

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
BOARD OF RETIREMENT  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CALIFORNIA

REGULAR MEETING  
Monday, November 18, 2019  
9:00 a.m.

AGENDA

The Orange County Board of Retirement welcomes you to this meeting. This agenda contains a brief general description of each item to be considered. The Board of Retirement may take action on any item included in the following agenda; however, except as otherwise provided by law, no action shall be taken on any item not appearing on the agenda. The Board of Retirement may consider matters included on the agenda in any order, and not necessarily in the order listed.

PLEDGE OF ALLEGIANCE

PUBLIC COMMENTS

At this time, members of the public may comment on (1) matters not included on the agenda, provided that the matter is within the subject matter jurisdiction of the Board; and (2) any matter appearing on the Consent Agenda. **Persons wishing to provide public comment at this time should fill out a speaker card located on the counter at the back of the room and deposit it in the Recording Secretary's inbox on the wall near the middle of the room.** When addressing the Board, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

In addition, public comment on matters listed on this agenda will be taken at the time the item is addressed.

CONSENT AGENDA

All matters on the Consent Agenda are to be approved by one action unless a Board Member requests separate action on a specific item.

<b>BENEFITS</b>
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**C-1 OPTION 4 RETIREMENT ELECTION**

**Recommendation:** Grant election of retirement benefit payment, Option 4, based on Segal Consulting's actuarial report.

- (1) Mark Northart
- (2) Teresa Zuber

**ADMINISTRATION**

**C-2 BOARD MEETING MINUTES**

Regular Board Meeting Minutes

October 21, 2019

**Recommendation:** Approve minutes.

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**DISABILITY APPLICATIONS/MEMBER APPEALS AGENDA**

9:00 A.M.

**NOTE: WHEN CONSIDERING DISABILITY RETIREMENT APPLICATIONS OR MEMBER APPEALS OF BENEFIT OR DISABILITY RETIREMENT DETERMINATIONS, THE BOARD MAY ADJOURN TO CLOSED SESSION TO DISCUSS MATTERS RELATING TO THE MEMBER'S APPLICATION OR APPEAL, PURSUANT TO GOVERNMENT CODE SECTIONS 54957 OR 54956.9. IF THE MATTER IS A DISABILITY APPLICATION UNDER SECTION 54957, THE MEMBER MAY REQUEST THAT THE DISCUSSION BE IN PUBLIC.**

\*\*\*\*\*

**OPEN SESSION**

**CONSENT AGENDA**

All matters on the Consent Agenda are to be approved by one action unless a Board member requires separate action on a specific item. If separate action is requested, the item will be discussed during agenda item DA-1.

**DC-1: Sheila D. Dailey**

Eligibility Technician, Social Services Agency

**Recommendation:** The Disability Committee recommends that the Board deny service connected disability retirement due to insufficient evidence of job causation. (General Member)

**DC-2: C.J. Gillespie**

Social Services Supervisor, Orange County Social Services Agency

**Recommendation:** The Disability Committee recommends that the Board deny service connected disability retirement due to insufficient evidence of permanent incapacity. (General Member)

**DC-3: Alexandra Le**

Legal Research Attorney, Orange County Superior Court

**Recommendation:** The Disability Committee recommends that the Board deny service connected disability retirement due to insufficient evidence of job causation. (General Member)

**DC-4: Scott Watson**

Deputy Sheriff II, Orange County Sheriff's Department

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of the day after the last day of regular compensation. (Safety Member)

**DC-5: William West**

Sergeant, Orange County Sheriff's Department

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of June 21, 2019. (Safety Member)

**DC-6: Jaina Marie Williams Rodriguez**

Eligibility Technician, Social Services Agency

**Recommendation:** The Disability Committee recommends that the Board deny service and non-service connected disability retirement without prejudice due to the member's failure to cooperate. (General Member)

**CLOSED SESSION**  
**(Government Code sections 54957 and 54956.9)**

The Board will adjourn to Closed Session pursuant to Government Code sections 54957 or 54956.9 to discuss matters relating to member applications or appeals. The member may request that the discussion relating to his or her application or appeal take place in Open Session.

**ACTION ITEMS**

**DA-1: INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

**DISABILITY/MEMBER BENEFITS AGENDA**

**DA-2: DISABILITY APPEAL – YVONNE SHULL**

**Recommendation:** Staff recommends that the Board approve and adopt the findings and recommendations of the Hearing Officer as set forth in the Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations dated September 8, 2019 (Recommendations), and reject the Applicant's application for disability retirement filed on February 21, 2019 as not timely filed, because the Applicant has not established that she was continuously incapacitated from the performance of her duties from the time of her discontinuance of service until the time when she filed her application for disability retirement, as required by California Government Code §31722.

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**OPEN SESSION**

**ACTION ITEMS**

**NOTE:** Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Board’s discussion of the item. **Persons wishing to provide public comment at this time should fill out a speaker card located on the counter at the back of the room and deposit it in the Recording Secretary’s inbox on the wall near the middle of the room.**

**A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

**A-2 OCERS’ ADMINISTRATIVE BUDGET FOR FISCAL YEAR 2020**

*Presentation by Brenda Shott, Assistant Chief Executive Officer, Internal Operations, and Steve Delaney, Chief Executive Officer*

**Recommendation:**

- 1. Adopt the Administrative Budget for Fiscal Year 2020 in the amount of \$27,184,790 which includes:**
  - a. Personnel costs in the amount of \$15,507,410
  - b. Services and supplies in the amount of \$11,077,680
  - c. Capital expenditures in the amount of \$600,000
  
- 2. Approve the following recommendations from the Personnel Committee:**
  - a. Divide the Administrative Services department into two separate departments; Human Resources and Operations Support Services.
  - b. Approve the 2020 Staffing Plan of 93 budgeted positions and 102 approved classifications, which includes one new position, Senior Manager of Operations Support Services, and the reduction of one position, Staff Assistant; two additional County career ladder positions, one each in the Administrative Services (Human Resources) and Member Services departments; and create an additional HR Analyst classification to be used as a promotional opportunity (no additional headcount) in Administrative Services (Human Resources).
  - c. Change the title of four positions (as presented).
  
- 3. Approve Salary and Range Adjustments**
  - a. Performance/Salary Adjustments for OCERS’ direct employees consisting of a rating scale that includes a base increase of 2.5% for those that meet expectations; a base of 2.5% plus a merit increase of 2.75% for exceeds expectations; and a base of 2.5% plus two merit increases totaling 5.50% (2.75% x 2) for exceptional performance
  - b. Adjust all existing OCERS’ direct salary ranges by 2.5%
  - c. Approve the salary range for the new Senior Manager of Operations Support Services (\$66,962-\$140,321)

**A-3 FUNSTON GROUP PRESENTATION**

*Presentation by Steve Delaney, Chief Executive Officer, OCERS*

**Recommendation:** Approve OCERS' beta testing of Board Smart, with the understanding there is no cost or obligation for that activity.

**A-4 PROPOSED 2020 REGULAR BOARD MEETING SCHEDULE**

*Presentation by Steve Delaney, Chief Executive Officer, OCERS*

**Recommendation:** Approve the proposed 2020 Regular Board Meeting Schedule

**A-5 COMPENSATION OF THE CHIEF EXECUTIVE OFFICER**

**Recommendation:** Take appropriate action.

**INFORMATION ITEMS**

**I-1 MEMBER MATERIALS DISTRIBUTED**

Written Report

Application Notices  
Death Notices

November 18, 2019  
November 18, 2019

**I-2 COMMITTEE MEETING MINUTES**

- Audit Committee
- Audit Committee

June 06, 2019  
August 24, 2019

**I-3 CEO FUTURE AGENDAS AND 2019 OCERS BOARD WORK PLAN**

Written Report

**I-4 QUIET PERIOD – NON-INVESTMENT CONTRACTS**

Written Report

**I-5 BOARD COMMUNICATIONS**

Written Report

**I-6 TRAVEL REPORT – RETIREMENT SYSTEMS OF ALABAMA SITE VISIT**

Written Report

**I-7 TRAVEL REPORT – IPMA HUMAN RESOURCES PUBLIC PENSION ROUNDTABLE**

Written Report

**I-8 PUBLIC PENSION COORDINATING COUNCIL (PPCC) STANDARDS AWARD FOR FUNDING AND ADMINISTRATION**

Written Report

**I-9 THIRD QUARTER 2019 BUDGET TO ACTUALS REPORT**

Written Report

**I-10 THIRD QUARTER UNAUDITED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2019**

Written Report

**I-11 PHONE SYSTEM CONTRACT**

Written Report

**I-12 NEW OCERS ADMINISTRATIVE PROCEDURE (OAP) FOR EVALUATING POTENTIAL NEW  
EMPLOYERS**

Written Report

**I-13 PERSONNEL COMMITTEE OUTCOMES FROM OCTOBER 1, 2019 MEETING: SUCCESSION PLANNING**

Written Report

**I-14 REPORT OF ACTION TAKEN IN CLOSED SESSION ON AUGUST 19, 2019 PURSUANT TO  
GOVERNMENT CODE SECTION 54957.1**

*Presentation by Brenda Shott, Assistant CEO, Finance and Internal Operations*

**I-15 TRUSTEE EDUCATION: "CROSSING THE LINE: HARASSMENT IN THE WORKPLACE"**

*Presentation by Michele Gehrke, ReedSmith*

OCERS Trustees and Executive Team will attend a two-hour harassment prevention training designed to meet the requirements of Government Code section 12950.1.

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**CLOSED SESSION**

**E-1 PUBLIC EMPLOYEE PERFORMANCE EVALUATION PURSUANT TO GOVERNMENT CODE SECTION  
54957**

Adjourn to closed session pursuant to Government Code Section 54957

Position to be evaluated: Chief Executive Officer

**Recommendation:** Take appropriate action.

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**BOARD MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

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**ADJOURNMENT: (IN MEMORY OF THE ACTIVE MEMBERS, RETIRED MEMBERS, AND SURVIVING SPOUSES WHO PASSED AWAY THIS PAST MONTH)**

**NOTICE OF NEXT MEETINGS**

**INVESTMENT COMMITTEE MEETING**

**November 25, 2019**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**DISABILITY COMMITTEE MEETING**

**December 03, 2019**

**10:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**REGULAR BOARD MEETING**

**December 16, 2019**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

*All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.*

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at [adminsupport@ocers.org](mailto:adminsupport@ocers.org) or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours' notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

C-1





## Memorandum

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**DATE:** November 18, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Adina Bercaru, Member Services Manager  
**SUBJECT: OPTION 4 RETIREMENT ELECTION – MARK NORTHART**

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### Recommendation

Grant election of retirement benefit payment, Option 4, based on Segal Consulting's actuarial report.

### Background/Discussion

This member elected Option 4 as the benefit payment option for his service retirement allowance as required by his Domestic Relations Order (DRO), effective October 4, 2019. The Orange County Employees Retirement System (OCERS) was joined in the member's dissolution of marriage and under the terms of the DRO, the member's ex-spouse was awarded a lifetime continuance as a percentage of the member's allowance.

The approval of Option 4 will not increase OCERS liability because the cost of this Option 4 benefit is proportional to the cost of the other benefit plans. Segal Consulting has calculated the member's monthly allowance as indicated in the attached letter as well as the allowance payable to the member's ex-spouse.

### Submitted by:



A. B. – APPROVED

Adina Bercaru  
Member Services Manager



180 Howard Street Suite 1100 San Francisco, CA 94105-6153  
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DIRECT DIAL NUMBER  
415-263-8254

E-MAIL ADDRESS  
mcalcagno@segalco.com

PERSONAL AND CONFIDENTIAL

November 11, 2019

Ms. Adina Bercaru  
Member Services Manager  
Orange County Employees Retirement System  
2223 Wellington Avenue  
Santa Ana, CA 92701-3101

**RECEIVED**

**NOV 12 2019**

Orange County Employees  
Retirement System

**Re: Orange County Employees Retirement System  
Option 4 Calculation for Mark Northart**

Dear Adina:

Pursuant to your request, we have determined the Option 4 benefits payable to Mark Northart and his ex-spouse based on the unmodified benefit and other information provided in the System's request dated November 4, 2019.

The monthly benefits payable to the member and the ex-spouse and the data we used for our calculations are as follows:

Member's Date of Birth

Ex-Spouse's Date of Birth

Date of Retirement

October 4, 2019

Plan of Membership

General Plan B & Safety Plan F

Monthly Unmodified Benefit

Plan B: \$90.88

Plan F: 12,865.29

Total: \$12,956.17

Ex-Spouse's Share of Monthly Unmodified Benefit

27.20%

Retirement Type

Service Retirement

<b>The ex-spouse bears the cost of Option 4 reduction for the DRO benefit</b>	<b><u>Payable while the Member is Alive</u></b>	<b><u>Payable After the Member's Death</u></b>
Monthly benefit payable to member		
Plan B Annuity:	\$13.02	
Plan B Pension:	53.14	
Plan F Annuity:	1,480.44	
Plan F Pension:	<u>7,885.49</u>	
Total:	\$9,432.09	\$0
Monthly benefit payable to ex-spouse (or to the estate of the ex-spouse if the ex-spouse predeceases the member)	\$2,931.44*	\$2,931.44

\* This is equal to 27.20% of the member's unmodified benefit (i.e., 27.20% \* \$12,956.17 or \$3,524.08) adjusted further to provide a benefit payable over the ex-spouse's lifetime.

### ACTUARIAL ASSUMPTIONS

Effective interest rate of 4.136253% per year, which is calculated using an investment return assumption of 7.00% per year together with a cost-of-living adjustment assumption of 2.75% per year.

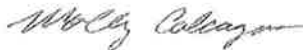
Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional mortality improvement scale MP-2016 set back four years, weighted 80% male and 20% female for members.<sup>1</sup>

Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional mortality improvement scale MP-2016, weighted 20% male and 80% female for beneficiaries.<sup>1</sup>

The actuarial calculations contained in this letter were performed under my supervision. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein.

Please let us know if you have any comments or questions. As in all matters pertaining to the interpretation and application of the law, Plan, or individual Option 4 Calculation provisions, you should be guided by the advice of the Plan's Legal Counsel.

Sincerely,



Molly Calcagno, ASA, MAAA  
 Assistant Actuary

AW/hy

<sup>1</sup> Since the member last worked as a Safety member, we used Safety assumptions in determining optional benefits even for benefits paid from the General Plan.



November 12, 2019

Mark E. Northart

Re: Retirement Election Confirmation – Option 4

Dear Mr. NORTHART:

As required by your Domestic Relations Order (DRO), you have elected Option 4 as your retirement option. This option will provide 27.20% of your monthly benefit, for the life of the benefit, to:

JANET NORTHART

This designation is irrevocable; you will not be allowed to change your retirement option or designated beneficiary.

Please complete this form and return to OCERS as soon as possible.

I understand that my retirement option is irrevocable; by choosing Option 4 I will take a monthly reduction in order to provide 27.20% continuance to JANET NORTHART.



Member Signature/Date

Sincerely,



Adina Bercaru  
Member Services Manager

**RECEIVED**

NOV 12 2019

Orange County Employees  
Retirement System



## Memorandum

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**DATE:** November 18, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Adina Bercaru, Member Services Manager  
**SUBJECT:** **OPTION 4 RETIREMENT ELECTION – TERESA ZUBER**

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### Recommendation

Grant election of retirement benefit payment, Option 4, based on Segal Consulting's actuarial report.

### Background/Discussion

This member elected Option 4 as the benefit payment option for his service retirement allowance as required by her Domestic Relations Order (DRO), effective October 5, 2019. The Orange County Employees Retirement System (OCERS) was joined in the member's dissolution of marriage and under the terms of the DRO, the member's ex-spouse was awarded a lifetime continuance as a percentage of the member's allowance.

The approval of Option 4 will not increase OCERS liability because the cost of this Option 4 benefit is proportional to the cost of the other benefit plans. Segal Consulting has calculated the member's monthly allowance as indicated in the attached letter as well as the allowance payable to the member's ex-spouse.

### Submitted by:



A. B. – APPROVED

Adina Bercaru  
Member Services Manager



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PERSONAL & CONFIDENTIAL

November 11, 2019

Ms. Adina Bercaru  
Member Services Manager  
Orange County Employees Retirement System  
2223 Wellington Avenue  
Santa Ana, CA 92701-3101

**RECEIVED**

**NOV 12 2019**

Orange County Employees  
Retirement System

**Re: Orange County Employees Retirement System  
Option 4 Calculation for Teresa L. Zuber**

Dear Adina:

Pursuant to your request, we have determined the Option 4 benefits payable to Teresa L. Zuber and her ex-spouse based on the unmodified benefit and other information provided in the System's request dated November 4, 2019.

The monthly benefits payable to the member and the ex-spouse and the data we used for our calculations are as follows:

Member's Date of Birth	
Ex-Spouse's Date of Birth	
Date of Retirement	October 5, 2019
Plan of Membership	General Plan J
Monthly Unmodified Benefit	\$4,825.08
Ex-Spouse's Share of Monthly Unmodified Benefit	26.72%
Retirement Type	Service Retirement

<b>The ex-spouse bears the cost of Option 4 reduction for the DRO benefit</b>	<b><u>Payable while the Member is Alive</u></b>	<b><u>Payable After the Member's Death</u></b>
Monthly benefit payable to member		
Annuity	\$1,249.63	
Pension	<u>2,286.19</u>	
Total	\$3,535.82	\$0
Monthly benefit payable to ex-spouse (or to the estate of the ex-spouse if the ex-spouse pre- deceases the member)	\$1,122.94*	\$1,122.94

\* This is equal to 26.72% of the member's unmodified benefit (i.e., 26.72% \* \$4,825.08 or \$1,289.26) adjusted further to provide a benefit payable over the ex-spouse's lifetime or to the estate of the ex-spouse if the ex-spouse pre-deceases the member.

**ACTUARIAL ASSUMPTIONS**

Effective interest rate of 4.136253% per year, which is calculated using an investment return assumption of 7.00% per year together with a cost-of-living adjustment assumption of 2.75% per year.

Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional mortality improvement scale MP-2016, weighted 40% male and 60% female for members.

Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected 20 years with the two-dimensional mortality improvement scale MP-2016, weighted 60% male and 40% female for beneficiaries.

The actuarial calculations contained in this letter were performed under my supervision. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein.

Please let us know if you have any comments or questions. As in all matters pertaining to the interpretation and application of the law, Plan, or individual Option 4 Calculation provisions, you should be guided by the advice of the Plan's Legal Counsel.

Sincerely,



Molly Calcagno, ASA, MAAA  
 Assistant Actuary

AW/hy

November 12, 2019

Teresa L. Zuber

Re: Retirement Election Confirmation – Option 4

Dear Ms. ZUBER:

You have elected Option 4 as your retirement option. This option will provide a 26.72% of your monthly benefit, for the life of the benefit, to:

RICHARD ZUBER

This designation is irrevocable; you will not be allowed to change your retirement option or designated beneficiary.

Please complete this form and return to OCERS as soon as possible.

I understand that my retirement option is irrevocable; by choosing Option 4 I will take a monthly reduction in order to provide a 26.72% continuance to RICHARD ZUBER.

  
Member Signature/Date

Sincerely,



Ricardo Serrano  
Retirement Program Specialist

**RECEIVED**

NOV 14 2019

Orange County Employees  
Retirement System



C-2

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
BOARD OF RETIREMENT  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CALIFORNIA**

**REGULAR MEETING  
Monday, October 21, 2019  
9:00 a.m.**

**MINUTES**

Chair Packard called the meeting to order at 9:03 a.m.

Attendance was as follows:

**Present:** Charles Packard, Chair; Roger Hilton, Vice Chair; Chris Prevatt; Frank Eley, Shari Freidenrich, Shawn Dewane, Wayne Lindholm, and Jeremy Vallone

**Absent:** David Ball, Russell Baldwin, Shawn Dewane

**Also Present:** Steve Delaney, Chief Executive Officer; Brenda Shott, Assistant CEO, Internal Operations; Gina Ratto, General Counsel; Dawn Matsuo, Staff Attorney; Megan Cortez, Disability Manager, Matt Eakin, Director of Cyber Security; Reginald Tucker, Managing Director of Investments; Anthony Beltran, Visual Technician; and Nichol Forbes; Recording Secretary.

**Guests:** Harvey Leiderman

*Vice Chair Hilton led the Pledge of Allegiance.*

**CONSENT AGENDA**

**MOTION** by Prevatt, **seconded** by Eley, to approve staff's recommendation on all of the following items on the Consent Agenda:

<b>BENEFITS</b>
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**C-1 OPTION 4 RETIREMENT ELECTION**

**Recommendation:** Grant election of retirement benefit payment, Option 4, based on Segal Consulting's actuarial report.

(1) NONE

<b>ADMINISTRATION</b>
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**C-2 BOARD MEETINGS AND COMMITTEE MEETINGS**

Regular Board Meeting Minutes

August 19, 2019

Strategic Planning Workshop Meeting Minutes

September 18 - 19, 2019

**Recommendation:** Approve minutes.

**C-3 GOVERNANCE COMMITTEE OUTCOMES FROM SEPTEMBER 25, 2019 COMMITTEE MEETING:  
TRIENNIAL REVIEW OF THE OVERPAID AND UNDERPAID BENEFITS POLICY AND THE TRUSTEE  
EDUCATION POLICY**

**Recommendation:** The Governance Committee recommends that the Board of Retirement:

- (1) Approve the revisions to the *Overpaid and Underpaid Benefits Policy* as presented; and
- (2) Approve the revisions to the *Trustee Education Policy* as presented.

**C-4 RETIREE REQUEST TO BE REINSTATED – BEYAN NEGASH**

**Recommendation:** Reinstate Mr. Negash as an active member under the provisions of Government Code Section 31680.4 and 31680.5.

The motion passed **unanimously** with Trustees Ball, Baldwin and Dewane absent.

**DISABILITY/MEMBER BENEFITS AGENDA**

**OPEN SESSION**

**CONSENT AGENDA**

**MOTION** by Prevatt, **seconded** by Hilton, to approve the recommendations of the Disability Committee on all of the items on the Disability/Member Benefits Consent Agenda as follows:

**DC-1: James Aldrich**

Firefighter/Paramedic, Orange County Fire Authority

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of April 5, 2018. (Safety Member)

**DC-2: Anna Amaro**

Coach Operator, Orange County Transportation Authority

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of April 1, 2018. (General Member)

**DC-3: Sima Azma**  
Applications Developer I, Orange County Superior Court

**Recommendation:** The Disability Committee recommends that the Board grant non-service connected disability retirement with an effective date of October 27, 2017. (General Member)

**DC-4: Theresia Balandran**  
Senior Institutional Cook, Orange County Sheriff's Department

**Recommendation:** The Disability Committee recommends that the Board deny service connected disability retirement due to insufficient evidence of job causation. (General Member)

**DC-5: Matthew Barr**  
Lieutenant, Orange County Sheriff's Department

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of January 5, 2018. (Safety Member)

**DC-6: Donald Blackburn**  
Fire Apparatus Engineer, Orange County Fire Authority

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of May 15, 2018. (Safety Member)

**DC-7: Terri Brunette**  
Public Health Nurse III, Orange County Health Care Agency

**Recommendation:** The Disability Committee recommends that the Board deny service and non-service connected disability retirement without prejudice due to the member's failure to cooperate. (General Member)

**DC-8: Dee Clair-Crossen**  
Deputy Sheriff I, Orange County Sheriff's Department

**Recommendation:** Staff recommends that the Disability Committee grant service connected disability retirement with an effective date of January 4, 2019. (Safety Member)

**DC-9: Alfredo Contreras**  
Laborer, Orange County Waste and Recycling

**Recommendation:** Staff recommends that the Disability Committee grant service connected disability retirement with an effective date of August 21, 2015. (General Member)

**DC-10: Elsa Davis**

Administrative Manager II, Orange County Health Care Agency

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of August 5, 2016. (General Member)

**DC-11: Maria Fierro**

Social Worker II, Orange County Social Services Agency

**Recommendation:** The Disability Committee recommends that the Board deny service and non-service connected disability retirement due to insufficient evidence of permanent incapacity. (General Member)

**DC-12: John Gammon**

Firefighter/Paramedic, Orange County Fire Authority

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of November 9, 2018. (Safety Member)

**DC-13 : Michael Gibson**

Coach Operator, Orange County Transportation Authority

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of June 1, 2014. (General Member)

**DC-14: James Gorski**

Fire Apparatus Engineer, Orange County Fire Authority

**Recommendation:** Staff recommends that the Disability Committee grant service connected disability retirement with an effective date of March 31, 2017. (Safety Member)

**DC-15: James Guarneri**

Sergeant, Orange County Sheriff's Department

**Recommendation:** The Disability Committee recommends that the Board deny service connected disability retirement due to insufficient evidence of job causation. (Safety Member)

**DC-16: Dione Hernandez**

Coach Operator, Orange County Transportation Authority

**Recommendation:** The Disability Committee recommends that the Board deny service connected disability retirement due to insufficient evidence of permanent incapacity. (General Member)

**DC-17: Imelda Jimenez De Garcia**

Warehouse Worker III, Orange County Sheriff's Department

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of October 12, 2018, the day following the last day of regular compensation as a Warehouse Worker III. Find the Applicant is capable of performing other duties in the service of the County of Orange pursuant to Government Code Section 31725.65. Grant a supplemental disability retirement payment allowance in the amount of the salary difference between the higher and lower paying positions effective October 12, 2018, the date of the position change until the day Ms. Jimenez De Garcia wishes to retire from the new position. (General Member)

**DC-18: Eduardo Macedo**

Deputy Juvenile Correctional Officer II, Orange County Probation Department

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of the day after the last day of regular compensation. (Safety Member)

**DC-19: Timothy Murray**

Deputy Sheriff II, Orange County Sheriff's Department

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of February 15, 2019. (Safety Member)

**DC-20: Patricia Palacios**

Office Specialist, Orange County Health Care Agency

**Recommendation:** The Disability Committee recommends that the Board deny service connected disability retirement due to insufficient evidence of permanent incapacity. (General Member)

**DC-21: Surjiwan Sharma**

Data Entry Technician, Orange County Social Services Agency

**Recommendation:** The Disability Committee recommends that the Board deny service and non-service connected disability retirement without prejudice due to the member's failure to cooperate. (General Member)

**DC-22: Michael Whalen**

Firefighter/Paramedic, Orange County Fire Authority

**Recommendation:** The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of March 16, 2018. (Safety Member)

The motion passed **unanimously** with Trustees Ball, Baldwin, Dewane and Vallone absent.

The Board Meeting adjourned to Closed Session at 9:05 a.m.

Trustee Vallone arrived at 9:06a.m.

**CLOSED SESSION**  
**(Government Code sections 54957 and 54956.9)**

**DISABILITY/MEMBER BENEFITS AGENDA**

**ACTION ITEMS**

**DA-1: INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

No items were trailed from the Consent Agenda.

**DISABILITY/MEMBER BENEFITS AGENDA**

**DA-2: DISABILITY APPEAL – ELIZABETH FREYRE**

**Recommendation:** Staff recommends that the Board approve and adopt the Hearing Officer’s Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations dated July 28, 2019 (“Recommendations”), and deny Applicant’s application for service connected disability retirement.

Chair Packard reported that for **DA-2**, the Board took the following action in Closed Session:

The Staff recommendation to approve and adopt the Hearing Officer’s Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations dated July 28, 2019 (“Recommendations”), and deny Applicant’s request for service connected disability retirement was **approved unanimously** with Trustees Ball, Baldwin, and Dewane absent.

**DA-3: DISABILITY APPEAL – CATALINA ZUNIGA**

**Recommendation:** Staff recommends that the Board approve and adopt the Hearing Officer’s Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations dated April 19, 2019 (“Recommendations”), and deny Applicant’s application for service connected disability retirement.

Chair Packard reported that for **DA-3**, the Board took the following action in Closed Session:

The Staff recommendation that the Board approve and adopt the Hearing Officer's Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations dated April 19, 2019 ("Recommendations"), and deny Applicant's request for service connected disability retirement was **approved unanimously** with Trustees Ball, Baldwin, and Dewane absent.

**DA -4: BENEFIT APPEAL – LYDIA E. GONZALEZ**

**Recommendation:** Staff recommends that the Board approve and adopt the Hearing Officer's Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations dated June 4, 2019 (Recommendation), and grant an earlier service retirement benefit effective date of June 6, 2008.

Chair Packard reported that for **DA-4**, the Board took the following action in Closed Session:

The Staff recommendation that the Board approve and adopt the Hearing Officer's Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations dated June 4, 2019 (Recommendation), and grant an earlier service retirement benefit effective date of June 6, 2008 was **approved unanimously** with Trustees Ball, Baldwin, and Dewane absent.

The Board Meeting reconvened in Open Session at 9:48 a.m.

The Board recessed for a break at 9:50 a.m.

The Board reconvened at 9:56 a.m.

**ACTION ITEMS**

**A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

No items were trailed from the Consent Agenda.

**A-2 OCERS 2020-2022 STRATEGIC PLAN**

Presentation by Steve Delaney, Chief Executive Officer asking the Board to adopt the 2020-2022 Strategic Plan.

**MOTION** by Prevatt, **seconded** by Hilton, to approve the OCERS 2020-2022 Strategic Plan.

The motion passed **unanimously** with Trustees Ball, Baldwin, and Dewane absent.

**A-3 OCERS 2020 BUSINESS PLAN**

Presentation by Steve Delaney, Chief Executive Officer asking the Board to approve the 2020 Business Plan. Discussion took place by the Board specifically on Risk Management A3(a), and B1 as well as Effective



Governance A1 related to the Funston Group.

The Board directed the CEO to bring the item related to the Funston Group back to the Board at its November meeting and to provide additional information about the Funston Group documentation/information sharing process.

Trustee Hilton stated for the record that for future business plans, he would like to see areas where OCERS will save money and additional clarity regarding whether costs are a one-time cost or a reoccurring cost.

**MOTION** by Prevatt, **seconded** by Hilton, to approve the OCERS 2020 Business Plan.

The motion passed **unanimously** with Trustees Ball, Baldwin, and Dewane absent.

#### **A-4 VOTING DIRECTION FOR SACRS BUSINESS MEETING**

Presentation by Gina Ratto, General Counsel to obtain voting direction for the SACRS Business Meeting on November 15, 2019. There is one item, with two subparts on the SACRS agenda that will call for a vote by the SACRS membership. They are whether SACRS should support two legislative proposals: the SACRS Omnibus Bill (SB 783) which would make various “clean up” revisions to the CERL and the LACERA proposal to amend the CERL sessions related to nonservice connected disability retirement to remove the element related to the intemperate use of alcoholic liquor or drugs.

The Board discussed both legislative proposals.

**MOTION** by Prevatt, **seconded** by Hilton, to direct OCERS voting delegates to vote “YES” in favor of supporting both legislative proposals (SB 783 and the LACERA proposal) at the November 15, 2019 SACRS business meeting.

The motion passed **unanimously** with Trustees Ball, Baldwin, and Dewane absent.

**MOTION** by Prevatt, **seconded** by Hilton, to give voting direction to the OCERS’ voting delegates for the November 15, 2019 SACRS business meeting, but also allow the delegate to use his/her best judgement based on the direction coming from the Board, should exigent circumstances arise during the discussions of the meeting.

Discussion took place.

The motion passed **unanimously** with Trustees Ball, Baldwin, and Dewane absent.

#### **A-5 PHONE SYSTEM CONTRACT**

Presentation by Jenny Sadoski, Director of Information Technology to obtain approval to enter a new contract with Dialpad for a voice over IP (VOIP), unified communications and contact center services.

**MOTION** by Prevatt, **seconded** by Eley, to support Staff’s recommendation to approve entering into a three year contract with Dialpad for voice over IP (VOIP), unified communications and contact center services.

Discussion took place by the Board.

Ms. Ratto suggested an amendment to the motion recommendation:

To support Staff's recommendation to approve entering into a three year contract with Dialpad for a voice over IP (VOIP), unified communications and contact center services, subject to negotiation of terms satisfactory to OCERS Chief Executive Officer, including a satisfactory termination provision.

The maker of the motion and seconder accepted the amendment to the motion.

The motion passed **unanimously** with Trustees Ball, Baldwin, and Dewane absent.

The Board recessed for a break at 10:55 a.m.

The Board reconvened at 11:08 a.m.

#### **A-6 APPROVE MOU WITH THE SANITATION DISTRICT TO PAY OFF ITS CONTINGENT UAAL**

Presentation by Brenda Shott, Assistant CEO Internal Operations on MOU with the Orange County Sanitation District regarding payment of its Unfunded Accrued Actuarial Liabilities.

**MOTION** by Eley, **seconded** by Prevatt, to approve a Memorandum of Understanding (MOU) with the Orange County Sanitation District Regarding Payment of Unfunded Accrued Actuarial Liabilities and authorize the Chief Executive Officer to execute the final form of the MOU so that a payment can be made as of November 1, 2019.

Discussion took place by the Board.

The motion passed **unanimously** with Trustees Ball, Baldwin, and Dewane absent.

#### **A-7 GOVERNANCE COMMITTEE OUTCOMES FROM SEPTEMBER 25, 2019 COMMITTEE MEETING: NEW OCERS ADMINISTRATIVE PROCEDURE (OAP) FOR EVALUATING POTENTIAL NEW EMPLOYERS**

Presentation by Gina Ratto, General Counsel to approve the Governance Committee's recommendation to approve a new OCERS Administrative Procedure (OAP).

**MOTION** by Eley, **seconded** by Prevatt, to approve the Governance Committee's recommendation that the Board of Retirement adopt a new *OCERS Administrative Procedure (OAP) for Evaluating Potential New Employers* who apply to participate in the OCERS pension plan.

Discussion by the Board took place. Trustee Freidenrich suggested additional requirements be added to the financial analysis that will be undertaken by staff in reviewing a potential new employer. Ms. Ratto committed to adding the additional requirements, and then providing the revised OAP to the Board at a future Board meeting as an information item.

The motion passed **5-1** with Trustee Freidenrich voting Nay. Trustees Ball, Baldwin, and Dewane absent.

**A-8 GOVERNANCE COMMITTEE OUTCOMES FROM SEPTEMBER 25, 2019 COMMITTEE MEETING:  
NEW BOARD POLICY: PROTOCOL FOR HANDLING WORKPLACE COMPLAINTS AGAINST MEMBERS  
OF THE BOARD AND EXECUTIVE STAFF**

Presentation by Gina Ratto, General Counsel to approve the Governance Committee's recommendation that the Board adopt a new Board Policy on Protocol for Handling Workplace Complaints Against Members of the Board and Executive Staff.

**MOTION** by Prevatt, **seconded** by Hilton, to approve the Governance Committee's recommendation to approve a new Board Policy on Protocol for Handling Workplace Complaints Against Members of the Board and Executive Staff.

The motion passed **unanimously** with Trustees Ball, Baldwin, and Dewane absent.

**A-9 GOVERNANCE COMMITTEE OUTCOMES FROM SEPTEMBER 25, 2019 COMMITTEE MEETING:  
REVISIONS TO THE TRAVEL POLICY**

Presentation by Gina Ratto, General Counsel to approve the Governance Committee's recommendation to adopt revisions to the Travel Policy.

**MOTION** by Prevatt, **seconded** by Hilton, to approve the Governance Committee's recommendation to approve revisions to the Travel Policy.

Discussion took place by the Board.

The motion passed **unanimously** with Trustees Ball, Baldwin, and Dewane absent.

**INFORMATION ITEMS**

**I-1 MEMBER MATERIALS DISTRIBUTED**

Written Report

Application Notices

October 21, 2019

Death Notices

October 21, 2019

**I-2 COMMITTEE MEETING MINUTES**

Written Report

- Governance Committee Minutes
- Audit Committee Minutes
- Personnel Committee Minutes

**I-3 CEO FUTURE AGENDAS AND 2019 OCERS BOARD WORK PLAN**

Written Report

**I-4 QUIET PERIOD – NON-INVESTMENT CONTRACTS**

Written Report

**I-5 LEGISLATIVE UPDATE**

Written Report

**I-6 THIRD QUARTER 2019 TRAVEL AND TRAINING EXPENSE REPORT**

Written Report

**I-7 BOARD COMMUNICATION**

Written Report

**I-8 BUSINESS CONTINUITY AND DISASTER RECOVERY PLAN EXERCISE EXECUTIVE SUMMARY**

Written Report

**I-9 GENERAL AND RETIRED BOARD MEMBER ELECTION UPDATE**

Written Report

**I-10 TRAVEL REPORT PROFESSIONAL IN HUMAN RESOURCES CONFERENCES (PIHRA)**

Written Report

**I-11 TRAVEL REPORT LINKEDIN TALENT CONNECT CONFERENCES**

Written Report

**I-12 REPORT OF ACTION TAKEN IN CLOSED SESSION ON AUGUST 19, 2019 PURSUANT TO GOVERNMENT CODE SECTION 54957.1**

**This item was pulled from the agenda.**

**CLOSED SESSION ITEMS**

The Board **ADJOURNED** to Closed Session at 12:00 p.m. for item E-1.

The Board **reconvened** in Open Session at 12:06p.m. and reported out the following actions taken during closed session on item E-1.

**E-1 CONFERENCE REGARDING LITIGATION THAT HAS BEEN INITIATED**

**(GOVERNMENT CODE SECTION 54956.9(d)(1)) OCERS v. Al Mijares, the Orange County Superintendent of Schools, et al., CA Superior Court, Los Angeles County (Case No. 19STCP04023)**

Adjourn pursuant to Government Code section 54956.9(d)(1)

There was **no reportable action taken** in closed session.

**BOARD MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

Mr. Steve Delaney addressed the Members of the Board to make the Trustees aware that the proposed meeting dates for 2020 that were handed out during the Strategic Planning Workshop will be sent electronically

in order to get feedback and then will be brought back at the November 18, 2019 Regular Board Meeting to be voted on.

**COUNSEL COMMENTS**

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**ADJOURNMENT: (IN MEMORY OF THE ACTIVE MEMBERS, RETIRED MEMBERS, AND SURVIVING SPOUSES WHO PASSED AWAY THIS PAST MONTH)**

The meeting **ADJOURNED** at 12:10 p.m. in memory of the active members, retired members, and surviving spouses who passed away during the past month:

**Active Members**

Chehregosha, Sherli  
Fulton, Robert  
Gelber, Lee  
Massari, Frederick  
Navarro, Ruben  
Negron, Olivia  
Nguyen, Sang  
Richardson, Robert  
Salcido, Dionne  
Siefert, Steven  
Vonada, Bryan  
Woolery, Eric

**Retired Members**

Akhbari, Mohamad  
Aye, Phyllis  
Bailey, Richard  
Bitsie, Luella  
Blair, James  
Blanton, Velma  
Brucken, Ann  
Cammon, Carlos  
Clarke, Edward  
Crippen, Robert  
Cripps, Thomas  
Detert, Sonja  
Deutsch, Joye  
Earnest, Johnnie  
Elpers, John  
Evans, Leon  
Fischer, Shirley  
Fronning, Marilyn  
Gaither, Mary

Godshall, Mary  
Haas, Patricia  
Hall, Barbara  
Handy, Adelaide  
Hansen, Michael  
Helweg, Darrol  
Hinrichs, Beverly  
Huntress, Elaine  
Jackson, Robert  
Jacobs, Nancy  
Jones, Byron  
Kant, Gerald  
Kautz, Roland  
Krysinski, Richard  
Kunow, Judy  
Leckie, Alonzo  
Lisenby, Louis  
Martin, Raymond P  
Matthews, Jacqueline  
Mc Intyre, Grace  
McKee, Janet  
Miller, David E  
Mohler, William  
Morrow, Willard  
Oda, Joseph O.  
Parnell, Harriette  
Pendergraft, Roy  
Rittenhouse, Linda  
Ross, Edman  
Schnitzler, Marian  
Schulte, Thomas  
Smith-Varela, Mary  
Snyder, Alan  
Sowers, Teiko  
Stankov, Steve  
Stingaciu, Biagio  
Taylor, Bruce  
Vu, Thuan  
Whitney, Vergene  
Yin, Stephen  
Zarnowski, Arthur

**Surviving Spouses**

Aldrich, Marguerite  
Banigan, Raymond  
Bellinfante, Debra  
Brett, Anna  
Danvers, Charlene  
Fitch, Douglas

Hart, Marlene  
Jackson, Mary  
Moore, Barbara  
Nona, Jerry  
Rill, Norma  
Smith, Robert  
Tyson, Raymond  
Whaley, Mary  
Whitaker, Marsha

Submitted by:

Approved by:

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Steve Delaney  
Secretary to the Board

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Charles E. Packard  
Chairman

A-2





## Memorandum

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**DATE:** November 06, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Brenda Shott, Assistant CEO, Finance and Internal Operations  
**SUBJECT:** **OCERS' ADMINISTRATIVE BUDGET FOR FISCAL YEAR 2020**

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### Written Report

#### Recommendation

- 1. Adopt the Administrative Budget for Fiscal Year 2020 in the amount of \$27,184,790 which includes:**
  - a. Personnel costs in the amount of \$15,507,410
  - b. Services and supplies in the amount of \$11,077,680
  - c. Capital expenditures in the amount of \$600,000
- 2. Approve the following recommendations from the Personnel Committee:**
  - a. Divide the Administrative Services department into two separate departments; Human Resources and Operations Support Services.
  - b. Approve the 2020 Staffing Plan of 93 budgeted positions and 102 approved classifications, which includes one new position, Senior Manager of Operations Support Services, and the reduction of one position, Staff Assistant; two additional County career ladder positions, one each in the Administrative Services (Human Resources) and Member Services departments; and create an additional HR Analyst classification to be used as a promotional opportunity (no additional headcount) in Administrative Services (Human Resources).
  - c. Change the title of four positions (as presented).
- 3. Approve Salary and Range Adjustments**
  - a. Performance/Salary Adjustments for OCERS' direct employees consisting of a rating scale that includes a base increase of 2.5% for those that meet expectations; a base of 2.5% plus a merit increase of 2.75% for exceeds expectations; and a base of 2.5% plus two merit increases totaling 5.50% (2.75% x 2) for exceptional performance
  - b. Adjust all existing OCERS' direct salary ranges by 2.5%
  - c. Approve the salary range for the new Senior Manager of Operations Support Services (\$66,962-\$140,321)

#### Background/Discussion

The proposed budget was developed based on the 2020 Business Plan (Plan) approved by the Board of Retirement on October 21, 2019. The Plan is directly linked to the 2020-2022 Strategic Plan developed using OCERS' Mission Statement and Vision Statement and Values as its foundation. The goals and initiatives included in the approved Plan provided guidance for the proposed FY20 Administrative Budget. In addition, on October 17, 2019, staff held a Budget Workshop to give the Board of Retirement an opportunity to review the proposed FY20 Administrative Budget in detail and to provide staff direction on content of the budget prior to adoption at the November 18, 2019 Board meeting. Attached is the presentation that summarizes the FY20 Administrative Budget and the changes that were made since the Budget Workshop. Included in the materials, after the presentation, is the FY20

Administrative Budget which includes a narrative about the budget, as well as several detailed appendixes that provide further information about the proposed budget that staff is recommending for approval.

**Submitted by:**



**TB - Approved**

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Tracy Bowman  
Director of Finance

**Approved by:**



**BS - Approved**

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Brenda Shott  
Assistant CEO, Finance & Internal Operations

**Approved by:**



**SD - Approved**

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Steve Delaney  
Chief Executive Officer



# **OCERS**

## **2020 Proposed Administrative Budget**

**Regular Board Meeting  
November 18, 2019**

# Today's Agenda

1. Purpose of Presentation
2. Overview of Budget Process
3. Proposed 2020 Administration Budget

# Purpose of Presentation

- General review of 2020 Administrative Budget and follow-up from Budget Workshop discussion
- Recommended actions:
  1. Adopt the 2020 Administrative Budget
  2. Approve the 2020 Staffing Plan consisting of 93 budgeted positions
  3. Approve Salary and Range Adjustments

# Overview of Budget Process

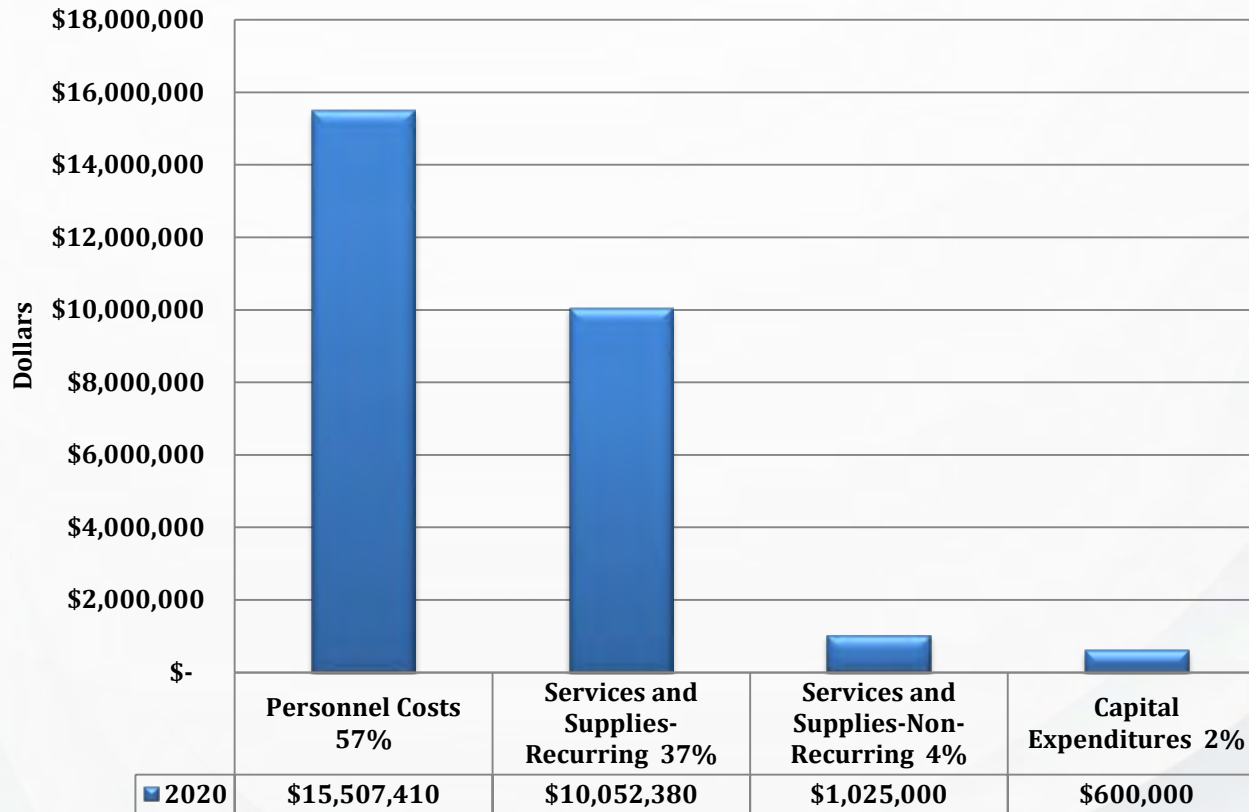
- Budget Approval Policy
- OCERS' Mission Statement, Vision and Values, and 3-Year Strategic Plan
- Set Business Plan goals for 2020
  - Executives/Directors' off-site meeting on August 8, 2019
  - Strategic Planning with Board on September 18-19, 2019
  - 2020 Business Plan approval on October 21, 2019
- Initial budget requests are made by each department head
- CEO, Assistant CEO of Internal Operations and Director of Finance met individually with department heads to discuss and determine necessity of each line item in their budget request

## Overview of Budget Process (cont'd)

- Prepare budget with comparisons to prior years' budgets and actuals
- Workshop to present proposed budget to the Board for comment prior to approval
- Meeting with the Personnel Committee on November 7, 2019 and incorporated their recommendations in the budget
- Approval of the budget by the Board at the November 18, 2019 meeting

# FY20 Proposed Budget Summary

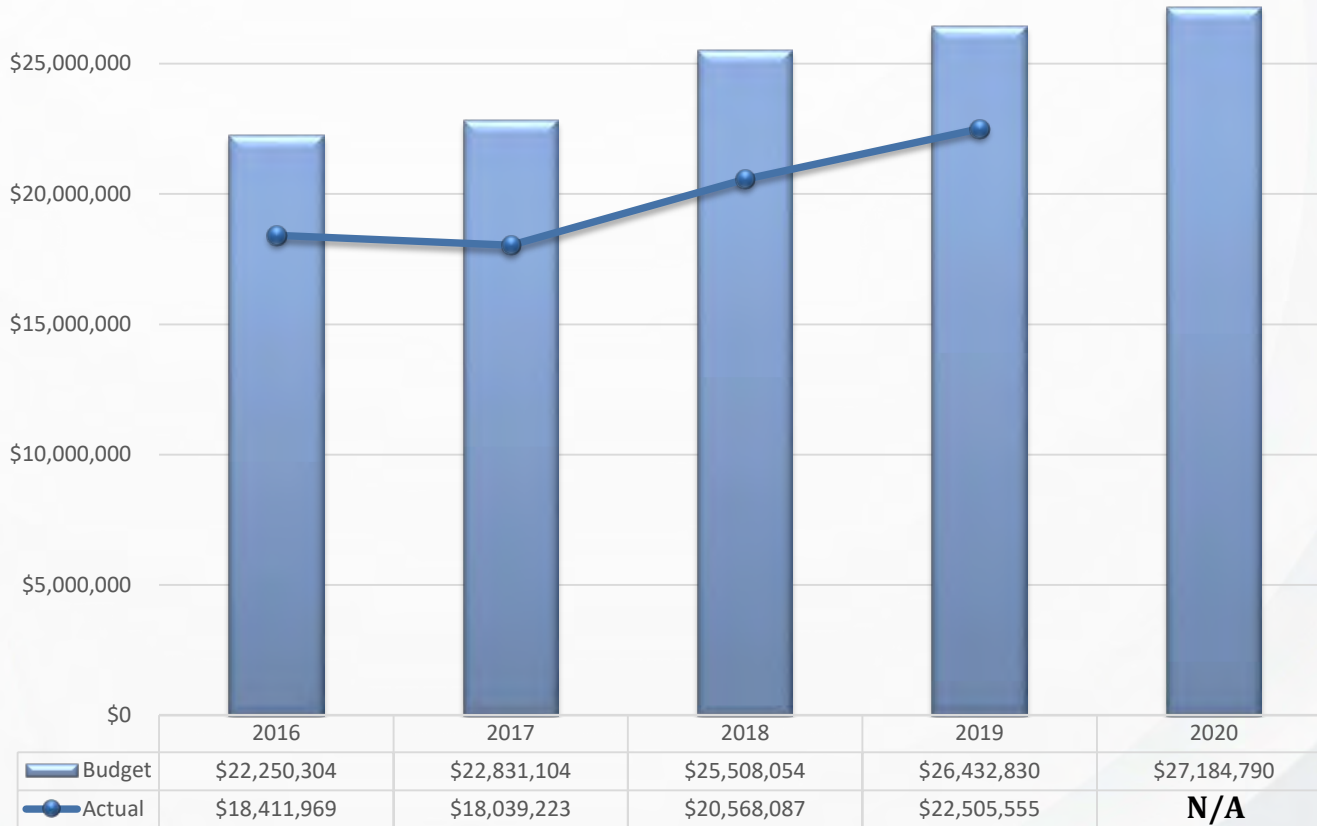
**Total - \$27,184,790**





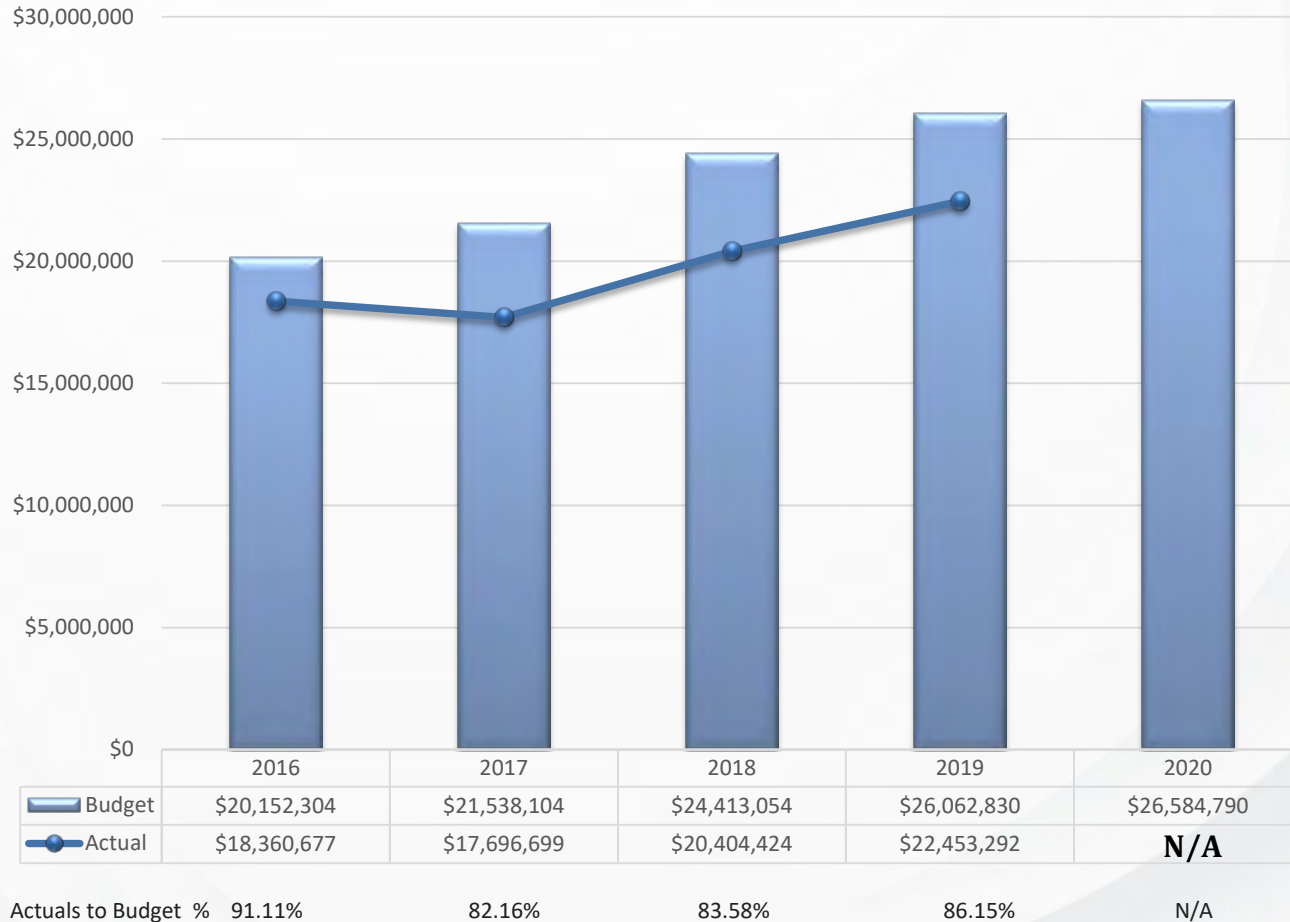
# Budget versus Actuals Trend

## Total Budget



Actual to Budget % 82.75%                      79.01%                      80.63%                      85.14%                      N/A

# Budget versus Actuals Trend Personnel Costs, Services and Supplies (No Capital Expenditures)



# Changes Resulting from Budget Workshop Discussions

## ➤ Personnel Costs

- Career ladders for IT positions have been eliminated with a decrease in the budget of approximately \$32,000 (Staff will work with County on classification reviews)
- Director of Operations Support Services changed to Senior Manager of Operations Support Services with a decrease in the budget of approximately \$25,000

# Trends

(Dollars in Thousands)

	2016	2017	2018	2019	2020	5 Year Average
<b>Total Budget*</b>	\$ 22,250	\$ 22,831	\$ 25,508	\$ 26,433	\$ 27,185	
% Increase/(Decrease)	-10.9%	2.6%	11.7%	3.6%	2.8%	2.0%
<b>Total Budget* (No Capital Expenditures)</b>	\$ 20,152	\$ 21,538	\$ 24,413	\$ 26,063	\$ 26,585	
% Increase/(Decrease)	10.8%	6.9%	13.3%	6.8%	2.0%	8.0%
<b>Actuals*</b>	\$ 18,412	\$ 18,039	\$ 20,568	\$ 22,506	N/A	
% Increase/(Decrease)	-5.5%	-2.0%	14.0%	9.4%	N/A	4.0%
<b>Actuals* (No Capital Expenditures)</b>	\$ 18,361	\$ 17,697	\$ 20,404	\$ 22,453	N/A	
% Increase/(Decrease)	15.4%	-3.6%	15.3%	10.0%	N/A	9.3%
<b>Budgeted Personnel Costs</b>	\$ 11,501	\$ 12,417	\$ 13,925	\$ 14,765	\$ 15,507	
% Increase	7.1%	8.0%	12.1%	6.0%	5.0%	7.6%
<b>Budgeted FTE</b>	74.5	79	91.5	92.5	92.5	
% Increase	2.8%	6.0%	15.8%	1.1%	0.0%	5.1%

\*Excludes investment management fee related costs



# FY 2020 Staffing Plan

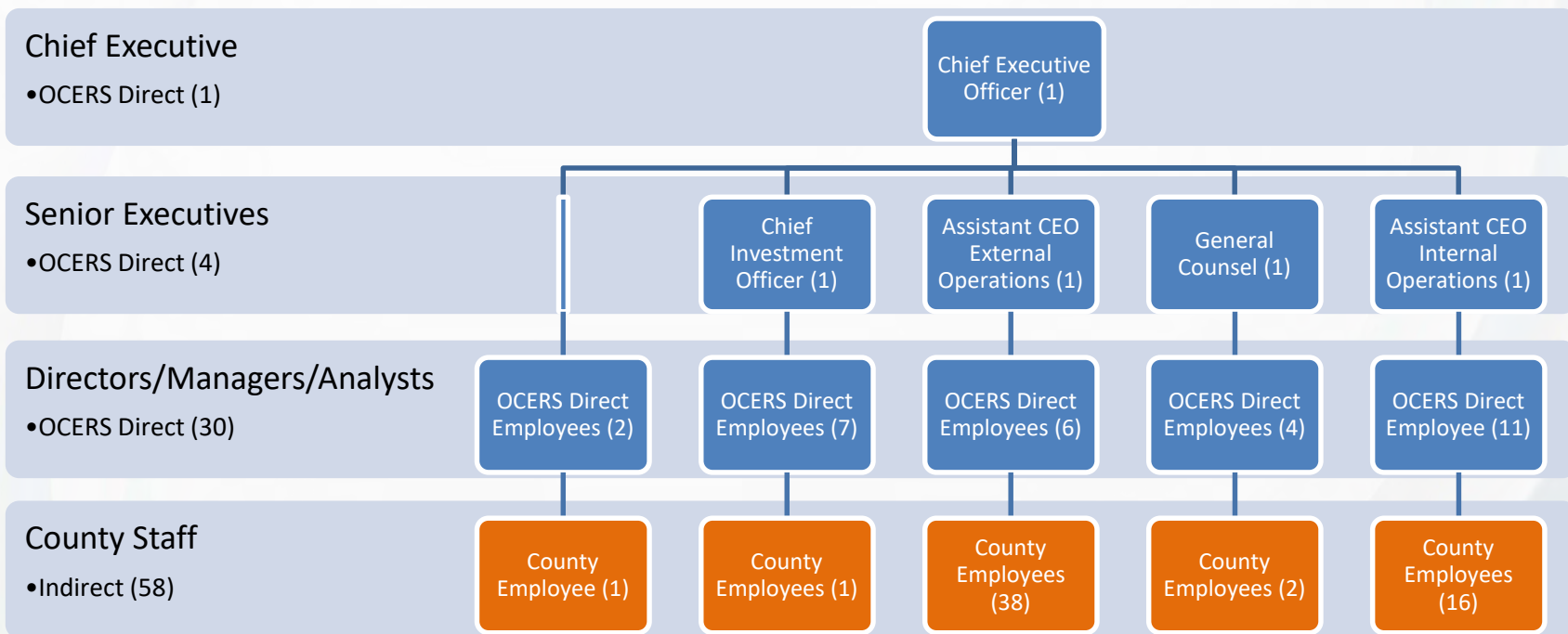
**\$15,507,410**

(Staff Recommendations 2 & 3)

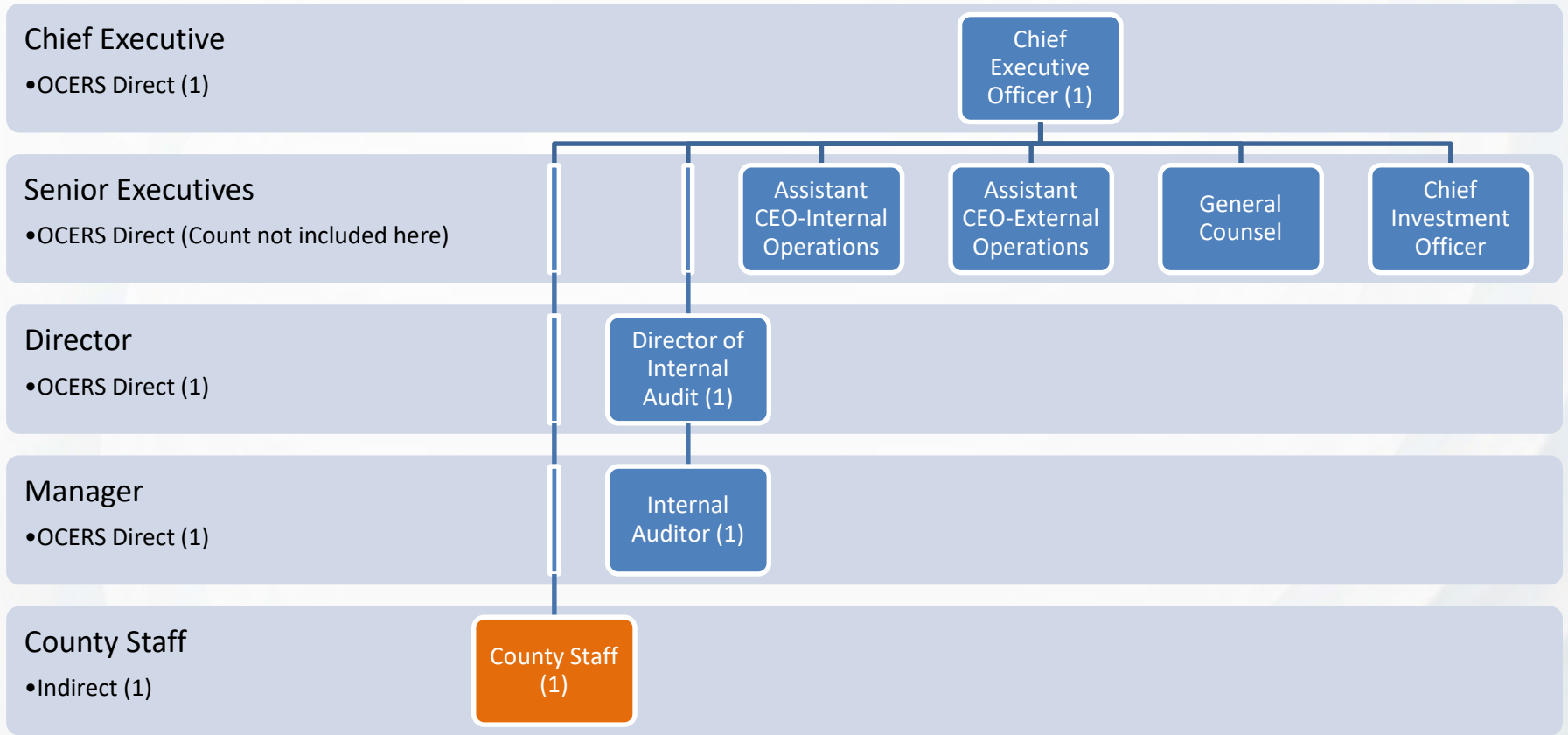
# 2020 Staffing and Personnel Recommendations

1. Change the organization structure of the Administrative Services Department by dividing the department into two separate departments: Human Resources, Operations Support Services.
2. Approve an additional staff position of Senior Manager of Operations Support Services, and eliminate one Staff Assistant position, resulting in no change in headcount.
3. Approve the creation of two County career ladder classifications, one in the Member Services department and one in the Administrative Services (Human Resources) department.
4. Create an additional HR Analyst classification to allow for additional skilled assistance to facilitate the OCERS Learning and Development initiatives, cross-training throughout the department and other high-level HR related tasks.
5. Change the title of four positions:
  1. IT Manager - change to Information Security Manager
  2. Director of Cyber Security - change to Director of Information Security
  3. Training Manager – change to Learning and Organizational Development Manager
  4. Director of Administrative Services - change to Director of Human Resources

# Current Organization Chart

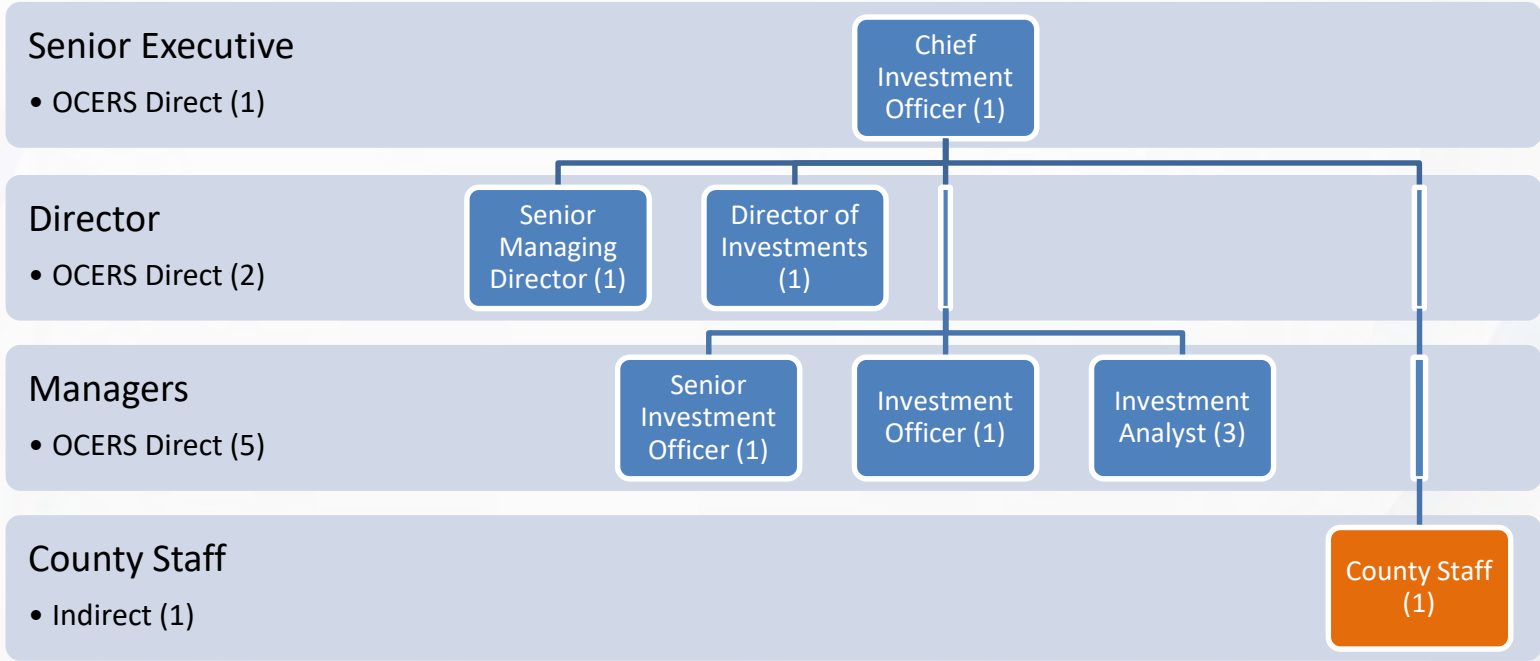


# Chief Executive – 4 Employees (not included elsewhere)

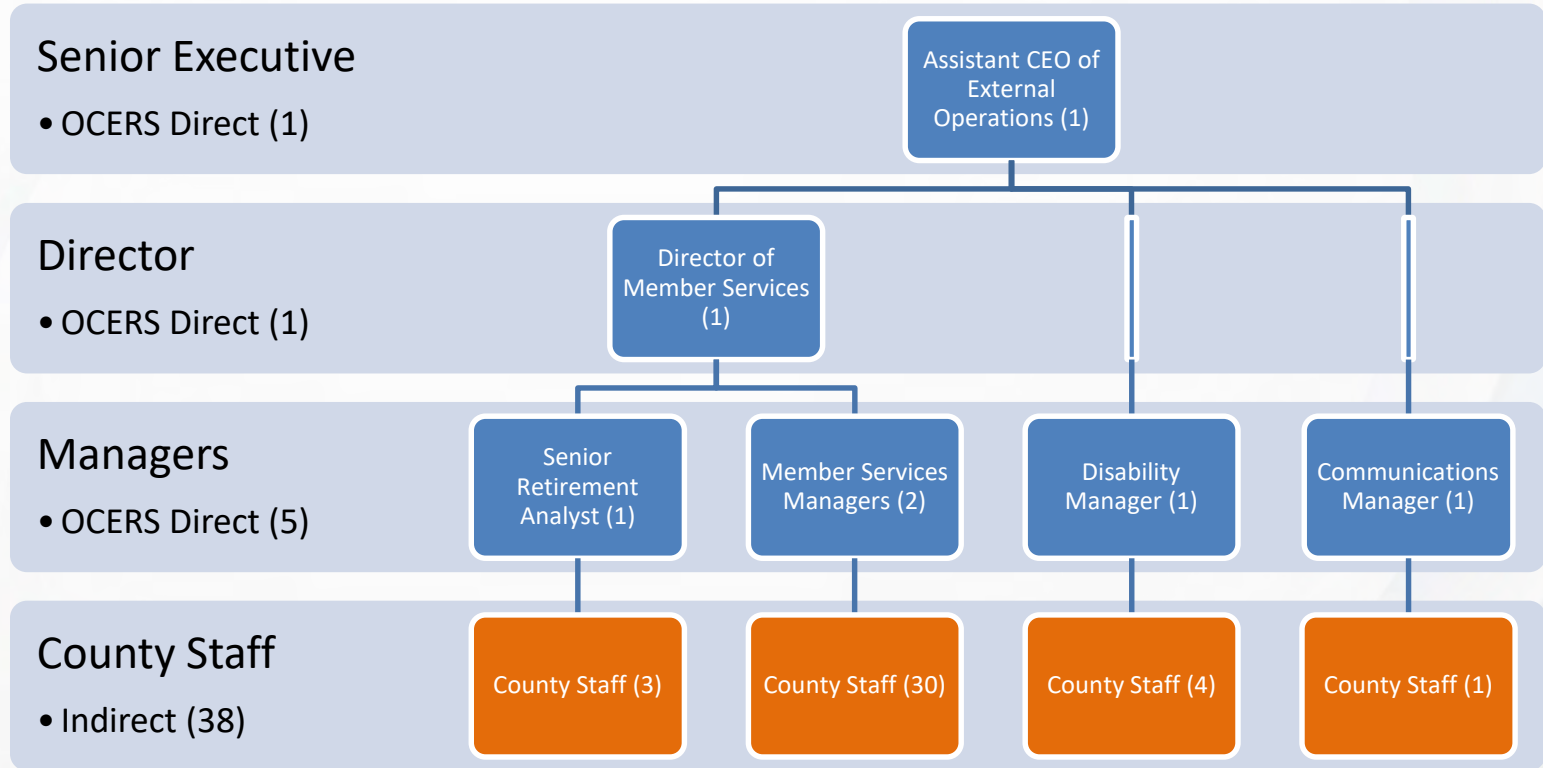




# Investment Staff – 9 Employees



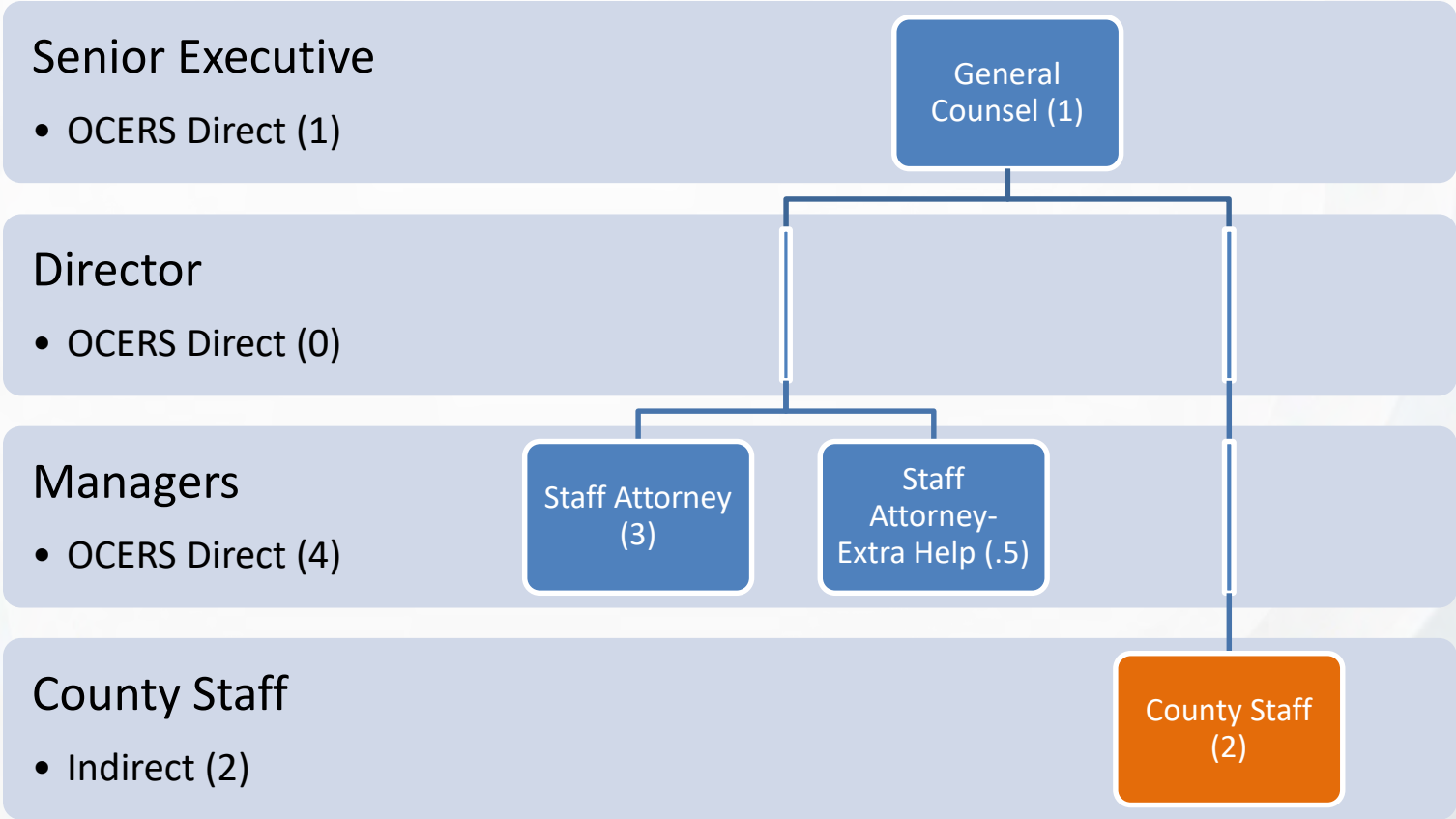
# Assistant CEO External Operations Staff – 45 Employees



<p><b>*Retirement Contribution Reconciliation Specialist</b>  <i>Established class with the County of Orange</i></p>	<p>Proven success in all areas listed below</p>	<ul style="list-style-type: none"> <li>· Four years of extensive experience directly related to key competencies</li> <li>· Works under minimal supervision</li> <li>· Performs highly specialized and responsible work</li> <li>· Providing training throughout the unit</li> <li>· Assist in overseeing the Accounting Technician processes and coordinate transmittal processing</li> <li>· Responsible for clearing all escalated transmittal exceptions</li> <li>· Responsible for reviewing, creating and modifying complex spreadsheets, tracking and processing compensation limits, 30yr stop contributions and auditing Accounting Technician work</li> </ul>
<p><b>Accounting Technician</b></p>	<ul style="list-style-type: none"> <li>· Three years of experience dealing with reconciliation practices and general payroll and contribution procedures</li> <li>· Interprets complex statutes, regulations and policies</li> <li>· Assist with processing bi-weekly payroll transmittal, retirement contribution rates, calculations and peer audits and process new member enrollments</li> <li>· Provide customer service to members, plan sponsors and internal departments</li> </ul>	

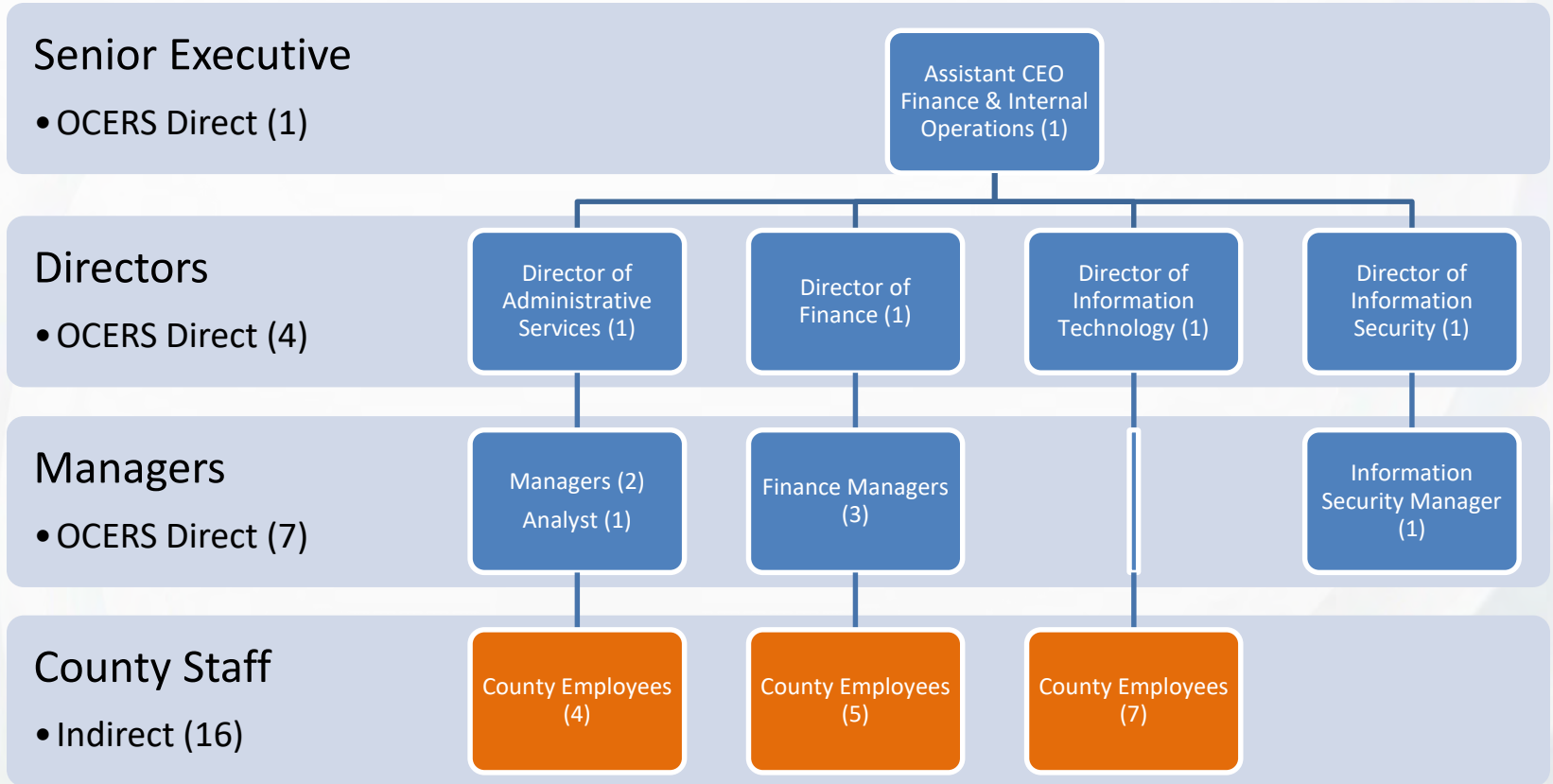
\* This position is equivalent to the Retirement Program Specialist (RPS) job classification and salary schedule [A3-49](#)

# General Counsel Staff – 7 Employees

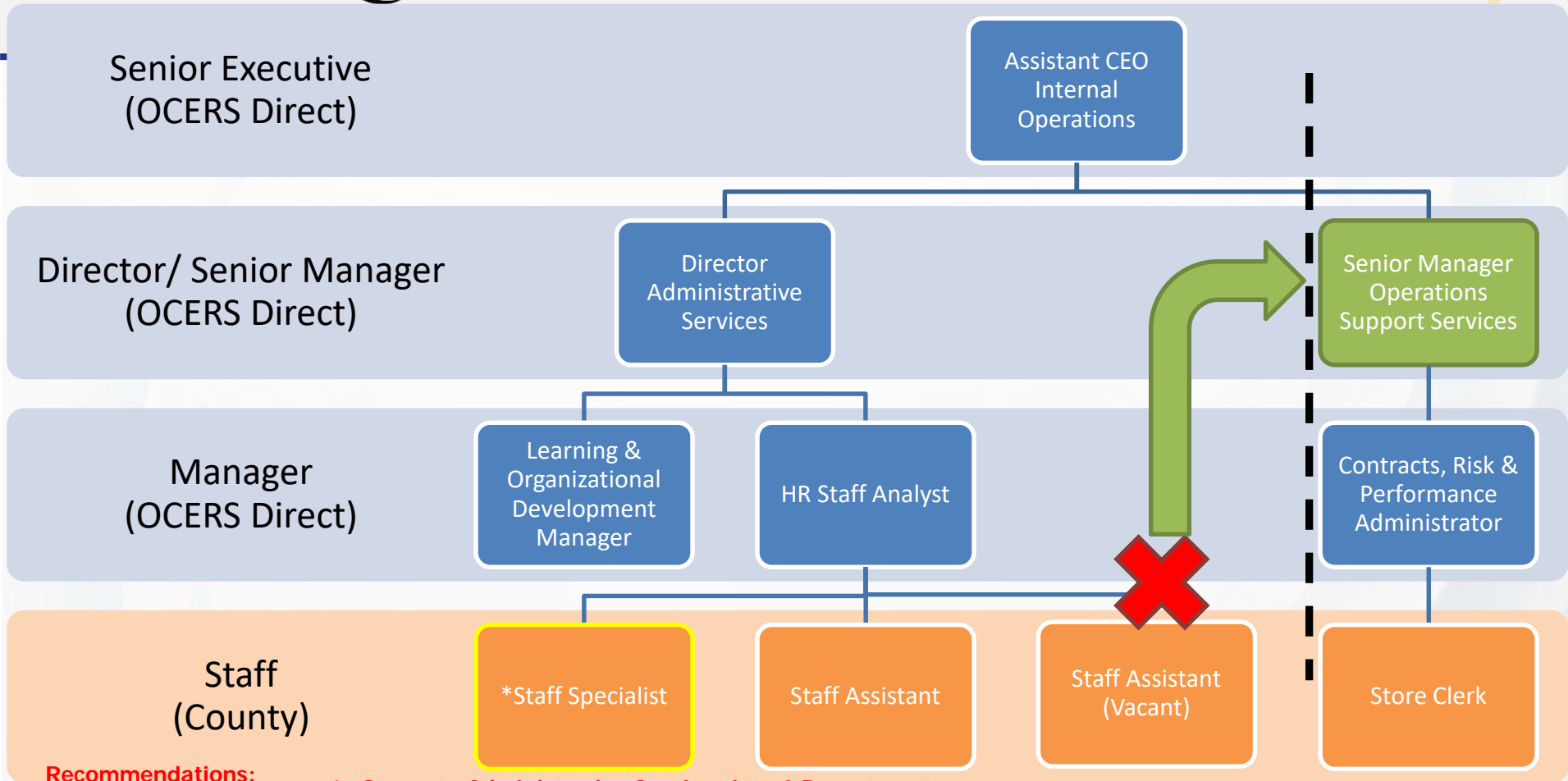


# Assistant CEO Internal Operations

## Staff – 28 (Current without proposed changes)



# Administrative Services (Changes)



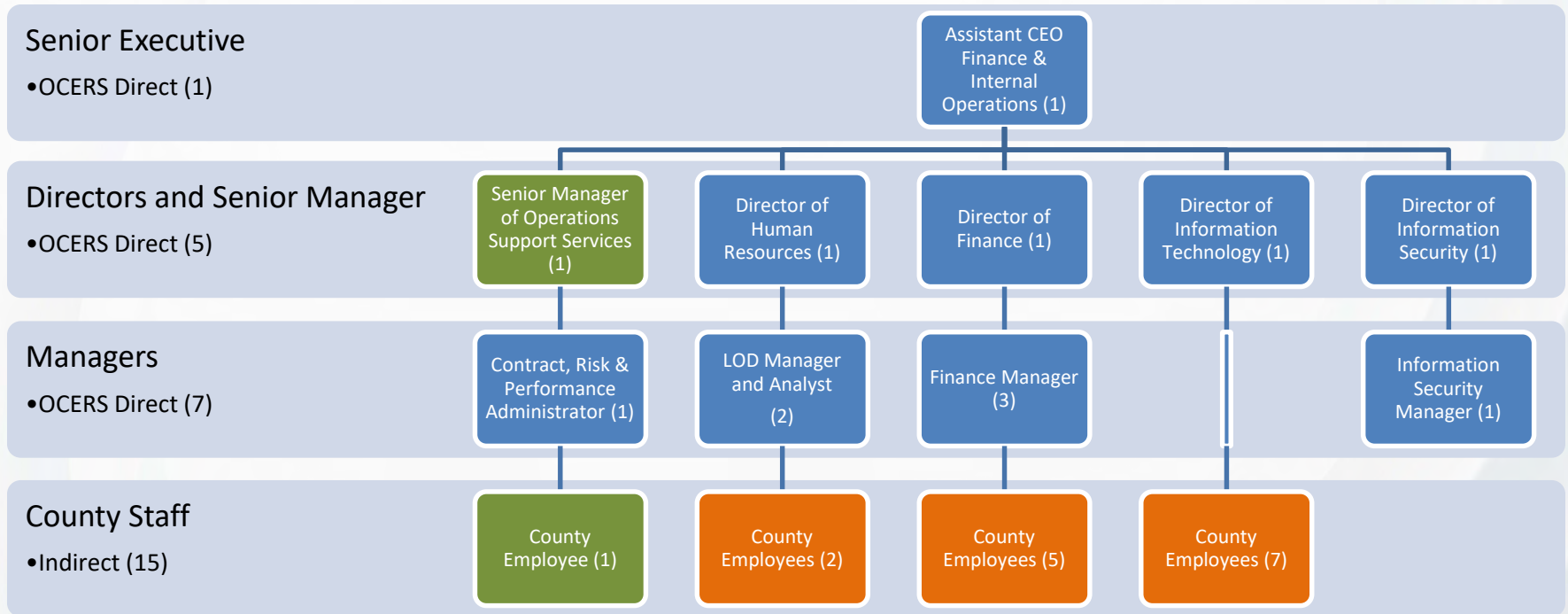
**Recommendations:**

1. Separate Administrative Services into 2 Departments: "Human Resources" and "Operations Support Services"
2. Eliminate 1 County Position "Staff Assistant" (currently vacant)
3. Add 1 OCERS Direct Position "Senior Manager of Operations Support Services"

**Results:** 1. No Change in Headcount

# Assistant CEO Internal Operations

## Staff – 28 (After Proposed changes for 2020)



# Responsibilities & Skillsets divided by Departments

Human Resources		Operations Support Services
Full-Cycle Recruitments		Operational Risk Management
Employee Relations		Facilities Management
Learning & Development		Physical Building Security
Personnel Policies-Employee Handbook		Business Continuity / Disaster Recovery
CAPS+ Personnel Transactions		Contracts
Process/Audit Bi-Weekly Payroll		Procurement
Leaves of Absence		Board Elections
Workers Compensation		Mailroom Operations
Compensation and Classification		Office Equipment and Supplies
Performance Management		<b>OCERS Headquarters Project (New)</b>
Volunteer Program		



<p><b>Staff Analyst - Training &amp; Development</b></p>	<p>Proven success in all areas listed below</p>	<ul style="list-style-type: none"> <li>• Bachelor's degree</li> <li>• Three - Five years in a generalist role</li> <li>• Assist with employee relations issues and concerns</li> <li>• Process claims for leaves of absence</li> <li>• Participate in implementing and sustaining OCERS learning and development initiatives</li> <li>• Update personnel policies and procedures in accordance with applicable laws and best practices</li> <li>• Assist with learning and development analytics</li> </ul>
<p><b>Staff Specialist</b></p>	<p>Proven success in all areas listed below</p>	<ul style="list-style-type: none"> <li>• Three years of experience which would demonstrate the knowledge and abilities outlined under the MQ's for the Staff Assistant classification</li> <li>• Conduct studies, perform research and prepare reports related to HR trends</li> <li>• Process workers' compensation claims</li> <li>• Complete compensation surveys</li> <li>• Process County and OCERS Direct performance evaluations</li> </ul>
<p><b>Staff Assistant</b></p>	<ul style="list-style-type: none"> <li>• Two years of experience which would demonstrate the knowledge and abilities outlined under the MQ's outlined under the Staff Assistant classification</li> <li>• Assist departments with budget data updates</li> <li>• Manage staffing reports</li> <li>• Oversee the process payroll</li> </ul>	

## Budget versus Actuals Trend Personnel Costs and FTE's



# Salary Adjustment Recommendations

## ➤ 2020 Salary Adjustment Recommendations

### ➤ Performance Adjustments

- Increases for OCERS' direct staff are based on performance evaluations
- Base = 2.5% (base increases salary ranges)
- 1 merit increase = 2.75%

Meets	Base
Exceeds	Base + 1 merit increase
Exceptional	Base + 2 merit increases

- 12-month CPI for Los Angeles-Long Beach-Anaheim at 3.0%
- FY20 direct staff budget for merit-based increases = \$362K

### ➤ County employee salary adjustments are dictated by County MOU

- FY19 County employee salary increases effective immediately \$93K (starting 2020 salaries adjusted by this increase)
- FY20 County staff budget increase for new MOU = \$48K (increase effective 7/2020)
- FY20 County staff budget for increase in steps = \$75K



# OCERS Direct Employees Salary Ranges

## Salary Range Adjustment Recommendation

2.5% Salary Range Increase (Effective date January 1, 2020)

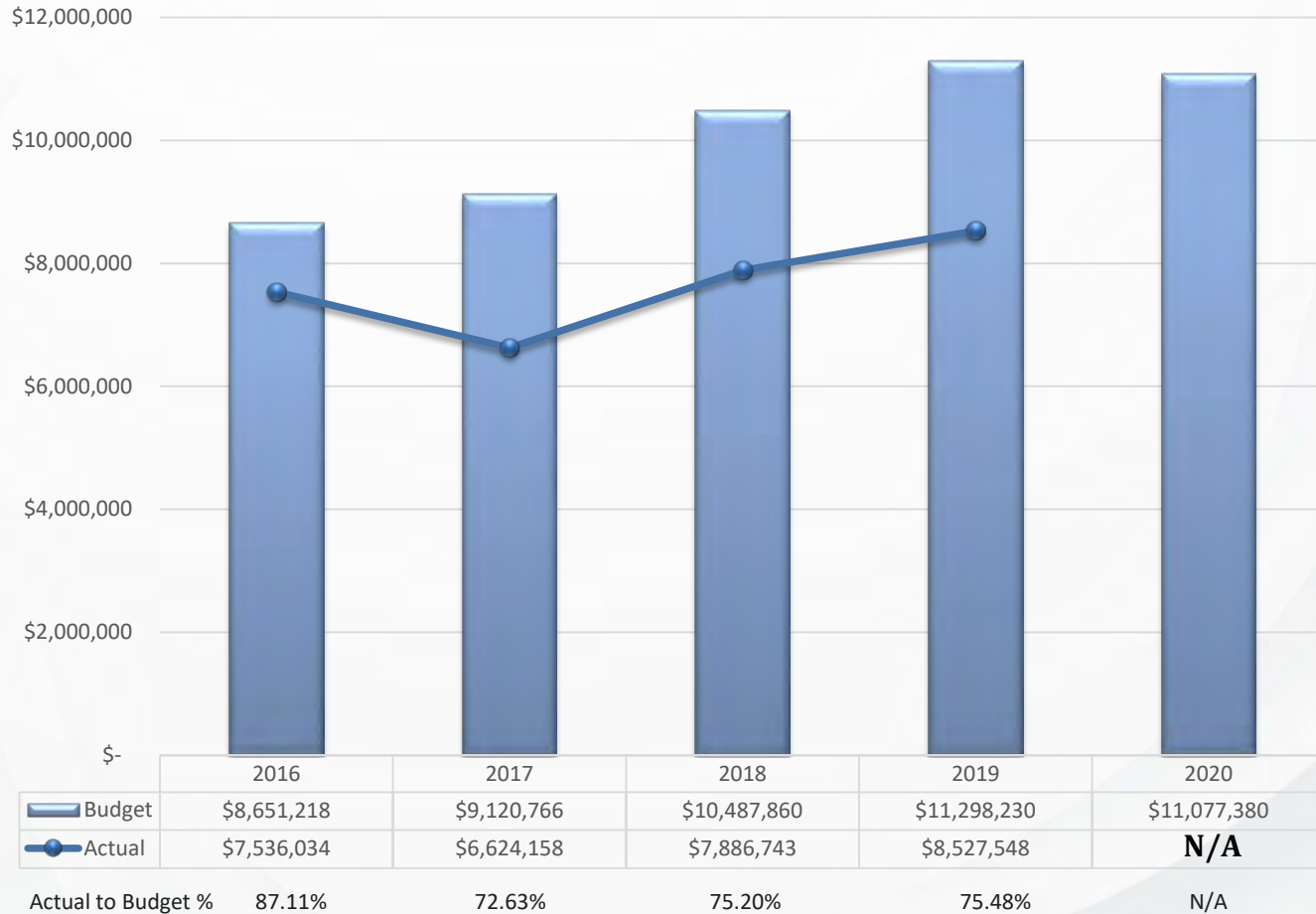
OCERS Employee Position	Current Annual Minimum	Revised Annual Minimum	Current Annual Midpoint	Revised Annual Midpoint	Current Annual Maximum	Revised Annual Maximum
Chief Investment Officer	\$215,250	\$220,631	\$269,063	\$275,789	\$322,875	\$330,947
General Counsel	\$136,576	\$139,991	\$203,035	\$208,110	\$269,493	\$276,230
Assistant Chief Executive Officer	\$136,576	\$139,991	\$187,214	\$191,894	\$237,851	\$243,798
Managing Director of Investments	\$136,576	\$139,991	\$187,214	\$191,894	\$237,851	\$243,798
Director of Investments	\$136,576	\$139,991	\$168,487	\$172,699	\$200,398	\$205,408
Deputy Legal Counsel	\$136,576	\$139,991	\$168,487	\$172,699	\$200,398	\$205,408
Director of Member Services	\$121,832	\$124,877	\$142,711	\$146,279	\$163,590	\$167,680
Director of Administrative Services	\$118,065	\$121,016	\$136,361	\$139,770	\$154,657	\$158,524
Director of Finance	\$115,482	\$118,369	\$138,675	\$142,142	\$161,868	\$165,915
Staff Attorney	\$115,159	\$118,038	\$143,357	\$146,940	\$171,554	\$175,843
Senior Manager Operations Support Services - <b>New</b>		\$66,962		\$103,642		\$140,321
Senior Investment Officer	\$109,347	\$112,081	\$138,998	\$142,473	\$168,648	\$172,865
Director of Internal Audit	\$108,271	\$110,978	\$135,338	\$138,722	\$162,406	\$166,466
Director of Information Technology	\$106,011	\$108,661	\$132,540	\$135,854	\$159,070	\$163,046
Director of Information Security	\$106,011	\$108,661	\$130,334	\$133,592	\$154,657	\$158,524
Investment Officer	\$82,118	\$84,171	\$109,508	\$112,246	\$136,899	\$140,321
Internal Auditor	\$72,539	\$74,353	\$90,620	\$92,886	\$108,701	\$111,419
Senior Investment Analyst	\$71,894	\$73,691	\$95,894	\$98,291	\$119,894	\$122,892
Information Security Manager	\$65,328	\$66,962	\$101,114	\$103,642	\$136,899	\$140,321
Retirement Analyst	\$65,328	\$66,962	\$101,114	\$103,642	\$136,899	\$140,321
Finance Manager	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Member Services Manager	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Disability Manager	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Learning and Organization Development Manager	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Contracts, Risk & Performance Administrator	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Communications Manager	\$61,669	\$63,211	\$86,046	\$88,197	\$110,423	\$113,184
Staff Analyst	\$61,669	\$63,211	\$82,279	\$84,336	\$102,890	\$105,462
Investment Analyst	\$61,669	\$63,211	\$82,279	\$84,336	\$102,890	\$105,462



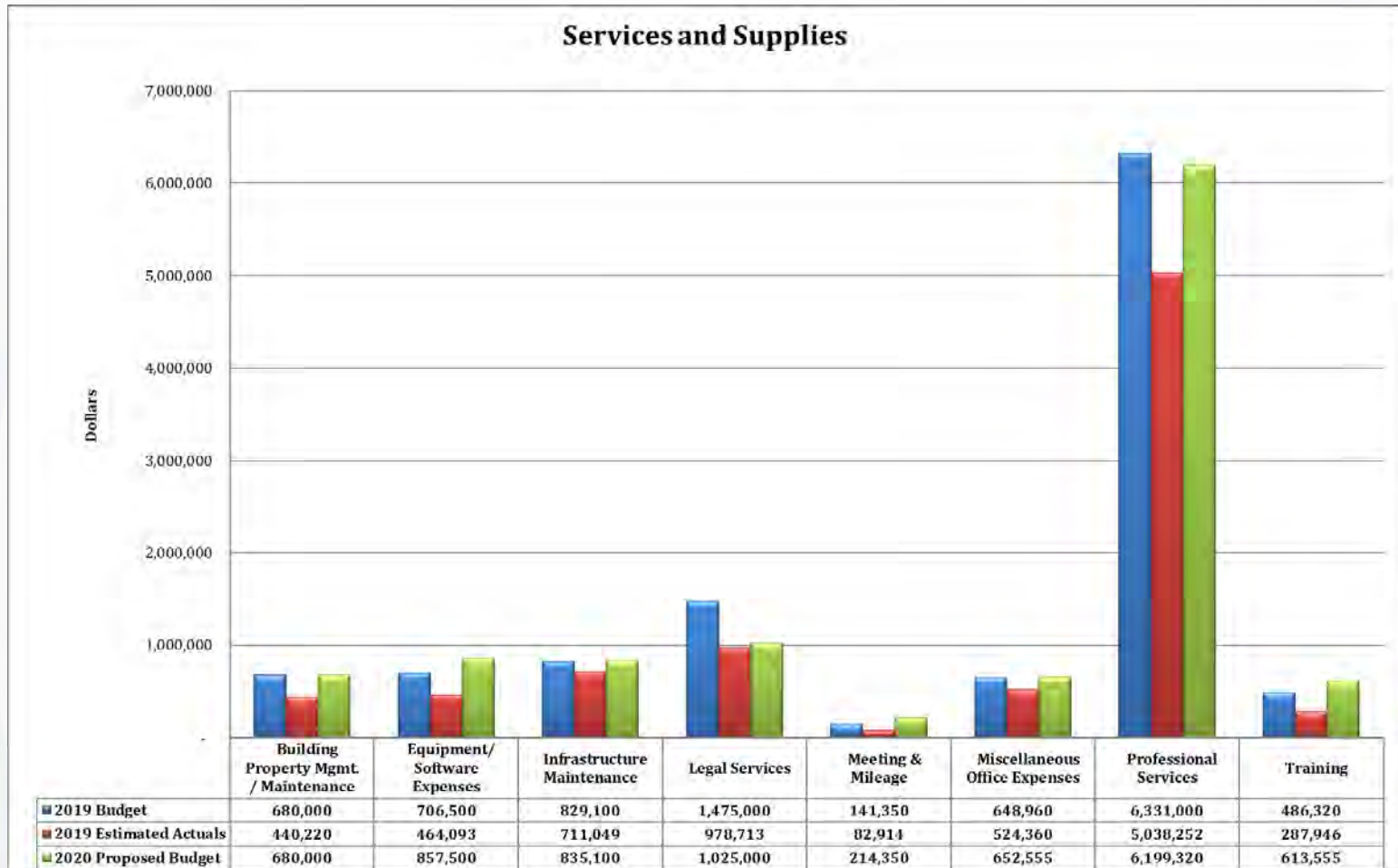
# Services and Supplies

## \$11,077,380

## Budget versus Actuals - Trend Services and Supplies

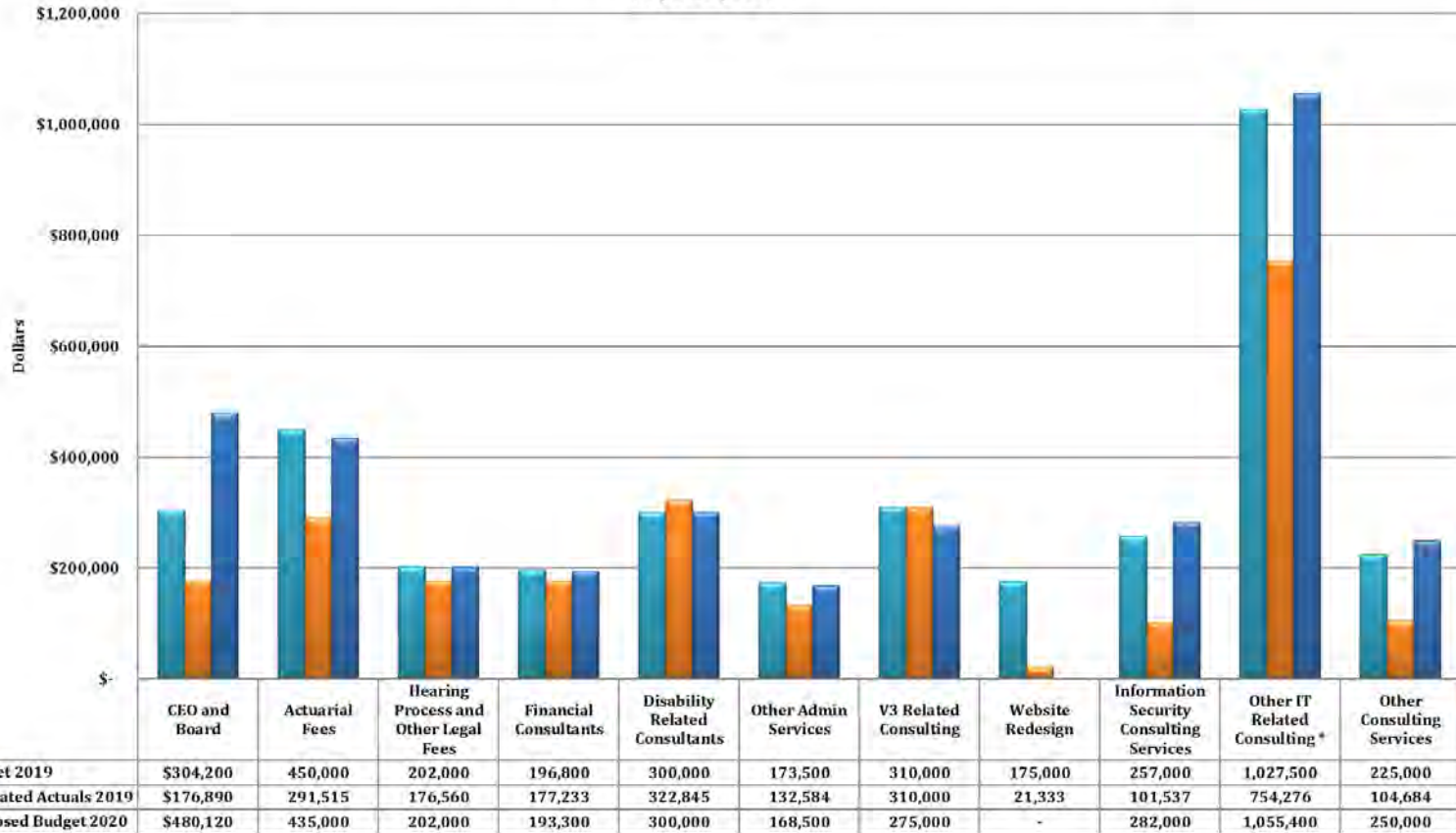


## Services and Supplies Proposed versus Estimated Actuals



# Professional Services Administration

**Professional Services-Administration (excludes investment services)**  
**\$3,641,320**

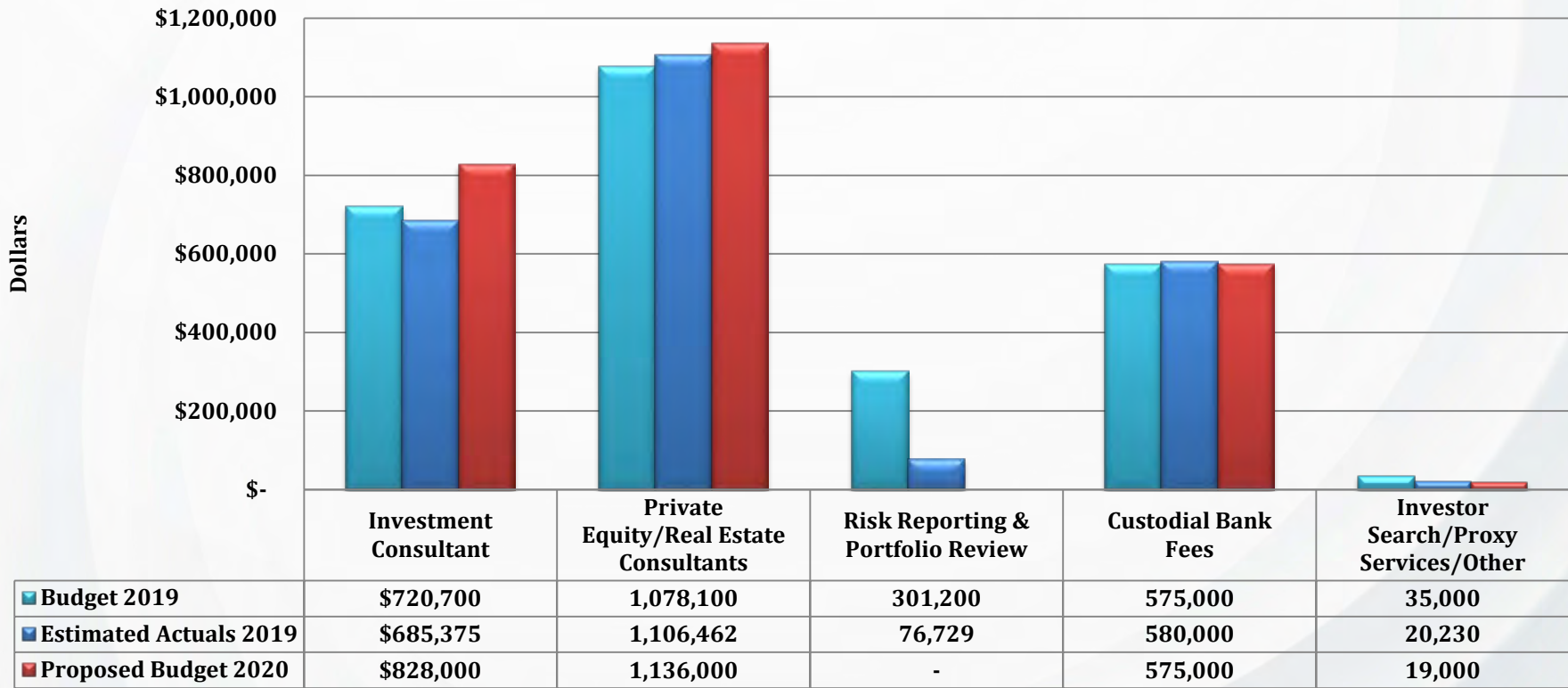


\*Gartner moved to Professional Services from Misc. Office Expense in FY19

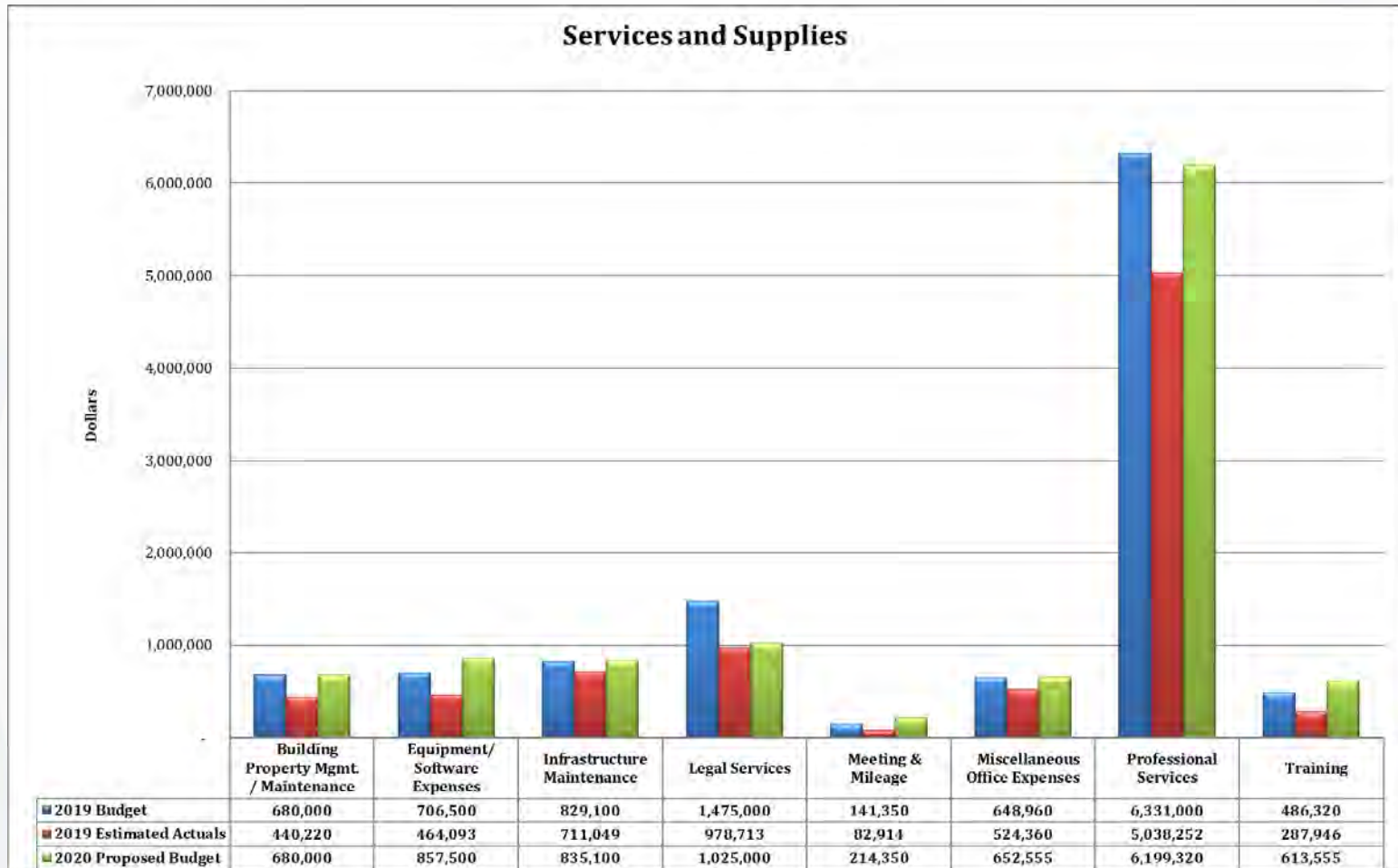


# Professional Services Investments

## Professional Services-Investments \$2,558,000



## Services and Supplies Proposed versus Estimated Actuals

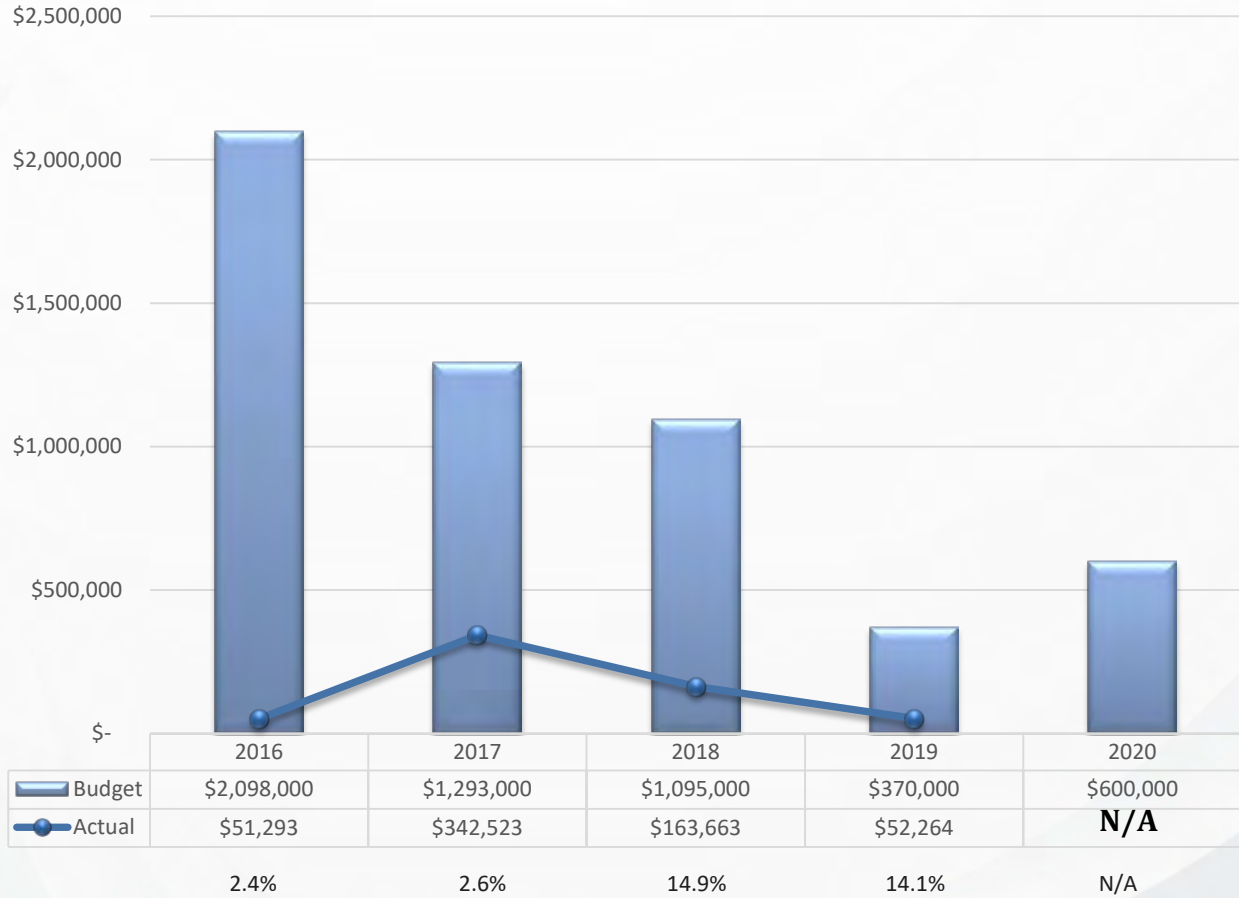




# Capital Expenditures

## \$600,000

## Budget vs. Actuals Trend Capital Expenditures



# Capital Expenditures

➤ Building Security, Safety and Health Upgrades	\$200,000
➤ Board Room Audio Visual Upgrades	\$250,000
➤ New Firewalls	<u>\$150,000</u>
Total	\$600,000

# 21 Basis Points Test

**Orange County Employees Retirement System  
 21 Basis Points for Budget Year 2020**

Projected actuarial accrued liability as of December 31, 2019	\$21,747,090,000
21 basis points of projected actuarial accrued liability	45,668,889
FY20 proposed budget amount subject to 21 basis points limitation <sup>1</sup>	<u>19,664,866</u>
Amount under 21 basis points	<u>\$26,004,023</u>
Budgeted amount expressed as basis points of projected actuarial accrued liability-FY20	9.04
Budgeted amount expressed as basis points of projected actuarial accrued liability-FY19	8.93

<sup>1</sup> Reconciliation of amount subject to 21 basis points limitation:

Total FY20 proposed budget	\$27,184,790
Less: Investment-related costs	<u>(5,947,324)</u>
Total FY20 proposed administrative budget	21,237,466
Less: IT Capital expenses	-
Computer hardware/software	(627,200)
IT-Professional services consulting	<u>(945,400)</u>
FY20 proposed budget amount subject to 21 basis points limitation	<u><u>\$19,664,866</u></u>

<b>21 Basis Point History</b>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
21 Basis Points	8.48	8.55	9.31	8.93	9.04

# 18 Basis Points Test

<b>Orange County Employees Retirement System</b>	
<b>18 Basis Points for Budget Year 2020</b>	
Projected actuarial value of total assets as of December 31, 2019	\$16,363,519,000
18 basis points of projected actuarial value of assets	29,454,334
FY20 proposed budget amount subject to 18 basis points limitation <sup>1</sup>	23,236,666
Amount under 18 basis points	\$6,217,668
Budgeted amount expressed as basis points of projected actuarial value of assets-FY20	14.20
Budgeted amount expressed as basis points of projected actuarial value of assets-FY19	14.20

<sup>1</sup> Reconciliation of amount subject to 18 basis points limitation

Total FY20 proposed budget	\$27,184,790
Less: Investment-related costs	(5,947,324)
Total FY20 proposed administrative budget	21,237,466
Less: Capital expenses	(600,000)
Add: Projected depreciation cost	2,599,200
FY20 proposed budget amount subject to 18 basis points limitation	\$23,236,666

Note: The 18 basis points calculation above is for informational and comparison purposes only.

<b><u>18 Basis Point History</u></b>					
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
18 Basis Points	12.26	14.56	14.48	14.20	14.20



# End of Presentation

## Questions?

Brenda Shott, Assistant CEO  
Tracy Bowman, Director of Finance





2020  
ADMINISTRATIVE BUDGET

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## SECTION I – INTRODUCTION

The 2020 Administrative Budget was developed based on the 2020 Business Plan which is directly linked to the 2020-2022 Strategic Plan. OCERS' Mission Statement and Vision Statement and Values are the foundation for all three documents:

### **Mission Statement:**

*“We provide secure retirement and disability benefits with the highest standards of excellence.”*

### **Vision Statement:**

*“To be a trusted partner providing premier pension administration, distinguished by consistent, quality member experiences and prudent financial stewardship.”*

### **Values:**

*Open and Transparent*  
*Commitment to Superior Service*  
*Engaged and Dedicated Workforce*  
*Reliable and Accurate*  
*Secure and Sustainable*

The 2020 Administrative Budget reflects OCERS' continued commitment to:

- *Strengthen the long-term stability of the pension fund*
- *Achieve excellence in the service and support we provide to our members and plan sponsors*
- *Cultivate a risk-intelligent organization*
- *Recruit, retain and inspire a high-performing workforce*
- *Improve the effectiveness and efficiency of the Board and staff by clarifying roles and responsibilities, improving oversight, clarifying accountability and improving decision making*

These strategic goals were outlined in the 2020 Business Plan presented to the Board at the Strategic Planning Meeting held on September 18-19, 2019 and formally adopted by the Board

at the Regular Board Meeting held on October 21, 2019. In addition, further direction was provided to staff by the Board at the 2020 Budget Workshop held on October 17, 2019.

The 2020 Administrative Budget includes the funding of business plan initiatives to help OCERS achieve its strategic goals. This includes mitigating the risk of significant investment loss with a business initiative to conduct a competitive procurement for an investment/risk management system. Another business plan initiative with a budget impact includes the procurement and conversion to a new accounting software system that meets the objective to continuously improve business processes and procedures to be efficient and effective. The budget also includes initiatives that cultivate a risk-intelligent organization, including performing a review of firewall solutions and potential migration to a new firewall solution, and the continuation of planning and implementing facility upgrades.

The 2020 Administrative Budget also includes costs associated with the strategic goal to recruit, retain and inspire a high-performing workforce, with an emphasis on developing and empowering every member of the team with comprehensive training programs and developing a comprehensive standardized library of procedure manuals to be accessible using OCERS' intranet. The budget also includes costs for a new strategic goal, effective governance, including an initiative to explore methods of focusing Board and staff time and effort on activities that support or advance OCERS' strategic goals.

## **2020 Administrative Budget Summary**

Staff recommends a 2020 Administrative Budget of \$27,184,790 which is:

- \$.8 million or 2.8% greater than the 2019 Budget
- \$4.7 million or 20.8% greater than 2019 estimated actuals

## **SECTION II – BUDGET POLICIES AND PROCESS**

### ***Budget Policies***

OCERS budgeting policies are based on legal statutes required for 1937 Act Systems as well as policies set by OCERS Board of Retirement. Budgeted items are on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP).

OCERS budgeting authority is regulated by California Government Code Sections 31580.2 and 31596.1. A notable provision within the regulations is that OCERS' budget for administrative expenses (which excludes investment-related costs and expenditures for computer software, hardware and related technology consulting services) is limited to twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system (commonly referred to as the 21 basis point test). The FY20 Administrative Budget represents 9.04 basis points of the projected actuarial accrued liability. The FY20 Administrative Budget also meets the Board's policy limitation of 18 basis points of the projected actuarial value of total assets and represents 14.20 basis points of assets for FY20. Although OCERS is no longer bound by this test by the Government Code, the Board of Retirement includes this test as a requirement within the Budget Approval Policy. See Appendix D for both the 21 basis point test and 18 basis point test calculations.

In addition to the State Code, the budget is also guided by OCERS' Budget Approval Policy adopted by the Board of Retirement on February 19, 2002 and last revised July 17, 2017. This policy provides the purpose, roles and guidelines related to approving the annual budget for covering the expenses of administering the retirement system including the authority of the Chief Executive Officer, or the Assistant CEO, to transfer funds within the three broad categories of the budget: 1) Personnel Costs, 2) Services and Supplies, and 3) Capital Projects. Funds may not be moved from one category to another without approval from the Board of Retirement. In addition, any increases to the total approved budget resulting in a budget amendment must be approved by the Board of Retirement.

### ***Budget Process***

In August, each department head begins the process of completing their budget requests for the following fiscal year. The Director of Finance and Finance Manager-Budgeting compile the budget requests and draft the budgets for each department. The department heads then meet individually with the CEO, Assistant CEO of Internal Operations, and the Director of Finance to review, discuss and determine the necessity of each line item of their draft budget which may go through several review cycles.

## ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Once the CEO agrees upon the budget requests, any proposed business plan goals/initiatives with a budget impact are incorporated into the Business Plan for the upcoming fiscal year and presented to the Board at its annual off-site Strategic Planning Meeting in September. The Board's feedback is then incorporated into the proposed budget and presented to the Board for their review at the annual Budget Workshop held in late October. Any additional feedback is included in a proposed final version of the administrative budget and submitted to the Board for final adoption at their regularly scheduled Board Meeting held in November.

## SECTION III – EXECUTIVE SUMMARY - 2020 ADMINISTRATIVE BUDGET

The overall administrative budget for 2020 is summarized by the following categories of expenses:

- Personnel Costs
- Services and Supplies
- Capital Expenditures

The 2020 Administrative Budget is based on estimates of anticipated expenses for personnel costs, services and supplies, and capital expenditures. It includes the costs of carrying out the current level of services and activities approved by OCERS’ Board, as well as potential staffing changes that were discussed by the Personnel Committee for their consideration on November 7, 2019. Recommendations include changing the organization structure of the Administrative Services department by dividing the department into two separate departments: Human Resources and Operations Support Services, which will include the addition of a Senior Manager of Operations Support Services and dropping a Staff Assistant position (no change to total headcount). This change is being proposed to accommodate the growth in OCERS’ workforce and other support services. Staff is also recommending the creation of two career ladder positions, one in Member Services and one in Human Resources, as well as an additional promotional position in Human Resources, to support the strategic and business plan goal to recruit, retain and inspire a high-performing workforce. The 2020 Administrative Budget also includes performance/salary adjustments for the existing staffing plan. In addition, costs have been budgeted under professional services related to business initiatives to support the strategic and business plan goals of achieving excellence in service and support and cultivating a risk intelligent organization. Capital expenditures related to required upgrades/maintenance to the OCERS headquarters building have also been budgeted.

Notable components in the 2020 Administrative Budget include:

### Personnel Costs:

- Staffing changes as outlined below result in a net of three new classifications in the Human Resources, Members Services and Operations Support Services departments for a total budget impact of approximately \$150,000 (no change in total headcount):

	Position Title	Department	Position Type	Change	Salary Range	Budget Impact
1	Reconciliation Specialist	Member Services	County	Add Classification	\$45,947-\$61,505	\$6,515
2	Staff Specialist	Human Resources	County	Add Classification	\$52,332-\$69,971	\$4,831
3	HR Staff Analyst	Human Resources	OCERS Direct	Add Classification	\$63,211-\$105,462	\$14,602
4	Senior Manager	Operations Support	OCERS Direct	Add Classification	\$66,962-\$140,321*	\$208,252
5	Staff Assistant	Human Resources	County	Drop Classification	\$52,332-\$69,971	\$(84,184)

\*New OCERS’ Direct salary range to be approved as part of 2020 Staff Plan

- An average fringe benefit rate of 54.4% of total salaries
- Performance/salary adjustments for OCERS' direct employees based on a rating scale that includes a base increase of 2.5% for those that meet expectations; a base of 2.5% plus a merit increase of 2.75% for exceeds expectations; and a base of 2.5% plus two merit increases totaling 5.50% (2.75% x2) for exceptional performance at an estimated total annual cost of \$362,000
- Step increases for approximately 22 County staff not at the top of the established salary range and across the board salary increases for all County staff as dictated by County MOU at a cost of \$123,000
- Decrease of approximately \$59,000 in temporary help and \$42,000 in overtime due to the nearly completed recruitment of 12 new positions that were approved in the FY19 Staffing Plan
- Pay item of 5.5% of salary for employees obtaining the designations of Chartered Financial Analyst, and Certified Professional Accountant totaling \$65,000
- Staff is recommending to adjust all existing OCERS' direct salary ranges by the proposed base increase of 2.5%. Refer to *Appendix G – OCERS' Direct Employees Salary Ranges (effective January 1, 2020)*

#### **Services and Supplies:**

- New recurring professional services expenses, including:
  - Web application firewall managed services of \$75,000
- Non-recurring professional expenses, including:
  - Additional support hours and/or potential change orders for V3, the pension administration system, in the amount of \$275,000 (including \$10,000 to support the business initiative to enhance V3 workflows, monitoring and reporting)
  - Additional IT programming, report development and support consultant at a cost of \$180,000 (including \$60,000 to support business initiative to develop OCERS' data map, data classification structure and data exchange flows and identify associated risks – year two)
  - Internal Audit consultants to support four IT audit projects and a security lending audit at an estimated cost of \$180,000
  - Office 365 migration consultant services at a cost of \$175,000
  - Technical writer to assist with documenting procedures at a cost of \$150,000 to support the business initiative objective to develop and empower every member of the team
  - Governance consultant at an estimated cost of \$40,000 to support a new strategic goal, effective governance, including an initiative to explore methods of focusing Board and staff time and effort on activities that support or advance OCERS' strategic goals
  - Lean Six Sigma consultant for process and performance improvement at an estimated cost of \$25,000 (including \$10,000 to streamline the service retirement process in support of the business plan objective to provide accurate and timely benefits)



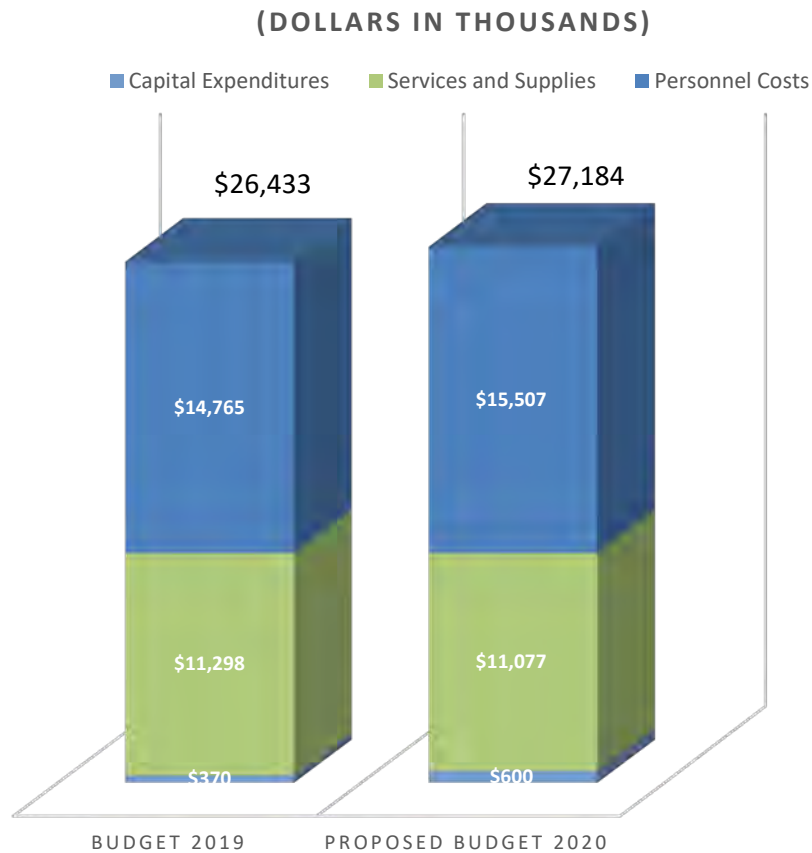
- Procurement and implementation of new accounting software at an estimated cost of \$150,000 to meet the business objective to continuously improve business processes and procedures to be efficient and effective
- Design and development of a comprehensive training program, as well as customize training programs based on individual needs and career goals within OCERS, at a total cost of \$145,000 to support the business initiative objective to develop and empower every member of the team
- Investment/risk management system at an estimated procurement cost of \$100,000 to meet the business plan objective to mitigate the risk of significant investment loss

**Capital Expenditures:**

- Capital expenditures totaling \$600,000 include building security, safety and health upgrades, board room audio visual upgrades and new firewalls

## SECTION IV –2020 ADMINISTRATIVE BUDGET

### *Comparison to 2019 Administrative Budget*



The total administrative budget for 2020 is \$27.2 million, representing a total increase of \$.8 million or 2.8% from the 2019 Budget of \$26.4 million. The majority of this increase can be attributed to an increase in personnel costs of \$.8 million primarily due to performance adjustments that were granted in FY19 being included in annual salary in fiscal year 2020 (FY20), as well as funding for FY20 salary/performance adjustments. The overall budget increase was offset slightly by a \$.2 million decrease in services and supplies due to a reduction in legal services for prior year non-recurring fees that were not budgeted in FY20. Capital expenditures increased by \$.2 million due to the planned installation of a new firewall system. A detailed comparison between the FY20 Proposed Administrative Budget and FY19 Administrative Budget, as well as FY19 estimated actuals, are discussed further in the following *Administrative Budget Summary*.

## Administrative Budget Summary

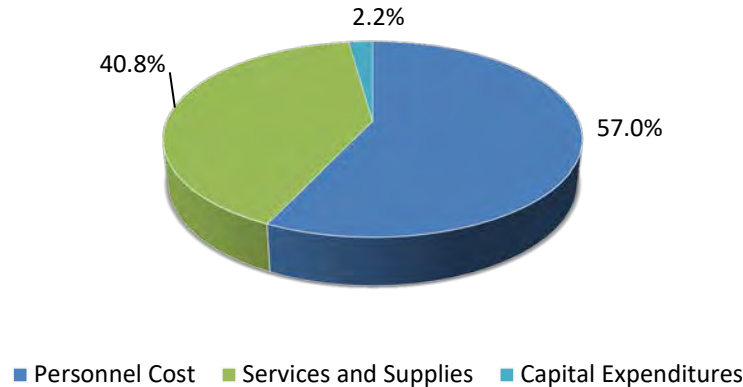
The Administrative Budget is prepared in accordance with the limits of Section 31580.2 of the County Employees Act of 1937 which limits the budget to twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system (commonly referred to as the 21 basis point test), excluding investment-related costs of \$5.9 million and expenditures for computer software, hardware and related technology consulting services totaling \$1.5 million in the FY20 Administrative Budget. The 2020 Administrative Budget, at 9.05 basis points, is \$26 million under the cap limit of \$45.7 million (see Appendix D – 21 Basis Points for Budget Year 2020).

A summary of the FY19 Administrative Budget compared to FY19 estimated actuals and the FY20 Proposed Administrative Budget compared to FY19 estimated actuals is provided below:

	Budget 2019	Estimated Actuals 2019	2019 Over/(Under) Budget	Proposed Budget 2020	2020 Proposed Budget vs. 2019 Actuals Over/(Under)	
<b>Personnel Costs</b>	<b>\$14,764,600</b>	<b>\$13,925,744</b>	<b>(\$838,856)</b>	<b>\$15,507,410</b>	<b>\$1,581,666</b>	<b>11.4%</b>
<b>Services and Supplies</b>						
Professional Services	6,331,000	5,038,252	(1,292,748)	6,199,320	1,161,068	23.0%
Legal Services	1,475,000	978,713	(496,287)	1,025,000	46,287	4.7%
Infrastructure Maintenance	829,100	711,049	(118,051)	835,100	124,051	17.4%
Equipment/Software Expenses	706,500	464,093	(242,407)	857,500	393,407	84.8%
Building Prop Mgmt/Maint	680,000	440,220	(239,780)	680,000	239,780	54.5%
Miscellaneous Office Expense	648,960	524,360	(124,600)	652,555	128,195	24.4%
Training	486,320	287,946	(198,374)	613,555	325,609	113.1%
Meetings & Mileage	141,350	82,914	(58,436)	214,350	131,436	158.5%
<b>Services and Supplies</b>	<b>11,298,230</b>	<b>8,527,547</b>	<b>(2,770,683)</b>	<b>11,077,380</b>	<b>2,549,833</b>	<b>29.9%</b>
<b>Capital Expenditures*</b>	<b>370,000</b>	<b>52,264</b>	<b>(317,736)</b>	<b>600,000</b>	<b>547,736</b>	<b>1048.0%</b>
<b>Administrative Expense Total</b>	<b>\$26,432,830</b>	<b>\$22,505,555</b>	<b>(\$3,927,275)</b>	<b>\$27,184,790</b>	<b>\$4,679,235</b>	<b>20.8%</b>

\*Capital expenditures represent purchases of assets to be amortized in future periods.

## 2020 Proposed Administrative Budget



### Personnel Costs

A summary of the FY19 budgeted personnel costs compared to FY19 estimated actuals and the FY20 proposed budgeted personnel costs compared to FY19 estimated actuals is provided below:

	Budget 2019	Estimated Actuals 2019	2019 Over/(Under) Budget	Proposed Budget 2020	2020 Proposed Budget vs. 2019 Actuals Over/(Under)	
<b>Personnel Costs:</b>						
Annual Salary	\$8,646,011	\$8,154,827	(\$491,184)	\$9,144,582	\$989,755	12.1%
Fringe Benefits	4,818,454	4,536,639	(281,815)	5,272,103	735,464	16.2%
Performance/Salary Adjustments*	508,145	503,964	(4,181)	484,825	(19,139)	-3.8%
Annual Leave	375,000	309,631	(65,369)	300,000	(9,631)	-3.1%
Temp Help	194,200	289,791	95,591	135,240	(154,551)	-53.3%
Overtime	129,220	58,619	(70,601)	87,000	28,381	48.4%
Certification Pay	76,570	54,423	(22,147)	64,776	10,353	19.0%
Board Allowance	17,000	17,850	850	18,900	1,050	5.9%
<b>Total Personnel Costs</b>	<b>\$14,764,600</b>	<b>\$13,925,744</b>	<b>(\$838,856)</b>	<b>\$15,507,426</b>	<b>\$1,581,682</b>	<b>11.4%</b>

\*All performance/salary adjustments are budgeted in Administrative Services Department until awarded.

Personnel Costs for 2020 are \$15.5 million and represent 57% of the total Administrative Budget. Personnel costs are detailed by department in Appendix C and include salaries, fringe benefits (e.g., health insurance, retirement and deferred compensation), performance/salary adjustments, accrued annual leave, temporary/extra help costs, estimated overtime, certification pay for Board approved certifications, and Board allowance for meeting attendance.

The total budget for personnel costs is \$1.6 million or 11.4% higher than the FY19 estimated actuals for personnel costs. The increase can be attributed to performance and salary adjustments of \$504,000 that were granted in FY19 being included in annual salary in FY20, as well as unbudgeted MOU increases for County employees that were granted in FY19 totaling \$93,000. In addition, there were several vacant positions that remained unfilled for most of FY19, including an investment analyst, staff attorney, and two retirement program specialists. The increase can also be attributed to fringe benefits which increased by \$735,000 due to higher employer contribution rates and health care costs, as well as the impact of higher salaries.

To accommodate the growth in OCERS’ workforce and other support services, such as contracting and procurement, operational risk management and business continuity and disaster recovery that have been implemented and expanded over the past several years, staff is recommending changing the organization structure of the Administrative Services department. This change consists of dividing the department into two separate departments: Human Resources and Operations Support Services, and includes the addition of a Senior Manager of Operations Support Services and dropping a Staff Assistant position for a net budget impact of \$124,000.

Staff is also proposing the addition of three approved classifications that can be used for career growth when warranted:

- 1 Reconciliation Specialist (County career ladder to existing Accounting Technician position)
- 1 Staff Specialist (County career ladder of existing Staff Assistant position)
- 1 Staff Analyst (promotional opportunity for existing Staff Specialist position)

These additional classifications do not increase the approved number of employees. The cost impact for utilizing the recommended career ladder and promotional classifications is approximately \$26,000 and is equivalent to the difference in the salary range between the two related classifications and the applicable fringe factor. The recommended additional classifications will result in OCERS total approved classifications to 102, of which 93 positions will be funded.

Below is a summary of the changes to the FY20 Staffing Plan, which reflects a total net budget impact for salaries and related fringe benefits of approximately \$150,000:

	<b>Position Title</b>	<b>Department</b>	<b>Position Type</b>	<b>Change</b>	<b>Salary Range</b>	<b>Budget Impact</b>
1	Reconciliation Specialist	Member Services	County	Add Classification	\$45,947-\$61,505	\$6,515
2	Staff Specialist	Human Resources	County	Add Classification	\$52,332-\$69,971	\$4,831
3	HR Staff Analyst	Human Resources	OCERS Direct	Add Classification	\$63,211-\$105,462	\$14,602
4	Senior Manager	Operations Support	OCERS Direct	Add Classification	\$66,962-\$140,321*	\$208,252
5	Staff Assistant	Human Resources	County	Drop Classification	\$52,332-\$69,971	\$(84,184)

\*New OCERS’ Direct salary range to be approved as part of the Fiscal Year 2020 Staffing Plan

The FY20 Administrative Budget for personnel costs also includes the following components:

- An average fringe benefit rate of 54.4% of total salaries
- Performance/salary adjustments for OCERS' direct employees based on a rating scale that includes a base increase of 2.5% for those that meet expectations; a base of 2.5% plus a merit increase of 2.75% for exceeds expectations; and a base of 2.5% plus two merit increases totaling 5.50% (2.75% x2) for exceptional performance at an estimated total annual cost of \$362,000
- Step increases for approximately 22 County staff not at the top of the established salary range and across the board salary increases for all County staff as dictated by County MOU at a cost of \$123,000
- Decrease of approximately \$59,000 in temporary help and \$42,000 in overtime due to the nearly completed recruitment of 12 new positions that were approved in the FY19 Staffing Plan
- Pay item of 5.5% of salary for employees obtaining the designations of Chartered Financial Analyst, and Certified Professional Accountant totaling \$65,000

### ***Salary Ranges***

In accordance with OCERS' Compensation Philosophy, salary ranges are reviewed annually with an intended purpose of keeping total compensation competitive. Staff is recommending to adjust all existing OCERS' direct salary ranges by the proposed base increase of 2.5%. Refer to *Appendix G – OCERS' Direct Employees Salary Ranges (effective January 1, 2020)*.

### ***Services and Supplies***

Services and Supplies costs for 2020 are \$11.1 million, which is 40.8% of the total Administrative Budget. Included in services and supplies are administrative and investment professional services, legal services, equipment expenses (other than those that are capitalized on OCERS' books as assets that will be depreciated over time and budgeted as a capital expenditure), maintenance costs, office expenses, training, and meetings & mileage costs. The expenses that are included in these line items are detailed in Appendix B – Administrative Budget Detail by Expense Category and summarized below:

- **Professional Services** budgeted at \$6.2 million represents the largest percentage of Services and Supplies and comprises 22.8% of the total Administrative Budget. This category includes investment-related consulting fees, actuarial and audit fees, medical panel reviews, pension administration system consultants, and other IT related consulting and professional services fees. The overall increase of approximately \$1.2 million or 23% from FY19 estimated actuals is due to the FY20 budget including non-recurring costs that support OCERS' strategic goals, some of which were budgeted in FY19, but not spent and carried over to FY20. This includes the following costs to enhance excellent service and support: \$275,000 for potential change orders and/or additional support hours for

the V3 pension administration system, including a business initiative to enhance V3 workflows, monitoring and reporting; the continuation of a FY19 initiative to create videos that will provide education to members and stakeholders about OCERS' benefits on the newly designed website at an estimated cost of \$50,000; and \$25,000 for a Six Sigma Lean process consultant. Other non-recurring expenses included in the budget consist of business initiatives related to both risk management and effective governance, including \$180,000 for additional IT programming and development services to support Member Services reporting and data query needs; \$180,000 for Internal Audit consultants to support four IT audit projects and a security lending audit; \$175,000 carried over from the prior year for an Office 365 migration consultant; and \$40,000 for a governance consultant to assist in exploring methods of focusing Board and staff time and effort on activities that support or advance OCERS' strategic goals.

- **Legal Services** budgeted at \$1,025,000 are 3.8% of the total Administrative Budget and consist of fees paid to OCERS' external fiduciary counsel, labor attorney, litigation counsel, tax attorney, and investment related legal services. These fees are budgeted for use on an as-needed basis and in FY19 legal fees came in less than anticipated for potential litigation and investment-related legal services. The FY20 budget has been reduced from the FY19 budget and is approximately \$46,000 higher than FY19 estimated actuals.
- **Infrastructure Maintenance** budgeted at \$835,100 represents 3.1% of the total Administrative Budget and has increased from FY19 estimated actuals by approximately \$124,000 or 17.4%, primarily due to costs being amortized over contract period versus previously expensing entire cost at time of payment, as well as anticipated increases in maintenance renewals. This budget category includes V3 licensing and support of \$396,000 and other ongoing V3 related costs including Oracle maintenance of \$67,000, \$109,000 for data center maintenance, \$92,000 for Microsoft related software licensing, and several other smaller line items for various software, hardware and mobile device licensing, maintenance, support and security.
- **Equipment/Software Expenses** budgeted at \$857,500 represent 3.2% of the total Administrative Budget and consists of computers, laptops, monitors, Board meeting online portal expenses, IT Helpdesk, data and Cloud backup solutions, information security related software/tools and other miscellaneous hardware and software expenses. The increase from FY19 estimated actuals of \$393,000 or 84.8% is primarily due to costs to support business plan initiatives related to excellent service and support, fund sustainability and risk management, including \$150,000 for the procurement of new accounting software, \$100,000 for the procurement of an investment/risk management system, and \$90,000 for various tools to mitigate the risk of data or financial loss or information disclosure.
- **Building Management and Maintenance** budgeted at \$680,000 represents 2.5% of the overall Administrative Budget and is related to funds distributed to the property manager of OCERS' Headquarters building to manage and maintain the building. Expenses include

property management fees, security, utilities, property taxes, insurance, and maintenance contracts. FY19 estimated costs were less than the budget by \$240,000 primarily due to anticipated roof repairs of \$120,000 not being completed and contingency for other unexpected repairs or maintenance not being used.

- **Miscellaneous Office Expense** budgeted at \$652,555 represents 2.4% of the total Administrative Budget and consists of routine office expenses such as postage, printing costs, telephone, equipment leases, office supplies and periodicals. The budget for this line item increased from FY19 actuals by approximately \$128,000 or 24.4% primarily due to procuring a new telephone system and re-budgeting for a postage contingency that was not used in FY19.
- **Training** budgeted at \$613,555 represents 2.3% of the total Administrative Budget and encompasses training and conferences attended by the Board and staff, as well as tuition reimbursement. The budget for this line has increased from FY19 estimated actuals by about \$326,000 or 113.1% due to costs of \$145,000 to support talent management business initiatives, including the design and development of a comprehensive training program and customized training programs based on individual needs and career goals within OCERS. The FY20 budget also includes tuition reimbursement of \$60,000 in anticipation that more employees will seek educational and professional reimbursement due to the recently passed MOU for County employees which increased annual tuition reimbursement from \$3,000 to \$10,000.
- **Meetings and Mileage** budgeted at \$214,350 represents 0.8% of the total Administrative Budget. The majority of the expenses relates to Board meeting and due diligence costs. The budget has increased by \$131,000 or 158.5% compared to FY19 estimated actuals primarily due to an anticipated increase in investment manager due diligence meetings with the increase in Investment staff.



## ***Capital Expenditures***

**Capital Expenditures** for 2020 are \$600,000 and are 2.2% of the total Administrative Budget. The 2020 Administrative Budget is approximately \$548,000 higher than FY19 estimated actuals primarily due the planning and implementation of facility security, safety and health upgrades budgeted in FY19 being carried over into FY20. The FY20 budget includes funding for board room audio visual upgrades of \$250,000, new firewalls of \$150,000, and costs to support the business plan initiative to ensure a safe and secure workplace and public service facility, including building security, safety and health upgrades.

# APPENDIX

**Appendix A  
2020 Budget Detail by Department**

Department	Account Group	Description	Total	
<b>0001 - BOARD</b>	Personnel Cost	Annual Salary	18,900	
	<b>Personnel Cost Total</b>		<b>\$ 18,900</b>	
	Professional Svcs	Security	15,120	
	<b>Professional Svcs Total</b>		<b>\$ 15,120</b>	
	Training	Board Approved Conferences		35,000
		CALAPRS		12,000
		NASRA		21,000
		SACRS		12,000
		Strategic Planning		30,000
		UC Berkeley		4,000
	<b>Training Total</b>		<b>\$ 114,000</b>	
	Mtg/Mileage	Miscellaneous Meetings		22,000
		Membership Committee Meetings		2,500
	<b>Mtg/Mileage Total</b>		<b>\$ 24,500</b>	
	Membership	CALAPRS		2,500
		NASRA		3,000
		NCPERS		2,000
		SACRS		6,000
		NIRS		3,500
		Coalition to Preserve Retirement Security		3,000
	<b>Membership Total</b>		<b>\$ 20,000</b>	
	<b>0001 - BOARD Total</b>			<b>\$ 192,520</b>
	<b>0010 - EXECUTIVE</b>	Personnel Cost	Annual Salary	820,320
Certification Pay			13,081	
Leave P/O			27,129	
Temp Help			15,000	
Overtime			1,000	
Fringe Benefits			510,953	
<b>Personnel Cost Total</b>			<b>\$ 1,387,483</b>	
Professional Svcs		CEO Contingency		75,000
		CEM Benchmarking		25,000
		Insurance Premiums		150,000
		Lean Process Consultant/Study		25,000
		Governance Consultant		40,000
		Technical Writer-Procedures		150,000
<b>Professional Svcs Total</b>			<b>\$ 465,000</b>	
Training		CALAPRS		7,600
		GFOA Conference		4,000
		IFEBP		3,000
		LCW Employment Law Conference		1,800
		Miscellaneous Conferences/Training		15,000
		Public Pension Financial Forum		2,800
		SACRS		9,500
		NCPERS - General & Safety		4,500
		NASRA/NIRS		5,000
		CEM Conference		5,000
<b>Training Total</b>			<b>\$ 58,200</b>	
Mtg/Mileage		Miscellaneous Meetings		5,500
		CEO Visit to State Legislature		1,000
		Membership Committee Meetings		2,000
		CEO/Manager visits to Cal Retirement Systems		4,000
		CEO Visit to Federal Legislature		2,500
<b>Mtg/Mileage Total</b>			<b>\$ 15,000</b>	
Membership		AICPA		600
		American Express		255
		CalCPA		525
		GFOA		570
		International Foundation (IFEBP)		1,100
		P2F2 - Public Pension Financial Forum		150
		California Board of Accountancy		120
		Notary		1,000
		<b>Membership Total</b>		<b>\$ 4,320</b>
		Periodicals	Miscellaneous periodicals	
Public Retirement Journal				950
<b>Periodicals Total</b>			<b>\$ 1,450</b>	
7670 - Actuarial Fees		Actuarial Fees2		435,000
<b>7670 - Actuarial Fees Total</b>			<b>\$ 435,000</b>	
<b>0010 - EXECUTIVE Total</b>				<b>\$ 2,366,453</b>
<b>0011 - INVESTMENTS</b>		Personnel Cost	Annual Salary	1,340,443
	Certification Pay		29,779	
	Fringe Benefits		761,073	
	Leave P/O		44,379	
	Overtime	1,000		
<b>Personnel Cost Total</b>		<b>\$ 2,176,674</b>		

**Appendix A**  
**2020 Budget Detail by Department**

Department	Account Group	Description	Total
	Professional Svcs	Custodial Bank Fees	575,000
		7650 Proxy Services	19,000
		7660 Consulting Fees-Real Estate	287,000
		7660 Consulting Fees-Private Equity and Real Assets	849,000
		7660 Consulting Fees-Investment Consultant	828,000
	<b>Professional Svcs Total</b>		<b>\$ 2,558,000</b>
	Due Diligence	Due Diligence	135,000
	<b>Due Diligence Total</b>		<b>\$ 135,000</b>
	Mtg/Mileage	Investment Committee Meetings	16,000
	<b>Mtg/Mileage Total</b>		<b>\$ 16,000</b>
	Membership	Other Memberships	16,105
	<b>Membership Total</b>		<b>\$ 16,105</b>
	Periodicals	Miscellaneous periodicals	3,375
	<b>Periodicals Total</b>		<b>\$ 3,375</b>
	Equipment / Software	Benchmark Subscriptions	7,300
	<b>Equipment / Software Total</b>		<b>\$ 7,300</b>
<b>0011 - INVESTMENTS Total</b>			<b>\$ 4,912,454</b>
<b>0015 - COMMUNICATIONS</b>	Personnel Cost	Annual Salary	177,828
		Leave P/O	5,835
		Overtime	500
		Fringe Benefits	105,811
	<b>Personnel Cost Total</b>		<b>\$ 289,974</b>
	Professional Svcs	White Board / Animated Videos	50,000
	<b>Professional Svcs Total</b>		<b>\$ 50,000</b>
	Training	CALAPRS	1,500
		Miscellaneous Conferences/Training	500
		IFEB Benefit Communication & Technology Institute	3,000
	<b>Training Total</b>		<b>\$ 5,000</b>
	Mtg/Mileage	Miscellaneous Meetings	300
	<b>Mtg/Mileage Total</b>		<b>\$ 300</b>
	Printing Svcs	Brochures	10,000
		CAFR (Comprehensive Annual Financial Report)	12,000
		Quarterly newsletters	40,000
	<b>Printing Svcs Total</b>		<b>\$ 62,000</b>
	Periodicals	Organizational Communication	600
	<b>Periodicals Total</b>		<b>\$ 600</b>
	Postage	Miscellaneous Mailing/Mass Mailing	40,000
		Quarterly Newsletters - All Members	60,000
	<b>Postage Total</b>		<b>\$ 100,000</b>
	Office Supplies	Public Relation Materials	10,000
	<b>Office Supplies Total</b>		<b>\$ 10,000</b>
	Equipment / Software	Video Camera / Video Equipment	1,200
	<b>Equipment / Software Total</b>		<b>\$ 1,200</b>
<b>0015 - COMMUNICATIONS Total</b>			<b>\$ 519,074</b>
<b>0020 - LEGAL</b>	Personnel Cost	Annual Salary	877,673
		Leave P/O	28,982
		Temp Help	90,240
		Overtime	1,000
		Fringe Benefits	495,246
	<b>Personnel Cost Total</b>		<b>\$ 1,493,141</b>
	Professional Svcs	Admin. Hearing Process Fees	175,000
		Court Filing Fees	1,000
		Court Reporter Fees	25,000
		Subpoena Fees	1,000
	<b>Professional Svcs Total</b>		<b>\$ 202,000</b>
	Legal Svcs	Tax Attorney/Outside Counsel	50,000
		Board/Fiduciary	125,000
		Dept of Ed vs OCERS	50,000
		Other Litigation	200,000
	<b>Legal Svcs Total</b>		<b>\$ 425,000</b>
	Training	CALAPRS	4,000
		MCLE and other training	4,300
		NAPPA Meetings	15,000
		SACRS	6,000
	<b>Training Total</b>		<b>\$ 29,300</b>
	Mtg/Mileage	Miscellaneous Meetings	1,000
		Membership Committee Meetings	4,000
	<b>Mtg/Mileage Total</b>		<b>\$ 5,000</b>
	Membership	Miscellaneous Memberships	4,200
	<b>Membership Total</b>		<b>\$ 4,200</b>
	Periodicals	Legal Publications, Daily Journal, Law Book Updates, Reference Books	12,500
	<b>Periodicals Total</b>		<b>\$ 12,500</b>
	7690 - Legal Svcs	Investment Legal Services	600,000
	<b>7690 - Legal Svcs Total</b>		<b>\$ 600,000</b>

**Appendix A  
2020 Budget Detail by Department**

Department	Account Group	Description	Total		
<b>0020 - LEGAL Total</b>			<b>\$ 2,771,141</b>		
<b>0030 - MEMBER SERVICES</b>	Personnel Cost	Annual Salary	2,484,719		
		Leave P/O	80,591		
		Temp Help	15,000		
		Overtime	30,000		
		Fringe Benefits	1,422,483		
	<b>Personnel Cost Total</b>			<b>\$ 4,032,950</b>	
	Professional Svcs	Death Records Match	20,000		
	<b>Professional Svcs Total</b>			<b>\$ 20,000</b>	
	Training	CALAPRS	4,000		
		SACRS	1,800		
		Staff Development Training	14,000		
	<b>Training Total</b>			<b>\$ 19,800</b>	
	Mtg/Mileage	Miscellaneous Meetings	250		
<b>Mtg/Mileage Total</b>			<b>\$ 250</b>		
<b>0030 - MEMBER SERVICES Total</b>			<b>\$ 4,073,000</b>		
<b>0040 - FINANCE</b>	Personnel Cost	Annual Salary	894,063		
		Certification Pay	15,526		
		Leave P/O	29,322		
		Overtime	1,000		
		Fringe Benefits	495,014		
	<b>Personnel Cost Total</b>			<b>\$ 1,434,925</b>	
	Professional Svcs	Bank Charges	40,000		
		Dynamics Consulting	5,000		
		Financial Audit Cost	127,000		
		CAFR	20,000		
		Certificate Application Fees	1,300		
	<b>Professional Svcs Total</b>			<b>\$ 193,300</b>	
	Training	SACRS	1,800		
		Conferences	7,300		
		Staff Training/Continuing Education	4,500		
	<b>Training Total</b>			<b>\$ 13,600</b>	
	Mtg/Mileage	Miscellaneous Meetings	500		
	<b>Mtg/Mileage Total</b>			<b>\$ 500</b>	
	Membership	Miscellaneous Memberships	3,955		
	<b>Membership Total</b>			<b>\$ 3,955</b>	
	Periodicals	Miscellaneous periodicals	1,000		
	<b>Periodicals Total</b>			<b>\$ 1,000</b>	
	<b>0040 - FINANCE Total</b>			<b>\$ 1,647,280</b>	
<b>0050 - DISABILITY</b>	Personnel Cost	Annual Salary	334,104		
		Leave P/O	10,874		
		Overtime	1,000		
		Fringe Benefits	225,602		
		<b>Personnel Cost Total</b>			<b>\$ 571,580</b>
	Professional Svcs	Medical Panel Reviews	300,000		
	<b>Professional Svcs Total</b>			<b>\$ 300,000</b>	
	Training	CALAPRS	1,375		
		Miscellaneous Conferences/Training	5,000		
		SACRS	1,880		
<b>Training Total</b>			<b>\$ 8,255</b>		
Mtg/Mileage	Miscellaneous Meetings	450			
<b>Mtg/Mileage Total</b>			<b>\$ 450</b>		
<b>0050 - DISABILITY Total</b>			<b>\$ 880,285</b>		
<b>0060 - ADMINISTRATIVE SERVICES</b>	Personnel Cost	Annual Salary	757,308		
		Leave P/O	25,011		
		Temp Help	15,000		
		Salary Adjustments	484,825		
		Overtime	1,500		
		Fringe Benefits	421,763		
		<b>Personnel Cost Total</b>			<b>\$ 1,705,407</b>
		Professional Svcs	CWCAP(County Wide Cost Allocation Plan)	45,000	
	Iron Mountain		18,000		
	Plant Maintenance		5,000		
	Recruitment Costs		28,000		
	Universal Protection Security (UPS)		5,000		
	HR Consulting Contingency		30,000		
	Cyber Security Vendor Monitoring Service		35,000		
	Volunteer Program Costs		2,000		
	Credit Safe		500		
	<b>Professional Svcs Total</b>			<b>\$ 168,500</b>	
	Training	Tuition Reimbursement	60,000		
		OCERS Management Succession/Staff Training	45,000		
		HR / Procurement Conferences and Training	21,000		
		Learning and Development Program	100,000		

**Appendix A  
2020 Budget Detail by Department**

Department	Account Group	Description	Total
	<b>Training Total</b>		<b>\$ 226,000</b>
	Mtg/Mileage	Civic Center Parking Cards	500
		EE Recognition/Educational Seminar/Qtrly Meetings	9,500
		Miscellaneous Meetings	500
	<b>Mtg/Mileage Total</b>		<b>\$ 10,500</b>
	Membership	Miscellaneous Memberships	10,000
	<b>Membership Total</b>		<b>\$ 10,000</b>
	Printing Svcs	Printing	7,000
	<b>Printing Svcs Total</b>		<b>\$ 7,000</b>
	Postage	Pony Mail Services	2,000
		Postage Expense	65,000
	<b>Postage Total</b>		<b>\$ 67,000</b>
	Office Supplies	Office Furniture	15,000
		General Office Expense- Includes: Ergos, Safety items	55,000
	<b>Office Supplies Total</b>		<b>\$ 70,000</b>
	Capital Expenditures	Building Security, Safety and Health Upgrades	200,000
		Board Room Audio Visual Upgrades	250,000
	<b>Capital Expenditures Total</b>		<b>\$ 450,000</b>
	Equipment Lease	Postage Machine	13,500
	<b>Equipment Lease Total</b>		<b>\$ 13,500</b>
	Bldg. Prop. Mgmt./Maintenance	Property Management	680,000
	<b>Bldg. Prop. Mgmt./Maintenance Total</b>		<b>\$ 680,000</b>
<b>0060 - ADMINISTRATIVE SERVICES Total</b>			<b>\$ 3,407,907</b>
<b>0070 - INFORMATION TECHNOLOGY</b>	Personnel Cost	Annual Salary	911,060
		Leave P/O	29,585
		Overtime	50,000
		Fringe Benefits	516,221
	<b>Personnel Cost Total</b>		<b>\$ 1,506,866</b>
	Professional Svcs	County VPN Access	140,000
		Internet Access	120,000
		Network Consulting	5,000
		Online Data Storage	50,000
		Oracle Consulting	110,400
		Vitech Addl. Support - Cos	275,000
		Additional Consulting	180,000
		Colocation Facilities (monthly service)	80,000
		Gartner Consulting	160,000
		BC/DR Exercise Facilitation	35,000
		Office 365 Migration Consulting	175,000
	<b>Professional Svcs Total</b>		<b>\$ 1,330,400</b>
	Training	CALAPRS	3,500
		Miscellaneous Training Materials	2,500
		PRISM Conference	5,000
		In-Class Training (California based SAN and New Horizons Training)	20,000
		Online Training - IT Staff	30,000
	<b>Training Total</b>		<b>\$ 61,000</b>
	Mtg/Mileage	Miscellaneous Meetings	5,000
	<b>Mtg/Mileage Total</b>		<b>\$ 5,000</b>
	Membership	Miscellaneous Memberships	1,500
	<b>Membership Total</b>		<b>\$ 1,500</b>
	Equipment / Software	Board Portal	50,000
		Computers/Laptops/Monitors	30,000
		OpenDNS Subscription	5,000
		Wireless & Telecom Equipment	5,000
		SmartBear Licensing	1,000
		Information Security Remediation	50,000
		Penetration Testing Software	25,000
		Power BI & Dashboard	50,000
		Accounting Software Project	150,000
		Digital Signature Solution	10,000
		Software Deployment Tools	30,000
		IT Helpdesk Solution	50,000
		Data and Cloud Backup Solution	50,000
		Miscellaneous Hardware & Software Supplies (including printer)	30,000
	<b>Equipment / Software Total</b>		<b>\$ 536,000</b>
	Equipment / Software	Bloomberg	45,000
		Risk Management System	100,000
		Backstop	78,000
	<b>Equipment / Software Total</b>		<b>\$ 223,000</b>
	Capital Expenditures	New Firewalls	150,000
	<b>Capital Expenditures Total</b>		<b>\$ 150,000</b>
	Equipment Lease	Copier/Printer Lease	35,000
	<b>Equipment Lease Total</b>		<b>\$ 35,000</b>
	Telephone	Cellular/Mobile Services	45,000

**Appendix A  
2020 Budget Detail by Department**

Department	Account Group	Description	Total
		AT & T Telecom Services	35,000
		VOIP Services	125,000
	<b>Telephone Total</b>		<b>\$ 205,000</b>
	8950 - Infrastructure Maintenance	Computer Room AC/Humidifier Maintenance	5,000
		Computer Room UPS Maintenance	8,000
		Microsoft Software Assurance	92,000
		Server Hardware Support	10,000
		V3 Licensing and Support	396,000
		Work Station Hardware Support	10,000
		Printer & Microfiche Maintenance	2,500
		Database Access	5,000
		Pressure Sealer Maintenance and Support	1,500
		Oracle - V3	67,000
		Catalyst-Bullhorn Licensing	6,000
		Anti-Virus Solution	8,000
		Dynamics Software Maintenance (incl: Sandler Kahne, AP Laser Chk, Key Chg)	12,500
		Arbutus Internal Audit Software Licensing	5,000
		Vendor Management System License	11,000
		NTIS Certification Fees	1,600
		Website Hosting	25,000
		Satellite Phone support	5,500
		Data Center Hardware/Software Maintenance and Support	90,000
		IBM DejaView One Maintenance and Support - V3	7,500
		Kofax Scanning Maintenance and Support - V3	1,000
		Site 24/x7	12,000
		Account/Application/Server Monitoring Tools	2,500
		Asset Inventory Tools	1,500
		Web Conferencing Tools	2,500
		Digital Content Subscription	5,000
		SSL Certificates	2,500
		MSDN Licensing	12,000
		Software Development Version Control	1,500
		Audio Visual Support	5,000
		Ethics and Fraud Reporting	2,500
		Enterprise Remote Access	5,000
		Computer Room UPS Battery Replacement2	6,000
		Patch Management Support	7,000
	<b>8950 - Infrastructure Maintenance Total</b>		<b>\$ 835,100</b>
<b>0070 - INFORMATION TECHNOLOGY Total</b>			<b>\$ 4,888,866</b>
<b>0080 - INTERNAL AUDIT</b>	Personnel Cost	Annual Salary	268,159
		Certification Pay	6,388
		Leave P/O	8,887
		Fringe Benefits	159,187
	<b>Personnel Cost Total</b>		<b>\$ 442,621</b>
	Professional Svcs	Audit consultant / specialist / expert	180,000
	<b>Professional Svcs Total</b>		<b>\$ 180,000</b>
	Training	Assoc. Pension Fund Audit	5,000
		Miscellaneous Conferences/Training	9,000
		SACRS	2,400
	<b>Training Total</b>		<b>\$ 16,400</b>
	Mtg/Mileage	Miscellaneous Meetings	350
		Travel for Audits	1,000
	<b>Mtg/Mileage Total</b>		<b>\$ 1,350</b>
	Membership	Miscellaneous Memberships	1,500
	<b>Membership Total</b>		<b>\$ 1,500</b>
	Periodicals	Reference books / research materials	200
	<b>Periodicals Total</b>		<b>\$ 200</b>
<b>0080 - INTERNAL AUDIT Total</b>			<b>\$ 642,071</b>
<b>0090 - INFORMATION SECURITY</b>	Personnel Cost	Annual Salary	278,900
		Leave P/O	9,243
		Fringe Benefits	158,746
	<b>Personnel Cost Total</b>		<b>\$ 446,889</b>
	Professional Svcs	Security Awareness Training	7,000
		Managed Security / Detection & Response Services	75,000
		Security Penetration Testing	75,000
		Web Application Firewall Managed Services	75,000
		Implementation Services	25,000
		Security Services Contingency	25,000
	<b>Professional Svcs Total</b>		<b>\$ 282,000</b>
	Training	PRISM Conference	5,000
		Information Security Training	40,000
		Gartner Security & Risk Management Summit	5,000
		Information Security Conferences	6,000
		Gartner Enterprise IT Leader Peer Forums	6,000

**Appendix A**  
**2020 Budget Detail by Department**

Department	Account Group	Description	Total
	<b>Training Total</b>		<b>\$ 62,000</b>
	Mtg/Mileage	Miscellaneous Meetings	500
	<b>Mtg/Mileage Total</b>		<b>\$ 500</b>
	Membership	Financial Services Information Sharing and Analysis Center Membership (FS-ISAC)	1,500
		Information Systems Security Association Membership (ISSA)	350
	<b>Membership Total</b>		<b>\$ 1,850</b>
	Periodicals	Miscellaneous periodicals	500
	<b>Periodicals Total</b>		<b>\$ 500</b>
	Equipment / Software	Vulnerability Management System	10,000
		Dark Web Intelligence/Monitoring Services	10,000
		Privileged Account Management (PAM)	15,000
		Software Application Whitelisting	15,000
		Cloud Security Access Broker (CASB)	20,000
		Multi-Factor Authentication (MFA)	10,000
		Single Sign-On (SSO)	10,000
	<b>Equipment / Software Total</b>		<b>\$ 90,000</b>
<b>0090 - INFORMATION SECURITY Total</b>			<b>\$ 883,739</b>
			<b>\$ 27,184,790</b>



**Appendix B**  
**2020 Administrative Budget Detail by Expense Category**

Account Group	Description	Total
<b>Personnel Cost</b>	Annual Salary	\$ 9,163,477
	Certification Pay	64,774
	Fringe Benefits	5,272,099
	Overtime	87,000
	Leave P/O	299,995
	Temp Help	135,240
	Salary Adjustments	484,825
<b>Personnel Cost Total</b>		<b>\$ 15,507,410</b>
<b>Professional Svcs</b>	Actuarial Fees	435,000
	Additional Consulting	180,000
	Admin. Hearing Process Fees	175,000
	Audit consultant / specialist / expert	180,000
	Bank Charges	40,000
	BC/DR Exercise Facilitation	35,000
	CAFR	20,000
	CEM Benchmarking	25,000
	CEO Contingency	75,000
	Certificate Application Fees	1,300
	Colocation Facilities (monthly service)	80,000
	Consulting Fees	1,964,000
	County VPN Access	140,000
	Court Filing Fees	1,000
	Court Reporter Fees	25,000
	Credit Safe	500
	Custodial Bank Fees	575,000
	CWCAP(County Wide Cost Allocation Plan)	45,000
	Cyber Security Vendor Monitoring Service	35,000
	Death Records Match	20,000
	Dynamics Consulting	5,000
	Financial Audit Cost	127,000
	Gartner Consulting	160,000
	Governance Consultant	40,000
	HR Consulting Contingency	30,000
	Implementation Services	25,000
	Insurance Premiums	150,000
	Internet Access	120,000
	Iron Mountain	18,000
	Lean Process Consultant/Study	25,000
	Managed Security / Detection & Response Services	75,000
	Medical Panel Reviews	300,000
	Network Consulting	5,000
	Office 365 Migration Consulting	175,000
	Online Data Storage	50,000
	Oracle Consulting	110,400
	Plant Maintenance	5,000
	Proxy Services	19,000
	Recruitment Costs	28,000
	Security	15,120
	Security Awareness Training	7,000
Security Penetration Testing	75,000	
Security Services Contingency	25,000	
Subpoena Fees	1,000	
Technical Writer-Procedures	150,000	
Universal Protection Security (UPS)	5,000	
Vitech Addl. Support - Cos	275,000	
Volunteer Program Costs	2,000	
Web Application Firewall Managed Services	75,000	
White Board / Animated Videos	50,000	
<b>Professional Svcs Total</b>		<b>\$ 6,199,320</b>

**Appendix B**  
**2020 Administrative Budget Detail by Expense Category**

Account Group	Description	Total
<b>Legal Svcs</b>	Board/Fiduciary	125,000
	Dept of Ed vs OCERS	50,000
	Investment Legal Services	600,000
	Other Litigation	200,000
	Tax Attorney/Outside Counsel	50,000
<b>Legal Svcs Total</b>		<b>\$ 1,025,000</b>
<b>Infrastructure Maintenance</b>	Account/Application/Server Monitoring Tools	2,500
	Anti-Virus Solution	8,000
	Arbutus Internal Audit Software Licensing	5,000
	Asset Inventory Tools	1,500
	Audio Visual Support	5,000
	Catalyst-Bullhorn Licensing	6,000
	Computer Room AC/Humidifier Maintenance	5,000
	Computer Room UPS Battery Replacement	6,000
	Computer Room UPS Maintenance	8,000
	Data Center Hardware/Software Maintenance and Support	90,000
	Database Access	5,000
	Digital Content Subscription	5,000
	Dynamics Software Maintenance (incl: Sandler Kahne, AP Laser Chk, Key Chg)	12,500
	Enterprise Remote Access	5,000
	Ethics and Fraud Reporting	2,500
	IBM DejaView One Maintenance and Support - V3	7,500
	Kofax Scanning Maintenance and Support - V3	1,000
	Microsoft Software Assurance	92,000
	MSDN Licensing	12,000
	NTIS Certification Fees	1,600
	Oracle - V3	67,000
	Patch Management Support	7,000
	Pressure Sealer Maintenance and Support	1,500
	Printer & Microfiche Maintenance	2,500
	Satellite Phone support	5,500
	Server Hardware Support	10,000
	Site 24/x7	12,000
	Software Development Version Control	1,500
	SSL Certificates	2,500
	V3 Licensing and Support	396,000
	Vendor Management System License	11,000
	Web Conferencing Tools	2,500
Website Hosting	25,000	
Work Station Hardware Support	10,000	
<b>Infrastructure Maintenance Total</b>		<b>\$ 835,100</b>
<b>Bldg. Prop. Mgmt./Maintenance</b>	Property Management	680,000
<b>Bldg. Prop. Mgmt./Maintenance Total</b>		<b>\$ 680,000</b>
<b>Equipment / Software</b>	Accounting Software Project	150,000
	Benchmark Subscriptions	7,300
	Bloomberg	45,000
	Backstop	78,000
	Board Portal	50,000
	Cloud Security Access Broker (CASB)	20,000
	Computers/Laptops/Monitors	30,000
	Dark Web Intelligence/Monitoring Services	10,000
	Data and Cloud Backup Solution	50,000
	Digital Signature Solution	10,000
	Information Security Remediation	50,000
	IT Helpdesk Solution	50,000
	Miscellaneous Hardware & Software Supplies (including printer)	30,000
	Multi-Factor Authentication (MFA)	10,000
	OpenDNS Subscription	5,000
	Penetration Testing Software	25,000
	Power BI & Dashboard	50,000

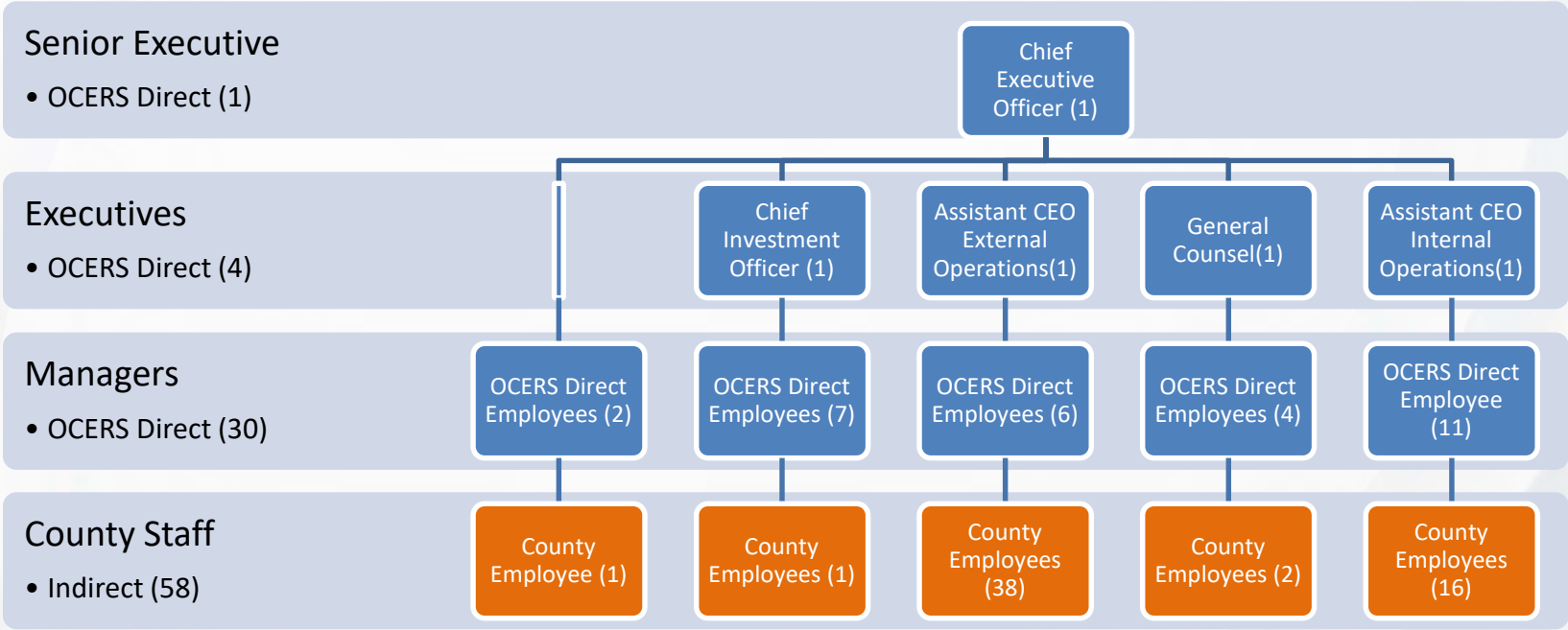
**Appendix B**  
**2020 Administrative Budget Detail by Expense Category**

Account Group	Description	Total
	Privileged Account Management (PAM)	15,000
	Risk Management System	100,000
	Single sign-on (SSO)	10,000
	SmartBear Licensing	1,000
	Software Deployment Tools	30,000
	Software Application Whitelisting	15,000
	Video Camera / Video Equipment	1,200
	Vulnerability Management System	10,000
	Wireless & Telecom Equipment	5,000
<b>Equipment / Software Total</b>		<b>\$ 857,500</b>
<b>Training</b>	Tuition Reimbursement	60,000
	Assoc. Pension Fund Audit	5,000
	Board Approved Conferences	35,000
	CALAPRS	33,975
	CEM Conference	5,000
	Conferences	7,300
	Gartner Security & Risk Management Summit	5,000
	Gartner Enterprise IT Leader Peer Forums	6,000
	GFOA Conference	4,000
	HR / Procurement Conferences and Training	21,000
	IFEBP	3,000
	IFEB Benefit Communication & Technology Institute	3,000
	In-Class Training (California based SAN and New Horizons Training)	20,000
	Information Security Conferences	6,000
	Information Security Training	40,000
	Learning and Development Program	100,000
	LCW Employment Law Conference	1,800
	MCLE and other training	4,300
	Miscellaneous Conferences/Training	29,500
	Miscellaneous Training Materials	2,500
	NAPPA Meetings	15,000
	NASRA	21,000
	NASRA/NIRS	5,000
	NCPERS - General & Safety	4,500
	OCERS Management Succession/Staff Training	45,000
	Online Training - IT Staff	30,000
	PRISM Conference	10,000
	Public Pension Financial Forum	2,800
	SACRS	35,380
	Staff Development Training	14,000
	Staff Training/Continuing Education	4,500
	Strategic Planning	30,000
	UC Berkeley	4,000
<b>Training Total</b>		<b>\$ 613,555</b>
<b>Telephone</b>	AT & T Telecom Services	35,000
	Cellular/Mobile Services	45,000
	VOIP Services	125,000
<b>Telephone Total</b>		<b>\$ 205,000</b>
<b>Postage</b>	Miscellaneous Mailing/Mass Mailing	40,000
	Pony Mail Services	2,000
	Postage Expense	65,000
	Quarterly Newsletters - All Members	60,000
<b>Postage Total</b>		<b>\$ 167,000</b>
<b>Printing Svcs</b>	Brochures	10,000
	CAFR (Comprehensive Annual Financial Report)	12,000
	Printing	7,000
	Quarterly newsletters	40,000
<b>Printing Svcs Total</b>		<b>\$ 69,000</b>
<b>Due Diligence</b>	Due Diligence	135,000
<b>Due Diligence Total</b>		<b>\$ 135,000</b>
<b>Office Supplies</b>	General Office Expense- Includes: Ergos, Safety items	55,000
	Office Furniture	15,000

**Appendix B**  
**2020 Administrative Budget Detail by Expense Category**

Account Group	Description	Total
	Public Relation Materials	10,000
<b>Office Supplies Total</b>		<b>\$ 80,000</b>
<b>Equipment Lease</b>	Copier/Printer Lease	35,000
	Postage Machine	13,500
<b>Equipment Lease Total</b>		<b>\$ 48,500</b>
<b>Mtg/Mileage</b>	CEO Visit to State Legislature	1,000
	CEO Visit to Federal Legislature	2,500
	CEO/Manager visits to Cal Retirement Systems	4,000
	Civic Center Parking Cards	500
	EE Recognition/Educational Seminar/Qtrly Meetings	9,500
	Investment Committee Meetings	16,000
	Membership Committee Meetings	8,500
	Miscellaneous Meetings	36,350
	Travel for Audits	1,000
<b>Mtg/Mileage Total</b>		<b>\$ 79,350</b>
<b>Membership</b>	AICPA	600
	American Express	255
	CALAPRS	2,500
	CalCPA	525
	California Board of Accountancy	120
	Coalition to Preserve Retirement Security	3,000
	Financial Services Information Sharing and Analysis Center Membership (FS-ISAC)	1,500
	GFOA	570
	Information Systems Security Association Membership (ISSA)	350
	International Foundation (IFEBP)	1,100
	Miscellaneous Memberships	37,260
	NASRA	3,000
	NCPERS	2,000
	NIRS	3,500
	Notary	1,000
	P2F2 - Public Pension Financial Forum	150
	SACRS	6,000
<b>Membership Total</b>		<b>\$ 63,430</b>
<b>Periodicals</b>	Legal Publications, Daily Journal, Law Book Updates, Reference Books	12,500
	Miscellaneous periodicals	5,375
	Organizational Communication	600
	Public Retirement Journal	950
	Reference books / research materials	200
<b>Periodicals Total</b>		<b>\$ 19,625</b>
<b>Capital Expenditures</b>	Building Security, Safety and Health Upgrades	200,000
	Board Room Audio Visual Upgrades	250,000
	New Firewalls	150,000
<b>Capital Expenditures Total</b>		<b>\$ 600,000</b>
<b>Grand Total</b>		<b>\$ 27,184,790</b>

# Appendix C OCERS Current Organization Chart



Appendix C

OCERS  
Personnel Cost Budget  
2020

Department	Position	Employee Count	Regular Salary	Certification Pay	Fringe Benefits	Salary Adjustments	Overtime	Leave Payout	Temporary Help	Grand Total
Board										
	Board Member		18,900.00	-	-					
<b>Board Total</b>			<b>\$ 18,900.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,900.00</b>
Executive										
	Chief Executive Officer	1	280,267.26	-	175,163.45					
	Asst. CEO-Internal Operations	1	237,851.12	13,081.81	158,354.84					
	Asst. CEO-External Operations	1	229,841.56	-	143,337.46					
	Executive Secretary II	1	72,360.08	-	34,097.95					
<b>Executive Total</b>		<b>4</b>	<b>\$ 820,320.02</b>	<b>\$ 13,081.81</b>	<b>\$ 510,953.68</b>	<b>\$ -</b>	<b>\$ 1,000.00</b>	<b>\$ 27,129.28</b>	<b>\$ 15,000.00</b>	<b>\$ 1,387,484.79</b>
Investments										
	Chief Investment Officer	1	322,875.02	17,758.13	177,237.43					
	Managing Director-Investments	1	200,000.06	-	107,168.42					
	Director-Investments	1	209,232.40	-	136,347.48					
	Sr. Investment Officer	1	150,275.84	-	87,409.03					
	Sr. Investment Analyst	-	-	-	-					
	Investment Officer	1	131,570.92	7,236.40	71,657.23					
	Investment Analyst	3	268,584.52	4,785.00	152,698.72					
	Staff Specialist	1	57,905.12	-	28,554.88					
<b>Investments Total</b>		<b>9</b>	<b>\$ 1,340,443.88</b>	<b>\$ 29,779.53</b>	<b>\$ 761,073.18</b>	<b>\$ -</b>	<b>\$ 1,000.00</b>	<b>\$ 44,379.37</b>	<b>\$ -</b>	<b>\$ 2,176,675.96</b>
Communications										
	Communications Manager	1	106,107.82	-	67,920.65					
	Staff Specialist	1	71,720.48	-	37,890.59					
<b>Communications Total</b>		<b>2</b>	<b>\$ 177,828.30</b>	<b>\$ -</b>	<b>\$ 105,811.24</b>	<b>\$ -</b>	<b>\$ 500.00</b>	<b>\$ 5,835.77</b>	<b>\$ -</b>	<b>\$ 289,975.31</b>
Legal										
	General Counsel	1	269,493.12	-	164,321.74					
	Staff Attorney	3	476,571.58	-	252,024.51					
	Paralegal	1	71,720.48	-	48,398.06					
	Executive Secretary I	1	59,887.88	-	30,502.31					
	Extra Help-Staff Attorney	1	-	-	-				90,240.00	
<b>Legal Total</b>		<b>7</b>	<b>\$ 877,673.06</b>	<b>\$ -</b>	<b>\$ 495,246.61</b>	<b>\$ -</b>	<b>\$ 1,000.00</b>	<b>\$ 28,982.23</b>	<b>\$ 90,240.00</b>	<b>\$ 1,493,141.90</b>

Appendix C

OCERS  
Personnel Cost Budget  
2020

Department	Position	Employee Count	Regular Salary	Certification Pay	Fringe Benefits	Salary Adjustments	Overtime	Leave Payout	Temporary Help	Grand Total
Member Services										
	Director-Member Services	1	159,876.29	-	81,711.48					
	Member Services Manager	2	206,036.74	-	137,081.89					
	Retirement Analyst	1	136,899.36	-	69,617.76					
	Retirement Benefits Supervisor	3	240,361.68	-	152,984.62					
	Sr. Retirement Program Specialist	4	286,881.92	-	163,062.49					
	Sr. Staff Development Specialist	1	91,654.68	-	45,872.27					
	Retirement Program Specialist	11	672,070.36	-	357,975.04					
	Retirement Benefits Technician	4	195,461.76	-	97,367.34					
	Accounting Technician	6	326,110.72	-	200,531.33					
	Office Specialist	1	48,609.60	-	32,323.31					
	Office Technician	3	120,756.48	-	83,955.46					
<b>Member Services Total</b>		<b>37</b>	<b>\$ 2,484,719.59</b>	<b>\$ -</b>	<b>\$ 1,422,483.00</b>	<b>\$ -</b>	<b>\$ 30,000.00</b>	<b>\$ 80,748.67</b>	<b>\$ 15,000.00</b>	<b>\$ 4,032,951.26</b>
Finance										
	Director-Finance	1	161,867.94	8,902.74	102,636.81					
	Finance Manager	3	348,925.20	6,623.76	196,303.52					
	Sr. Accountant / Auditor I	1	91,868.15	-	51,311.91					
	Accountant Auditor II	2	165,315.28	-	88,494.64					
	Accountant Auditor I	2	126,086.48	-	56,267.85					
<b>Finance Total</b>		<b>9</b>	<b>\$ 894,063.05</b>	<b>\$ 15,526.50</b>	<b>\$ 495,014.73</b>	<b>\$ -</b>	<b>\$ 1,000.00</b>	<b>\$ 29,322.01</b>	<b>\$ -</b>	<b>\$ 1,434,926.28</b>
Disability										
	Disability Manager	1	88,327.98	-	68,637.59					
	Disability Investigator	2	143,440.96	-	86,133.26					
	Office Specialist	2	102,336.00	-	70,831.74					
<b>Disability Total</b>		<b>4</b>	<b>\$ 334,104.94</b>	<b>\$ -</b>	<b>\$ 225,602.59</b>	<b>\$ -</b>	<b>\$ 1,000.00</b>	<b>\$ 10,874.52</b>	<b>\$ -</b>	<b>\$ 571,582.06</b>
Administration										
	Director-Administrative Services	1	154,657.10	-	85,851.14					
	Senior Manager-Operations Support Services	1	140,321.00	-	69,781.82					
	Contracts Administrator	1	113,106.76	-	61,027.16					
	Manager-Learning/Organization	1	84,999.98	-	41,258.88					
	Staff Analyst	1	85,904.00	-	60,180.30					
	Staff Specialist	1	69,971.20	-	44,317.66					
	Staff Assistant	1	61,081.80	-	33,940.95					
	Store Clerk	1	47,266.71	-	25,405.30					
<b>Administration Total</b>		<b>8</b>	<b>\$ 757,308.55</b>	<b>\$ -</b>	<b>\$ 421,763.22</b>	<b>\$ 484,825.18</b>	<b>\$ 1,500.00</b>	<b>\$ 25,011.80</b>	<b>\$ 15,000.00</b>	<b>\$ 1,705,408.76</b>

Appendix C

OCERS  
Personnel Cost Budget  
2020

Department	Position	Employee Count	Regular Salary	Certification Pay	Fringe Benefits	Salary Adjustments	Overtime	Leave Payout	Temporary Help	Grand Total
IT										
	Director-Information Technology	1	156,481.78	-	84,950.23					
	Sr. Retirement Programmer/Business Analyst	1	130,286.52	-	71,843.74					
	I.T. Operations Supervisor	1	117,323.96	-	81,749.85					
	Sr. Applications Developer	2	207,891.32	-	108,962.89					
	Network Engineer II	1	99,692.32	-	60,670.02					
	System Technologist II	1	99,692.32	-	60,670.02					
	Systems Engineer II	1	99,692.32	-	47,374.42					
<b>IT Total</b>		<b>8</b>	<b>\$ 911,060.54</b>	<b>\$ -</b>	<b>\$ 516,221.18</b>	<b>\$ -</b>	<b>\$ 50,000.00</b>	<b>\$ 29,585.20</b>	<b>\$ -</b>	<b>\$ 1,506,866.92</b>
Internal Audit										
	Director-Internal Audit	1	152,006.40	-	84,428.04					
	Internal Auditor	1	116,153.18	6,388.42	74,759.09					
<b>Internal Audit Total</b>		<b>2</b>	<b>\$ 268,159.58</b>	<b>\$ 6,388.42</b>	<b>\$ 159,187.13</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,887.58</b>	<b>\$ -</b>	<b>\$ 442,622.71</b>
Information Security										
	Director-Information Security	1	142,001.60	-	79,492.01					
	Information Security Manager	1	136,899.10	-	79,254.81					
<b>Information Security Total</b>		<b>2</b>	<b>\$ 278,900.70</b>	<b>\$ -</b>	<b>\$ 158,746.81</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,243.57</b>	<b>\$ -</b>	<b>\$ 446,891.09</b>
<b>Grand Total</b>		<b>93</b>	<b>\$ 9,163,482.20</b>	<b>\$ 64,776.26</b>	<b>\$ 5,272,103.39</b>	<b>\$ 484,825.18</b>	<b>\$ 87,000.00</b>	<b>\$ 300,000.00</b>	<b>\$ 135,240.00</b>	<b>\$ 15,507,427.03</b>



## Appendix D

### Orange County Employees Retirement System 21 Basis Points for Budget Year 2020

Projected actuarial accrued liability as of December 31, 2019	\$ 21,747,090,000
21 basis points of projected actuarial accrued liability	45,668,889
FY20 proposed budget amount subject to 21 basis points limitation <sup>1</sup>	19,664,736
Amount under 21 basis points	\$ 26,004,153
Budgeted amount expressed as basis points of projected actuarial accrued liability-FY20	9.04
Budgeted amount expressed as basis points of projected actuarial accrued liability-FY19	8.93

<sup>1</sup> Reconciliation of amount subject to 21 basis points limitation:

Total FY20 proposed budget	\$ 27,184,790
Less: Investment-related costs	(5,947,454)
Total FY20 proposed administrative budget	21,237,336
Less: IT Capital expenses	-
Computer hardware/software	(627,200)
IT-Professional services consulting	(945,400)
FY20 proposed budget amount subject to 21 basis points limitation	\$ 19,664,736

<u>21 Basis Point History</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
21 Basis Points	8.48	8.55	9.31	8.93	9.04

**Appendix D**

**Orange County Employees Retirement System  
18 Basis Points for Budget Year 2020**

Projected actuarial value of total assets as of December 31, 2019	\$16,363,519,000
18 basis points of projected actuarial value of assets	29,454,334
FY20 proposed budget amount subject to 18 basis points limitation <sup>1</sup>	<u>23,236,536</u>
Amount under 18 basis points	<u>\$6,217,798</u>
Budgeted amount expressed as basis points of projected actuarial value of assets-FY20	14.20
Budgeted amount expressed as basis points of projected actuarial value of assets-FY19	14.20

<sup>1</sup> Reconciliation of amount subject to 18 basis points limitation

Total FY20 proposed budget	\$ 27,184,790
Less: Investment-related costs	<u>(5,947,454)</u>
Total FY20 proposed administrative budget	21,237,336
Less: Capital expenses	(600,000)
Add: Projected depreciation cost	<u>2,599,200</u>
FY20 proposed budget amount subject to 18 basis points limitation	<u><u>\$23,236,536</u></u>

Note: The 18 basis points calculation above is for informational and comparison purposes only.

<b><u>18 Basis Point History</u></b>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
18 Basis Points	12.26	14.56	14.48	14.20	14.20

# Appendix E

## 5 Year Budget Comparison

	Amended Budget 2016	Amended Budget 2017	Budget 2018	Budget 2019	Proposed Budget 2020	\$ Variance FY19-20	% Variance FY19-20
<b>Personnel cost</b>	\$11,501,086	\$12,417,338	\$13,925,194	\$14,764,600	\$15,507,410	\$742,810	5.0%
<b>Services and supplies</b>	\$8,651,218	\$9,120,766	\$10,487,860	\$11,298,230	\$11,077,380	(220,850)	-2.0%
<b>Capital expenditures</b>	\$2,098,000	\$1,293,000	\$1,095,000	\$370,000	\$600,000	230,000	62.2%
<b>Grand Total</b>	<b>\$22,250,304</b>	<b>\$22,831,104</b>	<b>\$25,508,054</b>	<b>\$26,432,830</b>	<b>\$27,184,790</b>	<b>\$751,960</b>	<b>2.8%</b>

# Appendix E

## 5 Year Actuals to Proposed Budget Comparison

	Actuals 2016	Actuals 2017	Actuals 2018	Estimated Actuals 2019	Proposed Budget 2020	\$ Variance FY19-20	% Variance FY19-20
<b>Personnel cost</b>	\$10,824,643	\$11,072,542	\$12,517,682	\$13,925,744	\$15,507,410	\$1,581,666	11.4%
<b>Services and supplies</b>	\$7,536,034	\$6,624,158	\$7,886,743	\$8,527,548	\$11,077,380	2,549,832	29.9%
<b>Capital expenditures</b>	\$51,293	\$342,523	\$163,663	52,263.88	\$600,000	547,736	1048.0%
<b>Grand Total</b>	<b>\$18,411,970</b>	<b>\$18,039,222</b>	<b>\$20,568,087</b>	<b>\$22,505,555</b>	<b>\$27,184,790</b>	<b>\$4,679,235</b>	<b>20.8%</b>

# Appendix F

## Historical Statistics

	2015	2016	2017	2018	2019
Number of Full-Time Positions Budgeted	72	75	79	92	93
Number of Retirees - Beginning of Year	15,169	15,810	16,369	16,947	17,674
Number of Additional Retirements <sup>1</sup>	1,019	1,006	1,061	1,080	1,080
Number Removed from Payroll <sup>1</sup>	(378)	(447)	(483)	(353)	(379)
Payroll \$ (in thousands) * <sup>2</sup>	\$ 675,963	\$ 717,976	\$ 764,344	\$ 828,278	\$ 893,971
Number of Members ** <sup>1</sup>	42,427	43,485	44,471	45,629	46,996
Number of New Members ** <sup>1</sup>	1,009	1,058	986	1,135	1,367
Seminars	44	52	46	56	65

<sup>1</sup> 2019 amounts are as of September 2019

<sup>2</sup> 2019 amounts are annualized estimates based on actuals through August 2019.

\* Payroll represents retirement payroll, withdrawals and death benefits

\*\* Number of members includes active, deferred and retired (including beneficiaries).

Appendix G

OCERS Direct Employees

2.5% Salary Range Increase (Effective date January 1, 2020)

OCERS Employee Position	Current Annual Minimum	Revised Annual Minimum	Current Annual Midpoint	Revised Annual Midpoint	Current Annual Maximum	Revised Annual Maximum
Chief Investment Officer	\$215,250	\$220,631	\$269,063	\$275,789	\$322,875	\$330,947
General Counsel	\$136,576	\$139,991	\$203,035	\$208,110	\$269,493	\$276,230
Assistant Chief Executive Officer	\$136,576	\$139,991	\$187,214	\$191,894	\$237,851	\$243,798
Managing Director of Investments	\$136,576	\$139,991	\$187,214	\$191,894	\$237,851	\$243,798
Director of Investments	\$136,576	\$139,991	\$168,487	\$172,699	\$200,398	\$205,408
Deputy Legal Counsel	\$136,576	\$139,991	\$168,487	\$172,699	\$200,398	\$205,408
Director of Member Services	\$121,832	\$124,877	\$142,711	\$146,279	\$163,590	\$167,680
Director of Administrative Services	\$118,065	\$121,016	\$136,361	\$139,770	\$154,657	\$158,524
Director of Finance	\$115,482	\$118,369	\$138,675	\$142,142	\$161,868	\$165,915
Staff Attorney	\$115,159	\$118,038	\$143,357	\$146,940	\$171,554	\$175,843
Senior Manager Operations Support Services - <b>New</b>		\$66,962		\$103,642		\$140,321
Senior Investment Officer	\$109,347	\$112,081	\$138,998	\$142,473	\$168,648	\$172,865
Director of Internal Audit	\$108,271	\$110,978	\$135,338	\$138,722	\$162,406	\$166,466
Director of Information Technology	\$106,011	\$108,661	\$132,540	\$135,854	\$159,070	\$163,046
Director of Information Security	\$106,011	\$108,661	\$130,334	\$133,592	\$154,657	\$158,524
Investment Officer	\$82,118	\$84,171	\$109,508	\$112,246	\$136,899	\$140,321
Internal Auditor	\$72,539	\$74,353	\$90,620	\$92,886	\$108,701	\$111,419
Senior Investment Analyst	\$71,894	\$73,691	\$95,894	\$98,291	\$119,894	\$122,892
Information Security Manager	\$65,328	\$66,962	\$101,114	\$103,642	\$136,899	\$140,321
Retirement Analyst	\$65,328	\$66,962	\$101,114	\$103,642	\$136,899	\$140,321
Finance Manager	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Member Services Manager	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Disability Manager	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Learning and Organization Development Manager	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Contracts, Risk & Performance Administrator	\$61,669	\$63,211	\$91,051	\$93,327	\$120,432	\$123,443
Communications Manager	\$61,669	\$63,211	\$86,046	\$88,197	\$110,423	\$113,184
Staff Analyst	\$61,669	\$63,211	\$82,279	\$84,336	\$102,890	\$105,462
Investment Analyst	\$61,669	\$63,211	\$82,279	\$84,336	\$102,890	\$105,462

A-3

## Memorandum

---

**DATE:** November 07, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** FUNSTON GROUP PRESENTATION

---

### Written Report

#### Recommendation:

Approve OCERS' beta testing of Board Smart, with the understanding there is no cost of obligation for that activity.

#### Background/Discussion

At the September 2019 OCERS Board Strategic Planning Workshop, I had suggested an additional goal for the 2020-2022 OCERS Strategic Plan, adding the issue of good governance and indicated at that meeting that the Funston Group, a well known public pension consultant with large clients across the country (CalPERS, CALSTRS, Ohio PERS, etc) was creating a governance platform that I felt would be of value to this agency in our service to our members.

At the October 21 meeting of the OCERS Board, I laid out a proposal to be an early tester of the pension governance platform being crafted by the Funston Group. At no cost to OCERS we were invited to help beta test the program being crafted, known as "Board Smart".

There are two key components of the governance program being crafted as outlined in the Funston Group PowerPoint attached.

The primary goal is to create a series of learning videos that would be available on line to assist Trustees, both new and experienced to better understand their fiduciary obligations and how to exercise best practice governance processes.

Eventually there will be a cost to access those videos, at this early stage it is estimated at perhaps \$4000 a year for subscription access. But that is in the future, for now access is free as they continue beta testing. There is no obligation to continue once the subscription service is ready to launch.

The second aspect of their platform, which was the reason I brought the item to the attention of the Board in October, is to create a master database of system policies and procedures, so someone like me could peruse and perhaps find an improved or more efficient approach to the basic pension administration tasks among the submissions from other pension systems, as we all must address very similar issues. The Funston Group had invited OCERS both to be an early beta tester of the Board Smart learning platform, but also to submit our public documents pertaining to process (such as Board Orientation, the first governance topic they are building out) to



be included in the database for access by other systems. This participation would entail our publicly working with the Funston Group, again at no cost, but with our name out there as an early participant. For that reason I had asked and received approval from the Board Chair and Vice Chair, but at the October meeting wanted to make the full Board aware as well.

In that October meeting concerns were raised as to whether OCERS would be seen as assisting one firm over some other private entity seeking to accomplish the same outcome. As I said then, I repeat here, I am unaware of any other firm in the country attempting to build a helpful governance tool of this type, but even if there were I would advocate helping both, or even more firms if they were to develop, as the more assistance made available to pension plans the better for us all.

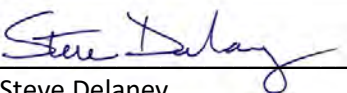
That being said, the Funston Group continues to invite OCERS to be one of the early beta testers of their Board Smart product. Hearing of the concern raised they have indicated we do not need to submit any public documents at this time. Instead in order to proceed, and again at no cost and no future obligation, they ask that (1) we complete a survey about our system and governance practices, (2) have one or more OCERS trustees view some of their initial governance training videos and provide feedback, (3) and allow them to note in their materials that OCERS is one of their early beta testers.

I believe there is value in the development of this product and would encourage the OCERS Board to approve our participation in the beta testing.

### **Attachment**

Public Pension Standards Award for Funding and Administration 2019

### **Submitted by:**



Steve Delaney  
Chief Executive Officer



# BOARD SMART™

A Governance eLearning Resource

# BOARD SMART™



The Need / Challenges

Board Smart Solution

Beta Test

Draft Curriculum

Powers Reserved Example  
(separate attachment)

# THE NEED

Inevitable board turnover / impact on board dynamics

General lack of preparation for fiduciary duties

Must assume fiduciary duties immediately

Most current on-boarding efforts are single events rather than a process

- Get a binder / meet and greet

Have immediate, individual learning needs that either can't wait or won't otherwise be met by traditional on-boarding and conferences



# NEW TRUSTEES

Typically face steep learning curves (can be as long as two years)

Overwhelming amount of info to absorb - “drinking from a fire hose”

Don't know what they don't know and are often reluctant to ask

Don't know who to trust

Don't know their roles and responsibilities vis a vis those of the Executives and Advisors



# GOVERNANCE CHALLENGES

## Trustees

Each system is one of a kind!

Most public pension trustees are lay people / volunteers / thankless task

Understanding complex, long-term issues and consequences

Understanding their duties / what's prudent

Understanding the powers reserved exclusively for the board and its committees

Understanding what should be delegated to the executive and how to prudently oversee direction and policy

Level of board understanding is critical to an effective relationship with the Executive

## Executives

Changes in board dynamics can be very disruptive for the board and the executive

Level of board understanding is critical to an effective relationship with the Executive

How to build and maintain an effective relationship with and within their board

How to develop / maintain common understanding, acceptance and commitment to long-term direction and beliefs

How to bring new trustees up to speed quickly on key issues?

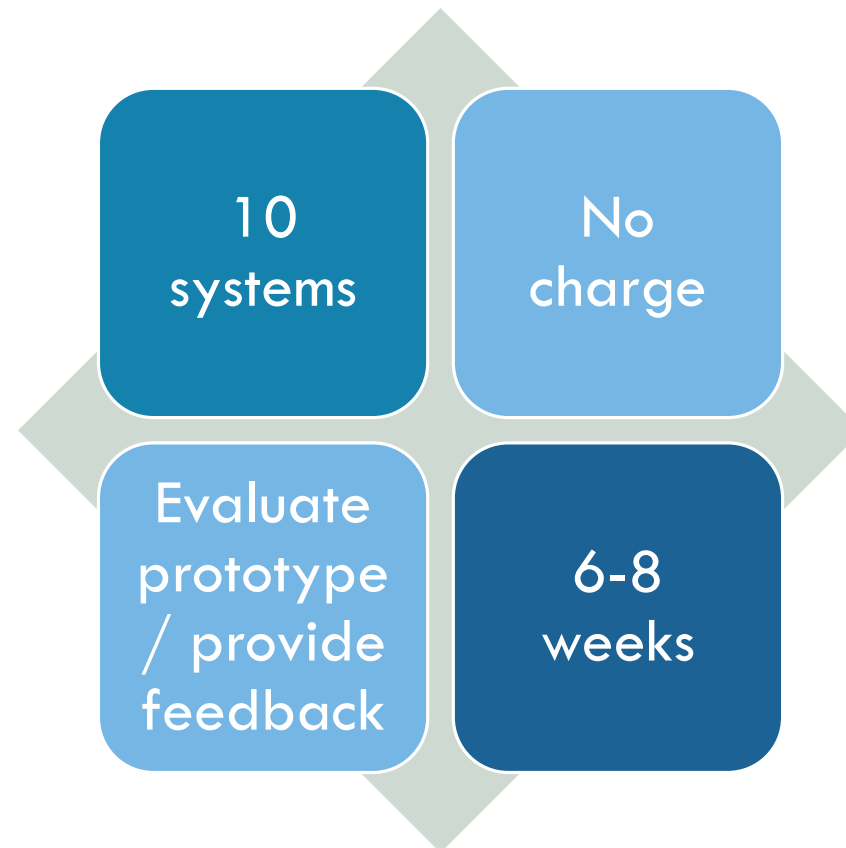
How to enable effective oversight and trust?

# BOARD SMART™ SOLUTION

## A Governance eLearning Resource

Short, easy to absorb, multi-media materials	• Unlimited access for Board and Executive
Self-directed / Self-paced	• Self-assessment component in each module
Matched to individual needs / learning styles	• Links to curated materials/smart questions to ask
On-Line, on demand	• Professional produced and narrated
Affordable and cost-effective subscription	• Content centrally maintained and updated
Nationally recognized expert faculty & Review Panel	• Customizable to your specific system
Accredited national program	• A helpful adjunct to conferences
Trackable progress	• Progressive learning (basic to advanced)

# BETA TEST



## Participating Systems:

- Complete InGov™ profile
- Provide existing on-boarding documents / permission for others to access those materials
- Allow system to be named as a Beta participant
- Provide collective feedback on Beta test



# CURRICULUM OUTLINE

<b>Module</b>	<b>Board Smart</b>
1	Legislative Framework
2	Governance
3	Board Operations
4	Roles, Responsibilities and Relationships
5	Investment
6	Retirement Benefits Operations and Oversight
7	Health and Insurance
8	Administrative Operations and Oversight

# CURRICULUM OUTLINE

Beta Test

Module	Example Topics
<b>1</b>	<b>Legislative Framework</b>
1.1	Governing legislation
1.2	Fiduciary duties
1.3	Sunshine Laws (Open meetings, FOIA)
1.4	Compliance (Legal, Policy, Contract)
1.5	The Plan Sponsor organization and retained authorities
1.6	Pension plan and funding fundamentals
1.7	Operating in Public vs. Private Sector
<b>2</b>	<b>Governance</b>
2.1	Powers reserved for the Board and powers delegated
2.2	Board oversight of performance and risk: Vital Functions / Vital Signs
2.3	Independent Advice: Selection and oversight of external service providers
2.4	Independent Reassurance
<b>3</b>	<b>Board Operations</b>
3.1	Pension Board operations and committee structure
3.2	Decision Intelligence and Insights
3.3	Board leadership dynamics and culture
3.4	Effective Board-staff relationships
3.5	Pension Board policies
3.6	Ethics and standards of conduct, conflicts of interest, co-fiduciary behavior
<b>4</b>	<b>Roles, Responsibilities and Relationships</b>
4.1	The role of a trustee
4.2	The role of the board
4.3	The role of chief executive and staff
4.4	The roles of key external service providers
4.5	Stakeholder communications

# CURRICULUM OUTLINE

Module	Example Topics
<b>5</b>	<b>Investment</b>
5.1	Overview of institutional investing
5.2	Prudent investing and due diligence
5.3	Asset classes and asset allocation
5.4	Investment beliefs and investment policies
5.5	Investment risk
5.6	Environment, Social and Governance (ESG) investment considerations
5.7	Emerging trends in institutional investing
<b>6</b>	<b>Retirement Benefits Operations and Oversight</b>
6.1	Actuarial basics for defined benefit plans
6.2	Plan design and rules
6.3	DC plan oversight
6.4	Appeals and rules interpretation
<b>7</b>	<b>Health and Insurance</b>
7.1	Triple Aim
7.2	Importance in Workforce Recruitment and Retention
7.3	Benchmarking: Vital Signs of Vital Functions
7.4	Health Care Management
7.5	Pharmacy Management
<b>8</b>	<b>Administrative Operations and Oversight</b>
8.1	Strategic planning
8.2	Effective succession planning
8.3	Information technology and cybersecurity
8.4	Organization and staff operations
8.5	Procurement / Vendor
8.6	Resourcing and Budgets

# BOARD SMART™ FACULTY

Ken Akoundi

Chuck Dyer

Rick Funston

Mike Gold

Dan Grossberg

Keith Johnson

Ken Johnson

Sharmila Kassam

Jon Lukomnik

Randy Miller

Lisa Morris

Tony Oliveira

Tiffany Reeves

Chris Waddell

Simon Wong

# BOARD SMART™ REVIEW PANEL

Keith Ambachtsheer

Keith Bozarth

Stephen Davis

Scott Evans

Gary Findlay

Dave Mills

Dave Stella

The Review Panel will provide expert evaluation of materials as they are developed by our faculty.

This will be a high-level final review of the overall quality of the materials before final production.

We are also in discussions with an internationally recognized organization to accredit the Board Smart curriculum.

# INGOV™ PROFILE

**InGov™** is a proprietary knowledgebase that provides a highly efficient and cost-effective means of benchmarking the governance of your system. Systems receive a report with accompanying analysis that assesses whether current policies and practices are leading, prevailing or lagging compared to appropriate peers. **InGov™** covers 10 major dimensions with over 200 points of comparison including:

Legislative Framework

Governance

Enterprise Strategies

Investment

Pension

Insurance

Administrative Operations

Risk

Compliance

Controls

**A-4**

## Memorandum

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**DATE:** November 18, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** PROPOSED 2020 REGULAR BOARD MEETING SCHEDULE

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### Written Report

#### Background/Discussion

On November 18, I will use the attached PowerPoint slides to review each month of 2020 and determine the best date for the Board's monthly administrative meeting.

Where Trustees have already indicated conflicts, those are noted in each specific month.

#### Submitted by:



**SD - Approved**

---

Steve Delaney  
Chief Executive Officer



2020



# **Proposed Regular Board Meeting Dates for 2020**

**November 18, 2019**

# 2020 Meeting Calendar (Including Conference Dates)

January						
Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

NCPERS 1/26-1/28 and  
IFEBP 1/20

February						
Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

NASRA 2/29-3/2 and  
IFEBP 2/08-2/10

March						
Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

NASRA 3/01-3/02 and CALAPRS  
3/7-3/10 and CALAPRS 3/30-4/1  
and IFEBP 3/02-3/03

April						
Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

IFEBP 4/27-4/29 and  
CALAPRS 3/30-4/1

May						
Su	Mo	Tu	We	Th	Fr	Sa
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

SACRS 05/12-05/15 and  
NCPERS 5/09-5/13

June						
Su	Mo	Tu	We	Th	Fr	Sa
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

IFEBP 6/29-7/01

July						
Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

IFEBP 6/29-7/01 and IFEBP 7/20-7/21

August						
Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

CALAPRS 8/24-8/27 and  
NASRA 8/08-8/12

September						
Su	Mo	Tu	We	Th	Fr	Sa
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

Strategic Planning Workshop  
9/09-9/10 OR 9/16-9/17

October						
Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

NCPERS 10/25-10/28

November						
Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

SACRS 10-13

December						
Su	Mo	Tu	We	Th	Fr	Sa
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

## Federal Holidays 2020

Regular Board Meeting 2020

Investment Committee Meeting 2020

Manager Monitoring Subcommittee Meetings 2020

Disability Committee Meeting 2020

Strategic Planning Workshop 2020

Budget Workshop 2020

SACRS(May 12-15, November 10-13, July 2020 not listed yet)

CALAPRS(March 7-10, March 30-April 1, August 24-27)

NASRA(February 29-March 02, August 8-12)

NCPERS(January 26-28, May 9-10, May 10-13, October 25-28)

IFEBP(January 20th, February 08-10, March 2-3, April 27-29, June 29-July 01, July 20-23, October 16-17)

# 2020 Meeting Calendar (Regular Board Meetings and Strategic Planning Workshop only)

January							February							March						
Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4							1	1	2	3	4	5	6	7
5	6	7	8	9	10	11	2	3	4	5	6	7	8	8	9	10	11	12	13	14
12	13	14	15	16	17	18	9	10	11	12	13	14	15	15	16	17	18	19	20	21
19	20	21	22	23	24	25	16	17	18	19	20	21	22	22	23	24	25	26	27	28
26	27	28	29	30	31		23	24	25	26	27	28	29	29	30	31				

April							May							June						
Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4						1	2		1	2	3	4	5	6
5	6	7	8	9	10	11	3	4	5	6	7	8	9	7	8	9	10	11	12	13
12	13	14	15	16	17	18	10	11	12	13	14	15	16	14	15	16	17	18	19	20
19	20	21	22	23	24	25	17	18	19	20	21	22	23	21	22	23	24	25	26	27
26	27	28	29	30			24	25	26	27	28	29	30	28	29	30				
							31													

July							August							September						
Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4							1			1	2	3	4	5
5	6	7	8	9	10	11	2	3	4	5	6	7	8	6	7	8	9	10	11	12
12	13	14	15	16	17	18	9	10	11	12	13	14	15	13	14	15	16	17	18	19
19	20	21	22	23	24	25	16	17	18	19	20	21	22	20	21	22	23	24	25	26
26	27	28	29	30	31		23	24	25	26	27	28	29	27	28	29	30			
							30	31												

October							November							December						
Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa	Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3	1	2	3	4	5	6	7			1	2	3	4	5
4	5	6	7	8	9	10	8	9	10	11	12	13	14	6	7	8	9	10	11	12
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- Federal Holidays 2020**
- Regular Board Meeting 2020**
- Investment Committee Meeting 2020**
- Manager Monitoring Subcommittee Meetings 2020**
- Disability Committee Meeting 2020**
- Strategic Planning Workshop 2020**
- Budget Workshop 2020**



# February

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- Federal Holidays 2020**
- Regular Board Meeting 2020**
- Investment Committee Meeting 2020**
- Manager Monitoring Subcommittee Meetings 2020**
- Disability Committee Meeting 2020**
- Strategic Planning Workshop 2020**
- Budget Workshop 2020**



# March

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- Federal Holidays 2020**
- Regular Board Meeting 2020**
- Investment Committee Meeting 2020**
- Manager Monitoring Subcommittee Meetings 2020**
- Disability Committee Meeting 2020**
- Strategic Planning Workshop 2020**
- Budget Workshop 2020**



# April

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<b>Federal Holidays 2020</b>
<b>Regular Board Meeting 2020</b>
<b>Investment Committee Meeting 2020</b>
<b>Manager Monitoring Subcommittee Meetings 2020</b>
<b>Disability Committee Meeting 2020</b>
<b>Strategic Planning Workshop 2020</b>
<b>Budget Workshop 2020</b>

Conflicts:

- Trustee Lindholm: cannot make April 20<sup>th</sup>



# May

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Federal Holidays 2020
Regular Board Meeting 2020
Investment Committee Meeting 2020
Manager Monitoring Subcommittee Meetings 2020
Disability Committee Meeting 2020
Strategic Planning Workshop 2020
Budget Workshop 2020

Conflicts:

- Trustee Lindholm: cannot make May 18<sup>th</sup>
- Trustee Hilton: cannot make May 18<sup>th</sup>



# June

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<b>Federal Holidays 2020</b>
<b>Regular Board Meeting 2020</b>
<b>Investment Committee Meeting 2020</b>
<b>Manager Monitoring Subcommittee Meetings 2020</b>
<b>Disability Committee Meeting 2020</b>
<b>Strategic Planning Workshop 2020</b>
<b>Budget Workshop 2020</b>

Conflicts:

- Trustee Hilton: has a conflict on June 15<sup>th</sup> and is not available June 16<sup>th</sup> as a secondary date



# July

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Federal Holidays 2020
Regular Board Meeting 2020
Investment Committee Meeting 2020
Manager Monitoring Subcommittee Meetings 2020
Disability Committee Meeting 2020
Strategic Planning Workshop 2020
Budget Workshop 2020

Conflicts:

- Trustee Freidenrich: cannot make July 20<sup>th</sup>



# August

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- Federal Holidays 2020**
- Regular Board Meeting 2020**
- Investment Committee Meeting 2020**
- Manager Monitoring Subcommittee Meetings 2020**
- Disability Committee Meeting 2020**
- Strategic Planning Workshop 2020**
- Budget Workshop 2020**



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- Federal Holidays 2020**
- Regular Board Meeting 2020**
- Investment Committee Meeting 2020**
- Manager Monitoring Subcommittee Meetings 2020**
- Disability Committee Meeting 2020**
- Strategic Planning Workshop 2020**
- Budget Workshop 2020**



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- Federal Holidays 2020**
- Regular Board Meeting 2020**
- Investment Committee Meeting 2020**
- Manager Monitoring Subcommittee Meetings 2020**
- Disability Committee Meeting 2020**
- Strategic Planning Workshop 2020**
- Budget Workshop 2020**



# November

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- Federal Holidays 2020**
- Regular Board Meeting 2020**
- Investment Committee Meeting 2020**
- Manager Monitoring Subcommittee Meetings 2020**
- Disability Committee Meeting 2020**
- Strategic Planning Workshop 2020**
- Budget Workshop 2020**



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- Federal Holidays 2020**
- Regular Board Meeting 2020**
- Investment Committee Meeting 2020**
- Manager Monitoring Subcommittee Meetings 2020**
- Disability Committee Meeting 2020**
- Strategic Planning Workshop 2020**
- Budget Workshop 2020**

# 2020 Board Meetings

## Regular Board Meetings – 9:00 a.m.

Tuesday – January 21

Monday – February 10 OR Tuesday - February 18

Monday - March 16

Monday - April 20

Monday - May 18

Monday - June 15

Monday - July 20

Monday - August 17

Monday - October 19

Monday - November 16 OR Monday – November 23

Monday - December 14

## Investment Committee Meetings – 9:00 a.m.

Wednesday - February 26

Wednesday - March 25

Tuesday - April 22

Wednesday - May 27

Wednesday - June 24

Wednesday - July 29

Wednesday - August 26

Wednesday - October 28

Wednesday - November 25

Thursday - December 17

## Manager Monitoring Subcommittee Meetings – TBD

Wednesday – March 25

Wednesday – June 24

Tuesday – September 8 OR Thursday – September 10

Thursday – December 17 (same day as the Investment Committee Meeting)

## 2-Day Strategic Planning and Education Forum – 9:00 a.m.

Wednesday, September 9 - Thursday, September 10 OR Wednesday, September 16 - Thursday, September 17

## 2019 Budget Workshop

Thursday, October 22

# 2020 Conferences

SACRS 2020 CONFERENCES		
Spring Conference	May 12-15, 2020	San Diego, CA
Fall Conference	November 10-13, 2020	Indian Wells, CA
SACRS/UC Berkeley Program	July 2020, no days listed	Berkeley, CA

CALAPRS 2020 CONFERENCES		
General Assembly	March 7-10, 2020	Rancho Mirage, CA
Advanced Principles of Pension Management for Trustees	March 30-April1, 2020	Los Angeles, CA
Principles of Pension Governance for Trustees	August 24-27, 2020	Malibu, CA

NASRA 2020 CONFERENCES		
Winter Meeting	February 29-March 2, 2020	Washington, DC
Annual Conference	August 8-12, 2020	Utah

NCPERS 2020 CONFERENCES		
Legislative Conference	January 26-28, 2020	Washington, DC
Trustee Educational Seminar (TEDS)	May 9-10, 2020	Las Vegas, NV
Program for Advanced Trustee Studies (PATs)	May 9-10, 2020	Las Vegas, NV
Accredited Fiduciary Program	May 9-10, 2020	Las Vegas, NV
Annual Conference & Exhibition (ACE)	May 10-13, 2020	Las Vegas
Public Safety Conference	October 25-28, 2020	Phoenix, AZ

# 2020 Conferences

IFEBP 2020 CONFERENCES		
Institute for Apprenticeshop, Training and Education Programs	January 20, 2020	Rancho Mirage, CA
New Trustees Institute - Level I & II	February 8-10, 2020	Orlando FL
Trustees and Administrators Institute	February 10, 2020	Orlando FL
Certificate Series - Basics of Employee Benefits Administration	March 2-3, 2020	Austin, TX
Investment Institute	April 27-29, 2020	New Orleans, LA
New Trustee Institute - Level II: Concepts in Practice	June 29, 2020	San Francisco, CA
Trustees and Administrators Institute	June 29-July 1, 2020	San Francisco, CA
Certificate Series - Basics of Employee Benefits Administration	July 20-21, 2020	Boston, MA

IFEBP 2020 CONFERENCES		
Certificate Series - Total Rewards and Workforce Strategies	July 22-23, 2020	Boston, MA
Certificate Series - Investment Basics	October 16-17, 2020	Las Vegas, NV



**Thank you**

A-5





## Memorandum

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**DATE:** November 07, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Charles Packard, Board Chair  
**SUBJECT:** **COMPENSATION OF THE CHIEF EXECUTIVE OFFICER**

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### Written Report

#### Background:

OCERS's Chief Executive Officer Performance Evaluation Policy states that a formal evaluation will be conducted annually and the Board will consider compensation at the time the performance evaluation is conducted. The Brown Act code 54957 requires the Board to discuss the Chief Executive Officer's Compensation during an open session. In prior years, the Board has requested comparable CEO compensation data from other pension systems and organizations which are both close in proximity and size to OCERS, as well as base compensation history for Mr. Delaney. Attached are the CEO Compensation Performance Evaluation documents used to evaluate the CEO.

#### Attachments:

1. CEO Performance Evaluation Policy
2. CEO Charter
3. 2019 Business Plan
4. Blank CEO Evaluation Form
5. Steve Delaney Total Compensation History
6. CEO Compensation Comparison Spreadsheet

# OCERS Board Policy Chief Executive Officer Performance Evaluation Policy

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## Background and Objectives

1. The Board of Retirement supervises the Chief Executive Officer. Formal evaluation procedures and practices are required. This process shall be performed on an annual basis.
2. The objectives of this policy are to:
  - a. Assist the Board in arriving at and communicating clear and meaningful goals and performance targets for the Chief Executive Officer;
  - b. Ensure that the Chief Executive Officer receives meaningful, objective, and timely feedback that will allow the Chief Executive Officer to perform, over time, at the highest levels possible; and
  - c. Enable the Board to hold the Chief Executive Officer accountable for performance.

## Roles

3. The Board will be responsible for evaluating the performance of the Chief Executive Officer.
4. The Chair and Vice Chair will be responsible for coordinating the evaluation process. The Board may use a third party to facilitate the process.

## Policy Guidelines

### Process and Timelines

5. The Chief Executive Officer will discuss the following items with the Chair during November each year:
  - a. Proposed CEO evaluation criteria for the coming calendar year;
  - b. Proposed weights for each of the above criteria; and
  - c. Proposed CEO Evaluation Form for the coming calendar year.
6. In addition, the CEO's performance for the prior twelve months may be based on the six categories below:
  - a. Achievement of performance targets established for the System as a whole;
  - b. Implementation of the annual Business Plan;
  - c. Implementation of Board policies and associated reporting to the Board;
  - d. Leadership and related qualities;
  - e. Ability to address special developments or situations that may arise; and
  - f. Other criteria that the Board may determine to be appropriate.

**OCERS Board Policy**  
**Chief Executive Officer**  
**Performance Evaluation Policy**

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7. The Board will attempt to ensure that the criteria:
  - a. Are objective and measurable; and
  - b. Pertain only to outcomes over which the Chief Executive Officer has a reasonable degree of control.
8. The Chair shall distribute the CEO Evaluation Package to each member of the Board in October of each year. The Evaluation Package will include copies of the Evaluation Form to be completed by each Board member, Business Plan, and the CEO's self-evaluation. The Chief Executive Officer's self-evaluation report is designed to assist the Board in the evaluation process. It should describe the extent to which the CEO believes the evaluation criteria were met over the past year, as well as all relevant supporting data. Supporting data may be confirmed by internal audit material where appropriate. The report may also describe any additional accomplishments during the year.
9. The Board shall treat this material as confidential. Completed individual Evaluation Forms will be returned to the Chair or the designated third party with a copy to the Vice Chair within the time frame specified. The Chair will ensure that all data is tabulated and summarized in a Master CEO Evaluation Form and treated as confidential until released to the Board.
10. Evaluation of the Chief Executive Officer will be completed by November each year. The evaluation process itself will be conducted in executive session. The Chair will distribute a copy of the Master CEO Evaluation Form and invite discussion by the Board. At the conclusion of discussion, the Chief Executive Officer will join the Board for review and discussion of his/her performance along with any suggestions for improvement. The Board may have preliminary discussions in October, but will complete the process by November.
11. Upon completion of the Master CEO Evaluation Form, the Chair and the Chief Executive Officer will sign the Master CEO Evaluation Form and cause it to be placed in the Chief Executive Officer's personnel file.

**Documentation**

12. The Individual and Master CEO Evaluation Form(s) may take any format the Board deems appropriate, but must allow Board members an opportunity to provide general comments.

**Compensation**

13. The Board of Retirement will consider the Chief Executive Officer's compensation at the time the performance evaluation is conducted.



# OCERS Board Policy Chief Executive Officer Performance Evaluation Policy

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## Policy Review

14. The Board will review this policy at least every three years to ensure that it remains relevant and appropriate.

## Policy History

15. This policy will be implemented in February 19, 2002. This policy was revised May 16, 2005, May 19, 2008, March 22, 2010, January 21, 2014, November 14, 2016 and August 19, 2019.

## Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

A handwritten signature in blue ink that reads "Steve Delaney".

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Steve Delaney  
Secretary of the Board

08/19/19

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Date

## **Introduction**

1. The Board of Retirement (Board) will appoint a Chief Executive Officer (CEO) who will serve at its pleasure. The CEO is the most senior executive of OCERS and is not subject to county civil service and merit system rules. This charter sets out the roles and responsibilities of the CEO.

## **Duties and Responsibilities**

### *Leadership and Policy Analysis*

2. The CEO will provide leadership for the OCERS staff in implementing the programs necessary to achieve the mission, goals and objectives established by the Board. The CEO will manage the day-to-day affairs of OCERS in accordance with policies established by the Board, and may delegate duties to senior management as necessary. In so doing, the CEO will solicit advice and counsel from the Board, the Board Chair, or individual Board members, as appropriate.
3. The CEO will provide support to the Board and its committees in establishing all policies of the Board including identifying and analyzing issues requiring Board policy, and providing well-supported policy recommendations for consideration by the Board or its committees.
4. The CEO will be responsible for ensuring that all policies of the Board and provisions of the County Employees Retirement Law, with the exception of governance policies pertaining to the conduct of the Board, are properly implemented.

### *Governance*

5. The CEO will:
  - a. Recommend to the Governance Committee policies to help ensure appropriate governance practices;
  - b. Assist the Board in implementing its governance policies, charters, and By-Laws; and
  - c. Assist with Board member education and travel.
6. The CEO will serve as Secretary to the Board and, as such, will carry out the following duties:
  - a. Coordinate meetings, agendas, schedules and presentations for both Board and committee meetings in accordance with the Ralph M Brown Act (California Government Code §§54950, *et.seq.*);
  - b. Maintain minutes of Board and committee meetings;
  - c. Sign minutes upon approval of the Board;
  - d. Sign subpoenas; and
  - e. Serve as OCERS' filing officer for purpose of compliance with the California Political Reform Act and regulations of the Fair Political Practices Commission.

### ***Investments***

7. The CEO will:
  - a. Employ a Chief Investment Officer (CIO) with appropriate education and experience in institutional investing;
  - b. Carry out the duties described in this section through the CIO and other professional investment staff;
  - c. Recommend to the Investment Committee an Investment Policy Statement which will include investment objectives;
  - d. Recommend to the Investment Committee strategies for achieving OCERS' investment objectives;
  - e. Ensure the implementation of the strategies approved by the Board by establishing manager structures for each asset class, which includes among other things determining:
    - i. The number of investment manager mandates to be established; and
    - ii. The size of each investment manager mandate.
  - f. Ensure execution of portfolio rebalancing and portfolio transitions;
  - g. Ensure that necessary research is performed into investment trends, issues and opportunities that may have implications for the OCERS investment program;
  - h. Ensure all necessary investment manager due diligence is performed in accordance with the Investment Policy Statement of the Board; and
  - i. Oversee the CIO's hiring and termination of investment managers.

### ***Benefits Administration***

8. The CEO will:
  - a. Recommend to the Board, as necessary, policies to ensure effective and efficient administration of member benefits;
  - b. Ensure accurate payment of benefits to members, and address problems or errors in accordance with established policies and procedures;
  - c. In consultation with medical evaluators and legal counsel, recommend disability applications to the Board and the Disability Committee for each of their consideration;
  - d. Maintain accurate records of member accounts;
  - e. Ensure delivery of high standards of service to members including calculations and counseling; and
  - f. Develop staff policies and procedures to ensure effective and efficient administration of member benefits.

### ***Operations***

9. The CEO will:
  - a. Recommend to the Board, as appropriate, Board policies designed to help ensure effective operations;
  - b. Develop and recommend to the Board a business plan and updates to the plan as necessary;
  - c. Recommend the annual Operating Budget to the Board;
  - d. Transfer funds within a category of expenditures (i.e., Salaries and Benefits; Services and Supplies; Capital Projects) within the approved Operating Budget;
  - e. Execute contractual agreements in accordance with the Procurement and Contracting Policy and authorize payments related to the administration of OCERS, consistent with the Operating Budget and OCERS' internal controls;
  - f. Account for and ensure appropriate collection, deposit and distribution of funds as required;
  - g. Implement internal operational control policies;
  - h. Ensure the appropriate design, acquisition, implementation, and maintenance of all technological systems required to administer OCERS;
  - i. Maintain the records of OCERS in a permanent and readily accessible format and in accordance with the Record Retention Policy and Guidelines;
  - j. Assist the Audit Committee in coordinating operational audits; and
  - k. Maintain an effective working relationship with the County and other plan sponsors of OCERS.

### ***Finance, Actuarial and Accounting***

10. The CEO will:
  - a. Recommend to the Audit Committee as appropriate, financial and accounting policies;
  - b. Implement appropriate internal financial controls to safeguard the assets of the OCERS;
  - c. Assist the Audit Committee in coordinating the annual financial audit;
  - d. Coordinate the actuarial valuation, actuarial experience studies, and actuarial audits;
  - e. Cause to be prepared a comprehensive annual financial report on the operations of OCERS for Board approval; and
  - f. File in the office of the County Auditor and with the Board of Supervisors a sworn statement which will exhibit the financial condition of the OCERS at the close of the preceding calendar year and its financial transactions for the year ending on that day as required by Government Code §31597.

### ***Human Resources***

11. The CEO will:
  - a. Recommend human resources and compensation policies to the Board;

- b. Assess the human resources needs of OCERS and establish and implement appropriate human resources programs and procedures, consistent with the human resources and compensation policies of the Board;
- c. Hire, manage and terminate senior management, and approve all personnel decisions concerning OCERS staff; and
- d. Implement and lead agency training, talent development and succession planning.

### ***Legislation and Litigation***

12. The CEO will:

- a. Recommend legislative proposals for approval by the Board;
- b. Conduct and oversee the assigning, directing, and handling of litigation, claims, demands, disputes or legal proceedings involving OCERS and report material developments in these matters to the Board on a timely basis;
- c. In consultation with legal counsel, provide recommendations to the Board concerning the initiation and settlement of litigation, including administrative appeals, involving OCERS; and
- d. Oversee the development and implementation of plans to comply with newly enacted legislation and court rulings, as applicable.

### ***Communications***

13. The CEO will:

- a. Ensure effective and timely communications with stakeholders on matters relating to the administration of OCERS. Such communications may include press releases, newsletters, presentations, and internet communications; and
- b. In situations that call for an official spokesperson to speak on behalf of OCERS, jointly determine with the Chair, on an issue-by-issue basis, who will act in such capacity.

### ***Appointment of Service Providers***

- 14. The CEO will cause the necessary due diligence to be performed for Named Service Providers, as listed in the Board Procurement and Contracting Policy, and will provide the Board with appropriate recommendations, in accordance with the Procurement and Contracting Policy and the Investment Policy Statement of the Board.
- 15. The CEO may hire other service providers, consistent with the Operating Budget and the Procurement and Contracting Policy and other policies of the Board, provided that the Board has not specifically retained the authority to hire such service providers.

### ***Monitoring and Reporting***

- 16. The CEO will provide the Board with relevant, appropriate and timely information to enable it to properly carry out its oversight and fiduciary responsibilities. Furthermore, the CEO will apprise the Board in a timely manner of all significant issues, problems, or



developments pertaining to OCERS and provide recommended courses of action as appropriate.

17. The CEO will:

- a. Oversee the regular review of all policies of OCERS to ensure they are being followed and continue to meet OCERS' needs;
- b. Oversee the activities of the Investment Division and report annually to the Board regarding the administrative oversight of the division, including identifying any issues that arose during the reporting period;
- c. Oversee the funded status of OCERS and all issues that may reasonably have a significant impact on such status;
- d. Oversee the investment performance of the Fund, the component asset classes, and the investment managers retained to manage the assets of the Fund;
- e. Oversee management's response to the findings of the annual financial audit, and of any internal audits that may be performed;
- f. Oversee employees and service providers of OCERS to ensure compliance with the OCERS policies;
- g. Oversee the activities and performance of key service providers including the actuary, financial auditor, investment consultant, legal counsel, and custodian on a regular basis;
- h. Oversee the activities and performance of senior management;
- i. Oversee the collection of all payments due to OCERS and the payment of all amounts due by OCERS to ensure accuracy and timeliness;
- j. Oversee OCERS' compliance with applicable laws and regulations; and
- k. In conjunction with legal counsel, oversee the status of all claims, demands, disputes and legal proceedings involving OCERS and report to the Board as appropriate.

## **Emergency Authority**

18. In emergency situations, the CEO, after making reasonable attempts to contact the Board Chair and Vice Chair, will have the authority to act on matters not expressly stated within this charter provided that:

- a. The action is, in the CEO's judgment, necessary to protect the System, its employees, the Fund, or System assets from loss or harm that is reasonably likely to occur if action is delayed for the scheduling of a notices meeting of the Board or its committees; and

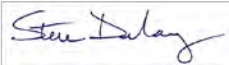
- b. The CEO promptly reports to the Board the emergency action taken, and the reasons why the CEO determined action was immediately necessary.

## **Charter Review**

- 19. The Governance Committee will review this charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the charter remains relevant and appropriate.
- 20. This charter was adopted by the Board on November 18, 2002, and amended on August 25, 2008, July 20, 2015, April 18, 2018, and March 18, 2019.

## **Secretary's Certificate**

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



**03/18/19**

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Steve Delaney  
Secretary of the Board

Date

Orange County Employees Retirement System  
2223 East Wellington Avenue | Santa Ana | 92701

# 2019 BUSINESS PLAN



# MISSION, VISION AND VALUES

## **MISSION STATEMENT:**

We provide secure retirement and disability benefits with the highest standards of excellence.

## **VISION STATEMENT:**

To be a trusted partner providing premier pension administration, distinguished by consistent, quality member experiences and prudent financial stewardship.

## **VALUES:**

- **O**pen and Transparent
- **C**ommitment to Superior Service
- **E**ngaged and Dedicated Workforce
- **R**eliable and Accurate
- **S**ecure and Sustainable

# 2019-2021 STRATEGIC GOALS

- Fund Sustainability
- Excellent Service and Support
- Risk Management
- Talent Management

# FUND SUSTAINABILITY

## **GOAL: STRENGTHEN THE LONG-TERM STABILITY OF THE PENSION FUND**

### *Business Plan Initiatives*

Objective: Mitigate the Risk of Significant Investment Loss  
*Executive Lead – Molly Murphy*

1. Fund the Risk Mitigating asset class
2. Explore and evaluate investment/risk management systems

Objective: Develop procedures for new employers entering the system  
*Executive Leads – Gina Ratto*

1. Create an Administrative Procedure
2. Create a worksheet for staff's use in evaluating new plan sponsors
3. Create a new template for Participation Agreement with plan sponsors

Objective: Employ a Governance Structure that Supports a Dynamic Investment Program  
*Executive Lead – Molly Murphy*

1. Evaluate governance best practices (year two)

Objective: Prudent Use of Resources  
*Executive Leads – Molly Murphy;*

1. Investigate actionable items to reduce fees in the future

# EXCELLENT SERVICE AND SUPPORT

**GOAL: ACHIEVE EXCELLENCE IN THE SERVICE AND SUPPORT WE PROVIDE TO OUR MEMBERS AND PLAN SPONSORS**

## *Business Plan Initiatives*

Objective: Provide Accurate and Timely Benefits  
*Executive Leads – Suzanne Jenike; Gina Ratto*

1. Develop and communicate OCERS Administrative Procedures on Final Average Salary (year two)
2. Streamline the initial disability determination process by implementing; (year two)
  - a. LEAN action items
  - b. Application packets
3. Update and create desk manuals and procedures for staff (year two)
4. Improve customer service standards by enhancing V3 workflows, monitoring and reporting

Objective: Provide Education to our Members and Plan Sponsors  
*Executive Lead – Suzanne Jenike*

1. Web site redesign (year three)

2. Enhance participation in Plan Sponsors' New Employee Orientation
3. Create white board videos that will provide education to members and stakeholders about OCERS benefits



# RISK MANAGEMENT

## **GOAL: CULTIVATE A RISK-INTELLIGENT ORGANIZATION**

### *Business Plan Initiatives*

Objective: Provide System and Data Security and a Robust Business Continuity Solution

*Executive Leads – Brenda Shott, Matt Eakin & Jenny Sadoski*

1. Select Cyber Security Framework and develop implementation plan for best practice controls
2. Continuously assess current Information Security environment and address identified risks:
  - a. Perform third party penetration test of OCERS network
  - b. Perform third party penetration test of new OCERS web site
  - c. Review and enhance information security training for new hires and all staff
  - d. Develop incident response and management program
  - e. Develop OCERS data map, data classification structure and data exchange flows and identify associated risks
  - f. Evaluate risks associated with external third party IT business partners

3. Implement tools to mitigate the risk of data or financial loss or information disclosure:
  - a. Implement enhanced Email Security protections and features
  - b. Implement Managed Security / Managed Detection & Response services
  - c. Implement continuous vulnerability assessment and remediation program
  - d. Implement automated hardware and software inventory tool
  - e. Implement security patch management solution
  
4. Continue development of the Business Continuity Plan:
  - a. Establish alternate work space / work site plan
  - b. Develop manual workaround and alternate procedure plans

Objective: Implement Operational Risk Management Program  
*Executive Lead – Brenda Shott*

1. Continue to implement the Operational Risk Management Program

Objective: Ensure a Safe and Secure Workplace and Public Service Facility  
*Executive Lead – Brenda Shott*

1. Plan and implement building security upgrades and space management projects (year two)

# TALENT MANAGEMENT

## **GOAL: RECRUIT, RETAIN AND INSPIRE A HIGH-PERFORMING WORKFORCE**

### *Business Plan Initiatives*

Objective: Recruit and Retain a High-Performing Workforce to Meet Organizational Priorities  
*Executive Lead – Cynthia Hockless*

1. Enhance onboarding and transitioning of new hires into the organization
  - a. Evaluation of newly implemented onboarding process
2. Implement recommendations from workforce analysis (year two)

Objective: Develop and empower every member of the team  
*Executive Lead – Steve Delaney*

1. Implement a comprehensive training program covering OCERS policies, processes and procedures (year two)
2. Recognize individual needs and career goals within OCERS (year two)
3. Create succession plans across the agency (year two)

Objective: Cultivate a Collaborative, Inclusive and Creative Culture  
*Executive Lead – Steve Delaney*

1. Foster OCERS culture of engagement and continuous improvement (year two)

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
[www.ocers.org](http://www.ocers.org)



## Orange County Employees Retirement System Chief Executive Officer 2019 Performance Review

**CEO Name:** Steve Delaney

**Performance Review Period:** January 1 - December 31, 2019

**Board Member Name:**

**Date:**

**Rating Scale:**

Superior		Above Average			Average		Below Average		Unsatisfactory	
10	9	8	7	6	5	4	3	2	1	0

**1. Fund Security and Sustainability:**

Performance Rating:   0  

**2. Risk Management:**

Performance Rating:   0  

**3. Talent Management:**

Performance Rating:   0

**4. Direction and oversight of benefit administration:**

Performance Rating:   0  

**5. Direction and oversight of the investment program:**

Performance Rating:   0  

**6. Direction and oversight of internal operations:**

Performance Rating:   0  

**7. Communications (membership, sponsors, Board, staff, public):**

Performance Rating:   0  

**8. Addressing exigent situations that arose during year:**

Performance Rating:   0

9. **Addressing the Opportunities to Grow identified in this evaluation:**

Performance Rating:   0  

10. **Overall leadership and development of the organization (e.g., staff training and development, improvement of work processes, policy development, professionalism of the organization):**

Performance Rating:   0  

11. **Overall Performance Rating Comments:**

12. **Total Performance Rating (please add your total score from questions 1 - 10) 100 points possible:**

**Total Performance Rating:**       0      

**Average Performance Rating:**       0.00

OCERS CEO Total Compensation Cost History

Name: Steve Delaney  
Date of Hire: 1/2/2008

CEO Compensation										Total Base Salary Lump Sum Auto Allowance AL Cash Out, OBP
Year	Increase Effective Date	% Increase over prior year	Base Salary Increase	Base Salary	Lump Sum	Notes	Auto Allowance	Annual Leave (AL) Cash Out	Optional Benefit Plan (OBP)	Annualized
2019	1/4/2019	2.5%	\$6,836	\$280,267	\$6,836	2.5% Annual Salary Adjustment & 2.5% lump sum - 2018 Performance Evaluation	\$0	\$22,906	\$4,500	\$314,509
2018	1/5/2018	5%	\$12,006	\$273,437	\$0	5% Annual Salary Adjustment - 2017 Performance Evaluation	\$0	\$22,348	\$4,500	\$300,285
2017	1/6/2017	3%	\$7,614	\$261,431	\$0	3% Annual Salary Adjustment - 2016 Performance Evaluation	\$0	\$20,739	\$4,500	\$286,670
2016	None for 2016	0%	\$0	\$253,817	\$0	Last increase effective date 1/9/2015	\$0	\$10,982	\$4,500	\$269,299
2015	1/9/2015	0%	\$0	\$253,817	\$5,076	One time 2% non-base building performance award	\$0	\$20,745	\$4,500	\$284,138
2014	12/27/2013	2%	\$4,977	\$253,817	\$0	Annual Merit	\$0	\$20,745	\$4,500	\$279,062
2013	6/2/2013	3%	\$7,248	\$248,840	\$0	Annual Merit	\$0	\$10,454	\$4,500	\$263,794
2012	1/13/2012	14%	\$29,640	\$241,592	\$0	Stop employee contribution pick up move to salary	\$0	\$0	\$4,500	\$246,092
2012	12/16/2011	4%	\$8,154	\$211,952	\$0	Annual Merit	\$0	\$0	\$0	\$211,952
2011	12/17/2010	5%	\$9,194	\$203,798	\$0	Stop auto allowance move to salary	\$0	\$0	\$4,500	\$208,298
2011	12/17/2010	4%	\$7,488	\$194,605	\$0	Annual Merit	\$9,180	\$0	\$0	\$203,785
2010	12/18/2009	8%	\$13,874	\$187,117	\$0	Annual Merit	\$9,180	\$0	\$4,500	\$200,797
2009	12/19/2008	5%	\$8,258	\$173,243	\$0	Annual Merit	\$9,180	\$0	\$4,500	\$186,923
2008	1/2/2008			\$164,986	\$0	Starting Salary	\$9,180	\$0	\$4,500	\$178,666

County 401(a)			OCERS 401(a)*		Total Employee's Deferred Comp County and OCERS 401(a)	Total Base Salary, Lump Sum, Auto Allowance, Annual Leave Cash Out, 401(a), OBP
Year	% of Salary	Annualized	% of Salary	Annualized	Annualized	Annualized
2019	5%	\$14,013	3%	\$8,408	\$22,421	\$336,930
2018	5%	\$13,672	3%	\$8,203	\$21,875	\$322,160
2017	5%	\$13,072	3%	\$7,843	\$20,914	\$307,584
2016	5%	\$12,691	3%	\$7,614	\$20,305	\$289,604
2015	5%	\$12,691	3%	\$7,614	\$20,305	\$304,443
2014	5%	\$12,691	3%	\$7,614	\$20,305	\$299,367
2013	5%	\$12,442	3%	\$7,465	\$19,907	\$283,701
2012	5%	\$12,080	3%	\$7,248	\$19,327	\$265,419
2011	5%	\$10,190	3%**	\$6,114	\$16,304	\$224,602
2010	5%	\$9,356	3%	\$5,614	\$14,969	\$215,766
2009	5%	\$8,662	3%	\$5,197	\$13,859	\$200,783
2008	5%	\$8,249	3%	\$4,950	\$13,199	\$191,864

OCERS 2.7@55 Retirement Employer Contributions			Employer Pickup of Employee Contributions			
Fiscal Year	Employer contribution % of Salary	Employer Contribution Amount Annualized	Calendar Year	Gov't Code Section 31581.2 Pick up	Gov't Code Section 31581.1 Pick up	Combined Total
7/1/19 - 12/31/19	35.45%	\$95,641	2019	\$0	\$0	\$0
1/1/19 - 6/30/19	32.80%					
7/1/18 - 12/31/18	32.80%	\$91,301	2018	\$0	\$0	\$0
1/1/18 - 6/30/18	33.98%					
7/1/17 - 12/31/17	33.98%	\$87,749	2017	\$0	\$0	\$0
1/1/17 - 6/30/17	33.15%					
7/1/16 - 12/31/16	33.15%	\$87,491	2016	\$0	\$0	\$0
1/1/16 - 6/30/16	35.79%					
7/1/15 - 12/31/15	35.79%	\$90,359	2015	\$0	\$0	\$0
1/1/15 - 6/30/15	35.41%					
7/1/14 - 12/31/14	35.41%	\$84,445	2014	\$0	\$0	\$0
1/1/14 - 6/30/14	31.13%					
7/1/13 - 12/31/13	31.13%	\$71,840	2013	\$0	\$0	\$0
1/1/13 - 6/30/13	26.61%					
7/1/12 - 12/31/12	26.61%	\$62,669	2012	\$0	\$0	\$0
1/1/12 - 6/30/12	25.27%					
7/1/11 - 12/31/11	25.27%	\$49,085	2011	\$14,219	\$11,011	\$25,230
1/1/11 - 6/30/11	22.90%					
7/1/10 - 12/31/10	22.90%	\$41,379	2010	\$13,662	\$10,644	\$24,306
1/1/10 - 6/30/10	19.26%					
7/1/09 - 12/31/09	19.26%	\$34,679	2009	\$12,636	\$9,628	\$22,264
1/1/09 - 6/30/09	18.76%					
7/1/08 - 12/31/08	18.76%	\$32,874	2008	\$10,771	\$8,802	\$19,573
1/1/08 - 6/30/08	18.99%					

Grand Total Annual Compensation Cost to OCERS									
Calendar Year	Base Salary	Lump Sum/401(a)/Car Allowance	OCERS Annualized Cost of Retirement Benefit (Pension)	Retiree Medical Benefit (annualized cost)	Health Care, Life and Disability Insurance	Optional Benefit Plan	Annual Leave (AL) Cash Out	Employer Portion of Medicare Tax (1.45%)	Total Compensation
2019	\$280,267	\$29,257	\$95,641	\$10,930	\$10,340	\$4,500	\$22,906	\$4,461	\$458,303
2018	\$273,437	\$21,875	\$91,301	\$10,793	\$10,320	\$4,500	\$22,348	\$4,354	\$438,928
2017	\$261,431	\$20,914	\$87,749	\$10,445	\$10,528	\$4,500	\$20,739	\$4,157	\$420,463
2016	\$253,817	\$20,305	\$87,748	\$9,684	\$10,449	\$4,500	\$10,982	\$3,905	\$401,391
2015	\$253,817	\$25,382	\$90,359	\$8,630	\$11,208	\$4,500	\$20,745	\$4,046	\$418,686
2014	\$253,817	\$20,305	\$84,445	\$9,340	\$11,262	\$4,500	\$20,745	\$4,046	\$408,461
2013	\$248,840	\$19,907	\$71,840	\$9,854	\$11,314	\$4,500	\$10,454	\$3,825	\$380,534
2012	\$241,592	\$19,327	\$62,669	\$4,784	\$10,735	\$4,500	\$0	\$3,568	\$347,175
2011	\$203,798	\$25,484	\$74,315	\$5,329	\$9,067	\$4,500	\$0	\$3,020	\$325,514
2010	\$187,117	\$24,149	\$65,685	\$4,800	\$6,173	\$4,500	\$0	\$2,778	\$295,202
2009	\$173,243	\$23,039	\$56,942	\$3,681	\$5,839	\$4,500	\$0	\$2,577	\$269,823
2008	\$164,986	\$22,379	\$52,446	\$5,807	\$6,207	\$4,500	\$0	\$2,458	\$258,782

\*Separate & in addition to the County 401(a)

\*\*No OCERS 401a contributions were made on the portion of salary that was added by eliminating auto allowance





2019 CEO Salary Comparison

Retirement System	Net Assets (\$Billion)	CEO Salary Range	CEO Current Salary	CEO Auto Allow/mo	Est. Annual Auto Allow Amount	ER Contributions for Deferred Comp	*Est. Annual Def Comp Total By ER	Defined Benefit EE Pickup By ER	Annual Optional Benefit Plan (OBP)/ Flexible Spending Dollars (FSA) or Additional Salary	**Est. Total = Base, Auto, Deferred Comp and OBP/Flex or Additional Salary	CEO Last Increase
OCERS	16.5	Salary set by the Board	\$280,267	None	\$0	OCERS 401(a) = 5% of salary County 401(a) = 3% of salary	\$22,421	None	OBP=\$4,500 + lump sum= \$6,836 + AL cash out=\$22,906	\$336,930	1/4/2019
Alameda CERA	8.1	\$242,650 - \$291,262	\$274,269	\$638	\$7,656	457(b): \$19,000	\$19,000	None	\$4,500	\$305,425	12/30/2018
Kern CERA	4.2	\$190,940.64 - \$233,104.32	\$210,973	\$600	\$7,200	457(b): up to a 6% match	\$12,658	None	\$21,097	\$251,929	2/2/2019
LACERS (City)	16.7	\$168,627 - \$298,876	\$279,479	Uses LACERS vehicle	\$500	None	\$0	None	\$1,476	\$281,455	7/1/2019
San Diego County ERA	12.5	\$175,552 - \$323,315	\$312,998	\$600	\$7,200	None	\$0	None	\$0	\$320,198	7/1/2019
San Joaquin CERA	3.2	\$161,814 - \$197,018	\$197,018	\$585	\$7,020	457(b): 5% of salary	\$9,851	None	\$24,023	\$237,912	7/9/2018
San Bernardino CERA	10.0	\$219,029 - \$319,624	\$307,674	\$1,217	\$14,604	457(b) = SBCERA contribution 1 times employee contribution, up to 1% 401(k) = SBCERA contribution 2 times employee contribution, up to 8%	\$27,691	ER picks up full 7% (2%@55)	\$1,040	\$351,009	2/1/2019
LACERA (County) <i>Current Interim CEO</i>	57.00	Salary set by the Board	\$450,000	Uses LACERA vehicle	\$8,700	LACERA 401(k) = 4% of salary LACERA 457(b) = 4% of salary 3% foundation	\$36,000	ER Picks up 8.43%	\$85,500	\$580,200	Position vacant, former incumbent's salary info included
Sonoma CERA	2.7	\$184,543 - \$224,303	\$224,303	\$696	\$8,352	+1% matching 401(a) DC	\$8,972	None	\$12,004	\$253,631	3/1/2017
Sacramento CERS	9.3	\$194,247 - \$247,887	\$214,145	\$450	\$5,400	1% match	\$2,141	None	\$650	\$222,336	6/23/2019
Contra Costa CERA	8.7	Salary set by the Board	\$270,310	None	\$0	457(b) = \$2080 annually	\$2,080	None	\$0	\$272,390	7/1/2019

Additional Considerations:

Organization	Name	Title	Current Salary	Auto Allow/mo	Est. Annual Auto Allow Amount	ER Contributions for Deferred Comp	*Est. Annual Def Comp Total By ER	Defined Benefit EE Pickup By ER	Annual Optional Benefit Plan (OBP)/ Flexible Spending Dollars (FSA) or Additional Salary	**Est. Total = Base, Auto, Deferred Comp and OBP/Flex or Additional Salary	CEO Last Increase
County of Orange	Frank Kim	CEO	\$299,415	\$765	\$9,180	401(a) = 5% of salary	\$14,971	None	\$4,500	\$328,066	7/6/2018
OC Superior Court	David Yamasaki	CEO	\$250,000	None	\$0	None	\$0	None	\$4,500	\$254,500	12/27/2016 (hire date)
OCFA	Brian Fennessy	Fire Chief	\$264,000	Uses OCFA vehicle	\$0	457(b) = \$11,880 annually	\$11,880	None	\$3,500	\$279,380	5/23/19 (hire date)
OCSD	James Herberg	General Manager	\$290,222	\$700	\$8,400	457(b) = \$11,000 annually	\$11,000	\$3,247 month (OCERS Plan H); no (0%) employer pick-up of employee contribution	\$6,000	\$315,622	7/2018
OCTA	Darrell Johnson	CEO	\$345,010	\$765	\$9,180	\$42,250 annually	\$42,250	None	No cost for health, dental & vision	\$396,440	4/23/2018
TCA	Michael Kraman	CEO	\$275,159	\$765	\$9,180	401(a) = \$24,500 annually	\$24,500	None	\$0	\$308,839	5/10/2018

\*Estimated amount assumes employee is receiving the full annual match on base salary.

\*\*Estimated total includes Annual Base Salary, Annual Auto Allowance and Annual Deferred Comp.

OCERS CEO total includes lump sum bonus and annual leave cash out amounts. These items may not be included in the comparable salary

This salary comparison may not include all pay incentive given. Information submitted by agency's human resources department.

11/6/2019

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*Orange County Employees Retirement System  
Retirement Board Meeting  
November 18, 2019  
Application Notices*

<i>Member Name</i>	<i>Agency/Employer</i>	<i>Retirement Date</i>
<b>Arostique, Patricia</b>	Child Support Services	9/13/2019
<b>Binette, Charles</b>	Social Services Agency	9/13/2019
<b>Boyd, Laima</b>	Sheriff's Dept	8/30/2019
<b>Bravo, Agustín</b>	Sheriff's Dept	9/13/2019
<b>Brown, E Lily</b>	Social Services Agency	8/16/2019
<b>Campanaro, Mark</b>	Assessor	8/24/2019
<b>Campos, Rosa</b>	Social Services Agency	9/13/2019
<b>Contreras, Jesika</b>	Sheriff's Dept	8/30/2019
<b>Contreras, Jose</b>	OCTA	9/5/2019
<b>Curtiss, Elizabeth</b>	Health Care Agency	9/20/2019
<b>Doan, Anh</b>	Social Services Agency	9/4/2019
<b>Fajardo, Frank Beau</b>	Sheriff's Dept	6/1/2019
<b>Ferry, Michael</b>	OC Public Works	9/20/2019
<b>Fousekis-Wolfe, Amy</b>	City of San Juan Capistrano	9/11/2019
<b>Frias, Maribel</b>	District Attorney	9/6/2019
<b>Gaughan, Dennis</b>	Public Defender	9/20/2019
<b>Gomez, Ernesto</b>	District Attorney	9/3/2019
<b>Griffin, Charles</b>	Social Services Agency	8/30/2019
<b>Hill, Kevin</b>	Social Services Agency	9/23/2019
<b>Hoang, Amanda</b>	Social Services Agency	9/6/2019
<b>Horton, Gloria</b>	Health Care Agency	9/13/2019
<b>Hurst, Michael</b>	Sheriff's Dept	9/13/2019
<b>Keogh, Laurie</b>	OC Public Works	8/27/2019
<b>Lamm, Debra</b>	Superior Court	9/13/2019
<b>Laroche, Jim</b>	Sanitation District	8/1/2019
<b>Lucich, F A</b>	County Executive Office (CEO)	8/23/2019
<b>Mc Master, Joyce</b>	OC Community Resources	8/30/2019
<b>Murillo, Cindy</b>	Health Care Agency	8/31/2019
<b>Myers, Margarita</b>	Superior Court	9/13/2019
<b>Nguyen, Don</b>	OCTA	9/5/2019
<b>O'Connor, Michael</b>	John Wayne Airport	9/20/2019
<b>Olvera, Lisa</b>	Social Services Agency	9/22/2019
<b>Ortega, Richard</b>	District Attorney	9/4/2019
<b>Proud, Phuong</b>	OC Community Resources	9/13/2019
<b>Rivas, Octavio</b>	OC Public Works	9/15/2019
<b>Rosser, Michael</b>	OCTA	9/4/2019
<b>Sasaki, Edwin</b>	Superior Court	8/31/2019
<b>Simandl, William</b>	Sheriff's Dept	8/30/2019
<b>Strahan, Anna</b>	County Counsel	9/13/2019
<b>Tran, Pierre</b>	Health Care Agency	9/20/2019
<b>Treacy, Hugh</b>	Law Library	9/1/2019
<b>Tsenq, Hsien Runq</b>	Health Care Agency	9/21/2019
<b>Ullmann, Sonia</b>	District Attorney	9/7/2019

*Orange County Employees Retirement  
Retirement Board Meeting  
November 18, 2019  
Death Notices*

<i>Active Members</i>	<i>Agency/Employer</i>
<b>Dominguez-Wilson, Maria</b>	Health Care Agency
<b>Karr, Daniel</b>	Sheriff's Dept

<i>Retired Members</i>	<i>Agency/Employer</i>
<b>Avise, Donna</b>	Social Services Agency
<b>Blansett, Norman</b>	Sheriff's Dept
<b>Blixt, Dee</b>	Social Services Agency
<b>Briggs, Alfred</b>	Sheriff's Dept
<b>Case, Jo</b>	OCTA
<b>Clary, Glenn</b>	Sheriff's Dept
<b>Dillon, Dale</b>	OC Public Works
<b>Dunbar, Worthy</b>	OCTA
<b>Gonzales, Violet</b>	Social Services Agency
<b>Hale, Eunice</b>	Health Care Agency
<b>Henzie, Annita</b>	Transportation Corridor Agency (TCA)
<b>Hughes, Francine</b>	OCTA
<b>Ilg, Carl</b>	District Attorney
<b>Jauregui, Maria Luisa</b>	Social Services Agency
<b>Krattli, Robert</b>	Auditor Controller
<b>Lozano, Mary</b>	UCI
<b>Martin, Claudia</b>	Sheriff's Dept
<b>Mendoza, Francisco</b>	OCTA
<b>Moore, Lawrence</b>	Sheriff's Dept
<b>Moorehead, Janet</b>	Probation
<b>Newman, Erle</b>	OC Vector Control District
<b>Olson, Wayne</b>	OC Public Works
<b>Osborne, Wayne</b>	OC Public Works
<b>Paider, Frances</b>	Social Services Agency
<b>Roberts, Annette</b>	Social Services Agency
<b>Rogers, Ronald</b>	County Executive Office (CEO)
<b>Stewart, Betty</b>	Social Services Agency
<b>Stroud, Dorothy</b>	Sheriff's Dept
<b>Struthers, David</b>	Fire Authority (OCFA)
<b>Thompson, Carol</b>	Probation
<b>Whittenbarger, Danny</b>	County Clerk/Recorder
<b>Wilberg, Robert</b>	OC Public Works

<i>Surviving Spouses</i>	
<b>De Sutter, Barbara</b>	
<b>Hills, Wilma</b>	
<b>Kochman, Arthur</b>	

<b>Lewis, Shelley</b>	
<b>Shourds, Ruth</b>	
<b>Smith, Gertrude</b>	

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**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**BOARD OF RETIREMENT  
2223 WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701**

**AUDIT COMMITTEE MEETING**

**June 6, 2019**

**1:00 p.m.**

**Members of the Committee**

Frank Eley, Chair

Charles Packard, Vice Chair

Jeremy Vallone

Shari Freidenrich

**MINUTES**

**OPEN SESSION**

The Chair called the meeting to order at 1:09 p.m.

Attendance was as follows:

Committee Members: Frank Eley, Chair; Charles Packard, Vice Chair; Jeremy Vallone; Shari Freidenrich

Staff: David Kim, Director of Internal Audit; Brenda Shott, Assistant CEO of Internal Operations; Suzanne Jenike, Assistant CEO External Operations; Tracy Bowman, Director of Finance; Mark Adviento, Internal Auditor; Sonal Sharma, Recording Secretary; Anthony Beltran, Audio Visual Technician.

**PUBLIC COMMENT**

None.

**CONSENT AGENDA**

**C-1 APPROVE AUDIT COMMITTEE MINUTES**

**Audit Committee Meeting Minutes**

**March 26, 2019**

A **motion** was made by Mr. Packard, **seconded** by Mr. Vallone to approve the minutes.

**ACTION ITEMS**

**A-2 2018 FINANCIAL STATEMENT AUDIT**

*Presentation by Linda Hurley and Amy Chiang, Macias Gini & O'Connell*

**Recommendations:**

1. Approve OCERS' audited financial statements for the year ended December 31, 2018;



2. Direct staff to finalize OCERS' 2018 Comprehensive Annual Financial Report (CAFR);
3. Approve the Governmental Accounting Standards Board (GASB) Statement 67 Actuarial Valuation as of December 31, 2018; and
4. Receive and file Macias, Gini & O'Connell LLP's (MGO) "OCERS' Report to the Audit Committee for the Year Ended December 31, 2018" and its "Independent Auditor's 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*."

A **motion** was made by Mr. Packard, **seconded** by Ms. Freidenrich to approve staff recommendation.

**A-3 GASB 68 VALUATION AND AUDIT REPORT**

*Presentation by Brenda Shott, Assistant CEO of Internal Operations*

**Recommendations:**

1. Approve OCERS' audited Schedule of Allocated Pension Amounts by Employer as of and for the Year Ended December 31, 2018; and
2. Approve the Governmental Accounting Standards Board (GASB) Statement 68 Actuarial Valuation as of December 31, 2018 for distribution to employers.

A **motion** was made by Mr. Packard, **seconded** by Ms. Freidenrich to approve staff recommendation.

**A-4 AUDIT OF EMPLOYER AND EMPLOYEE CONTRIBUTIONS ACCOUNTING**

*Presentation by David Kim, Director of Internal Audit and Mark Adviento, Internal Auditor*

**Recommendation:** Receive and file.

A **motion** was made by Mr. Packard, **seconded** by Mr. Vallone to approve staff recommendation.

**A-5 MANAGEMENT ACTION PLAN VERIFICATION**

*Presentation by David Kim, Director of Internal Audit*

**Recommendation:** Receive and file.

A **motion** was made by Mr. Packard, **seconded** by Mr. Vallone to approve staff recommendation.

**A-6 HOTLINE UPDATE**

*Presentation by David Kim, Director of Internal Audit*

**Recommendation:** Receive and file.

A **motion** was made by Mr. Packard, **seconded** by Mr. Vallone to approve staff recommendation.

**INFORMATION ITEMS**

**I-1 STATUS UPDATE OF 2019 AUDIT PLAN**

*Written Report*

**I-2 TRAVEL REPORT - LACERA**

*Written Report*

**\*\*\*\*\* END OF OPEN SESSION AGENDA \*\*\*\*\***

**CLOSED SESSION 3:00**

**E-1 THREAT TO PUBLIC SERVICES OR FACILITIES (GOVERNMENT CODE SECTION 54957)**

Adjourn into Closed Session pursuant to Government Code section 54957 to consult with *Brenda Shott, Asst. CEO; Matthew Eakin, Director of Cyber Security; Jenny Sadoski, Director of Information Technology; Jon Gossard, Information Security Manager; and Gina M. Ratto, General Counsel*

**Recommendation:** Take appropriate action.

**\*\*\*\*\* END OF CLOSED SESSION AGENDA \*\*\*\*\***

**OPEN SESSION**

The Committee recessed into open session. No reportable action was taken.

**COMMITTEE MEMBER COMMENTS**

None.

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

None.

**COUNSEL COMMENTS**

None.

**ADJOURNMENT**

The Chair adjourned the meeting at 3:41pm.

Audit Committee Meeting  
June 6, 2019

Submitted by:

Approved by:

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Steve Delaney  
Secretary to the Board

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Frank Eley  
Chair

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**BOARD OF RETIREMENT  
2223 WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701**

**AUDIT COMMITTEE MEETING  
September 24, 2019  
2:30 p.m.**

**Members of the Committee  
Frank Eley, Chair**

**MINUTES**

**OPEN SESSION**

Attendance was as follows:

Committee Members: Frank Eley, Chair

Staff: David Kim, Director of Internal Audit; Steve Delaney, Chief Executive Officer; Brenda Shott, Assistant CEO of Internal Operations; Suzanne Jenike, Assistant CEO External Operations; Gina Ratto, General Counsel; Mark Adviento, Internal Auditor; Sonal Sharma, Recording Secretary; Anthony Beltran, Audio Visual Technician.

*The meeting was canceled due to the lack of a quorum and has been rescheduled to October 17<sup>th</sup>, 2019 at 11:30 am or upon conclusion of the OCERS Budget Workshop, whichever is later.*

Submitted by:

Approved by:

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Steve Delaney  
Secretary to the Board

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Frank Eley  
Chair

I-3

## Memorandum

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DATE: November 18, 2019  
TO: Members of the Board of Retirement  
FROM: Steve Delaney, Chief Executive Officer  
SUBJECT: **CEO FUTURE AGENDAS AND 2019 OCERS BOARD WORK PLAN**

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### Written Report

#### AGENDA TOPICS FOR THE OCERS BOARD OF RETIREMENT

#### DECEMBER

Adopt Annual Work Plan for Calendar Year 2020  
REAOC Annual Update

#### Submitted by:



**SD - Approved**

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Steve Delaney  
Chief Executive Officer

**OCERS RETIREMENT BOARD - 2019 Work Plan**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep (Offsite)	Oct	Nov	Dec
<b>System Oversight</b>		STAR COLA Posting (I)	Approve 2019 STAR COLA (A)	SACRS Board of Directors Election (A)	Preliminary December 31, 2018 Valuation (I)	Mid-Year Review of 2019 Business Plan Progress (I)	Approve Early Payment Rates for Fiscal Year 2018-19 (A)	Review 2nd Quarter Budget to Actuals Financial Report (I)	Strategic Planning Workshop (I)	Overview of 2020 Administrative Budget and Investment (Workshop) (I)	Review 3rd Quarter Budget to Actuals Financial Report (I)	
		Approve 2019 COLA (A)	Quarterly 2019-2021 Strategic Plan Review (A)			Approve December 31, 2018 Actuarial Valuation & Funded Status of OCERS (A)		Receive OCERS by the Numbers (I)		Approve 2020-2022 Strategic Plan (A)	Approve 2020 Administrative (Operating) Budget (A)	
						Approve 2018 CAFR (A)		Receive Evolution of the UAAL (I)		Approve 2020 Business Plan (A)	Annual CEO Performance Review and Compensation (A)	
						Quarterly 2019-2021 Strategic Plan Review (A)		Employer & Employee Pension Cost Comparison (I)				
											Adopt 2020 Board Meeting Calendar (A)	
<b>Board Governance</b>				Brown Act Training (I)				Annual Review of Succession Plan (I)				Adopt Annual Work Plan for 2020 (A)
				Conflict of Interest Training (I)							Vice-Chair Election (A)	
<b>Regulation / Policies</b>	Communication Policy Fact Sheet (I)											
<b>Compliance</b>				Form 700 Due (A)		Receive Financial Audit (I)			State of OCERS (I)		Status of Board Education Hours for 2019 (I)	

(A) = Action (I) = Information

I-4



## Memorandum

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**DATE:** November 4, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Jim Doezie, Contracts, Risk and Performance Administrator  
**SUBJECT:** QUIET PERIOD – NON-INVESTMENT CONTRACTS

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### Written Report

#### Background/Discussion

##### 1. Quiet Period Policy Guidelines

The following guidelines established by the Quiet Period Policy, section 3.c, will govern a search process for any contract to be awarded by OCERS:

*“...Board Members and OCERS staff shall not knowingly communicate with any party financially interested in any prospective contract with OCERS regarding the contract, the services to be provided under the contract or the selection process;”*

##### 2. Quiet Period Guidelines

In addition, the following language is included in all distributed RFP's:

*“From the date of issuance of this RFP until the selection of one or more respondents is completed and announced, respondents are not permitted to communicate with any OCERS staff member or Board Members regarding this procurement, except through the Point of Contact named herein. Respondents violating the communications prohibition may be disqualified at OCERS' discretion. Respondents having current business with OCERS must limit their communications to the subject of such business.”*

#### Distributed RFP's

The RFP's noted below are subject to the quiet period until such time as a contract(s) is finalized.

- An RFP for a Unified Commutations & Contact Center Solution (Telephone System) was distributed May 15<sup>th</sup>. Bids received. A vendor has been selected and contract work has commenced.
- An RFP for Mail House Services was distributed. Bids were received that are currently being evaluated.
- An RFP for Property Management Services was distributed in September. Proposals received and vendors are being reviewed.
- An RFP for a new Board Communications Portal was distributed October 1<sup>st</sup>. Bids were received that are currently being evaluated.
- An RFP for a Board Room Audio/Visual Presentation System was distributed October 2<sup>nd</sup>. Bids were received that are currently being evaluated.



# Memorandum

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Submitted by:

A handwritten signature in blue ink that reads "Jim Doezie".

Jim Doezie  
Contracts, Risk and Performance Administrator

I-5

## Memorandum

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**DATE:** November 18, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT: BOARD COMMUNICATIONS**

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### Written Report

#### Background/Discussion

To ensure that the public has free and open access to those items that could have bearing on the decisions of the Trustees of the Board of Retirement, the OCERS Board has directed that all written communications to the entire Board during the interim between regular Board meetings be included in a monthly communications summary.

#### News Links

The various news and informational articles that have been shared with the full Board are being provided to you here by web link address. By providing the links in this publicly available report, we comply with both the Brown Act public meeting requirements, as well as avoid any copyright issues.

The following news and informational item was provided by staff and the CEO for distribution to the entire Board:

#### Steve Delaney:

Attached: OCERS Activities and Updates for July, August, and September 2019.

#### Submitted by:



**SD - Approved**

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Steve Delaney  
Chief Executive Officer



# Monthly Staff Status

## July 2019

To the members of the OCERS Board of Retirement,

The following is my regular monthly summary of OCERS staff activity, starting with an overview of key customer service statistics as well as activity highlights followed by updates for the month of July 2019.

### TOP 3 MEMBER QUESTIONS:

The top three questions of the month as received by OCERS' counseling staff:

#### QUESTION ONE:

- Q:** Why did my contribution rates increase?
- A:** Your OCERS Retirement Contribution Rate is determined annually by OCERS' actuary and is available in your myOCERS account and on OCERS' website. The rates vary, as a result of the actuarial study and are effective each July, usually with pay period 15.

#### QUESTION TWO:

- Q:** What is Reverse Pickup?
- A:** In addition to OCERS contribution rates, if you work for certain bargaining units within the County of Orange, you may be subject to an additional reverse pickup percentage. The reverse pickup amount is paid in addition to your regular OCERS contributions. These rates are set by the employer and used to offset the employer's ongoing pension obligation. Your reverse pickup rate is available in your myOCERS account. You will also find additional information on the OCERS' website.

#### QUESTION THREE:

- Q:** What is an OCERS Special Durable Power of Attorney?
- A:** The OCERS' Special Durable Power of Attorney appoints an Attorney-in-Fact to transact all retirement matters relating to the Orange County Employees Retirement System (OCERS). It authorizes the person you designate as the "Attorney-in-Fact" to handle your retirement affairs, such as filing applications, benefit elections, designating beneficiaries and endorsing warrants. You have the option, to make the power of attorney effective immediately or only upon the event of your incapacity.

### Customer Service Statistics

Member Approval: 99%

Un-Planned Recalculations: 0

#### Retirement Applications Received:

July - 2019	53
June - 2019	50
May - 2019	43
Apr - 2019	37
Mar - 2019	107
Feb - 2019	199
Jan - 2019	258
Dec - 2018	54
Nov - 2018	85
Oct - 2018	49
Sept - 2018	40
Aug - 2018	55
Jul - 2018	67
Jun - 2018	44
Apr - 2018	73
Mar - 2018	51
Feb - 2018	163
Jan - 2018	204
Dec - 2017	58
Nov - 2017	75
Oct - 2017	47
Sep - 2017	42
Aug - 2017	69

### MEMBER SERVICES TELEPHONE METRICS

Member Services Call History			
Month / Year	Incoming Calls Through Queue	Incoming Calls Direct to Extension	Total Calls (Queue + Direct)
July 2019	*	2140	2140
July 2018	2124	1350	3474
July 2017	978	2684	3662

\*Queue call metrics unavailable this month due to sporadic issues with Mitel's Phone Reporting .

### ACTIVITIES

#### OCERS YEAR IN REVIEW OUTREACH

It has been taking longer than usual to get out to all of our employers and labor groups to sit down and discuss this past year's opportunities and challenges. On July 15 Ms. Jenike and I met with a representative of Teamsters 952, representing certain employees with the Orange County Transportation Authority. It was important to have Ms. Jenike there, as is often the case, there were questions about specific benefit issues for certain members, and Ms. Jenike is able to respond to them all.

#### MEETING WITH ORANGE COUNTY PROFESSIONAL FIREFIGHTERS ASSOCIATION

Former OCERS Alternate Safety Trustee Mr. Tony Bedolla came to the OCERS offices on July 25 to introduce Mr. Berkompas, OCPFA's new Director of Governmental Affairs. We had a good discussion regarding the OCERS UAAL, and reviewed the Board's plan to have that paid off over time.

#### OCERS VALUES

Throughout 2019 The OCERS management team has been helping team members focus on the importance of demonstrating the Values the OCERS Board of Retirement has indicated should be guiding us in our daily work. To that end, the Vision and Values Committee, formed of volunteers from various departments to assist in emphasizing OCERS values in all aspects of our work, earlier this year suggested that the Senior Management team (Ms. Jenike, Murphy, Ratto and Shott) rotate in discussing the importance of our values at the Quarterly All Staff Luncheon. On July 25 Ms. Jenike took on that task for our Second Quarter luncheon. She related her work history, both before her arrival at OCERS, and her nearly 20 years now served with OCERS, to emphasize the importance of focusing on the job at hand. More importantly however, she also emphasized the importance of team work, and shared one of her favorite mottos as reflected in the poster that was unfurled for all to see at the luncheon. A copy of that poster can now be found on each floor of the OCERS headquarters building to inspire team members in their daily tasks.



### BUSINESS CONTINUITY AND DISASTER RECOVERY

#### Mr. Jon Gossard reports:

On Tuesday, July 30, the OCERS Crisis Management Team (CMT) convened for a tabletop exercise of the OCERS crisis management plan, along with business continuity consultants Avalution (who facilitated the event) and two observers from the County of Orange's emergency preparedness team. The CMT worked through a scenario designed to test the plan in the event of a loss of facility and loss of key personnel. All participants were actively engaged in the conversation and worked collaboratively to take action on the strategies outlined in the plan and the County representatives were able to provide additional insights and recommendations. A primary goal of these exercises is to identify improvement opportunities for the crisis management plan and to that end, several items were noted by the team and plans will be updated accordingly. OCERS' next business continuity exercise is scheduled to occur in January 2020.

### UPDATES

#### INVESTMENT TEAM UPDATE

##### **Mr. David Beeson reports on July's activities:**

As of June 30, 2019, the portfolio year-to-date is up 9.1% net of fees, while the one-year return is up 6.3%. The fund value now stands at \$16.7 billion. At the July 31<sup>st</sup> Investment Committee meeting, Tony James, Executive Vice Chairman of Blackstone, presented an educational session to the Committee on his proposal to solve America's looming retirement crisis. Next, the Investment Committee approved placing the J.P. Morgan Strategic Property Fund on watch list due to underperformance. Molly Murphy then discussed the monthly manager selections and terminations report. OCERS committed \$25 million to the Advent Global Technology Fund in the private equity buyout space, \$10 million to Advent International GPE Fund IX in the private equity buyout space, \$30 million to H.I.G. Middle Market LBO Fund III in the private equity buyout space, and \$100 million to the Blackstone Infrastructure Partners Fund in the real assets space. OCERS issued full redemptions for Brigade Leveraged Capital Strategy (approximately \$157 million) and Caspian Select Credit Fund (approximately \$26 million) in the opportunistic credit space. The Investment Committee approved revisions to the CIO Charter to establish guardrails around the delegation of authority for investment manager approval and termination to the CIO. Shanta Chary presented an annual review of the cash overlay program with Parametric. Jennifer Young Stevens and Felix Fels from Townsend next presented the 1<sup>st</sup> quarter 2019 real estate performance report. OCERS real estate portfolio outperformed the NFI-ODCE benchmark for the quarter as well as the trailing five years, ten years, and since inception. David Beeson and Jennifer Young Stevens presented a real estate asset class review with the objectives of continuing to rebalance the core portfolio to improve the NOI growth and to evaluate non-core opportunities being cognizant of risk late cycle. Following the review, the Investment Committee approved the annual real estate plan including: changing the core range to 50 – 100% and the non-core range to 0 – 50%; rebalance up to \$250 million in the core portfolio (1 new commitment and possibly 2 redemptions); and commit 1 – 2 new investments in the non-core portfolio (\$75 – \$125 million per fund).



As a reminder you will see this memo included with the BOARD COMMUNICATIONS document as part of the informational agenda for the October 15 meeting of the OCERS Board of Retirement.





# Monthly Staff Status August 2019

To the members of the OCERS Board of Retirement,

The following is my regular monthly summary of OCERS staff activity, starting with an overview of key customer service statistics as well as activity highlights followed by updates for the month of August 2019.

## TOP 3 MEMBER QUESTIONS:

The top three questions of the month as received by OCERS' counseling staff:

### QUESTION ONE:

**Q:** What happens if I terminate employment before I am eligible to retire?

**A:** When you separate from active employment, you have several options:  
If eligible, you may retire and receive a monthly retirement allowance.

If you are not retirement eligible, your retirement will be automatically deferred (postponed). You may retire when you meet the minimum age and service requirements. Your contributions will remain on deposit and continue to earn interest.

In lieu of retirement, you may withdraw your contributions and interest. Be advised that taking a withdrawal terminates your membership in OCERS and by doing so, you will forfeit (give up) your right to any future retirement benefits from OCERS, including disability benefits.

### QUESTION TWO:

**Q:** How do I notify OCERS of my recent address change?

**A:** Active employees should report a Change of Address to their Human Resources department. Their employer will then forward the information to OCERS electronically via the bi-weekly payroll records.

Retired and Deferred members may report changes to OCERS directly by logging in to their myOCERS portal account or by completing a Change of Address Form and returning it to OCERS. The form can be printed from the forms section of our website.

### QUESTION THREE:

**Q:** How can I change my Tax Withholding election?

**A:** There are several ways to submit a tax withholding change to OCERS. The easiest way is to login to the MyOCERS portal and submit the change there. Alternately, you may download the Tax Withholding Change Form from the OCERS website, then submit it by mail or fax. In all cases, the changes will be processed by OCERS within 2 weeks of our receiving the request.

## Customer Service Statistics

Member Approval: 99%

Un-Planned Recalculations: 0

### Retirement Applications Received:

Aug - 2019	62
July - 2019	53
June - 2019	50
May - 2019	43
Apr - 2019	37
Mar - 2019	107
Feb - 2019	199
Jan - 2019	258
Dec - 2018	54
Nov - 2018	85
Oct - 2018	49
Sept - 2018	40
Aug - 2018	55
Jul - 2018	67
Jun - 2018	44
Apr - 2018	73
Mar - 2018	51
Feb - 2018	163
Jan - 2018	204
Dec - 2017	58
Nov - 2017	75
Oct - 2017	47
Sep - 2017	42

### MEMBER SERVICES TELEPHONE METRICS

Member Services Call History			
Month / Year	Incoming Calls Through Queue	Incoming Calls Direct to Extension	Total Calls (Queue + Direct)
August 2019	*	2,354	2,354
August 2018	1,567	2,620	4,187
August 2017	1,548	2,939	4,487

\*Queue call metrics unavailable this month due to sporadic issues with Mitel's Phone Reporting .

### ACTIVITIES

#### INVESTMENT TEAM

David Beeson reports on August activities:

The Investments portion of the Strategic Planning Workshop will begin Wednesday afternoon with a presentation on OCERS' liquidity profile by Shanta Chary, Director of Investments, and Michael Buchenholz, CFA, from J.P. Morgan Asset Management. The presentation will highlight that OCERS' liquidity remains strong relative to peers, and OCERS has sufficient liquidity to support illiquid/private investments through 2030 and beyond. Next, Reginald Tucker, Managing Director of Investments, will moderate a panel called Pricing Externalities: The Intersection of Risk Assets and ESG Factors with three of OCERS' portfolio managers. Even though OCERS does not have a specific ESG mandate, OCERS' investment managers often integrate ESG issues into their investment process. Acadian (equity), Longfellow (fixed income), and AEW (real estate) will offer a perspective on how ESG issues impact their portfolios. The first day will wrap up with Nic DiLoretta from TorreyCove giving an update on the renewable energy market as renewables are a growing part of the global energy value chain. Thursday morning will begin with Jennifer Stevens of the Townsend Group presenting on the evolving landscape of industrial real estate as the secular trend of the consumer shifting towards e-commerce continues. Next, Michael Nigro from Two Sigma will discuss the role of technology, data and people in investment management. Big data and machine learning continue to have a major impact on many industries, including investments. Mr. Nigro will discuss how the investment industry is using big data and machine learning to improve portfolios. Marcie Frost, CEO of CalPERS will then present an overview of the California Public Employees' Retirement System. Steve McCourt from Meketa will next give a presentation on Committee Best Practices Peer Analysis. Mr. McCourt will discuss governance-related best practices among public pension plans. Finally, Steve McCourt will wrap up the Investments portion of the workshop by discussing the state of the loan market. The bank loan market has experienced deterioration in credit quality, a trend consistently seen late cycle.

## OCERS EXECUTIVE MANGEMENT TEAM OFFSITE

On August 8 the Executive Management team met off site for a day of educational sessions, as well as initial discussion and planning for the 2020 annual budget. The agenda, speakers and arrangements were led by Matt Eakin and David Kim, as we continue to share the duties of planning and hosting this semi-annual event. A key learning activity was all were assigned to read *The OZ Principle*, which deals with taking accountability to heart. A trainer from the Ohio Retirement system then flew out to lead us in a group discussion of what we had learned.



## MEETING WITH CALPERS TRUSTEE

Recently I learned that a Palm Springs City Council member, Ms. Lisa Middleton, had been appointed by Governor Newsom to serve as a Trustee on the CalPERS Board of Retirement. As I was both a local citizen as well as well versed in pension issues, I reached out to meet Trustee Middleton for lunch on August 16. (I also informed CalPERS CEO Marci Frost of my outreach, never wanting to connect with a different system Trustee without keeping management fully informed. Ms. Frost encouraged the meeting.) We had a long discussion on pension issues. Being a city council member, she was particularly interested in the background of the City of San Juan Capistrano's participation in the OCERS plan.

## UPDATES

### OCERS YEAR IN REVIEW

Two additional meetings were held in August.

I met on August 13 with the Executive Officer of the Orange County Public Library. We had a good discussion of the issues facing the library system, but there were no concerns.

Ms. Jenike, Ms. Shott and I met with the full executive team of the Orange County Transportation Authority on August 16. They had a number of questions about the mechanics of making additional contributions towards their UAAL. There was also discussion of legal developments regarding our transportation members who have special exemption from PEPRAs status due to federal funding requirements.



As a reminder you will see this memo included with the BOARD COMMUNICATIONS document as part of the informational agenda for the October 21 meeting of the OCERS Board of Retirement.



# Monthly Staff Status September 2019

To the members of the OCERS Board of Retirement,

The following is my regular monthly summary of OCERS staff activity, starting with an overview of key customer service statistics as well as activity highlights followed by updates for the month of September 2019.

## TOP 3 MEMBER QUESTIONS:

The top three questions of the month as received by OCERS' counseling staff:

### QUESTION ONE:

- Q:** What is a Reverse Pickup?
- A:** Certain County of Orange and Special District agency employees are subject to an employee-paid reverse pickup contribution in addition to their bi-weekly retirement contributions. The reverse pickup rate is determined by the Orange County Auditor Controller's office and changes annually, effective each fiscal new year. You can see what your reverse Pickup rate is by visiting our website at [www.ocers.org](http://www.ocers.org).

### QUESTION TWO:

- Q:** What is the retirement application deadline to be eligible for the 2020 COLA?
- A:** In order to be eligible for the 2020 Cost of Living Adjustment the members benefit effective date (retirement date) must be April 1, 2020 or sooner.

### QUESTION THREE:

- Q:** What should I do if I am planning to retire in the next couple of years?
- A:** OCERS recommends visiting our website at [www.ocers.org](http://www.ocers.org) and clicking on the Planning Your Retirement link from the left menu options. From there you can select the Retirement Planning Checklist and begin planning from one of the four stages below:
- Five or more years prior to retirement
  - Three years prior to retirement
  - One year prior to retirement
  - Two months prior to retirement

## Customer Service Statistics

**Member Approval:** 99%

**Un-Planned Recalculations:** 0

### Retirement Applications Received:

Sept - 2019	38
Aug - 2019	62
July - 2019	53
June - 2019	50
May - 2019	43
Apr - 2019	37
Mar - 2019	107
Feb - 2019	199
Jan - 2019	258
Dec - 2018	54
Nov - 2018	85
Oct - 2018	49
Sept - 2018	40
Aug - 2018	55
Jul - 2018	67
Jun - 2018	44
Apr - 2018	73
Mar - 2018	51
Feb - 2018	163
Jan - 2018	204
Dec - 2017	58
Nov - 2017	75
Oct - 2017	47

### MEMBER SERVICES TELEPHONE METRICS

Member Services Call History			
Month / Year	Incoming Calls Through Queue	Incoming Calls Direct to Extension	Total Calls (Queue + Direct)
September 2019	*	2000	3174
September 2018	1247	2000	3247
September 2017	1435	2568	4003

\*Queue call metrics unavailable this month due to sporadic issues with Mitel's Phone Reporting .

### ACTIVITIES

#### MEETING WITH THE ORANGE COUNTY SANITATION BOARD OF DIRECTORS

On September 11, Ms. Murphy , Ms. Shott and I were invited out to speak to the Orange County Sanitation Board of Directors. The directors are representatives of various cities, cities that do not participate in OCERS. They have been very concerned over the rising pension costs that CalPERS is placing on their cities, and the cities blame that on poor investments at CalPERS. They specifically wanted OCERS to come and speak to our investments, and assure them that we aren't taking undue investment risk that would lead to a similar rise in costs here.

While Ms. Murphy did provide a thorough review of our investment program, and stressed the conservative and cautious approach the OCERS Board's Investment Committee has always exercised, the real focus of our presentation was to help the city representatives understand that much of the current rise in costs at CalPERS are not because of poor investment decisions, but rather the very good determination of the CalPERS Board to improve their actuarial assumptions, assumptions OCERS already has in place. The various changes in assumptions at CalPERS are the right thing to do, but it comes at a cost.

#### A VISIT TO SAN DIEGO CITY EMPLOYEES RETIREMENT SYSTEM (SDCERS)

On September 12, Ms. Murphy and I accompanied Mr. Baldwin and Mr. Prevatt by train as we traveled south to observe the SDCERS Investment Committee in action This was the first of what I hope to be a number of outreach visits where I accompany OCERS Trustees to see other systems investment committees in action as we seek the best in governance practices.

Some positive takeaways from our observations:

1. The committee only meets six times a year, every other month, and reducing SDCEDRS investment team workload. ]

2. All Board and committee meetings are held in a 2-3 day block, finding that makes it easier to schedule than having events that require Trustee attendance scattered through the month.
3. “Information” items are separated on the agenda from “Report” items. We still mix both in our Information Items portion of the OCERS Board agenda and may want to consider something similar.
4. An interesting discussion on mitigating the J Curve, something both Trustees thought would be of benefit at OCERS.
5. The room configuration was at eye level with the SDCERS staff, making the meeting more conversational.
6. The Board room was multi-purpose and had movable walls that could divide it up into smaller spaces, and is in fact used by staff for Yoga classes during lunch.



## **TRANSPORTATION CORRIDOR ASSOCIATION (TCA)**

A special thanks to the team from TCA, who came to the OCERS Headquarters building to deliver a half hour presentation on their agency, and its mission. The entire OCERS team was invited to attend, and the Board room was full as the presentation got underway. Well received by all, this is the first of what we hope to be a presentation from each of our thirteen participating employers, put on for the benefit of the OCERS team members. I have often heard team members express a desire to better understand the full mission of OCERS, and letting our employers speak directly helps all to see the value those employers place on the OCERS pension benefit they are able to offer their employees.

## INVESTMENT ACTIVITY IN SEPTEMBER

Mr. Beeson reports:

As of August 31, 2019, the portfolio year-to-date is up 9.1% net of fees, while the one-year return is up 4.4%. The fund value now stands at \$16.6 billion. The Board had its annual Strategic Planning Workshop on September 18-19. The Investments portion of the Strategic Planning Workshop began Wednesday afternoon with a presentation on OCERS' liquidity profile by Shanta Chary, Director of Investments, and Michael Buchenholz, CFA, from J.P. Morgan Asset Management. The presentation highlighted that OCERS' liquidity remains strong relative to peers, and OCERS has sufficient liquidity to support illiquid/private investments through 2030 and beyond. Next, Reginald Tucker, Managing Director of Investments, moderated a panel called Pricing Externalities: The Intersection of Risk Assets and ESG Factors with three of OCERS' portfolio managers. Even though OCERS does not have a specific ESG mandate, OCERS' investment managers often integrate ESG issues into their investment process. Acadian (equity), Longfellow (fixed income), and AEW (real estate) gave a perspective on how ESG issues and risks impact their portfolios. The first day wrapped up with Nic DiLoretta from TorreyCove giving an update on the renewable energy market as renewables are a growing part of the global energy value chain. Thursday morning began with Jennifer Stevens of the Townsend Group presenting on the evolving landscape of industrial real estate as the secular trend of the consumer shifting towards e-commerce continues. Next, Michael Nigro from Two Sigma discussed the role of technology, data, and people in investment management. Big data and machine learning continue to have a major impact on many industries, including investments. Mr. Nigro discussed how the investment industry is using big data and machine learning to improve portfolios. Marcie Frost, CEO of CalPERS then presented an overview of the California Public Employees' Retirement System. Steve McCourt from Meketa next gave a presentation on Committee Best Practices Peer Analysis. Mr. McCourt discussed governance-related best practices among public pension plans. Finally, Steve McCourt and Mary Bates wrapped up the Investments portion of the workshop by discussing the state of the loan market. The bank loan market has experienced deterioration in credit quality, a trend consistently seen late cycle.

## UPDATES

### YEAR IN REVIEW

We are nearing the end of this year's outreach. Following a number of requests to reschedule, Ms. Jenike, Ms. Shott and I were finally able to go out to the City of San Juan Capistrano on September 11 and meet with their executive team. The primary message of their team was continued thanks to the OCERS Board as well as team for being so helpful as they work through the possible spin off of their water department.



As a reminder you will see this memo included with the BOARD COMMUNICATIONS document as part of the informational agenda for the November 18 meeting of the OCERS Board of Retirement.



I-6

## Memorandum

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**DATE:** November 07, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** TRAVEL REPORT – RETIREMENT SYSTEMS OF ALABAMA SITE VISIT

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### Written Report

### Background/Discussion

From October 23-25, 2019, Steve Delaney, Chief Executive Officer, visited the Alabama Retirement System.

As an important part of OCERS continuous improvement culture, I annually visit two other public pension systems on site, to see what I might learn and apply to improving services at OCERS. This report outlines my takeaways from an October 2019 visit to the Retirement Systems of Alabama (RSA).

Some facts regarding RSA:

- 385,506 members in three systems (Teachers, Public Employees, and Judges).
- \$44 billion in assets
- Approximately 69% Funded (2018)
- \$3.3 billion in annual benefit payments
- 380 employees

I first became aware of RSA and its unique approach to investing (which I will expand on shortly) back in the mid-90s while working with Oregon PERS. I read a story of how the RSA Director at the time, Dr David Bronner, took on the New York mob while making an important real estate investment on behalf of RSA in Manhattan. The tale is so incredible I can't do it justice, so I have attached a news article that lays out all of the amazing details.

I and my Oregon PERS team began following the career of Dr Bronner from afar, and were impressed by the investment approach that system took. While many systems are wary of local investment, Dr Bronner and his Boards determined that living in one of the poorest states of the union required them to do more locally than is the norm. A key example of that local approach was the creation of the series of Robert Trent Jones Trail Golf Courses running down the middle of the state. That investment led to many others which directly benefited the local communities (see attached news article for detail).

One of their recent publications explains the approach in this way:

“From 1973 to 1990, RSA decided to invest in Alabama when the return was at least equal to investments in other places. RSA bought mortgages, zero-coupon treasuries, public and corporate bonds. In 1990, RSA began development of The RTJ Golf Train and began investing in media companies which provided free publicity for Alabama tourism. Since 1990, RSA has provided financing for 53 corporations in Alabama communities plus 10 more statewide and helped to recruit corporations to 11 Alabama communities.

RSA partnered with Alabama state government, utility companies, and industrial leaders in virtually every major recent economic development success in Alabama. This included expansion of the following industries: automotive, aerospace, biotech, information technology, distribution, metals, chemical, forestry products, electronics, plastics and rubbers, railcar manufacturing, oil and gas, maritime, and agribusiness. RSA played a large roll in recruiting Mercedes-Benz, Honda, Toyota, Navistar, Hyundai, Airbus, and ThyssenKrupp to Alabama. RSA helped secure the Mercedes-Benz agreement for Tuscaloosa in 1994 with financing. RSA built a railcar plant in the Shoals.

Manufacturing output began increasing in Alabama in 1997 when Mercedes-Benz began production of vehicles and accelerated when aerospace production began. Durable goods manufacturing in Alabama showed a 130% increase from 1994 to 2017. As durable goods manufacturing increased, nondurable goods manufacturing decreased. The increase in durable goods manufacturing increased the number of higher paying jobs and the overall income for the state. Non-farm employment increased to 2 million by 2017.”

I recently learned that Dr Bronner is still leading RSA as Chief Executive Officer, going on 46 years of service! As I was scheduled to attend a NCPERS conference in Louisiana, I determined to combine my travels and pay a visit to RSA to learn more about what they have accomplished.

The systems I have visited and reported on through the years have generally provided me with lessons related to member services, benefits, desk procedures. But at RSA the focus of my visit quickly became the Investment team and program.

RSA has one of the lowest cost investment programs in the public pension universe, averaging just ten basis points in cost. The key is in house investment. RSA’s team makes direct investments of nearly 99% of the fund. Almost no fees are incurred, and their legal department does not have to deal with complicated and costly manager contract reviews.

A particularly interesting aspect of their approach is almost the entire 16 member team has been hired coming out of local universities, with an eventual requirement of obtaining both their MBA as well as CFA accreditation. That support and development of local talent also seems to add some impressive longevity to the staff’s tenure at RSA. The current CIO, Marc Green, was one of those college entrants over twenty years ago.

I learned of some interesting approaches on my visit which I will be discussing in more detail with our own Investment Team. And my hope is that I may be able to get Dr Bronner or one of his executive team members to come visit in the future and share with us more of what is being accomplished in Alabama.

Attached:

[https://www.al.com/news/2016/01/when\\_the\\_rsa\\_bought\\_a\\_skyscrap.html](https://www.al.com/news/2016/01/when_the_rsa_bought_a_skyscrap.html)

<https://www.alreporter.com/2019/11/06/opinion-the-story-of-dr-david-bronner-rsa-robert-trent-jones-golf-courses/>

**Submitted by:**



**SD - Approved**

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Steve Delaney  
Chief Executive Officer

NEWS

# When the RSA bought a skyscraper, smashed the mob, and launched an empire

Updated Mar 07, 2019;  
Posted Jan 27, 2016

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By Casey Toner

rsainvestments.zip

The glittering jewel of the Retirement Systems of Alabama real estate portfolio, 55 Water Street in New York City. Last year, the investment was worth about \$1.52 billion. ([www.55water.com](http://www.55water.com))

Alabama's pension system bought a 3.8 million-square-foot skyscraper in New York City in 1993 for a fraction of its worth and needed an honest man to run it.

So they turned to an undercover detective who was working under a fake name in concert with a legendary New York City district attorney to take bribes from mobsters.

The ensuing investigation helped lead to the downfall of two of the nation's largest crime families, the end of a multi-million dollar garbage collection racket, and helped launch an unlikely second act for a New York cop. This time under his real name.

As for the Retirement Systems of Alabama, the building was a windfall investment.

Purchased for about \$202 million, the 53-story floor is now worth an eye-popping \$1.5 billion. It rents at \$58 per square foot and leases to some of the biggest names in fashion and business. Millions of dollars of proceeds from the skyscraper flood into the RSA coffers annually.

It cleared the path for future RSA investments in resorts, office buildings, golf courses, a media conglomerate, and other businesses that now color the Alabama landscape. Today, the RSA has more than \$38 billion in assets and its CEO David Bronner is one of the most powerful businessmen involved with state government.

"It's definitely the best investment the Retirement Systems of Alabama in its history has ever made," said Marc Reynolds, a longtime RSA deputy director who was fired from the RSA in 2012.

"It was like someone going to the dog track and winning big money and you're hooked and you think it can do it every time."

### Going undercover



Talk about fake it until you make it.

That's exactly what Harry Bridgwood did at 55 Water Street.

A New York City undercover detective, Bridgwood's corporate experience was limited. He co-owned a sporting goods store with two other police officers, shared a franchise for a Tropicana juice delivery route, and never graduated from college, according to a New York Times story

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Morgenthau, a celebrated World War 2 veteran, said that Bridgwood had the right character to do the job.

"Nobody suspected him," said Morgenthau, now 96. "He played the role of a corrupt owner's agent really well."

The idea was that Bridgwood, wearing a wire and using the fake name "Paul Vassil," would coordinate bribes and rig bids with V. Ponte & Sons. Morgenthau has deep Alabama ties and had previously collaborated in the past with Bronner, who signed off on the project.

In 1992, Bronner and the RSA led a bankruptcy takeover of the 53-story building after its former owners defaulted on \$548 million worth of loans on the building.

The RSA was the largest single holder of the loans, with \$100 million worth, and put together a deal to buy out the other loan holders for 29 cents on the dollar.

At the time, the building was in desperate need of repair and beholden to a number of criminal forces.

None was bigger than the garbage collection firm that had the contract at the building for more than two decades.

At their height, the Gambino and Genovese crime families that controlled the garbage cartel overcharged their clients up to \$500 million a year, prosecutors alleged. This wasn't the only scam either.

In an interview with AL.com, Bronner recalled a tiny flower garden in the building that one man was paid \$50,000 a year to water. There was also a ghost payroll scheme where 15 union members were charging the building for the work of two non-union immigrants.

"Everything had a scam to it," Bronner said. "You name it, there was something going on."

## **Cracking the case**

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\$150 million renovation that would turn the run-down building into a first class property.

Part of the process of renovating the building included rebidding the building's costly service contracts. That meant the mob-controlled garbage enterprise - which was overcharging the skyscraper by \$1 million annually - might be out of work.

Bridgwood met with Vincent Ponte, the son of Angelo Ponte, the former head of what once was New York's largest garbage-hauling company. During their meetings, Ponte slipped Bridgwood two envelopes containing \$5,000 worth of cash to keep the contract with the skyscraper, and later to see the bids at the last minute so that his firm could undercut them.

Then, the police swooped in. A total of 34 people, 34 companies, and four trade waste associations were indicted as part of the five-year investigation.

"We know the cartel functioned because we infiltrated it," Morgenthau said in a June 1995 press release announcing the indictments. "We attended their meetings. We dealt directly with their leadership. We saw and experienced first-hand how the cartel used its coercive powers and its organized crime connections to ensure that no one would challenge their control. In short, we became an accepted member of the established criminal enterprise."

Interestingly, Morgenthau noted that it "took the Retirement Systems of Alabama to stand up and do the right thing."

Ponte pleaded guilty to accepting \$10,000 in bribes, got five years on probation, and now has a job with Ponte Equities. He did not respond to multiple messages. His father, Angelo Ponte, was sentenced to two to six years in state prison.



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### **'It made us a player'**

In the end, Harry Bridgwood became who he pretended to be.



Harry Bridgwood

When the investigation wrapped up, Bronner kept the former undercover police officer as the head of 55 Water Street.

In his permanent role, Bridgwood helped attract big name tenants such Standards and Poor's, the NYC Department of Transportation, and communications firm Bowne & Co.

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Bridgwood received a total compensation of \$285,648 two years ago, making him one of 14 employees there that received a six-figure salary, according to the last available tax records.

He was an employee of New Water Street Corp, a non-profit that was created to funnel the building's proceeds to Alabama's pension fund.

But if he were paid as a state employee, Bridgwood would have been the fourth-highest paid Alabama state employee that year, right behind the late RSA senior counsel William Stephens (\$314,672), RSA deputy secretary Donald Yancey (\$325,000), and Bronner (\$562,494), the state's highest-paid employee.

With his ties to Bronner and the RSA's vast business network, Bridgwood expanded his clout in Alabama. He is a board member for Raycom Media, the media conglomerate that the RSA now has a \$2.7 billion stake in, and Hope for the Warriors - a veteran's charity whose board treasurer is the Raycom Media CEO.

Bridgwood, who was unavailable for immediate comment, retired from the job in July 2014.

Today, the skyscraper is the jewel of the RSA's eclectic real estate portfolio which includes a number of high-rise office buildings in Mobile and Montgomery.

It all started with a fake persona and the mobbed up skyscraper that the RSA bought on the cheap.

"We're in Alabama, the fifth poorest state in America," Bronner said. "Who cares about Alabama besides you and me and a handful of other people? The point is the world didn't care about us. It made us a player."

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FEATURED COLUMNISTS

## Opinion | The story of Dr. David Bronner, RSA, Robert Trent Jones Golf Courses



Published 2 days ago on November 6, 2019  
By Steve Flowers



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Dr. David Bronner has marked his place in Alabama political and governmental history. He has headed the revered Retirement Systems of Alabama Pension Funds for 45 years. When Bronner took his present job




Today, 46 years later, Bronner is a youthful looking 74 with plenty of vigor and probably no plans to retire. He loves golf and good cigars. When you have a conversation with him it is an experience you will never forget. He is extremely vivacious and quick witted. There is no mistaking that you are talking with someone very intelligent. He has digested your words almost before they are out of your mouth and will reply immediately with a succinct response that appears as though he has given it 15 minutes of thought. Of course, that may be because we native Alabamians talk a little slower than he does.

The Retirement System of Alabama has contributed a great deal to the state's economy over the last 45 years. The RSA manages pensions for 358,000 public teachers and public employees. At the end of 2018, Dr. Bronner and RSA had \$43.8 billion under management.

However, the greatest legacy that Dr. Bronner may enjoy is his creation of Alabama's Robert Trent Jones Golf Trail. This idea generated a profit for RSA in the first years. The brilliance of the Golf Trail is not only the profits the Trail generates for the RSA, but the peripheral boost to our state's economy.

The Trail has enhanced the image of Alabama. It has also benefitted the state's attractiveness for corporate recruitment. The economical benefits and prestige that it brings to our state are exponential.



The courses have made Alabama a tourist destination. It brings well-heeled northern golfers to our state for week long stays who spend untold amounts of money in our hotels and restaurants. Snowbird golf enthusiasts are locked out of their courses six to seven months of the year. They journey to warm climes of the Heart of Dixie to play these world class courses. They might look at the adjoining hole and see Dr. Bronner playing, chomping on his ever-present cigar.



The Robert Trent Jones Golf Trail's first seven sites were constructed in Birmingham, Mobile, Huntsville, Opelika-Auburn, Dothan and Greenville. These seven were completed from 1990 to 1994. The Prattville



Dr. Mark Fagan has authored a wonderful book on Alabama's Golf Trail, Dr. Bronner and the RSA. It is entitled, "Alabama's Public Pension Fund Growth and Economic Expansions since 1972."

See you next week.

*Steve Flowers is Alabama's leading political columnist. His weekly column appears in over 60 Alabama newspapers. He served 16 years in the state legislature. Steve may be reached at [www.steveflowers.us](http://www.steveflowers.us).*

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Steve Flowers

Steve Flowers is Alabama's leading political columnist. His weekly column appears in over 60 Alabama newspapers. He served 16 years in the state legislature. Steve may be reached at [www.steveflowers.us](http://www.steveflowers.us).

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ELECTIONS

## Opinion | Jeff Sessions grovels his way into Senate race



Published 11 hours ago on November 8, 2019  
By Josh Moon



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The weakest man in America is running for U.S. Senate in Alabama.

Jeff Sessions, surprising no one, formally announced his intentions to run for his old Senate seat during an interview on Fox News Tuesday night.

The interview was a pathetic, groveling surrender by the former attorney general, as he praised Donald Trump and repeatedly brushed aside Trump's harsh and embarrassing criticisms of him. Sessions' interview was preceded by his first ad, which was, somehow, even more pathetic than the interview.

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In the ad, Sessions, seated by himself, attempts to win over the Trump sycophants by stressing that he didn't "write a tell-all book" or say "a cross word about our president" after he was pushed out by Trump. He then went on to praise Trump and the job he's doing "for Alabama."

It was, to borrow a popular word from Trump, sad.

Who could vote for this guy?

Here's Sessions, on the backside of a long life in public office and a few months removed from being U.S. Attorney General. He served 20 years in the U.S. Senate.





that any and every minority group suffered just a little more and a little longer if he had any say-so whatsoever. But in this one specific instance — his decision to recuse from the Russia investigation — he happened to be right.

And everyone in America knows he was right. The only reason Trump is mad at Sessions is because Sessions refused to take a bullet for Trump and illegally block the investigation.

These are facts.

But Sessions is so weak he won't just say that. He won't stand up for himself, or for the rule of law that he proclaims to cherish so deeply.

Instead, he crawls back on his hands and knees to praise the con man and beg forgiveness.

Because he thinks that will get him votes.

Just like Bradley Byrne thinks that pretending he had an incomplete lobotomy will help him win GOP votes. And just like Tommy Tuberville thinks if he just keeps saying the word "folks" followed by the most offensive thing he can think of about any minority group it will help him win votes.

All three of them so completely and utterly turned to mush by a former reality TV star who has never worked a day in his life and has never served anyone other than himself.

But then, maybe this is the perfect GOP field for Alabama.

It is certainly the best illustration of the choice that has doomed us for our entire existence: Reality vs. The Facade.

On the one side, there is this group of groveling goobers selling people a line of total BS. Not one of them has a plan for actually helping working people in this state. Instead, they just travel around the state every day, calling into radio shows and jabbering in front of rotary clubs, telling anyone who will listen how much they love Trump and how they loved Trump before anyone else and how they will be the Trump, Trump, Trumpiest of them all.

Which is quite the tactic considering that Trump has KILLED this state. His tariffs and idiotic bickering with foreign leaders have crushed Alabama manufacturers and farmers.

Yet, not a peep from any of the GOP candidates about that.

On the other side, there is Doug Jones, just working away, helping average Alabama workers live better lives. Passing bipartisan bills left and right that protect workers' pensions and benefits, that provide job training programs for workers who might lose their jobs to automation, that protect public education, that provide funding for rural health care programs.

Jones hasn't run from a fight. He hasn't placated anyone. He hasn't backed away from criticizing both Democrats and Republicans at times.





of "climate emergency"



**Josh Moon**



Josh Moon is an investigative reporter and featured columnist at the Alabama Political Reporter with years of political reporting experience in Alabama. You can email him at [jmoon@alreporter.com](mailto:jmoon@alreporter.com) or follow him on Twitter.

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## Memorandum

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**DATE:** November 18, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Cynthia Hockless, Director of Administrative Services  
**SUBJECT:** TRAVEL REPORT – IPMA HUMAN RESOURCES PUBLIC PENSION ROUNDTABLE

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### Written Report

#### Background/Discussion

From October 09-11, 2019, Cynthia Hockless, Director of Administrative Services, attended the 2019 International Public Management Association for Human Resources Public Pension Roundtable in Boston, MA.

The total cost includes the following:

Conference Fee	Airfare	Hotel	Mileage	Mileage	Total
\$600.00	\$486.60	\$1,040.31	\$112.28	\$47.17	\$2,286.36

As the California Retired County Employees Association Conference is not presently a pre-approved conference, OCERS’ Travel Policy, Section 19, states:

“Board Members and staff who travel to conference or seminars that are not automatically authorized in paragraphs 8 and 12 shall file with the Chief Executive Officer a report that briefly summarizes the information and knowledge gained that may be relevant to other Board members, provides an evaluation of the conference or seminar, and provides a recommendation concerning future participation. Reports by a Board Member or staff will be made on the Conference / Seminar Report form shown in the appendix. The Chief Executive Officer shall cause a copy of the report to be distributed to each Board Member and to the Chief Investment Officer.”

A report summarizing the conference is attached.

**Submitted by:**

**Approved by:**



**CH - Approved**



**BS - Approved**

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Cynthia Hockless  
 Director of Administrative Services

---

Brenda Shott  
 Assistant CEO, Finance & Internal Operations

## Report of Attendance at Conference or Seminar

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Name of Member Attending: Cynthia Hockless

Name of Conference/Seminar: IPMA-Human Resources Public Pension Roundtable

Location of Conference/Seminar: Boston, Ma

Conference/Seminar Sponsor: International Public Management Association for Human Resources

Dates of Attendance: October 09-11, 2019

Total Cost of Attendance: \$2,286.36 (\$600.00 registration, Hotel \$1,040.31, Airfare & Baggage: \$486.60

Meals: \$47.17 Transportation to and from Airport and Airport parking: \$112.28

### **Brief Summary of Information and Knowledge Gained:**

The International Public Management Association for Human Resources annual Public Pension HR Organization Roundtable draws together HR professionals from Public Pension funds throughout the country to learn from industry experts, discuss current issues, and share best practices and ideas from their organizations.

The conference was held in Boston, Massachusetts and included sessions that focused on Recruitment, Employee Engagement, Diversity and Inclusion, Investment industry compensation trends in Public Pension Funds, as well as what is happening in Washington D.C as it relates to Employment Laws.

Key sessions I attended:

### **Employee Engagement**

This session was led by the Director of Professional Development at the Ohio Public Employees Retirement System. This presentation was an interactive group discussion focused on employee engagement and employee engagement surveys.

### **Mercer: A Discussion of Investment Pay in Public Pension Funds**

#### **Jon Mason, Partner and Josh Wilson, Partner**

This session discussed the war for talent and concerns about the future of the economy as it relates to the changes in the workforce. Mercer presented their research on talent trends and the future of work. In addition, Mercer shared their research on public pensions and similar organizations to connect some of the compensation trends with the broader talent trends to tie both parts together. Jon Mason and Josh Wilson discussed Institutional Investment Compensation and their experience with public pension funds, endowments, foundations and private industry.

### **Panel Discussion and Open Mic: Discussion of Critical HR Issues at Each Fund**

This session gave me the opportunity to gain insight and feedback from experienced colleagues on critical HR issues affecting not only OCERS but other pension funds. The topics included issues within the HR body of knowledge, such as data analytics, compensation, employee relations, leadership development and recruiting. This session also included a panel of experts that shared their successful innovative approaches to attracting, retaining and building diverse work teams.

### **CFA Institute presented on Diversity, Equity and Inclusion**

Dr. Kelli Palmer, Ph.D. Head, Global Diversity and Inclusion and Corporate Citizenship

This was an Interactive workshop on diversity, equity and inclusion.

## Report of Attendance at Conference or Seminar

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### **What's Happening in Washington D.C?**

The IPMA Executive Director provided an update on legislative/regulatory and judicial issues impacting public sector HR. Topics covered health care reform, Fair Labor Standards Act, wellness programs, and recent US Supreme Court decisions.

### **Pre-Hire Assessments Practitioner Presentation**

Director of Organizational Excellence at the Teacher Retirement System of Texas and the Human Resource Services Director from State Teachers Retirement System of Ohio presented an interactive group discussion focused on pre-hire and behavioral assessments. Participants shared their experiences, ideas and best practices around pre-employment testing.

### **Evaluation of the Conference or Seminar:**

The Public Pension Human Resources Organization Roundtable was attended by HR professionals across the nation. I enjoyed attending as the presenters are energetic. The topics include best practices and common concerns amongst the various pension systems regardless of their location.

### **Recommendation Concerning Future Attendance:**

I would like to continue to attend the Public Pension Human Resources Organization Roundtable. I find their learning sessions very valuable and they present an excellent opportunity for me to stay abreast of the current HR trends in the pension industry and gain CEU's for my SHRM-CP Human Resources credential.

Submitted by: Cynthia Hockless  
Director of Administrative Services

Return to: Executive Assistant

Copies to: Board Members  
Chief Executive Officer  
Assistant Chief Executive Officers

I-8



## Memorandum

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**DATE:** October 21, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** **PUBLIC PENSION COORDINATING COUNCIL (PPCC) STANDARDS AWARD FOR FUNDING AND ADMINISTRATION**

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### *Written Report*

#### **Background/Discussion**

The Public Pension Coordinating Council (PPCC) is a coalition of three associations that represent public pension funds who cover the vast majority of public employees in the United States. The associations are the National Association of State Retirement Administrators (NASRA), the National Conference of Public Employee Retirement Systems (NCPERS) and the National Council on Teacher Retirement (NCTR).

The Public Pension Standards are intended to reflect minimum expectations for public retirement system management and administration, as well as serve as a benchmark by which all defined benefit public plans should be measured. The Standards are separated into the Administrative Standards and Funding Standard. A retirement system may qualify and receive a Recognition Certificate for either the Administrative or Funding Standard. A system that qualifies for both certificates will be awarded the PPCC Standards Award.

To qualify for the Recognition Award for Administration, the retirement system is assessed on the following administrative standards:

- Comprehensive Benefit Program
- Audit
- Actuarial Valuation
- Investments
- Communications

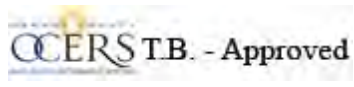
To qualify for the Recognition Award for Funding, the retirement system must meet the Funding Adequacy Standard by demonstrating that actual contribution rates are at a level equal or greater than 100% of the actuarially determined contribution (ADC).

PPCC has deemed OCERS to be proficient in both categories and has awarded OCERS with the Public Pension Standards Award for Funding and Administration in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards as of December 31, 2018.

#### **Attachment**

Public Pension Standards Award for Funding and Administration 2019

**Submitted by:**



Tracy Bowman  
Director of Finance





Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2019***

Presented to

***Orange County Employees Retirement System***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is fluid and cursive, with the first name "Alan" being more prominent.

Alan H. Winkle  
Program Administrator

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# Memorandum

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**DATE:** October 30, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** **THIRD QUARTER 2019 BUDGET TO ACTUALS REPORT**

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## Written Report

### Highlights

Third Quarter Target: 75% Used /25% Remaining

<b>Administrative Budget</b>	<b>Actuals to Date</b>	<b>Annual Budget</b>	<b>Budget \$ Remaining</b>	<b>Budget % Remaining</b>
Personnel Costs	\$ 10,247,742	\$ 14,764,600	\$ 4,516,858	30.6%
Service and Supplies	5,831,343	11,298,230	5,466,887	48.4%
Capital Expenditures	52,264	370,000	317,736	85.9%
<b>Grand Total</b>	<b>\$ 16,131,349</b>	<b>\$ 26,432,830</b>	<b>\$ 10,301,481</b>	<b>39.0%</b>

### Background/Discussion

The Board of Retirement approved OCERS’ Administrative Budget for Fiscal Year 2019 (FY19) on November 19, 2018, in the amount of \$26,432,830 for administration and investment related activities.

OCERS’ budgeting authority is regulated by California Government Code Sections 31580.2 and 31596.1, including a provision that OCERS’ budget for administrative expenses is limited to twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system, excluding investment related costs and expenditures for computer software, hardware and related technology consulting services (commonly referred to as the 21 basis point test). The approved FY19 administrative budget represents 8.93 basis points of the projected actuarial accrued liability. The budget also meets OCERS’ Board policy limitation of 18 basis points of the projected actuarial value of total assets and represents 14.20 basis points of these assets for FY19.

The Chief Executive Officer, or the Assistant CEO, has the authority to transfer funds within the three broad categories of the budget: 1) Personnel Costs, 2) Services and Supplies, and 3) Capital Expenditures. Funds may not be moved from one category to another without approval from the Board of Retirement.

### Administrative Summary

For the nine months ended September 30, 2019, year-to-date actual administrative expenses were \$16,131,349 or 61.0% of the \$26,432,830 administrative budget and below the 75% target set for the end of the third quarter budget by approximately \$3.7 million. A summary of all administrative expenses and explanations of significant variances are provided below:

**Summary of all Administrative Expenses  
For the Quarter Ended September 30, 2019**

	Actuals to Date	Annual Budget	Balance Remaining	% of Budget Used	Prorated Budget*	Prorated Budget vs. Actuals (Over)/Under
<b>Personnel Costs</b>	\$ 10,247,742	\$ 14,764,600	\$ 4,516,858	69.4%	\$ 11,073,450	\$ 825,708
<b>Services and Supplies</b>						
Bldg. Prop. Mgmt./Maintenance	309,299	680,000	370,701	45.5%	510,000	200,701
Due Diligence	13,095	80,000	66,905	16.4%	60,000	46,905
Equipment Lease	40,665	62,000	21,335	65.6%	46,500	5,835
Equipment/Software Expenses	186,066	706,500	520,434	26.3%	529,875	343,809
Infrastructure Maintenance	498,014	829,100	331,086	41.2%	621,825	123,811
Legal Services	607,049	1,475,000	867,951	41.2%	1,106,250	499,201
Meetings & Mileage	47,658	61,350	13,692	77.7%	46,013	( 1,645 )
Membership/Periodicals	64,838	71,960	7,122	90.1%	53,970	( 10,868 )
Office Supplies	52,852	80,000	27,148	66.1%	60,000	7,148
Postage	79,455	164,500	85,045	48.3%	123,375	43,920
Printing	55,325	105,000	49,675	52.7%	78,750	23,425
Professional Services	3,542,318	6,331,000	2,788,682	56.0%	4,748,250	1,205,932
Telephone	97,766	165,500	67,734	59.1%	124,125	26,359
Training	236,943	486,320	249,377	48.7%	364,740	127,797
<b>Services and Supplies</b>	<b>5,831,343</b>	<b>11,298,230</b>	<b>5,466,887</b>	<b>51.6%</b>	<b>8,473,673</b>	<b>2,642,330</b>
<b>Capital Expenditures**</b>	<b>52,264</b>	<b>370,000</b>	<b>317,736</b>	<b>14.1%</b>	<b>277,500</b>	<b>225,236</b>
<b>Administrative Expense Total</b>	<b>\$ 16,131,349</b>	<b>\$ 26,432,830</b>	<b>\$ 10,301,481</b>	<b>61.0%</b>	<b>\$ 19,824,623</b>	<b>\$ 3,693,274</b>

\*Prorated budget represents 75% (9 months/12 months) of the annual budget.

\*\*Capital expenditures represent purchases of assets to be amortized in future periods.

## Personnel Costs

Personnel Costs as of September 30, 2019 were approximately \$10.2 million or 69.4% of the annual budget for this category. These costs are slightly below budget due to the timing of hiring new staff. The newly created Training Manager position adopted in the 2019 Budget was filled during the second quarter. During the third quarter, four staff vacancies were filled; two Retirement Program Specialists, one Staff Attorney and one Investment Analyst. Also in the third quarter, the Director of Member Services position became vacant and the search for a replacement is currently underway.

## Services and Supplies

Expenditures for services and supplies were approximately \$5.8 million or 51.6% of the annual budget for this category. The positive variance of \$2.6 million between the pro-rated budget and year-to-date actuals is primarily due to the following:

- Building Property Mgmt./Maintenance costs utilized 45.5% of the annual budget and were lower than the prorated budget by \$200,701. Lower overall costs are related to timing of payments for property

tax and insurance premiums, as well as postponement of a planned roof repair that has not yet occurred as of the end of the third quarter.

- Due Diligence costs are at 16.4% of the annual budget and lower than the prorated budget by \$46,905. This lower than anticipated cost is due to fewer visits than planned. Due diligence visits to investment managers tend to fluctuate throughout the year and are often done in conjunction with other investment conference/training travel. Due diligence costs are expected to remain under budget through the remainder of the year.
- Equipment/Software expense utilized 26.3% of the annual budget, and is lower than the prorated budget by \$343,809. The lower than expected expenditures is the result of several projects budgeted for the year which are either in process or have not been started as of the end of the third quarter, such as the manage file transfer solution, the board portal upgrade, rapid recovery appliance, patch management solution, change management solution and the anti-spam email solution. These expenses are expected to pick up later in the year. Additionally, miscellaneous hardware, software, and computer and printer supplies are running substantially below the prorated budget and are incurred on an as-needed basis.
- Infrastructure Maintenance costs are at 60.1% of the annual budget resulting in an unused prorated budget of \$123,811. Various infrastructure maintenance costs associated with software and hardware support services did not incur costs until the third quarter, such as Microsoft Software Assurance and website hosting. Additionally, many hardware and software support services are currently lower than budgeted, including server and workstation hardware support, printer and computer room maintenance, other miscellaneous software and Oracle-V3 support.
- Legal Services are at 41.2% of the budget and are lower than the prorated budget by \$499,201. Legal services for investments, litigation and tax counsel are utilized on an as-needed basis. Investment legal services are below budget by approximately \$207,000. General board, tax counsel and other counsel services are under budget by approximately \$292,000.
- Meetings & Mileage costs are slightly above the prorated budget for the quarter ended at 77.7%, or \$1,645. The variance is primarily due to Board meeting costs including additional meetings for Personnel Committee and Disability Committee meetings that were added to the Board members meeting schedule, as well as travel to SACRS and legislative meetings by Board representatives. This category is expected to be within budget at year-end.
- Memberships/Periodical expense is at 90.1% of the annual budget which is above the prorated budget by \$10,868. Memberships and periodical costs renew at different times throughout the year. In addition, membership costs have come in higher than expected. As the total amount expended under the Services and Supplies category remains under budget, an amendment is not required to cover the Membership budget shortfall at this time. The CEO or Assistant CEO has the authority to move budget dollars within the Services and Supplies category to cover the shortfall and as of the third quarter, there were sufficient dollars available in other Services and Supplies line items to offset this shortage.
- Postage is at 48.3% of the annual budget and lower than the prorated budget by \$43,920. This is attributable to the timing of bulk mailings to members and the use of postage on an as-needed basis. In addition, the number of pages in the newsletter to members has been reduced resulting in a savings of postage, as more communication is done electronically. No additional mass mailings have been needed during 2019 to date.

- Printing costs are at 52.7% of the annual budget and lower than the prorated budget by \$23,425. As with postage, printing costs are lower due to timing of mailings and a savings from the reduction in the number of pages in each mailing.
- Professional Services utilized 56.0% of the annual budget and are lower than the prorated budget by \$1,205,932. The variance is primarily due to timing of expenses for various Information Security and IT related consulting such as Office 365 migration consulting and security penetration testing; cost savings in some areas such as Board election costs, actuarial services and investment risk reporting services; as well as costs used on an as-needed-basis, including internal audit consultants and services, CEO contingency and court reporter fees.
- Telephone expenses are at 59.1% of the annual budget, and currently below the prorated budget by \$26,359. Telephone expenses are not expected to remain below budget as OCERS plans to switch to a new system during the fourth quarter.
- Training expense is at 48.7% of the annual budget and lower than the prorated budget by \$127,797, primarily due to training costs that have been budgeted, but not yet incurred, including SACRS fall conference, investment-related conferences, employee tuition reimbursement, IT related training, and other various staff training and conferences.

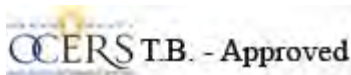
### **Capital Expenditures**

Capital Expenditures as of the third quarter total \$52,264. Capital expenditures budgeted for the year are for building HVAC repair and board room audio visual improvements. The building HVAC has been partially serviced and additional capital expenditures have been incurred related to building assessment costs. The audio visual improvements for the board room are expected to be implemented later in the year or beginning of 2020.

### **Conclusion:**

As of quarter-end, the Administrative budget based on preliminary actuals is at 61.0% of the annual budget. As actual administrative expenses are under the annual budget, OCERS is in compliance with the 21 basis point test and the 18 basis point test.

### **Submitted by:**

A rectangular stamp with a blue border. The text "OCERS T.B. - Approved" is written in a blue, serif font. There is a small graphic element at the top left of the stamp.

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Tracy Bowman  
Director of Finance

**1-10**



## Memorandum

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**DATE:** November 4, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** **THIRD QUARTER UNAUDITED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

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### Written Report

#### Background/Discussion

The attached financial statements reflect the unaudited financial activity for the nine months ended September 30, 2019. These statements are unaudited and are not the official statements of OCERS. The following statements represent a review of the progress to date through the third quarter of 2019. In 2018, the OCTA OPEB 115 had been reported as an Agency Fund. Starting with the first quarterly statement of 2019, the OCTA OPEB 115 fund is being reported as a Custodial Fund in accordance with the implementation of GASB Statement No. 84, *Fiduciary Activities*. The change from an Agency Fund to a Custodial Fund records the activity of the fund in the Statement of Changes in Fiduciary Net Position. This results in presenting an additional fund in the Statement of Changes in Fiduciary Net Position, and an ending fiduciary net position for the Custodial Fund. The official financial statements of OCERS are included in the Comprehensive Annual Financial Report (CAFR) as of and for the year ended December 31, 2018, which is available on our website, [www.ocers.org](http://www.ocers.org).

#### Summary

##### Statement of Fiduciary Net Position (Unaudited)

As of September 30, 2019, the net position restricted for pension and other postemployment benefits is \$16.4 billion, an increase of \$849.7 million, or 5.5%, from September 30, 2018. The change is a result of an increase in total assets of \$773.0 million and a decrease in total liabilities of \$76.7 million as described below:

The increase of \$773.0 million, or 4.6%, in total assets can be attributed to a \$987.0 million increase in total investments at fair value and a \$64.9 million increase in total receivables. These increases were off-set by decreases of \$276.5 million in total cash and short-term investments and \$2.4 million in total capital assets.

The \$987.0 million increase in total investments at fair value as of the third quarter of 2019 can be attributed mostly to increases in net appreciation of investments at fair value, in addition to earnings from interest and dividends, and the investment of proceeds received from prepaid employer contributions. The increases in private equity, core fixed income and risk mitigation are primarily the result of the new asset allocation policy adopted by the Board of Retirement in October 2018, to increase investments in the areas of private equity and risk mitigation, while eliminating or limiting the investments in real assets and credit categories. Private equity increased by \$193.9 million as of September 30, 2019 as OCERS' private equity fund-of-fund managers have continued to



benefit from a strong exit environment which has led to significant distributions enhancing performance numbers. Core fixed income increased by \$225.8 million in 2019 and is performing well as yields have come down and prices have gone up. U.S. Long Treasury Bonds and OCERS' new systematic trend following managers continues to do well in the third quarter of 2019 and has led to strong one year returns in risk mitigation which increased \$938.0 million. The real assets and absolute return asset classes decreased by a total of \$348.8 million, which is in line with the new asset allocation policy.

The total receivables increase of \$64.9 million is related to the timing of securities sales which increased \$75.0 million offset by a decrease in contributions receivable which decreased \$7.9 million due to the timing of employee and employer contributions received from plan sponsors.

The decrease of \$276.5 million in total cash and short-term investments consists of a decrease of \$76.8 in cash and cash equivalents due to the timing of investing redemptions and distributions, as well as employee and employer contributions received during the quarter and a decrease in securities lending collateral of \$199.7 million due to a reduction in OCERS on-loan balances in the securities lending program.

The decrease in total capital assets, net, of \$2.4 million from the prior year is primarily due to depreciation expense related to the Pension Administration System Solution (PASS) Project, V3.

Total liabilities decreased by \$76.7 million, or -6.2%, from September 30, 2018 to September 30, 2019, which included a \$199.7 million decrease in the obligations under the securities lending program, which is directly related to the decrease in securities lending collateral, as previously discussed. The decrease was offset by an increase in unsettled security purchases of \$92.6 million and unearned contributions which increased \$20.9 million due to larger prepaid employer contributions received for the fiscal year 2019-2020 prepayment program compared to the prior year's prepayment program. Retiree payroll payable increased \$6.4 million due to gradual increases in the number of participants in the plan and retiree benefits paid. Other liabilities decreased by \$4.7 million due to the timing of other investment related activity.

#### **Statement of Changes in Fiduciary Net Position (Unaudited)**

The ending net position restricted for pension and other postemployment benefits for the nine months ended September 30, 2019 increased by \$849.7 million, or 5.5%, when compared to the nine months ended September 30, 2018. The majority of the increase can be attributed to higher investment returns in 2019 versus 2018. The combined return on the investment portfolio was 10.19% for the nine months ended September 30, 2019, compared to a return of 2.93% for the same period ended September 30, 2018.

Net investment income for the nine months ended September 30, 2019 is \$1.6 billion versus \$401.9 million for the nine months ended September 30, 2018, an increase of \$1.2 billion. The majority of the increase is related to the net appreciation in fair value of investments. During the third quarter of 2019, financial markets continued to experience stronger market performance and higher returns compared to 2018. In 2018, financial markets struggled throughout the year as global equities suffered steep declines amid persistent worries over trade and economic growth. Global public equities showed a substantial rebound in the third quarter of 2019, with a return of 15.83% versus 2.60% as of the third quarter of 2018. The yields on long bonds have come down over the last 12 months while prices have appreciated, leading to strong performance for the core fixed income which had a

return of 8.38% for the nine months ended September 30, 2019 compared to a loss of -1.26% for the nine months ended September 30, 2018. Investment fees and expenses increased by \$16.6 million. The components of the increase include increases to investment manager fees for credit and private equity asset classes of \$3.1 million and \$5.8 million, respectively, and other fund expenses increasing by \$4.3 million, which is expected, due to more investment activity.

Total contributions for the nine months ended September 30, 2019 increased \$35.0 million from the prior year. The increase can be attributed to employer contributions in the Pension Trust Fund which increased by \$35.6 million compared to the prior year primarily due to unfunded actuarial accrued liability payments made during the quarter by the Orange County Sanitation District for \$8.1 million and Transportation Corridor Agencies for \$12.8 million.

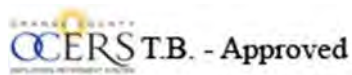
Total deductions from fiduciary net position restricted for pension and other postemployment benefits increased \$59.5 million, or 9.0%, from the prior year. Participant benefits increased by \$59.0 million, which is expected due to the continued and anticipated growth in member pension benefit payments, both in the total number of OCERS' retired members receiving a pension benefit and an increase in the average benefit received. Member withdrawals and refunds decreased by \$1.2 million. The activity in this category fluctuates from year to year based on the occurrence of these events.

#### **Other Supporting Schedules**

In addition to the basic financial statements for the nine months ended September 30, 2019, the following supporting schedules are provided for additional information pertaining to OCERS:

- Total Plan Reserves
- Schedule of Contributions
- Schedule of Investment Expenses
- Schedule of Administrative Expenses
- Administrative Expense Compared to Actuarial Accrued Liability (21 basis points test).

#### **Submitted by:**



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Tracy Bowman  
Director of Finance



**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**Unaudited Financial Statements**

**For the Nine Months Ended September 30, 2019**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

Unaudited Financial Statements  
For the Nine Months Ended September 30, 2019

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**Statement of Fiduciary Net Position (Unaudited)**  
As of September 30, 2019  
(with summarized comparative amounts as of September 30, 2018)  
(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>OPEB 115 Custodial Fund</u>	<u>Total Funds</u>	<u>Comparative Totals 2018</u>
<b>ASSETS</b>						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 437,226	\$ 9,095	\$ 1,095	\$ 636	\$ 448,052	\$ 524,822
Securities Lending Collateral	<u>206,524</u>	<u>4,290</u>	<u>516</u>	<u>-</u>	<u>211,330</u>	<u>411,058</u>
Total Cash and Short-Term Investments	643,750	13,385	1,611	636	659,382	935,880
Receivables						
Investment Income	16,558	344	41	-	16,943	20,420
Securities Sales	326,160	6,775	816	-	333,751	258,848
Contributions	17,009	-	-	-	17,009	24,878
Foreign Currency Forward Contracts	862	18	2	-	882	270
Other Receivables	<u>3,714</u>	<u>77</u>	<u>9</u>	<u>-</u>	<u>3,800</u>	<u>3,101</u>
Total Receivables	364,303	7,214	868	-	372,385	307,517
Investments at Fair Value						
Global Public Equity	6,087,530	126,453	15,224	10,900	6,240,107	6,291,122
Private Equity	1,661,100	34,505	4,154	-	1,699,759	1,505,900
Core Fixed Income	2,777,461	57,695	6,946	5,683	2,847,785	2,621,971
Credit	1,735,336	36,047	4,340	-	1,775,723	1,746,587
Real Assets	2,205,616	45,816	5,516	-	2,256,948	2,605,086
Risk Mitigation	1,634,670	33,956	4,088	-	1,672,714	734,720
Absolute Return	<u>1,054</u>	<u>22</u>	<u>3</u>	<u>-</u>	<u>1,079</u>	<u>1,742</u>
Total Investments at Fair Value	16,102,767	334,494	40,271	16,583	16,494,115	15,507,128
Capital Assets, Net	<u>16,694</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,694</u>	<u>19,102</u>
<b>Total Assets</b>	<b><u>17,127,514</u></b>	<b><u>355,093</u></b>	<b><u>42,750</u></b>	<b><u>17,219</u></b>	<b><u>17,542,576</u></b>	<b><u>16,769,627</u></b>
<b>LIABILITIES</b>						
Obligations Under Securities Lending Program	206,524	4,290	516	-	211,330	411,058
Securities Purchased	433,244	9,000	1,083	-	443,327	350,711
Unearned Contributions	386,934	-	-	-	386,934	366,007
Retiree Payroll Payable	74,811	2,711	443	-	77,965	71,608
Other	25,296	539	65	-	25,900	21,239
Due to Employer	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,496</u>	<u>15,496</u>	<u>17,036</u>
<b>Total Liabilities</b>	<b><u>1,126,809</u></b>	<b><u>16,540</u></b>	<b><u>2,107</u></b>	<b><u>15,496</u></b>	<b><u>1,160,952</u></b>	<b><u>1,237,659</u></b>
<b>Net Position Restricted for Pension and Other Postemployment Benefits</b>	<b><u>\$ 16,000,705</u></b>	<b><u>\$ 338,553</u></b>	<b><u>\$ 40,643</u></b>	<b><u>\$ 1,723</u></b>	<b><u>\$ 16,381,624</u></b>	<b><u>\$ 15,531,968</u></b>

**Statement of Changes in Fiduciary Net Position (Unaudited)**  
For the Nine Months Ended September 30, 2019  
(with summarized comparative amounts for the Nine Months Ended September 30, 2018)  
(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>OPEB 115 Custodial Fund</u>	<u>Total Funds</u>	<u>Comparative Totals 2018</u>
<b>ADDITIONS</b>						
Contributions						
Employer	\$ 453,221	\$ 27,213	\$ 1,549	\$ -	\$ 481,983	\$ 452,848
Employee	206,255	-	-	-	206,255	200,801
Other Postemployment Contributions	-	-	-	447	447	-
<b>Total Contributions</b>	<b>659,476</b>	<b>27,213</b>	<b>1,549</b>	<b>447</b>	<b>688,685</b>	<b>653,649</b>
Investment Income						
Net Appreciation in Fair Value of Investments	1,337,671	26,130	3,271	866	1,367,938	288,258
Dividends, Interest, & Other Investment Income	287,918	5,980	720	1,413	296,031	176,608
Securities Lending Income						
Gross Earnings	6,387	133	16	-	6,536	5,096
Less: Borrower Rebates and Bank Charges	(5,452)	(113)	(14)	-	(5,579)	(3,919)
Net Securities Lending Income	935	20	2	-	957	1,177
<b>Total Investment Income</b>	<b>1,626,524</b>	<b>32,130</b>	<b>3,993</b>	<b>2,279</b>	<b>1,664,926</b>	<b>466,043</b>
Investment Fees and Expenses	(78,885)	(1,639)	(197)	(2)	(80,723)	(64,119)
Net Investment Income	1,547,639	30,491	3,796	2,277	1,584,203	401,924
<b>Total Additions</b>	<b>2,207,115</b>	<b>57,704</b>	<b>5,345</b>	<b>2,724</b>	<b>2,272,888</b>	<b>1,055,573</b>
<b>DEDUCTIONS</b>						
Participant Benefits	662,771	26,213	3,724	-	692,708	633,660
Death Benefits	484	-	-	-	484	296
Member Withdrawals and Refunds	10,709	-	-	-	10,709	11,942
Other Postemployment Benefits	-	-	-	986	986	-
Administrative Expenses	14,126	15	16	15	14,172	13,656
<b>Total Deductions</b>	<b>688,090</b>	<b>26,228</b>	<b>3,740</b>	<b>1,001</b>	<b>719,059</b>	<b>659,554</b>
Net Increase	1,519,025	31,476	1,605	1,723	1,553,829	396,019
Net Position Restricted For Pension and Other Postemployment Benefits, Beginning of Year	14,481,680	307,077	39,038	-	14,827,795	15,135,949
<b>Ending Net Position Restricted For Pension and Other Postemployment Benefits</b>	<b>\$ 16,000,705</b>	<b>\$ 338,553</b>	<b>\$ 40,643</b>	<b>\$ 1,723</b>	<b>\$ 16,381,624</b>	<b>\$ 15,531,968</b>

**Total Plan Reserves**

For the Nine Months Ended September 30, 2019

(with summarized comparative amounts for the Nine Months Ended September 30, 2018)

(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>
Pension Reserve	\$ 9,740,744	\$ 9,007,027
Employee Contribution Reserve	3,302,066	3,301,939
Employer Contribution Reserve	2,461,461	2,369,415
Annuity Reserve	1,783,341	1,412,419
Health Care Reserve	379,196	352,145
OPEB 115 Reserve	1,723	-
County Investment Account (POB Proceeds) Reserve	144,974	138,116
OCSD UAAL Deferred Reserve	-	14,871
Contra Account	<u>( 1,431,881 )</u>	<u>(1,063,964)</u>
<b>Total Net Position Restricted for Pension and Other Postemployment Benefits</b>	<b><u>\$ 16,381,624</u></b>	<b><u>\$ 15,531,968</u></b>

**Schedule of Contributions**  
For the Nine Months Ended September 30, 2019  
(with summarized comparative amounts for the Nine Months Ended September 30, 2018)  
(Dollars in Thousands)

	2019		2018	
	Employee	Employer	Employee	Employer
<b>Pension Trust Fund Contributions</b>				
County of Orange	\$ 159,824	\$ 337,415	\$ 156,325	\$ 325,562
Orange County Fire Authority	18,340	54,624	<sup>1</sup> 17,252	53,518 <sup>1</sup>
Orange County Superior Court of California	12,658	22,854	12,270	22,276
Orange County Transportation Authority	7,187	19,375	6,807	18,549
Orange County Sanitation District	5,805	14,017	<sup>2</sup> 5,720	5,609
UCI Medical Center & Campus	-	2,053	<sup>3</sup> -	2,223 <sup>3</sup>
Orange County Employees Retirement System	816	1,856	726	1,621
City of San Juan Capistrano	634	1,834	613	1,856
Orange County Mosquito & Vector Control District	-	878	<sup>5</sup> -	-
Transportation Corridor Agencies	558	13,849	<sup>4</sup> 682	1,284
Orange County Department of Education	-	194	<sup>3</sup> -	241 <sup>3</sup>
Orange County In-Home Supportive Services Public Authority	90	145	80	143
Orange County Cemetery District	112	135	105	128
Orange County Local Agency Formation Commission	33	109	29	96
Orange County Children & Families Commission	80	92	72	179
Orange County Public Law Library	118	87	120	141 <sup>6</sup>
Contributions Before Prepaid Discount	206,255	469,517	200,801	433,426
Prepaid Employer Contributions Discount	-	(16,296)	-	(15,807)
<b>Total Pension Trust Fund Contributions</b>	<b>206,255</b>	<b>453,221</b>	<b>200,801</b>	<b>417,619</b>
<b>Health Care Fund - County Contributions</b>	<b>-</b>	<b>27,213</b>	<b>-</b>	<b>33,578</b>
<b>Health Care Fund - OCFA Contributions</b>	<b>-</b>	<b>1,549</b>	<b>-</b>	<b>1,651</b>
<b>OPEB 115 Custodial Fund Postemployment Contributions</b>	<b>-</b>	<b>447</b>	<b>-</b>	<b>-</b> <sup>7</sup>
<b>Total Contributions</b>	<b>\$ 206,255</b>	<b>\$ 482,430</b>	<b>\$ 200,801</b>	<b>\$ 452,848</b>

<sup>1</sup> Unfunded actuarial accrued liability payments were made in 2019 and 2018 for \$3.3 million for the Orange County Fire Authority.

<sup>2</sup> Unfunded actuarial accrued liability payments were made in 2019 for \$8.1 million for the Orange County Sanitation District.

<sup>3</sup> Unfunded actuarial accrued liability payments have been made in accordance with a separate 20-year level dollar payment schedule to include liabilities for employee benefits related to past service credit.

<sup>4</sup> Unfunded actuarial accrued liability payments were made in 2019 for \$12.8 million for the Transportation Corridor Agencies.

<sup>5</sup> Unfunded actuarial accrued liability payments were made in 2019 for \$0.9 million for the Orange County Mosquito & Vector Control District.

<sup>6</sup> This balance reflects the payoff of \$1.5 million of the Orange County Public Law Library's full unfunded actuarial accrued liability (UAAL) on December 15, 2017, reducing the UAAL contributions rate to 0%.

<sup>7</sup> Presentation of the OPEB 115 Custodial Fund due to the implementation of GASB Statement No. 84, *Fiduciary Activities*. Due to immateriality of activity, 2018 has not been restated.



**Schedule of Investment Expenses**  
For the Nine Months Ended September 30, 2019  
(with summarized comparative amounts for the Nine Months Ended September 30, 2018)  
(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>
<b>Investment Management Fees*</b>		
Global Public Equity		
U.S. Equity	\$ 2,136	\$ 2,284
International Equity	3,810	3,877
Emerging Markets Equity	<u>3,410</u>	<u>3,679</u>
Total Global Public Equity	<u>9,356</u>	<u>9,840</u>
Core Fixed Income		
U.S. Fixed Income	<u>1,881</u>	<u>1,464</u>
Total Core Fixed Income	<u>1,881</u>	<u>1,464</u>
Credit		
High Yield	1,305	1,049
Emerging Markets Debt	1,501	485
Direct Lending	2,175	1,837
Multi-Strategy	3,583	2,461
Non-U.S. Direct Lending	<u>1,861</u>	<u>1,502</u>
Total Credit	<u>10,425</u>	<u>7,334</u>
Real Assets		
Real Estate	10,690	11,568
Real Return		
Timber	584	986
Agriculture	921	861
Infrastructure	3,085	616
Energy	<u>7,244</u>	<u>7,614</u>
Total Real Return	<u>11,834</u>	<u>10,077</u>
Total Real Assets	<u>22,524</u>	<u>21,645</u>
Absolute Return		
Direct Hedge Fund	<u>96</u>	<u>14</u>
Total Absolute Return	<u>96</u>	<u>14</u>
Private Equity	13,442	7,598
Risk Mitigation	5,807	3,974
Short-Term Investments	<u>287</u>	<u>231</u>
<b>Total Investment Management Fees</b>	<b><u>63,818</u></b>	<b><u>52,100</u></b>
<b>Other Fund Expenses<sup>1</sup></b>	<b><u>13,051</u></b>	<b><u>8,762</u></b>
<b>Other Investment Expenses (Expenses Not Subject to the Statutory Limit)</b>		
Consulting/Research Fees	1,398	1,212
Investment Department Expenses	1,651	1,234
Legal Services	356	366
Custodian Services	435	431
Investment Service Providers	<u>14</u>	<u>14</u>
<b>Total Other Investment Expenses</b>	<b><u>3,854</u></b>	<b><u>3,257</u></b>
<b>Security Lending Activity</b>		
Security Lending Fees	225	303
Rebate Fees	<u>5,354</u>	<u>3,616</u>
<b>Total Security Lending Activity</b>	<b><u>5,579</u></b>	<b><u>3,919</u></b>
<b>Total Investment Expenses</b>	<b><u>\$ 86,302</u></b>	<b><u>\$ 68,038</u></b>

\* Does not include undisclosed fees deducted at source.

<sup>1</sup> These costs include, but are not limited to, foreign income tax and other indirect flow-through investment expenses such as organizational expenses in limited partnership structures.

**Schedule of Administrative Expenses**

For the Nine Months Ended September 30, 2019

(with summarized comparative amounts for the Nine Months Ended September 30, 2018)

(Dollars in Thousands)

	<u>2019</u>	<u>2018</u>
<b>Pension Trust Fund Administrative Expenses</b>		
Expenses Subject to the Statutory Limit		
Personnel Services		
Employee Salaries and Benefits	\$ 8,743	\$ 8,147
Board Members' Allowance	<u>13</u>	<u>12</u>
Total Personnel Services	<u>8,756</u>	<u>8,159</u>
Office Operating Expenses		
Depreciation/Amortization	1,900	1,720
General Office and Administrative Expenses	1,089	1,352
Professional Services	1,385	1,213
Rent/Leased Real Property	<u>350</u>	<u>375</u>
Total Office Operating Expenses	<u>4,724</u>	<u>4,660</u>
Total Expenses Subject to the Statutory Limit	<u>13,480</u>	<u>12,819</u>
Expenses Not Subject to the Statutory Limit		
Actuarial Fees	221	350
Equipment/Software	85	215
Information Technology Professional Services	<u>340</u>	<u>241</u>
Total Expenses Not Subject to the Statutory Limit	<u>646</u>	<u>806</u>
<b>Total Pension Fund Administrative Expenses</b>	<b>14,126</b>	<b>13,625</b>
<b>Health Care Fund - County Administrative Expenses</b>	<b>15</b>	<b>15</b>
<b>Health Care Fund - OCFA Administrative Expenses</b>	<b>16</b>	<b>16</b>
<b>OPEB 115 Custodial Fund - Administrative Expenses</b>	<b><u>15</u></b>	<b><u>-</u></b>
<b>Total Administrative Expenses</b>	<b><u>\$ 14,172</u></b>	<b><u>\$ 13,656</u></b>

**Administrative Expense Compared to Actuarial Accrued Liability**

For the Nine Months Ended September 30, 2019

(Dollars in Thousands)

<b>Administrative Expense Compared to Actuarial Accrued Liability</b>	
Projected Actuarial Accrued Liability (AAL) as of December 31, 2019	\$ 21,747,090
Maximum Allowed For Administrative Expense (AAL * 0.21%)	45,669
Actual Administrative Expense <sup>1</sup>	<u>13,480</u>
Excess of Allowed Over Actual Expense	<u>32,189</u>
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2019	0.06%
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2018	0.08%
<sup>1</sup> Administrative Expense Reconciliation	
Administrative expense per Statement of Changes in Fiduciary Net Position	\$ 14,126
Less administrative expense not considered per CERL section 31596.1	<u>(646)</u>
Administrative Expense allowable under CERL section 31580.2	<u>\$ 13,480</u>

**1-11**

## Memorandum

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**DATE:** November 14, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Brenda Shott, Assistant CEO Finance and Internal Operations  
**SUBJECT: PHONE SYSTEM CONTRACT**

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### Written Report

#### Background/Discussion

Due to substantial disruptions of service and untimely customer support from OCERS current telephony service provider, OCERS issued a request for proposal for a new Unified Communications and Contact Center service provider. Per the recommendation of the RFP evaluation committee Dialpad was selected, pending final contract negotiations and Board of Retirement<sup>1</sup> and CEO approval. Per the Board's action at the October 15, 2019 Regular Board meeting, the Dialpad contract was approved pending the completion of contract negotiations and final CEO approval.

Two items of concern that the Board discussed and directed staff to report back on were as follows:

- **Service Level Agreement (SLA):** OCERS had requested to have the SLA changed to measure service based on a 10 hour work day instead of the industry standard of 24/7 method per their SLA. Dialpad was unwilling to move on this point as our request was not industry standard. However, we were able to address the underlying areas of concern regarding service Performance, Network and Software issues through revised contract termination terms.
- **Termination:** The final contract does not provide OCERS with the mean to terminate for convenience. However, we were able to specifically address breaches in their performance, network and software as cause for termination, should they occur and not be remediated within the terms of the contract. OCERS would incur a penalty payment if we were to terminate the contract early. Any remaining balance of our pre-paid annual licensing costs would be forfeit for that year.

With these final changes to the contract, OCERS CEO Steve Delaney has approved the Dialpad contract.

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<sup>1</sup> In accordance to [OCERS Procurement & Contracting Policy](#) (Section II.C.10.iii, page 5), Non Routine Items "valued over \$100,000 must be approved by the CEO and the Board as either part of the annual budget or a specific Board Approval."

## History of OCERS current phone system

- 2013 - OCERS approves the contract and implementation of ShoreTel on premise Telephony solution
- 2017 - OCERS migrates it's ShoreTel on premise Telephony solution to ShoreTel's Cloud based Voice Over IP Solution, as part of OCERS Business Continuity and Disaster Recovery program initiatives to address a "single point of failure" concern poised by our on premise solution, and to provide phone services in the event of a local or regional disruption. Shortly after the migration to the new VOIP solution, ShoreTel was acquired by Mitel Networks.
- 2018 - Within the first year after the Mitel acquisition was made, Mitel began making major updates to their infrastructure and product code. The subsequent changes resulted in a significant number of downtime incidents and software product updates the broke core functionality resulting in OCERS staff's not being able to effectively answer incoming calls from our members during our regular business hours. OCERS worked with our Mitel customer support representatives to address the various technical issues, and we worked with our Mitel account managers to address concerns with the disruption of our service and functionality of their product.
- 2019 – With Mitel service and support incidents continued to impact OCERS customer service to our members, OCERS staff reviewed our options for moving to another VOIP solution and issued a Request for Proposal for a new Unified Communications Solution and Contact Center on May 15th 2019. We received proposals from five respondents, and upon the recommendation of RFP evaluation team the contract was contingently award to Dialpad.

## Contract Term and Costs:

**Contract Terms: 3 years**

**Contract Costs: \$295,932.32** (includes total subscription, one- time expenses and termination fees)

The estimated subscriptions costs for the contract for 3 years is:

Service	Quantity	Unit Price	Monthly Price	Total Contract Price
Dialpad Talk Enterprise User	130	\$ 21.00	\$ 2,730.00	\$ 98,280.00
Dialpad Support - Enterprise	54	\$ 60.00	\$ 3,240.00	\$ 116,640.00
Dialpad Fax Line	5	\$ 10.00	\$ 50.00	\$ 1,800.00
Dialpad Room Line	10	\$ 15.00	\$ 150.00	\$ 5,400.00
E911 Regulatory Recovery Fee	194	\$ 0.99	\$ 192.06	\$ 6,914.16
Compliance Recovery Fee	194	\$ 1.99	\$ 386.06	\$ 13,898.16
<b>Subscription Products Total:</b>			\$ 6,748.12	<b>\$ 242,932.32</b>
<b>Annual Fees:</b>				<b>\$ 80,977.44</b>

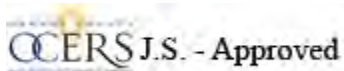
The estimated one-time professional services and equipment purchase costs is:

One Time Expense	Quantity	Unit Price		Total Price
Dialpad Starter	1	\$5,000.00		\$ 5,000.00
Desk phones and equipment	130	\$ 130.00		\$ 16,900.00
<b>One Time Products Total:</b>				<b>\$ 21,900.00</b>

The estimated cost to terminate our existing vendor contract is:

One Time Expense	Quantity	Unit Price		Total Price
Mitel Termination Fee	6	\$5,500.00		\$ 33,000.00
<b>One Time Products Total:</b>				<b>\$ 33,000.00</b>

**Submitted by:**




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Jenny Sadoski  
Director of Information Technology

**1-12**



## Memorandum

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**DATE:** November 18, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Gina M. Ratto, General Counsel  
**SUBJECT:** **NEW OCERS ADMINISTRATIVE PROCEDURE (OAP) FOR EVALUATING POTENTIAL NEW EMPLOYERS**

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### Written Report

At its October 21, 2019 meeting, the Board adopted, upon recommendation of the Governance Committee, a new *OCERS Administrative Procedure (OAP) for Evaluating Potential New Employers (OAP)* who apply to participate in the OCERS pension plan, with the proviso that staff revise the Worksheet that is attached to the OAP to add more detail regarding the financial analysis OCERS will conduct when evaluating a new employer who requests to join the OCERS plan and make certain other non-substantive edits to the OAP. The Board asked that staff inform the Board of the changes to the OAP and Worksheet once the changes were complete.

Attached is the redlined OAP and redlined Worksheet, which have been revised as follows:

- In the OAP, changed “Main Factors” to “Major Factors” in paragraph 2.a., under “Process”, to be consistent with the IRS facts and circumstances test and the remainder of the OAP.
- In the Worksheet, replaced the previous two “tests” for the Financial Risk Determination (#22 and #23) with the following three “tests”:
  22. Fiscal Status. Did the entity's Independent Auditors issue unqualified opinions on the audited financial statements for the previous three years?
  23. Fiscal Status. Do the entity's audited financial statements and available cash flow projections cause any concern with respect to the ability on the part of the entity to pay the required estimated employer contributions to the Plan now or in the future?
  24. Fiscal Status. Is there anything in the entity's financial statements that discloses a going concern (e.g., statutory or regulatory changes, consolidations or outsourcing that could adversely affect the continued financial health or viability of the entity)?
- In the Worksheet, require three, rather than two, years' of audited financial statements and cash projections from the employer.

Also attached is the IRS advance notice of proposed rulemaking on determining governmental plan status issued in late 2011. The Notice sets forth the facts and circumstances test upon which the OAP was based.

**Submitted by:**



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Gina M. Ratto  
General Counsel

## OCERS Administrative Procedure (OAP) Evaluating Potential New Employers

### Authority

Internal Revenue Code (IRC) section 414(d) generally defines the term “governmental plan” as a plan established and maintained for its employees by the government of the United States, the government of any state or political subdivision thereof, or by any of their agencies or instrumentalities. A pension plan that qualifies as a “governmental plan” under IRC section 414(d) is generally treated differently than a private sector pension plan under federal tax laws. To retain the significant benefits afforded governmental plans, such plans must comply with certain requirements of federal tax law, including the requirements of section 414(d).

The Orange County Employees Retirement System (OCERS) is a governmental pension plan within the meaning of IRC section 414(d), and therefore is subject to any regulation or guidance issued by the Internal Revenue Service (IRS) interpreting the requirements of section 414(d). This generally means that OCERS must prohibit the participation in the OCERS plan of any entity that is not “an agency or instrumentality of the state or a political subdivision of a state” as those terms are interpreted by the IRS.

OCERS adopts this Administrative Procedure in order to ensure that only entities that qualify as agencies or instrumentalities of the state or a political subdivision of the state participate in the OCERS plan and to protect and preserve OCERS’ governmental plan status under federal law. OCERS believes the requirements of this Administrative Procedure are consistent with the interpretation by the IRS of the requirements of IRC section 414(d).

### Process

1. When OCERS receives a request from an entity that wishes to contract with OCERS to provide pension benefits for the entity’s employees, OCERS staff will collect all of the information required by the Eligibility Determination Worksheet and Determination Analysis, Appendix A to this Administrative Procedure. The information will be collected from the entity directly and from other reliable sources. Until OCERS receives adequate information, it shall be under no obligation to evaluate the entity as described below.
2. After collecting the required information, OCERS staff will evaluate the entity against the following criteria to determine whether to recommend approval of the entity’s request to contract with OCERS for pension benefits:
  - a. **Main-Major Factors**  
The ~~main~~-major factors for determining whether, and indicating that, an entity is an agency or instrumentality of the State or political subdivision of the State include whether:

- i. **Control:**
    - The entity's governing board or body is controlled by the State or political subdivision of the State;
    - The members of the governing board or body are publicly nominated and elected;
  - ii. **Fiscal Responsibility:**
    - The State or a political subdivision of the State has fiscal responsibility for the general debts and other liabilities of the entity, including funding responsibility for the employee benefits under the entity's plan;
  - iii. **Employee Status:**
    - The entity's employees are treated in the same manner as employees of the State or political subdivision of the State for purposes other than providing employee benefits (for example, the entity's employees are granted civil service protection);
  - iv. **Sovereign Powers:**
    - In the case of an entity that is not a political subdivision, the entity is delegated, pursuant to a statute of the State or political subdivision of the State, the authority to exercise sovereign powers of the State or a political subdivision of the State (such as the power of taxation, power of eminent domain, police power).
- b. **Other Factors**
- Other factors for determining whether, and indicating that, an entity is an agency or instrumentality of the State or political subdivision of the State include whether:
- i. **Governmental Purpose:** The entity serves a governmental purpose.
  - ii. **Operational Control:** The entity's operations are controlled by the State or a political subdivision of the State.
  - iii. **Funding Sources:** The entity is directly funded through tax revenues or other public sources; however, this factor is not satisfied if an entity that is not otherwise an agency or instrumentality is paid from public funds under a contract to provide a governmental service or is funded through grants by the state or federal government.
  - iv. **Statutory Creation:** The entity is created by the State government or a political subdivision of the State pursuant to a specific enabling statute that prescribes the purposes, powers, and manners in which the entity is to be established and operated. However, a nonprofit corporation that is incorporated under the State's general corporation law is not created under a specific enabling statute.

- v. **Tax Status:** The entity is treated as a governmental entity for federal employment tax or income tax purposes (such as the authority to issue tax-exempt bonds under section 103(a)) or under other federal laws.
  - vi. **Public Access:** The entity is determined to be an agency or instrumentality of the State or political subdivision of the State for purpose of state laws, for example, the entity is subject to open meetings laws or the requirement to maintain public records that apply only to governmental entities.
  - vii. **Ownership Interests.** The State or a political subdivision of the State has the ownership interest in the entity and no private interests are involved.
3. In evaluating the aforementioned criteria, it is understood that OCERS staff will apply judgment and exercise discretion in weighing the factors. The “Other Factors” will be taken into consideration but will not be given as much weight as the “Major Factors.” In addition, within the “Major Factors” more weight will generally be given to the “Control” and “Fiscal Responsibility” factors than to the other “Major Factors.”
  4. After conducting the evaluation above, and with the concurrence of OCERS’ General Counsel, OCERS staff will make a recommendation to the CEO as to whether the entity’s request to contract with OCERS for pension benefits should be approved or denied.
  5. The CEO shall consider OCERS staff’s recommendation and make an independent determination of whether to recommend to the Board of Retirement approving or denying the request. The CEO’s recommendation will be presented to the Board of Retirement for approval at a regular public meeting of the Board. The requesting entity may address the Board at this meeting. The Board’s decision will be final and not appealable.
  6. If the requesting entity’s participation in OCERS is approved by the Board, the entity will be required to enter into an Employer Participation Agreement with OCERS, on terms satisfactory to OCERS, before the entity’s participation will be effective.

# Evaluating Potential New Participating Employers

## Eligibility Determination Worksheet and Determination Analysis

**Applicant Contact Information**

Official Entity Name: \_\_\_\_\_  
 Mailing Address: \_\_\_\_\_  
 Street Address: \_\_\_\_\_  
 City, State, Zip: \_\_\_\_\_  
 County: \_\_\_\_\_  
 Fed. Tax ID #: \_\_\_\_\_

**Authorized Entity Representative:**

Name: \_\_\_\_\_  
 Title: \_\_\_\_\_  
 Telephone: \_\_\_\_\_  
 E-Mail: \_\_\_\_\_

**Alternative Entity Representative:**

Name: \_\_\_\_\_  
 Title: \_\_\_\_\_  
 Telephone: \_\_\_\_\_  
 E-Mail: \_\_\_\_\_

**Entity/Employer Demographics**

1. Has the Entity/Employer had any name changes? Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, please list the previous name(s):

Previous Entity Name	Begin Date	End Date

2. Has the Entity/Employer reorganized, merged with, or assumed the functions of another Entity? Yes \_\_\_\_\_ No \_\_\_\_\_

\_\_\_\_\_

If yes, please provide copies of the relevant documents.

Entity Name (list reorganized/merged with, assumed functions)	Begin Date	End Date

3. Has the Entity/Employer previously participated in the OCERS plan? Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, please indicate date ranges and all related Entity names participating in the plan.

Entity/Employer Name	Begin Date	End Date

**Entity/Employer Analysis - Public Agency Statutory Qualifications**

4. Entity Type. What type of entity is the Employer? If the entity is a County, City, or Town, then no further review is needed, as the entity is generally considered to be a public Entity.

\_\_\_\_ City/Town \_\_\_\_ County \_\_\_\_ Joint Powers Authority (JPA) \_\_\_\_ Non-profit Corporation

\_\_\_\_ District \_\_\_\_ Agency \_

[Public Bank \(See, Division 5 of Title 5 of the Government Code\)](#)

\_\_\_\_ Other Type (describe) : \_\_\_\_\_

5. District under CERL. Does the Entity/Employer qualify as a “district” under Government Code section 31468; and if so, under what subdivision of section 31468?

Yes/No/NA	Explanation

6. Public Entity. Is the Entity/Employer a Joint Powers Authority (JPA) as defined in Government Code 6500 *et. seq.*?

Yes/No/NA	Explanation

7. Supporting Documentation. Did the Entity/Employer provide copies of documents of creation?

Yes/No/NA	Explanation

For example, did the entity include:	Yes/No/NA
• Enabling Legislation	
• Local Ordinance creating entity	
• Joint Powers Authority Agreement, with signature(s)	
• Articles of Incorporation, w/each named director's signature	
• Secretary of State filing, Resolutions with signature(s)	
• Charters	
• By-laws, Amendments to By-laws with signature(s)	
• Amendments to Agreements, Articles or By-laws, with signature(s)	
• Memorandums of Understanding	
• Service Agreement with signature(s)	
• Certificates of Corrections or Certificates of Amendments, with signature(s)	
• If the entity is a JPA, any and all agreements or arrangements between the JPA members and/or other related entity related to employees or employee benefits, including funding of such benefits.	
• Other Supporting Documentation: Basic Financial Statements and Independent Auditors Report	

### Entity/Employer Analysis – IRS Factors Determination

8. Control. Is the Entity/Employer's governing board or body controlled by the State or a political subdivision of the State or by their respective laws? [Note: Control is demonstrated by the ability to appoint and to remove incumbents; consider the impact of multiple layers of control, if applicable.]

Yes/No/NA	Explanation



9. Control. Are the members of the Entity/Employer's governing board or body publicly nominated and elected? (Consider who can remove and elect directors or officials).

Yes/No/NA	Explanation

10. Control: What factors indicate the Joint Powers Authority (JPA) is independent from its creating bodies? What powers do the forming public agencies have over the JPA?

Yes/No/NA	Explanation

For example, does the JPA have	Yes/No/NA
<ul style="list-style-type: none"> <li>Fiscal independence from its creating member public agencies?</li> </ul>	
<ul style="list-style-type: none"> <li>The authority to hire and fire employees?</li> </ul>	
<ul style="list-style-type: none"> <li>The authority to contract?</li> </ul>	
<ul style="list-style-type: none"> <li>The authority to sue and be sued?</li> </ul>	
<ul style="list-style-type: none"> <li>The power to incur debt?</li> </ul>	
<ul style="list-style-type: none"> <li>The power to borrow money?</li> </ul>	
<ul style="list-style-type: none"> <li>The power to acquire property?</li> </ul>	

11. Fiscal Responsibility/Control. Does the State (or political subdivision thereof) have fiscal responsibility for the general debts and other liabilities of the entity (including funding responsibility for the employee benefits under the entity's plan)?

Yes/No/NA	Explanation

12. Employee Status. Are the entity's employees treated in the same manner as employees of the State (or political subdivision thereof) for purposes other than providing employee benefits? For example, are the entity's employees granted civil service protection; or, are the entity's employees subject to public employee collective bargaining laws (Meyers-Milias- Brown Act, 1968)?

Yes/No/NA	Explanation

13. Sovereign Powers. In the case of an entity that is not a political subdivision, is the entity delegated, pursuant to a statute of the State or political subdivision of the State, the authority to exercise sovereign powers of the State or political subdivision of the State (such as the power of taxation, the power of eminent domain, and the police power)?

Yes/No/NA	Explanation

- If yes, list the entity, cite the authorizing government codes and associated code sections.

Entity Name	Relevant California Code	Code Section

14. Governmental Purpose. Does the entity/employer serve a governmental purpose? Describe.

Yes/No/NA	Explanation

15. Operational Control. Are the entity's operations controlled by the State (or political subdivision of the State)?

Yes/No/NA	Explanation

16. Public Funding. Is the entity directly funded through tax revenues or other public sources? (This

factor is not satisfied if an entity that is not otherwise an Entity or instrumentality is paid from public funds under a contract to provide a governmental service or is funded through grants by the State or federal government.)

Yes/No/NA	Explanation

17. Statutory Creation. Is the entity is created by the State or a political subdivision of the State pursuant to a specific enabling statute that prescribes the purposes, powers, and manners in which the entity is to be established and operated? (However, a nonprofit corporation that is incorporated under a State's general corporation law is not created under a specific enabling statute.) If yes, cite the authorizing government codes and associated code sections.

Yes/No/NA	Explanation

18. Tax Status. Is the entity is treated as a governmental entity for Federal employment tax or income tax purposes (such as the authority to issue tax-exempt bonds under section 103(a) or under other Federal laws)?

Yes/No/NA	Explanation

19. Public Access. Is the entity determined to be an agency or instrumentality of the State (or a political subdivision of the State) for purposes of State laws? For example, is the entity subject to open meetings laws (*Ralph M. Brown Act, GC 54950, et seq.*) the California Public Records Act (GC 6250, et seq.), the California Political Reform Act (GC 87100, et seq.) and FPPC regulations thereunder?

Yes/No/NA	Explanation

20. Court Representation. Has the entity been determined to be an instrumentality of a State (or political subdivision thereof) by a State or Federal court?

Yes/No/NA	Explanation

21. Ownership Interests. Does the State (or political subdivision thereof) have the sole ownership interest in the entity and no private interests are involved? (If a JPA, consider if there are any private members or if agreement allows for private members?).

Yes/No/NA	Explanation

### Entity Analysis - Financial Risk Determination

22. Fiscal Status. Did the entity's Independent Auditors [Report demonstrate the entity follows the General Accounting Standards Board \(GASB\) accounting practices \(AQ, Q19\) issue unqualified opinions on the audited financial statements for the previous three years?](#)

Yes/No/NA	Explanation

23. Fiscal Status. Does the entity's [Independent Auditors Report demonstrate a positive Balance Sheet cash flow \(AQ, Q19\) audited financial statements and available cash flow projections cause any concern with respect to the ability on the part of the entity to pay the required estimated employer contributions to the Plan now or in the future?](#)

Yes/No/NA	Explanation

24. Fiscal Status. Is there anything in the entity’s financial statements that discloses a going concern (e.g., statutory or regulatory changes, consolidations or outsourcing, that could adversely affect the continued financial health or viability of the entity)?

<u>Yes/No/NA</u>	<u>Explanation</u>

**Entity Analysis – Common Law Employer Determination**

24.25. Employees. Information regarding the entities employees.

	#Active	# Retired	# Deferred
a. How many employees does the Employer have currently?			
b. How many employees when fully operational?			
c. How many employees are currently reported to OCERS through another entity?			

If needed, explain responses related to question 24, a through c.

<b>Explanation</b>

25.26. Employees. Are the employees currently considered to be employees of the applying entity? If No, then list the name of the other entity that is the employer.

<b>Yes/No/NA</b>	<b>Explanation</b>

For example, is any other entity:	Yes/No/NA (if yes, include name of the entity)
• Is another entity identified as the employer on employees’ IRS Form W-2 statements?	
• Is another entity responsible for costs related to the employees, such as payroll costs, employee benefit costs or the like?	

<ul style="list-style-type: none"> <li>• Is another entity considered a co-employer with the applying entity or a “worksite” employer?</li> </ul>	
<ul style="list-style-type: none"> <li>• Does another entity have responsibility for day-to-day oversight of the employees?</li> </ul>	
<ul style="list-style-type: none"> <li>• Are the employees leased to or from another entity?</li> </ul>	

## Other Required Documentation

~~26-27.~~ The Entity/Employer is required to submit all of the following:

- Enabling Legislation
- Local Ordinance creating Entity/Employer
- Demographic information of employees entering Plan
- Reciprocity status of all employees entering Plan
- Last ~~two-three~~ years’ of audited financial statements. **If the Entity/Employer is a JPA, the last ~~two-three~~ years’ of audited financial statements will be required of each and every member of the JPA.**
- [Cash flow projections](#)
- Personnel Transition Plan
- Most recent Memorandum of Understanding (MOU) with union(s) for all classifications of employees entering Plan
- Private Letter Ruling regarding Tax Status
- Authorized Signatory List
- Primary Contacts information

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-157714-06]

RIN 1545-BG43

Determination of Governmental Plan Status

AGENCY: Internal Revenue Service (IRS), Department of the Treasury.

ACTION: Advance notice of proposed rulemaking.

SUMMARY: The Treasury Department and IRS anticipate issuing regulations under section 414(d) of the Internal Revenue Code (Code) to define the term “governmental plan.” This document describes the rules that the Treasury Department and IRS are considering proposing relating to the determination of whether a plan is a governmental plan within the meaning of section 414(d) and contains an appendix that includes a draft notice of proposed rulemaking on which the Treasury Department and IRS invite comments from the public. This document applies to sponsors of, and participants and beneficiaries in, employee benefit plans that are determined to be governmental plans.

DATES: Written or electronic comments must be received by February 6, 2012.

ADDRESSES: Send submissions relating to the section 414(d) draft general regulations to: CC:PA:LPD:PR (REG-157714-06), room 5203, Internal Revenue Service, PO Box 7604, Ben Franklin Station, Washington DC, 20044. Submissions may be hand delivered Monday through Friday, between the hours of 8 a.m. and 4 p.m. to

CC:PA:LPD:PR (REG-157714-06), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC.

Alternately, taxpayers may submit comments relating to the section 414(d) draft general regulations electronically via the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov) (IRS-REG-157714-06).

FOR FURTHER INFORMATION CONTACT:

Concerning the ANPRM, Pamela R. Kinard, at (202) 622-6060; concerning submission of comments, Richard A. Hurst, at [Richard.A.Hurst@irs.counsel.treas.gov](mailto:Richard.A.Hurst@irs.counsel.treas.gov) or at (202) 622-7180 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

### **Background**

This document describes rules that the Treasury Department and IRS are considering proposing and contains a draft notice of proposed rulemaking (in the Appendix to this ANPRM) under section 414(d) of the Internal Revenue Code (Code). Under the draft notice of proposed rulemaking (in the Appendix to this ANPRM), the rules would provide general guidance relating to the determination of whether a retirement plan is a governmental plan within the meaning of section 414(d) (section 414(d) draft general regulations). The principles described in this ANPRM could also apply for purposes of certain parallel terms in sections 403(b) and 457 of the Code.

Section 414(d) of the Code provides that the term "governmental plan" generally means a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of any of the foregoing. See sections 3(32) and 4021(b)(2) of



the Employee Retirement Income Security Act of 1974 (ERISA) for definitions of the term “governmental plan,” which govern respectively for purposes of title I and title IV of ERISA<sup>1</sup>.

The term “governmental plan” also includes any plan to which the Railroad Retirement Act of 1935 or 1937 (49 Stat. 967, as amended by 50 Stat. 307) applies and which is financed by contributions required under that Act and any plan of an international organization which is exempt from taxation by reason of the International Organizations Immunities Act (59 Stat. 669). See section 414(d)(2) of the Code.

Section 414(d) was amended by the Pension Protection Act of 2006, Public Law 109-280 (120 Stat. 780) (PPA '06) to include certain plans of Indian tribal governments and related entities.<sup>2</sup> Section 906(a)(1) of PPA '06 provides that the term “governmental plan” includes a plan which is established and maintained by an Indian tribal government (as defined in section 7701(a)(40)), a subdivision of an Indian tribal government (determined in accordance with section 7871(d)), or an agency or instrumentality of either (ITG), and all the participants of which are employees of such entity substantially all of whose services as such an employee are in the performance of essential governmental functions but not in the performance of commercial activities (whether or not an essential governmental function).

Neither section 414(d) of the Code, section 3(32) of ERISA, nor section 4021(b)(2) of ERISA define key terms relating to governmental plans, including the terms “established and maintained,” “political subdivision,” “agency,” and

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<sup>1</sup> The three definitions of the term “governmental plan” are essentially the same. The only difference is that, in defining the term “governmental plan,” section 3(32) of ERISA uses the phrase “established or maintained,” whereas section 414(d) of the Code and section 4021(b) of ERISA use the term “established and maintained.”

<sup>2</sup> Section 906(a) of PPA '06 made similar amendments to sections 3(32) and 4021(b)(2) of ERISA.

“instrumentality.” Currently, there are no regulations interpreting section 414(d). Revenue Ruling 89-49 (1989-1 CB 117), see §601.601(d)(2), sets forth a facts and circumstances analysis for determining whether a retirement plan is a governmental plan within the meaning of section 414(d).<sup>3</sup> This analysis is used by the IRS in issuing letter rulings.

Governmental plans are subject to different rules than retirement plans of nongovernmental employers. Governmental plans are excluded from the provisions of titles I and IV of ERISA. In addition, governmental plans receive special treatment under the Code. These plans are exempt from certain qualification requirements and they are deemed to satisfy certain other qualification requirements under certain conditions. As a result, the principal qualification requirements for a tax-qualified governmental plan<sup>4</sup> are that the plan--

- Be established and maintained by the employer for the exclusive benefit of the employer’s employees or their beneficiaries;
- Provide definitely determinable benefits;
- Be operated pursuant to its terms;
- Satisfy the direct rollover rules of section 401(a)(31);
- Satisfy the section 401(a)(17) limitation on compensation;

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<sup>3</sup> See also Rev. Rul. 57-128 (1957-1 CB 311), see § 601.601(d)(2), which provides guidance on determining when an entity is a governmental instrumentality for purposes of the exemption from employment taxes under section 3121(b)(7) and 3306(c)(7).

<sup>4</sup> A special rule applies to contributory plans of certain governmental entities. Section 414(h)(2) provides that, for a qualified plan established by a State government or political subdivision thereof, or by any agency or instrumentality of the foregoing, where the contributions of the governmental employer are designated as employee contributions under section 414(h)(1) but the governmental employer picks up the contributions, the contributions picked up will be treated as employer contributions.

- Comply with the statutory minimum required distribution rules under section 401(a)(9);
- Satisfy the pre-ERISA vesting requirements under section 411(e)(2);<sup>5</sup>
- Satisfy the section 415 limitations on benefits, as applicable to governmental plans; and
- Satisfy the prohibited transaction rules in section 503.

State and local governments, political subdivisions thereof, and agencies or instrumentalities thereof are generally not permitted to offer cash or deferred arrangements under section 401(k). However, an ITG is permitted to offer a cash or deferred arrangement under section 401(k).

For further background, see the “Background” section of the preamble in the section 414(d) draft general regulations in the Appendix to this ANPRM under the headings, “Exclusion of Governmental Plans from ERISA,” “Exemption of Governmental Plans from Certain Qualified Plan Rules,” and “Exemption of Governmental Plans from Other Employee Benefit Rules Relating to Retirement Plans.”

Over the past several years, the IRS has been coordinating with the Department of Labor (DOL) and Pension Benefit Guaranty Corporation (PBGC) (the “Agencies”) on governmental plan determinations. Although the anticipated proposed regulations would only be applicable for purposes of section 414(d), the DOL and PBGC were consulted when drafting this proposal. DOL and PBGC agreed that it would be advantageous for the Agencies and the regulated community for there to be coordinated criteria for determining whether a plan is a governmental plan within the meaning of

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<sup>5</sup> Section 411(e)(2) states that a plan described in section 411(e)(1) is treated as meeting the requirements of section 411 if the plan meets the vesting requirements resulting from the application of section 401(a)(4) and (a)(7) as in effect on September 1, 1974.

section 414(d) of the Code, section 3(32) of ERISA, and section 4021(b)(2) of ERISA. See the “Background” section of the preamble in the section 414(d) draft general regulations in the Appendix to this ANPRM under the heading, “Interagency Coordination on Governmental Plan Determinations.”

The Treasury Department and the IRS have determined to seek public comment on the draft proposed regulations in the Appendix to this ANPRM in advance of issuing a notice of proposed rulemaking. In light of the interaction of the governmental plan definitions in the Code and ERISA, a copy of the comments will be forwarded to DOL and PBGC.

### **Explanation of Provisions**

Attached to the Appendix to this ANPRM is a draft notice of proposed rulemaking. The draft regulations include proposed rules, a preamble, and a request for comments. The Treasury Department and IRS invite the public to comment on the rules that the Treasury Department and IRS are considering proposing, which would generally define the term “governmental plan” within the meaning of section 414(d), as well as other key related terms, including “State,” “political subdivision of a State,” and “agency or instrumentality of a State or political subdivision of a State.”

In determining whether an entity is an agency or instrumentality of the United States or an agency of instrumentality of a State or political subdivision of a State, the anticipated guidance would provide a facts and circumstances analysis. The factors used in these analyses are drawn from the factors historically used in governmental plan determinations, including Rev. Ruls. 57-128 and 89-49. The anticipated guidance would provide several examples illustrating the application of the facts and

circumstances tests. See the “Explanation of Provisions” section in the section 414(d) draft general regulations in the Appendix to this ANPRM under the headings, “Definitions of the United States and agency or instrumentality of the United States” and “Definition of agency or instrumentality of a State or a political subdivision of a State.” See §601.601(d)(2).

The anticipated proposed regulations would include numerous factors for determining whether an entity is an agency or instrumentality of a State or a political subdivision of a State. The section 414(d) draft proposed regulations in the Appendix to this ANPRM would categorize these factors into major factors and other factors. The section 414(d) draft general regulations would also request comments from the public on whether the final regulations should eliminate the distinction between main and other factors. In addition, the section 414(d) draft general regulations would request comments on the ordering and application of main and other factors; for example, whether, as an alternative to the ranking of major factors and other factors, the regulations could provide a safe harbor standard focusing on control and fiscal responsibility under which the entity would be treated as an agency or instrumentality of a State or a political subdivision of a State. For further explanation of the safe harbor standard, see the “Comments and Public Hearing” section in the preamble of the section 414(d) draft general regulations, which is located in the Appendix to this ANPRM.

The anticipated proposed regulations do not address the special rules that apply in determining whether a plan of an Indian tribal government is a governmental plan within the meaning of section 414(d). That topic would be reserved in the proposed

regulations and is addressed in an ANPRM (REG-133223-08) that is being published elsewhere in this issue of the **Federal Register**.

The anticipated proposed regulations would provide rules for determining whether a governmental entity has established and maintained a plan for purposes of section 414(d). The anticipated proposed regulations might provide that a plan is established and maintained for the employees of a governmental entity if: (1) the plan is established and maintained by an employer within the meaning of §1.401-1(a)(2), (2) the employer is a governmental entity, and (3) the only participants covered by the plan are employees of that governmental entity. The anticipated proposed regulations might also provide rules covering circumstances involving a change in status of an entity (that is, when a private entity becomes a governmental entity or when a governmental entity becomes a private entity) due to an acquisition or asset transfer. See the “Explanation of Provisions” section in the section 414(d) draft general regulations in the Appendix to this ANPRM under the heading, “Requirements for establishing and maintaining a section 414(d) governmental plan.”

Recognizing that the guidance might affect numerous governmental plan participants and their beneficiaries, the anticipated proposed regulations request comments on transition rules, including transitional relief for governmental plans that permitted participation of a small number of former employees in their plans. See the “Comments and Public Hearing” section in the preamble of the section 414(d) draft general regulations that is located in the Appendix to this ANPRM.

### **Request for Comments**

Before the notice of proposed rulemaking is issued, consideration will be given to any written comments that are submitted timely (preferably a signed original and eight (8) copies) to the IRS. All comments will be available for public inspection and copying. Copies of the comments will be provided to the DOL and PBGC.

The IRS and Department of Treasury plan to schedule a public hearing on the ANPRM. That hearing will be scheduled and announced at a later date. In addition to a public hearing, the Treasury Department and IRS anticipate scheduling “Town Hall” meetings in order to obtain comments from the public on the section 414(d) draft general regulations. It is expected that these “Town Hall” meetings will take place in different locations across the country. Participants will be encouraged to pre-register for the meetings. Information relating to these “Town Hall” meetings, including dates, times, locations, registration, and the procedures for submitting written and oral comments, will be available on the IRS website relating to governmental plans at <http://www.irs.gov/retirement/article/0,,id=181779,00.html>.

### **Drafting Information**

The principal author of this advance notice of proposed rulemaking is Pamela R.

Kinard, Office of the Chief Counsel (Tax-exempt and Government Entities), however, other personnel from the IRS and Treasury Department participated in its development.

Deputy Commissioner for Services and Enforcement.



## APPENDIX

The following is draft language for a notice of proposed rulemaking that would set forth rules relating to the determination of whether a plan is a governmental plan within the meaning of section 414(d). The IRS and Treasury release this draft language in order to solicit comments from the governmental plans community:

### **Background**

This document contains proposed regulations under section 414(d) of the Internal Revenue Code (Code). These regulations, when finalized, would provide guidance relating to the determination of whether a retirement plan is a governmental plan within the meaning of section 414(d). The definition of a governmental plan under section 414(d) applies for purposes of Part I of Subchapter D of Chapter 1 of Subtitle A (Income Taxes) of the Code (sections 401 through 420) and certain other Code provisions that refer to section 414(d) (such as sections 72(t)(10), 501(c)(25)(C), 4975(g)(2), 4980B(d)(2), 9831(a)(1), and 9832(d)(1)). It is expected that the principles set forth in these regulations would generally also apply for purposes of sections 403(b) and 457.

### Statutory Definition of Governmental Plan

Both the Code and the Employee Retirement Income Security Act of 1974 (ERISA) define the term “governmental plan.” Section 414(d) of the Code provides that the term “governmental plan” generally means a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of any of the foregoing. See sections 3(32) and 4021(b)(2) of ERISA for parallel definitions of the term

governmental plan, discussed under the heading, “Exclusion of Governmental Plans from ERISA.”

The term “governmental plan” also includes any plan to which the Railroad Retirement Act of 1935 or 1937 (49 Stat. 967, as amended by 50 Stat. 307) applies and which is financed by contributions required under that Act and any plan of an international organization which is exempt from taxation by reason of the International Organizations Immunities Act, Public Law 79-291 (59 Stat. 669). Section 414(d) was amended by the Pension Protection Act of 2006, Public Law 109-280 (120 Stat. 780) (PPA '06) to include certain plans of Indian tribal governments.<sup>6</sup> See Notice 2006-89 (2006-43 IRB 772), see §601.601(d)(2), for guidance relating to plans established and maintained by Indian tribal governments.<sup>7</sup> These proposed regulations do not provide any guidance concerning the special provisions in section 414(d) relating to the Railroad Retirement Act of 1935 or 1937, the International Organizations Immunities Act, or Indian tribal governments.

#### Application of Section 414(d)

These proposed regulations are only applicable for purposes of section 414(d), and not for any other purpose under the Code.<sup>8</sup> However, the section 414(d) definition of “governmental plan” applies for other sections of the Code, including:

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<sup>6</sup> Section 906(a)(1) of PPA '06 provides that the term “governmental plan” includes a plan which is established and maintained by an Indian tribal government (as defined in section 7701(a)(40)), a subdivision of an Indian tribal government (determined in accordance with section 7871(d)), or an agency or instrumentality of either, and all the participants of which are employees of such entity substantially all of whose services as such an employee are in the performance of essential governmental functions but not in the performance of commercial activities (whether or not an essential government function). Section 906(a) of PPA '06 made similar amendments to sections 3(32) and 4021(b) of ERISA.

<sup>7</sup> See also Notice 2007-67 (2007-35 IRB 467), see §601.601(d)(2) (extending transitional relief for plans of Indian tribal governments to comply with the requirements of section 906 of PPA '06).

<sup>8</sup> However, as indicated earlier, it is expected that the principles set forth in these regulations would also be taken into account for purposes of sections 403(b) and 457.

- Section 72(t)(10)(A) (exception to the early withdrawal tax for certain distributions from a defined benefit governmental plan);
- Section 457(e)(17) (special rules for: (1) direct trustee-to-trustee transfers from a section 457 deferred compensation plan to a section 414(d) governmental plan in order to purchase permissive service credit under section 414(n)(3)(A) or (2) the repayments of cashouts under governmental plans);
- Section 501(c)(25)(C)(ii) (exempting section 414(d) governmental plans from taxation);
- Section 503(a)(1) (applying the prohibited transactions rules in section 503 to governmental plans as defined in section 4975(g)(2))
- Section 818(a)(6)(A) (defining the term “pension plan contract”);
- Section 1400Q(d)(2)(A)(ii) (special timing rule for section 414(d) governmental plans to make certain conforming amendments);
- Section 4972(d)(1)(B) (exempting section 414(d) governmental plans from the excise tax on nondeductible contributions to a qualified employer plan);
- Section 4975(g)(2) (exempting section 414(d) governmental plans from the prohibited transaction rules of section 4975);
- Section 4980(c)(1)(B) (exempting section 414(d) governmental plans from the tax on the reversion of qualified plan assets to an employer under section 4980);
- Section 4980B(d)(2) (exempting section 414(d) governmental plans from the COBRA requirements under section 4980B);
- Section 4980F(f)(2) (exempting section 414(d) governmental plans from the requirement to provide a notice required under section 204(h) of ERISA);

- Section 6057(c)(2) (providing rules relating to the voluntary submission of annual registration statements by section 414(d) governmental plans); and,
- Sections 9831(a)(1) and 9832(d)(2) (exempting section 414(d) governmental plans from the group health plan requirements).

The definitions and rules also apply for purposes of section 101(h)(1)(A) (special rule exempting governmental plan survivor benefits attributable to service of a public safety officer killed in the line of duty).

Currently, there are no regulations interpreting section 414(d). Neither section 414(d) of the Code nor ERISA defines key terms relating to governmental plans, including the terms “established and maintained,” “political subdivision,” “agency,” and “instrumentality.”

#### Executive Order 13132

Executive Order 13132 requires that Federal departments and agencies engage in consultation procedures in certain circumstances where regulations are issued which have a substantial direct effect on States. While these regulations when issued as final regulations would not have such a substantial direct effect, the IRS and Treasury Department have followed similar procedures, including issuance not only of these proposed regulations, but also an advance notice of these regulations which was published (date to be provided) in the **Federal Register**.

#### Judicial Determinations of Governmental Entity Status

Historically, courts have used the test in NLRB v. Natural Gas Utility District of Hawkins County, Tennessee, 402 U.S. 600 (1971), in determining whether an entity is an agency or instrumentality of a State or a political subdivision of a State. In Hawkins

County, the Supreme Court interpreted the term “political subdivision” for purposes of 29 U.S.C. 152(2) (section 2(2) of the National Labor Relations Act (NLRA), as amended by the Labor-Management Relations Act).<sup>9</sup> Although the Supreme Court in Hawkins County analyzed whether the employer at issue was a political subdivision for purposes of the NLRA, courts use the same analysis for determining whether an entity is an agency or instrumentality of a State or a political subdivision of a State for purposes of ERISA.<sup>10</sup> The two-prong test in Hawkins County analyzes whether the entity has been “(1) created directly by the state, so as to constitute departments or administrative arms of the government, or (2) administered by individuals who are responsible to public officials or to the general electorate.” Hawkins County, 402 U.S. at 604-05. In addition to this two-prong test, the Supreme Court also analyzed other factors, including: whether the utility had broad powers to accomplish its public purpose; whether the utility’s property and revenue were exempt from state and local taxes (as well as whether its bonds were tax-exempt); whether the utility had the power of eminent domain; whether the utility was required to maintain public records; whether the utility’s commissioners were appointed by an elected county judge; and whether the

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<sup>9</sup> 29 U.S.C. 152(2) provides that the term “employer” includes any person acting as an agent of an employer, directly or indirectly, but shall not include the United States or any wholly owned Government corporation, or any Federal Reserve Bank, or any State or political subdivision thereof, or any person subject to the Railway Labor Act, as amended from time to time, or any labor organization (other than when acting as an employer), or anyone acting in the capacity of officer or agent of such labor organization.

<sup>10</sup> “The NLRB guidelines are a useful aid in interpreting ERISA’s governmental exemption, because ERISA, like the National Labor Relations Act, ‘represent[s] an effort to strike an appropriate balance between the interests of employers and labor organizations.’” Rose v. Long Island Railroad Pension Plan, 828 F.2d 910, 916 (2<sup>nd</sup> Cir. 1987), cert. denied, 485 U.S. 936 (1988) (quoting H.R. Rep. No. 533, reprinted in 1974 USCCAN at 4647). See also, Shannon v. Shannon, 965 F.2d 542, 547 (7th Cir. 1992), cert. denied, 506 U.S. 1028 (1992) (stating that the proper test for determining whether an entity is an agency or instrumentality of a State or political subdivision for purposes of ERISA is the Hawkins test), Koval v. Washington County Redevelopment Authority, 574 F.3d 238, 242 (3<sup>rd</sup> Cir. 2009) (stating that the Hawkins test is the most fitting analysis for determining whether an entity is a political subdivision), and Brooks v. Chicago Housing Authority, No. 89-C-9304, 1990 WL 103572 at 1, 1990 U.S. Dist. LEXIS 8233 at 3 (N.D. Ill. July 5, 1990) (applying the Hawkins test).

commissioners could be removed by the State of Tennessee pursuant to State procedures for removal of public officials. Many of these factors are similar to the factors used in determining whether an entity is an agency or instrumentality of a State or a political subdivision of a State under these proposed regulations.

In determining whether an entity is an agency or instrumentality of the United States, courts either apply a facts and circumstances analysis or look to the relationship between the entity and its employees. In Alley v. Resolution Trust Corporation, 984 F.2d 1201 (D.C.Cir. 1993), in analyzing whether the Federal Asset Disposition Association (FADA), a savings and loan association established by the Federal Home Loan Bank Board, was a Federal instrumentality for governmental plan purposes, the court focused on the employment relationship between the entity and its employees.<sup>11</sup> In looking at the employer-employee relationship, the Alley court concluded that FADA functioned more like a private enterprise than a governmental agency in the area of its employment relations. “Measured by the terms and conditions of their employment, FADA personnel far more closely resembled private sector employees than they did government workers. Like employees of ‘ordinary’ Federally chartered S&Ls, FADA’s employees were outside the civil service system, and were not subject to the personnel rules or restrictions on salaries and benefits imposed generally on Federal employees.”<sup>12</sup>

However, in Berini v. Federal Reserve Bank of St. Louis, Eighth District, 420 F.Supp.2d 1021 (E.D. Mo. 2005), the court reviewed administrative and judicial

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<sup>11</sup> “We focus our attention . . . on what should be the core concern for ERISA purposes--the nature of an entity’s relationship to and governance of its employees.” Alley v. Resolution Trust Corporation, 984 F.2d at 1206, n. 11.

<sup>12</sup> Alley v. Resolution Trust Corporation, 984 F.2d at 1206.

authority in determining whether an entity is a Federal agency or instrumentality and applied a multi-factor test in determining whether the employee benefit plans maintained by the Federal Reserve System are governmental plans within the meaning of section 3(32) of ERISA. The Berini test was based on the six factors in Rev. Rul. 57-128 (1957-1 CB 311), see §601.601(d)(2), which was also the test applied by the court in Rose v. Long Island Railroad Pension Plan, 828 F.2d 910, 918 (2<sup>nd</sup> Cir. 1987), cert. denied, 485 U.S. 936 (1988). Factors weighed by the Berini court included that the Federal reserve banks were established directly by Congressional legislation to perform an important governmental function (to increase control of the nation's currency and banking system), the banks exist only by an enabling statute, they possess only the powers granted by the legislation, the private interests involved do not have the typical interests of an owner, and the banks are controlled by the Federal Reserve Board of Governors, which is a governmental agency.<sup>13</sup>

#### Agency Guidance Regarding Governmental Entity Status

Revenue Ruling 57-128 provides guidance on when an entity is a governmental instrumentality for purposes of the exemption from employment taxes under sections 3121(b)(7) and 3306(c)(7). The revenue ruling lists the following factors to be considered in determining whether an organization is an instrumentality of one or more States or political subdivisions thereof: (1) whether the organization is used for a governmental purpose and performs a governmental function; (2) whether performance of its function is on behalf of one or more States or political subdivisions; (3) whether there are any private interests involved, or whether the States or political subdivisions involved have the powers and interests of an owner; (4) whether control and

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<sup>13</sup> Berini v. Federal Reserve Bank of St. Louis, 420 F.Supp.2d at 1026-29.

supervision of the organization is vested in public authority or authorities; (5) whether express or implied statutory authority or other authority is necessary for the creation and/or use of such an instrumentality, and whether such authority exists; and (6) the degree of the organization's financial autonomy and the source of its operating expenses.

Revenue Ruling 89-49 (1989-1 CB 117), see §601.601(d)(2), provides guidance for determining whether a retirement plan maintained by an organization is a governmental plan within the meaning of section 414(d). The revenue ruling lists several factors for determining whether a sponsoring organization is an agency or instrumentality of the United States or any State or political subdivision thereof. While the factors in Rev. Rul. 89-49 are similar to the factors listed in Rev. Rul. 57-128, Rev. Rul. 89-49 focuses more on the degree of control that the Federal or State government has over the organization's everyday operations. Other factors considered include: whether there is specific legislation creating the organization; the source of funds for the organization; the manner in which the organization's trustees or operating board are selected; and whether the applicable government unit considers the employees of the organization to be employees of the applicable government unit. Rev. Rul. 89-49 provides that satisfaction of one or all of the factors is not necessarily determinative of whether an organization is a governmental entity. See §601.601(d)(2)(ii)(b).

In Rev. Rul. 89-49, citizens of a municipality organized a volunteer fire company. The company was incorporated under its State laws as a nonprofit corporation, and the company was managed under the exclusive control of a board of trustees elected by the volunteer firefighters. Area municipalities, including the municipality that created the



company, entered into contracts with the company to receive fire protection services. Under the contracts, it was agreed that the operations of the volunteer fire company would be under the exclusive control of the board of trustees. While the municipalities made payments for fire protection services to the volunteer fire company pursuant to these contracts, the municipalities did not contribute to the company's retirement plan, and the employees of the company were not considered employees of the State or any of the participating municipalities. The ruling concludes that the retirement plan established and maintained by the volunteer fire company is not a governmental plan within the meaning of section 414(d) because the degree of control that the participating municipalities exert over the volunteer fire company is minimal.

#### Exclusion of Governmental Plans from ERISA

Section 4(b)(1) of ERISA provides that title I of ERISA does not apply to an employee benefit plan that is a governmental plan as defined in section 3(32) of ERISA. Section 3(32) of ERISA generally provides that the term "governmental plan" means a plan established or maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of any of the foregoing.<sup>14</sup> The ERISA section 3(32) definition of a governmental plan also includes any plan to which the Railroad Retirement Act of 1935 or 1937 applies, and which is financed by contributions required under that Act and any plan of an international organization which is exempt from taxation under the provisions of the International Organizations Immunities Act. Section 906 of PPA '06 amended

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<sup>14</sup> In defining the term "governmental plan," section 3(32) of ERISA uses the phrase "established or maintained," whereas section 414(d) of the Code and section 4021(b) of ERISA use the term "established and maintained." For further discussion, see the Explanation of Provisions section of the preamble under the heading, "Requirements for establishing and maintaining a section 414(d) governmental plan."

section 3(32) of ERISA to include in the definition of governmental plan a plan which is established and maintained by an Indian tribal government (as defined in section 7701(a)(40)), a subdivision of an Indian tribal government (determined in accordance with section 7871(d)), or an agency or instrumentality of either. Under this definition, all of the participants of which are employees of such entity substantially all of whose services as such an employee are in the performance of essential governmental functions but not in the performance of commercial activities (whether or not an essential government function).

Section 4021(b)(2) of ERISA provides that title IV of ERISA does not apply to any plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of any of the foregoing, or to which the Railroad Retirement Act of 1935 or 1937 applies and which is financed by contributions required under that Act. Similar to section 3(32) of ERISA, section 4021(b) of ERISA was amended by section 906 of PPA '06 to include certain plans of Indian tribal governments in the definition of governmental plan for purposes of section 4021(b) of ERISA.

Neither the DOL nor the PBGC has issued regulations interpreting the terms of sections 3(32) and 4021(b) of ERISA. Both agencies have, however, provided guidance for specific entities in the form of administrative determinations, and advisory opinions or other opinion letters. The IRS, the Department of Labor (DOL), and the Pension Benefit Guaranty Corporation (PBGC) have generally applied a facts and circumstances approach in providing governmental plan determinations.<sup>15</sup> For

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<sup>15</sup>The DOL issues advisory opinions. The PBGC issues administrative determinations and opinion letters. The IRS issues letter rulings relating to section 414(d) governmental plans. For this purpose, a letter

example, the IRS issues private letter rulings relating to governmental plan status using a facts and circumstances analysis.

### Exemption of Governmental Plans from Certain Qualified Plan Rules

Governmental plans under Code section 414(d) are exempt from certain qualification requirements and are deemed to satisfy certain other qualification requirements under certain conditions. For example, the nondiscrimination and minimum participation rules do not apply to governmental plans. Section 1505 of the Taxpayer Relief Act of 1997, Public Law 105-34 (111 Stat. 788, 1063) (TRA '97), amended sections 401(a)(5)(G) and 401(a)(26)(G) of the Code to provide that the minimum participation standards and nondiscrimination requirements of section 410 and the additional participation requirements under section 401(a)(26)(G) do not apply to State or local governmental plans.<sup>16</sup> Section 1505 of TRA '97 also amended section 401(k)(3)(G) of the Code to provide that certain State and local governmental plans are treated as meeting the requirements of the average deferral percentage test of section 401(k)(3) and the average contribution percentage test of section 401(m)(2).<sup>17</sup>

Section 861 of PPA '06 exempts all governmental plans (as defined in section 414(d)) from the nondiscrimination and minimum participation requirements of sections 401(a)(5)(G) and 401(a)(26)(G) of the Code, as well as the nondiscrimination and

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ruling is a written statement issued to a taxpayer by the IRS that interprets and applies tax laws or any nontax laws applicable to employee benefit plans to the taxpayer's specific set of facts. See section 3.02 of Rev. Proc. 2011-4 (2011-1 IRB 123, 127), see §601.601(d)(2).

<sup>16</sup> In addition, section 1505(a)(3) of TRA '97 amended section 410(c)(2) to provide that all governmental plans within the meaning of section 414(d) are treated as satisfying the nondiscrimination requirements of section 410.

<sup>17</sup> A State or local government, political subdivision, or agency or instrumentality thereof, is not permitted to establish and maintain a section 401(k) plan. See section 401(K)(4)(B)(ii). There is an exception for a grandfathered section 401(k) plan, which is generally a plan established by a governmental unit (a State or local government or political subdivision thereof) before May 7, 1986. See §1.401(k)-1(e)(4).

participation requirements applicable to qualified cash or deferred arrangements under section 401(k)(3)(G) of the Code.

In addition to the nondiscrimination requirements, the Code provides other exemptions for governmental plans:

- Section 401(a)(10)(B)(iii), which provides that the top heavy requirements of section 416 do not apply to a governmental plan.
- Section 410(c)(1)(A), which provides that the minimum participation provisions of section 410 do not apply to a governmental plan.
- Section 411(e), which provides that a governmental plan is treated as satisfying the requirements of section 411 if the plan meets the pre-ERISA vesting requirements.
- Section 412(e)(2)(C), which provides that the minimum funding standards of section 412 do not apply to a governmental plan.
- Section 417, which provides rules relating to qualified joint and survivor annuities and qualified preretirement survivor annuities.

Section 415 also provides a number of special rules for governmental plans. The special rules include section 415(b)(11) (the 100 percent of a participant's average high 3 compensation limitation does not apply), section 415(b)(2)(C) (the reduced limitation to the annual benefit payable beginning before age 62 and the reduction in the dollar limitation to the annual benefit payable for participation or services of less than 10 years do not apply to disability or survivor benefits received from a governmental plan), section 415(m) (benefits provided under a qualified governmental excess benefit arrangement are not taken into account in determining the section 415 benefit

limitations under a section 414(d) governmental plan), and section 415(n) (permissive service credit).<sup>18</sup>

As a result, the principal qualification requirements for a tax-qualified governmental plan<sup>19</sup> are the requirements that the plan --

- Be established and maintained by the employer for the exclusive benefit of the employer's employees or their beneficiaries,
- Provide definitely determinable benefits,
- Satisfy the direct rollover rules of sections 401(a)(31) and 402(f),
- Be operated pursuant to its terms,
- Satisfy the section 401(a)(17) limitation on compensation,
- Comply with the statutory minimum required distribution rules under section 401(a)(9),
- Satisfy the pre-ERISA vesting requirements under section 411(e)(2),
- Satisfy the section 415 limitations on benefits, as applicable to governmental plans, and
- Satisfy the prohibited transaction rules in section 503.

State and local governments, political subdivisions thereof, and agencies or instrumentalities thereof are generally not permitted to offer cash or deferred arrangements under section 401(k). Instead, they can offer a somewhat similar elective contribution program through an eligible governmental section 457(b) plan to which

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<sup>18</sup> See also Notice 89-23 (1989-1 CB 654), and Notice 96-64 (1996-2 CB 229), see § 601.601(d)(2), for guidance relating to the nondiscrimination rules that apply to qualified plans maintained by governments.

<sup>19</sup> A special rule applies to contributory plans of certain governmental entities. Section 414(h)(2) provides that, for a qualified plan established by a State government or political subdivision thereof, or by any agency or instrumentality of the foregoing, where the contributions of the governmental employer are designated as employee contributions under section 414(h)(1) but the governmental employer picks up the contributions, the contributions picked up will be treated as employer contributions.

section 457(g) applies. In addition, section 403(b) includes special rules for plans covering public school teachers, including rules under which, in conjunction with an eligible governmental section 457(b) plan, the maximum dollar amount of the elective contribution for a public school teacher is in effect double the maximum for other public or private employees.

#### Exemption of Governmental Plans from Other Employee Benefit Rules Relating to Retirement Plans

The Code and regulations also provide that plans of governmental entities are treated differently than plans of non-governmental entities with respect to certain requirements for section 403(b) plans and eligible section 457(b) plans, including:

- Section 403(b)(1)(A)(ii), which provides that the exclusion allowance under section 403(b)(1) applies to employees who perform services for a public school of a State, a political subdivision of a State, or an agency or instrumentality of any one or more of the foregoing.
- Section 403(b)(12)(C), which provides that the nondiscrimination requirements of section 403(b)(12) (other than the compensation limitations of section 401(a)(17)) do not apply to a State or local governmental plan within the meaning of section 414(d).
- Section 457(f)(2)(E), under which section 457(f) (relating to nonqualified deferred compensation) does not apply to a qualified governmental excess benefit arrangement under section 415(m).
- Section 457(e)(1)(B), which includes as an eligible employer a State, political subdivision, or agency or instrumentality thereof and any tax-exempt organization other than a governmental unit.

- Section 457(g), which provides that a deferred compensation plan maintained by a State, political subdivision of a State, or any agency or instrumentality thereof is not treated as an eligible section 457(b) plan unless the assets and income of the plan are held in trust for the exclusive benefit of plan participants and beneficiaries.
- Section 402(c)(8)(B)(v), which provides that an eligible section 457(b) governmental plan is an eligible retirement plan for purposes of the rollover rules under section 402(c), so that payments from an eligible section 457(b) governmental plan can be rolled over to another eligible retirement plan, such as a qualified plan or an IRA, and payments from an eligible retirement plan can be rolled over into an eligible section 457(b) governmental plan.<sup>20</sup> An eligible section 457(b) plan of a nongovernmental tax-exempt entity is not eligible for this rollover treatment.

### Legislative History of ERISA

The legislative history of ERISA and its predecessor bills indicate that there were two reasons for the governmental plan exemption: (1) federalism concerns; and (2) the taxing power of State and local governments was thought to offer sufficient protection for participants in public plans.<sup>21</sup> In a summary of ERISA's predecessor bill, Senator

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<sup>20</sup> Section 402(c)(8)(B) defines an eligible retirement plan as an individual retirement account under section 408(a), an individual retirement annuity under section 408(b), a qualified plan, a section 403(a) annuity, a section 403(b) plan, and an eligible section 457(b) governmental plan.

<sup>21</sup> ERISA included a directive for the Committee on Education and Labor and the Committee on Ways and Means of the House of Representatives and the Committees on Finance and on Labor and Public Welfare of the Senate to study pension retirement plans sponsored by Federal, State, and local governments and analyze: (1) the adequacy of existing levels of participation, vesting and financing arrangements; (2) existing fiduciary standards; and (3) the necessity for Federal legislation and standards

Lloyd Bentsen commented that “State and local governments must be allowed to make their own determination of the best method to protect the pension rights of municipal and state employees. These are questions of state and local sovereignty and the Federal Government should not interfere.”<sup>22</sup>

While Congress was concerned about pension protection for public as well as private employees, governmental plans have been excluded from many of the qualification requirements because, in addition to federalism concerns, Congress believed that “the ability of governmental bodies to fulfill their obligations to employees through their taxing powers is an adequate substitute for termination insurance.”<sup>23</sup> As a result, ERISA includes exclusions for governmental plans under titles I and IV of ERISA and an exemption for governmental plans from most of the qualification requirements under the Code that were added under title II of ERISA (as described in this preamble under the heading, “Exemption of Governmental Plans from Certain Qualified Plan Rules”).

#### Interagency Coordination on Governmental Plan Determinations

Historically, the IRS, DOL, and PBGC (the Agencies) have informally conferred prior to making determinations on governmental plan status in individual cases. In Notice 2005-58 (2005-2 CB 295), see §601.601(d)(2), the Treasury Department and the IRS stated their intention of publishing guidance regarding governmental plans under section 414(d). The Agencies have become increasingly concerned with the growing number of requests for governmental plan determinations from plan sponsors whose

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with respect to such plans. See Staff of House Comm. On Education and Labor, 95<sup>th</sup> Cong., 2d Sess., *Pension Task Force Report on Public Employee Retirement Systems* (Comm. Print 1978).

<sup>22</sup> Staff of the Senate Comm. on Labor and Public Welfare, 94<sup>th</sup> Cong., *Legislative History of the Employee Retirement Income Security Act of 1974*, Vol. I 220 (Comm. Print 1976).

<sup>23</sup> S. Rep. No. 93-383, at 81 (1973). See also H.R. Rep. No. 93-807, at 164-5 (1974).



relationships to States or political subdivisions thereof are increasingly remote and whose arguments for concluding that their plans are governmental plans raise novel issues. The use of differing approaches by the courts and the Agencies has resulted in uncertainty as entities with organizational, regulatory, and contractual connections with States or political subdivisions of States try to ascertain which statutory and regulatory requirements apply to their retirement plans. These proposed regulations are intended to address this issue by establishing coordinated criteria for determining whether a plan is a governmental plan within the meaning of section 414(d) of the Code. Although these proposed regulations are only applicable for purposes of section 414(d), the DOL and the PBGC were consulted in developing this proposal. The DOL and the PBGC agreed that it would be advantageous for the Agencies and other affected parties to have coordinated criteria for determining whether a plan is a governmental plan within the meaning of section 414(d) of the Code, section 3(32) of title I of ERISA, and section 4021(b) of title IV of ERISA. In that regard, comments are requested on any issues arising from these proposed regulations in light of the interaction of the governmental plan definition in the Code with the governmental plan definitions in section 3(32) of title I of ERISA and section 4021(b) of title IV of ERISA. Copies of the comments on these regulations will be forwarded to the DOL and the PBGC.

## **Explanation of Provisions**

### **I. Overview**

#### **A. In general.**

These proposed regulations would generally define the term “governmental plan” within the meaning of section 414(d) of the Code. These proposed regulations would

also define other key terms relating to the general definition of “governmental plan,” including the definitions of “State,” “political subdivision of a State,” and “agency or instrumentality of a State or political subdivision of a State.” While these terms are commonly used in other Code sections, the definitions in these proposed regulations are only applicable for purposes of section 414(d), and not for any other purpose under the Code. For example, the definition of the term “instrumentality” under these proposed regulations may be different for other purposes under the Code.

As stated, the regulations under section 414(d) would only define the term “agency or instrumentality of the United States” and “agency or instrumentality of a State or political subdivision of a State” for purposes of determining whether a plan is a governmental plan under section 414(d). Thus, the rules in these proposed regulations would not apply for purposes of defining the term “instrumentality,” under any other provisions of the Code.

In addition, these regulations do not address certain issues relating to governmental entities, including when an entity is so closely related to a State that it constitutes an “integral part” of a State.<sup>24</sup> The criteria for treating an entity as an “integral part” of a State will be the subject of a separate guidance project. Such guidance defining “integral part” may include stricter criteria than would apply under these proposed regulations for determining whether an entity is an agency or instrumentality of a State.

#### B. Definition of governmental plan.

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<sup>24</sup> Over the years, the IRS has extended the income tax exemption it provides to states and political subdivisions to entities it regards as their “integral parts.” See Rev. Rul. 87-2, 1987-1 C.B. 18; see also Treas. Reg. § 301.7701-1(a)(3).

These proposed regulations reflect the statutory definition of the term “governmental plan” as a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of the foregoing. Within this definition, there are several key terms relating to governmental plans, the definitions of which are set forth in these proposed regulations. As mentioned in the “Background” section of this preamble, section 414(d) also includes special rules relating to the Railroad Retirement Act of 1935 or 1937, the International Organizations Immunities Act, and plans of Indian tribal governments. These proposed regulations do not address the term “governmental plan” as it relates to the special provisions in section 414(d) relating to the Railroad Retirement Act of 1935 or 1937, or the International Organizations Immunities Act. The special rules for Indian tribal governments are reserved in these proposed regulations and are in a separate notice of proposed rulemaking, which is being published elsewhere in the Rules and Regulations portion of this issue in the **Federal Register**.

C. Definitions of the United States and agency or instrumentality of the United States.

These proposed regulations would define the term “United States,” for purposes of the governmental plan definition under section 414(d), as having the same meaning set forth in section 7701(a)(9). Section 7701(a)(9) provides that the term “United States,” when used in a geographical sense, includes only the States and the District of Columbia.

Whether an entity is an “agency or instrumentality of the United States” is determined based on the specific purpose for which the designation is sought and is

decided by determining if Congress intended the entity to be treated as a Federal entity for the specific purpose.<sup>25</sup> The proposed regulations would define the term “agency or instrumentality of the United States” as an entity that satisfies the facts and circumstances test as set forth in these regulations. The facts and circumstances test, similar to the factors weighed by the Berini court, focuses on the “degree to which the entity is connected with the . . . federal government.”<sup>26</sup> The factors in this test are a compilation of various different tests used for governmental plan determinations, including factors in the Berini and Rose cases, as well as Rev. Ruls. 57-128 and 89-49. The facts and circumstances test is similar to that proposed for agencies and instrumentalities of a State or political subdivision thereof, (which is described in this preamble under the heading, “Definition of agency or instrumentality of a State or political subdivision of a State”) but modified to reflect that this definition does not implicate the federalism concerns present in making determinations relating to agencies and instrumentalities of a State or political subdivision thereof.

The proposed regulations provide that, in making a determination of whether an entity is an “agency or instrumentality of the United States,” the factors to be considered include whether:

- The entity performs or assists in the performance of a governmental function.
- There are no private interests involved, or the Government of the United States has all of the powers and interests of an owner. In determining whether an entity that holds stock has a private interest, stock will not be considered a private

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<sup>25</sup> See Berini v. Federal Reserve Bank of St. Louis, 420 F.Supp.2d at 1025.

<sup>26</sup> Id.

interest if the stock of the corporation is not acquired for investment purposes or for purposes of control.<sup>27</sup>

- The control and supervision of the entity is vested in the Government of the United States. Control must be more than the government's extensive Federal regulation of an industry.
- The entity is exempt from Federal, State, and local tax by an Act of Congress.
- The entity is created by the United States Government pursuant to a specific enabling statute that prescribes the purposes, powers, and manner in which the entity is to be established and operated.
- The entity receives financial assistance from the Government of the United States. However, an entity is not a governmental entity merely because it receives funds from the Government of the United States under a contract to provide a governmental service.
- The entity is determined to be an agency or instrumentality of the United States by a Federal court.
- Other governmental entities recognize and rely on the entity as an arm of the Government of the United States.
- The entity's employees are treated in the same manner as Federal employees for purposes other than providing employee benefits (for example, the entity's employees are granted civil service protection).

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<sup>27</sup> The Department of Treasury and the IRS recognize that an entity may hold stock for purposes other than investment and control. For example, the federal reserve banks are required to hold stock in the Federal Reserve Bank of its district because ownership is a condition of being a member in the Federal Reserve System. Unlike stock in a private corporation, this stock is not acquired for investment purposes or for purposes of control. See Berini v. Federal Reserve Bank of St. Louis, 420 F. Supp.2 at 1024, citing Lee Const. Co., Inc. v. Federal Reserve Bank of Richmond, 558 F.Supp. 165, 177 n.17 (D.Mich. 1982), citing 4 F. Solomon, W. Schlichting, T. Rice & J. Cooper, Banking Law, § 77.02, at 77-6 to 77-7 (1982).

These proposed regulations also provide an example, illustrating the application of the facts and circumstances test to a particular entity -- a Federal credit union. As announced in previous guidance, one purpose of these regulations is to address whether a Federal credit union is a governmental entity for purposes of determining whether the Federal credit union can maintain an eligible nonqualified deferred compensation plan. Notice 2005-58 addresses certain income tax issues with respect to nonqualified deferred compensation plans maintained by Federal credit unions, including whether a Federal credit union can maintain an eligible nonqualified deferred compensation plan described in section 457(b). Under Notice 2005-58, a plan in effect on August 15, 2005, that is maintained by a Federal credit union and that is intended to be an eligible nonqualified deferred compensation plan of a non-governmental tax-exempt employer would not fail to be an eligible plan under section 457(b) solely because the employer is a Federal credit union, provided that certain conditions are satisfied (including the condition that the plan of the Federal credit union not have claimed to be a governmental plan for purposes of section 414(d) of the Code and section 3(32) of ERISA). The rule in Notice 2005-58 only applies pending the issuance of future guidance regarding section 414(d). See §601.601(d)(2)(ii)(b). Accordingly, upon adoption of these regulations as final regulations, the special treatment provided in Notice 2005-58 for Federal credit unions will no longer apply. However, after issuance of these regulations as final regulations, a Federal credit union can be an eligible employer within the meaning of section 457(e)(1)(B) on the basis that Federal credit unions are non-governmental tax-exempt organizations.

D. Definitions of State and political subdivision of a State.

The proposed regulations define the term “State” as any State of the United States and the District of Columbia. This definition, which is based on the definition of “State” in section 7701(a)(10), is different from the definition of “State” under section 3(10) of ERISA, which defines, in relevant part, the term “State” as any State of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, America Samoa, Guam, and Wake Island.

The term “political subdivision of a State” is defined in these proposed regulations as a regional, territorial, or local authority, such as a county or municipality (including a municipal corporation), that is created or recognized by State statute to exercise sovereign powers.<sup>28</sup> Examples of sovereign powers include the power of taxation, the power of eminent domain, and the police power. The definition of “political subdivision of a State” also provides that the governing officers of the authority must be appointed by State officials or publicly elected.

The term “political subdivision of a State” has been used for purposes other than section 414(d), including the NLRA and section 103.<sup>29</sup> The definition in these proposed regulations of the term “political subdivision of a State” applies only for purposes of section 414(d), and not for any other purposes under the Code or any other statute, including whether an entity is treated as a political subdivision for purposes of the NLRA or section 103 of the Code.

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<sup>28</sup> For certain purposes, the effect of an entity being determined to be a political subdivision of a State may be similar to the entity being determined to be an agency or instrumentality of a State or political subdivision and for other purposes the effects may be different. Examples in which it is relevant whether an entity is a political subdivision in contrast to an agency or instrumentality of a State or political subdivision include the exclusion provided under section 402(l), the excise tax under section 4965, and the exception to the 10 percent additional tax under section 72(t)(10).

<sup>29</sup> Two court cases that have analyzed whether an entity is a “political subdivision of a State” for purposes of section 103 of the Code are Commissioner of Internal Revenue v. Shamberg’s Estate, 144 F.2d 998 (2<sup>nd</sup> Cir. 1944), cert. denied, 323 U.S. 792 (1945), and Commissioner of Internal Revenue v. White’s Estate, 144 F.2d 1019 (2<sup>nd</sup> Cir. 1944), cert. denied, 323 U.S. 792 (1945).

E. Definition of agency or instrumentality of a State or a political subdivision of a State.

These proposed regulations would provide guidance on determining whether an entity is an “agency or instrumentality of a State or a political subdivision of a State.”

These regulations would provide that the determination is based on a facts and circumstances test. The proposed regulations provide that numerous factors have been applied by the IRS in determining whether an entity is an agency or instrumentality of a State or a political subdivision of a State. Satisfaction of one or more of the factors is not necessarily determinative of whether an organization is a governmental entity. One factor that is not weighed by the IRS is the way the entity refers to itself. For example, the mere fact that an entity is called the “Educational Service Agency of City A” would not be a factor in determining whether the entity is an agency or instrumentality of City A.

Major factors for determining whether an entity is an agency or instrumentality of a State or political subdivision of a State are whether:

- The entity’s governing board or body is controlled by a State or political subdivision.
- The members of the governing board or body are publicly nominated and elected.
- The entity’s employees are treated in the same manner as employees of the State (or political subdivision thereof) for purposes other than providing employee benefits (for example, the entity’s employees are granted civil service protection).



- A State (or political subdivision thereof) has fiscal responsibility for the general debts and other liabilities of the entity (including funding responsibility for the employee benefits under the entity's plans).
- In the case of an entity that is not a political subdivision, the entity is delegated, pursuant to a statute of a State or political subdivision, the authority to exercise sovereign powers of the State or political subdivision (such as, the power of taxation, the power of eminent domain, and the police power).

It is expected that, in applying the factor relating to whether the entity's governing board or body is controlled by a State or political subdivision, the control cannot be a mere legal possibility. Examples of situations in which the control factor might be a mere legal possibility are cases in which there are a number of tiers of intervening corporations between the entity and the State, and cases in which the legal power to control is shared among so many governing entities that none of them can be said to be responsible in the event of a failure to exercise control. In addition, since these two factors are interrelated, an entity that would satisfy the control factor would not be expected to satisfy the factor relating to whether members of the governing board or body are publicly elected or nominated. Alternatively, an entity that would satisfy the factor relating to whether members of the governing board or body are publicly elected or nominated would not be expected to satisfy the control factor.

Other factors for determining whether an entity is an agency or instrumentality of a State or political subdivision of a State are whether:

- The entity is created by a State government or political subdivision pursuant to a specific enabling statute that prescribes the purposes and powers of the entity, and the manner in which the entity is to be established and operated.
- The entity is directly funded through tax revenues or other public sources.
- The entity is treated as a governmental entity for Federal employment tax or income tax purposes (for example, whether the entity has the authority to issue tax-exempt bonds under section 103(a) of the Code) or under other Federal laws.
- The entity's operations are controlled by a State or political subdivision.
- The entity is determined to be an agency or instrumentality of a State or political subdivision thereof for purposes of State law. For example, the entity is subject to open meetings laws or the requirement to maintain public records that apply only to governmental entities, or the State attorney general represents the entity in court under a State statute that only permits representation of State entities.
- The entity is determined to be an agency or instrumentality of a State or political subdivision thereof by a State or Federal court for purposes other than section 414(d).

There are two additional factors to be considered. First, if a party other than a State (or political subdivision, agency, or instrumentality thereof) has an ownership interest, or other similar interests, in the entity, this factor would indicate that the entity is not an agency or instrumentality of a State or political subdivision thereof (however, an entity would not necessarily be considered an agency or instrumentality of a State or political subdivision thereof merely because there is no private ownership in the entity or the entity serves a governmental purpose). Second, if an entity does not serve a

governmental purpose, this factor would indicate that it is not an agency or instrumentality of a State (or political subdivision thereof).

The proposed regulations include a variety of examples to illustrate whether an entity is an agency or instrumentality of a State or political subdivision thereof. Many of these examples are drawn from prior judicial opinions, as well as the Agencies' determinations.<sup>30</sup> Within the description of particular factors, there are some examples that illustrate whether a particular factor is satisfied. However, the mere satisfaction of a particular factor is not conclusive in determining whether an entity is an agency or instrumentality within the meaning of these regulations.

F. Requirements for establishing and maintaining a section 414(d) governmental plan.

The proposed regulations would provide that a plan is established and maintained for the employees of a governmental entity if the following requirements are satisfied: (1) the plan is established and maintained by an employer within the meaning of §1.401-1(a)(2) of the Income Tax Regulations;<sup>31</sup> (2) the employer is a governmental entity; and (3) the only participants covered by the plan are employees of the governmental entity. For purposes of determining whether employees covered by a plan are employees of a governmental entity, employee representatives described in section 413(b)(8) (including individuals who are employed by the plan) would be treated as employees of the plan sponsor.<sup>32</sup>

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<sup>30</sup> See, for example, Brock v. Chicago Zoological Society, 820 F.2d 909 (7<sup>th</sup> Cir. 1987) and NLRB v. Parents & Friends of the Specialized Living Center, 879 F.2d 1442 (7<sup>th</sup> Cir. 1989).

<sup>31</sup> Section 1.401-1(a)(2) generally provides that a qualified pension, profit-sharing, or stock bonus plan is a definite written program and arrangement which is communicated to the employees and which is established and maintained by an employer.

<sup>32</sup> See §1.413-1(i)(1) for rules for when an employee is an employee representative.

The proposed regulations would provide rules for changes in status of an entity from a private entity to a governmental entity and from a governmental entity to a private entity. As mentioned in the “Background” section of this preamble, the qualification requirements for a private qualified plan differ substantially from those of a governmental qualified plan. The issue of whether a plan of a private employer that later becomes a governmental entity can be a governmental plan raises a question regarding the interaction among the three definitions of the term “governmental plan” in ERISA. Section 414(d) of the Code defines the term “governmental plan” as “a plan established and maintained by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of the foregoing.” In title IV of ERISA, section 4021(b)(2) provides that any plan “established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of the foregoing” is exempt from coverage by ERISA. In title I of ERISA, section 3(32) defines a governmental plan as “a plan established or maintained by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of the foregoing.” While the definitions in title II of ERISA (Code) and title IV of ERISA (PBGC provisions) use the language “established *and* maintained” by a governmental employer, the title I definition uses the language “established *or* maintained.”

This difference in statutory language was addressed in Rose v. Long Island Railroad Pension Plan, 828 F.2d 910 (2<sup>nd</sup> Cir. 1987), cert. denied, 485 U.S. 936 (1988). In Rose, the State of New York, through the Metropolitan Transportation Authority

(MTA), acquired the Long Island Railroad Company in 1966 (LIRR). The LIRR had originally been chartered as a private stock corporation. As part of the acquisition, the State also assumed sponsorship of the Long Island Railroad Pension Plan (LIRR Pension Plan). After ERISA was enacted in 1974, the widow of a participant who died in 1976 in the LIRR Pension Plan sued the plan under title I of ERISA after being denied survivorship benefits. The Rose court concluded that the LIRR Pension Plan was a governmental plan within the meaning of section 3(32) of ERISA because the LIRR was an agency or instrumentality of a political subdivision, the MTA.

The Rose court took the position that if a private entity is acquired by a governmental entity which becomes the plan sponsor, the plan can be established by the governmental entity and, thus, be a governmental plan. The court interpreted the “established or maintained” language in section 3(32) literally, but also noted the discrepancy between the “established or maintained” language in ERISA section 3(32) and the “established and maintained” language in Code section 414(d) and ERISA section 4021(b)(2) (emphasis added). Despite this difference in the three statutory definitions, Congress intended all three definitions to be interpreted in a similar manner.

The Rose court reasoned that:

“If a plan is required to have been both established and maintained by a governmental entity in order to qualify for exemption, then a plan which was established by a private entity but subsequently taken over by a governmental body would continue to be subject to ERISA. This outcome conflicts with the federalism-based concerns which led Congress to exempt governmental plans in the first place.” Rose v. Long Island Railroad Pension Plan, 828 F.2d at 920.

The Rose court stated that courts have interpreted the word “and” as meaning “or” if such interpretation would reflect the legislative intent of the statute.<sup>33</sup> The Rose

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<sup>33</sup> See Rose v. Long Island Railroad Pension Plan, 828 F.2d at 919.

court noted that its conclusion was consistent with the approach taken by the PBGC in a similar matter involving an entity's change to governmental status prior to the enactment of ERISA where the PBGC stated that it would not impose the "established" requirement when doing so would frustrate the congressional intent of section 4021(b)(2) of ERISA.<sup>34</sup>

The Rose court also noted that the LIRR Pension Plan had been rewritten and substantially funded by the State since its acquisition of the LIRR in 1966, and stated that it would have reached the same conclusion regarding the plan's governmental status even if the definition under section 3(32) of ERISA used the phrase "established and maintained."

"In any event, even if we agreed with Rose that the correct interpretation of [section 3(32) of ERISA] was established and maintained, we would still not conclude that the LIRR Plan was covered by ERISA, because the Plan was in fact established and maintained by the LIRR."

Rose v. Long Island Railroad Pension Plan, 828 F.2d at 920. See also Roy v. Teachers Insurance and Annuity Association, 878 F.2d 47 (2<sup>nd</sup> Cir. 1989).

The court concluded that a broad reading of the term "established"--whereby a plan not previously established under ERISA may become a plan established under ERISA without the preexisting one having been formally "terminated"--is more consistent with the legislative intent behind the governmental plan exemption.<sup>35</sup>

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<sup>34</sup> The Rose court said that: "We find the PBGC's approach to be a sensible one; the status of the entity which currently maintains a particular pension plan bears more relation to Congress' goals in enacting ERISA and its various exemptions, than does the status of the entity which established the plan." Rose v. Long Island Railroad Pension Plan, 828 F.2d at 920. See PBGC Opinion Letter 75-44 (December 9, 1975).

<sup>35</sup> But see Hightower v. Texas Hospital Association, 65 F.3d 443, 448 (5<sup>th</sup> Cir. 1995), in which the Fifth Circuit held that if the plan was "established or maintained" for its employees by a governmental employer, the plan was exempt from coverage under title I of ERISA, even if it was not exempt from coverage under the title IV "established and maintained" test. The Court of Appeals held that the difference in statutory language between "established or maintained" and "established and

For reasons similar to those presented by the Rose court, but consistent with the “established and maintained” language in section 414(d), the proposed regulations would set forth rules for employers changing status from private to governmental that are consistent with the legislative intent of the exemption of governmental plans. The proposed regulations would provide that if an employer becomes a governmental entity or a governmental entity becomes the employer under the plan (for example, in connection with an asset transfer), the plan will be treated as a governmental plan established by a governmental employer on the date of the change (including all of the plan’s assets and liabilities attributable to service before and after the date of the change). Thus, in such a case, under the proposed regulations, the plan would have to comply with all the requirements for a private plan up to the date of the change and then comply with the requirements for a governmental plan after the date of the change. These same rules would also apply if a portion of a private plan was spun off to a plan maintained by a governmental employer: that portion of the plan would cease to be subject to Code rules applicable to nongovernmental employers, and instead would become part of a governmental plan, while the remaining portion of the private plan that was not spun off would continue to be subject to the protection and other rules applicable to private plans. These rules would provide standards for determining when the Code protections and other rules for a private plan cease to apply (and when the substantially different rules for a governmental plan begin to apply).

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maintained” had to be given some meaning, and held that for a plan to be a governmental plan under ERISA section 4021(b)(2), the plan had to be both established and maintained by the government. Id. at 450-51. The court did not discuss what, if any, actions would be sufficient for an employer assuming sponsorship of an existing plan to be treated as having “established” the plan.

In the case of a change in status from a private plan to a governmental plan, comments are requested on whether, and if so how, these regulations should address rights and obligations that accrued prior to the conversion to a governmental plan, including the responsibility of the former private plan sponsor (or former private plan) for benefits that accrued prior to the conversion. Any comments that address the potential impact of the proposed regulation's approach on rights and responsibilities under title I and title IV of ERISA will be forwarded to the DOL and the PBGC.

Similarly, the regulations would provide that if a governmental employer ceases to be a governmental entity, the plan will be treated as being established by a private employer thereafter (including all of the plan's assets and liabilities attributable to service before and after the date of the change). Such a change would occur either where the employer entity ceases to be a governmental entity (such as a spin-off of a corporation) or where the employees become employees of a different entity (such as in an asset transfer). Thus, for example, the entity in either case would no longer satisfy the requirement that the employer be a governmental entity. If such a change occurs, the plan must comply with the requirements for a governmental plan up to the change and then comply with all the requirements for a private plan for periods after the date of the change. (See also the related discussion under the heading, "Comments and Public Hearing.")

In the case of a formerly governmental plan becoming a private plan, the plan and plan sponsor may secure certain advantages, such as PBGC coverage or ERISA preemption, not available to governmental plans and governmental sponsors. However, nothing in these proposed income tax regulations should be construed to mean that,



with respect to a transaction such as an asset sale, in which assets and liabilities of a governmental plan are transferred to a private plan, the assumption of benefit liabilities accrued prior to the transfer to the private plan relieves the former governmental employer (or former governmental plan) from responsibility for those benefits.

As previously stated, the proposed regulations would provide that if a governmental employer ceases to be a governmental entity, the plan will be treated as being established by a private employer on the date of the change. The proposed regulations would provide an exception to this general rule when there is a change in status from a governmental entity to a private entity under certain circumstances. Specifically, if a governmental plan ceases to be maintained by a governmental employer, the plan will nevertheless be treated as continuing to be a governmental plan if the benefits held under the governmental plan are frozen and a governmental entity assumes responsibility for the plan. While the frozen plan would continue to be treated as a governmental plan, the plan would be permitted (but not required) to provide participating employees with credit for service with the new employer for purposes of vesting, final pay adjustments, entitlements to benefits such as early retirement benefits, and similar service credit other than benefit accrual credit.

Further, certain types of plans are limited under the Code to specific types of employers, including limitations that apply differently depending on whether or not the employer is or is not a governmental entity. These limitations on employer eligibility raise special problems for cases in which an entity becomes or ceases to be a governmental employer. For example, because a qualified cash or deferred arrangement under section 401(k) generally cannot be maintained by a State or local

government or political subdivision, or any agency or instrumentality thereof, such a plan maintained by a private employer cannot be continued if the employer later becomes part of a State. Other special problems arise if a governmental employer that is not a tax-exempt organization under section 501(c)(3) and that is not a public school attempts to become a sponsoring employer of a section 403(b) plan of a tax-exempt organization under section 501(c)(3). Likewise, a State entity cannot maintain an unfunded section 457(b) plan of a tax-exempt organization described in section 457(e)(1)(B). These proposed regulations would not alter rules relating to the eligibility of an employer to establish or maintain a particular type of retirement plan. An employer that is considering a change in its status should evaluate whether it is eligible to sponsor any plan that it assumes, taking into account the employer eligibility rules. Therefore, sponsors should not assume from these proposed regulations that a change of sponsorship from a private to governmental employer, or vice versa, will not result in any adverse tax consequences. As emphasized elsewhere in this preamble, the proposed regulations would provide that the established and maintained rules apply only for purposes of section 414(d).

### **Proposed Effective Date**

It is expected that these proposed regulations would not be applicable earlier than for plan years beginning after the date of the publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. Generally, amendment of a State or local retirement plan requires enactment of State legislation. The Department of Treasury and IRS intends to take into consideration the time

required to complete the State legislative process when determining an effective date for these regulations.

### **Special Analyses**

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations. In addition, because no collection of information is imposed on small entities, the provisions of the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply, and therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking will be submitted to the Small Business Administration for comment on its impact on small business.

### **Comments and Public Hearing**

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS. The Treasury Department and the IRS specifically request comments on the clarity of the proposed rules and how they can be made easier to understand. All comments will be available for public inspection and copying.

These proposed regulations would provide that a determination of whether an entity is an agency or instrumentality of a State or a political subdivision thereof is based on a facts and circumstances analysis. Under the proposed regulations, the factors to

be applied would be ranked into main factors and other factors.<sup>36</sup> Comments are requested on whether the final regulations should eliminate the distinction between main and other factors. Comments are also requested on the ordering and the application of the main and other factors; for example, whether the final regulations should provide a list of factors with a safe harbor standard under which, if an entity satisfies identified factors, the entity will be treated as an agency or instrumentality of a State or political subdivision thereof, for purposes of section 414(d). Comments are also requested on whether the distinction between main and other factors should be retained, in addition to providing a safe harbor standard.

The factors identified in this bright line test might be whether: (1) a majority of the entity's governing board or body are either controlled by a State or political subdivision thereof or elected through periodic, publicly held elections (with the nominees elected by the voters); and (2) a State or political subdivision thereof has the fiscal responsibility for the general debts and other liabilities of the entity, including the entity's employee benefit plans. This standard might be available only if the entity was created by a State government or political subdivision pursuant to a specific enabling statute that prescribes the purposes, powers, and manner in which the entity is to be established and operated.

Apart from the special rules relating to plan coverage for employees of a labor union or plan under section 413(b)(8), these proposed regulations do not include special rules addressing existing practices under which a small number of private employees participate in a plan that would otherwise constitute a governmental plan under section

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<sup>36</sup> For a list of the factors, see discussion under the heading Definition of Agency or Instrumentality of a State or a Political Subdivision of a State in the Explanation of Provisions of this preamble.

414(d). Comments are requested on whether an exception should be provided in such cases. Parameters that could be taken into account for such a special rule include the following: (1) whether the private employees were previously employees of the sponsoring governmental entity; (2) whether the private employees were previously participants in the governmental plan; (3) whether the number or percentage of such former employees who participate in the governmental plan is de minimis (and, if so, what constitutes a de minimis number or percentage); (4) whether the coverage is pursuant to pre-existing plan provisions; (5) whether the private employer performs a governmental function and has been officially designated as a State entity for plan participation purposes; and (6) whether the employer is ineligible to sponsor the particular type of governmental plan (for example, whether a private employer is a tax-exempt organization under section 501(c)(3) that can sponsor a section 403(b) plan, and whether the private employer sponsors or has sponsored plans that cannot be sponsored by a State governmental entity, such as a cash or deferred arrangement under section 401(k) or an unfunded section 457(b) plan of a tax-exempt entity (described in section 457(e)(1)(B)).

If any special rule for such circumstances were to be included in the final regulation, there would be a number of related issues. These issues would include how to address the status of such a plan as a governmental multiple employer plan. Other issues might include how section 414(h) governmental pick-up plans should be treated, differences resulting from the application of federal employment taxes to a private employer participating in a governmental multiple employer plan, the application of the minimum funding rules with respect to a private employer participating in a

governmental multiple employer plan, how the prohibited transaction rules of section 4975 would apply with respect to a private employer participating in a governmental multiple employer plan, how the special benefit limitation rules of section 415 would apply to private plan participants in the governmental plan; and what treatment should apply where the plan was previously a funded section 457(b) plan of a State or local government.

If the final regulations do not provide any special rule for cases in which a governmental plan continues to cover private employees who were formerly governmental employees, it is expected that a reasonable transition period following publication of the final regulations will be provided. Comments are requested on what transitional relief should be provided to a governmental plan that covers private employees who were formerly governmental employees and continue to participate in the plan that would otherwise constitute a governmental plan under section 414(d) (such as the governmental plan spinning off a portion of the assets and liabilities of the plan with respect to the former employees as a separate non-governmental plan). Comments are also requested on whether this method of correction might also be appropriate in situations such as described in Example 5 in paragraph (k)(4) of the proposed regulations.

The final regulations may also provide transitional relief for entities that previously operated as if they were governmental entities eligible to participate or sponsor governmental plans but later were determined to be private entities under the regulations. Comments are requested on what transitional relief should be provided to an entity that is later determined to be a private entity. The Treasury Department and

the IRS anticipate that there will be a reasonable transition period following the final regulations for a plan to revise its arrangements in order to avoid the adverse tax consequences of failing to comply with all the requirements of a private retirement plan.

A public hearing has been scheduled for (date to be provided when proposed regulations are published), beginning at 10 a.m. in the Auditorium, Internal Revenue Building, 1111 Constitution Avenue, NW., Washington DC. Due to building security procedures, visitors must enter at the main entrance located at 1111 Constitution Avenue, NW. In addition, all visitors must present photo identification to enter the building. Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 30 minutes before the hearing starts. For information about having your name placed on the building access list to attend the hearing, see the “FOR FURTHER INFORMATION CONTACT” portion of this preamble.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments must submit written or electronic comments and an outline of the topics to be discussed and time to be devoted to each topic (signed original and eight (8) copies) by (date to be provided when proposed regulations are published). A period of 10 minutes will be allotted to each person for making comments. An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving comments has passed. Copies of the agenda will be available free of charge at the hearing.

### **Drafting Information**

The principal author of these proposed regulations is Pamela R. Kinard, Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities),

Internal Revenue Service. However, personnel from other offices of the IRS and Treasury participated in their development.

### **List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

### **Proposed Amendments to the Regulations**

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

#### **PART 1--INCOME TAXES**

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 \* \* \*

Par.2. Section 1.414(d)-1 is added to read as follows:

#### **§1.414(d)-1 Definition of governmental plan.**

(a) Definition of governmental plan--(1) In general. In accordance with section 414(d), for purposes of part I of subchapter D of chapter 1 of the Internal Revenue Code and the regulations, the term governmental plan means a plan established and maintained for its employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of the foregoing, as determined pursuant to the requirements of this section. The definitions set forth in this section only apply for purposes of section 414(d) and this section.

(2) Definition for plans subject to certain statutes. For purposes of part I of subchapter D of chapter 1 of the Internal Revenue Code and the regulations, the term “governmental plan” also includes any plan to which the Railroad Retirement Act of 1935 or 1937 applies and which is financed by contributions required under that Act and



any plan of an international organization which is exempt from taxation by reason of the International Organizations Immunities Act (59 Stat. 669).

(3) Definition for certain plans of Indian tribal governments. For purposes of part I of subchapter D of chapter 1 of the Internal Revenue Code and the regulations, the term “governmental plan” also includes a plan which is established and maintained by an Indian tribal government (as defined in section 7701(a)(40)), a subdivision of an Indian tribal government (determined in accordance with section 7871(d)), or an agency or instrumentality of either, and all of the participants of which are employees of such entity substantially all of whose services as such an employee are in the performance of essential governmental functions but not in the performance of commercial activities (whether or not an essential governmental function).

(b) Definition of United States. The term United States has the meaning set forth in section 7701(a)(9).

(c) Definition of agency or instrumentality of the United States--(1) Agency or instrumentality of the United States. For purposes of the definition of “governmental plan” in paragraph (a)(3) of this section, the term agency or instrumentality of the United States means an entity that satisfies the facts and circumstances test in paragraph (c)(2) of this section.

(2) Facts and circumstances test. Whether an entity is an agency or instrumentality of the United States is based on facts and circumstances. In making this determination, the facts to be considered include the following:

(i) The entity performs or assists in the performance of a governmental function.

(ii) There are no private interests involved, or the Government of the United States has all of the powers and interests of an owner. In determining whether an entity that holds stock has a private interest, stock will not be considered a private interest if the stock of the corporation is not acquired for investment purposes or for purposes of control.

(iii) The control and supervision of the entity is vested in the Government of the United States. Control must be more than the government's extensive Federal regulation of an industry.

(iv) The entity is exempt from Federal, State, and Local tax by an Act of Congress.

(v) The entity is created by the United States Government pursuant to a specific enabling statute that prescribes the purposes, powers, and manner in which the entity is to be established and operated.

(vi) The entity receives financial assistance from the Government of the United States. However, an entity is not a governmental entity merely because it receives funds from the Government of the United States under a contract to provide a governmental service.

(vii) The entity is determined to be an agency or instrumentality of the United States by a Federal court.

(viii) Other governmental entities recognize and rely on the entity as an arm of the Government of the United States.

(ix) The entity's employees are treated in the same manner as Federal employees for purposes other than providing employee benefits (for example, the entity's employees are granted civil service protection).

(3) Example. The following example illustrates the application of this paragraph (c):

Example. (i) Facts. Entity A is a Federal credit union, which is created pursuant to the Federal Credit Union Act, and is a tax-exempt organization under section 501(c)(1)(A)(i). Membership in the Federal credit union is not open to the general public but to individuals who share a common bond, current or former employees of specified employers. Entity A is member-owned and is controlled by a board of directors that is elected by its membership. Entity A, along with other Federal credit unions, is subject to regulation by the National Credit Union Administration (NCUA), which is a Federal agency that charters and regulates Federal credit unions.

(ii) Conclusion. Based on the facts and circumstances and the factors in paragraph (c)(2) of this section, Entity A is not an agency or instrumentality of the United States because its board of directors is elected by its own members and the directors are not responsible to the United States, except to the limited extent set forth in the Federal Credit Union Act and regulated by the NCUA. Thus, Entity A is not a governmental entity within the meaning of paragraph (c) of this section.

(d) Definition of State. The term State means any State of the United States and the District of Columbia.

(e) Definition of political subdivision of a State. The term political subdivision of a State means--

(1) A regional, territorial, or local authority, such as a county or municipality (such as, a municipal corporation), that is created or recognized by State statute to exercise sovereign powers (which generally means the power of taxation, the power of eminent domain, and the police power); and

(2) The governing officers either are appointed by State officials or publicly elected.

(f) Definition of agency or instrumentality of a State or political subdivision of a State--(1) Agency or instrumentality of a State or political subdivision of a State. The term agency or instrumentality of a State or political subdivision of a State means an entity that satisfies the facts and circumstances test in paragraph (f)(2) of this section.

(2) Facts and circumstances test--(i) Factors to be considered. In making the determination of whether an entity is an agency or instrumentality of a State or political subdivision of a State, the main factors to be considered are--

(A) The entity's governing board or body is controlled by a State (or political subdivision thereof). For example, an entity's governing board or body is controlled by a State (or political subdivision thereof) if the public officials of the State (or political subdivision thereof) have the power to appoint, and to remove and replace, a majority of the entity's governing board or body. This factor is not satisfied if the power to control is materially restricted (for example, if any board member of the entity can be replaced only with an individual chosen from a list of designees selected by the other members of the governing board or body);

(B) The members of the governing board or body are publicly nominated and elected;

(C) A State (or political subdivision thereof) has fiscal responsibility for the general debts and other liabilities of the entity, including responsibility for the funding of benefits under the entity's employee benefit plans;

(D) The entity's employees are treated in the same manner as employees of the State (or political subdivision thereof) for purposes other than providing employee benefits (for example, the entity's employees are granted civil service protection); and

(E) In the case of an entity that is not a political subdivision, the entity is delegated the authority to exercise sovereign powers (which generally means the power of taxation, the power of eminent domain, and police powers) of the State (or political subdivision thereof) and the delegation of authority is pursuant to a statute of a State (or political subdivision thereof).

(ii) Other factors to be considered. In making the determination of whether an entity is an agency or instrumentality of a State or a political subdivision of a State, other factors include--

(A) The entity's operations are controlled by a State (or political subdivision thereof);

(B) The entity is directly funded through tax revenues or other public sources. However, this factor is not satisfied if an entity that is not otherwise an agency or instrumentality is paid from public funds under a contract to provide a governmental service or is funded through grants by the State or Federal government;

(C) The entity is created by a State government or political subdivision of a State pursuant to a specific enabling statute that prescribes the purposes, powers, and manners in which the entity is to be established and operated. However, a nonprofit corporation that is incorporated under a State's general corporation laws is not created under a specific enabling statute;

(D) The entity is treated as a governmental entity for Federal employment tax or income tax purposes (such as, the authority to issue tax-exempt bonds under section 103(a)) or under other Federal laws;

(E) The entity is determined to be an agency or instrumentality of a State (or political subdivision thereof) for purposes of State laws. For example, the entity is subject to open meetings laws or the requirement to maintain public records that apply only to governmental entities, or the State attorney general represents the entity in court under a State statute that only permits representation of State entities;

(F) The entity is determined to be an agency or instrumentality of a State (or political subdivision thereof) by a State or Federal court;

(G) A State (or political subdivision thereof) has the ownership interest in the entity and no private interests are involved; and

(H) The entity serves a governmental purpose.

(3) Examples. The following examples illustrate the application of this paragraph (f). In each of these examples, unless otherwise stated, only facts that are relevant to the examples are included and it is assumed that no party other than a State or political subdivision thereof has an ownership interest in the entity and that the entity serves a governmental purpose. The examples are as follows:

Example 1. (i) Facts. Entity C is a utility company located in County B of State A. Entity C is created pursuant to a State A statute by a petition of 25 private citizens who are landowners, and approved by an order of a judge in County B. Entity C is administered by a board of commissioners named in the original petition, with vacancies to be filled by the incumbents, but with State A having the right to remove a board member for malfeasance. Entity C has the power of eminent domain. In addition, the records of Entity C are public records.

(ii) Conclusion. Based on the facts and circumstances, Entity C is not an agency or instrumentality of County B within the meaning of paragraph (f) of this section because it does not satisfy the control factors described in paragraphs (f)(2)(i)(A) and (ii)(A) of this section because Entity C is under the control of a self-perpetuating board of directors and because State A or its officials do not exercise control over the directors.

Example 2. (i) Facts. The facts are the same as in Example 1, except that Entity C is administered by a board of commissioners which is appointed by the Governor of State A and is subject to removal proceedings by the Governor of State A, the County B prosecutor, or the general public in County B. Vacancies on Entity C's district board are filled by popular election or by appointment of the Governor of State A. Entity C has the power of eminent domain. In addition, the records of Entity C are public records.

(ii) Conclusion. Based on the facts and circumstances, Entity C is an agency or instrumentality of County B within the meaning of paragraph (f) of this section.

Example 3. (i) Facts. Entity K is a non-profit corporation that operates a zoo in County J. Entity K is organized under the laws of State L. Although Entity K was not created by State law, the legislature of State L authorized the State's forest districts to contract with zoological societies for the creation, operation, and maintenance of zoological parks. County J entered into a contract with Entity K, giving Entity K exclusive control and management authority over the zoo in County J. Entity K, through government contracts, receives over half of its revenues from taxes raised by County J. The remaining revenues are from admission and parking fees, concessions, souvenirs, and private donations. County J maintains a significant amount of control over the budget of Entity K, including overseeing the expenditures of nontax revenues generated by Entity K. The zoo is located on land owned by County J, and vehicles used at the zoo are owned by County J and licensed as municipal vehicles. Entity K is managed by a 35-member board of trustees. Only one member of the board of trustees is a public official. Of the 240 members of Entity K who elect the board of trustees, only 4 members are County J public officials. In addition, County J has no direct role in Entity K's operation and maintenance of the zoo. Employees of Entity K are not treated in the same manner as public employees and, thus, are not covered under the civil service rules, pension plan, or workers' compensation funds of County J or State L.

(ii) Conclusion. Based on the facts and circumstances, Entity K is not an agency or instrumentality of County J or State L within the meaning of paragraph (f) of this section. Although Entity K is partly funded by County J, it receives those funds under a contract to provide governmental service and very few members of both the board of trustees and the governing members of Entity K are public officials.

Example 4. (i) Facts. Entity P is a non-profit corporation that operates a 24-hour intermediate care facility for mentally challenged adults located in State O. Entity P is licensed and regulated by State O. While not created by statute, Entity P's facility was built pursuant to statutory directives. Entity P is managed by a 9-member board of directors, which consists of parents of the patients at the facility and other volunteers. The directors are elected by Entity P's corporate members. State O has no authority to appoint or remove directors. The facility is managed by an executive director who is hired by the board without State approval. Pursuant to regulations, State O mandates certain personnel requirements, including staffing levels and minimum qualification requirements for staff members at the facility. However, Entity P is responsible for hiring, firing, and other disciplinary decisions. State O prescribes an hourly mean wage

for the employees of Entity P, which limits the total amount that Entity P can pay its employees. In addition, State O imposes a ceiling on fringe benefits available to employees of Entity P, but Entity P is responsible for allocating the funds to pay for the fringe benefits.

(ii) Conclusion. Based on the facts and circumstances, Entity P is not an agency or instrumentality of State O within the meaning of paragraph (f) of this section. Although Entity P is directly funded by State O, it receives those funds under a contract to provide services to State O. Entity P does not satisfy the control factors described in paragraphs (f)(2)(i)(A) and (ii)(A) of this section because Entity P is controlled by directors who are chosen by Entity P's corporate members. While State O has some oversight control over Entity P's employees, through certification requirements and the imposition of limitations on pay and fringe benefits, Entity P has control over most employment decisions, as well as setting policies for holidays, vacations, insurance, and retirement benefits.

Example 5. (i) Facts relating to University U. University U was created by the legislature of State A and is an agency or instrumentality of State A under this paragraph (f). The board of trustees of University U appoints the president of University U. The president of University U appoints the chancellor of the medical school of University U. The chancellor of the medical school is also a vice-president of University U. The chancellor of the medical school appoints the various chairs of the clinical departments of the medical school.

(ii) Facts relating to the corporate structure of Employer M. The chairs of the clinical departments of the medical school have incorporated a separate entity, Employer M, under State A's not-for-profit law. Employer M is an integrated group practice for managing the clinical practice activities of the medical school faculty and was established in order to advance the purposes of the medical educational program and related activities of the medical school of University U. Under the by-laws of Employer M, any physician employee of Employer M must be a faculty member of the medical school (and if any physician employee of Employer M leaves the faculty of the medical school, his or her employment with Employer M terminates automatically).

(iii) Facts relating to the control of Employer M. Employer M is governed by a board of trustees consisting of the chancellor of the medical school, the clinical department chairs, and full-time faculty members appointed by two-thirds of the clinical department chairs. Performance of services as an employee of Employer M is a condition of employment for all full-time faculty members of the medical school. The faculty members are employees of University U and, in the capacity of their employment at University U, participate in the State A public employees' pension plan. Employer M also employs administrative and non-faculty employees who are not treated in the same manner as employees of State A (or University U). Employer M charges patients for the services provided by Employer M, and a portion of the fees collected are paid to University U. The compensation levels for employees of Employer M are set by faculty members who serve on the board of trustees of Employer M. The compensation paid to



faculty members by Employer M is a substantial portion of the total compensation paid to them by University U and Employer M. Audited financial records of Employer M are submitted annually to the president of University U.

(iv) Conclusion. Employer M does not satisfy any of the factors listed in paragraphs (f)(2)(i)(B) through (E) of this section (that is, its trustees are not publicly nominated and elected, State A has no fiscal responsibility for Employer M, administrative and non-faculty employees of Employer M are not treated in the same manner as employees of State A, and Employer M has no sovereign powers). Employer M also does not satisfy any of the additional factors listed in paragraphs (f)(2)(ii)(B) through (G) of this section, but does satisfy the governmental purpose factor in paragraph (f)(2)(ii)(H) of this section. With respect to the control factors in paragraphs (f)(2)(i)(A) and (ii)(A) of this section, while all of Employer M's trustees are employees of University U, the majority of the board of trustees is not controlled by University U but by clinical department chairs and full-time faculty members of University U. Their service on the board of trustees of Employer M is in their capacity as representatives of Employer M, not as representatives of University U or State A. Accordingly, based on the facts and circumstances, including the lack of involvement of University U in overseeing the conduct of the board of trustees and the operations of Employer M beyond review of its audited financials, Employer M is not an agency or instrumentality of State A within the meaning of paragraph (f) of this section.

Example 6. (i) Facts. Entity W, a private foundation, provides public assistance to the indigent elderly in a residence hall built on land privately donated to Entity W, located in City V. City V contracts with Entity W to provide elder care to residents of City V. Over the years, City V has regularly budgeted for services provided by Entity W to its residents, including maintenance and upkeep of its facilities, and salaries of employees. In 1970, Entity W and City V together incorporated a non-profit organization, Entity X, called "City V Eldercare Residence," through which Entity W would provide its services to the residents of City V. Under Entity X's bylaws, Entity X is governed by a board of directors, six of whom are appointed by the Mayor of City V, and six of whom are appointed by Entity W. Entity X's employees are considered employees of Entity X and are not treated in the same manner as municipal employees of City V.

(ii) Conclusion. Although City V is a political subdivision of a State within the meaning of paragraph (e)(1) of this section, Entity X is not an agency or instrumentality of City V within the meaning of paragraph (f) of this section. While Entity X satisfies the governmental purpose factor described in paragraph (f)(2)(ii)(H) of this section, it does not satisfy any other factor, including the control factors described in paragraphs (f)(2)(i)(A) and (ii)(A) of this section or the employee factor described in paragraph (f)(2)(i)(D) of this section (because a majority of the board is not appointed by City V and Entity X's employees are not treated in the same manner as employees of City V).

Example 7. (i) Facts. Five States created Commission D as a body corporate of each compacting State and territory. Commission D was created to provide services to

the States on issues relating to higher education. Each governor of the five States appoints three persons to the governing board of Commission D, which is subject to the joint control of the five States. Commission D submits yearly reports and budgets to the governors of each of the five States. Commission D's operating costs are apportioned equally among the States. The IRS determined in a ruling that Commission D was exempt from gross income under section 115. The IRS also determined that Commission D was an instrumentality of each of the five States for employment tax purposes.

(ii) Conclusion. Based on the facts and circumstances, Commission D is an agency or instrumentality of each of the five States within the meaning of paragraph (f) of this section.

Example 8. (i) Facts. Entity S, incorporated under the laws of State T as a non-profit corporation, operates a hospital in City R. City R leases the hospital and its entire operation to Entity S. The lease between City R and Entity S requires Entity S to transfer its assets and liabilities back to the City upon expiration of the lease. City R created the first board of directors for the hospital, but it does not have the power to remove or replace any board member. Only one of the 13 board members of Entity S is a public official, an ex officio voting member. In addition, the board of directors is not elected by the general public of City R. To fund a subsequent expansion of the hospital facility, City R issued tax-exempt bonds. Entity S does not have the authority to issue tax-exempt bonds. Entity S does not exercise any sovereign powers. Employees of Entity S are not treated in the same manner as employees of City R. For example, Entity S and City R maintain separate payrolls, health insurance plans, and pension plans.

(ii) Conclusion. Based on the facts and circumstances, Entity S is not an agency or instrumentality of City R within the meaning of paragraph (f) of this section. Although City R had the power of the initial appointment of the board members, it cannot subsequently appoint or remove any directors of Entity S, therefore, Entity S does not satisfy the control factor described in paragraph (f)(2)(i)(A) of this section.

(g) Special rules for plans of Indian tribal governments. [Reserved].

(h) Special rules for plans subject to the Railroad Retirement Act of 1935 or 1937. [Reserved].

(i) [Reserved].

(j) Special rules for plans subject to the International Organizations Immunities Act. [Reserved].

(k) Established and maintained--(1) In general. For purposes of applying this section (and not for any other purpose) with respect to a governmental entity (which is an entity defined in paragraph (b), (c), (d), (e), or (f) of this section), a plan is established and maintained for the employees of a governmental entity if--

(i) The plan is established and maintained for employees by an employer, within the meaning of §1.401-1(a)(2);

(ii) The employer is a governmental entity; and

(iii) The participants covered by the plan are employees of that governmental entity.

(2) Changes in status--(i) Ceasing to be a private entity. If an employer becomes a governmental entity (for example, as a result of a stock acquisition) or a governmental entity becomes the employer under the plan (for example, in connection with an asset transfer), the plan (including all of the plan's assets and liabilities attributable to service before and after the date of the change) will be treated, for purposes of paragraph (k)(1)(i) of this section, as being established by that governmental entity on the date of that change.

(ii) Ceasing to be a governmental entity--(A) General rule. Except as provided in paragraph (k)(2)(ii)(B) of this section, if an employer that is a governmental entity ceases to be a governmental entity (for example, as a result of a stock acquisition) or a private entity becomes the employer under the plan (for example, in connection with an asset transfer), the plan (including all of the plan's assets and liabilities attributable to service before and after the date of the change) is treated, for purposes of paragraph

(k)(1)(ii) of this section, as being established by the non-governmental employer on the date of that change.

(B) Exception. If a plan is established and maintained for the employees of a governmental entity in accordance with paragraph (k)(1) of this section (without regard to this paragraph (k)(2)(ii)) and, at a subsequent date, the employer ceases to be a governmental entity (for example, as a result of an assets transfer), the plan is treated as continuing to be a governmental plan if--

(1) A governmental entity continues to be the plan sponsor after the change (for example, a governmental entity assumes the plan on or before the date on which the private entity becomes the employer (including becoming responsible for the employer obligations with respect to the payment of benefits under the plan)); and

(2) Benefits under the plan are frozen (with, if provided under the plan, participating employees to receive credit for service with the new employer for purposes of vesting, final pay adjustments, entitlement to benefits such as early retirement benefits, and similar service credit other than benefit accrual credit).

(C) Governmental liability for spun-off benefits. In the case of a transaction such as an asset sale in which assets and liabilities of a governmental plan are transferred to a private plan, the private employer would be responsible for satisfying the minimum funding standards of section 412 (including with respect to benefits attributable to service performed before the date of the change). However, nothing in this paragraph (k)(2)(ii) should be construed to mean that, with respect to such a transaction, the assumption of benefit liabilities accrued prior to the transfer to the private plan would

relieve the former governmental employer (or former governmental plan) from responsibilities for those benefits.

(3) Plan coverage for employees of a labor union or plan. For purposes of paragraph (k)(1)(iii) of this section, employees of employee representatives described in section 413(b)(8) (including employees of a plan) are treated as employees of the plan sponsor. See §1.413-1(i).

(4) Examples. The following examples illustrate the application of this paragraph (k):

Example 1. (i) Facts. Employer C, a non-profit corporation whose principal place of business is located in City F, is not a governmental entity. Plan B, a retirement plan, is established and maintained by Employer C. In a stock acquisition, City F acquires all the shares of stock of Employer C and, as a result, Employer C becomes a governmental entity.

(ii) Conclusion. After the acquisition, Plan B is established and maintained by a governmental entity. In addition, the employees covered by Plan B are employees of a governmental entity. Thus, Plan B, including the assets and liabilities attributable to benefits accrued in Plan B prior to the date of the acquisition, is a governmental plan within the meaning of section 414(d) and this section.

Example 2. (i) Facts. Employer G is a hospital that is an agency or instrumentality of State A. Plan J, a retirement plan, is established and maintained by Employer G. Plan J satisfies the requirements of this paragraph (k) and is a governmental plan within the meaning of section 414(d). The assets of Employer G are transferred to a non-profit corporation, Employer M, which is not a governmental entity. All employees of Employer G become employees of Employer M. As part of the transaction, Employer M assumes Plan J, with respect to benefits accrued for service both before and after the transaction.

(ii) Conclusion. Plan J is no longer maintained by a governmental entity. In addition, the employees covered by Plan J are no longer employees of a governmental entity. Therefore, Plan J no longer constitutes a governmental plan within the meaning of section 414(d) and this section. In order for Plan J to continue to be a qualified plan, Plan J must satisfy the qualification requirements relating to non-governmental plans, including with respect to the assets and liabilities attributable to benefits accrued in Plan J prior to the date of the sale. The same conclusion would apply if the transfer were a stock transaction.

Example 3. (i) Facts. Same facts as in Example 2, except that, on the date of the sale, Employer G freezes Plan J, so that participants in Plan J are no longer accruing benefits under the plan and all accrued benefits are limited to service before the sale. In addition, on the date of the acquisition, State A assumes Plan J, including responsibility for the payment of benefits previously accrued to participants in Plan J.

(ii) Conclusion. In accordance with paragraph (k)(2)(ii)(B) of this section, Plan J continues to be a governmental plan within the meaning of section 414(d) and this section.

Example 4. (i) Facts. Pursuant to a State statute, State L permits local towns and villages to establish recreational facility authorities to build and promote recreational activities. Under Statute K, unincorporated Townships M, N, and O (which are political subdivisions of State L, within the meaning of paragraph (d) of this section) jointly establish a recreational facility authority, Authority R. Financing for Authority R is through local taxes and fees. Authority R operates under a three-person board of directors, one each appointed by townships M, N, and O. Authority R built and operates a skating rink, Facility S, which is located in Township O, but is open to the residents of Townships M, N, and O. Facility S is wholly owned and controlled by Townships M, N, and O. Township O maintains Pension Plan P for its seven employees, which is a governmental plan under section 414(d). Township O amends its plan to permit the three employees of Facility S to participate. The employees of Facility S are not employees of Township O and are not employees of a labor union described in section 413(b)(8).

(ii) Conclusion. The governmental plan status of Pension Plan P is not affected by the participation of Facility S's employees because Facility S is a governmental entity within the meaning of section 414(d) and this section.

Example 5. (i) Facts. Same facts as Example 4, except that Township O amends Plan P to permit participation by 10 employees of candy and soft drink Vendor T, a supplier for Facility S. Vendor T is not a governmental entity.

(ii) Conclusion. Plan P is no longer a governmental plan within the meaning of section 414(d) because it provides benefits to employees of a non-governmental employer, Vendor T.

(l) Employee. For purposes of this section, the term employee means a common law employee of the employer (and the rules in section 401(c) do not apply).

**1-13**



## Memorandum

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**DATE:** November 18, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** PERSONNEL COMMITTEE OUTCOMES FROM OCTOBER 1, 2019 MEETING: SUCCESSION PLANNING

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### Written Report

#### Background/Discussion

The OCERS Board of Retirement Charter, Section 15(b) directs that “The Board of Retirement will from time to time as determined to be in the best interests of OCERS: Ensure that appropriate succession plans are in place to provide continuity in the OCERS management.”

With formation of the OCERS Board’s Personnel Committee, the Board Chair directed that this report should be presented annually, and specifically to the Personnel Committee rather than directly to the OCERS Board.

Meeting on October 1, 2019, I presented the attached PowerPoint presentation to the Personnel Committee.

In my presentation I emphasized that the OCERS management team is focusing on providing as many training opportunities as possible as our key effort in ensuring a ready body of team members who can step in when succession is necessary. An explanation of the third slide is important here. With a photo of Ms. Heidi Halbur, former Director of the Members Services Division, I explained that her recent departure from OCERS in order to take up the position of Deputy Director at the Rhode Island State Employees Retirement System is an example of the important positions we must identify, and have plans in place to fill when an opening arises.

I also included a copy of the current Succession Planning policy, and indicated that with its emphasis on what to do should the CEO depart OCERS, a review is in order in this coming year to have it better reflect our existing broader agency wide approach to succession planning.

The Personnel Committee accepted received this as an informational item.

#### Submitted by:



**SD - Approved**

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Steve Delaney  
Chief Executive Officer



# OCERS Succession Planning – A Review



October 1, 2019

# SUCCESSION PLANNING

*“The Board of Retirement will from time to time as determined to be in the best interests of OCERS: Ensure that appropriate succession plans are in place to provide continuity in the OCERS management”*

- Section 15(b) OCERS Board of Retirement Charter

# SUCCESSION PLANNING

– **It's about growing people**

- Succession planning is the long term development of staff and skill sets that will serve the agency



# SUCCESSION PLANNING

## The Challenge



# SUCCESSION PLANNING

## – Laying the Foundation

### First steps:

- Determine critical positions
- Identify expected vacancies
- Identify competencies, skills needed for each of those positions
- Assess where current staff stands in meeting those long-term needs



# SUCCESSION PLANNING

## – In 2019...

- Training – PDX, CALAPRS, One –on-Ones – All Staff

- (2018 focused on skill sets)
- 2019 focuses on education
- (2020 work at CEO level)



- Exposure – NASRA CLIPS; duties outside the norm

## **Purpose and Background**

1. The Orange County Employees Retirement System (“OCERS”) established a succession policy to provide continuity in leadership and avoid extended and costly vacancies in key positions. This policy provides specific steps designed to identify candidates for the Chief Executive Officer (“CEO”) position that may become vacant due to retirement, resignation, death or a new business opportunity. This policy ensures that there are qualified and motivated employees (or a means of recruiting them) who are able to take over when the CEO exits the agency. It also demonstrates to plan sponsors and members that OCERS is committed to and able to provide excellent service at all times, including during times of transition.

## **Policy Statement**

2. As part of good governance, OCERS must plan for a change – either planned or unplanned – in Executive leadership which is inevitable for all organizations. The policy goal is to ensure the stability and accountability of the organization and sustain uninterrupted service levels to plan sponsors and members until a new permanent leader is identified. The Board of Retirement (“Board”) shall be responsible for implementing this policy and its related procedures.

## **Scope and Coverage**

3. This policy should be used in case of an Executive transition that involves the CEO. In such an instance, the Board may also consider temporarily subcontracting of the organizational functions to a trained consultant or other organization(s).

## **Policy Guidelines**

### ***Appointment of Interim CEO***

4. In the event of a leave of absence (temporary or permanent) of the CEO, the Board will appoint an Interim CEO. The Interim CEO shall ensure that the organization continues to operate without disruption and that all OCERS’ obligations and commitments as defined in the CEO’s charter are addressed.
5. Within five (5) business days of a leave of absence the Board shall appoint an Interim CEO from the recommended list of incumbent positions below or such other candidates as the Board may choose:
  - a. Assistant CEO of Finance and Internal Operations
  - b. Assistant CEO of External Operations

- c. Chief Investment Officer (CIO)
- d. Chief Legal Officer
- e. External consultant (with experience as a CEO)

### ***Authority and Compensation of the Interim CEO***

- 6. The person appointed as Interim CEO shall have the full authority for decision making and independent action as the CEO. The Board shall determine if the Interim CEO is to be given a temporary salary increase while performing the duties of the CEO position.

### ***Board Oversight***

- 7. The Board Chair is responsible for monitoring the work of the Interim CEO.

### ***Communication Plan***

- 8. Immediately upon transferring the responsibilities to the Interim CEO, the Board Chair will notify staff members of the delegation of authority. As soon as possible after the Interim CEO has assumed the role, Board members and the Interim CEO shall communicate the temporary leadership structure to key external stakeholders.

### ***Leadership Transition***

- 9. In the event that a permanent change in CEO leadership is required, the Board Chair shall appoint an Executive Transition committee within fifteen (15) business days of notification. The committee shall:
  - a. Consider the need for consulting assistance (i.e., transition management or executive search consultant) based on the circumstances of the transition.
  - b. Review OCERS' Business Plan and conduct a brief assessment of organizational strengths, weaknesses, opportunities, and threats to identify priority issues that may need to be addressed during the transition process and to identify attributes and characteristics that are important to consider in the selection of the next CEO.
  - c. Establish a time frame and plan for the recruitment and selection process.
  - d. Refer to the CEO's Charter for a sample job description and qualifications.
- 10. It is the policy of the Board to develop a diverse pool of candidates and consider at least three final candidates for its permanent CEO position. OCERS shall implement a recruitment and selection process to include all qualified candidates.



11. The Board Chair/Vice-Chair shall communicate with key stakeholders regarding the actions taken by the Board in naming an interim successor, the Board Chair's appointment of the Executive Transition Committee, and the committee's implementation of the Succession Policy provisions. OCERS shall maintain a current list of key stakeholders who must be contacted, such as plan sponsors and other entities or government agencies that should be made aware of the change in leadership.

### ***Delegation of Authority – Other Executive Positions***

12. The CEO may use this policy as guidance for the succession of other key Executives.  
13. The CEO will annually present to the Board an executive staff development plan.

### **Policy Review**

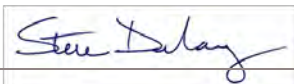
14. This policy shall be reviewed every three years by the Governance Committee and may be amended by the Board of Retirement at any time.

### **Policy History**

15. The Retirement Board adopted this policy on January 19, 2016.

### **Secretary's Certificate**

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



Steve Delaney  
Secretary of the Board

**1/19/16**

Date

**1-14**

## Memorandum

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**DATE:** November 18, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** **REPORT OF ACTION TAKEN IN CLOSED SESSION ON AUGUST 19, 2019 PURSUANT TO GOVERNMENT CODE SECTION 54957.1**

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This memorandum serves as a placeholder to inform you that there will be no printed materials for this section of the board book this month.

**Submitted by:**



**SD - Approved**

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Steve Delaney  
Chief Executive Officer

**1-15**



## Memorandum

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**DATE:** November 07, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** TRUSTEE EDUCATION: "CROSSING THE LINE: HARASSMENT IN THE WORKPLACE"

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This memorandum serves as a placeholder to inform you that there will be no printed materials for this section of the board book this month.

**Submitted by:**



**SD - Approved**

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Steve Delaney  
Chief Executive Officer