



Executive Staff:

Richard Stensrud
Chief Executive Officer

Vacant
Chief Investment Officer

Robert L. Gaumer
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel, Sr.
Chief Benefits Officer

Members of the Board of Retirement

Rick Fowler, President
Appointed by the Board of Supervisors

John B. Kelly, Vice President
Appointed by the Board of Supervisors

Keith DeVore, Vice President
Appointed by the Board of Supervisors

Steven L. Baird
Elected by the Miscellaneous Members

Michael DeBord
Elected by the Retired Members

James A. Diepenbrock
Appointed by the Board of Supervisors

Diana Gin
Elected by the Miscellaneous Members

Ben Lamera
Ex Officio, Interim Director of Finance

Chris A. Pittman
Elected by the Safety Members

John Conneally
Elected by the Safety Members

Martha J. Hoover
Elected by the Retired Members

MINUTES

RETIREMENT BOARD MEETING, WEDNESDAY, APRIL 20, 2016

A regular meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 19th Floor, Sacramento, California, on Wednesday, April 20, 2016, and commenced at 10:00 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Kandi Herrick Kropp addressed the Board regarding her application for disability retirement. General Counsel Robert Gaumer reviewed the events that took place after the Board requested clarification from the Administrative Law Judge regarding Ms. Herrick Kropp's application for disability retirement at the January 2016 Retirement Board Meeting. Discussion followed.

MINUTES:

2. The Minutes of the March 16, 2016 regular meeting were approved on Motion by Mr. Kelly; Seconded by Mr. Baird. Motion carried (8-0).

CONSENT MATTERS:

Items 3-11

The Consent Matters were acted upon as one unit upon a Motion by Mr. Kelly; Seconded by Mr. DeVore carried (8-0).

3. CURRIE, Cynthia: Denied a nonservice-connected disability retirement.
4. GOERZEN, Stacie: Denied a service-connected disability retirement.
5. HERRICK KROPP, Kandi: Denied a service-connected disability retirement.
6. SMAIL, Phillip G.: Denied a service-connected disability retirement.
7. VALE, Michael S.: Granted a service-connected disability retirement.
8. PULLEN, Kim E.: Granted a nonservice-connected disability retirement.
9. Approved the proposed items to be voted on by the membership at the State Association of County Retirement Systems (SACRS) Spring Conference
10. Received and filed the March 2016 Monthly Investment Portfolio Activity Report.
11. Received and filed the March 2016 Monthly Investment Manager Compliance Report and Watch List.

ADMINISTRATIVE MATTERS:

12. Chief Executive Officer Richard Stensrud provided an update on developments affecting public retirement systems and on miscellaneous system and staff activities.

Mr. Stensrud reminded the Board that the May Board Meeting had been scheduled for Monday, May 9 to accommodate the State Association of County Retirement Systems (SACRS) Spring Conference, which is scheduled for May 10 – 13 in Costa Mesa.

Mr. Stensrud noted that the California Association of Public Retirement Systems (CALAPRS) would be holding their annual Principles of Pension Management for Trustees at Pepperdine University August 9 – 12. Mr. Stensrud stated that Board Members who wish to attend should contact Staff for assistance.

Mr. Stensrud reported that on May 4, the State Assembly Public Employee, Retirement, and Social Security Committee will be hearing legislation including two bills that have been initiated by SACRS. Mr. Stensrud stated that one bill pertains to the operating authority of

ADMINISTRATIVE MATTERS (continued):

County Retirement Systems and that the second bill involves provisions regarding sworn statements. Mr. Stensrud noted that he would be testifying at that hearing in his capacity as the SACRS Legislative Committee Chair.

Mr. Stensrud reported that SCERS had recently made a sale of a real estate holding and that Staff has been discussing how best to deploy those funds pending their ultimate investment into a comingled real estate fund. Deputy Chief Investment Officer Steve Davis explained that due to the 2-3 month period before the funds could be reinvested, Staff felt it better to put the money into the real estate sub-component of the real asset class proxy rather than deploy it through broader asset class proxy or hold it as cash. Barry Dennis of Verus Advisory, Inc., concurred that the planned deployment was optimal.

13. Brian Colker of Linea Solutions presented the current state assessment and recommendations for an information technology modernization program.

Mr. Colker stated that SCERS' current systems lack significant functionality, are not integrated, and are not process-centric. Mr. Colker noted that SCERS Staff work around system limitations through time consuming and manual processes. Mr. Colker further noted that this made it difficult to train and retain staff. Mr. Colker noted that service levels could not be improved under the current systems without substantially increasing staff size.

Mr. Colker stated that in order to mitigate risks, and in order to better position SCERS to meet its organizational objectives, Linea is recommending a multi-year IT modernization program. Mr. Colker noted that the program will involve implementing a series of solutions that will improve member, accounting, and investments business processes. Mr. Colker stated that two key systems – a Financial Reporting Solution (FRS) and a Pension Administration System (PAS) – will be the centerpieces of the program.

Mr. Colker reviewed what SCERS would be looking for in its new systems, including increased automation, a process-centric design, a focus on business rules, and additional functionality provided to members and employers. Mr. Colker stated that these features would allow Staff to focus less on routine, manual tasks and more on high-value, analytical work.

Mr. Colker discussed the potential options to replace SCERS' current PAS, including: (1) Modify the existing systems to extend their useful life; (2) Completely replace the existing systems with a customized solution; and (3) Completely replace the existing systems with a commercial off the shelf (COTS) solution. Mr. Colker stated that option 1 was eliminated due its lack of improvements to SCERS' current process, and that option 3 was chosen over option 2 due to the mature software solutions that already exist in the marketplace that will provide the desired functionality in an easier to deploy and less expensive project. Mr. Colker noted that many other 1937 Act Systems have successfully implemented these COTS solutions.

ADMINISTRATIVE MATTERS (continued):

Regarding the FRS system, Mr. Colker stated that while there are numerous COTS packages available that will meet SCERS' accounting needs, unfortunately there is not a set of FRS vendors that have focused on the public retirement system industry. Mr. Colker noted that SCERS would be likely selecting a third party integrator who is certified to implement an off-the-shelf FRS solution.

Mr. Colker then reviewed hosting options, stating that these systems could be hosted by the Sacramento County Department of Technology (DTech) or they could be hosted by the vendors themselves in a 'Cloud' solution. Mr. Colker noted that as part of the PAS request for proposal (RFP), vendors will be asked to price options for providing cloud hosting and support, which will allow SCERS to obtain comparable pricing from DTech in order to explore both options.

Mr. Colker noted that part of this project will be an extensive data cleansing, migration, and conversion process, including extracting data from legacy microfiche and microfilm. Mr. Colker stated that the data migration process is difficult, requires highly skilled technical resources, is time-consuming, and continues throughout the duration of the project. Mr. Colker further stated that because of these requirements, most PAS implementation projects benefit from engaging a third-party data migration vendor. Mr. Colker noted that within the public pension systems market there are a limited number of data profiling, cleansing, and migration experts, but that those vendors have developed methodologies, tools, and processes to aid in the understanding of the existing pension data, in cleansing the data, and in helping PAS vendors migrate data to the new systems.

Mr. Colker then reviewed typical resource requirements for these programs. Mr. Colker noted that staffing a system modernization project of this scope requires the allocation of key operational staff members to support project activities. Mr. Colker explained that the most successful projects of this size have 3-4 staff members assigned to the project team full-time, which helps ensure continuity of design across all processes and provides a single source as the communication channel between the project team and management. Mr. Colker explained that a major challenge in undertaking such projects is to balance the ongoing operational needs of the organization with the needs of the project. Mr. Colker noted that this would be particularly challenging for SCERS as Staff was already operating at full capacity in order to provide the current level of services. Mr. Colker explained that to overcome this hurdle, SCERS would need to draw upon resources from multiple external sources, including contractors, consultants, and temporary staffing. Mr. Colker also discussed the limitations of SCERS' current level of internal IT staffing and need to expand IT staffing in order to successfully address a major IT initiative like the one at hand.

Discussion followed.

ADMINISTRATIVE MATTERS (continued):

Mr. Baird had a question regarding the cost estimated for this program and expressed his concern about the cost. Mr. Colker explained that the estimated costs were based on his analysis of 9 similar projects by California pension systems over the past 2-3 years. Mr. Colker also noted that the actual cost would depend on the specific vendors and products selected and SCERS' success in meeting the resource needs of the project, which in turn, would impact the timeline for the project. Mr. Colker noted that the most successful projects of this scope focused on the long term benefits of the undertaking, rather than reducing short term costs. Mr. Colker explained that it was difficult to over-state the value of doing such projects right the first time by preparing and committing fully and realistically to the engagement.

Chief Executive Officer Richard Stensrud noted that while the cost of the project was certainly something that must be seriously considered, the cost should be considered in the context of what would be obtained, the value that would be derived, and the alternative of doing something less or not doing anything at all. Mr. Stensrud noted the risks and limitations inherent in the current IT platform and that it would not be possible for SCERS to improve the level or quality of the services it provides under the current platform without substantially increasing staffing levels. Mr. Stensrud suggested that such measures would entail substantial costs as well and that SCERS would continue to be operating with a sub-standard system. Mr. Stensrud noted that the IT modernization project represented a significant investment in both SCERS' present and its future as it would provide material value upon implementation and for the next fifteen plus years. Mr. Stensrud noted that while the IT project would not be inexpensive, the cost compared very favorably to what SCERS spends annually on its investment activities.

Mr. Diepenbrock asked about the security features that would be incorporated in the new system. Mr. Colker explained that extensive security measures would be built into the systems and that security would be regularly tested. Mr. Stensrud noted that as specific components of the IT project are solicited and procured, the Board would have an opportunity to review and evaluate the requirements and capabilities of the systems.

Mr. Colker then reviewed the project timeline, noting that Staff and Linea would be coming to the Board for their approval of each procurement. Mr. Colker stated that the next step would be to evaluate the direction SCERS wants to take regarding the investment accounting portion of the FRS, followed by requirements gathering for the data conversion.

Motion by Mr. Diepenbrock to receive and file the presentation by Linea Solutions of the current state assessment and recommendations for an information technology modernization program and to approve the recommended sequence of projects and next steps set forth in the project; Seconded by Mr. Kelly. Motion carried (7-1), Mr. Baird dissenting.

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The meeting was adjourned at 11:04 a.m.

MEMBERS PRESENT: Rick Fowler, John B. Kelly, Keith DeVore, Steven L. Baird, Michael DeBord, James A. Diepenbrock, Diana Gin, Chris Pittman, John Conneally, and Martha J. Hoover (arrived at 10:11 a.m.).

MEMBERS ABSENT: Ben Lamera.

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Robert L. Gaumer, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Steve Davis, Deputy Chief Investment Officer; Suzanne Likarich, Retirement Services Manager; Thuyet Dang, Senior Accounting Manager; JR Pearce, Investment Officer; John Lindley, IT Administrator; Barry Dennis, Verus Advisory, Inc; Brian Colker, Linea Solutions; John Kennedy, Nossaman LLP; John Reed, Deputy County Counsel; Mark Musser, Sacramento County Department of Technology; and Richard Kropp and Kandi Herrick Kropp.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
Rick Fowler, President

DATE: _____

cc: Retirement Board (11); Board of Supervisors (6); County Counsel; County Executive (2); Internal Services Agency (2); County Labor Relations; Employee Organizations (20); Sacramento County Retired Employees' Association; SCERS Member Districts (10); Elected Officials (3); Superior Court of California, County of Sacramento; Amervest Company, Inc.; Mark Merin; John R. Descamp; and The Sacramento Bee.