial fees were negotiated with State Street. Trustee Bolger’s commented on certain manager fees, specifically Artisan Partners. This led to a discussion of where MCERA’s fees stand in relation to the industry and whether MCERA’s Investment Consultant, Callan Associates, should be providing an annual fee study.

Based on discussions, there was general agreement with Trustee Given’s recommendation to direct the Administrator to: (1) review the contract with Callan Associates to assure that all required services are being provided to MCERA; (2) request that Callan Associates conduct a fee comparison of MCERA’s investment managers to ensure alignment with current industry standards with fees.

2. Quarterly Checklist
Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Educational and event expenses were reviewed by Mr. Wickman. Trustee Bolger observed that upon attending a conference or educational event trustees would provide an informational report at the next Board meeting in trustee comments.
Administrator Wickman indicated he would remind all trustees of the requirements in the Board’s education policy.

b. Continuing Trustee Education Log

A summary chart recording progress toward meeting the required 24 hours of continuing trustee education every two years shows several trustees have met the goal early.

c. Other expenses per Checklist guidelines

Credit card charges and statements were reviewed.

d. Variances in the MCERA administrative budget in excess of 10%

See above.

e. Reconciliation of MCERA administrative accounts

MCERA staff continues to meet with representatives of the County’s Finance Department to complete the account reconciliations. Work was recently delayed in order to allow Finance Department staff the ability to focus on the Request For Proposal for a new financial system.

f. Vendor services provided to MCERA

Vendor services reviewed by Mr. Wickman included an annual procedural audit of Woodmont Real Estate Services.

g. MCERA staffing status

Stating that the Principal Systems Analyst position remains open, Mr. Wickman referred Committee members to Agenda Item C.3 below.

h. Internal controls, compliance activities and capital calls

Capital calls were reviewed that include initial commitments of $15 million each to the AEW and UBS core real estate portfolios.

i. Audits, examinations, investigations or inquiries from governmental agencies

Mr. Wickman referred Committee members to an update on the annual audit in Agenda Item C.1 below.

An updated summary of Form 700’s submitted by trustees was presented by Mr. Wickman. The summary highlights financial interests that indicate the potential
need for the recusal of certain trustees from discussions related to those interests. Ms. Dunning stressed the importance of keeping the information up to date and responded to trustee inquiries on the circumstances that would call for recusal.

Mr. Wickman is reviewing the fiduciary liability insurance renewal application. The current insurance expires on October 4. He reported that multiple providers will be considered for the upcoming year.

j. Other items from the Retirement Administrator related to risk and finance

No discussion.

3. **Electronic Board Packets Project Update**
   
   Review status of project

   Mr. Wickman discussed the status of the Electronic Board Packets Project, stating that the pilot iPad works well as a vehicle for Board packets. Since the size of the packet is limited by the currently anticipated transmission process, packet size reduction techniques that retain packet quality are being tested. The goal is to be able to accommodate worst-case scenarios involving multiple large disability cases. Alternative processes such as the use of outside service providers were discussed but are not preferred by Mr. Wickman.

Chair Gladstern recessed the meeting for a break at 10:37 A.M., reconvening at 10:45 A.M.

C. **NEW BUSINESS**

1. **Audit of Financial Statements for Fiscal Year 2012/13**
   
   Update on annual audit of financial statements by Brown Armstrong

   The annual financial audit by Brown Armstrong began in July with a week of onsite work by the auditor. Last week the auditors returned to conduct their final work and provide additional questions to the staff. The final audit report will be presented to the Board at its October 9 meeting. Mr. Wickman commended Senior Accountant Lisa Jackson and other staff for their significant efforts in support of the audit.

2. **Development of Comprehensive Annual Financial Report**
   
   Consider and discuss development of CAFR or enhancement of Popular Annual Financial Report

   Mr. Wickman introduced for the Committee’s consideration an example of an enhanced summary financial report that could be developed as an alternative to a Comprehensive Annual Financial Report (CAFR). By adding context to financial data, he explained, the report would lend transparency and confidence in MCERA’s financial reporting process. It would also serve as the next step toward ultimately producing a CAFR, which he indicated would involve an additional level of effort to complete.
The Committee considered the options of developing either the enhanced summary or a CAFR that would entail more resources. Trustee Given spoke to the value of readily available historical financial data provided in a CAFR, explaining that it expands basic financial reports into a standard analysis with a three-year look back at budget data and ten years for financial data. Trustee Smith agreed that the ability to see trends from historical data would be useful.

An enhanced summary report was recommended by Trustee Gladstern as a reasonable intermediate step. Trustee Shore requested budget information for this approach and recommended a professional analysis of how to communicate with the target audience.

Trustee Piombo was excused from the meeting at 11:06 A.M.

Based on discussions, the Committee directed the Administrator to develop a cost analysis for an enhanced financial report.

3. CPAS Server Hosting and Data Management Services (Action)

Consider and discuss entering into an agreement with CPAS to host MCERA’s database server and provide maintenance and support activities

Mr. Wickman presented a memo outlining the conditions leading to his recommendation to engage CPAS to provide server hosting and data management services as an alternative to the current in-house model. In addition to the loss of Principal Systems Analyst Alex Levin who previously was the database administrator, Mr. Wickman explained that at this time Marin County has no expertise in supporting and maintaining an Oracle database. Using CPAS for these services, he indicated, would be a cost-effective alternative providing MCERA with 24 X 7 support by a skilled centralized information technology group. Off-site service would also eliminate in-house vulnerabilities to unexpected events by providing appropriate redundant services. Other services would include multiple security features and upgrades to applicable systems software.

Mr. Wickman requested that the Committee allow him with the assistance of counsel to begin negotiations on a separate agreement with CPAS for the services listed in his memo for an annual fee of $86,400 per year. Discussions included consideration of Trustee Smith’s suggestion to undertake a comprehensive analysis of providers for such services. In response to Trustee Shore’s inquiry, Ms. Moody stated that there would be no changes to data interfaces. The potential for a delay in response time was noted by Trustee Brenk.

It was M/S Given/Shore to recommend that the Board direct the Administrator to engage CPAS to host MCERA’s database server and provide maintenance and support activities for an annual fee of $86,400 as set forth in Mr. Wickman’s related memo.

Discussions included the alternative of issuing RFI’s and the time limit for an agreement. Mr. Wickman indicated that his recommendation would be the most prudent course of action since he is concerned with having appropriate support at MCERA if unanticipated events were to occur.
AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Shore, Smith

NOES: None

ABSTAIN: None

ABSENT: Piombo

There being no further business, Chair Gladstern adjourned the meeting at 11:28 A.M.

__________________________________      _______________________________________
Maya Gladstern, Chair                            Attest: Jeff Wickman, Retirement Administrator