

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

REGULAR MEETING  
Tuesday, February 19, 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 near the middle of the room and deposit it in the Recording Secretary's inbox.** 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.

**BENEFITS**

**C-1 OPTION 4 RETIREMENT ELECTION**

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

- (1) Curtis Morrison

**ADMINISTRATION**

**C-2 BOARD MEETING MINUTES**

Regular Board Meeting Minutes

January 16, 2019

**Recommendation:** Approve minutes.

**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 comment on a matter listed on the agenda should fill out a speaker card located at the back of the room and deposit it in the Recording Secretary's box located near the back counter.**

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

**A-2 2019 COST OF LIVING ADJUSTMENT**

*Presentation by Suzanne Jenike, Assistant CEO of External Operations, OCERS; and Andy Yeung, Segal Consulting*

**Recommendation:** Adjust all applicable benefit allowances by 3% effective April 1, 2019, in accordance with Government Code Section 31870.1, resulting from the 3.81% change to CPI in calendar year 2018.

**A-3 OCERS HEADQUARTERS BUILDING**

*Presentation by Brenda Shott, Assistant CEO of Internal Operation, OCERS and Tim Hogan, Owner, Hogan Edgcomb Consulting LLC*

**Recommendation:** The ad hoc Building Committee recommends that the OCERS Board determine to remain at 2223 E. Wellington Ave., Santa Ana and direct staff to advance plans for tenant improvements and upgrade of mechanical systems.

**A-4 SACRS BOARD OF DIRECTORS ELECTIONS 2019-2020**

*Presentation by Steve Delaney, CEO, OCERS*

**Recommendation:** Identify one or more nominees for the SACRS Board of Directors election to be conducted on May 10, 2019; and direct staff to submit the nomination(s) to the SACRS Nominating Committee on or before March 1, 2019.

**A-5 AUDIT COMMITTEE OUTCOMES FROM DECEMBER 11, 2018 MEETING - TRIENNIAL REVIEW OF THE RISK POLICY**

*Presentation by Brenda Shott, Assistant CEO of Internal Operation, OCERS*

**Recommendation:** The Audit Committee recommends that the Board adopt the revised Risk Policy as presented.

**INFORMATION ITEMS**

**I-1 MEMBER MATERIALS DISTRIBUTED**

Written Report

Application Notices

February 19, 2019

Death Notices

February 19, 2019

**I-2 COMMITTEE MEETING MINUTES**

- None

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

Written Report

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

Written Report

**I-5 2018 PPCC PUBLIC PENSION STANDARDS AWARD FOR FUNDING AND ADMINISTRATION**

Written Report

**I-6 FOURTH QUARTER 2018 BUDGET VS. PRELIMINARY ACTUALS REPORT**

Written Report

**I-7 FOURTH QUARTER UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

Written Report

**I-8 2019 STAR COLA COST POSTING**

Written Report

**I-9 OVERPAID AND UNDERPAID PLAN BENEFITS – 2018 REPORT**

Written Report

**I-10 OCERS BOARD POLICY COMPLIANCE**

Written Report

**I-11 BOARD COMMUNICATIONS**

Written Report

**I-12 2018 BUSINESS PLAN – END OF YEAR REPORT**

*Presentation by Steve Delaney, CEO, OCERS*

\*\*\*\*\* END OF INFORMATION ITEMS AGENDA \*\*\*\*\*

**DISABILITY/MEMBER BENEFITS AGENDA**

**10:00 AM**

**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: Jason Yates**

Sheriff's Special Officer II, 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-2: Robert D. Davis**

Deputy Sheriff, Orange County Sheriff's Department

Recommendation: The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of August 31, 2018. (Safety Member)

**DC-3: Claudette Oliver**

Bus Operations Supervisor, Orange County Transportation Authority

Recommendation: The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of May 28, 2017. (General Member)

**DC-4: Robert Willis**

Certified Journeyman Mechanic II, Orange County Transportation Authority

Recommendation: The Disability Committee recommends that the Board grant non-service connected disability retirement with an effective date of July 23, 2017. (General Member)

**DC-5: James E. Bento**

Firefighter, Orange County Fire Authority

Recommendation: The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of November 10, 2017. (Safety Member)

**DC-6: Darrin Wheaton**

Senior Social Worker, Social Services Agency

Recommendation: The Disability Committee recommends that the Board grant non-service connected disability retirement with an effective date of August 7, 2015. (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 - FAHIMEH NAZARI**

Library Clerk, Orange County Community Resources

Recommendation: Staff recommends 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 October 27, 2018, and deny Applicant's application for service connected disability retirement.

**DA-3: DISABILITY APPEAL - MAX CHANCE, JR.**

Sergeant, Orange County Sheriff's Department

Recommendation: Staff recommends the Board dismiss the appeal by Max Chance Jr. of OCERS' denial of his application for service and non-service connected disability retirement pursuant to Section 3.E of OCERS Adjudication Policy and Administrative Hearing Rules.

**DA-4: BENEFIT APPEAL – BETSY ZUANICH**

Recommendation: Staff recommends that the Board approve and adopt the findings and recommendations of the Referee/Hearing Officer as set forth in the Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations dated January 19, 2019 (Recommendations), and deny the Applicant's request to have 96 hours of sick leave cash-out included in her Final Average Salary calculation to determine her service retirement benefit.

**CLOSED SESSION ITEMS**

**E-1 CONFERENCE REGARDING LITIGATION THAT HAS BEEN INITIATED  
(GOVERNMENT CODE SECTION 54956.9(d)(1)) O.C. Department of Education v. OCERS, CA Court  
of Appeal, 4th Dist. (Case No. G055439); CA Superior Court, Orange County, (Case No. 30-2016-  
00836897)**

Adjourn pursuant to Government Code Section 54956.9(d)(1).

**Recommendation:** Take appropriate action.

**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**

**February 27, 2019**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

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

**SANTA ANA, CA 92701**

**DISABILITY COMMITTEE MEETING**

**March 7, 2019**

**10:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

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

**SANTA ANA, CA 92701**

**REGULAR BOARD MEETING**

**March 18, 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:** February 19, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Adina Bercaru, Member Services Manager  
**SUBJECT: OPTION 4 RETIREMENT ELECTION – CURTIS MORRISON**

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### Recommendation

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

### Background/Discussion

This member has requested Option 4 as the benefit payment option for his service retirement allowance effective December 21, 2018. The Orange County Employees Retirement System (OCERS) was joined in the member's dissolution of marriage and under the terms of the Domestic Relations Order (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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415-263-8254

E-MAIL ADDRESS  
mcalcagno@segalco.com

PERSONAL and CONFIDENTIAL

VIA EMAIL and USPS

January 29, 2019

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

**Re: Orange County Employees Retirement System  
Option 4 Calculation for Curtis Morrison**

Dear Adina:

Pursuant to your request, we have determined the Option 4 benefits payable to Curtis Morrison and his ex-spouse based on the unmodified benefit and other information provided in the System's request dated January 24, 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	December 21, 2018
Plan of Membership	Safety Plan F
Monthly Unmodified Benefit	\$8,549.69
Ex-Spouse's Share of Monthly Unmodified Benefit	16.63%
Retirement Type	Service Retirement

**Option 4 Benefit**

**The ex-spouse bears the cost of Option 4 reduction for the DRO benefit**

Payable while the Member is Alive

Payable After the Member's Death while the Ex-Spouse is Alive

Monthly Benefit Payable to Member

Annuity:	\$1,357.37	
Pension:	<u>5,770.51</u>	
Total:	\$7,127.88	\$0

Monthly Benefit Payable to Ex-Spouse (or to the estate of the ex-spouse if the ex-spouse pre-deceases the member)

\$1,199.91\*                      \$1,199.91

\* This is equal to 16.63% of the member's unmodified benefit (i.e., 16.63% \* \$8,549.69 or \$1,421.81) 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 4.126214% per year, which is calculated using an investment return assumption of 7.25% per year together with a cost-of-living adjustment assumption of 3.00% per year.

RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020 set back two years weighted 80% male and 20% female for members.

RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020 weighted 20% male and 80% 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/bqb



February 1, 2019

Curtis G. Morrison  
7 CALLE DE LOS GRABADOS  
RANCHO SANTA MARGRITA, CA 92688

Re: Retirement Election Confirmation – Option 4

Dear Mr. MORRISON:

As required by your DRO, you have elected Option 4 as your retirement option. This option will provide a 16.63% of your monthly benefit, for the life of the benefit, to:

JENNIFER SMITHGALL, formerly JENNIFER MORRISON.

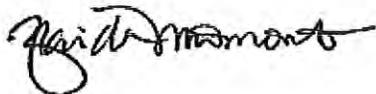
This designation is irrevocable; you will not be allowed to change your retirement option or designated beneficiary.

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 16.63% continuance to JENNIFER SMITHGALL, formerly JENNIFER MORRISON.

 2/1/2019  
Member Signature / Date

Sincerely,



Zaida Miramontes  
Retirement Program Specialist

C-2

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

**REGULAR MEETING  
Monday, January 16, 2019  
9:00 a.m.**

**MINUTES**

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

Attendance was as follows:

Present: Chuck Packard, Chair; Roger Hilton, Vice-Chair; David Ball; Chris Prevatt; Shawn Dewane; Frank Eley; Russell Baldwin, Jeremy Vallone, Shari Freidenrich, and Wayne Lindholm

Also Present: Steve Delaney, Chief Executive Officer; Suzanne Jenike, Assistant CEO, External Operations; Molly Murphy, Chief Investment Officer; Gina Ratto, General Counsel; David Kim, Director of Internal Audit; Anthony Beltran, Visual Technician; Cammy Torres, Recording Secretary.

Guests: Harvey Leiderman

*Mr. Dewane led the Pledge of Allegiance.*

**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.

A **motion** was made by Mr. Dewane **seconded** by Mr. Hilton to approve the consent agenda.

Motion passed **unanimously**.

<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 MEETING MINUTES**

Regular Board Meeting Minutes

December 17, 2018

**Recommendation:** Approve minutes.

**ACTION ITEMS**

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

**A-2 GOVERNANCE COMMITTEE OUTCOMES FROM DECEMBER 11, 2018 MEETING**

*Presentation by Suzanne Jenike, Assistant Chief Executive Officer, External Operations, OCERS*

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

- (1) Approve the Overpayment/Underpayment of Plan Contributions Policy

Ms. Jenike spoke on the new policy entitled “Overpayment/Underpayment of Plan Contributions Policy.” This item was approved at the December 11, 2018 Governance Committee meeting. Ms. Jenike noted this was one of three policies that together helped ease the burden on staff while reconciling contributions and benefits. The other two policies deal with overpaid/underpaid benefits and approved write offs. The Governance Committee recommends that the Board approve the policy.

A **motion** was made by Mr. Dewane **seconded** by Mr. Eley to approve the Overpayment/Underpayment of Plan Contributions Policy.

Motion passed **unanimously**.

**A-3 GOVERNANCE COMMITTEE OUTCOMES FROM THE DECEMBER 11, 2018 MEETING**

*Presentation by Gina Ratto, General Counsel, OCERS*

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

- (1) Approve the revisions to the Monitoring and Reporting Policy as approved by the Governance Committee;
- (2) Approve the revisions to the Whistleblower Policy as approved by the Governance Committee.

Ms. Ratto described the two policies brought to the Board that were approved at the December 11, 2018 Governance Committee meeting. She explained that Mr. Leiderman had minor comments and additions added to the policies and staff requests that the Board approve both policies with those additions.

A **motion** was made by Mr. Eley **seconded** by Mr. Dewane to approve the revisions to the Monitoring and Reporting Policy as approved by the Governance Committee and approve the revisions to the Whistleblower Policy as approved by the Governance Committee.

Motion passed **unanimously**.

### **INFORMATION ITEMS**

#### **I-1 MEMBER MATERIALS DISTRIBUTED**

Written Report

Application Notices

January 16, 2019

Death Notices

January 16, 2019

#### **I-2 COMMITTEE MEETING MINUTES**

- Governance Minutes
- Audit Minutes

Mr. Delaney asked Ms. Ratto to explain the delay in bringing the committee minutes to the full Board as an information item.

Ms. Ratto explained that all committee minutes are approved by the specific committee prior to being presented to the Board of Retirement. Due to the timing of the committee meetings approval of the minutes may take several months. Once approved, the minutes are then added to the Regular Board meeting agenda as an information item.

#### **I-3 CEO FUTURE AGENDAS AND 2018 OCERS BOARD WORK PLAN**

Written Report

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

Written Report

#### **I-5 2018 OCERS YEAR IN REVIEW: COMMUNICATION PLAN**

Written Report

#### **I-6 DISABILITY RETIREMENT STATISTICS – 2018 REPORT**

Written Report

#### **I-7 2018 FORM 700 DESIGNATED FILERS LIST AND FACT SHEET**

Written Report

#### **I-8 FOURTH QUARTER 2018 EDUCATION AND TRAVEL EXPENSE REPORT**

Written Report

#### **I-9 2019 OCERS BOARD OF RETIREMENT COMMITTEE ASSIGNMENTS**

Written Report

#### **I-10 CONTRACT STATUS FOR NAMED SERVICE PROVIDERS**

Written Report

**I-11 BOARD COMMUNICATIONS POLICY FACT SHEET**

Written Report

**I-12 BOARD COMMUNICATIONS**

Written Report

**I-13 OCERS INNOVATIONS/PROCESS IMPROVEMENTS AND EMPLOYEE STAFF AWARDS**

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

Mr. Delaney introduced the winners of the 2018 Employee of the Year award, Manager of the Year award and Innovation of the Year award.

Mr. Prevatt arrived at 9:12 a.m.

Each manager discussed innovations and process improvements that occurred in their department or division in 2018.

Ms. Freidenrich arrived at 9:18 a.m.

***The Board recessed for break at 9:49 a.m.***

***The Board reconvened from break at 10:07 a.m.***

**\*\*\*\*\* END OF INFORMATION ITEMS AGENDA \*\*\*\*\***

**CLOSED SESSION**

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

Position to be evaluated: Chief Executive Officer

**Recommendation:** Take appropriate action.

This item was removed from the agenda.

**DISABILITY/MEMBER BENEFITS AGENDA**

**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.

A **motion** was made by Mr. Dewane, **seconded** by Mr. Eley to approve the Disability Consent Agenda. The motion carried **9-0** with voting as follows:

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTAIN</u></b>	<b><u>ABSENT</u></b>
Mr. Prevatt			
Mr. Dewane			
Mr. Ball			
Mr. Baldwin			
Chair Packard			
Mr. Eley			
Mr. Hilton			
Ms. Freidenrich			
Mr. Lindholm			

**DC-1: Steven Burkley**  
Sheriff's Special Officer II, Orange County Sheriff's Department

Recommendation: The Disability Committee recommends that the Board grant non-service connected disability retirement with an effective date of July 7, 2017.

**DC-2: James R. Forrester**  
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 July 19, 2017.

**DC-3: Robert Morris**  
Senior Plant Operator, Orange County Sanitation Department

Recommendation: The Disability Committee recommends that the Board grant service connected disability retirement with an effective date of March 2, 2018.

**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 - FAHIMEH NAZARI**

Library Clerk, Orange County Community Resources

**Recommendation:** Staff recommends 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 October 27, 2018, and deny Applicant's application for service connected disability retirement.

DA-2 was **pulled** from the agenda.

**DA-3: DISABILITY APPEAL - MAX CHANCE, JR.**

Sergeant, Orange County Sheriff's Department

**Recommendation:** Staff recommends the Board dismiss the appeal by Max Chance Jr. of OCERS' denial of his application for service and non-service connected disability retirement pursuant to Section 3.E of OCERS Adjudication Policy and Administrative Hearing Rules.

DA-3 was **pulled** from the agenda.

**DA-4: DISABILITY APPEAL – BARBARA BELL**

Cashier, Orange County Sheriff's Department

**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 November 26, 2018 (Proposed Decision), and deny Applicant's application for service connected and non-service connected disability retirement.

A **motion** was made by Mr. Eley, **seconded** by Mr. Dewane to 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 November 26, 2018 (Proposed Decision), and deny Applicant's application for service connected and non-service connected disability retirement.

The motion carried **9-0** with voting as follows:

**AYES**

Mr. Prevatt  
Mr. Dewane  
Mr. Ball  
Mr. Baldwin  
Chair Packard  
Mr. Eley  
Mr. Hilton  
Ms. Freidenrich  
Mr. Lindholm

**NAYS**

**ABSTAIN**

**ABSENT**

**DA-5: DISABILITY APPEAL – KEVIN WARD**

Tree Trimmer, Orange County Public Works

**Recommendation:** Staff recommends that the Board approve and adopt the findings and recommendations of the Hearing Officer as set forth in the Proposed Findings of Fact, Conclusions of Law, and Recommended Decision dated November 29, 2018 (Proposed Decision), and deny Applicant’s appeal for an earlier effective date.

A **motion** was made by Mr. Eley, **seconded** by Mr. Dewane to approve and adopt the findings and recommendations of the Hearing Officer as set forth in the Proposed Findings of Fact, Conclusions of Law, and Recommended Decision dated November 29, 2018 (Proposed Decision), and deny Applicant’s appeal for an earlier effective date.

The motion carried **9-0** with voting as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTAIN</u>	<u>ABSENT</u>
Mr. Prevatt			
Mr. Dewane			
Mr. Ball			
Mr. Baldwin			
Chair Packard			
Mr. Eley			
Mr. Hilton			
Ms. Freidenrich			
Mr. Lindholm			

**DA-6: BENEFIT APPEAL – DAVID ROCHA**

Administrative Manager III, County of Orange

**Recommendation:** Staff recommends that the Board, pursuant to subdivision (d) of section 31534 of the California Government Code, set the matter for a hearing before itself. Additionally, staff recommends that the hearing be held in closed session during the Board’s regularly scheduled meeting on March 18, 2019.

***The Board adjourned into closed session at 10:13 a.m.***

***The Board reconvened from closed session at 10:30 a.m.***

No reportable action taken.

***The Board adjourned into closed session with the parties present to discuss the benefit appeal related to DA-6 at 10:31 a.m.***

**OPEN SESSION**

***The Board reconvened from closed session at 10:50 a.m.***

**REPORT OF ACTIONS TAKEN IN CLOSED SESSION**

The Board voted unanimously to send the matter back to the Hearing Officer with instruction for further proceedings pursuant to subdivision (c) of Government Code §31534 with the following instructions:

1. To reopen the matter and instruct the parties to brief and to provide evidence demonstrating the following:
  - a. The intent of the parties to the 2014–2017 Memorandum of Understanding between the County of Orange and the Orange County Managers Association (Administrative Record, 265-360) (the MOU) solely with respect to the question of whether the Payoff of Unused Annual Leave provision of the MOU was intended by the parties to be applied retroactively, that is, to a date prior to the date the MOU was approved by the Orange County Board of Supervisors; and
  - b. Whether the Payoff of Unused Annual Leave provision of the MOU was actually applied retroactively by the County such that members of the Orange County Managers Association were credited with and permitted to cash out additional unused annual leave for periods prior to the date the MOU was approved by the County Board of Supervisors; and
2. To reissue the Recommendation based on such briefing and evidence.

**BOARD MEMBER COMMENTS**

N/A

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

Ms. Jenike provided her monthly update to the Board regarding the master final average salary project.

Mr. Eakin described malware and fraudulent emails received by the Board members and the steps OCERS will take to minimize these issues.

**COUNSEL COMMENTS**

N/A

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

**Active Members**

Smith, Lamar

**Retired Members**

Berenson, Corinne  
Clark, Charles  
Craig, Corrina  
Devereaux, John  
Folk, Robert  
Hagadorn, James  
Homs, Carlos  
Keef, Charles  
Lengyel, Constance  
Lundy, Terrence  
MacIntyre, Mary  
Malandra, Ronald  
McCullough, Christopher  
Ortiz, Amelia  
Polin, Audrey  
Ritze, Loreen  
Sevilla, Benjamin  
Thomas, Eveleen  
Totten, Donna  
Weiman, Carol  
Wesson, Clarence  
Zwilling, Bernice

**Surviving Spouses**

Babtist, Margaret  
Bell, Donald  
Chesshir, Eleanor  
Sevilla, Benjamin

There being no further business to bring before the Board, the meeting adjourned at 11:00 a.m.

Submitted by:

Approved by:

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Steve Delaney  
Secretary to the Board

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Chuck Packard  
Chairman

A-2

## Memorandum

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**DATE:** January 28, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Suzanne Jenike, Assistant CEO, External Operations  
**SUBJECT:** 2019 COST OF LIVING ADJUSTMENT

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### Recommendation

Adjust all applicable benefit allowances by 3% effective April 1, 2019, in accordance with Government Code Section 31870.1, resulting from the 3.81% change to CPI in calendar year 2018.

### Background/Discussion

Per Government Code Section 31870.1, the OCERS Board of Retirement is required to annually adjust the benefit allowances relative to the increase or decrease in the Consumer Price Index (CPI). This adjustment, known as a Cost of Living Adjustment (COLA), is effective April 1<sup>st</sup> of each year. This year, there was an increase in the CPI for year-end 2018 of 3.81%. To determine the change in CPI, Segal compares the Bureau of Labor Statistics' annual average CPI for All Urban Consumers for the Los Angeles-Long Beach-Anaheim area for each of the past two years and derives the percentage change between the two. This is done in accordance with Government Code Section 31870.1, which is the COLA section operative in Orange County. That section also states that any increase or decrease in the CPI is to be rounded to the nearest one-half of one percent (3.81% rounded to 4%) and provides that a maximum COLA of 3% shall be granted on every retirement allowance, optional death allowance, or annual death allowance payable to or on account of any member of the system. For years in which the COLA exceeds 3%, the amount over 3% is banked for future years when the COLA is less than 3%.

For all benefit recipients, who began or will begin receiving benefits on or before April 1, 2019, this adjustment will increase their allowances by 3% and will add 1% to their COLA banks.

### Submitted by:



S. J. – APPROVED

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Suzanne Jenike  
Assistant CEO, External Operations



180 Howard Street Suite 1100 San Francisco, CA 94105-6147  
T 415-263-8200 www.segalco.com

**Andy Yeung, ASA, MAAA, FCA, EA**  
Vice President & Actuary  
ayeung@segalco.com

VIA E-MAIL & USPS

January 29, 2019

Mr. Steve Delaney  
Chief Executive Officer  
Orange County Employees Retirement System  
2223 Wellington Avenue  
Santa Ana, CA 92701-3101

**Re: Orange County Employees Retirement System  
Cost-of-Living Adjustments (COLA) as of April 1, 2019**

Dear Steve:

We have determined the cost-of-living adjustments for the System in accordance with Section 31870.1, as provided in the enclosed exhibit.

Pursuant to Section 31870.1, the cost-of-living factor to be used by the System on April 1, 2019 is determined by comparing the Bureau of Labor Statistics' annual average CPI for All Urban Consumers for the Los Angeles-Long Beach-Anaheim Area<sup>1</sup> (with 1982-84 as the base period) in each of the past two years. The ratio of the past two annual indices, 265.962 in 2018 and 256.210 in 2017, is 1.0381. The County Law section cited above indicates that the resulting percentage change of 3.81% should be rounded to the nearest one-half percent, which is 4.0%.

Please note the above cost-of-living adjustment calculated using established procedures for OCERS may result in adjustments different from those calculated using alternative procedures by other systems.

The actual cost-of-living adjustment is independent of the date of retirement. The CPI adjustment to be applied on April 1, 2019 is provided in Column (4) of the enclosed exhibit. The COLA bank on April 1, 2019 is provided in Column (5).

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<sup>1</sup> Formerly the Los Angeles-Riverside-Orange County Area.

Mr. Steve Delaney  
January 29, 2019  
Page 2

Please give us a call if you have any questions.

Sincerely,

  
Andy Yeung

MAM/gxk  
Enclosure

cc: Suzanne Jenike  
Brenda M. Shott, CPA

Orange County Employees Retirement System  
 Cost-Of-Living Adjustment  
 As of April 1, 2019

Retirement Date	(1)	(2)	(3)	(4)	(5)
Retirement Date	April 1, 2018 Accumulated Carry-over Bank	2019 CPI Change*	2019 CPI Rounded**	2019 CPI Used***	April 1, 2019 Accumulated Carry-over Bank****
<b>All Members</b>					
<b>Section 31870.1</b>					
<b>Maximum Annual COLA</b>	<b>3.0%</b>				
<hr/>					
On or Before 4/1/1972	47.0%	3.81%	4.0%	3.0%	48.0%
04/02/1972 to 04/01/1974	46.5%	3.81%	4.0%	3.0%	47.5%
04/02/1974 to 04/01/1975	46.0%	3.81%	4.0%	3.0%	47.0%
04/02/1975 to 04/01/1976	40.5%	3.81%	4.0%	3.0%	41.5%
04/02/1976 to 04/01/1977	35.0%	3.81%	4.0%	3.0%	36.0%
04/02/1977 to 04/01/1978	31.5%	3.81%	4.0%	3.0%	32.5%
04/02/1978 to 04/01/1979	27.5%	3.81%	4.0%	3.0%	28.5%
04/02/1979 to 04/01/1980	22.5%	3.81%	4.0%	3.0%	23.5%
04/02/1980 to 04/01/1981	15.0%	3.81%	4.0%	3.0%	16.0%
04/02/1981 to 04/01/1982	4.5%	3.81%	4.0%	3.0%	5.5%
04/02/1982 to 04/01/2018	0.0%	3.81%	4.0%	3.0%	1.0%
04/02/2018 to 04/01/2019		3.81%	4.0%	3.0%	1.0%

\* Based on ratio of 2018 annual average CPI to 2017 annual average CPI for the Los Angeles - Long Beach - Anaheim Area.

\*\* Based on CPI change rounded to nearest one-half percent.

\*\*\* These are the cost-of-living adjustment factors to be applied on April 1, 2019.

\*\*\*\* These are the carry-over of the cost-of-living adjustments that have not been used on April 1, 2019.

**§31870.1. Determination; maximum annual change of three percent in allowances; limitation on reduction**

The board shall before April 1 of each year determine whether there has been an increase or decrease in the cost of living as provided in this section. Notwithstanding Section 31481 or any other provision of this chapter (commencing with Section 31450), every retirement allowance, optional death allowance, or annual death allowance payable to or on account of any member, of this system or superseded system who retires or dies or who has retired or died shall, as of April 1st of each year, be increased or decreased by a percentage of the total allowance then being received found by the board to approximate to the nearest one-half of 1 percent, the percentage of annual increase or decrease in the cost of living as of January 1st of each year as shown by the then current Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the area in which the county seat is situated, but such change shall not exceed 3 percent per year; however, the amount of any cost-of-living increase or decrease in any year which is not met by the maximum annual change of 3 percent in allowances shall be accumulated to be met by increases or decreases in allowance in future years; except that no decrease shall reduce the allowance below the amount being received by the member or his beneficiary on the effective date of the allowance or the application of this article, whichever is later.

(Amended by Stats. 1978, Ch. 900, Sec. 11)

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## Memorandum

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**DATE:** February 1, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Brenda Shott, Assistant CEO Finance and Internal Operations  
**SUBJECT: OCERS HEADQUARTERS BUILDING**

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### Recommendation

The ad hoc Building Committee recommends that the OCERS Board determine to remain at 2223 E. Wellington Ave., Santa Ana and direct Staff to advance plans for tenant improvements and upgrade of mechanical systems.

### Background/Discussion

Several building improvement projects have been identified as necessary for OCERS Headquarters Building. The projects identified include: Board Room audio visual upgrades and security enhancements, tenant improvements in OCERS newly occupied area on the third floor to accommodate growing staffing levels, creating a meeting space that is large enough to accommodate all staff as well as for retiree seminars which have been experiencing a growth in attendance, access and security upgrades, HVAC upgrades to address temperature volatility in employee work areas, separating restrooms from work areas (2<sup>nd</sup> floor) and other required restroom renovations. As the list of required projects has grown, staff determined it would be beneficial to address all the needs in a comprehensive plan instead of handling them one at a time.

Staff presented a high level project plan for the OCERS Headquarters Building renovations to the Board in September 2018 at the annual Strategic Planning meeting. At that time, the Board directed staff to pause the project planning and to work with the ad hoc Building Committee to evaluate whether it would be financially advantageous to remain at the current location and do the improvements or sell the existing building and move OCERS Headquarters to a new location.

At the direction of the ad hoc Building Committee, staff hired a third party consultant, Hogan Edgcomb Consulting, to prepare the Board's requested analysis. Tim Hogan, owner of Hogan Edgcomb Consulting, attended the ad hoc Building Committee meeting on January 23, 2019 and presented his report. Based on the information presented at the ad hoc Building Committee meeting, the Committee recommends OCERS Headquarters remain at 2223 E. Wellington, Santa Ana and that staff proceed with plans for tenant improvements and upgrade of mechanical systems that will address the needs of OCERS. Staff will continue to work directly with the ad hoc Building Committee during the project plan development and implementation. The results of Hogan Edgcomb Consulting's analysis is attached and will be presented at the February 19, 2019 Board meeting.

Should the Board approve the ad hoc Building Committee's recommendation, the recommended next steps for project are as follows:

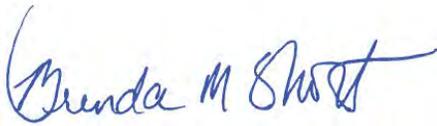
- Hire a third party owner's representative to act as an advisor to OCERS for the Headquarters renovations. (The procurement process for this is underway as this type of advisor will be required regardless of whether the OCERS Headquarters remain at 2223 E. Wellington or if the Board decides to move. Proposals have been received and interviews are scheduled for the week of February 11).

## Memorandum

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- Prepare a project pricing plan to determine high level estimate of the cost of the expected renovations and mechanical upgrades
- Develop a full project scope
- Return to the Board for approval of project scope, schedule and budget

**Submitted by:**



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Brenda Shott

Assistant CEO, Finance and Internal Operations

# Hogan Edgcomb Consulting LLC

January 18, 2018

[Tim Hogan](#)

[tim@hoganedgcomb.com](mailto:tim@hoganedgcomb.com)

949-228-0822

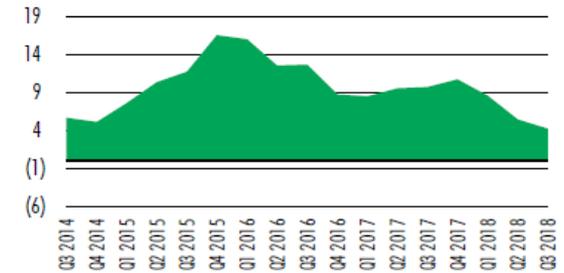
## Executive Summary

- Hogan Edgcomb Consulting led by Tim Hogan has been tasked to review and recommend a path forward for OCERS Corporate Headquarters.
- Tim Hogan has been involved in the real estate business since 1972. Tim spent 28 years at Warmington Homes, 20 years as President. In 2008, Hogan Edgcomb Consulting was started specializing in large master plan communities and financial analysis working with Lennar, State Street Bank, Cross Harbor and First American Title Company.
- Hogan Edgcomb has evaluated the following options:
  - **Upgrade the existing site**
  - **Rezone the existing site, Sell, and**
  - **Acquire another property**
- We have considered the highest and best use for the current site, functional or optimal location for OCERS, minimizing disruption to operations, pro forma operating costs, and overall value creation to OCERS.
- We have conducted market analysis and interviews with real estate brokers, property owners and apartment developers to support our findings.

# Real Estate Market Conditions

- The current market is very strong for most types of real estate properties: office, industrial, hotels, apartments and residential.
- Most real estate properties have experienced a rise in values and income streams. These valuations are very high due to an extended period of low interest rates and the lack of availability in the market place. This real estate cycle may have peaked but this tight market will remain high even with rising interest rates.
- The lease rates on office space have increased significantly over the last 3 years helping the increase in the overall values.
- Due to the scarcity in the market place well-located, quality buildings are receiving multiple bids in highly competitive processes.
- Different type of bidders reflects a disparity of values. In a recent for sale property, multiple bidders offered a wide range of prices. It appears that they had 3 types of bidders: investors, value-add players and developers.

Figure 5: Year-Over-Year Rent Growth (%)



Source: CBRE Research, Q3 2018.

## OCERS Corporate Headquarters

- The existing 3 story, 50,700 sq ft building is well located within the City of Santa Ana with easy access to the 405 and 5 freeways.
- The property covers 2.84 acres and provides free and ample parking for employees and guests.
- However, the building is 38 years old and needs a complete refurbishment to upgrade to market standards and OCERS user needs.
  - Major systems renovation: HVAC, electrical, elevators, structural, roof and fire safety need to be improved.
  - Interior space needs to be completely redone, including all offices, conference and meeting rooms and lunch and bathrooms.
- It is currently estimated that the cost for a full rehab will be approximately \$5 million which is based upon an estimate of \$80 per sq ft for the tenant Improvements and \$20 per sq ft for the building upgrades. Further analysis of these costs are required.
- The rehab process is estimated to take 18 to 24 months.

## Valuation of Existing Property

In order to best understand the value of the property, three different scenarios have been used to assess the highest and best use and alternative options for OCERS:

- The “As Is Value” is based upon a current income analysis less the cost for improvements. The property would incur a significant discount due to the deferred costs. The value of **\$6,500,000** is after consulting with the local real estate brokers.
- The “Fully Improved Value” is based upon a projected market income analysis assuming all improvements are completed. A lower cap rate has been used in valuing the updated building with an overall value of **\$11,500,000**.
- The “Rezoned Land Value” assumes the site is rezoned for a Multi-Family unit with 125 apartment units at 44 units per acre. The property, as an apartment site is small and the location being setback from Tustin Avenue is not ideal. The estimate of value is **\$7,000,000** after processing costs.

# Valuation of Existing Property

	<u>"As Is" Value</u>	<u>"Fully Improved" Value</u>
Net Rent - \$ / sf / mo	\$1.85	\$1.95
Net Rent	1,125,540	1,186,380
Total Expenses	<u>(500,000)</u>	<u>(500,000)</u>
<b>Net Income</b>	<b>625,540</b>	<b>686,380</b>
Cap Rate	7.0%	6.0%
<b>Valuation</b>	<b>8,936,286</b>	<b>11,439,667</b>
<i>\$ / sf</i>	<i>\$176</i>	<i>\$226</i>
Less Adjustments:		
Deferred costs / TI's	(2,500,000)	
<b>Adjusted Value (rounded)</b>	<b>6,500,000</b>	<b>11,500,000</b>
<i>\$ / sf</i>	<i>\$128</i>	<i>\$227</i>

## Rezone Property Value

- An alternative is to rezone the 2.84 acres to a multi-family development.
- Estimate it will take 2 to 3 years and approximately \$500,000 to achieve this, assuming approved.
- A multifamily property could yield 40 to 50 units per acre density. Assuming 125 apartment units at \$60,000 per unit, the pro forma value would be \$7.5 million in a sale to a developer and a net \$7.0 million after the rezoning expense.
- As an apartment site, the location is just average being located off North Tustin Blvd and is somewhat on the small side.
- OCERS would then need to acquire a new property that would take considerable amount of time, effort and expense.

**Vacant Land Value**  
**2.84 Acres**  
**Multi-family Zoning**

Potential Apartment Units	125 units
Value per Unit Estimate	60,000/unit
Gross Value	7,500,000
Processing Costs	(500,000)
<b>Net Valuation</b>	<b>7,000,000</b>
	2,460,000/acre

## Real Estate Sales Comps

Understanding the current market is required in assessing the gross value of the existing building and the option of purchasing another building. The Sales comps and the asking prices for available buildings have been reviewed. With only 4 buildings on the market, it will be very difficult to find an acceptable building quickly. The summary of the comparables are:

- In the immediate market place (Santa Ana, Irvine and Fountain Valley), 10 office properties ranging from 32,000 sq ft to 81,000 sq ft have sold over the past 18 months. Currently, there are 4 properties available in this market place 18,000 sq ft to 90,000 sq ft none of which, would be a better site to replace the Wellington building.
- The prices of the sold properties range from \$72 to \$390 per sq ft. The average of these sales comps is approximately 200 per sq ft for a 52,000 sq ft building.
- Three specific properties are more comparable with the as-is Wellington building with prices ranging from \$148 to \$186 per sq ft. The average of these sales comps is approximately \$167 per sq ft. for a 53,800 sq ft building.
- Adjusting the sold properties for location, parking and tenant improvements, the average price and all-in cost will increase substantially for OCERS to find a suitable property.
- The 4 buildings that are on the market range from 18,000 to 96,000 sq ft. with prices \$218 to \$245 per sq ft and an average of \$234 per sq ft.
- The average cost of tenant Improvements for new leases is approximately \$80 per sq ft.

## Real Estate Sales Comps: 2525 North Main Street

- The best and most recent comp is the sale of a 81,000 sq ft building on 6 acres located at 2525 N. Main St. The location is superior to the Wellington building and much larger.
- The sales price was \$17,000,000, \$210 per sq ft or \$2,830,000 per acre. They had 14 bidders with prices ranging from:
  - \$145 / sq ft from Investment Companies.
  - \$185 / sq ft from Development Companies (value add).
  - \$210 / sq ft to an Apartment Developer.
- The wide range of diverse companies made this transaction very interesting. Ultimately, the highest bidder purchased the property to develop apartments and estimate they will be able to build 250 to 300 units.
- This property is very attractive due to size of 6 acres and the location near the freeway. The value of this site is greater than the Wellington site as an apartment.

## Summary Comps & Equivalent Cost

All the properties have compared and adjusted for location, age, parking and tenant improvement requirements to reach an equivalent all-in cost comparison to the Wellington Site after improvements.

	<u>Wellington Improved</u>	<u>Sales Comps</u>	<u>As-is Comparable</u>	<u>Buildings for Sale</u>	<u>2525 Main St .</u>	
Number of Comps	1	10	3	4	1	
Average Size (sq ft)	50,700	51,800	53,800	48,000	81,000	
Average Price	\$11,500,000	\$10,360,000	\$8,882,000	\$11,184,000	\$17,000,000	
<b>Average Price/sq ft</b>	<b>\$227</b>	<b>\$200</b>	<b>\$165</b>	<b>\$233</b>	<b>\$210</b>	
Equivalent Adj. with OCERS Requirements (\$/sq ft):						
Various (location, parking differentials)*		31	22	9	(6)	
Tenant Improvements**		80	80	80	80	
<b>Equivalent All-in Cost</b>	<b>\$227</b>	<b>\$311</b>	<b>\$267</b>	<b>\$322</b>	<b>\$284</b>	<b>Equiv Avg \$296</b>
Wellington sq ft	50,700	50,700	50,700	50,700	50,700	
<b>Equivalent All-in Cost</b>	<b>\$11,500,000</b>	<b>\$15,800,000</b>	<b>\$13,600,000</b>	<b>\$16,300,000</b>	<b>\$14,400,000</b>	<b>\$15,025,000</b>

\*Adjustments include differentials on location, parking, etc; positive numbers meaning OCERS property has better differentials than the compset.

\*\*Estimate for additional TI's that OCERS would need to spend to customize to user requirements.

## Purchasing Another Corporate Office Property

- Based upon the summary schedule, purchasing another property will be very difficult and expensive as shown on the previous slide.
- A well located property will attract many buyers creating a bidding war amongst competitors with differing use cases and ability to pay.
- The process of finding an acceptable building will take significant time and resources and could take 1 to 2 years.
- The uncertainty will be a challenging process for OCERS.
- The financial summary for a purchase of a new comparable building would be:
  - Total Price (average of all comps including TI's): **\$15,000,000**
  - Net Cash from sale of Wellington: **(\$7,000,000)**
  - Total cash outflow: **\$8,000,000**

## Conclusion & Recommendations

The recommendation is to stay and upgrade the existing building for the following reasons:

### Organization:

- OCERS will have the efficient use of the full staff and the ability to stage the tenant improvements on a floor by floor basis.
- The alternative of conducting a property search will very time consuming for OCERS.

### Financial:

- **\$5,000,000** out of pocket cost is much less than purchasing a new building and customizing to OCERS needs which is estimated to be **\$8,000,000**. The \$5,000,000 cost is just an estimate and a detailed cost review will be required.
- The sale of the existing property will reduce the out of pocket rehab costs of a new building but the rezoning process will take 2 to 3 years and the difference in value is not sufficient enough to take the risk in the rezone.

### Existing Property Benefits:

- Great access
- Good Parking
- Surrounding area is acceptable

## Appendix

- All Comparable Sales Transactions
- As-is Comparable Transactions
- Available Properties
- Tenant Improvement Comps

# Appendix

## Comparable Sales - Last 18 months

#	Location	Class	Size	Price	Price \$/SF	Adj. \$/SF	Equiv Cost \$/SF	Leased	Yr. Built / Reno.	Parking	Condition	Comparable Location
	Wellington Ave, Santa Ana	B	50,700	\$11,500,000	\$227		\$227	100%	1980	4.1/1000		
1	4th St, Santa Ana	B	55,000	\$5,850,000	\$106	\$207	\$314	82%	1913/2011	None	Old	Unuseable
2	Main St, Santa Ana	B	32,000	\$6,600,000	\$206	\$157	\$363	100%	1928	2.81/1000	Average	Unuseable
3	1st St, Santa Ana	B	62,000	\$10,400,000	\$168	\$88	\$256	91%	1981	4.0/1000	Good	Average
4	Mt Langley St, Fountain Valley	B	44,213	\$9,750,000	\$221	\$138	\$358	90%	1906	2.60/1000	Excellent	Inferior
5	Campus Dr, Irvine	B	38,461	\$15,000,000	\$390	(\$12)	\$378	92%	1979	3.50/1000	Excellent	Above Avg
6	Broadway, Santa Ana	B	58,525	\$8,648,000	\$148	\$106	\$253	100%	1971	4.0/1000	Average	Inferior
7	Golden Circle, Santa Ana	B	40,875	\$7,600,000	\$186	\$107	\$293	100%	1981/1993	2.92/1000	Good	Average
8	Aston, Irvine	B	65,108	\$18,900,000	\$290	\$57	\$347	100%	1985	4.0/1000	Good	Above Avg
9	Irvine Blvd, Tustin	B	44,854	\$3,250,000	\$72	\$191	\$263	59%	1983/2005	None	Average	Inferior
10	N Main St, Santa Ana	B	81,000	\$17,000,000	\$210	\$74	\$284				Average	Above Avg
	Average				\$200	\$111	\$311					

# Appendix

## As-is Comparable Transactions - Last 18 months

#	Location	Class	Size	Price	Price \$/SF	Adj. \$/SF	Equiv Cost \$/SF	Leased	Yr. Built / Reno.	Parking	Condition	Comparable Location
3	1st St, Santa Ana	B	62,000	\$10,400,000	\$168	\$88	\$256	91%	1981	4.0/1000	Good	Average
6	Broadway, Santa Ana	B	58,525	\$8,648,000	\$148	\$106	\$253	100%	1971	4.0/1000	Average	Inferior
7	Golden Circle, Santa Ana	B	40,875	\$7,600,000	\$186	\$107	\$293	100%	1981/1993	2.92/1000	Good	Average
	Average				\$167	\$100	\$267					

# Appendix

## Properties For Sale

	Location	Class	Size	Price	Price	Adj.	Equiv Cost	Leased	Yr. Built / Reno.	Parking	Condition	Comparable Location	Rents
					\$/SF	\$/SF	Cost/SF						
1	Golden Circle, Santa Ana	B	40,875	\$9,500,000	\$232	\$77	\$309	100%	1981	2.92/1000	Good	Average	
2	E. 17th St, Santa Ana	B	38,766	\$8,500,000	\$218	\$58	\$276	57%	1979	4.0/1000	Good	Average	1.65
3	Santa Cruz, Anaheim	B	17,859	\$4,268,000	\$239	\$50	\$289	60%	1981	4.0/1000	Good	Average	2.25
4	Red Hill, Tustin	B	96,000	\$23,532,000	\$245	\$48	\$293	None	1979	4.0/1000	Excellent	Above Avg	2.10
	Average		48,375		\$234	\$58	\$292						

# Appendix

## Rent and Tenant Improvement Comps

<u>Building Location</u>	<u>Class</u>	<u>Size</u> (sq ft)	<u>Rent</u>	<u>Lease Term</u>	<u>TI Allowance</u>
400 Spectrum -Irvine	A	44,520	5.25	10 yrs	\$95
The Boardwalk - Irvine	A	63,619	4.53	12 yrs	\$100
The Met - Costa Mesa	A	51,055	2.97	8 yrs	\$75
The Landing - Costa Mesa	B	40,299	3.34	10.5 yrs	\$75
3200 Park Center	A	40,000	3.92	10 yrs	\$80
The Quad - Irvine	A	184,886	3.67	10 yrs	\$75
3347 Michelson	A	50,733	3.21	8 yrs	\$65
Sand Canyon - Irvine	A	105,600	2.80	10 yrs	\$75
					<b>\$80</b>

**A-4**

## Memorandum

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**DATE:** February 19, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Gina M. Ratto, General Counsel  
**SUBJECT:** SACRS BOARD OF DIRECTORS ELECTIONS 2019-2020

---

### Recommendation

Identify one or more nominees for the SACRS Board of Directors election to be conducted on May 10, 2019; and direct staff to submit the nomination(s) to the SACRS Nominating Committee on or before March 1, 2019.

### Background/Discussion

At the May 10, 2019 SACRS business meeting, SACRS will conduct the 2019-2020 election for the SACRS Board of Directors. The Board of Directors consists of the following positions:

- President
- Vice President
- Treasurer
- Secretary
- Two (2) Regular Members
- The Immediate Past President

Attached is the timeline for the 2019-2020 election.

As a regular member of SACRS, OCERS may submit nominations for the election of the SACRS Directors. Such nominations are to be submitted to the SACRS Nominating Committee, and must be received by the Nominating Committee prior to the first business day after March 1 of each calendar year.

The purpose of this agenda item is for the Board to discuss and identify one or more nominees for the SACRS Board of Directors election to be conducted on May 10, 2019, and to direct staff to submit the nomination(s) to the SACRS Nominating Committee on or before March 1, 2019.

In addition, individuals interested in serving on the SACRS Board of Directors may indicate their interest by completing and submitting the attached SACRS Nomination Submission Form, with a letter of intent. The form and the letter of intent must be submitted no later than March 1, 2019.

Prior to March 25, the Nominating Committee will report a final ballot to each regular member County Retirement System. Staff will present the final ballot to the OCERS Board at its April 15, 2019 meeting so that the Board can give direction to the OCERS Voting Delegate on how to vote OCERS' proxy in the SACRS election.

Attachments

- (1) SACRS Board of Directors Election 2019-2020 Information and Timeline
- (2) SACRS Nomination Submission Form

**Submitted by:**



---

Gina M. Ratto  
General Counsel



November 16, 2018

To: SACRS Trustees & SACRS Administrators/CEO's  
 From: Ray McCray, SACRS Immediate Past President, Nominating Committee Chair  
 SACRS Nominating Committee  
 Re: SACRS Board of Director Elections 2019-2020 Elections

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SACRS BOD 2019-2020 election process will begin **January 2019**. Please review the following timeline and distribute to your Board of Trustees.

DEADLINE	DESCRIPTION
March 1, 2019	Any regular member may submit nominations for the election of a Director to the Nominating Committee, provided the Nominating Committee receives those nominations prior to the first Business Day after March 1 of each calendar year. Nominations shall not be accepted from the floor on the day of the election.
March 25, 2019	The Nominating Committee will report a final ballot to each regular member County Retirement System prior to March 25
May 10, 2019	Nomination Committee to conduct elections during the SACRS Business Meeting at the Spring Conference (May 7-10, 2019)
May 10, 2019	Board of Directors take office for 1 year

Per SACRS Bylaws, Article VIII, Section 1. Board of Director and Section 2. Elections of Directors:

**Section 1. Board of Directors.** The Board shall consist of the officers of SACRS as described in Article VI, Section 1, the immediately Past President, and two (2) regular members.

- A. Immediate Past President. The immediate Past President, while he or she is a regular member of SACRS, shall also be a member of the Board. In the event the immediate Past President is unable to serve on the Board, the most recent Past President who qualifies shall serve as a member of the Board.
  
- B. Two (2) Regular Members. Two (2) regular members shall also be members of the Board.

**Section 2. Elections of Directors.** Any regular member may submit nominations for the election of a Director to the Nominating Committee, provided the Nominating Committee receives those nominations prior to the first Business Day after March 1 of each calendar year. Nominations shall not be accepted from the floor on the day of the election.

The Nominating Committee will report a final ballot to each regular member County Retirement System prior to March 25.

The Administrator of each regular member County Retirement System shall be responsible for communicating the Nominating Committee's recommended ballot and final ballot to each trustee and



placing the election of SACRS Directors on his or her board agenda. The Administrator shall acknowledge the completion of these responsibilities with the Nominating Committee.

Director elections shall take place during the first regular meeting of each calendar year. The election shall be conducted by an open roll call vote, and shall conform with Article V, Sections 6 and 7 of these Bylaws.

Newly elected Directors shall assume their duties at the conclusion of the meeting at which they are elected, with the exception of the office of Treasurer. The incumbent Treasurer shall co-serve with the newly elected Treasurer through the completion of the current fiscal year.

Interested candidates should submit their letter of intent and the form included in this letter to the Nomination Committee no later than the cut-off dates listed in the schedule.

The elections will be held at the SACRS Spring Conference May 7-10, 2019 at the Resort at Squaw Creek, Lake Tahoe, CA. Elections will be held during the Annual Business meeting on Friday, May 10, 2019.

If you have any questions, please contact me at Ray McCray, [raym1@sbcglobal.net](mailto:raym1@sbcglobal.net) or (209) 471- 4472.

Thank you for your prompt attention to this timely matter.

Sincerely,

*Ray McCray*

Ray McCray, San Joaquin CERA Trustee  
SACRS Nominating Committee Chair

CC: SACRS Board of Directors  
SACRS Nominating Committee Members  
Sulema H. Peterson, SACRS Administrator



**SACRS Nomination Submission Form  
SACRS Board of Directors Elections 2019-2020**

All interested candidates must complete this form and submit along with a letter of intent. **Both the form and the letter of intent must be submitted no later than March 1, 2019.** Please submit to the Nominating Committee Chair at [raym1@sbcglobal.net](mailto:raym1@sbcglobal.net) AND to SACRS at [sulema@sacrs.org](mailto:sulema@sacrs.org). If you have any questions, please feel free to contact Sulema Peterson at SACRS at (916) 441-1850.

<b>Name of Candidate</b>	
<b>Candidate Contact Information (Please include – Phone Number, Email Address and Mailing Address)</b>	
<b>Name of Retirement System Candidate Currently Serves On</b>	
<b>Current Position On Candidates Retirement Board (Chair, Alternate, Retiree, General Elected, Etc)</b>	
<b>Applying for SACRS Board of Directors Position (select only one)</b>	<ul style="list-style-type: none"> <li><input type="radio"/> President</li> <li><input type="radio"/> Vice President</li> <li><input type="radio"/> Treasurer</li> <li><input type="radio"/> Secretary</li> <li><input type="radio"/> Regular Member</li> </ul>
<b>Brief Bio</b>	

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## Memorandum

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**DATE:** February 19, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Brenda Shott, Assistant CEO, Finance and Internal Operations  
**SUBJECT:** **AUDIT COMMITTEE OUTCOMES FROM DECEMBER 11, 2018 MEETING - TRIENNIAL REVIEW OF THE RISK POLICY**

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### Recommendation

The Audit Committee recommends that the Board adopt the revised Risk Policy as presented.

### Background/Discussion

On December 11, 2018, Staff presented the revised Risk Policy to the Audit Committee for consideration. The Policy sets forth guidelines for the Board and staff that will ensure OCERS' management is aware of and prepared for significant risks facing the organization.

The Audit Committee recommended that Staff further revise the Policy to add wording defining the reporting by OCERS' management of the risks facing the organization to be presented to the Audit Committee on an annual basis.

A copy of the Policy, with proposed changes indicated in underlined/strikeout text, is attached.

The Audit Committee further recommends that once the Risk Policy has been so amended, the Board adopt the amended Policy as presented.

### Attachment

### Submitted by:



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Brenda Shott  
Assistant CEO, Finance and Internal Operations

## Background

1. The Board considers risk management an essential component of strategic, operational, financial and reputational management.

## Policy Objectives

2. To help achieve long-term sustainability by ensuring that OCERS is aware of and prepared for risks facing the organization.

## Policy Guidelines

3. OCERS embeds risk management in all business practices to keep it relevant, effective and efficient.
4. Management is responsible for identifying, assessing, and responding to risks and timely communication of the results of these processes, with accountability addressed in annual performance evaluations.
5. At least annually, the management will report to the Audit Committee regarding operational risk management and the related will review management responsibilities, strategies, risks identified and actions for addressing material risks facing OCERS.

## Policy Review

6. The Board shall review this policy at least every 3 years to ensure that it remains relevant and appropriate.

## Policy History

7. This policy was adopted by the Board of Retirement on November 16, 2015.
- ~~7-8.~~ This policy was revised by the Board of Retirement on February 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.



Steve Delaney  
Secretary of the Board

11/16/15

Date

## **Background**

1. The Board considers risk management an essential component of strategic, operational, financial and reputational management.

## **Policy Objectives**

2. To help achieve long-term sustainability by ensuring that OCERS is aware of and prepared for risks facing the organization.

## **Policy Guidelines**

3. OCERS embeds risk management in all business practices to keep it relevant, effective and efficient.
4. Management is responsible for identifying, assessing, and responding to risks and timely communication of the results of these processes, with accountability addressed in annual performance evaluations.
5. At least annually, management will report to the Audit Committee regarding operational risk management and the related responsibilities, strategies, risks identified and actions for addressing material risks facing OCERS.

## **Policy Review**

6. The Board shall review this policy at least every 3 years to ensure that it remains relevant and appropriate.

## **Policy History**

7. This policy was adopted by the Board of Retirement on November 16, 2015.
8. This policy was revised by the Board of Retirement on February 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.

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Steve Delaney  
Secretary of the Board

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Date

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*Orange County Employees Retirement System  
Retirement Board Meeting  
February 19, 2019  
Application Notices*

<i>Member Name</i>	<i>Agency/Employer</i>	<i>Retirement Date</i>
<b>Aldana, Sophie</b>	Sheriff's Dept	1/4/2019
<b>Amaro, Anna</b>	OCTA	11/28/2018
<b>Amezquita, Richard</b>	Superior Court	12/21/2018
<b>Apodaca, Michael</b>	OC Public Works	12/18/2018
<b>Asche, Sandra</b>	Health Care Agency	11/25/2018
<b>Barnes, Debra</b>	Health Care Agency	11/19/2018
<b>Boswell, James</b>	Fire Authority (OCFA)	12/21/2018
<b>Box, Thomas</b>	OCTA	12/6/2018
<b>Bracamonte, Roberta</b>	Social Services Agency	11/30/2018
<b>Burgess, Joanne</b>	Superior Court	12/7/2018
<b>Bushman, Nancy</b>	Superior Court	12/11/2018
<b>Cardona, Vincent</b>	OC Public Works	11/27/2018
<b>Cassidy, Daniel</b>	Fire Authority (OCFA)	12/21/2018
<b>Castruita, Gloria</b>	County Clerk/Recorder	12/7/2018
<b>Chong, Myrna</b>	Social Services Agency	12/7/2018
<b>De Guzman, Ricardo</b>	OC Public Works	12/7/2018
<b>De Leon, Joseph</b>	County Executive Office (CEO)	12/7/2018
<b>Deis, Joseph</b>	Health Care Agency	12/21/2018
<b>Didulo, Maria Lilia</b>	Treasurer - Tax Collector	12/21/2018
<b>Dinelli, David</b>	Probation	12/20/2018
<b>Du Bois, Alicia</b>	Superior Court	12/21/2018
<b>Erdner, Margaret</b>	Sheriff's Dept	12/21/2018
<b>Fialcowitz, Anne</b>	Health Care Agency	1/7/2019
<b>Fleischmann, Barbara</b>	Superior Court	12/14/2018
<b>Gonzales, Herbert</b>	Social Services Agency	12/21/2018
<b>Greenberg, Stuart</b>	Sheriff's Dept	11/29/2018
<b>Hadaway, Michelle</b>	Sanitation District	12/21/2018
<b>Hardy, Michael</b>	Fire Authority (OCFA)	12/22/2018
<b>Heidenreich, Neal</b>	Probation	12/21/2018
<b>Herron, Sandy</b>	Assessor	12/21/2018
<b>Khanijou, Anju</b>	Child Support Services	11/29/2018
<b>Kim, Kye Yong</b>	Social Services Agency	12/21/2018
<b>Lane-Erwin, Sabrina</b>	District Attorney	11/24/2018
<b>Mc Fadden, Michael</b>	Probation	12/10/2018
<b>Miller, Elaine</b>	OC Public Works	12/19/2018
<b>Molina, Yvonne</b>	Health Care Agency	12/21/2018
<b>Moore, Ruby</b>	Social Services Agency	12/21/2018
<b>Munoz, Dolores</b>	Health Care Agency	12/6/2018
<b>Ngo, Anh</b>	Social Services Agency	12/21/2018
<b>Nguyen, Celia</b>	Human Resources Dept	12/7/2018
<b>Nguyen, Hung</b>	OC Community Resources	12/1/2018
<b>Ortega, John</b>	Sheriff's Dept	11/27/2018
<b>Otten, Marita</b>	Social Services Agency	12/21/2018
<b>Otting, Steve</b>	County Executive Office (CEO)	12/21/2018
<b>Park, Joseph</b>	Sanitation District	12/13/2018
<b>Parker, Nancy</b>	Superior Court	11/15/2018
<b>Phan, Minh</b>	OCTA	12/21/2018
<b>Rodriguez, Mark</b>	Fire Authority (OCFA)	12/14/2018
<b>Rogers, John</b>	Social Services Agency	12/7/2018

<i>Member Name</i>	<i>Agency/Employer</i>	<i>Retirement Date</i>
<b>Salazar, Esther</b>	Health Care Agency	12/7/2018
<b>Sample, Pauline</b>	Probation	12/7/2018
<b>Santa Cruz, Elena</b>	District Attorney	12/21/2018
<b>Taylor, Randi</b>	Superior Court	11/27/2018
<b>Tome, Velia</b>	Assessor	12/21/2018
<b>Webster, Julie</b>	Health Care Agency	11/28/2018
<b>Yu, Jean</b>	Probation	12/16/2018

*Orange County Employees Retirement  
Retirement Board Meeting  
February 19, 2019  
Death Notices*

<i>Active Members</i>	<i>Agency/Employer</i>
<b>Flores-Shakouri, Alejandrina</b>	Health Care Agency

<i>Retired Members</i>	<i>Agency/Employer</i>
<b>Banigan, Ida</b>	Social Services Agency
<b>Bastow, Jean</b>	Probation
<b>Bennett, Jeanne</b>	OC Public Works
<b>Bolken, Loween</b>	Superior Court
<b>Canlas, Rolando</b>	Sheriff's Dept
<b>Centeno, Linda</b>	Superior Court
<b>Chadwick, Bert</b>	District Attorney
<b>Craunn, Paddy</b>	Transportation Corridor Agency (TCA)
<b>Croker, John</b>	OC Public Works
<b>Dalton, Darlene</b>	Superior Court
<b>Del Campo, Jeff</b>	Fire Authority (OCFA)
<b>Diemer, Jerome</b>	Sheriff's Dept
<b>Edgerly, Raymond</b>	Health Care Agency
<b>Eggers, David</b>	OC Public Works
<b>Gill, John</b>	Sheriff's Dept
<b>Gonzales, Ana</b>	UCI
<b>Guajardo, Emilio</b>	OC Community Resources
<b>Hemmen, Eileen</b>	District Attorney
<b>Isbell, Robert</b>	Sheriff's Dept
<b>Johnson, Rebecca</b>	Social Services Agency
<b>King, Frank</b>	OCTA
<b>Kuebler, Robin</b>	OCTA
<b>Labelle, Margaret</b>	Health Care Agency
<b>Lock, Henry</b>	County Executive Office (CEO)
<b>Mattern, Bruce</b>	OC Public Works
<b>Mc Nealy, Tim</b>	Health Care Agency
<b>Mikkelsaar, Tiia</b>	Social Services Agency
<b>Miller, Robert</b>	Fire Authority (OCFA)
<b>Mitchell, Joseph</b>	Sheriff's Dept
<b>Mount, Leila</b>	Health Care Agency
<b>Nakamura, Steven</b>	Sanitation District
<b>Orosco, Rafael</b>	OC Public Works
<b>PARK, MARTHA</b>	Human Resources Dept
<b>POHLKE, FREDERICK HENRY</b>	Superior Court
<b>Poulson, Juliette</b>	Health Care Agency
<b>Schagene, Joan</b>	Social Services Agency
<b>Stone, Vaneva</b>	Health Care Agency
<b>Tran, Chau</b>	Social Services Agency

<b>Waddell, Doris</b>	Health Care Agency
<b>Waltermire, Louis</b>	OCTA
<b>Watkins, Lloyd</b>	OCTA

<i>Surviving Spouses</i>	
<b>Babtist, Margaret</b>	
<b>Bell, Donald</b>	
<b>Chesshir, Eleanor</b>	
<b>Estes, Gail</b>	
<b>Preston, Angela</b>	
<b>Sevilla, Benjamin</b>	

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## Memorandum

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DATE: February 19, 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

#### MARCH

- 2019 STAR COLA Final Approval
- GFOA Awards
- Quarterly Strategic Planning Review
- SACRS Election materials
- The Sonoma Fires – Lessons Learned

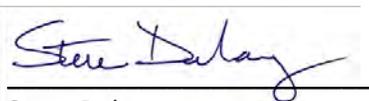
#### APRIL

- Annual Brown Act Training
- Annual Conflicts Training
- SACRS Board of Directors Election
- Regular Review of Acceptance and Reporting of Gifts Policy

#### MAY

- Preliminary December 31, 2018 actuarial valuation

#### Submitted by:



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)		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)		Annual Review of Succession Planning (I)	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)								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 and OCERS Annual Disclosure Due (A)		Receive Financial Audit (I)			State of OCERS (A)		Status of Board Education Hours for 2019 (I)	

(A) = Action      (I) = Information

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## Memorandum

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**DATE:** February 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 was distributed for Hearing Officer Services in October, 2018. Submissions deadline was December 4<sup>th</sup>, 2018. We are currently evaluating the candidates.
- An RFP to replace three-year-old multi-function copiers was distributed in December, 2018. We received several bids that are currently being evaluated.
- An RFP for an I.T. Audit and Consulting Services was distributed in January, 2019. Pending receipt of bids due February 8<sup>th</sup>, 2019.



# Memorandum

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Submitted by:

A handwritten signature in blue ink that reads "Jim Doezie". The signature is written in a cursive style and is positioned above a horizontal line.

Jim Doezie  
Contracts, Risk and Performance Administrator

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## Memorandum

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**DATE:** January 16, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** 2018 PPCC PUBLIC PENSION 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

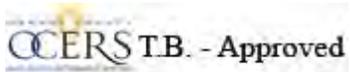
To qualify for the Recognition Award for Funding, the retirement system must meet the Funding Adequacy Standard by demonstrating that actual contribution rates are at a level equal or greater than 100% of the actuarially determined contribution (ADC).

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, 2017.

#### Attachment

Public Pension Standards Award for Funding and Administration 2018

**Submitted by:**



Tracy Bowman  
Director of Finance



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2018***

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 cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator

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# Memorandum

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**DATE:** February 4, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** **FOURTH QUARTER 2018 BUDGET VS. PRELIMINARY ACTUALS REPORT**

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## Written Report

### Highlights

Fourth Quarter Target: 100% Used /0% Remaining

<b>Administrative Budget</b>	<b>Actuals to Date</b>	<b>Annual Budget</b>	<b>Budget \$ Remaining</b>	<b>Budget % Remaining</b>
Personnel Costs	\$ 12,517,682	\$ 13,925,194	\$ 1,407,512	10.1%
Service and Supplies	7,886,742	10,487,860	2,601,118	24.8%
Capital Expenditures	163,663	1,095,000	931,337	85.1%
<b>Grand Total</b>	<b>\$ 20,568,087</b>	<b>\$ 25,508,054</b>	<b>\$ 4,939,967</b>	<b>19.4%</b>

### Background/Discussion

The Board of Retirement approved OCERS’ Administrative Budget for Fiscal Year 2018 (FY18) on November 13, 2017, in the amount of \$25,508,054 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 (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 approved FY18 administrative budget represents 9.31 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 14.48 basis points of these assets for FY18.

The Chief Executive Officer, or the Assistant CEO, has the authority to transfer funds within the three broad categories of the budget: 1) Salaries and Benefits, 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.

### Administrative Summary

For the year ended December 31, 2018, preliminary actual administrative expenses were \$20,568,087 or 80.6% of the \$25,508,054 administrative budget and below budget by approximately \$4.9 million. A summary of all administrative expenses and explanations of significant variances are provided below:

#### Summary of all Administrative Expenses For the Year Ended December 31, 2018

	Actuals to Date	Annual Budget	% of Budget Used	Budget vs. Actuals (Over)/Under
<b>Personnel Costs</b>	<b>\$ 12,517,682</b>	<b>\$ 13,925,194</b>	<b>89.9%</b>	<b>\$ 1,407,512</b>
<b>Services and Supplies</b>				
Bldg. Prop. Mgmt./Maintenance	443,000	730,000	60.7%	287,000
Due Diligence	33,436	56,600	59.1%	23,164
Equipment Lease	46,478	50,000	93.0%	3,522
Equipment/Software Expenses	440,142	586,700	75.0%	146,558
Infrastructure Maintenance	722,048	764,300	94.5%	42,252
Legal Services	783,481	1,067,370	73.4%	283,889
Meetings & Mileage	41,993	61,350	68.4%	19,357
Membership/Periodicals	162,521	179,170	90.7%	16,649
Office Supplies	83,635	75,000	111.5%	( 8,635 )
Postage	108,394	163,000	66.5%	54,606
Printing	105,755	104,800	100.9%	( 955 )
Professional Services	4,480,145	5,975,900	75.0%	1,495,755
Telephone	132,858	159,000	83.6%	26,142
Training	302,856	514,670	58.8%	211,814
<b>Services and Supplies</b>	<b>7,886,742</b>	<b>10,487,860</b>	<b>75.2%</b>	<b>2,601,118</b>
<b>Administrative Expense-Sub Total</b>	<b>20,404,424</b>	<b>24,413,054</b>	<b>83.6%</b>	<b>4,008,630</b>
<b>Capital Expenditures*</b>	<b>163,663</b>	<b>1,095,000</b>	<b>14.9%</b>	<b>931,337</b>
<b>Administrative Expense Total</b>	<b>\$ 20,568,087</b>	<b>\$ 25,508,054</b>	<b>80.6%</b>	<b>\$ 4,939,967</b>

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

## Personnel Costs

Personnel Costs incurred as of year-end were approximately \$12.5 million or 89.9% of the annual budget for this category. These costs are below budget due to several new positions for 2018 which were not filled until the third and fourth quarters of the year including the Retirement Analyst, Member Services Supervisor, Director of Cyber Security and the Director of Internal Audit.

## Services and Supplies

Total expenditures for services and supplies were approximately \$7.9 million or 75.2% of the annual budget for this category. The variance of \$2,601,118 between the pro-rated budget and year-to-date actuals in this category is primarily due to the following:

- Building Property Mgmt./Maintenance costs utilized 60.7% of the annual budget and were lower than budget by \$287,000. The reduction in property management and maintenance costs is due to the transition to a new property manager in February, which has resulted in lower overall costs.
- Due Diligence costs are at 59.1% of the annual budget and lower than budget by \$23,164. This lower than anticipated cost is primarily due to the vacancy of the Managing Director of Investments position, and fewer visits to investment managers were scheduled than originally anticipated.
- Equipment/Software expense utilized 75.0% of the annual budget, the remaining unused budget is \$146,558. The lower than expected expenditures is the result of several projects being re-prioritized and postponed until 2019. These projects have been re-budgeted for FY2019.
- Infrastructure Maintenance costs are at 94.5% of the annual budget resulting in an unused budget of \$42,252. Various costs associated software and hardware support services were not required or were lower than budgeted.
- Legal Services are at 73.4% of the annual budget and are lower than the budget by \$283,889. This is primarily due to budgeted legal services for litigation, tax counsel and investments being utilized on an as-needed basis. Investment legal services are below budget by approximately \$236,000, while general board and outside counsel services are under budget by approximately \$47,000.
- Meetings & Mileage expense is at 68.4% of the annual budget and is lower than the budget by \$19,357. This is primarily due to budgeted costs coming in less than expected or unused at year-end, including manager visits to Southern California Retirement Systems, legislative meetings, employee related meetings and travel for plan sponsor audits.
- Memberships/Periodical expense is at 90.7% of the annual budget with a remaining budget of \$16,649. Most departments experienced lower than budgeted miscellaneous membership costs and periodical expense.
- Office Supplies utilized 111.5% of the annual budget and is higher than the budget by \$8,635. This is primarily due to office furniture purchases, including purchases relating to ergonomic workstations and furniture purchased for new staff, as well as expanding office space to the third floor. As the total amount expended under the Services and Supplies category remains under budget, no amendment is required to cover the Office Supplies budget shortfall.

- Postage is at 66.5% of the annual budget and lower than the budget by \$54,606. This is attributable to the timing of bulk mailings to members and the use of postage on an as-needed basis.
- Professional Services utilized 75.0% of the annual budget. Expenses are lower than the budget by \$1,495,755 primarily due to lower than expected investment consulting services for private equity and real estate, which were procured mid-year 2018, the website redesign project, various IT-related software consulting, lower than anticipated fees for the compensation study, costs used on an as-needed-basis, such as CEO contingency, and administrative hearing and writ of mandate process fees.
- Telephone expense is at 83.6% of the annual budget and lower than the budget by \$26,142. This is primarily attributed to cost savings resulting from migrating to a cloud-based telephone system. Additionally, costs associated with cellular and mobile services were lower than anticipated.
- Training utilized 58.8% of the annual budget and is lower than the budget by \$211,814. This is primarily due to lower training costs than budgeted, including investment-related training, employee tuition reimbursement, IT related training, and other various staff training and conferences.

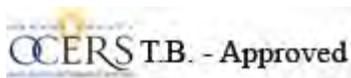
### Capital Expenditures

Capital Expenditures at year-end are \$163,663 or 14.9% of the annual budget for this category. The variance of \$931,337 between the budget and year-to-date actuals is primarily due to the postponement of the building security project, board room remodel and board room audio visual improvements which were budgeted for \$875,000. Additionally, costs associated with the space management project are under budget due to the timing of the project which will be carried over into 2019.

### Conclusion:

As of year-end, the Administrative budget based on preliminary actuals is at 80.6% 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. On the left side, there is a small logo of a sun with rays. To the right of the logo, the text "OCERS T.B. - Approved" is written in a serif font. The "OCERS" part is larger and bolder than "T.B. - Approved".

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Tracy Bowman  
Director of Finance

I-7



**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**Unaudited Financial Statements**

**For the Year Ended December 31, 2018**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

Unaudited Financial Statements  
For the Year Ended December 31, 2018

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**DATE:** February 6, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Tracy Bowman, Director of Finance  
**SUBJECT:** **FOURTH QUARTER UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

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### Written Report

#### Background/Discussion

The attached financial statements reflect the unaudited activity for the year ended December 31, 2018. These reports are preliminary and do not reflect the reclassification of certain investments for financial reporting and timing/market differences between investment manager statements and custodian bank statements. These, and other potential year-end adjustments that may result from the upcoming year-end audit, will be recorded if it is determined to have a material impact in the final Comprehensive Annual Financial Report (CAFR). The final CAFR, the official financial statements of OCERS, will be made available on our website, [www.ocers.org](http://www.ocers.org), after the anticipated completion of the audit at the end of June 2019.

#### Summary

##### Statement of Fiduciary Net Position (Unaudited)

As of December 31, 2018, the net position restricted for pension and other post-employment benefits is \$14.8 billion, a decrease of \$290.3 million, or -1.9%, from December 31, 2017. The change is a result of a decrease in total assets of \$110.3 million off-set by an increase in total liabilities of \$180.1 million as described below:

Total assets as of December 31, 2018 were \$15.8 billion compared to \$15.9 billion as of December 31, 2017. The \$110.3 million decrease in total assets can be attributed to a \$231.5 million decrease in total receivables and a \$2.1 million decrease in capital assets, offset by a \$104.7 million increase in total cash investments and short-term investments and \$18.7 million increase in total investments at fair value.

Total receivables decreased \$231.5 million, or -58.8%, from December 31, 2017 to December 31, 2018 due to other receivables which decreased by \$200.9 million related to the timing of year-end investment redemptions and security sales, which decreased by \$35.7 million. Capital assets decreased \$2.1, or -10.3%, from the prior year due to depreciation expense primarily related to the Pension Administration System Solution (PASS) Project, V3.

The total cash and short-term investments increase of \$104.7 million, or 15.1%, consists of an increase of \$127.6 million in securities lending collateral due to an increase in lending activity in the securities lending program, which was offset by a decrease of \$23 million in cash and cash equivalents, due to the timing of investing employee and employer contributions received during the quarter. Total investments at fair value increased \$18.7 million, or

0.1%, from December 31, 2017 to December 31, 2018, which can be attributed to earnings from interest and dividends and investment of contributions received during the year, offset by an overall depreciation in the fair value of investments. In early 2017, the OCERS' Investment Committee adopted a more simplified asset allocation policy. This policy was structured to increase investments in the areas of private equity, core fixed income and real assets, and to add a new asset class, risk mitigation, while eliminating investments in credit and absolute return. As a result of this new allocation policy, private equity, core fixed income, and real assets have increased by \$143.3 million, \$583.2 million, and \$224.2 million, respectively, while credit and absolute return investments have decreased by \$286.2 million and \$0.9 million, respectively. Global public equity (which includes investments formerly classified as domestic equity, international equity and global equity) decreased by \$684.5 million mainly caused by a negative net investment return of -10.59% as of December 31, 2018.

Total liabilities increased \$180.1 million, or 24.3%, from December 31, 2017 to December 31, 2018, including an increase in the obligations under the securities lending program of \$127.6 million, which is directly related to the increase in securities lending collateral as previously discussed, and an increase in unsettled security purchases of \$35.4 million. Retiree payroll payable increased \$6.3 million, which is to be expected as the number of participants in the plan and retiree benefits continue to increase. Other payables increased \$8.4 million due to timing of other investment-related activity.

#### **Statement of Changes in Fiduciary Net Position (Unaudited)**

Total additions to net position restricted for pension and other post-employment benefits decreased 79.4%, or \$2.3 billion, from the previous year. Total additions were \$592.4 million for the year ended December 31, 2018 compared to \$2.9 billion for the same period in 2017. The decrease can be attributed to higher returns in 2017, which reported a return of 14.51% for the year ended December 31, 2017, compared to a loss of -1.67% for the year ended December 31, 2018. Net investment loss for the year ended December 31, 2018 is -\$313.4 million versus net investment income of \$2 billion for the year ended December 31, 2017, a decrease of \$2.3 billion. The majority of the decrease, \$2.3 billion, is related to the net depreciation in fair value of investments caused by the overall negative investment return as previously discussed. During 2017, financial markets showed strong market performance compared to 2018 where the financial markets have been more volatile with the majority of investment categories reporting a negative investment return for the year ended December 31, 2018. Dividends, interest and other investment income increased by \$23.5 million, which can be attributed to income earned across most investment categories. Total investment fees and expenses increased \$18.8 million, primarily due to increases in investment management fees and other fund expenses. Security lending activity increased by \$.09 million, which was offset by higher rebate fees in 2018 caused by reduced market demand and a rise in federal interest rates. Total contributions have increased \$9.1 million over the prior year, which can be attributed to an increase in employee contributions by \$7.8 million due to increases in employee salaries and higher contribution rates.

Total deductions from net position restricted for pension and other post-employment benefits increased 8%, or \$65.3 million, from the previous year. Total deductions were \$882.7 million for the year ended December 31, 2018 compared to \$817.4 million for the year ended December 31, 2017. Participant benefits increased by \$64.1 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

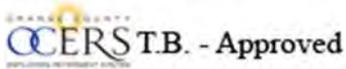
benefit received. Administrative expenses increased by approximately \$1.3 million, which primarily includes increases in personnel services of \$1.1 million due to anticipated salary increases and hiring of additional personnel.

### **Other Supporting Schedules**

In addition to the basic financial statements for the year ended December 31, 2018, the following supporting schedules are provided for additional information pertaining to OCERS:

- Total Fund 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

**Statement of Fiduciary Net Position (Unaudited)**  
As of December 31, 2018  
(with summarized comparative amounts as of December 31, 2017)  
(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>OPEB 115 Agency Fund</u>	<u>Total Fund</u>	<u>Comparative Totals 2017</u>
<b>ASSETS</b>						
Cash and Short-Term Investments						
Cash and Cash Equivalents	\$ 463,818	\$ 9,725	\$ 1,234	\$ 418	\$ 475,195	\$ 498,112
Securities Lending Collateral	<u>314,342</u>	<u>6,591</u>	<u>837</u>	<u>-</u>	<u>321,770</u>	<u>194,196</u>
Total Cash and Short-Term Investments	778,160	16,316	2,071	418	796,965	692,308
Receivables						
Investment Income	19,171	402	51	-	19,624	14,034
Securities Sales	115,570	2,423	308	-	118,301	153,988
Contributions	20,834	-	-	-	20,834	21,361
Foreign Currency Forward Contracts	63	1	-	-	64	71
Other Receivables	<u>3,092</u>	<u>65</u>	<u>8</u>	<u>-</u>	<u>3,165</u>	<u>204,045</u>
Total Receivables	158,730	2,891	367	-	161,988	393,499
Investments at Fair Value						
Global Public Equity	5,314,222	111,429	14,143	9,845	5,449,639	6,134,106
Private Equity	1,454,159	30,491	3,870	-	1,488,520	1,345,230
Core Fixed Income	2,578,776	54,072	6,863	5,233	2,644,944	2,061,710
Credit	1,685,768	35,347	4,487	-	1,725,602	2,011,759
Real Assets	2,633,802	55,226	7,010	-	2,696,038	2,471,818
Risk Mitigation	765,131	16,043	2,036	-	783,210	743,691
Absolute Return	<u>1,456</u>	<u>31</u>	<u>4</u>	<u>-</u>	<u>1,491</u>	<u>2,400</u>
Total Investments at Fair Value	14,433,314	302,639	38,413	15,078	14,789,444	14,770,714
Capital Assets (Net)	<u>18,542</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,542</u>	<u>20,670</u>
<b>Total Assets</b>	<b><u>15,388,746</u></b>	<b><u>321,846</u></b>	<b><u>40,851</u></b>	<b><u>15,496</u></b>	<b><u>15,766,939</u></b>	<b><u>15,877,191</u></b>
<b>LIABILITIES</b>						
Obligations Under Securities Lending Program	314,342	6,591	837	-	321,770	194,196
Securities Purchased	228,653	4,794	609	-	234,056	198,610
Unearned Contributions	246,133	-	-	-	246,133	244,552
Foreign Currency Forward Contracts	2,311	48	6	-	2,365	399
Retiree Payroll Payable	69,527	2,728	300	-	72,555	66,244
Other	28,278	602	76	-	28,956	20,606
Due to Employers	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,496</u>	<u>15,496</u>	<u>16,635</u>
<b>Total Liabilities</b>	<b><u>889,244</u></b>	<b><u>14,763</u></b>	<b><u>1,828</u></b>	<b><u>15,496</u></b>	<b><u>921,331</u></b>	<b><u>741,242</u></b>
<b>Net Position Restricted for Pension and Other Post-Employment Benefits</b>						
	<b><u>\$ 14,499,502</u></b>	<b><u>\$ 307,083</u></b>	<b><u>\$ 39,023</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 14,845,608</u></b>	<b><u>\$ 15,135,949</u></b>

**Statement of Changes in Fiduciary Net Position (Unaudited)**  
For the Year Ended December 31, 2018  
(with summarized comparative amounts for the Year Ended December 31, 2017)  
(Dollars in Thousands)

	<u>Pension Trust Fund</u>	<u>Health Care Fund- County</u>	<u>Health Care Fund- OCFA</u>	<u>Total Fund</u>	<u>Comparative Totals 2017</u>
<b>ADDITIONS</b>					
Contributions					
Employer	\$ 580,905	\$ 52,520	\$ 2,260	\$ 635,685	\$ 634,348
Employee	<u>270,070</u>	<u>-</u>	<u>-</u>	<u>270,070</u>	<u>262,294</u>
Total Contributions	850,975	52,520	2,260	905,755	896,642
Investment Income					
Net Appreciation / (Depreciation) in Fair Value of Investments	(442,285)	(8,692)	(1,096)	(452,073)	1,844,814
Dividends, Interest, & Other Investment Income	231,593	4,856	616	237,065	213,556
Securities Lending Income					
Gross Earnings	7,312	153	19	7,484	3,576
Less: Borrower Rebates and Bank Charges	<u>(5,794)</u>	<u>(121)</u>	<u>(15)</u>	<u>(5,930)</u>	<u>(1,930)</u>
Net Securities Lending Income	<u>1,518</u>	<u>32</u>	<u>4</u>	<u>1,554</u>	<u>1,646</u>
Total Investment Income / (Loss)	(209,174)	(3,804)	(476)	(213,454)	2,060,016
Investment Fees and Expenses	<u>(97,632)</u>	<u>(2,047)</u>	<u>(260)</u>	<u>(99,939)</u>	<u>(81,145)</u>
Net Investment Income	<u>(306,806)</u>	<u>(5,851)</u>	<u>(736)</u>	<u>(313,393)</u>	<u>1,978,871</u>
<b>Total Additions</b>	<b>544,169</b>	<b>46,669</b>	<b>1,524</b>	<b>592,362</b>	<b>2,875,513</b>
<b>DEDUCTIONS</b>					
Participant Benefits	813,775	33,290	2,801	849,866	785,804
Death Benefits	570	-	-	570	694
Member Withdrawals and Refunds	13,933	-	-	13,933	13,866
Administrative Expenses	<u>18,284</u>	<u>20</u>	<u>30</u>	<u>18,334</u>	<u>17,051</u>
<b>Total Deductions</b>	<b>846,562</b>	<b>33,310</b>	<b>2,831</b>	<b>882,703</b>	<b>817,415</b>
Net Increase / (Decrease)	(302,393)	13,359	(1,307)	(290,341)	2,058,098
Net Position Restricted For Pension and Other Post-Employment Benefits, Beginning of Year	<u>14,801,895</u>	<u>293,724</u>	<u>40,330</u>	<u>15,135,949</u>	<u>13,077,851</u>
<b>Ending Net Position Restricted For Pension and Other Post-Employment Benefits</b>	<b><u>\$ 14,499,502</u></b>	<b><u>\$ 307,083</u></b>	<b><u>\$ 39,023</u></b>	<b><u>\$ 14,845,608</u></b>	<b><u>\$ 15,135,949</u></b>

**Total Fund Reserves**  
For the Year Ended December 31, 2018  
(with summarized comparative amounts for the Year Ended December 31, 2017)  
(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Pension Reserve	\$ 9,154,999	\$ 8,409,830
Employee Contribution Reserve	3,261,626	3,093,113
Employer Contribution Reserve	2,652,428	2,620,807
Annuity Reserve	1,608,925	1,411,751
Health Care Reserve	346,106	334,054
County Investment Account (POB Proceeds) Reserve	131,890	134,416
OCSD UAAL Deferred Reserve	14,589	14,871
Contra Account	<u>(2,324,955)</u>	<u>(882,893)</u>
<b>Net Position - Total Fund</b>	<b><u>\$ 14,845,608</u></b>	<b><u>\$ 15,135,949</u></b>

**Schedule of Contributions**  
For the Year Ended December 31, 2018  
(with summarized comparative amounts for the Year Ended December 31, 2017)  
(Dollars in Thousands)

	2018		2017	
	Employee	Employer	Employee	Employer
<b>Pension Trust Fund Contributions</b>				
County of Orange	\$ 209,469	\$ 437,162	\$ 206,350	\$ 420,500
Orange County Fire Authority	23,491	91,680 <sup>1</sup>	21,294	98,291 <sup>1</sup>
Orange County Superior Court of California	16,950	29,779	15,300	30,423
Orange County Transportation Authority	9,162	24,725	8,926	24,310
Orange County Sanitation District	7,825	7,728	7,496	7,625
UCI Medical Center & Campus	-	2,875 <sup>2</sup>	-	2,948 <sup>2</sup>
City of San Juan Capistrano	809	2,437	802	2,391
Orange County Employees Retirement System	978	2,187	901	1,960
Transportation Corridor Agencies	840	1,641	692	1,738
Cypress Recreation & Parks District	-	740 <sup>3</sup>	-	-
Orange County Department of Education	-	301 <sup>2</sup>	-	524 <sup>2</sup>
Orange County Children & Families Commission	98	207	86	2,015 <sup>4</sup>
Orange County In-Home Supportive Services Public Authority	109	191	112	204
Orange County Cemetery District	141	171	131	170
Orange County Public Law Library	159	169 <sup>5</sup>	163	1,801
Orange County Local Agency Formation Commission	39	130	37	125
Orange County Mosquito & Vector Control	-	-	4	-
Contributions Before Prepaid Discount	270,070	602,123	262,294	595,025
Prepaid Employer Contributions Discount	-	(21,218)	-	(22,921)
<b>Total Pension Trust Fund Contributions</b>	<b>270,070</b>	<b>580,905</b>	<b>262,294</b>	<b>572,104</b>
<b>Health Care Fund - County Contributions</b>	-	<b>52,520</b>	-	<b>59,864</b>
<b>Health Care Fund - OCFA Contributions</b>	-	<b>2,260</b>	-	<b>2,380</b>
<b>Total Contributions</b>	<b>\$ 270,070</b>	<b>\$ 635,685</b>	<b>\$ 262,294</b>	<b>\$ 634,348</b>

<sup>1</sup> Unfunded actuarial accrued liability payments were made in 2018 and 2017 for \$23.4 million and \$32.1 million, respectively, for the Orange County Fire Authority.

<sup>2</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>3</sup> This balance reflects the unfunded actuarial accrued liability obligation payment made in October 2018 to fund the obligations for the ongoing benefits owed to Cypress Recreation & Parks District's retired and disabled employees and their survivors and beneficiaries.

<sup>4</sup> Unfunded actuarial accrued liability payments were made 2017 of \$1.7 million for the Orange County Children & Families Commission.

<sup>5</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%.

**Schedule of Investment Expenses**  
For the Year Ended December 31, 2018  
(with summarized comparative amounts for the Year Ended December 31, 2017)  
(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
<b>Investment Management Fees*</b>		
Global Public Equity		
U.S. Equity	\$ 2,581	\$ 2,932
Global Equity	-	451
International Equity	5,034	4,957
Emerging Markets Equity	<u>4,741</u>	<u>4,292</u>
Total Global Public Equity	<u>12,356</u>	<u>12,632</u>
Core Fixed Income		
U.S. Fixed Income	<u>2,048</u>	<u>974</u>
Total Core Fixed Income	<u>2,048</u>	<u>974</u>
Credit		
High Yield	1,402	2,362
Emerging Market Debt	614	695
Direct Lending	2,528	3,000
Mortgage	-	4,460
Multi-Strategy	3,860	3,429
Non-U.S. Direct Lending	<u>2,032</u>	<u>1,400</u>
Total Credit	<u>10,436</u>	<u>15,346</u>
Real Assets		
Real Estate	18,126	15,697
Real Return		
Timber	1,228	1,329
Agriculture	1,158	1,086
Infrastructure	1,127	882
Energy	<u>12,889</u>	<u>5,703</u>
Total Real Return	<u>16,402</u>	<u>9,000</u>
Total Real Assets	<u>34,528</u>	<u>24,697</u>
Absolute Return		
Direct Hedge Fund	17	2,134
GTAA	-	1,406
Total Absolute Return	<u>17</u>	<u>3,540</u>
Private Equity	9,863	8,093
Risk Mitigation	9,052	5,166
Short-Term Investments	<u>296</u>	<u>250</u>
<b>Total Investment Management Fees</b>	<b><u>78,596</u></b>	<b><u>70,698</u></b>
<b>Other Fund Expenses</b>	<b><u>16,931</u></b>	<b><u>7,459</u></b>
<b>Other Investment Expenses (Expenses Not Subject to the Statutory Limit)</b>		
Consulting/Research Fees	1,699	1,005
Investment Department Expenses	1,660	1,171
Legal Services	456	346
Custodian Services	579	438
Investment Service Providers	<u>18</u>	<u>28</u>
<b>Total Other Investment Expenses</b>	<b><u>4,412</u></b>	<b><u>2,988</u></b>
<b>Security Lending Activity</b>		
Security Lending Fees	393	399
Rebate Fees	<u>5,537</u>	<u>1,531</u>
<b>Total Security Lending Activity</b>	<b><u>5,930</u></b>	<b><u>1,930</u></b>
<b>Total Investment Expenses</b>	<b><u>\$ 105,869</u></b>	<b><u>\$ 83,075</u></b>

\* Does not include undisclosed fees deducted at source.

**Schedule of Administrative Expenses**  
For the Year Ended December 31, 2018  
(with summarized comparative amounts for the Year Ended December 31, 2017)  
(Dollars in Thousands)

	<b>2018</b>	<b>2017</b>
<b>Pension Trust Fund Administrative Expenses</b>		
<b>Expenses Subject to the Statutory Limit</b>		
Personnel Services		
Employee Salaries and Benefits	\$ 10,993	\$ 9,933
Board Members' Allowance	16	16
Total Personnel Services	11,009	9,949
Operating Expenses		
Depreciation/Amortization	2,292	2,292
General Office and Administrative Expenses	1,629	1,300
Professional Services	1,616	1,240
Rent/Leased Real Property	489	568
Total Office Operating Expenses	6,026	5,400
<b>Total Expenses Subject to the Statutory Limit</b>	<b>17,035</b>	<b>15,349</b>
<b>Expenses Not Subject to the Statutory Limit</b>		
Actuarial Fees	396	385
Equipment / Software	353	97
Information Technology Consulting	500	1,171
<b>Total Expenses Not Subject to the Statutory Limit</b>	<b>1,249</b>	<b>1,653</b>
<b>Total Pension Fund Administrative Expenses</b>	<b>18,284</b>	<b>17,002</b>
<b>Health Care Fund - County Administrative Expenses</b>	<b>20</b>	<b>22</b>
<b>Health Care Fund - OCFA Administrative Expenses</b>	<b>30</b>	<b>27</b>
<b>Total Administrative Expenses</b>	<b>\$ 18,334</b>	<b>\$ 17,051</b>

## Administrative Expense Compared to Actuarial Accrued Liability

For the Year Ended December 31, 2018

(Dollars in Thousands)

<b>Administrative Expense Compared to Actuarial Accrued Liability</b>	
Projected Actuarial Accrued Liability (AAL) as of December 31, 2018	\$ 20,666,562
Maximum Allowed For Administrative Expense (AAL * 0.21%)	43,400
Actual Administrative Expense <sup>1</sup>	<u>17,035</u>
Excess of Allowed Over Actual Expense	<u>26,365</u>
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2018	0.08%
Actual Administrative Expense as a Percentage of Projected Actuarial Accrued Liability as of December 31, 2017	0.06%
 <sup>1</sup> Administrative Expense Reconciliation	
Administrative expense per Statement of Changes in Fiduciary Net Position	\$ 18,284
Less administrative expense not considered per CERL section 31596.1	<u>(1,249)</u>
Administrative Expense allowable under CERL section 31580.2	<u>\$ 17,035</u>

I-8

## Memorandum

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**DATE:** January 28, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Suzanne Jenike, Assistant CEO, External Operations  
**SUBJECT:** **2019 STAR COLA COST POSTING**

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### Informational

#### Background/Discussion

In accordance with Government Code Section 7507, a public meeting will occur on March 18, 2019, to consider the STAR COLA ad hoc adjustment to applicable retirement allowances.

STAR COLA stands for Supplemental Targeted Adjustment for Retirees, Cost of Living Adjustment. The purpose is to restore purchasing power for retirees who have lost more than 20% of their purchasing power since retirement, as measured by the accumulation in a retired member's COLA bank. The STAR brings those individuals back to 80% of purchasing power. It applies to those retirees or their beneficiaries who began receiving a benefit on or before April 1, 1980, and is granted in accordance with Government Code Section 31874.3(c).

Before the Board votes on whether to grant the STAR COLA, the costs must be posted at a separate public meeting, in accordance with Government Code Section 7507. As such, this item is providing the required notice that on March 18, 2019, the Board will consider the granting of the STAR COLA. The total cost is projected to be \$517,489. As in the past, the Board will provide each plan sponsor with STAR COLA recipients the opportunity to pay their share of the cost in a lump sum, over a period of 12 months or add it to the unfunded liability for that plan sponsor. This item will be fully discussed at the March 18, 2019 meeting.

#### Submitted by:



S. J. – APPROVED

Suzanne Jenike  
Assistant CEO, External Operations



180 Howard Street Suite 1100 San Francisco, CA 94105-6153  
T 415.263.8200 www.segalco.com

Andy Yeung ASA, MAAA, FCA, EA  
Vice President & Actuary  
ayeung@segalco.com

VIA EMAIL AND USPS

January 30, 2019

Mr. Steve J. Delaney  
Chief Executive Officer  
Orange County Employees Retirement System  
2223 Wellington Avenue  
Santa Ana, CA 92701-3101

RECEIVED

FEB 01 2019

Orange County Employees  
Retirement System

**Re: Orange County Employees Retirement System  
STAR COLA Payment Projections**

Dear Steve:

As requested by the System, we have projected the cost of continuing the STAR COLA benefit over the next ten years.

#### **BACKGROUND**

The Retirement Board grants a STAR COLA benefit to maintain a minimum of 80% of a retiree's or beneficiary's purchasing power. The STAR COLA benefit is calculated by first taking the balance in a member's COLA bank that is in excess of 20% and multiplying that times the member's benefit.

The 1937 Act allows the Board either to advance fund the STAR COLA benefit subject to the availability of excess earnings above 1% of OCERS' assets or to grant this benefit on an annual basis. We understand that the Board's current policy is to grant this benefit on an annual basis.

#### **RESULTS AND ANALYSIS**

On April 1, 2019, only those members who retired on or before April 1, 1980 have COLA banks in excess of 20% and hence are eligible to receive the STAR COLA.

The attached Exhibit A shows a ten-year projection of the STAR COLA benefits, expressed as a percentage of the benefit payable effective April 1 of the next ten years. In Exhibit B, we show the annual benefit payment based on who is eligible for the STAR COLA benefit as of April 1, 2019 (i.e., members who retired on or before April 1, 1980) and those who may

become eligible after April 1, 2019. In Exhibit C, we have included a schedule that provides the breakdown of the anticipated STAR COLA benefits from April 2019 to March 2020 based on members who retired from each employer.

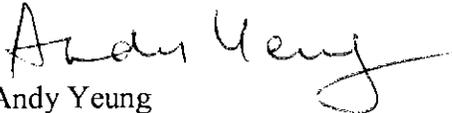
Our projections are based on the following assumptions provided below.

1. The existing 80% purchasing power cap will remain unchanged.
2. In adjusting the purchasing power banks after April 1, 2019, we have used the assumed annual inflation rate of 2.75% previously adopted by the Board for the last valuation as of December 31, 2017 and the upcoming valuation as of December 31, 2018. As OCERS provides a maximum annual COLA of 3.0%, the COLA banks will decrease in the future under the 2.75% inflation assumption (see attached Exhibit A) and thus no other additional members will be expected to become eligible.<sup>1</sup> We assume that future STAR COLA benefits, adjusted to reflect inflation for the prior calendar year, will be paid commencing April 1 of the subsequent year.
3. Our projections were based on the latest membership data used in the valuation as of December 31, 2017, but updated through January 18, 2019 to exclude those members who have passed away since the prior valuation. For conservatism, we assumed no deaths would have occurred among retirees and beneficiaries from January 18, 2019 to April 1, 2019. Effective April 1, 2019, we applied the life expectancies previously adopted by the Board for the last valuation as of December 31, 2017 and the upcoming valuation as of December 31, 2018 in projecting members who will be entitled to payments in the ten-year period.

I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please let us know if you have any questions.

Sincerely,

  
Andy Yeung

MYM/gxk  
Enclosures

cc: Suzanne Jenike  
Brenda Shott

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<sup>1</sup> It should be noted that in determining the liabilities for those retirees with COLA banks in the funding valuation, we have been assuming that a COLA of 3.00% would be paid on each April 1 following the date of the valuation until their COLA banks are depleted.

**EXHIBIT A – TEN-YEAR PROJECTION OF STAR COLA BENEFITS**

(Expressed as a Percent of the Benefit Payable Effective April 1 of the Year Indicated)

Date of Retirement	April 1, 2019	April 1, 2020	April 1, 2021	April 1, 2022	April 1, 2023	April 1, 2024	April 1, 2025	April 1, 2026	April 1, 2027	April 1, 2028
On or Before 04/01/1972	28.00%	27.75%	27.50%	27.25%	27.00%	26.75%	26.50%	26.25%	26.00%	25.75%
04/02/1972 to 04/01/1973	27.50%	27.25%	27.00%	26.75%	26.50%	26.25%	26.00%	25.75%	25.50%	25.25%
04/02/1973 to 04/01/1974	27.50%	27.25%	27.00%	26.75%	26.50%	26.25%	26.00%	25.75%	25.50%	25.25%
04/02/1974 to 04/01/1975	27.00%	26.75%	26.50%	26.25%	26.00%	25.75%	25.50%	25.25%	25.00%	24.75%
04/02/1975 to 04/01/1976	21.50%	21.25%	21.00%	20.75%	20.50%	20.25%	20.00%	19.75%	19.50%	19.25%
04/02/1976 to 04/01/1977	16.00%	15.75%	15.50%	15.25%	15.00%	14.75%	14.50%	14.25%	14.00%	13.75%
04/02/1977 to 04/01/1978	12.50%	12.25%	12.00%	11.75%	11.50%	11.25%	11.00%	10.75%	10.50%	10.25%
04/02/1978 to 04/01/1979	8.50%	8.25%	8.00%	7.75%	7.50%	7.25%	7.00%	6.75%	6.50%	6.25%
04/02/1979 to 04/01/1980	3.50%	3.25%	3.00%	2.75%	2.50%	2.25%	2.00%	1.75%	1.50%	1.25%

Based on the ten-year projection, members who retired after April 1, 1980 are not eligible for STAR COLA.

96/256

**EXHIBIT B – PROJECTED BENEFIT PAYMENTS**

The expected benefit payments for the current and new STAR COLA recipients for the next ten years, commencing April 1, 2019, are provided in the following table:

	Benefit Payments		
	(1) Eligible for STAR COLA as of April 1, 2019	(2) Not Yet Eligible for STAR COLA as of April 1, 2019	(1) + (2)
1. April 1, 2019 – March 31, 2020	\$517,489	\$0	\$517,489
2. April 1, 2020 – March 31, 2021	471,732	0	471,732
3. April 1, 2021 – March 31, 2022	427,694	0	427,694
4. April 1, 2022 – March 31, 2023	386,089	0	386,089
5. April 1, 2023 – March 31, 2024	347,328	0	347,328
6. April 1, 2024 – March 31, 2025	311,600	0	311,600
7. April 1, 2025 – March 31, 2026	278,936	0	278,936
8. April 1, 2026 – March 31, 2027	249,254	0	249,254
9. April 1, 2027 – March 31, 2028	222,393	0	222,393
10. April 1, 2028 – March 31, 2029	<u>198,150</u>	<u>0</u>	<u>198,150</u>
Total Benefit Payments	<u>\$3,410,665</u>	<u>\$0</u>	<u>\$3,410,665</u>
Discounted Benefit Payments <sup>(1)</sup>	<u>\$2,620,806</u>	<u>\$0</u>	<u>\$2,620,806</u>

<sup>(1)</sup> At 7.00% annual investment return assumption.

**EXHIBIT C – PROJECTED BENEFIT PAYMENTS BY EMPLOYER**

The expected benefit payments for the current STAR COLA recipients from April 1, 2019 to March 31, 2020 broken down by employer, are provided in the following table:

	Benefit Payments			
	Orange County	U.C.1. (Bi-weekly)	Sanitation District	Total
April 1, 2019 – March 31, 2020	\$510,907	\$4,310	\$2,272	\$517,489

98/256

**§31874.3. Determination; application of excess to allowances; effect on subsequent increases**

(a)(1) Whenever the percentage of annual increase in the cost of living as of January 1 of each year as shown by the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers exceeds the maximum benefit increase provided in Section 31870, 31870.1, 31870.2, or 31870.3, whichever is applicable, the board of retirement may provide that all or part of the excess percentage increase shall be applied to the retirement allowances, optional death allowances, or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3. The board shall determine the amount of the excess to be applied, which amount shall not exceed an amount that can be paid from earnings of the retirement fund that are in excess of the total interest credited to contributions and reserves plus 1 percent of the total assets of the retirement fund.

(2) The supplemental increases in excess of the increases applied to the retirement allowances, optional death allowances, or annual death allowances pursuant to Section 31870, 31870.1, 31870.2, or 31870.3 shall not become a part of the retirement allowances, optional death allowances, or annual death allowances to be increased by subsequent increases under Section 31870, 31870.1, 31870.2, or 31870.3.

(3) This subdivision shall be operative in any county that has elected by a majority vote of the board of supervisors to make either Section 31870, 31870.1, 31870.2, or 31870.3 applicable in that county.

(b)(1) The board of retirement may, instead of taking action pursuant to subdivision (a), provide supplemental cost-of-living increases, effective on a date to be determined by the board, to the retirement allowances, optional death allowances, or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3; provided however, that only those members shall be eligible for this increase whose accumulations established by Section 31870, 31870.1, 31870.2, or 31870.3 shall equal or exceed 20 percent as of January 1 of the year in which the board of retirement adopts an increase under this subdivision.

(2) The supplemental increases to the retirement allowances, optional death allowances or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3 shall not become a part of the retirement allowances, optional death allowances or annual death allowances to be increased by subsequent increases under Section 31870, 31870.1, 31870.2, or 31870.3.

(3) This subdivision shall be operative in any county that has elected by a majority vote of the board of supervisors to make either Section 31870, 31870.1, 31870.2, or 31870.3 applicable in that county.

(c)(1) The board of retirement may, instead of taking action pursuant to subdivision (a) or (b), provide supplemental cost-of-living increases, on a prefunded basis and effective on a date to be determined by the board, to the retirement allowances, optional death allowances, or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3; provided however, only those members shall be eligible for this increase whose accumulations established by Section 31870, 31870.1, 31870.2, or 31870.3 equal or exceed 20 percent as of January 1 of the year in which the board of retirement takes action pursuant to this subdivision.

(2) The supplemental increases to the retirement allowances, optional death allowances, or annual death allowances increased in Section 31870, 31870.1, 31870.2, or 31870.3 shall become a part of the retirement allowances, optional death allowances, or annual death allowances and shall serve to reduce the accumulations established by Section 31870, 31870.1, 31870.2, or 31870.3, as applicable, by the same percentage as the payment that is made pursuant to this Section.

(3) Before the board of retirement provides benefits pursuant to this subdivision, the costs of the benefits shall be determined by a qualified actuary and the board of retirement shall, with the advice of the actuary, provide for the full funding of the benefits utilizing funds in the reserve against deficiencies established pursuant to Section 31592.2, using surplus earnings that exceed 1 percent of the total assets of the retirement system.

(4) This subdivision shall be operative in any county that has elected by a majority vote of the board of supervisors to make either Section 31870, 31870.1, 31870.2, or 31870.3 applicable in that county.

(d) Upon adoption by any county providing benefits pursuant to this section, of Article 5.5 commencing with Section 31610) of this chapter, the board of retirement shall, instead, pay those benefits from the Supplemental Retiree Benefit Reserve established pursuant to Section 31618.

(Amended (as amended by Stats. 1983, Ch. 147, Sec. 2) by Stats. 1983, Ch. 886, Sec. 11)

(Amended by Stats. 2000, Ch. 317 (AB 2176), Sec. 4)

CA Govt Code § 7507 (2017)

(a) For the purpose of this section:

(1) "Actuary" means an actuary as defined in Section 7504.

(2) "Future annual costs" includes, but is not limited to, annual dollar changes, or the total dollar changes involved when available, as well as normal cost and any change in accrued liability.

(b) (1) Except as provided in paragraph (2), the Legislature and local legislative bodies, including community college district governing boards, when considering changes in retirement benefits or other postemployment benefits, shall secure the services of an actuary to provide a statement of the actuarial impact upon future annual costs, including normal cost and any additional accrued liability, before authorizing changes in public retirement plan benefits or other postemployment benefits.

(2) The requirements of this subdivision do not apply to:

(A) An annual increase in a premium that does not exceed 3 percent under a contract of insurance.

(B) A change in postemployment benefits, other than pension benefits, mandated by the state or federal government or made by an insurance carrier in connection with the renewal of a contract of insurance.

(c) (1) (A) With regard to local legislative bodies, including community college district governing boards, the future costs of changes in retirement benefits or other postemployment benefits, as determined by the actuary, shall be made public at a public meeting at least two weeks prior to the adoption of any changes in public retirement plan benefits or other postemployment benefits. If the future costs of the changes exceed one-half of 1 percent of the future annual costs, as defined in paragraph (2) of subdivision (a), of the existing benefits for the legislative body, an actuary shall be present to provide information as needed at the public meeting at which the adoption of a benefit change shall be considered. The adoption of any benefit to which this section applies shall not be placed on a consent calendar.

(B) The requirements of this paragraph do not apply to:

(i) An annual increase in a premium that does not exceed 3 percent under a contract of insurance.

(ii) A change in postemployment benefits, other than pension benefits, mandated by the state or federal government or made by an insurance carrier in connection with the renewal of a contract of insurance.

(2) With regard to the Legislature, the future costs as determined by the actuary shall be made public at the policy and fiscal committee hearings to consider the adoption of any changes in public retirement plan benefits or other postemployment benefits. The adoption of any benefit to which this section applies shall not be placed on a consent calendar.

(d) Upon the adoption of any benefit change to which this section applies, the person with the responsibilities of a chief executive officer in an entity providing the benefit, however that person is denominated, shall acknowledge in writing that he or she understands the current and future cost of the benefit as determined by the actuary. For the adoption of benefit changes by the state, this person shall be the Director of Human Resources.

(e) The requirements of this section do not apply to a school district or a county office of education, which shall instead comply with requirements regarding public notice of, and future cost determination for, benefit changes that have been enacted to regulate these entities. These requirements include, but are not limited to, those enacted by Chapter 1213 of the Statutes of 1991 and by Chapter 52 of the Statutes of 2004.

*(Amended by Stats. 2016, Ch. 415, Sec. 4. (AB 2375) Effective January 1, 2017.)*

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# Memorandum

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**DATE:** February 19, 2019  
**TO:** Members of the Board of Retirement  
**FROM:** Heidi Halbur, Director of Member Services  
**SUBJECT: OVERPAID AND UNDERPAID PLAN BENEFITS – 2018 REPORT**

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## Written Report

### Background/Discussion

In accordance with the Board of Retirement Overpaid and Underpaid Plan Benefits Policy adopted by the Board on May 16, 2016, this memorandum serves as the annual report covering the calendar year 2018.

### Benefit Overpayments/Underpayments:

In the V3 pension software system, benefit overpayments and repayments are automatically created and tracked in the system. When an action that triggers an overpayment occurs, a transaction in the total amount owed is created and the outstanding balance is reduced as benefit deductions are applied or check payments are posted. A benefit recoupment report in V3 displays all overpayments created in the system, the current balance, and the last payment date and amount. By using this report, OCERS is able to monitor the status of overpayments, and to identify accounts that need additional action. Underpayments are less common, and those that occur are paid to members in the form of one-time benefit adjustments upon discovery.

In 2018, among 17,300 monthly payees at OCERS, 84 benefit overpayments occurred. Of this number, 52 have been paid in full, and 6 are in the active repayment process via monthly benefit deductions. Efforts seeking repayment are underway for the remaining 26 payees, all of whom are deceased.

The most significant cause of benefit overpayments this year was the late reporting of payee deaths (79%). In order to mitigate this OCERS became NTIS certified in October 2018, which has allowed us to receive more detailed and accurate death notification information from our reporting service, Thomson Reuters CLEAR. In addition, our internal procedures have been reviewed as part of the Lean process in order to better streamline suspending or terminating benefits when appropriate, or collecting overpayments from estate representatives.

The remaining overpayments were a result of a variety of account activities: benefit recalculations due to staff error or appeals, updated payroll information received, or other changes. Documentation being developed as a result of the soon-to-be-completed Pay Item Review Project will provide clarity for OCERS staff. In conjunction with added training and more accurate plan sponsor pay reporting, the need for staff to make manual adjustments to pay items for inclusion in FAS will be reduced.

### Submitted by:



HH - Approved

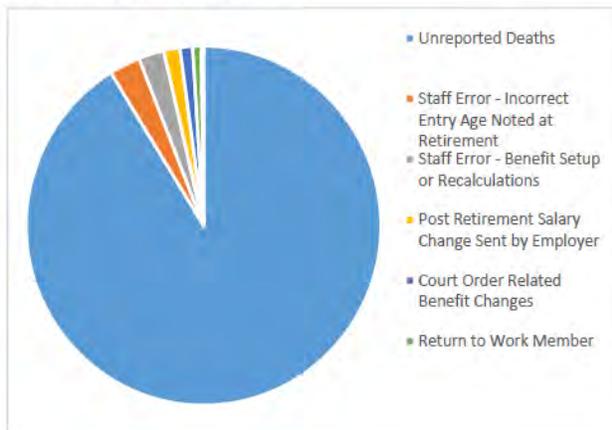
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Heidi Halbur, Director of Member Services

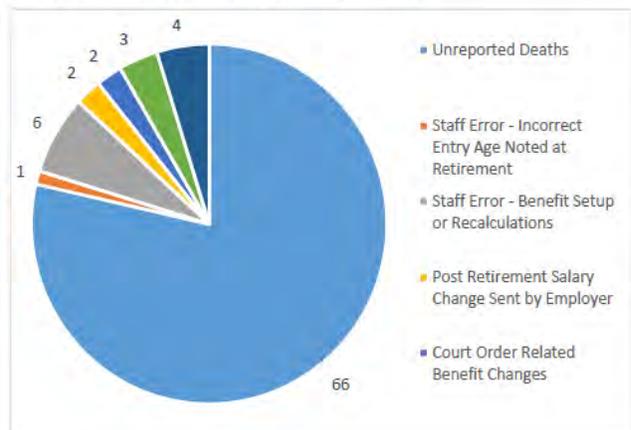
OVERPAYMENTS SNAPSHOT - 01/01/2018 to 12/31/2018

Overpayment Source	Original Overpayment Amount	Amount Recouped	Amount Still Owed	Payee Count - Original	Paid in Full	Payment Plan Active	Collection Efforts Underway
Unreported Deaths	\$ 555,046	\$ 332,736	\$ 222,310	66	40	0	26
Staff Error - Incorrect Entry Age Noted at Retirement	\$ 17,274	\$ 140	\$ 17,134	1	0	1	0
Staff Error - Benefit Setup or Recalculations	\$ 14,007	\$ 1,731	\$ 12,285	6	3	3	0
Post Retirement Salary Change Sent by Employer	\$ 9,003	\$ 9,003	\$ -	2	2	0	0
Court Order Related Benefit Changes	\$ 7,008	\$ 234	\$ 6,774	2	1	1	0
Return to Work Member	\$ 4,769	\$ 4,769	\$ -	3	3	0	0
V3 System Error	\$ 1,225	\$ 1,025	\$ 200	4	3	1	0
<b>Totals</b>	<b>\$ 608,332</b>	<b>\$ 349,638</b>	<b>\$ 258,703</b>	<b>84</b>	<b>52</b>	<b>6</b>	<b>26</b>

Breakdown by Original Amount



Overpayment Breakdown by Source Count



**1-10**

## Memorandum

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DATE: February 19, 2019  
TO: Members of the Board of Retirement  
FROM: Steve Delaney, Chief Executive Officer  
SUBJECT: **OCERS BOARD POLICY COMPLIANCE**

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### Written Report

#### Background/Discussion

In 2018 Trustee Ball posed a very practical question to OCERS staff regarding the 41 OCERS Board Policies – How can the Board of Trustees know if policies have been adhered to in the prior year? Separate from the triennial review process whereby every policy is considered for current applicability and possible update or modification due to the passage of time, this was a perfect question to pose as part of OCERS’ cultural shift to continuous improvement and best practice governance. A policy may be properly drafted, but is there compliance with the policy directives? The full Board of Trustees was assured that your staff would look into the issue and provide at the start of each year a report regarding policy compliance in the prior calendar year.

Following that initial query OCERS senior management team met and assigned a senior executive as primary reviewer to each of the 41 policies. A tracking mechanism was created in our SharePoint database, and a training session was held to assist the executive team in determining how to investigate compliance and capture findings in the new database.

This is the first annual OCERS Policy Compliance report codifying that effort. Being the first, we understand that there may be, and most likely will be improvements to consider for enhancing the process in the future. For this first report, your OCERS Executive Team can attest to general compliance with 40 of the 41 policies, while noting that two of the policies (*Annual Disclosure*, and *Acceptance and Reporting of Gifts*) were rescinded by the Board of Trustees before the calendar year had ended.

I state “general” as opposed to “strict”, as we have learned of improvements we can make in compliance in order to more strictly conform with the spirit or direction of Board policies. A listing of each policy, together with staff notes attached to some of those policies is included with this report. I elaborate below on the notes related to two of the policies to exemplify the improvements staff will undertake in 2019 for better compliance:

#### **QUIET PERIOD Policy**

While Ms. Shott as the assigned reviewer can attest that regular Quiet Period warnings were provided to OCERS Trustees and staff as directed, she cannot attest to whether individuals heeded those cautions and in fact avoided contact with potential vendors during Quiet Periods. We can thus state that in

general OCERS has complied with the policy, we will be looking however into the possibility of developing a survey process at the end of each calendar year allowing all Trustees and staff to attest to individual compliance, which would then be included in subsequent policy compliance reports to the full Board.

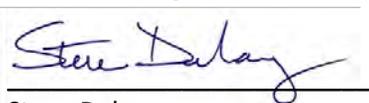
### **SUCCESSION PLANNING Policy**

Section 13 of this policy calls for an annual report by the Executive to the full Board regarding staff development. While I have been reporting verbally to the Board at our Strategic Planning Workshops on my outreach efforts with OCERS staff as part of general succession planning, I don't believe that is as formal as envisioned by the policy. Thus while I believe I can state the policy has been in general complied with, compliance can be improved. I met with Chair Prevatt and Vice Chair Packard in late 2018 and outlined a plan to provide a written report in 2019 on staff development as part of OCERS' overall succession planning. The Chair and Vice Chair concurred, and directed that I provide that report every August on an annual basis beginning in 2019.

OCERS staff cannot in good conscience state that we are in compliance with one policy, the *Record Retention Policy and Guidelines*. That policy is extremely complicated and will always be a challenge when trying to assure compliance. In the attached policy notes however you will see outlined Ms. Ratto's determination to undertake a whole-scale review and restructuring of the policy in 2019, with the ability to audit OCERS records to assure compliance being an important part of that review.

Staff will continue to monitor the compliance process throughout the 2019 calendar year and will report on improvements of the types noted above when next reporting with the February 2020 annual Policy Compliance report.

#### **Submitted by:**



Steve Delaney  
Chief Executive Officer



## Executive Policy Compliance Tracking Notes View

This list is used to track compliance with OCERS policy review schedules. Use the records in this list to track required policy reviews.

### OUR VALUES:

*Open and Transparent, Commitment to  
Engaged and Dedicated Workforce,  
Secure and Sustainable*

<input type="checkbox"/>	Policy Title	Assigned To	Reviewer Title	In Compliance?	Comments / Notes
<b>Count= 41</b>					
	Acceptance and Reporting of Gifts Policy	Ratto, Gina	General Counsel	Policy Rescinded	This policy has been rescinded
	Actuarial Funding Policy	Delaney, Steve	CEO	Yes	"Other Sections" (d) reviewed by Andy Yeung of Segal to determine if still applicable following recent work on FAS Master document project. Mr. Yeung confirms the language as presently drafted is appropriate and properly reflects current OCERS actuarial processes.
	Actuarial Valuation Policy	Shott, Brenda	Assistant CEO, Internal	Yes	
	Annual Disclosure Policy	Ratto, Gina	General Counsel	Policy Rescinded	This policy has been rescinded.
	Budget Approval Policy	Bowman, Tracy	Finance Director	Yes	
	CEO Performance Evaluation Policy	Hockless, Cynthia	Director of Admin. Services	Yes	Policy will be reviewed and presented to the Board by 11/2019. CH
	Code of Ethics and Standards of Professional Conduct Policy	Murphy, Molly	CIO	Yes	
	Communications Policy	Kinsler, Robert	Communications Manager	Yes	Robert Kinsler reviewed this policy on November 5, 2018 and it is in compliance.
	Cost Impacting Policy	Ratto, Gina	General Counsel	Yes	
	Data Request Policy	Jenike, Suzanne	Assistant CEO, External	Yes	
	Declining Employer Payroll Policy	Jenike, Suzanne	Assistant CEO, External	Yes	
	Disability Retirement Reemployment Policy	Jenike, Suzanne	Assistant CEO, External	Yes	
	Disposition of Surplus Property Policy	Shott, Brenda	Assistant CEO, Internal	Yes	
	Ethics, Compliance, and Fraud Hotline Policy	Kim, David	Director of Internal Audit	Yes	No complaints or entries have been noted in 2018
	Extraordinary Expense Recovery Policy	Ratto, Gina	General Counsel	Yes	
	Hearing Officer Selection and Retention Policy	Jenike, Suzanne	Assistant CEO, External	Yes	
	Indemnity and Defense Policy	Ratto, Gina	General Counsel	Yes	
	Investment Policy Statement	Murphy, Molly	CIO	Yes	Normal changes to the appendices will be made in 2019 to reflect the new asset allocation changes and related benchmarks that were passed by the Investment Committee in Nov 2018 and Jan 2019.
	Legislative Policy	Ratto, Gina	General Counsel	Yes	
	Member Services	Halbur, Heidi	Director of	Yes	

Customer Service Policy		Member Services		
Membership Eligibility Requirements Policy	Jenike, Suzanne	Assistant CEO, External	Yes	
Monitoring and Reporting Policy	Delaney, Steve	CEO	Yes	This policy was not reviewed in the three year cycle as required. It was one year behind, the breakdown occurring when oversight of policy was transferred from Legal to CEO. OCERS is now in compliance.
Overpaid and Underpaid Plan Contributions Policy 	Jenike, Suzanne	Assistant CEO, External	Yes	
Overpaid and Underpaid Plan Benefits Policy	Jenike, Suzanne	Assistant CEO, External	Yes	
Placement Agent Disclosure Policy	Murphy, Molly	CIO	Yes	
Planning Policy	Delaney, Steve	CEO	Yes	No issues in 2018.
Procurement and Contracting Policy	Hockless, Cynthia	Director of Admin. Services	Yes	Policy was updated and presented to the Board 10/2018. CH
Proxy Voting Policy	Murphy, Molly	CIO	Yes	
Public Records Request Policy	Ratto, Gina	General Counsel	Yes	
Quiet Period Policy	Shott, Brenda	Assistant CEO, Internal	Yes	Need to discuss how to confirm that Board or staff members did not talk to potential vendors during a quiet period. Do we need to implement a survey to verify? Or if nothing is reported do we attest as "I am not knowledgeable of any non-compliance"?
Record Retention Policy and Guidelines	Ratto, Gina	General Counsel	Pending Review	Project team is undertaking a whole-scale review and restructuring of this Policy, which will include an auditable procedure for coming into compliance and staying in compliance with its requirements.
Reserves and Interest-Crediting Policy	Shott, Brenda	Assistant CEO, Internal	Yes	
Risk Policy	Shott, Brenda	Assistant CEO, Internal	Yes	Although we are still working on a entity wide ORM report that will be reviewed with the Audit Committee at least annually (addressing Section 5 of the policy), through out the year we have reported to the Committee on Risk Management items such as physical and information security. Therefore, I believe we are in compliance with the policy
SACRS Voting Authority Policy	Delaney, Steve	CEO	Yes	No issues in 2018.
Securities Litigation Policy	Ratto, Gina	General Counsel	Yes	
Succession Policy	Delaney, Steve	CEO	Yes	Section 13 requires an annual staff development plan be reported to the Board. While in both 2017 and 2018 I verbally reported on my outreach efforts with all staff, focused on their skill growth at OCERS, to be more FULLY in compliant, I will turn to a written report for 2019.
Travel Policy	Delaney, Steve	CEO	Yes	The policy was complied with in 2018. Issues did arise that were not addressed in the policy, and the Governance Committee on several occasions in 2018 modified the policy to ensure those items were addressed.
Trustee Education Policy	Hockless, Cynthia	Director of Admin. Services	Yes	Policy will be reviewed and presented to the Board by 12/2019. CH
Whistleblower Policy	Hockless, Cynthia	Director of Admin. Services	Yes	Policy was updated and presented to the Board 01/2019. CH
Withdrawing Plan Sponsor Policy	Jenike, Suzanne	Assistant CEO, External	Yes	
Write Off Policy 	Jenike, Suzanne	Assistant CEO, External	Yes	

Add new item



**1-11**

## Memorandum

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**DATE:** February 19, 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 OCERS Board members and CEO for distribution to the entire Board:

#### Russell Baldwin:

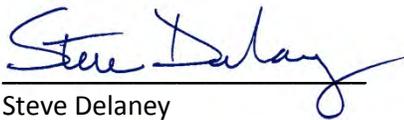
- The carbon tax and dividend model is now being pushed by many prominent economists. Find out more:  
<https://finance.yahoo.com/news/economists-time-carbon-tax-pays-225939656.html>

#### Steve Delaney:

- The sad story of Multi-Employer pension plans and the dwindling hope that they might be saved  
<https://www.post-gazette.com/business/career-workplace/2019/01/20/Pension-reform-benefit-cuts-Teamsters-Ironworkers-UMWA/stories/201901200002>

Attached: OCERS Activities and Updates for December 2018.

**Submitted by:**

A handwritten signature in blue ink that reads "Steve Delaney". The signature is written in a cursive style with a horizontal line underneath the name.

Steve Delaney  
Chief Executive Officer

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 December 2018.

**Customer Service Stats  
2018**

**TOP 3 MEMBER QUESTIONS:**

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

**QUESTION ONE:**

**Q:** When do I need to send in my Service Credit Purchase (SCP) contract so I am not charged additional interest?

**A:** If you were mailed an SCP cost calculation after July 1<sup>st</sup>, you have until 12/31/2018 to submit the contract and initiate the first payment. If OCERS received the contract and first payment after 1/1, then the contract will need to be recalculated to add interest.

**QUESTION TWO:**

**Q:** Why is the January 1<sup>st</sup> benefit payment not paid until AFTER the holiday? Shouldn't it be paid the business day before the holiday?

**A:** It is true that normally when the 1<sup>st</sup> falls on a weekend or holiday, direct deposits are made the business day prior. However, January 1<sup>st</sup> is an exception. OCERS may only make 12 benefit payments in a calendar year, and so the 1/1 payment is always paid on the first business day of the new year. This year's first payment fell on January 2<sup>nd</sup>.

**QUESTION THREE:**

**Q:** When will this year's COLA percentage be known?

**A:** The 2019 COLA will be addressed at the regular Board of Retirement meeting on February 19<sup>th</sup>. Information will be posted on the OCERS website the following day.

**Member Approval: 100%**

**Un-Planned Recalculations: 0**

**Retirement Applications Received:**

<i>Dec - 2018</i>	54
<i>Nov - 2018</i>	85
<i>Oct - 2018</i>	49
<i>Sept - 2018</i>	40
<i>Aug - 2018</i>	55
<i>Jul - 2018</i>	67
<i>Jun - 2018</i>	44
<i>Apr - 2018</i>	73
<i>Mar - 2018</i>	51
<i>Feb - 2018</i>	163
<i>Jan - 2018</i>	204
<i>Dec - 2017</i>	58
<i>Nov - 2017</i>	75
<i>Oct - 2017</i>	47
<i>Sep - 2017</i>	42
<i>Aug - 2017</i>	69
<i>Jul - 2017</i>	48
<i>Jun - 2017</i>	65
<i>May - 2017</i>	60
<i>Apr - 2017</i>	47
<i>Mar - 2017</i>	79

## MEMBER SERVICES TELEPHONE MERTICS

Member Services Call History			
Month / Year	Incoming Calls Through Queue	Incoming Calls Direct to Extension	Total Calls (Queue + Direct)
December 2018	1158	1650	2808
December 2017	791	2257	3048
December 2016	918	2848	3766

ACTIVITIES

RE

### AOC WINTER LUNCHEON

Always a well-attended and festive event, several hundred retired members were present for the REAOC Winter Luncheon on December 5. I attended with Ms. Jenike, and we had opportunity to speak to the crowd and relate some of the latest OCERS news that we believed most relevant to the audience. Asked by a member of the audience if there would be a COLA in 2019, I suggested that while it was ultimately an OCERS Board decision, the fact that CPI in the Los Angeles basin was running at more than 3%, it seemed likely. That one line got a rousing round of applause from the entire group.

### INFORMATIONAL MEMO TO STAFF ON TOTAL BENEFIT PACKAGE

Some years ago Treasurer Freidenrich had shared with OCERS Executive Staff that the County of Orange provides an informational memo to all county employees each year, a memo that reminds them of the total benefit package they are earning through their County employment. Ms. Freidenrich thought that OCERS-direct employees might benefit from a similar outreach, and I concurred.

Below is the 2018 note (now our sixth year in a row) sent from Ms. Hockless of OCERS Human Resources to all OCERS staff, County and OCERS-direct, with the final December paycheck information:

*Good morning,*

*When most of us hear the term "compensation" we typically only think of the money we receive in our paycheck each payday. However, "Total Compensation" goes beyond salary, it is the complete pay package for employees. Your Total Compensation includes all forms of remuneration including the costs paid by OCERS for your retirement and health insurance benefits among others.*

*As a current employee, you may not be aware of the amount of money contributed toward the cost of benefits, and/or the value of the various components of the compensation package beyond your base salary. To this end, we ask that you log in to the payroll portal to view your Total Compensation for 2018. The instructions below will provide you with how to view your Total Compensation based on your salary and benefits selections.*

*If you have any questions regarding your Total Compensation, please feel free to contact me directly or one of the HR staff members.*

## UPDATES

### FINAL AVERAGE SALARY COMPONENTS REVIEW PROJECT

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We continue to make good progress on the Salary and Pay Item review project. The new Pay Item Request form, Pay Item Request and Approval Procedures for Employers, OCERS Administrative Procedure (OAP) documents for Comp Earnable/Pensionable Comp and Final Average Salary, and the OCERS Policy documents for Comp Earnable, Pensionable Comp, Pay Item Review, and Retirement Enhancement Review were presented to, and received a positive response from, the Governance Committee on 12/11/2018. The Summary tabs added to the Pay Type spreadsheet for the County, OCFA, Sanitation District, and Superior Court are being finalized to list the current Pay Item Codes from the V3 Factor Table and the resulting Pensionable Comp (PEPRA) and Comp Earnable (Legacy) decisions determined by a review of the pensionable compensation and compensation earnable criteria from Legal. These Summary Pages will be sent to the respective employers, including notes on pay codes that have not been used, pay types that do not match existing pay codes, and pay codes that are no longer needed/used and will be stop-dated. Monthly meetings with the CEO are being held to review the project status and address any policy questions.

### INVESTMENT DEPARTMENT UPDATE

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Mr. Beeson reports regarding December activities:

As of November 30, 2018, the portfolio year-to-date is up 0.5% net of fees, while the one-year return is up 1.8%. The fund value now stands at \$15.4 billion. At the December 17<sup>th</sup> Investment Committee meeting, Molly Murphy, OCERS' CIO, provided commentary on the volatility in the capital markets, including recent developments surrounding global tariff tensions and Federal Reserve news. Colin Beebe from PCA, OCERS' risk consultant, presented the 3<sup>rd</sup> quarter 2018 portfolio risk discussion. Mr. Beebe discussed that the upcoming build out of the risk mitigation asset class will further diversify the OCERS portfolio away from economic growth risk. Meketa, OCERS' general consultant, presented a review of the potential strategies for the risk mitigation asset class. Finally, Kathryn M. Kaminski, Ph.D., from AlphaSimplex, gave an educational presentation on trend risk mitigating strategies and the differences between convergent (i.e. long risk premia) and divergent strategies (like trend following). Divergent strategies have the ability to perform well during periods of sustained crisis in markets. Ms. Kaminski explained the importance of finding the appropriate mix of convergent and divergent strategies for a robust portfolio.

### HOLIDAY EVENTS

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Of course December was also a time of office fun and cheer as it was the holiday season. Below are photos of the "Ugliest Sweater Contest", followed by a take from the "Holiday Bake Goods Exchange".



As a reminder you will see this memo included with the BOARD COMMUNICATIONS document as part of the informational agenda for the February 19, 2019 meeting of the OCERS Board of Retirement.

**1-12**

## Memorandum

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DATE: February 19, 2019  
TO: Members of the Board of Retirement  
FROM: Steve Delaney, Chief Executive Officer  
SUBJECT: **2018 BUSINESS PLAN – END OF YEAR REPORT**

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### Presentation

### Background/Discussion

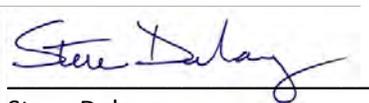
Attached you will find the 2018 OCERS Business Plan, as approved by the OCERS Board in October 2017.

With 2018 now concluded, the OCERS team has updated the business plan to show completed goals. The work accomplished in 2018 is reflected in the red highlighted language that appears with each Plan Initiative, Objective and Goal.

Some goals were started in 2018 but continue into 2019. Those are highlighted in yellow.

On Monday, February 19, I will review those highlighted items with the Board of Retirement, to provide detail as to current status, and anticipated completion.

### Submitted by:



Steve Delaney  
Chief Executive Officer

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

# 2018 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

# 2018-2020 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 - **Completed**
  - a. **Completed the initial 5% allocation**
  - b. **Presented discussion at the September workshop regarding potential for an increased allocation in 2019**
  - c. **New asset allocation passed in November 2018 which moved RMS from 5% to 10%**
  
2. Explore and evaluate investment/risk management systems
  - a. **Implemented Backstop System**
  - b. **Currently integrating Bridgewater risk portal**  
**Status: Will continue into 2019**

Objective: Develop an Integrated View of Pension Assets and Liabilities  
*Executive Leads – Molly Murphy; Gina Ratto*

1. Update the asset liability study - **Completed**
  - a. **New Asset Allocation adopted in 2016. Subsequent Asset Allocation Study work performed in 2018 with changes to Asset Allocation adopted in November 2018.**

Segal provided scenario analysis reports in February (2016 Valuation) and July (2017 Valuation). Segal also presented Sensitivity Analysis of Alternative Economic Assumptions at Strategic Planning Workshop in September.

2. Develop procedure for new employers entering the system
  - a. Administrative Procedure, worksheet for staff's use in evaluating new plan sponsors, and new template for Participation Agreement with plan sponsors in process  
**Status: Will continue into 2019**

Objective: Employ a Governance Structure that Supports a Dynamic Investment Program

*Executive Lead – Molly Murphy*

1. Evaluate governance best practices (year one) - **Completed**
  - a. Delegated authority (investment manager selection and termination) approved and preliminary reporting processes implemented
  - b. Reviewed, revised and consolidated investment policies and investment related charters
  - c. ESG discussions at September workshop

Objective: Prudent Use of Resources

*Executive Leads – Molly Murphy; Brenda Shott*

1. Using CEM Benchmarking, evaluate the cost and efficiency of OCERS' plan administration - **Completed**
  - a. CEM Benchmarking report presented to Board in July 2018, with management focus on staff productivity in coming year an important outcome.
2. Increase transparency of investment management fees and investigate actionable items to reduce fees in the future - **Completed**
  - a. AB2833 incorporated into annual fee report
  - b. New enhancements to annual fee report for 2018 included the concept of gross alpha to fees ratio

- c. Introduced a new fee philosophy for OCERS in August 2018
- 3. Study and enhance private equity capabilities and activities - Completed
  - a. Conducted RFP for Illiquid Investments Advisor resulting in the hiring of Torrey Cove and Townsend
  - b. Added two additional staff positions: Investment Analyst and Managing Director of Investments.
  - c. Held private equity staff education with Torrey Cove in April 2018
  - d. Torrey Cove conducted private equity due diligence session with the Investment Committee at the September 2018 Workshop
  - e. Made first direct investment into private equity fund in April 2018

# 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 - Completed

- a. Disability Process and Benefit Determination Appeal OPAS have been completed
2. Streamline the disability determination and appeals processes - Completed
    - a. Disability Committee of the Board was established
    - b. New administrative appeal process has been implemented
    - c. LEAN process completed and action items implemented for the initial disability determination process
  3. Streamline the benefit appeals process - Completed
    - a. New process benefit termination appeal process has been implemented
  4. Update and create desk manuals and procedure
    - a. New Training Manager to be hired in March 2019.  
Status: Will continue into 2019.
  5. Improve customer service standards - Completed
    - a. Turnaround time for reconciliation of contributions due to reciprocity has been shortened
    - b. Service credit purchase process has been evaluated and process improvements have been implemented and backlog eliminated
  6. Perform a comprehensive review of all employer pay items to determine pensionable attributes
    - a. The majority of Plan Sponsor MOUs have been reviewed and pay items documented. Training materials have been created and implemented, criteria for determining compensation earnable and pensionable compensation has been documented, and Board resolutions drafted  
Master Final Average Salary Project to be completed by Summer 2019.  
Status: Will continue into 2019.

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

1. Web site redesign (year two)

- a. Development of new website has been completed and deployment will occur in 2019  
**Status: Ongoing until deployment.**
2. Circular letters to employers - **Completed**  
Implemented new process of providing instruction to employers via circular letters in order to establish consistency in practice.
3. Roll out updated Summary Plan Descriptions
  - a. Employer specific Summary Plan Descriptions have been finalized and circulated to the Plan Sponsors for review and input  
**Status: Final rollout will occur in 2019**

# RISK MANAGEMENT

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

### *Business Plan Initiatives*

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

*Executive Lead – Jenny Sadoski*

1. Implement tools to mitigate the risk of data or financial loss or information disclosure
  - a. Procure and Implement Managed Security Services, differed until Director of Cyber Security hired, and then prioritized for 2019  
**Status: Scheduled for 2019**

- b. Procure and Implement upgraded Email Security and Protection Services. Vendor has been selected and implementation is in progress.  
Status: Will continue into 2019.
  - c. Upgrade to Wells Fargo Payment Manager solution. V3 changes made payment manager system has been tested.  
Status: Will continue into 2019.
  - d. Revise OCERS Data Classification structure and assign risks  
Status: Deferred for 2019
2. Develop and implement formalized IT governance framework  
Status: Policies and procedures in development
3. Enhance crisis and security management program - (Status - see below)
- a. Partner with cyber security consulting firm to audit OCERS and assist in the development of revised rapid recovery and incident response program. Deferred until Director of Cyber Security was hired.  
Status: Will continue into 2019
  - b. Consider creation of Board-Staff-Public Cyber Security Committee  
Status: For discussion in 2019 with Audit Committee
  - c. Evaluate best implementation of new Director of Cyber Security position  
Status: Completed
  - d. Develop security training schedule for 2018  
Status: Completed
  - e. Develop IT and security training for new hires  
Status: Completed

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

- 1. Define the scope of the Operational Risk Management Program and implement an operational risk management process  
An Operational Risk Management Committee was formed and has begun working on compiling information in an operational risk database  
Status: Will continue into 2019.

2. Determine if a risk management system is needed - **Completed**  
Staff is utilizing SharePoint as the risk management and reporting system

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

1. Evaluate building security and access system and upgrade if necessary  
The building security and access system will be upgraded in connection with the headquarters renovation project as recommended by the ad hoc Building Committee.  
**Status: Will continue into 2019.**
2. Improve employee resources and training  
Hired a new security guard company which resulted in an improved level of security services provided for employees. Training component of this goal under development.  
**Status: Will continue into 2019.**
3. Evaluate functionality of the agency's existing work space  
Ad hoc Building Committee has reviewed analysis of remaining in current headquarter facility or moving to a new location and is recommending to the Board that OCERS remain at the existing location.  
**Status: Will continue into 2019.**
4. Plan and implement facility upgrades and space management projects  
Based on Board feedback, staff worked with the Building Committee on evaluating options of remaining at the current location or moving. Facility upgrades will be planned and implemented in 2019.  
**Status: Will continue into 2019.**

# 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 - **Completed**  
New Hire Orientation now includes an in-person presentation from the CEO and each department to allow a new employee to start to become fully integrated with the agency rules and culture on DAY-ONE.
2. Implement recommendations from workforce analysis  
Phase I completed: the recommendations from the Workforce Analysis that included the addition of new staff has been completed. We will continue to look at the recommendations that include a compensation study for OCERS' direct positions and classification review of County level staff.  
**Status: Will continue into 2019.**

3. Develop a comprehensive and competitive compensation package  
Hired compensation consultant to review OCERS' direct

compensation package. Personnel Committee will work with OCERS' staff to review recommendations.

Status: Will continue into 2019.

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  
With Board approval, a new Training Manager position has been created, with hire by March 2019.  
Status: Will continue into 2019.
2. Recognize individual needs and career goals within OCERS - Completed  
CEO met one-on-one meetings with every OCERS staff member to discuss career goals and determine training needs.
3. Create or update executive management charters  
Drafts developed but in communication with Governance Committee Charter. Further development is under way.  
Status: Will continue into 2019.
4. Create succession plans across the agency  
The one on one meetings of the CEO with staff identified training needs to be addressed in succession planning.  
Status: Will continue into 2019.

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

1. Launch cultural celebration initiative - Completed  
Year End Committee of staff volunteers recast as Vision and Values Committee. Committee works with CEO to better define and encourage culture of collaborative creativity

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