

**SANTA BARBARA COUNTY
EMPLOYEES' RETIREMENT SYSTEM**

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Oscar Peters
Retirement Administrator



BOARD OF RETIREMENT

Chair – Bernice James
Vice Chair – Joni Gray
Secretary - Donald Kendig
George Bobolia
Joseph Gallas
Julie McCammon
Harriet Miller
Vanessa Patterson
Shawn Terris
Ronald Bruns
Frederick Tan

**MINUTES OF THE BOARD OF RETIREMENT
REGULAR MEETING
May 28, 2008
Board of Supervisors' Hearing Room
511 East Lakeside Parkway
Santa Maria, California**

ROLL CALL 9:04 a.m.

Members Present: Bobolia, Gallas, Gray, James, Kendig, McCammon, Patterson, Terris
Members Absent: Miller
Alternates Present: Bruns, Tan
Counsel: Blakeboro
Clerk: Bignell

PUBLIC COMMENT

An inquiry by Trustee Terris brought confirmation of a telephone bridge set up for remote listening by interested County officials.

MINUTES

1. Approve Minutes of Regular Board meeting of April 23, 2008.
Trustees Terris and Kendig recommended several changes and typographical corrections.
Chair James directed staff to bring the minutes back to the Board at the next regular meeting after confirming the accuracy of proposed revisions.
Trustee Gray requested that as many changes as possible be made prior to Board meetings.

NO ACTION TAKEN

CONSENT

- C-1. Receive and file Milliman Actuaries' memo on Impact of a 30-year Amortization Schedule on Employer Contribution Rates.
- C-2. Receive and file PCA Real Estate Advisors memo and biography.
- C-3. Authorize Trustee Gallas to attend the Wharton West, Hedge Funds, Real Estate and Other Alternative Investments course on June 23-25, 2008, in San Francisco, California.
- C-4. Authorize Trustee Terris and other interested Trustees to attend Global Dialog 2008, on June 24-July 2, in Sacramento and San Francisco, California.
Pulled by Trustee Terris for further clarification

Trustee Terris announced that she had received a scholarship towards the registration fee for Global Dialog 2008, and that the total expense for the travel would be around \$2,000.

MOTION: Authorize Trustee Terris and other interested Trustees to attend Global Dialog 2008, on June 24-July 2, in Sacramento and San Francisco, California.

Kendig/Gallas Approved by unanimous voice vote of all present.
Absent: Miller

Chair James pointed out that three Trustees, and the Administrator would be absent for the regular June meeting, and proposed going ahead with the meeting or taking a one month break.

MOTION: Cancel the regular June 25, 2008, meeting and carry over all items to the regular July 23, 2008, meeting.

Terris/McCammon Approved by unanimous voice vote of all present.
Absent: Miller

- C-5. Adopt Retirement Report.

	<u>Name</u>	<u>Dept.</u>	<u>Service Credit</u>	<u>Sick Leave Credit</u>	<u>ARC</u>
	Victor Alvarez	Sheriff	29.30533	0.65226	
	Anne Bentley	DRO	9.25197	0.00000	
	Leland Bentley	Sheriff	21.26726	0.39730	
	Sharon Betzenenderfer	Public Defender	18.52770	0.03886	
	Monica Bradley	Social Services	21.42417	0.00043	
	Mark Brickley	Probation	27.84525	0.65740	
	John Brion	General Services	33.64161	0.39387	
	Ronald Cabrera	Probation	26.20647	0.67610	
	William Caldwell	Sheriff	30.70560	1.00000	
	Peter Cante	APCD	28.16380	0.45149	5.00000
	Emilia Carreira	Public Health	10.12232	0.00021	
R	James Chaney	Public Works	18.08158	0.22806	
R	Michael Cleary	Probation	26.90035	0.58382	
	L. Scott Conn	Probation	18.55530	0.19082	
	Lillian Coony	APCD	10.44567	0.04343	
	Lance Craig	Sheriff	31.56046	0.46635	

C-5. Adopt Retirement Report (Cont'd).

	<u>Name</u>	<u>Dept.</u>	<u>Service Credit</u>	<u>Sick Leave Credit</u>	<u>ARC</u>
	Donata Cromby	Sheriff	21.28392	0.05036	
	Catherine Dorsey	DRO	3.90369	0.00000	
	Georgina Duran-Con	Probation	28.75182	0.64295	
	Gayland Ervin	Probation	28.43577	0.40981	
R	Larry Fausett	Public Works	22.03884	0.83752	1.00000
	Lorna Frey	Courts	25.31825	0.23256	
	Hugo Galante	Sheriff	19.04527	0.16451	
R	Mercedes Gallardo	Public Health	10.75190	0.06485	
	Stephen Graham	Sheriff	28.97153	0.97396	
D	Karin Hodin	SBCAG	8.07008	0.00218	1.41666
D R	Jon Holmerud	Sheriff	1.39350	0.00000	
D	Patty Hood	Social Services	15.38617	0.10057	
	Rachel Ikola	Sheriff	30.76833	0.00065	
R	Wayne Ikola	Sheriff	29.96308	0.90286	
	Gregory Jackson	Public Health	35.13174	0.77760	
	Marjorie Johnsen	Human Resources	7.62584	0.20854	
	Cathryn Jordan	Sheriff	26.18450	0.19768	
	Anneliese Kraus	Cooperative Ext.	24.11197	0.43551	
R Dis	Timothy Lacefield	ADMHS	11.84359	0.00006	
D	Bruce Lee	Executive Office	5.20309	0.17001	
	Maureen Lewis	Data Services	25.12916	0.50283	5.00000
	Linda Lucas	Auditor-Controller	21.23205	0.21582	
	Frances Mason	Clerk-Recorder	31.82003	0.00864	
	Nora Mendibles	Public Health	19.39482	0.05604	
	Marvin Moneymaker	Fire	27.88773	0.47879	
	Adelaide Mostachetti	Social Services	21.87106	0.00019	
	Glen Nelson	District Attorney	30.00745	0.81479	
	Susan Norton	APCD	18.71396	0.06620	
	Donald Olgin	Parks	29.81995	0.85641	
R	John Olson	Probation	6.93934	0.13529	
	Robert Perkins	SBCAG	42.62128	1.00000	5.00000
	Barbara Phillips	Planning & Dev.	29.02810	0.29914	2.00000
	Rayna Pinkerton	Courts	16.55839	0.57539	
D	George Porpiglia	Social Services	6.30250	0.00989	
	Guadalupe Recendez	Public Defender	21.10044	0.02165	
R	Ralph Remick	Auditor Controller	30.78743	0.51264	
R	Patricia Rodriguez	Social Services	36.67800	0.00182	
R	Timothy Rooney	District Attorney	18.85090	0.52097	
	Maria Sherrill	Agriculture Comm.	22.45784	0.35759	
	Deanna Smith	DRO	5.41416	0.00000	
D	Kathleen Souhrada	Public Health	5.24390	0.00000	
R	Thomas Southwick	Sheriff	25.13313	0.94569	
R	Marc Spruill	Fire	3.87325	0.00000	
	Suellen Stewart	Child Support	30.04313	0.58531	
	Robert Stovall	Public Works	33.20775	0.93763	
	Bryce Stromberg	Sheriff	30.71274	0.56974	2.41667
	Dennis Swack	Sheriff	29.79030	0.25574	
	William Todaro	Sheriff	29.99780	1.00000	

C-5. Adopt Retirement Report (Cont'd).

<u>Name</u>	<u>Dept.</u>	<u>Service Credit</u>	<u>Sick Leave Credit</u>	<u>ARC</u>
Patrick Trudegeon	Sheriff	25.87714	0.63508	
Ronald Vasquez	Fire	31.44737	0.04497	
Juan Velazquez	Public Health	25.93950	0.38502	
Barbara Walshon	Planning & Dev.	25.11390	0.00007	
Thomas Williams	Public Works	22.41752	0.78568	0.50000
Charles Zimmer	ADMHS	21.10680	0.67931	

D=Deferred
R=Reciprocal
Dis=Disability

MOTION: Adopt the Consent agenda with the exception of C-4, and recognizing that the Retirement Report has been correctly changed to C-5.

Terris/Gray Approved by unanimous voice vote of all present.
Absent: Miller

DISABILITY RETIREMENT

CLOSED SESSION

6. Patricia Weiland, Service-Connected Disability Retiree:
Consider all the pertinent information, and adopt the recommended findings to establish February 29, 1996, as the effective date of benefit, and direct counsel to advise the Superior Court of the Board's findings as well as the recent *Kotash* decision, and obtain further guidance from the court as to a different course of action, if appropriate.

Counsel Blakeboro introduced item.

Chief Deputy Counsel Martin McKenzie was present and addressed the Board; and Mark Singer, counsel for the applicant, addressed the Board via telephone.

MOTION: Direct Counsel to advise the Court of the *Katosh* Decision and obtain further guidance from the court as to a different course of action, if appropriate, which would defer adoption of findings

Terris/Kendig Amended.

The Board discussed the issue allowing each trustee two opportunities to speak.

To continue discussions, Trustee Kendig moved; Seconded by Trustee McCammon

MOTION: Allow Trustees a third opportunity to speak before voting on Trustee Terris' motion.

Kendig/McCammon Approved by unanimous voice vote of all present.
Absent: Miller

At the conclusion of the discussion trustees Terris and Kendig amended their motion.

- A. Receive legal opinion from Fiduciary Counsel regarding Board Deliberations Concerning Retired Member Health Care and Supplemental Benefits.
- B. Adopt the attached Modified Proposal for Funding Retiree Health Care and Supplemental Retirement Benefits, as recommended by staff, and Board and Fiduciary Counsels.

Or, Alternatively,

- C. Consider recommendations from Alternate Trustee Bruns, as follows:
Effective July 1, 2008:
 - 1. Create a Supplemental Cash Benefit Reserve, and
 - 2. Eliminate the Health Reserve (formerly named Health Coverage Reserve), and
 - 3. Transfer all assets in the Health Reserve (\$93.5 million) to the Supplemental Cash Benefit Reserve, and
 - 4. Transfer \$40.0 million from the Market Stabilization Reserve to the Supplemental Cash Benefit Reserve in order to fund 100% of the monthly \$15/service year cash benefit for all SBCERS retirees and to future retirees who were employed by June 30, 2007, by any of the system's ten plan sponsors, estimated to cost \$133.5 million in accrued liability, and
 - 5. Use the \$133.5 million in assets from the Supplemental Cash Benefit Reserve to provide a monthly taxable \$15/service year supplemental cash benefit to all SBCERS retirees and to future retirees who were employed by June 30, 2007, by any of the system's ten plan sponsors, and
 - 6. Direct the Retirement Administrator to conduct an aggressive outreach campaign, to include countywide meetings and newsletters, in order to properly notify all retirees and employees of this change in the retiree health care benefit and the reason why.

Trustee Gray recused herself and left the hearing room.

Counsel Blakeboro summarized the following disclosure of Board Members with non-disqualifying financial interests in retiree healthcare as related to disposition of the Health Coverage Reserve:

George Bobolia- Retired Member

A retiree of the System; spouse also a retiree of the System

Ronald Bruns- Alternate Retired Member

A retiree of the System; President of the Santa Barbara County Retired Employees Association

Joseph Gallas- Appointed Member

Son an active member of the System

Joni Gray- Appointed member

An active member of the System; a member of the County Board of Supervisors, the primary plan sponsor

Bernice James- Ex-Officio Member (Treasurer)

An active member of the System; spouse a retiree of the System

Donald Kendig- Elected General Member
Management employee with APCD; an active member of the APCD plan

Julie McCammon- Elected Safety Member
An active member of the System; a member of the Sheriffs Managers Association; Spouse also an active member; other close family members receiving benefits through the System

Vanessa Patterson- Appointed member

Fred Tan- Alternate Safety Member
An active member of the System

Shawn Terris- Elected General Member
An active member of the System

Administrator introduced item with a brief overview including historical background, staff's recommendation, summary of statement, and intent of process. Counsel Blakeboro continued the introduction.

Chair James summarized a letter received by the Board from Charles Gerhart, President, Santa Barbara Sheriff's Managers Association, asking that the Board continue Item 8, for one month allowing time for a legal review of the benefit's vesting; and an email from Bill Turpin, Retired Fire Division Chief, suggesting that the County pay the benefit, and stating a preference for maintaining a tax-free benefit.

Chair James then recognized the following speakers' requests to make public comment:

David Brummond, President, Engineers & Technicians Association; Walter Hamilton, Executive Director, SEIU Local 620; and Mark Klein, Political Coordinator, Government Relations Department, SEIU Local 721, Los Angeles County Chapter.

Mr. Brummond requested a 30-day delay to give independent legal counsel time to review the matter, and that the changes' effect on Special Districts be addressed.

Mr. Hamilton expressed support for the Board's efforts to achieve tax compliance, belief that this benefit is vested to all current and active employees of the System, and requested that no action be taken to allow time for Recognized Employee Organizations to confer with counsel. Additionally, Mr. Hamilton encouraged the Board to take no action that is inconsistent with the practices that have created a vested right for active employees, bring the benefit into tax compliance, preserve the prefunding that has accrued to date over the last 20 years to provide the benefit, preserve the practice and the Board's authority and ability to allocate undesignated earnings in the future.

Mr. Klein related belief that retiree medical care for current and retired employees of Santa Barbara County is a vested right, and disagreement of any decision reducing or eliminating it.

Counsel Blakeboro addressed issues touched on by the speakers.

Trustee Gallas made the following Motion; Seconded by Trustee McCammon:

MOTION:

WHEREAS:

1. SBCERS has established a Health Coverage Reserve account ("Health Reserve") which has been used to fund health care premium subsidies and supplemental benefits to retirees. As of June 30, 2007, the Health Reserve held approximately \$93 million. The Health Reserve has been accumulated from "excess earnings," as defined in the County Employees Retirement Law of 1937 as amended (the "CERL") and investment earnings on those amounts during years when available excess earnings have allowed the SBCERS' Board to credit interest to the Health Reserve.
2. For the last several years, SBCERS has been paying \$15/month per year of service to retired members as a non-taxable health premium subsidy (pro rated for survivors) (the "\$15 Benefit") and a \$4/month per year of service taxable supplemental benefit (also pro rated for survivors) (the "\$ 4 Benefit") to retirees who are not eligible for or who do not elect the health premium subsidy. The benefit payments have been funded out of the Health Reserve. These benefits are not vested (except as provided under the *Bobolia* judgment.)
3. The Board has been advised that the continued payment of the health premium subsidy to retired members and their survivors may not be permissible under federal tax laws. A change in the manner this benefit is provided is necessary in order to assure compliance with federal tax laws.
4. The County has proposed independently to assume the obligation to fund the non-taxable health premium subsidy, effective July 1, 2008. To date, the County has not specified to whom the subsidy will be paid or for how long. For now, the County says it intends to pay the cost out of its general fund.
5. The Board takes the following action in order to honor the County's stated commitment to commence payment of the \$ 15 Benefit out of its general fund as a first step in establishing a mechanism, through a 401(h) plan or otherwise, for funding the \$ 15 Benefit on a long term basis, which is in the best interests of retired members of the system. At the same time, the Board wishes to safeguard, to the extent it can, the ability of past and future retirees to receive the benefit should the County fail to perform.

IT IS MOVED THAT:

1. Staff is directed to cease providing the \$15 Benefit directly to retirees from assets of the Retirement System, effective June 30, 2008.
2. Effective June 30, 2007, the Health Reserve shall be eliminated on the books of the retirement system and the assets of such reserve shall be reallocated as follows: (1) Supplemental Cash Benefit Reserve, in the amount of \$ 8,100,000, to be treated as a non-valuation asset, for funding the \$ 4 Benefit on an ongoing basis; (2) 2007-2008 Health Benefit Reserve, in the amount of \$ 7,000,000, to fund the \$ 15 Benefit already paid or committed to be paid by SBCERS in Fiscal Year 2007-2008; (3) Retired Member Benefit Reserve, in the amount of \$ 78,430,416, to be treated as a valuation asset for so long as the Plan Sponsor performs, and held for the purposes described below.

3. Treating the Retired Member Benefit Reserve as a valuation asset is projected to have the effect of reducing the Plan Sponsor's future employer contribution rates sufficiently to allow it to commence funding of the \$ 15 Benefit from its general budget without increased costs. The employer contribution rates previously provided to the Plan Sponsors shall be modified accordingly, consistently with such action.
4. The Retired Member Benefit Reserve shall be segregated from other valuation assets and separately identified on the books of the retirement system, in recognition of the fact that the source of the funds in the reserve were excess earnings under the CERL. The reserve will be available to pay supplemental benefits pursuant to Government Code Section 31691.1 should the Plan Sponsor fail to provide the \$ 15 Benefit from its own funds. Such reserve shall not be transferred into county advance (employer) reserves in the retirement system or be considered part of such reserves.
5. SBCERS shall continue to pay the \$4/month per year of service to retirees who are not eligible for or who do not elect the \$ 15 Benefit from the Supplemental Cash Benefit Reserve.
6. At any time on or after July 1, 2008, *if*, and only if, the Plan Sponsors fail to provide the \$ 15 Benefit, to all qualified retirees, as soon as practical thereafter SBCERS shall commence providing a supplemental benefit, in an equivalent amount, on a taxable basis pursuant to the authority of Government Code Section 31691.1, to all eligible retired members and survivors. Should such action become necessary, all funds in the Retired Member Benefit Reserve shall be transferred to the Supplemental Benefit Reserve and shall be deemed non-valuation assets for purposes of the next actuarial valuation.
7. The Supplemental Benefit Reserve shall be the sole source of funding the supplemental benefits to be provided by SBCERS under this Proposal. The benefits so provided may not exceed the funds available in the Supplemental Benefit Reserve. In any year that "excess earnings" are available after crediting appropriate interest to the system's other reserves and replenishing the Contingency Reserve, SBCERS' Board may, but shall not be obligated to, credit interest to the Supplemental Reserve out of such available excess earnings and/or additionally increase the reserve from such excess earnings to increase the estimated actuarial lifespan of the benefit.
8. If at any time the funds in the Supplemental Benefit Reserve are insufficient to pay the full projected annual amount of supplemental benefits, the SBCERS' Board may, but shall not be obligated to, pro rate the available funds among retirees and survivors for so long as such funds are available.
9. For purposes of funding supplemental benefits, the SBCERS' Board does not intend to create an unfunded liability for the County or any participating district employer.
10. Nothing herein shall preclude the SBCERS' Board in the future from modifying or amending this Resolution or taking any and all other actions permissible under law.

11. For purposes of Government Code Section 7507, the costs of the supplemental benefits that may be granted under this Proposal shall never exceed the funds available in the Supplemental Benefit Reserve, and such costs have been made public by the system's actuary at least two weeks before the adoption of this Proposal.

The Board deliberated on Trustee Gallas' motion.

During deliberation, Trustee Terris distributed proposed amendments to the motion.

Trustee Gallas declined to amend his motion.

Trustee Terris offered to amend her proposed changes and summarized her proposed amendment as only creating a separate reserve for the \$15 service year supplemental benefit funds, and transferring the 2006-07 excess earnings in accordance with the Board's 20-year policy.

Chair James, with staff concurring, stated that Trustee Gallas' motion already created a separate reserve, that excess earnings needed to be discussed at a separate place and time, after a definition of excess earnings could be determined, and that the resolution referenced in the amended proposal had already been adopted and implemented as Board policy.

Trustee Gallas again declined to amend his motion.

The Chair called for a roll call vote on the issue.

Gallas/McCammon	Approved.	
	Yes:	Bobolia, Gallas, James, Kendig, McCammon, Patterson, Terris
	Absent:	Gray, Miller

9. Receive and file actuarial report of the cost of providing an Early Retirement Incentive program to qualifying employees of the County Counsel's Office.

Administrator clarified that the method of payment is to be agreed upon between the County and Retirement System.

MOTION: Receive and file actuarial report of the cost of providing an Early Retirement Incentive program to qualifying employees of the County Counsel's Office.

Gallas/Kendig	Approved by unanimous voice vote of all present.
	Absent: Miller

10. Accept and file Operations Committee report and Retirement Administrator position specification, and approve and adopt the proposed recruitment budget.

MOTION: Accept and file Operations Committee report and Retirement Administrator position specification, and approve and adopt the proposed recruitment budget of \$66,500.

Terris/Gray	Approved by unanimous voice vote of all present.
	Absent: Miller

11. Receive and comment on Draft Budget for Fiscal Year 2008-09.

Administrator introduced item and addressed issues raised by the Board.

Trustee Kendig requested the \$1.896 million/18 bps calculation come back in the cover letter.

MOTION: Receive Draft Budget for Fiscal Year 2008-09.

Kendig/McCammon Approved by unanimous voice vote of all present.

Absent: Miller

INVESTMENTS

14. Receive update on International Equity manager search from PCA, confirm finalist candidates and consider designating Trustees to conduct site visits.

Neil Rue of PCA introduced item and addressed issues raised by the Board.

The following Trustees volunteered to make a site visit: Kendig, Terris, Patterson, Bruns and Tan.

Chair James directed staff to return with a twenty minute agenda item focusing on Trustee training for site visits, and schedule early morning local site visits for interested Trustees, to STW Fixed Income Management and First Republic Investment Management (formerly named Starbuck Tisdale and Associates).

MOTION: Receive update on International Equity manager search from PCA and confirm finalist candidates.

Kendig/Terris Approved by unanimous voice vote of all present.

Absent: Miller

15. Adopt revised watch status criteria for Invesco.

Neil Rue of PCA introduced item and addressed issues raised by the Board.

MOTION: Adopt revised watch status criteria for Invesco and place Invesco on watch.

Terris/Kendig Approved by unanimous voice vote of all present.

Absent: Miller

13. Approve PCA Real Estate Advisors (PCA RE) recommendation to invest \$10 million in Rockwood Capital Real Estate Partners VIII, L.P. Fund.

Austin Carmichael, Assistant Vice President, standing in for Eliza Bailey, Vice President, PCA RE, introduced himself and the item.

Edmond A. Kavounas, Executive Managing Director and Co-Founder; and Tyson Skillings, Vice President, Acquisitions, made the Rockwood Capital presentation.

Neil Rue of PCA, and Administrator addressed issues raised by the Board.

5. Revisit Board Policies including general disclosures of potential conflicts of interest
6. Explore the efficacy of becoming a Special District

CLOSED SESSION
(2:50 p.m. – 3:22 p.m.)

Public Employment (Government Code Section 54957(b)(1))
Consider Interim Assignment in absence of Administrator

OPEN MEETING

Counsel Blakeboro announced that the following reportable action had been taken in closed session. The board directed clarification of the Administrator's willingness to continue to serve as Administrator on a 24 hour per week basis during the search for a new administrator and authorized an effort to retain Retired Administrator, Gary Feramisco, as a consultant to assist staff, counsel and the Board with respect to issues pertaining to the Board's excess earnings policy.

The meeting adjourned at 3:29 p.m.

ATTEST:

Clerk

Chair

Secretary