



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
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Anne M. Holdren  
Executive Director

Lee Blair  
Assistant Executive Director

June 7, 2010

Michael B. Lewis, Presiding Judge  
1415 Truxtun Avenue  
Bakersfield, CA 93301

John C. Mainland, Foreman  
2009-2010 Kern County Grand Jury  
1415 Truxtun Avenue, Suite 600  
Bakersfield, CA 93301

Subject: Response to Findings and Recommendations, pursuant to Penal Code  
Section 933.05

**FINDINGS:**

1. In 2006, the Board of Retirement engaged American Realty Advisors to provide an evaluation of KCERA space needs and recommendations for resolution of occupancy issues. The assessment issued in January 2007 revealed that the existing 4,436 square feet of current office space was inadequate with no opportunity for expansion. The initial report also indicated that the Bakersfield real estate market was very strong, which made it difficult to find a building for sale or lease that would accommodate the specialized requirement for public meeting space. Working with the local real estate brokerage community, the consultant developed relocation options which were discussed and reconsidered on four different occasions through October 2007. Due to the weakening of the national economy and anticipated weakening of the real estate market, the property search was put on hold for six months. In September 2008, American negotiated for the purchase of a lot offered by Castle and Cook, for a discounted price of \$16 per square foot (\$2.50 less than original asking price). While a specific cost benefit study was not undertaken per se, the Board of Retirement deliberated on numerous alternatives – lease, buy or build – which included cost benefit analysis performed by American. All of the reports reviewed by the Board in making its decision to construct a building are available as a public record. The 14,000 square feet building, due for completion in September 2010, has a projected initial yield in the 7.00% range.
5. Correction – Tier II retirement benefits of 1.62% of highest annual earnings at age ~~60~~ 65 per year of service will be paid to this group.
8. A temporary employee breached the KCERA confidentiality policy and used a member's Social Security number to establish a false identity. Using information maintained in the data base, the former employee set up a false bank account

and forged a withdrawal form to divert the victim's funds that had been left on deposit with KCERA, approximately \$4,800. After this incident, it was learned that the former employee had a criminal record of check forgery.

**COMMENTS:**

3<sup>rd</sup> paragraph – Correction – The Board's Investment Committee makes investment-related recommendations to the Board of Retirement for final decision and approval. As of June 30, 2009, only 10.1% of KCERA's assets under management (AUM) were invested in below investment grade securities (below BBB rated securities), which is represented as \$205,332,966 in value of the total AUM of \$2,0265,217,308. KCERA has only two fixed income managers with guidelines that contain explicit language allowing investment of up to 30% in below investment grade securities, including Emerging Market Debt.

4<sup>th</sup> paragraph – KCERA approaches its budget very conservatively. Fiscal year expenditures from 2005-06 through 2009-10 (projected) represent a range of 0.104% to 0.152% of assets under management (AUM). The 2009-10 approved budget, \$3.565 million, represented 0.176%, which at the time was based on an AUM of \$2.0 billion. However, the projected 2009-10 expenditures will be closer to 0.134%. Improvement in investment returns has increased the AUM to \$2.47 billion, which, subject to the mandated limitation, provides for an annual budget up to \$4.3 million.

**RECOMMENDATIONS:**

1. KCERA maintains a \$5 million Public Employee Dishonesty (\$100 thousand deductible) policy and \$25,000 (\$2,500 deductible) Theft policy as a means to bond employees.
2. KCERA began running criminal background checks on all permanent employees in 2005. Beginning in 2010, criminal background and credit checks will be run on all employees hired on a permanent or temporary basis.
3. Quarterly investment reports are routinely provided to the Board of Supervisors as correspondence, which is included in the Board of Supervisors' meeting agenda. County retirement contributions are reported to the Board of Supervisors during a regular public meeting each year, usually scheduled at a May meeting.
4. The concept of adding an investment officer position has been under consideration for several years. However, recruitment was not initiated due to office space confinement. In anticipation of moving to a new location with additional office space, the Board of Retirement approved the addition of an investment officer position in December 2009. The newly created position, focused on risk management and investment oversight, should be filled by October 2010.

5. KCERA agendas have been routinely posted to the website for some time. Beginning with the June 23, 2010 meeting, all KCERA Board meeting agenda documents will also be available on the website.

## **BOARD OF SUPERVISORS**

1. – 3. Responses to these recommendations are appropriate from the Board of Supervisors.

Thank you for providing the opportunity to respond to the Report. Please contact me if you have any questions.

Sincerely,



Anne M. Holdren  
Executive Director

c: Trustees, Board of Retirement