



RETIREMENT BOARD MEETING
SECOND MONTHLY MEETING

9:00 a.m.
June 26, 2013

Retirement Board Conference Room
The Willows Office Park
1355 Willow Way, Suite 221
Concord, California

THE RETIREMENT BOARD MAY DISCUSS AND TAKE ACTION ON THE FOLLOWING:

1. Pledge of Allegiance.
2. Accept comments from the public.
3. Approve minutes from the May 8, 2013 meeting.
4. Presentation by Brown Armstrong on the audit of the December 31, 2012 financial statements.
5. Update from staff on pending legislation pertaining to the County Employees Retirement Law of 1937.
6. Update from staff on application for IRS Letter of Determination.

CLOSED SESSION

7. The Board will continue in closed session pursuant to Govt. Code Section 54956.9(a) to confer with legal counsel regarding existing litigation (four cases):
 - a. *Board of Retirement v. County of Contra Costa, et al.*, Alameda County Superior Court, Case No. RG11608520.
 - b. *Contra Costa County Deputy Sheriffs Association, et al., v. CCCERA, et al.*, Contra Costa County Superior Court, Case No. N12-1870.
 - c. The Board will continue in closed session pursuant to Govt. Code Section 54956.9(a) to confer with legal counsel regarding existing litigation:
In Re: Tribune Company Fraudulent Conveyance Litigation, United States District Court For the Southern District of New York, Case No. 11 MD 2296 (WHP).
 - d. *Debra M. Carmel v. County of Contra Costa, et al.*, Contra Costa County Superior Court, Case No. C12-02360.

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.

OPEN SESSION

8. Miscellaneous
 - a. Staff Report
 - b. Outside Professionals' Report
 - c. Trustees' comments

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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May 8, 2013

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, May 8, 2013 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, John Gioia, Jerry Holcombe, Sharon Naramore, John Phillips, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: Debora Allen, Brian Hast and Gabe Rodrigues

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Kurt Schneider, Retirement Deputy Chief Executive Officer; Timothy Price, Retirement Chief Investment Officer; and Christina Dunn, Retirement Administration Manager

Outside Professional Support: Harvey Leiderman
Representing: Reed Smith LLP

Other Attendees:
Luz Casas Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu CCCERA Staff
Tracy Kroll CCCERA Staff
Justine Rossini CCCERA Staff
Mike Sloan Contra Costa County Retired Employees Association
Todd Smithey Central Contra Costa Sanitary District
William Pigeon Local 1230

1. Pledge of Allegiance

Viramontes led all in the *Pledge of Allegiance*.

2. Public Comment

No members of the public offered comment.

3. Approval of Minutes

It was *M/S/C* to approve the minutes of the March 21, 2013 and the March 27, 2013 Board meetings. (Yes: Buck, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts)

4. Routine Items

It was *M/S/C* to approve the routine items of the May 8, 2013 Board meeting. (Yes: Buck, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts)

It was the consensus of the Board to move to Item 7.

7. Consider and take possible action on review of CCCERA real estate investments

Price reported that CCCERA's availability to commit to private real estate has grown due to the increase in total CCCERA fund value and meaningful distributions from the existing private real estate managers.

He reviewed a survey of the most recent investments made by existing CCCERA managers and the strategic positioning of CCCERA's private real estate managers. Price recommended making additional commitments of up to \$60 million in value add real estate funds, up to an additional \$25 million to opportunistic funds and up to \$175 million in distressed real estate funds. Price stated that staff would review the current fund offerings from existing real estate managers before considering new managers.

After discussion, it was **M/S/C** to accept staff's recommendation to make additional commitments to closed end real estate funds up to a total of of \$240 million. (Yes: Buck, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts)

Cabral was present for subsequent discussion and voting.

8. Review of Budget vs. Actual for 2012

Leedom distributed detailed Budget vs. Actual reports for 2012 for Administration and for Legal and Investment noting that we are substantially under-budget. She reported Attorney-disabilities and Telephone Services for Administration were over-budget. Salaries were under-budget due to vacancies taking longer to fill which caused the Temporary-Salary to be over-budget.

Leedom reported the main charges for salaries on the Legal and Investment budget are for on-site visits, which is under-budget.

Leedom reported the CAFR will be presented at the last meeting in June.

It was **M/S/C** to accept the Budget vs. Actual Report for 2012. (Yes: Buck, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts. Abs.: Cabral)

9. Conference Seminar Attendance

- a. It was **M/S/C** to authorize the attendance of 2 Board members and 1 staff member at the Annual Meeting, Paladin, June 11, 2013, Washington, D.C. (Yes: Buck, Cabral, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts)
- b. It was **M/S/C** to authorize the attendance of 2 Board members at the Investment Management Program, SACRS, July 28-31, 2013, Berkeley, CA. (Yes: Buck, Cabral, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts)
- c. It was **M/S/C** to authorize the attendance of 2 Board members at the Trustees' Roundtable, CALAPRS, June 14, 2013, Burbank, CA. (Yes: Buck, Cabral, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts)
- d. It was **M/S/C** to authorize the attendance of 4 Board members at the Program for Advanced Trustee Studies, NCPERS, August 19-21, 2013, Harvard Law School, Cambridge, MA. (Yes: Buck, Cabral, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts)

- e. It was *M/S/C* to authorize the attendance of 3 Board members at the Advanced Investments Management, IFEBP, September 8-12, 2013, Philadelphia, PA. (Yes: Buck, Cabral, Gioia, Holcombe, Phillips, Telles, Viramontes and Watts)

10. Miscellaneous

(a) Staff Report -

Leedom reported the September 11, 2013 meeting will be the quarterly meeting because Milliman is unable to attend the September 4, 2013 meeting.

She reported a request for a complete salary and compensation study of all CCCERA positions will be on the May 22, 2013 meeting agenda.

Leedom reported the May 22, 2013 is the Quarterly Meeting. She stated Paul Angelo will be presenting the Triennial Experience Study at that meeting, and noted she will be sending a letter of notification to all employers.

Leedom reported on a new requirement for all commercial landlords to disclose to their tenants in their lease documents whether or not the leased premises has been inspected by a Certified Access Specialist ("CASp" in Civil Code Section 1938) and if so, whether or not the property has or has not been determined to meet all applicable construction-related accessibility standards. She confirmed the new leases after July 1, 2013 will include this assessment.

She and Price met with the 3 private real asset investment manager finalists, noting there is a special meeting on May 29, 2013 for their presentations.

Leedom reported she is working with the retiree organizations to receive nominations for Retirement Board Alternate Seat #8, which will be vacant as of July 1, 2013.

Price reported he attended the DLJ Real Estate Partners annual meeting and felt it was an excellent event.

(b) Outside Professionals' Report -

None

(c) Trustees' Comments -

Cabral reported he attended the 11th Annual Pension & Capital Stewardship Conference at Harvard and felt it was very interesting.

Telles reported he, Allen and Chu attended the EIF Annual Investors Meeting and was very impressed.

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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May 8, 2013

Gioia reported that he is resigning from the Board and this is his last Retirement Board meeting. He was recently been appointed by the Governor to the California Air Resources Board. He stated the Board of Supervisors will be appointing a replacement at their May 14, 2013 meeting.

Viramontes reported that Bill Pollacek, former trustee and County Treasurer, passed away. His funeral will be on May 16, 2013 at 1:00 p.m.

Gioia was not present for subsequent discussion and voting.

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54957, 54956.9(a) and 54956.9(b).

The Board moved into open session.

5. It was **M/S/C** to accept the Medical Advisor's recommendation and grant the following disability benefits:
 - a. Lamont Mellor - Service Connected (Yes: Buck, Cabral, Holcombe, Phillips, Telles, Viramontes and Watts).
 - b. Lisa Rheuby - Service Connected (Yes: Buck, Cabral, Holcombe, Telles, and Viramontes; No; Phillips Abs.: Watts).
- 6a. There was no reportable action related to Govt. Code Section 54956.9(a).
- 6b. There was no reportable action related to Govt. Code Section 54956.9(a).
- 6c. There was no reportable action related to Govt. Code Section 54956.9(b).

It was **M/S/C** to adjourn the meeting in memory of Bill Pollacek. (Yes: Buck, Cabral, Holcombe, Phillips, Telles, Viramontes and Watts)

Maria Theresa Viramontes, Chairman

John B. Phillips, Secretary

**BROWN
ARMSTRONG**

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

Meeting Date
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#4

Contra Costa County Employees' Retirement Association
Board of Retirement presentation
of the December 31, 2012 audit results
By: Rosalva Flores, CPA
Brown Armstrong Accountancy Corporation
Date: June 26, 2013

1. Purpose of the Audit
2. The Audit Process
 - a. Timeline coordination with CCCERA staff
 - b. Understanding and evaluation of CCCERA internal controls through inquiry and observation
 - c. Confirmations with independent third parties
 - d. Interim testing
 - e. Final fieldwork testing
 - f. Report presentation
3. Significant Audit Areas/Scope of Audit Work
 - a. Risk based approach
 - b. Investments and related earnings
 - c. Participant data and actuarial information
 - d. Employee and employer contributions
 - e. Benefit payments
4. Audit Opinions
 - a. Types of audit opinions
 - b. CAFR
 - i. Independent Auditor's Report (opinion) on Financial Statements – unmodified opinion
 - c. Report to the Board of Retirement
 - i. Required Communication to the Members of the Board of Retirement in Accordance with Professional Standards
 - ii. Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
 - iii. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting
5. Financial Statement Highlights
6. Thank Staff
7. Questions and/or Comments?

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INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
Contra Costa County Employees' Retirement Association

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Contra Costa County Employees' Retirement Association (CCCERA), a component unit of the County of Contra Costa, California, as of December 31, 2012 and 2011, and the related statement of changes in fiduciary net position for the years then ended and the related notes to the financial statements, which collectively comprise CCCERA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CCCERA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CCCERA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CCCERA as of December 31, 2012, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CCCERA's basic financial statements. The other supplementary information and the introductory, investment, actuarial, and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2013, on our consideration of CCCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
June 12, 2013

Memorandum

Meeting Date
06/26/13
Agenda Item
#5

Date: June 17, 2012

To: Board of Retirement
Marilyn Leedom, Retirement Chief Executive Officer
Retirement Staff

From: Karen Levy, General Counsel

Subject: Summary of Pending Legislation Pertaining to the County Employees Retirement Law of 1937

Recommendation:

Receive and file.

Summary of Pending Legislation:

Below is a summary of pending legislation relating to the County Employees Retirement Law of 1937 ("CERL") and the California Public Employees' Pension Reform Act of 2013 ("PEPRA"). These bills may be further amended by the State Legislature. If enacted, these provisions would become law on January 1, 2014 (unless they are passed as urgency measures or contain a different operative date).

AB 1380 – COUNTY EMPLOYEES' RETIREMENT. This bill would amend various provisions of CERL to coordinate with PEPRA. The bill would add references in CERL to PEPRA in general as well as to specific provisions within PEPRA, as appropriate. This bill contains technical cross-references for provisions relating to retirement eligibility, purchase of service, definition of final compensation, return to work provisions, reciprocity, deferred retirement, Social Security integration and replacement benefit plans.

Status: Passed in Assembly, currently before the Senate Public Employment and Retirement Committee.

AB 205 – PUBLIC EMPLOYEES' RETIREMENT: PENSION FUND MANAGEMENT. This bill would amend Government Code Section 7514.2 to authorize CERL retirement boards to prioritize investment in an in-state infrastructure project over a comparable out-of-state infrastructure project. Such authority already exists in the law for CalPERS and CalSTRS. This bill would provide that the legislature encourages each retirement board to prioritize investment in in-state infrastructure projects over alternative out-of-state infrastructure projects if the investments in the in-state projects are consistent with the board's fiduciary duties to minimize the risk of loss and to maximize the rate of return.



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Status: Passed in Assembly, currently before the Senate Public Employment and Retirement Committee.

SB 13 – PUBLIC EMPLOYEES’ RETIREMENT BENEFITS. SB 13 is PEPRA clean-up legislation. It is an urgency bill requiring a two-thirds vote and would take effect immediately upon enactment. This bill is intended to clarify PEPRA and states that it is declaratory of existing law and is intended to be applied as of the effective date of PEPRA, January 1, 2013. SB 13:

- Would clarify that members with concurrent membership within 6 months of beginning employment with a new employer are exempt from PEPRA tiers (Section 7522.02(c));
- Would clarify that an employer is not precluded from offering a defined contribution plan on or after January 1, 2013, if the employer did not offer one prior to that date (Section 7522.02(e));
- Would clarify that a retirement system is authorized to adopt resolutions or regulations to modify its plans in accordance with PEPRA (Section 7522.02(h));
- Would clarify that the calculation of normal cost can be done either as a single rate of contribution or as age-based rate of contributions (Section 7522.04(g));
- Would clarify that the pensionable compensation Consumer Price Index adjustment is to be calculated each September and compared to the September of the prior year (Section 7522.10(d)(1));
- Would clarify that employers are required on and after January 1, 2013 to offer PEPRA formulas to new members who are safety employees (deleting the reference to “new employees”) (Section 7522.25(e));
- Would clarify that the definition of “normal cost rate” takes into account actuarial assumptions and must include any elements that would impact the actuarial determination of the normal cost, including retirement formula, eligibility and vesting criteria, ancillary benefit provisions, and automatic cost-of-living adjustments (Section 7522.30(b));
- Would clarify that new members must have an initial contribution rate of at least 50 percent of the normal cost rate or the current contribution rate of similarly situated employees, whichever is greater, if the greater current contribution rate has been agreed to through the collective bargaining process (Section 7522.30(c));
- Would clarify that exclusions from “pensionable compensation” apply to “new members.” (Section 7522.34(c));
- Would clarify that the prohibition against employers offering Internal Revenue Code Section 415 replacement benefit plans is applicable to “new members” (deleting the reference to “new employees”) (Section 7522.43(a));
- Would clarify that the exemption from the 180 “sit out” for safety members who retire and are reemployed without reinstatement only applies if the reemployed retiree is a safety member “hired to perform a function or functions regularly performed by a safety officer or firefighter” (Section 7522.56); and
- Would repeal Section 7522.66 regarding safety industrial disability in its entirety.

Status: Passed in Senate, currently before the Assembly Public Employees, Retirement and Social Security Committee.



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Memorandum

<i>Meeting Date</i> 06/26/13 <i>Agenda Item</i> #6

Date: June 19, 2012
To: Board of Retirement
From: Karen Levy, General Counsel
Subject: Update On Application for Internal Revenue Service Letter of Determination

Recommendation:

Receive and file.

Background:

A "Letter of Determination" is a favorable ruling from the Internal Revenue Service stating that the terms of the retirement plan comply with applicable provisions of the Internal Revenue Code and IRS rules. It means that the retirement plan is "tax-qualified" under the Internal Revenue Code and IRS rules, and plan participants will not be taxed when contributions are made to the plan, but rather upon receipt of benefits at retirement. CCCERA had previously applied for, and received, a favorable Letter of Determination from the IRS in 1987.

Current Status:

CCCERA filed an application with the IRS for a letter of determination within Cycle E, which ended on January 31, 2011. The application was made after the Board adopted changes and compliance policies, as recommended by tax counsel. Included with the application was a Voluntary Compliance Program ("VCP") application, whereby certain plan amendments and corrections were raised. CCCERA received in February 2011 the first ruling from the IRS, regarding the VCP portion of the application. The ruling provides that the plan amendments will be treated as if they were adopted timely. The IRS advised in 2011 that the application would now be transferred to the group in charge of handling the determination letter portion of the application. No time horizons were provided for the next steps in the process. Tax counsel has contacted the IRS periodically, and has been advised that the IRS is hoping to make progress on CCCERA's application, as well as the applications filed by other '37 Act systems. The IRS has recently determined to allow governmental plans to file the next application for a Letter of Determination in Cycle E, from February 1, 2015 to Jan. 31, 2016 (instead of Cycle C, which would have required filing applications by Jan. 31, 2014).



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