



**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

September 11, 2013
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 the August 27, 2013 Investment Meeting Minutes [View](#)

5. Consent Items (Cont.)

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

1. Janet Abe-Morimoto, BHRS Effective 10-01-2013
2. Lois Aldrete, HSA, Effective 11-01-2013
3. Juan Alonzo, HSA, Effective 11-01-2013
4. Timothy Beck, Sheriff, Effective 11-01-2013
5. Sheryll Biondolillo, Sheriff, Effective 10-01-2013
6. Renee Cartier, HSA, Effective 10-01-2013
7. Sharon Cope, Superior Courts Effective 11-01-2013
8. Karen Hurley, BHRS, Effective 10-01-2013
9. James Johnson, BHRS, Effective 11-01-2013
10. John Kitchell, HSA, Effective 12-02-2013
11. Donna Leavers, Treasurer/Tax Collector, Effective 11-01-2013
12. Cynthia Mcleland, City Of Ceres, Effective 12-01-2013
13. Marjorie Munoz, CSA, Effective 11-01-2013
14. Lorrinda Parker, District Attorney Effective 10-01-2013
15. Elizabeth Pereira, Sheriff, Effective 11-01-2013
16. Margaret Reid, Library, Effective 12-02-2013
17. Beth Schlemmon, Probation, Effective 11-01-2013

Correction to Barbara Pearce-Chiesa, BHRS, Effective 08-16-2013 presented on 8/14/13
Agenda Effective date should be 8-17-2013.

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

1. Juan Aguilar, CSA, Effective 08-22-2013
2. Gary Brown, GSA, Effective 08-10-2013
3. Christina Cosetta, BHRS, Effective 05-18-2013
4. Desiree Cotter, CSA, Effective 05-11-2013
5. Shawn Lominario, HFCD, Effective 08-09-2013
6. Monica Nino, CEO, Effective 08-17-2013

6. Executive Director

- a. Discussion and Action on the State Association of County Retirement Systems;(SACRS) November 12-15, 2013 Fall Conference Voting Proxy Form- Kellie Gomes [View](#)
- b. Discussion and Action Regarding StanCERA Independence [View](#)

7. Closed Session

- a. Discussion and Action on the Application for a Service-Connected and Non-Service Connected Disability Retirement by StanCERA Deferred Member Raymond Byers
- b. Discussion and Action on the Hearing Officer's Recommendations on Aaron Gallagher's application for a Service-Connected Disability Retirement
- c. 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)
- d. 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)
- e. 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)

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

9. Adjournment



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PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

August 27, 2013

Members Present: Gordon Ford, Maria De Anda, Donna Riley, Jeff Grover, Mike Lynch, Darin Gharat and, Michael O'Neal

Members Absent: Jim DeMartini

Alternate Member Joan Clendenin, Alternate Retiree Representative

Staff Present: Rick Santos, Executive Director
Kellie Gomes, Executive Board Secretary
Kathy Herman, Operations Manager
Dawn Lea, Benefits Manager

Others Present: Fred Silva, General Legal Counsel
Paul Harte and Nate Pratt, Strategic Investment Solutions (SIS), Inc.
Doris Foster, County Chief Executive Office

1. Meeting Called to Order

Meeting called to order at 2:03 p.m. by Darin Gharat, Chair.

2. Roll Call

3. Announcements

Executive Director Rick Santos announced that White Oak Pinnacle Fund recently requested that StanCERA consent to DMS Offshore Investment Services as the fund's Advisory Committee. After closer review of the request to consent and the DMS firm, more questions have arisen. As a result, White Oak has agreed to give us a few more weeks to do a more in-depth review of DMS. Staff and General Counsel will be talking directly with the principals of the firm to discuss our concerns. Staff will report back to the Board at the September 11th Board meeting.

Kathy Herman gave a brief update on the search for a potentially new Custodian Bank. Kathy reported that BNYM, our current Custodian has indicated they will be bidding. She also reported that we have had 40 different downloads off our website for the RFP. Staff will continue to update the Board on this issue.

4. Public Comment

None

5. Consent Items

Motion was made by Maria De Anda and seconded by Jeff Grover to approve the following Items:

Motion carried

Trustee Clendenin asked if in the future we could have the manager peer rankings taken off consent and included in with SIS' quarterly report.

- a. Approval of the August 14, 2013 Administrative Meeting Minutes
- b. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

- 1. Doralee Boles, Public Works Effective 08-07-2013
This retirement was omitted on the August 14, 2013 agenda

- c. StanCERA Investment Managers Peer Rankings for Quarter Ending March 31, 2013

- d. Strategic Plan Update

6. Semi-Annual Performance Report by PIMCO –Fixed Income

Presenter by Conference Call : Matt Clark, Senior Vice President and Account Manager

- Initial funding and date: \$75 Million 5/2010
- Ending Value on 7/31/13: \$109 Million

All figures below are as of June 30, 2013

- Recent Quarter Return (Net): -2.9%
- 1 Year Return: -.04%
- 3 Year Return: 4.1%
- Since Inception Return: 4.6%

7. Semi-Annual Performance Report by Dodge & Cox – Fixed Income and U.S. large Cap Value Equity Securities

Presenters: Wendell W. Birkhofer, Vice President
Robert B Thompson, Vice President

Investment Style: Fixed Income

- Initial funding and date: N/A
- Ending Value on 6/30/13: \$403 Million

All figures below are as of June 30, 2013

- Recent Quarter Return (Net): -1.75%
- 1 Year Return: 2.59%
- 3 Year Return: 5.14%
- Since Inception Return: 9.05%

Investment Style: Large Cap Value Equity Securities

- Initial funding and date: N/A
- Ending Value on 6/30/13: \$163 Million

All figures below are as of June 30, 2013

- Recent Quarter Return (Net): 5.0%
- 1 Year Return: 29.7%
- 3 Year Return: 19.4%
- Since Inception Return: 11.6%

8. Strategic Investment Solutions (SIS), Inc.

a. StanCERA's Quarterly Manager Review List – Performance Through June 30, 2013

Paul Harte recommended that Dodge & Cox equity should be taken off the "Under Review" status. The matter will be placed on the next meeting's agenda for discussion and action.

b. Investment Performance Analysis for the Quarter Ending June 30, 2013

Quarterly Total Portfolio Performance Analysis (Return, Benchmark and Peer Ranking.)

- 4th Quarter: 0.30%, -0.3%, 38
- Fiscal YTD: 14.5%, 11.5%, 10
- 1 Year: Same as FYTD
- 3 Year: 12.3%, 11.2%, 14
- 5 Year: 6.5%, 5.4%, 8

8. Strategic Investment Solutions (SIS), Inc.(Cont.)

c. Monthly Performance Review for the Month Ending July 31, 2013

Monthly performance – 3.32%

Fiscal YTD – 3.32%

Fiscal YTD alpha – 0.03%

Total fund value as of July 31, 2013: \$1.592 billion

d. Report on “Top 10 Holdings” of StanCERA Investment Managers as of July 31, 2013

9. Executive Director

a. 2013 Quarter 2 Value Added Report

Director Santos presented the aggregate value added, total fee and individual manager value added summaries. It was noted that since June 30, 2008 all active managers have added value after fees. Also, the last fiscal year was an extremely good year as managers added over \$28,000,000 in additional earnings to the fund through active investing.

b. New Legislation Update AB 1380.

Dawn Lea briefed the Board on potential PEPRA clean up that is currently at the Governor's desk. The Clean Up items included:

1. Defining 3 year final average compensation as a 36-month consecutive period.
2. The ability to allow Systems to choose whether the PEPRA member contribution rate should be rounded or not and the elimination of the requirement that normal cost must change at least by 1 percentage point before the member rate can be recalculated.
3. Recommendation that the All Urban Consumers Price Index for the entire country be used to determine the change in annual pensionable compensation for new PEPRA members. This is different than the index used for calculating COLA's

c. Discussion and Action for Approval of Trustee Attendance at the Opal Summit in Santa Barbara.

Motion was made by Gordon Ford and seconded by Jeff Grover to approve trustee travel to this event.

Motion carried (7/1)

10. Closed Session

No Closed Session Items were heard.

- a. 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)
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District, Case No. H038894
Government Code Section 54956.9(d)(1)

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

NONE

12. Adjournment

Meeting adjourned at 3:38p.m.

Respectfully submitted,



Rick Santos, Executive Director

APPROVED AS TO FORM:
FRED A. SILVA, GENERAL LEGAL COUNSEL

By: _____


Fred A. Silva, General Legal Counsel



SACRS VOTING PROXY FORM

The following are authorized by the _____ County Retirement Board to vote on behalf of the County Retirement System at the upcoming SACRS Conference (*if you have more than one alternate, please attach the list of alternates in priority order*):

_____ Voting Delegate

_____ Alternate Voting Delegate

These delegates were approved by the Retirement Board on ____ / ____ / ____.

The person authorized to fill out this form on behalf of the Retirement Board:

Signature: _____

Print Name: _____

Position: _____

Date: _____

Please send your system's voting proxy by **October 1, 2013** to:

SACRS

Attn: Sulema H. Peterson, SACRS Administrator

1415 L Street, Suite 1000

Sacramento, CA 95814

Tel: (916) 441-1850 / FAX: (916) 441-6178 / E-mail: Sulema@SACRS.org



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9/11/13
Item# 6.b

**For the Board of Retirement meeting
Held on September 11, 2013**

TO: Board of Retirement

FROM: Rick Santos, Executive Director

- I. SUBJECT: StanCERA Independence
- II. ITEM TYPE: Discussion and Action
- III. STAFF RECOMMENDATION: Revise StanCERA's bylaws to include those specific job positions/classifications that the Board of Retirement wants governance over and the level of governance. Submit bylaw changes to the County Board of Supervisors for approval.
- IV. EXECUTIVE SUMMARY

Recently, the Board asked staff to look into the possibility of acquiring independence. This appears to have been driven by the Board's desire to have control over salary levels, positions and job classifications. As it turns out, there are several "levels of independence" available and strategies for achieving this control.

With respect to strategies for achieving control, the Board has essentially two choices. StanCERA can either work jointly with the County or seek a legislative solution. There are four legislative levels of independence within 1937 Act Code and are defined by the specific positions to be governed and whether or not those positions are classified as County employees.

Through repeated discussions with County CEO staff, StanCERA and the County now agree that StanCERA should have governance over executive level and/or managerial/supervisory staff salaries and classifications. This means both options mentioned above for establishing independence are available.

Two of the legislative solutions available are the least disruptive, reasonably simple to acquire and would allow StanCERA continued use of the County's payroll system and human resources functionality. The other two require StanCERA to seek voter approval to become a Special District and would mean administering our entire human resources function. Staff suggests that if the Board chooses Special District status, then a complete project analysis be commenced under direction and guidance from the Internal Governance Committee.

For various reasons, staff is recommending that StanCERA work with the County to define specifically those positions that the Board of Retirement wants governance over and at what level. Staff is also recommending that StanCERA include these specificities within our bylaws and submit them to the County Board of Supervisors for approval.

V. ANALYSIS

History

In March of 2013, the Board directed staff to look into the possibility of administering our own payroll system and in particular, achieve a level of independence and control over salary levels and job classifications. Since about 2001, there has been much discussion and a richly documented history regarding the subject of StanCERA independence. Attachment 1 portrays a historical timeline regarding the subject.

Proposition 162

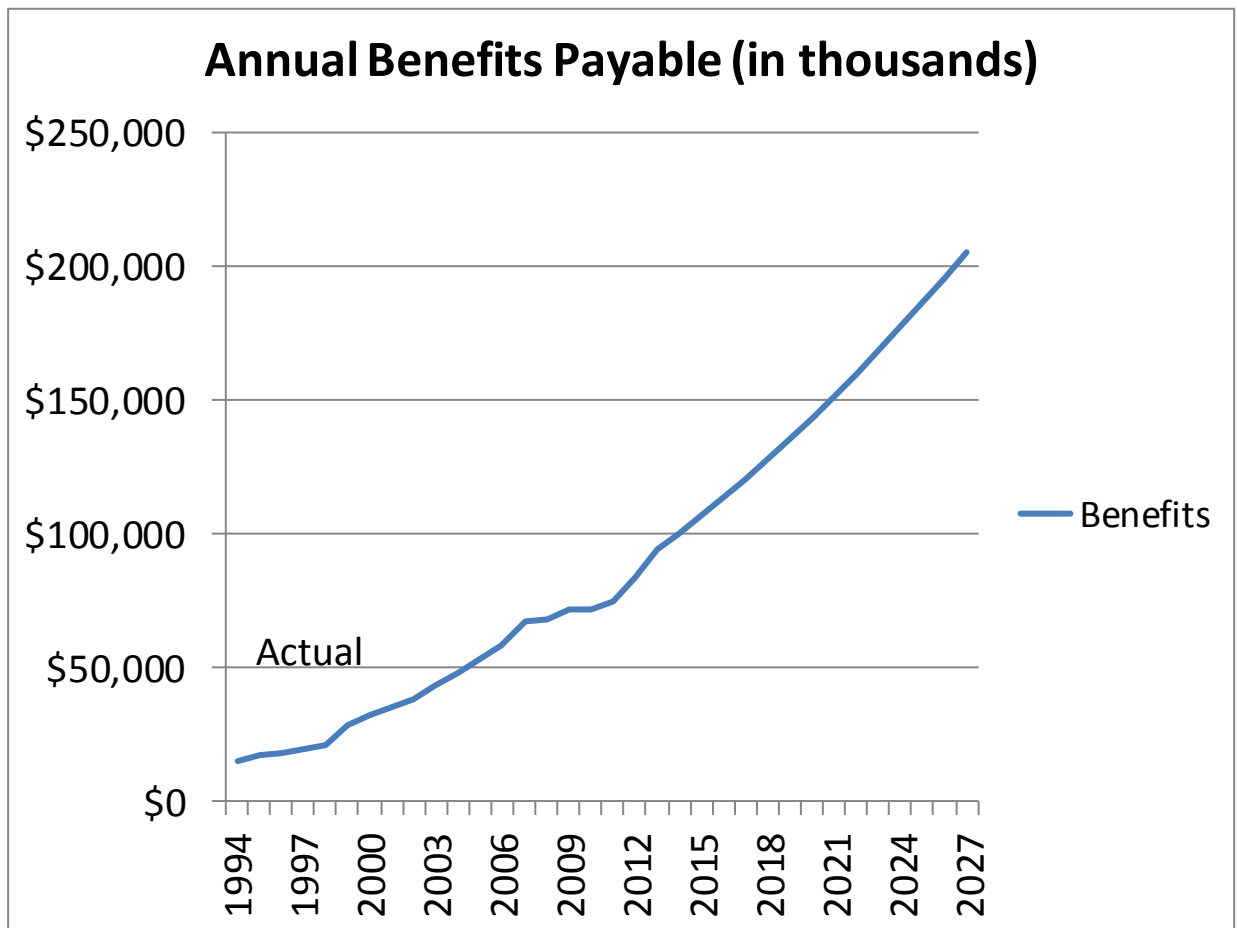
In 1991, then California Governor Pete Wilson asked the legislature to appropriate roughly \$1.6 billion from CalPERS' pension reserve accounts to balance the State budget. Wilson also asked for the authority to appoint a majority of CalPERS' Board Members and to have control over the actuarial projections of the System. Shortly after, the Legislature passed AB 702, giving Wilson the changes he sought.

In November of 1992, California voters responded by approving Proposition 162 which amended Section 17 of Article XVI of the California Constitution. Prop 162 essentially gave plenary authority to all Retirement Boards within the State to administer their System within the fiduciary capacity granted them. Specifically, the proposition laid out the following major points:

- Grants the board of a public retirement system sole and exclusive authority over investment decisions and administration of the system
- Requires board to administer system so as to assure prompt delivery of benefits to participants
- Board must give highest priority to providing benefits to members
- Specified that the Legislature cannot change terms/conditions of Board memberships unless approved by voters within the jurisdiction

The Growth of a Retirement System

The growth of a retirement system generally follows the growth of its assets, liabilities and benefit payments. When a system first starts out it grows very slowly. There are no assets and no retired members. However, as time progresses, the system eventually begins to grow exponentially, much the same way money compounds with interest. And, in the absence of any meaningful change in the benefits or the structure of the system, its reserves and retired members grow very quickly. The following chart shows the exponential nature of the annual growth in benefits for StanCERA (data projected after 2012):



As can be seen, the benefits that the System is projected to be paying in 12 to 13 years will more than double. Further, if assets grow at the actuarially assumed rate less inflation and less the benefit payment/contribution shortfalls, the portfolio can be expected to be around \$2 billion within 5 years.

As assets and benefit payments grow, so does the need for enhanced governance, oversight and member services. Anecdotally, there is a loose relationship between portfolio size and a retirement system's need for more technical, complex analysis and oversight. Two systems similar in size to that of StanCERA's, San Joaquin and Sonoma, both had in-house investment personnel before they reached \$2 billion in assets.

The Board's Fiduciary Responsibility

The StanCERA Board has a fiduciary responsibility to insure that the retirement system is prudently, efficiently and effectively managed with the highest priority given to providing benefits to members. Section 16 of the California Constitution explicitly states:

The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries.

The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.

At some point in time it is inevitable that the Board will need to recruit and hire individuals that possess a high level of knowledge regarding pension funding principles and benefit delivery. Further, as the portfolio grows, an increased need for internal investment governance and oversight becomes critical as the organization will need to attain a higher level of understanding and comfort with all investment processes. So that the Board may maintain its capacity to discharge its fiduciary duties, the ability to recruit and hire talented and competent staff and pay them what the current market demands is paramount.

The System's Current State

StanCERA currently operates as a sub-division of the largest plan sponsor within the system itself. For the most part, the County has discretionary control over employment issues relating to the system. While historically there have been no issues in this area, as shown above, it is imperative the board have sole control over the human resource assets of the system.

What Defines Independence?

Independence in today's context essentially means control over staff salaries and job classifications, since StanCERA already maintains plenary authority over investment decisions and all other administrative aspects of the System. After researching the independence issue, staff has determined that there are several ways a system can seek and achieve independence.

Achieving Independence

One way is to work within the County's current structure to achieve and maintain control over salaries and job classifications. Should this be the chosen path, staff recommends a revision to our current by-laws spelling out precisely what level of control the Organization is seeking and for what positions. These revisions would then be approved first by the Board of Retirement and then the County Board of Supervisors. The County recently agreed to StanCERA's need for this level of governance and is willing to administer those specific positions as included in our bylaws and approved by the County Board of Supervisors. Staff is aware of at least 1 other 1937 Act System that has accomplished independence by working within the County's current processes. This system now employs an Assistant Retirement Administrator and investment personnel.

Sonoma County Employees' Retirement Association (SCERA)

SCERA, which currently maintains approximately \$2 billion in assets, has achieved salary independence over all executive, assistant executive and investment positions by working

within the County system and not seeking legislation. Additionally, they are currently in the process of hiring full-time legal counsel and intend to have control over this position as well.

In talks with the system, they stated at the onset there were some governance issues with the County that needed to be overcome. After much Board of Retirement discussion with the County, the County agreed the Board of Retirement had authority to set salaries and job classifications. The relationship has worked well for both the Administrator and Assistant Administrator positions and feels that for the Assistant position, they have been able to set a competitive salary and attract and retain strong candidates.

SCERA's first investment position (an Investment Officer) was established through Civil Service in February 2011. The salary was established at a reasonable range to attract and retain qualified candidates. Recently, the system expanded the investment functional area to include an analyst and Senior Investment Officer. Even though these positions were established through Civil Service, there were issues with the County salary benchmarking process. Again, there was much discussion back and forth between the system and the County, but the Board of Supervisors agreed to proceed with the positions and salaries as proposed by SCERA.

In summary, SCERA was dedicated to achieving these positions without seeking legislation. They have discussed special district status over the last several years, but haven't wanted to take that step given the complexities. The evolution of their investment functional area has worked adequately although they stated the last round of salary discussions with the County may eventually push them in the direction of some form of independence.

While SCERA's solution is similar to staff's recommendation today, there is a key difference. SCERA's solution does not explicitly acknowledge this level of governance in their bylaws and control over classifications and salary levels still seem to require discussions with the County when necessary.

On the other hand, the County has now acknowledged the necessity for StanCERA to have governance over staff issues and has agreed to administer these decisions within the authority granted to StanCERA in its bylaws and approved by the County Board of Supervisors.

Legislation

Another way is to seek legislation. This generally requires a legislative official to sponsor legislation to get StanCERA's name into a code section of 1937 Act Law that specifically defines what level of salary and classification control the system is looking for. There are at least 9 (out of 20) other 1937 Act systems that have chosen to go this route. If the Board does decide to seek legislation, there are several "levels of independence" from which to choose.

Statutory "Levels of Independence"

Levels of independence within 1937 Act Law can be described by the positions for which control is sought and whether those positions are defined as "county employees". There are 5 sections of 1937 Act Law that are currently on the books:

1. Executive Director – **County Employee** (StanCERA adopted August 2001)
2. Executive Director, Assistant Director and CIO – **County Employees**
3. All positions that serve directly under the Executive Director, Legal and Investment positions – **County Employees**
4. All positions named in #3 above – **Not County Employees**
5. All organizational staff – **Not County Employees**

Attachment 2 summarizes the differences in a little more detail. Levels 4 and 5 mean that StanCERA would essentially be administering its own human resource function and would entail becoming a Special District.

What is the difference between legislation or simply working with the County to achieve fiduciary control?

In a nutshell, the main differences lie in the hiring, promotional and termination processes. All legislative levels of independence state that the subject positions do not fall under the County Civil Service and Merit System rules and that all subject positions serve at the pleasure of the Board and may be dismissed without cause.

If StanCERA chooses to work with the County to gain independence, then the processes used to hire, promote and terminate an employee fall under the current merit system rules. For termination, this means that the Board would not be able to dismiss someone without cause and for hiring, all current processes in place would still be used.

Additionally, under County Civil Service and Merit System rules, the employer or Organization may be held to an elevated hiring standard.

What is the difference between the statutory levels of independence that distinguish whether the subject positions are “County Employees”?

What it means to be a “County Employee”

1. Position is included in a salary resolution adopted by the Board of Supervisors
2. There are return rights afforded to those that either presently, or at some point in the past, are/were represented
3. Employees can be included and kept on regular lists for open positions within the County, bypassing the initial application process
4. Subject to hiring and termination processes that the County currently has in place
5. Employee has transfer rights

What it means NOT to be a “County Employee”

1. Positions are set, maintained and adopted by the Organization
2. No return rights to previous County positions
3. Employees wishing to apply for County positions must go through the application process
4. Generally, no representation
5. Hiring and termination process developed by the Organization

What are the implications of becoming a Special District?

Becoming a Special District is not a trivial exercise. Among other things, there is the application, review and approval process completed through the Local Agency Formation Commission (LAFCO). Afterwards, there is an election where only the voters within the proposed District's boundaries vote.

Should the Board show a desire to choose Level 4 or Level 5 independence, staff recommends that this issue be placed within the structure of the Internal Governance Committee and authorize a project analysis be prepared by the Committee on details pertaining to the establishment of district status for StanCERA.

Meetings with the County

Several weeks ago, the Director met with staff from the County CEO's office. In that meeting, the County acknowledged StanCERA's desire and ability to discharge its fiduciary duty regarding staffing issues. To that end, the County and StanCERA agreed that StanCERA should have control over positions, classification and salaries at the executive and managerial/supervisory level. The County recommends that StanCERA specifically include in its by-laws the positions they wish to govern and the level of control over these positions. StanCERA would then develop these specificities for inclusion into our by-laws and present them for approval to the Board of Supervisors.

Issues that would be addressed in the bylaws

1. The County's acknowledgement that StanCERA has a need to govern its staffing issues as they relate to its ability to discharge its fiduciary mandate
2. What positions are to be governed by StanCERA
3. What aspects of the subject positions are to be governed (i.e. classifications, salary ranges, etc.)
4. The County's willingness to continue to provide services to StanCERA

Costs to Administer StanCERA's Payroll

The County has previously indicated that they would be willing to continue providing all the services back to StanCERA that it has become accustomed to. This would include the cost of payroll administration. However, the only scenarios where StanCERA would be required to administer their own payroll would be if the Board chose Level 4 or Level 5 independence. If the Board chooses any other level of independence, StanCERA would not have the ability to administer its own payroll, since we would not be considered a unique employer.

Should the Board choose Level 4 or Level 5 independence, staff has put together some preliminary administrative cost estimates (current County figures are shown for comparison):

<u>Costs</u>	<u>County</u>	<u>StanCERA</u>
Fixed Startup	N/A	\$70,000 to \$110,000
Annual Ongoing	\$5,500	\$1,000

Fixed startup costs for StanCERA include research, policy development, implementation, and formal staff training. Annual ongoing costs for StanCERA are projected to be considerably less due to the nature of the County's fixed cost structure that's currently in place. If the Board wishes to pursue Level 4 or Level 5 independence, a more rigorous analysis of all additional administrative costs would be necessary.

Summary of Options

1. **Work with the County;** Attain governance over classifications and salaries for executive and managerial/supervisory level positions by revising the by-laws to include the specific positions and level of governance desired. Present to the Board of Supervisors for approval.

Pros

- Less complex and cost effective; no need to seek legislation
- Minimize cost uncertainty in the future
- County's civil service and merit system rules already in place and provide a level of equality and protection for employees

Cons

- Issue may arise again if control over remaining positions in the future is desired
- Future changes in leadership at the County level may challenge the authority
- County's civil service and merit system rules can be cumbersome from a business and personnel perspective

2. **Seek legislation;** Direct staff to begin the process of independence by way of legislation. The Board should decide which positions they wish to have governance over and whether or not those positions should be classified as County Employees. Should the Board show an interest in Level 4 or Level 5 independence, staff recommends deferring to the Internal Governance Committee for a complete project analysis regarding the subject. If Level 2 or Level 3 independence is desired, staff can begin the process of seeking legislation and can report back to the Board within a few months.

Level's 2 and 3 Independence

Pros

- No potential for ambiguity regarding governance issues over subject positions
- Positions do not fall under the County's civil service and merit system rules; StanCERA would have complete control over the hiring, promotional and termination processes
- A more definitive solution

Cons

- Timing; the process will be time consuming and the timeline uncertain based on the legislative process
- Additional staff resources will be needed to see the process through to completion
- Positions do not fall under the County's civil service and merit system rules; hiring, promotional and termination processes will need to be created

Level's 4 & 5 Independence

Pros

- No potential for ambiguity regarding governance issues over subject positions
- Positions do not fall under the County's civil service and merit system rules; StanCERA would have complete control over the hiring, promotional and termination processes

Cons

- Preliminary investigation into the process reveals that the entire process will require extensive research and a thorough understanding from both a business and legal perspective on the implications
- StanCERA would necessarily be required to administer its entire human resource function
- Process for seeking special district status is not trivial

3. Direct staff to do further research

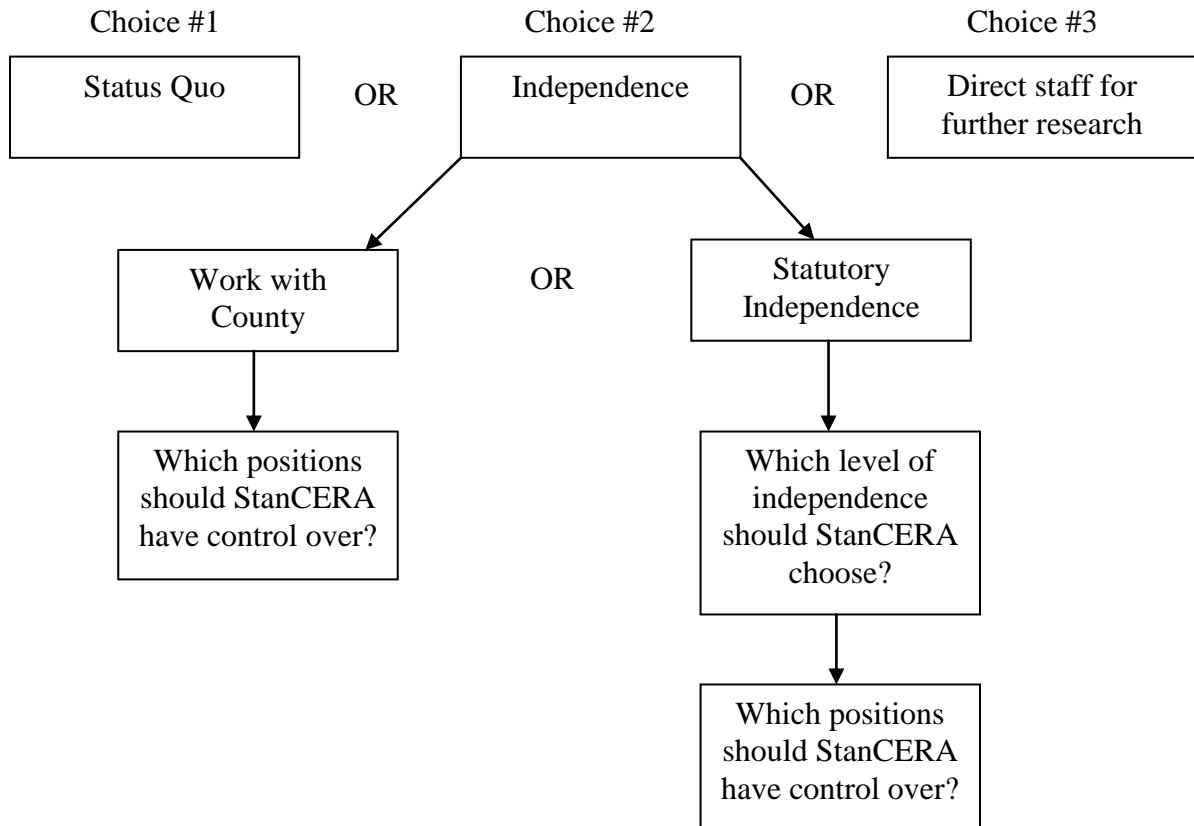
Staff Recommendation

Since the County has already agreed to administer executive, investment, managerial/supervisory positions with StanCERA control, staff recommends option 1.

While staff acknowledges that in the future there may be need for a more formal legislative solution and/or control over all StanCERA positions, this could be well into the future. In the near term, depending on the Board's pleasure, staff sees a high level, technical investment officer or an assistant administrator position serving StanCERA well. The County has agreed to accommodate the investment position and if an assistant administrator position is desired, it should be highly accommodative within the County's current pay structure and classification scheme.

If the Board chooses legislative independence, staff recommends Level 3. Level 2 independence only refers to the Executive Director Position and a Chief Investment Officer (CIO). At this time, staff does not feel the Organization needs a CIO. A highly technical investment officer position seems a more efficient and prudent path at this time. Level 3 independence is much broader and accommodative of any investment or assistant leadership positions for which need may arise in the future.

Summary of Choices – Decision Tree



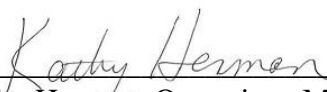
VI. RISK: See analysis

VII. STRATEGIC PLAN: While there is nothing specific in StanCERA's 2010-2013 strategic plan, the Board showed interest in addressing the issue of independence in our current plan. As such, staff will be including the independence issue as part of the new strategic plan when we present our first draft in October.

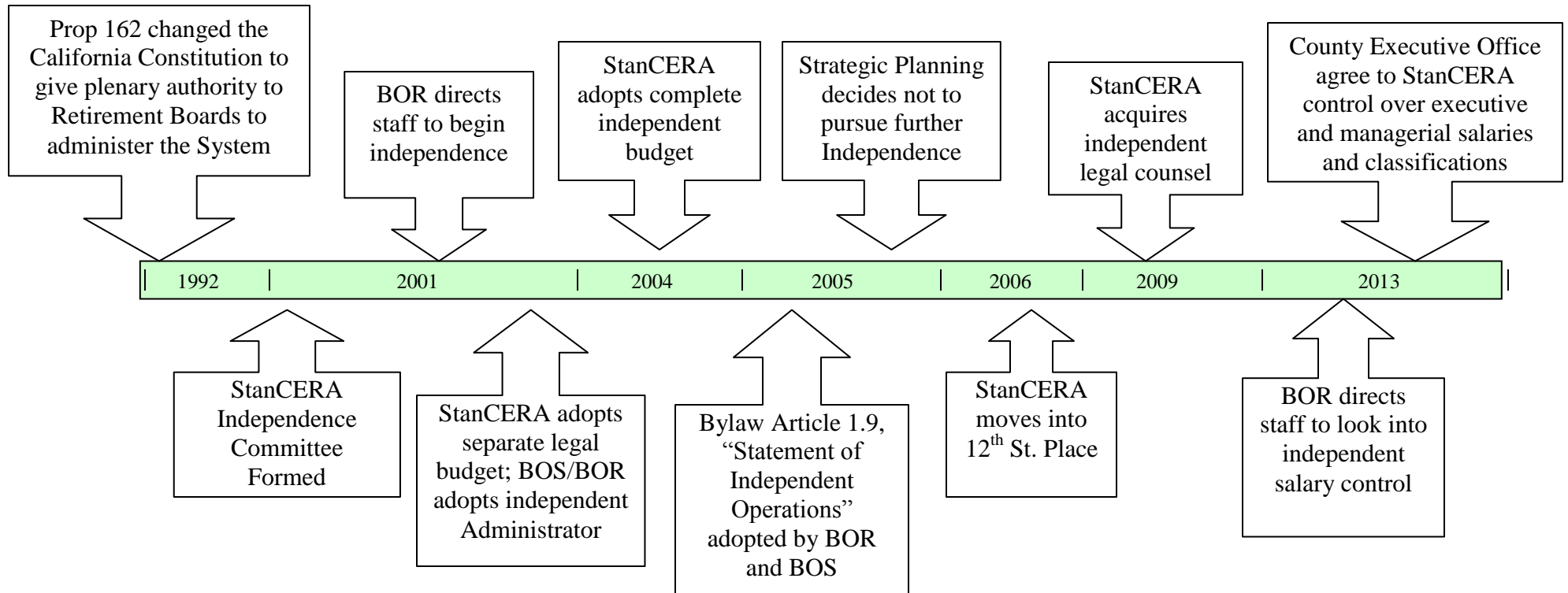
VIII. ADMINISTRATIVE BUDGET IMPACT: See analysis. Level 4 and Level 5 independence will require a more rigorous analysis to determine the impact.


Rick Santos, Executive Director


Dawn Lea, Benefits Manager


Kathy Herman, Operations Manager

Attachment 1 – StanCERA Independence Historical Timeline



Attachment 2 – 1937 Act Code Section Summary

31522.2 Administrator

- StanCERA adopted August, 2001
- Board of Retirement appoints/hires Director
- Position not subject to County civil service or merit system rules
- Director/position is a County employee and included in a salary resolution adopted by the Board of Supervisors
- Director serves at the pleasure of the Board of Retirement and may be dismissed without cause

31522.3 Assistant administrators and chief investment officers

- Board of Retirement appoints/hires positions
- Positions not subject to County civil service or merit system rules
- Positions are County employees and included in a salary resolution adopted by the Board of Supervisors
- Positions serve at the pleasure of the Board of Retirement and may be dismissed without cause
- Section may not work for StanCERA, since future investment position may be more of an “investment officer”

31522.4 Assistant administrators, persons next in line of authority to assistant administrators, chief legal officers, chief deputy legal officers, chief investment officers and investment officers next in line of authority to chief investment officers

- Board of Retirement appoints/hires positions
- Positions not subject to County civil service or merit system rules
- Positions are County employees and included in a salary resolution adopted by the Board of Supervisors
- Positions serve at the pleasure of the Board of Retirement and may be dismissed without cause

31522.5 Additional personnel (administrator, assistant administrator, chief investment officer, senior management under the chief investment officer, subordinate administrators and legal counsel; appointment authority

- Board of Retirement appoints/hires positions
- Positions not subject to County civil service or merit system rules
- Positions are **not** County employees
- Positions serve at the pleasure of the Board of Retirement and may be dismissed without cause
- Other staff **are** County employees subject to civil service or merit system rules
- Board of Retirement and Board of Supervisors may enter into agreements to administer the provisions of this section
- 31522.2 would need to be rescinded

31522.7 Additional personnel; not employees of the county; appointment authority

- Board of Retirement appoints/hires **all** retirement positions
- Positions not subject to County civil service or merit system rules
- Positions are **not** County employees
- Positions serve at the pleasure of the Board of Retirement and may be dismissed without cause
- Board of Retirement and Board of Supervisors may enter into agreements to administer the provisions of this section
- 31522.2 would need to be rescinded