



**STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION**
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AGENDA

BOARD OF RETIREMENT
832 12th Street, Suite 600 – **Wesley W. Hall Board Room**
Modesto, CA 95354

June 11, 2014
2:00 p.m.

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

CONSENT ITEMS: These matters include routine administrative actions and are identified under the Consent Items heading.

PUBLIC COMMENT: Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

BOARD AGENDAS & MINUTES: Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

AUDIO: All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at <http://www.stancera.org/sections/aboutus/agendas>.

NOTICE REGARDING NON-ENGLISH SPEAKERS: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

REASONABLE ACCOMMODATIONS: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order
2. Roll Call
3. Announcements
4. Public Comment

5. Consent Items

a. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

1. Aguilar, Maria Teresa – CSA – Effective 05-18-2014
2. De Mattos, Mary - Sheriff - Effective 06-03-2014
3. Lind, Teri - CSA - Effective 05-29-2014
4. Shadel, Julie - Sheriff - Effective 06-14-2014
5. Sleeper, David - Probation – Effective 06-14-2014
6. Vanderveer, William – SBT – Effective 06-28-2014
7. Weeks, Karen – CSA – Effective 06-19-2014

b.. Approval of Deferred Retirement(s) – **Section 31700**

1. Patterson, Nancee – DCSS – Effective 05-24-2014
2. Rodriguez-Paye, Rose – HSA – Effective 02-07-2014

c. Approval of Death Benefit – **Section 31781**

1. Adonis, Aimee, Deceased, May 23, 2014, Active Member
2. King, Marie, Deceased, March 5, 2014 Active Member

6. Committee Reports and Recommendations for Action

STANDING COMMITTEES

a. Internal Governance Committee

- i. Discussion and Action to Approve the Professional Service Contracts – Legal Services [View](#)
- ii. Discussion and Action to Append StanCERA Bylaw 1.6; Retirement Board Member Election Procedures [View](#)

7. Executive Director

- a. Discussion and Action Regarding Recommendation to the Board of Supervisors Regarding Implementation of Government Code Sections 31680.4 and 31680.5 – [View](#)
- b. Discussion and Action on StanCERA's 2014-2015 Fiscal Year Administrative Budget [View](#)
- c. Legislative Update – Dawn Lea

8. Closed Session

- a. Discussion and Action Regarding Allocation of StanCERA's Real Estate Assets
Government Code Section 54956.81
- b. Conference with Legal Counsel – Pending Litigation – One Case:
Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC,
Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152
Government Code Section 54956.9(d)(4)
- c. Conference with Legal Counsel – Pending Litigation – One Case:
O'Neal et al v. Stanislaus County Employees' Retirement Association
Stanislaus County Superior Court Case No. 648469
Government Code Section 54956.9(d)(1)
- d. Conference with Legal Counsel – Pending Litigation – One Case:
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County
Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate
District, Case No. H038894 Government Code Section 54956.9(d)(1)

9. Members' Forum (Information and Future Agenda Requests Only)

10. Adjournment



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**For the Internal Governance Committee
meeting Held on June 11, 2014**

TO: Internal Governance Committee

FROM: Kathy Herman, Operations Manager

- I. SUBJECT: Professional Service Contracts – Legal Services
- II. ITEM #: 6.a.i.
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION: Direct staff to negotiate and enter into professional service contracts with Reed Smith LLP (fiduciary & litigation), Hanson Bridget LLP (tax and benefits), Ted Cabral (disability) and Damrell, Nelson, Schrimp, Pallios, Pachters & Silva (general & litigation) in accordance with StanCERA's purchasing policy. Contracts would be based on the approved Fiscal Year 2013-2014 budget, current fees, specific projects and/or a limited duration.
- V. ANALYSIS: On December 12, 1981, the County Board of Supervisors adopted Government Code Section 31529.5, granting StanCERA the ability to hire private legal counsel if County Counsel could not provide the Board with legal services due to conflict or a variety of other reasons. Until 2009, County Counsel acted as General Counsel and special counsel was engaged as needed.

The Board of Retirement first retained outside Counsel for disability work in 1995. Then in May 2004, Bob Blum of Hanson Bridgett LLP was engaged by the Board for tax and benefit issues including domestic orders. In 2009, Harvey Leiderman of Reed Smith LLP was hired as temporary Fiduciary Counsel and later engaged to handle litigation due to multiple lawsuits. In 2010, Scott Smith of Hanson Bridgett LLP, was engaged to review and analyze an investment contract. Mr. Smith has been engaged to review multiple contracts since then. In 2009, the County determined it could no longer provide General Counsel services to the Board of Retirement and the Board retained Fred Silva of Damrell, Nelson, Schrimp, Pallios, Pachters & Silva. As issues confronting the Board of Retirement have become more complex, it has become necessary to engage multiple specialized law firms. Currently StanCERA is working with four different law firms on multiple issues.

These law firms continue to provide good service, no trustee has voiced any concern regarding this service and fees are consistent with other firms with similar expertise and locations. In addition, each of the attorneys and their assistants have spent hundreds of hours working with the Board, with StanCERA staff, studying the law and becoming experts in assisting StanCERA with legal issues. As with the retirement of Bob Blum, his partner was able to maintain the continuity of the IRS voluntary compliance program without the added cost or delays of starting from scratch.

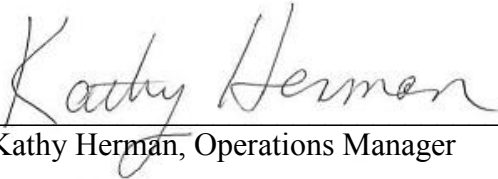
On June 28, 2011 StanCERA adopted a purchasing policy that reflects the County's policy with some exceptions. (attachment1) Section VI, F, page 41& 42 of the County's policy (attachment 2) describes which contracts and procurements do not require competitive bidding.

Some engagement letters are correctly specific. However, most of the engagement letters currently in place for the law firms are old and open ended. Stanislaus County purchasing department recommends all contracts be established for a finite period of time, and have either a per-project, annual or a total not-to-exceed dollar amount. The contracts can be extended or amended as needed or at the end of a term.

- VI. RISK: Considerable effort was done by the County in drafting contracts which protect all parties involved while insuring deliverables are received. Not updating out of date engagement letters with standardized approved contracts could put the Board of Retirement at risk by delaying access to expert legal counsel as needed.
- VII. STRATEGIC PLAN: Strategic Objective # 3 Optimize StanCERA's organizational resources, Ensure organizational quality and performance through continuous improvement
- VIII. ADMINISTRATIVE BUDGET IMPACT: Updated contracts will be based on current year's approved budget and fees. (attachment 3)



Rick Santos, Executive Director



Kathy Herman, Operations Manager

Stanislaus County Employees' Retirement Association's
Purchasing Policy
(Board Approved June 28, 2011)


Stanislaus County purchasing policies and procedures are meant to manage all aspects of the County procurement process (they are located @<http://intranet/departments/GSA/gsa-files/divisions/policies-procedures.pdf> . StanCERA views these policies and procedures as fair and adequate. StanCERA will adopt and will abide by the Stanislaus County purchasing policies and procedures with the following exceptions:

“StanCERA Executive Director or his designee” should be substituted for “purchasing or purchasing department” through out the policy except for the sale of surplus property section. StanCERA will coordinate monitor, and record all phases of StanCERA’s procurement of supplies equipment, materials, and services. StanCERA will also be responsible for the leasing of any StanCERA property. StanCERA will administer and manage all of its own contracts. StanCERA will use County purchasing agent to sell any StanCERA surplus personal property. StanCERA will consult with County purchasing agent as necessary for any assistance.

References in the policy to the County Board of Supervisors and County affiliations are not applicable to StanCERA procurements.

As a separate legal entity, StanCERA reserves the right to modify and/or reject any of the County purchasing policies and procedures as it deems appropriate. Any such modifications and/or rejections will be documented and approved by the Retirement Board.

Revised 04/24/2012

		Stanislaus County General Services Agency	
Agency Policies and Procedures		Division:	Purchasing
Section:	05-Purchasing	Prepared by:	Jim Nelson, Manager
Policy Number:	05-01	Approved by:	Julie Mefferd, Director
Title:	Purchasing Division Policies & Procedures	Version:	02/27/09
Effective Date:	March 2009	Reference #:	n/a

STANISLAUS COUNTY GENERAL SERVICES AGENCY PURCHASING DIVISION

POLICIES AND PROCEDURES

person's or firm's entry on the Bid List. Such person or firm shall, however, remain entered on the Bid List for purposes of evaluation in the case of the County's receipt of a bid from such person or firm in the future.

- c. A person or firm may be declared "not responsible" if he, she, or it is (1) slow or provides unsatisfactory deliveries; (2) in violation of applicable federal, state, or local laws, ordinances, rules, or regulations; or (3) fails to respond to bid requests.
- d. Before declaring an entrant on the Bid List to be "not responsible," the Purchasing Agent shall make a reasonable effort to give such person or firm an opportunity to correct the problem.

3. Vendor Performance

Stanislaus County has developed many fine business relationships over the years with both local and national firms. Occasionally, it is to be expected that shipments will be delayed. However, the vendor who continually defaults on delivery promises of supplies, materials, equipment, or services which do not conform to specifications can expect to have the firm's name removed from the County's Bid List. Bidders whose bids are returned as undeliverable by the U.S. Postal Service or United Parcel Service, etc., can expect their firm's name to be removed from the County's Bid List.

F. CONTRACTS AND PROCUREMENTS NOT REQUIRING COMPETITIVE BIDDING

1. Summary/Policy

The County is not required to engage in a competitive bid process for contract and procurements which fall under the following categories:

- a. Where competitive bidding is not required by law.
- b. Where the procurement is deemed to be a "small purchase," the estimated cost of which does not exceed Five Thousand Dollars (\$5,000);
- c. Where the estimated cost of the procurement is greater than Five Thousand Dollars (\$5,000), but is less than Twenty Five Thousand Dollars (\$25,000), a Request for Quotation (RFQ) may be utilized.
- d. Where the equipment, materials, supplies, or services are needed on an emergency basis;
- e. Where the procurement qualifies as a sole source procurement as hereinafter defined; or

- f. Where the procurement or contract is for professional services.

These categories of contracts and the appropriate procedures pertaining to each category are described below.

2. Where Competitive Bidding Is Not Required By Law

Absent a statutory requirement, a public entity is not bound to engage in competitive bidding.

Ref. San Diego SAFE v. Superior Ct., (1988) 198 CA 3d. 1466. Grayden v. Pasadena Redevelopment Agency (1980) 104 CA 3d 631.

3. Small Purchases - Procurements Not to Exceed \$5,000

The following procedures are to be followed for the procurement of supplies, equipment, materials, or services that do not require an expenditure of more than \$5,000.

a. Store Issue/Requisition Form

- 1) The requesting department shall initiate the procurement by submitting an electronic requisition, hereafter referred to as "requisition," to Purchasing for approval. The requisition shall specify the products or services to be procured. Prior to submission, the requisition shall be approved by the head of the requesting department or authorized designee.
- 2) The requisition shall include the following information: (a) department number; (b) fund, org, and account number; (c) a specific description of the desired products or services, using, whenever possible, dimensions, sizes, and catalog numbers; (d) the quantity of desired products or services; (e) the date on which the products or services are required; (f) the place of delivery for the product or service; and (g) authorized signature. The requisition should also include the name of suggested vendors or suppliers; Purchasing, however, shall make the final determination as to the appropriate vendor.

b. Purchasing Action

Purchasing staff shall review the requesting department's requisition and accompanying documentation for completeness. The accuracy of the requesting department's justification documentation shall be confirmed by Purchasing.

c. Fixed Assets



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**For the Board of Retirement meeting
Held on June 11, 2014**

Item # 6.a.ii

TO: The Internal Governance Committee

FROM: Rick Santos, Executive Director

- I. SUBJECT: Append StanCERA Bylaw 1.6; Retirement Board Member Election Procedures
- II. ITEM TYPE: Discussion and Action
- III. STAFF RECOMMENDATION: Recommend to full Board appending StanCERA Bylaw 1.6
- IV. ANALYSIS: Section 1.6 of the StanCERA bylaws lays out a fairly extensive process for Retirement Board Member Election Procedures. One of the procedures requires prospective candidates to gather a certain number of "membership electorate signatures" before they can become an official candidate. During our most recent election, StanCERA had a situation where one membership electorate signature appeared on both candidates' statement. Fortunately, in this case, both prospective candidates had more than enough signatures to fulfill the requirements for election even if StanCERA staff eliminated the duplicate signature from both statements.

However, it is possible in the future that a situation could arise whereby a prospective candidate may have just enough signatures to meet the requirements to become an official candidate. If this same issue were to occur in such a situation, the prospective candidate would be disqualified. To avoid this possibility, staff is proposing the following addition to StanCERA bylaw 1.6 (Attachment 1, denoted in red):

"(if it is determined that 2 or more candidates for the same seat have duplicate membership electorate signatures, then the candidate that turned in their membership electorate document first shall be the only candidate that may count that signature towards fulfilling the signature requirement above)"

Note that if the Board approves staff's recommendation, the new procedural information given each prospective candidate will be clearly spelled out to avoid any misunderstanding.

- V. RISK: None
- VI. STRATEGIC PLAN: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently
- VII. ADMINISTRATIVE BUDGET IMPACT: None

Rick Santos, Executive Director

Dawn Lea, Benefits Manager

Attachment 1

1.6. RETIREMENT BOARD MEMBER ELECTION PROCEDURES

RETIREMENT BOARD MEMBERS WHO ARE ELECTED by members of StanCERA of the same category of membership (Second and Third seats by General members, Seventh and Alternate seats by Safety members, and Eighth and Alternate Seats by Retired members) shall be elected according to the procedures set forth in this Section of the Retirement Board's Bylaws. In all cases where the word "Department" appears in this Section, the meaning shall be construed to include all Stanislaus County Departments, the City of Ceres and contracting Districts (all employers who use StanCERA for administration of retirement benefits). The Executive Director shall prepare a NOTICE OF ELECTION, which shall contain the deadlines for the submission of nomination papers, date of distribution of ballots, date of final receipt of ballots and the date for canvassing the ballots.

The distribution of the notice of election shall be made no more than sixty (60) nor less than forty-five (45) days prior to the final date for receipt of ballots. The distribution of the notice of election will be distributed by U S postal services.

The Executive Director shall prepare a NOMINATION PAPER which upon completion will contain the following information:

Name of candidate; candidate's Department (if General or Safety member) or city and state residence (if Retired member); a candidate's statement of not more than two hundred (200) words; signatures of the specific membership electorate in support of the candidate (General--twenty-five (25); Safety--ten (10); Retired--fifteen (15)) *(if it is determined that 2 or more candidates for the same seat have duplicate membership electorate signatures, then the candidate that turned in their membership electorate document first shall be the only candidate that may count that signature towards fulfilling the signature requirement above)*; a prepared statement of willingness to serve on the Retirement Board; the Retirement Board seat number and category (General, Safety or Retired); and final date for filing the paper. Completed nomination papers must be submitted to the Executive Director by 5:00 p.m. on the date specified in the notice of election and on the nomination paper (no later than thirty (30) days before the final date for receipt of ballots). Candidates shall only be placed on the election ballot if the above nomination papers and procedures are completed. If only one (1) nomination paper is received by the Executive Director on or before the deadline specified for receipt, the Executive Director shall declare that the candidate is the new Retirement Board member of the seat for which the candidate sought election (pursuant to Government Code Section 31523) and shall prepare and distribute a declaration of election results showing a unanimous ballot for the candidate to all Departments.

If two (2) or more nomination papers are received by the Executive Director on or before the deadline for receipt, the Executive Director shall prepare ELECTION BALLOT MATERIALS which shall consist of:

- A. A ballot with the candidates' names, Departments (if General or Safety member) or city and state residence (if Retired member), candidates' statements, final date for receipt of ballots and a listing of candidates' names in alphabetical order by last name with appropriate places to indicate the member's choice of a particular candidate;
- B. A "secret" envelope to hold the completed ballot;
- C. A "return to" envelope which will have the Executive Director's address for receipt of ballots, the member's name, space for the member's signature, and prepaid return postage; and
- D. A cover envelope with the member's name and mailing address. The ballots must be received back in the Executive Director's Office by 5:00 p.m. on the final date indicated on the ballot or the ballot material will be voided. The date for final receipt of ballots shall be no less than twenty (20) days following the date of disbursement of the ballot material.

Ballot material may be REISSUED to members who file a notice of non-receipt of election material prepared and filed in the Office of the Executive Director. The Executive Director shall make a second and final attempt to send out any RETURNED BALLOT MATERIAL at a reasonable cost of staff time and money.

The ballots shall be CANVASSED on the business day following the final date for receipt of ballots by the Executive Director, one (1) member of the Retirement Board not associated with the election in any way, and any staff from the Executive Director's Office as may be necessary to expeditiously handle the canvassing of the ballots.

The candidate who receives the HIGHEST NUMBER OF VOTES of the ballots cast shall be declared the WINNER and new member of the Retirement Board to assume the seat for which the candidate ran at any Retirement Board meetings following the expiration of the term of the incumbent. The new member will serve three (3) years or for the remaining period of time in which a seat may become vacant for any reason other than the expiration of the incumbent's term of office.

The Executive Director shall prepare a DECLARATION OF ELECTION RESULTS to include the seat of the Retirement Board, the final date of the receipt of ballots, and the name of all the candidates who ran with their corresponding number of votes received in the election. The declaration shall also state the winner of the election and the date on which the winner assumes the seat on the Retirement Board.

The Executive Director shall telephone each candidate with the results of the election and the declaration shall be posted in a conspicuous place in or near the Office of the Executive Director in the afternoon following the canvassing. Copies of the declaration shall be mailed to each candidate and each Department (if General member or Safety member election) or the Retired Employees of Stanislaus County, RESCO, (if a Retired Member election) with a message to retirees of the winner to appear on the next retiree payroll check following the canvassing.

If any of the specific electorate desires a RECOUNT of the ballots cast, the member must make a written petition to the Retirement Board for a recount and include a \$500.00 payment for costs incurred. The petition must be received by the Executive Director no later than fourteen (14) days following the original canvassing of the ballots. The Executive Director shall forward the petition on to the Chair of the Retirement Board who shall call a special meeting of the Retirement Board for a recount. The date of the recount shall be no longer than thirty (30) days from the date of the original canvassing. The petitioner or designee must attend the recount, which shall be accomplished in the same manner as the original count. If the recount shows that a different candidate is the winner by receiving the highest number of votes, a DECLARATION OF REVISED ELECTION RESULTS shall be prepared and distributed in the same fashion as the original declaration of election results.

All member election material shall be DESTROYED thirty (30) days after the original canvassing of the ballots if there is no petition for a recount. Member election material shall be destroyed one (1) week following the completion of all procedures of a recount.

1.6. Amended 02/25/2014

1.6 Amended 06/11/2014



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**For the Board of Retirement meeting
Held on June 11, 2014**

TO: Board of Retirement

FROM: Rick Santos, Executive Director

- I. SUBJECT: Recommendation to the Board of Supervisors Regarding Implementation of Government Code Sections 31680.4 and 31680.5
- II. AGENDA ITEM: 7.a
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION:
 1. Neutral stance on implementation of Government Code Sections 31680.4 and 31680.5
 2. Affirm Counsel's interpretation that any member reinstating under these Code Sections shall be placed in the new PEPR (Public Employee Pension Reform Act) Tier 6
 3. Accept post offer, pre-employment medical screening by the County to satisfy the medical examination required by 31680.4
- V. ANALYSIS:

History

On January 28th, 2014, a StanCERA retired member came before the Board of Retirement asking that it consider recommending to the County Board of Supervisors adoption of Government Code Section 31680.4 and 31680.5 (attachment 1). Government Code Section 31680.4 would allow a retired member to become re-employed with the County, reinstate as an active StanCERA member and begin accruing additional retirement benefits. After some preliminary discussions with County Executive Staff, it was discovered that there is some interest in adopting this benefit for employees/retired members. Following are some specifics of 31680.4 and 31680.5:

- *Board of Retirement approval*
 - Requires member to apply to the Board for reinstatement
 - Board must determine, based on a medical examination, that the member is not incapacitated for the duties that will ultimately be assigned to him/her (member can possibly earn a disability benefit on this new service)

- *Benefits*
 - Will accrue benefits in new PEPRA Tier 6 (have legal concurrence)
 - Member is immediately vested in new service accruals (service reciprocity)
 - No salary reciprocity
 - Member's original benefit ceases during the reinstatement period, however, it would continue to accrue normal COLA's
 - When member retires the second time, the total benefit paid would be the sum of the old benefit plus the benefit earned based on the new service

- *Disability*
 - It is possible that a member could retire on a disability retirement during his/her second tenure. However, the *total* benefit (old plus new) the member could receive would be calculated as the higher of:
 - The service or non-service connected disability (whichever is applicable) benefit the member would earn on his/her new service or
 - the sum of the old service retirement benefit plus the new service retirement benefit earned on the new service

Legal Analysis

Benefit Tier

An initial query of other 1937 Act Systems reveal that at least two Systems believe reinstatement under this Government Code Section would require the member to be placed in his or her legacy tier. The majority, however, believe that the new Public Employee Pension Reform Act (PEPRA) tier is the appropriate tier to place a reinstated member. After an initial reading, staff felt the reinstated member should indeed be placed in the new PEPRA Tier, however, staff still reached out to special counsel for confirmation.

Jeff Rieger, StanCERA special counsel, believes that any retiree reinstating under 31680.4 would be placed in the new PEPRA (2% @ 62, General and 2.7% @ 57, Safety) tier. Mr. Rieger bases his interpretation on a literal reading of the Code Section. To summarize, Mr. Rieger suggests that since the Code Section specifically states "*the member's rate of contribution and retirement allowance upon subsequent retirement shall be determined as if the member were first entering the System*", he believes that the Legislature intended the phrase to apply to more than just the member's age at entry and would be subject to whatever tier of benefits existed at the time of reinstatement.

Mr. Rieger also recommends that before the County potentially adopts these code sections, that the StanCERA Board formally state which tier reinstated members will be put into. Mr. Rieger suggests that if the Board of Retirement answers this question, the County can incorporate this interpretation into its resolution so that all parties understand what their rights are.

Tax Issues

Staff also reached out to Judith Boyette, StanCERA tax counsel from Hanson & Bridgett to understand if there are any tax code implications that would be impacted by adoption of 31680.4. Ms. Boyette believes there would be additional work required during our next IRS determination letter filing explaining the adoption and change. Ms. Boyette also intimated that StanCERA would need to look at any potential process changes that may be required for compliance.

Programming Changes

Programming changes related to the delivery of 31680.4 may be dependent on the actual number of retirees that take advantage of this benefit. If only a small number of retirees reinstate over time, it is probably efficient to administer the benefit outside of our normal system processes. Staff will create spreadsheets that calculate and monitor benefits earned and manually update system data at the time of the second retirement.

However, at some point in time, should the number of reinstated retirees become administratively burdensome, staff would attempt to requisition changes to our pension software to automate the process. Recently, StanCERA reached out to the vendor that sold and maintains our pension software for potential automation costs. Unfortunately, that vendor is unsure whether they would or even could program those changes into StanCERA's system. In the event that the automation process has to occur outside of our current system, StanCERA would most likely seek consulting services to create and maintain the program within an independent database.

*Administrative Costs**

Actuarial: For those members that reinstate prior to age 62 and had been receiving the Social Security modification increase to their StanCERA benefit, an actuarial calculation will need to be performed when the member retires for the second time to determine the correct post-62 benefit reduction. This calculation will cost approximately \$200-\$250 per occurrence

Legal/Tax: Up to \$5,000 in one-time fixed costs

Programming: Should StanCERA decide to automate the benefit delivery process to accommodate 31680.4, fixed costs are estimated to be between \$50,000 and \$100,000, depending on the automation process (vendor driven or independent). StanCERA will not incur this fixed cost if only a small number of retirees actually reinstate (see above).

Staff time: Marginal increases in required staff time are extremely difficult to project. Fixed costs (time) must be spent researching benefit administration, educating staff, developing external spreadsheets and occasional monitoring. If an unexpectedly large number of retirees seek to reinstate, then StanCERA would most likely automate the entire process, however, even in this case, increasing variable staff resources should not be a burden to the Organization. Staff estimates approximately \$10,000 in initial fixed costs and between \$3,000 and \$6,000 per year in variable costs.

* All costs would ultimately be embedded in the County's annual contribution rates

Financial/Actuarial Implications


It is worth noting that in the future, if only a handful of retirees take advantage of this benefit, then the financial implications to the Plan should be minimal. Consequently, the following discussion regarding the financial impact is more theoretical in nature and suggests long-term implications should the new benefit become widely used.

The financial implications discussed here relate only to the issue of pension funding and the associated incremental changes to the Plan. The discussion does not take into account other very important issues associated with an aging workforce. These topics are more appropriately discussed at the plan sponsor level.

In general, it is nearly impossible to state precisely what effects the implementation of 31680.4 would have on the Plan. Initially, retirees returning to work would decrease the amount of assets the System would be required to pay out, however, eventually those reinstated active members would retire again with a higher benefit otherwise. Consequently, the following discussion points relate only to those financial issues that are certain and are associated with the implementation of 31680.4 and an older workforce as it relates to pension funding:

1. *Higher Normal Cost* – One component of total pension cost is the amount to fund current service accruals for active members. Implementation of 31680.4 will cause the normal cost of the plan to increase. Actuarial funding of a pension plan is cheaper for younger employees, since the payment of the benefits associated with their service won't have to be paid for some time, giving the assets contributed on their behalf more time to accrue interest earnings. Since 31680.4 treats returning retirees as new members, the normal cost needed to fund the additional benefits will be more expensive.
 2. *Higher Disability Incident/Cost* – Since 31680.4 allows a retired member to reinstate and potentially retire on a disability allowance, disabilities and the associated costs will increase
 3. *Immediate Vesting Cost* – Unlike typical new members, service accruals are immediately vested for reinstated members producing higher costs.
 4. *Increased Plan Sponsor Contribution Risk* – Since total benefit accruals will ultimately be higher, more assets will need to be on hand to fund the additional payouts. With more assets accumulating relative to plan payroll (asset to payroll ratio), market gains and losses on those additional assets will create greater uncertainty in future plan sponsor contribution rates
- VI. RISK: Incremental increases in pension risk are indeterminable; however, pension costs will ultimately be biased upwards. The demand on staff resources is uncertain, and is dependent on the number of retirees that reinstate
- VII. STRATEGIC PLAN: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently

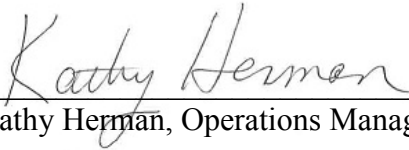
VIII. ADMINISTRATIVE BUDGET IMPACT: Approximately \$15,000 in fixed costs at the outset. If modifications are needed to our current software system, an additional fixed cost of between \$50,000 and \$100,000 would be incurred. Ongoing variable costs are estimated to be between \$3,500 and \$6,500 per year



Rick Santos, Executive Director



Dawn Lea, Benefits Manager



Kathy Herman, Operations Manager

Attachment 1

31680.4. Notwithstanding any other provision of law, a member retired for service and reemployed in a county or district under this chapter shall become again an active member of the retirement association upon (a) his or her application to the board for reinstatement, (b) the determination of the board, based upon medical examination, that he or she is not incapacitated for the duties assigned to him or her; and (c) meeting the conditions for membership in Article 4 (commencing with Section 31550) are met.

For the purposes of this section, the effective date of the member's reinstatement to active membership shall be the first day of the month following the date of reemployment. Except as permitted in Section 31680.2 or 31680.3, the retirement allowance of the member shall be canceled on the effective date of the member's reemployment and shall be resumed only upon the subsequent termination of the member from employment.

This section shall not be operative in any county until the board of supervisors, by resolution adopted by a majority vote, makes this section and Section 31680.5 operative in that county.

31680.5. (a) Upon reinstatement, pursuant to Section 31680.4, the member's rate of contributions and retirement allowance upon subsequent retirement shall be determined as if the member were first entering the system.

Solely for the purpose of determining the member's eligibility for service retirement under this section, service shall include the member's credited service prior to reinstatement.

(b) The member's allowance upon his or her service or disability retirement or other termination subsequent to the reinstatement shall be the sum of (1) his or her retirement allowance calculated on the basis of credited service rendered after reinstatement in accordance with the formula applicable to him or her plus (2) his or her retirement allowance as it was prior to reinstatement, adjusted by any change after reinstatement in the provisions governing the calculation of his or her allowance which would have applied to him or her had he or she continued in retirement.

The retirement allowance otherwise payable under this section to a member whose allowance prior to reinstatement was paid pursuant to his or her election under Section 31810 shall be reduced as provided in Section 31810. However, for a member reinstated pursuant to Section 31680.4 prior to attaining age 62, the reduction required by Section 31810 shall be the amount which is the actuarial value of the increase in the allowance from date of retirement to date of reinstatement.

Notwithstanding any other provision of this chapter, the retirement allowance payable to any member subject to this section for any credited service for which a retirement allowance was paid prior to reinstatement shall not be less than the retirement allowance which would have been payable on the date of the subsequent retirement had the member not been reinstated, adjusted, however, by any reduction under this section because of an election under Section 31810.

(c) Notwithstanding Article 10 (commencing with Section 31720), upon retirement for disability subsequent to reinstatement, a member shall receive a disability retirement allowance as follows: (1) A service-connected disability allowance shall be equal to one-half of his or her final compensation or an allowance computed as prescribed by subdivision (b), whichever is greater.

(2) A nonservice-connected disability allowance shall be computed using the method prescribed by subdivision (b).

(d) This section shall not be operative in any county until the board of supervisors, by resolution adopted by a majority vote, makes this section and Section 31680.4 operative in that county.



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**For the Board of Retirement meeting
Held on June 11, 2014**

TO: Board of Retirement

FROM: Kathy Herman, Operations Manager

I. SUBJECT: Fiscal Year 2014-2015 Administrative Budget

II: AGENDA ITEM: 7.b

III. ITEM TYPE: Discussion and Action

IV. RECOMMENDATION: Accept the Recommended Fiscal Year 2014-2015
Administrative Budget

V. ANALYSIS:

Please find attached the Fiscal Year 2014-2015 (FY14-15) StanCERA Administrative budget figures.

Review of the Current Year's (FY 2013-2014) Administrative Budget and Expenditures

Total estimated expenditures are in line with the original budget. StanCERA is projected to end the current fiscal year with a budget savings of approximately \$300,000. This savings is attributed to employees' health insurance choices, employee unpaid leave and not all legal fees being realized for current litigation. Some costs for legal fees are retroactively reimbursed by Travelers insurance, some will be carried forward. In addition the budget for employee benefits, needs to account for qualifying events and open enrollment changes.

Fiscal Year 2014-2015 Budget Limitation

Government Code section 31580.2 within the 1937 Act allows for expenditures of administrative services (other than software, hardware and computer technology consulting services) to be the greater of 0.21% of the accrued actuarial liability or \$2,000,000. The accrued actuarial liability of StanCERA as of the June 30, 2013 actuarial valuation was \$1,919,227,000 of which 0.21% (\$4,030,377) is available for administrative expenses. We have shown the costs related to the I.T. Coordinator, computer technology software, hardware and consulting services separately in this budget (see "Budget Code Section 31580.2 (2)(b)" column in **Attachment I**).

Fiscal Year 2014-2015 Administrative Budget Request

A total of \$2,476,576 is requested for all administrative expenses in FY14-15 including the \$103,726 related to computer technology. The total of administrative expenses (excluding computer technology costs) of \$2,372,850 is 0.12% of the accrued actuarial liability as of June 30, 2013, well below the 0.21% legal limit. The 6th Floor lease revenue continues to offset 6th floor expenses.

ANALYSIS CONT.

FY14-15 Administrative Budget Request- Cont.

Salaries include eleven full-time staff and one part-time or extra help staff. See Attachment II for the organizational chart. Included is 3 months' salary for a potential investment staff person. While full-time staff members continue to take a 5% deduction in pay, StanCERA is budgeting for a potential 1% give back to reflect last year's actions by the County Board of Supervisors. If the give back does not materialize, StanCERA will reflect the salary savings at year end. Excluded for all staff is bonuses, professional development and other items relating to compensation that are in line with Stanislaus County personnel policies.

The budget for Employee Benefits will not decrease. Retirement and health care cost continue to increase in FY14-15.

We are budgeting \$10,000 for Computer Software Support, which is in line with last year. Fortunately the additional I.T. support needs for FY2013-2014 did not materialize. The contractual costs for annual maintenance \$69,000 and disaster recovery \$12,250 with Tyler Technologies for our pension system are included. The Tyler maintenance contract was based on a percentage of the original implementation cost and expires on March 1, 2015. The new maintenance contract if the Board chooses to approve it will be renewed at then current market rates. The website budget of \$2,400 is based on a bare bones structure. As part of the Strategic Plan, staff is researching the possibility of updating the website with a new provider and a structure that will be able to grow with the system. If the Board should approve such a project in FY14-15, the budget will be amended.

The estimated legal costs include \$100,000 for Disability Counsel, \$110,000 to continue the O'Neal vs StanCERA lawsuit, \$90,000 for General Legal Counsel based on current year expenditure levels, \$50,000 to continue the Nasrawi vs StanCERA lawsuit, and another \$75,000 for the StanCERA vs Buck lawsuit. The General Counsel budget can include expenses from multiple law firms. The trial for the O'Neal vs StanCERA lawsuit is set for October 2014.

Costs related to the processing of disability retirement applications (medical exams, hearing costs, etc.) are budgeted at \$30,000 for the year. This is higher than the estimated amount for the current fiscal year; however one or two complicated cases can quickly alter this.

The Strategic Business Technology (SBT) budgeted amount, \$28,700, is provided by the County Information Technology department and we anticipate that this figure provided for FY14-15 is within a reasonable range of costs at this time. The breakout of amounts includes the \$5,200 for telecommunications and \$23,500 for computer-related services.

The budgeted amount for Other Professional Services of \$40,000 is set aside to cover the cost of professional service providers not associated with investments. If the Board of Supervisors adopts 31680.4 additional services may be needed to update software.

The \$10,000 amount budgeted for office supplies are in line with this years estimated expenditures.

ANALYSIS CONT.

FY14-15 Administrative Budget Request- Cont.

We regularly budget \$6,000 each year for the replacement of personal computers or other computer equipment and supplies to keep staff current with modern technology consistent with the Retirement Board's Strategic Plan goal. This year Microsoft discontinued the use of Windows XP, which prompted unexpected upgrades to some software. If the County Board of Supervisors adopts 31680.4 additional software changes may be needed.

The estimated amount of \$37,500 budgeted for Central Services & Mail Room is provided by the County. The services include auditor (payroll and disbursement), purchasing, risk management (safety and insurance programs) and personnel (recruitment and policy).

The 12th Street – County Projections total budgeted amount of \$132,700 includes common area expenses for janitorial, and StanCERA's portion of maintenance, utilities and security. It includes projected administrative functions by CEO/Personnel, Auditor, Purchasing, and Risk Management and a true-up process for capital expenses from the previous year. The true-up amount can fluctuate considerably from positive to negative.

The Contract Services budget of \$10,000 includes services related to confidential shredding, alarm services, and other ongoing services that are periodically used to complete special projects.

The 6th Floor budget of \$35,500 includes the costs of regular janitorial services provided by an outside provider, the additional cost for cleaning and/or replacing some flooring, window cleaning, some painting, as well as any cost due to the lease of the vacant space. This budget item will partially be offset by the estimated lease revenue of \$52,346.

We have budgeted for Communications and Printing a total of \$32,000 which includes the Popular Annual Financial Report, semi-annual member statements, two elections and printing and distribution of StanCERA's newsletter via U.S. Postal services to active members (employees). Payroll distribution is no longer an option for active members.

Publications include mostly the Wall Street Journal (WSJ) subscriptions but can also include SACRS materials such as 1937 Act law manuals or other publications. A budgeted amount of \$2,800 is in line with this fiscal year's estimated expenditures.

Copier Expenses of \$20,000 are being budgeted separately. This includes leases, maintenance and supplies. It's important to note that StanCERA does not pre-order letter head, specialized forms, member statements or retiree payroll notices. These items are printed in-house as needed.

The Other Office Expense budgeted at \$16,000 for FY14-15 includes document storage expenses as well as other items needed for securing critically important historical documents. This budget is also set aside to accommodate unexpected ergonomic needs, safety expenses, furniture needs, etc.

ANALYSIS CONT.

FY 14 – 15 Administrative Budget Request – Cont.

Trustee and Staff education continues to be a priority. With StanCERA's needs for education in investment, tax, actuarial and benefits arenas, maintaining this budget allows for Board Trustees and staff to receive appropriate training and is in line with the Retirement Board's Strategic Plan goal to keep current and up to date.

The Meeting Allowance budget is set at \$16,000 for FY14-15 to reflect the estimated costs for this fiscal year with some allowance for additional special meetings.

The \$75,000 budgeted for Insurance includes the estimated cost of Automobile Liability, General Liability and Fiduciary insurances in FY14–15. The Fiduciary Insurance annual coverage cost is expected to increase. It will be based on the 6/30/2013 fund balance and past experience.

The costs of Memberships (SACRS, CALAPRS and NCPERS) seem to have leveled out and the budgeted amount of \$11,000 reflects the estimated expenditures for FY 2013-2014 and projected increases for FY14-15. Membership in these organizations continues to provide high quality education and access to pension and investment information to Board Trustees and staff.

The budgeted depreciation of \$174,000 includes the Tyler computer software, 12th Street offices, tenant improvements, furniture, phone systems, audio system, and security monitoring systems.

A budgeted amount of \$25,000 is included for Capital Expenditures to upgrade board room systems for better recording quality, a ceiling mounted projector and possibly video and/or teleconferencing. As part of the Strategic Plan, staff is researching the possibility of reconfiguring and/or building out the board room to improve meeting facilitation and member access. If the Board should approve such a project in FY14-15, the budget will be amended.

Section 31596.1 of the CERL states; the following expenses shall not be considered a cost of administration to the retirement system, but shall be considered as a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the Board. These expenses are reported in the Audited financial statements presented to the Board of Retirement in the Comprehensive Annual Financial Report.

- Actuarial Fees
- Investment Consultant Fees
- Attorney Fees –directly related to an investment
- Investment Manager Fees
- Custodial Bank Fees

VI. RISK: Government Code section 31580.2 allows for expenditures for administrative services (other than software, hardware and computer technology consulting services) to be the greater of 0.21% of the accrued actuarial liability or \$2,000,000. In FY 2014/2015, we continue to exercise prudence in budgeting administrative expenses and are submitting a budget which is only 0.12% of the accrued actuarial liability and well below the allotted legal amount.

VII. STRATEGIC PLAN: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently

VIII. ADMINISTRATIVE BUDGET IMPACT: Overall, the requested budget for Fiscal Year 2014-2015 is increasing by \$96,593. This is primarily due to the rising cost of insurance, expiration of the maintenance contract for the pension system, potential salary increases, and increased legal fees for disability review.

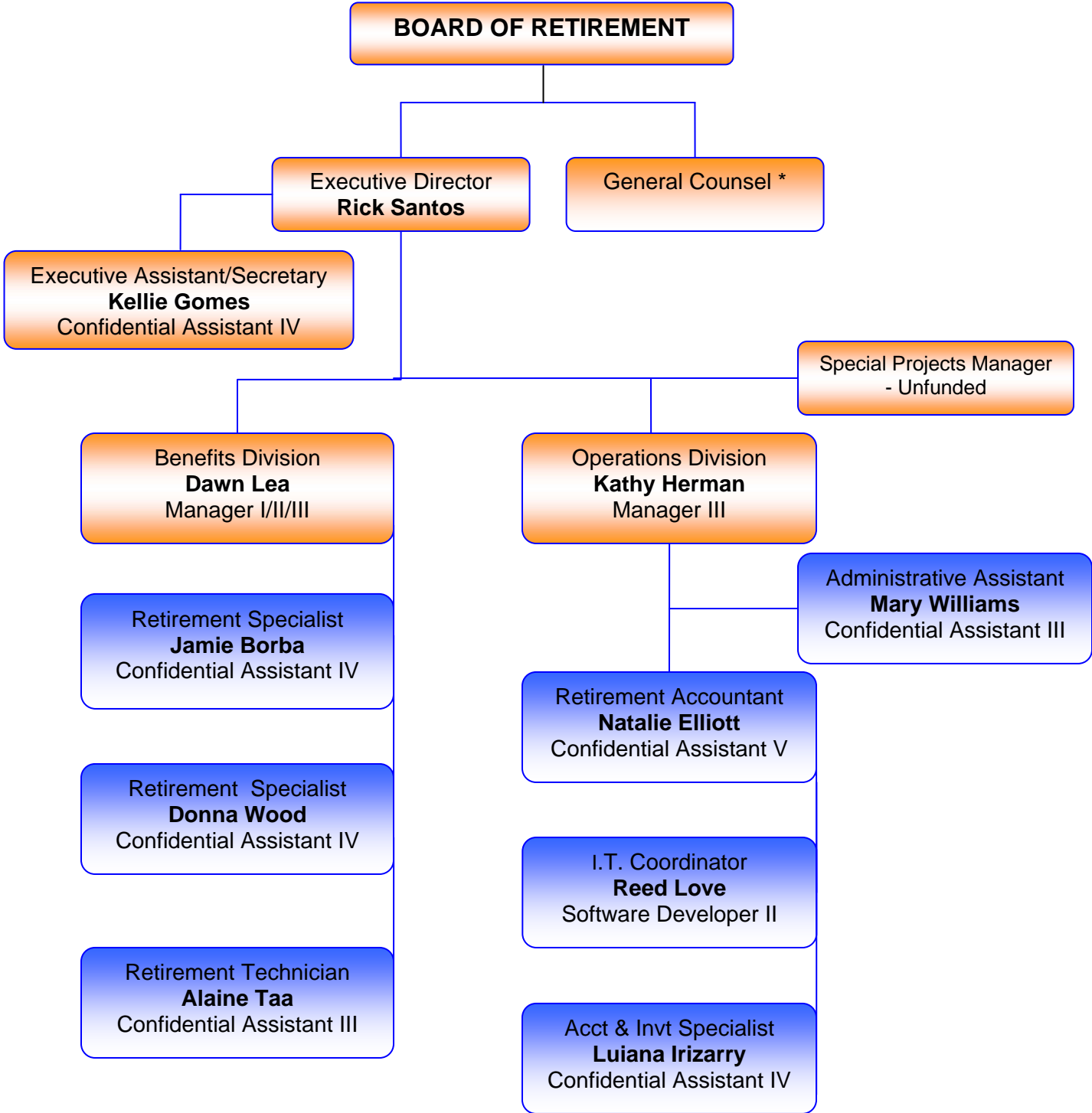

Kathy Herman, Operations Manager


Rick Santos, Executive Director

Attachments (2)

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION FISCAL YEAR 2014-2015 ADMINISTRATIVE BUDGET						
FUND/ORG: 6100/0064410		FY 13/14 Budget Including I.T.	FY 13/14 ESTIMATED	FY 14/15 BUDGET REQUEST	CODE SECTION 31580.2(2)(b)	TOTAL
ACCT	DESCRIPTION					
EXPENDITURES:						
SALARIES & BENEFITS						
745201	SALARIES AND WAGES	755,253	670,230	782,000		782,000
745202	EMPLOYEE BENEFITS	365,839	314,863	330,000		330,000
745203	I.T. Specialist	88,202	67,930		88,726	88,726
	SALARIES & FRINGE TOTAL	1,209,294	985,093	1,112,000	88,726	1,200,726
SERVICES & SUPPLIES						
745211	COMPUTER SUPPORT & SERVICES	0				-
745211a	Tyler Software Maint	44,100	41,960	69,000	5,000	74,000
745211b	Tyler Dysaster Maint	11,025	11,025	12,250		12,250
745211c	StanCERA Website	1,000	2,400	2,400		2,400
745211d	Software Support and Service	10,000	250		10,000	10,000
745213	OUTSIDE LEGAL COUNSEL					
745213a	Legal Counsel - Disability	65,000	94,278	100,000		100,000
745213b	Legal Counsel - O'Neal vs StanCERA	125,000	63,235	110,000		110,000
745213c	Legal Counsel - General	150,000	80,779	90,000		90,000
745213d	Legal Counsel - Nasrawi vs Stancera	50,000	37,325	50,000		50,000
745213e	Legal Counsel - StanCERA vs Buck	50,000	6,375	75,000		75,000
745214	MEDICAL EXAMS, REVIEWS, HEARINGS	30,000	10,623	30,000		30,000
745215	STANCO SBT DEPT	0	0			-
745215a	Telecommunications	4,768	4,768	5,200		5,200
745215b	Data Processing Services	21,069	21,544	23,500		23,500
745216	OTHER PROFESSIONAL SERVICES	40,000	38,497	40,000		40,000
745231	OFFICE SUPPLIES	10,000	8,099	10,000		10,000
745232	EQUIPMENT & COMPUTER SUPPLIES	6,000	4,867	6,000		6,000
745233	CENTRAL SERVICES & MAIL ROOM	37,500	33,070	37,500		37,500
745234	12th STREET - COUNTY PROJECTIONS					
745234a	12th Street Janitorial	1,200	670	1,200		1,200
745234b	12th Street Maintenance	47,708	46,854	48,000		48,000
745234c	12th Street Utilities	37,883	37,635	38,500		38,500
745234d	Other County - CEO/Personnel (True up)	8,584	8,584	9,000		9,000
745234g	Other County - Auditor	8,164	8,164	9,000		9,000
745234h	Other County - Purchasing	750	750	1,000		1,000
745234i	Other County - Risk Management	1,444	1,444	1,500		1,500
745234e	12th Street Security	22,387	21,312	24,500		24,500
745235	CONTRACT SERVICES	10,000	10,000	10,000		10,000
745236	6th Floor Maint, Janitorial, etc. (R.J)	0				-
745236a	6th Floor Security	600	1,462	2,000		2,000
745236b	6th Floor Janitorial & Supplies	20,979	20,697	23,500		23,500
745236e	6th Floor Maint	6,000	5,970	10,000		10,000
745237	COMMUNICATIONS & PRINTING	32,217	26,525	32,000		32,000
745238	PUBLICATIONS	2,800	2,687	2,800		2,800
745239	OTHER OFFICE EXPENSE	0				-
745239a	Copier Expenses	15,000	17,270	20,000		20,000
745239c	Other Office Expense	16,000	15,897	16,000		16,000
745250	FIDUCIARY TRAVEL	30,000	25,378	35,000		35,000
745251	FIDUCIARY EDUCATION	20,000	4,173	15,000		15,000
745252	STAFF EDUCATION & TRAVEL	22,000	29,347	25,000		25,000
745253	FIDUCIARY MEETING ALLOWANCE	16,000	14,200	16,000		16,000
745254	INSURANCE	65,855	65,855	75,000		75,000
745255	MEMBERSHIPS	10,000	8,385	11,000		11,000
745299	DEPRECIATION	188,463	171,715	174,000		174,000
SERVICES & SUPP. TOTAL		1,239,497	1,004,069	1,260,850	15,000	1,275,850
TOTAL BUDGET		2,379,983	1,989,162	2,372,850	103,726	2,476,576
PERCENTAGE OF MAXIMUM		56%	50%	59%	N/A	61%
MAXIMUM ALLOWABLE = BASED ON 0.21% (.0021 or 21 bp) OF ACTUARIAL ACCRUED LIABILITY		3,966,298		4,030,377		
		1,888,713,204		1,919,227,000		
Valuation Year		6/30/12		06/30/13		
ACTUAL BASIS POINTS		0.11%	0.11%	0.12%		
6th Floor Lease Revenue		52,343	52,343	52,343		52,343
CAPITAL EXPENDITURES						
84420	COMPUTER / AV EQUIPMENT	7,000	0	25,000		25,000
84790	SOFTWARE DEVELOPMENT (Tyler)	0	0	0	0	0
TOTAL CAPITAL EXPENDITURES		7,000	0	25,000	0	25,000
TOTAL CASH OUT-FLOW (excludes depreciation)		2,146,177	1,765,104	2,171,507	103,726	2,275,233

ORGANIZATIONAL CHART
Effective 2013



* Retirement Board utilizes private general legal counsel for administrative legal services. Private attorneys provide legal assistance for disability retirement applications.