



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

NOTICE OF REGULAR MEETING AND AGENDA

Marin Local Agency Formation Commission

Thursday, June 13, 2019

Marin Clean Energy | Charles McGlashan Room | 1125 Tamalpais Avenue, San Rafael, California

7:00 PM – CALL TO ORDER BY CHAIR

ROLL CALL BY COMMISSION CLERK

AGENDA REVIEW

The Chair or designee will consider any requests to remove or rearrange items by members.

PUBLIC OPEN TIME

This portion of the meeting is reserved for persons desiring to address the Commission on any matter not on the current agenda. All statements that require a response will be referred to staff for reply in writing or will be placed on the Commission's agenda for consideration at a later meeting. Speakers are limited to three minutes.

CONSENT CALENDAR ITEMS (discussion and possible action)

All items calendared as consent are considered ministerial or non-substantive and subject to a single motion approval. The Chair or designee will also consider requests from the Commission to pull an item for discussion.

1. Approval of Minutes for April 11, 2019, Regular Meeting
2. Commission Ratification of Payments from April 1, 2019, to May 31, 2019

BUSINESS ITEMS (discussion and possible action)

Business Items involve administrative, budgetary, legislative or personnel matters and may or may not be subject to public hearings.

3. Election of Chair and Vice Chair
4. Commendation to Jack Baker
5. Accept Annual Audit Report for Fiscal Year 2017-2018
6. Approval of Resolution 19-01 Establishing a Deferred Compensation Program for LAFCo Employees with the National Association of Counties
7. Consideration of Vendor for Personnel Policy Revision

8. Approval of First Amendment to Executive Officer Employment Agreement
9. Municipal Service Review Study Schedule Update
10. Election of Special Districts Risk Management Association Board Members
11. Disadvantaged Unincorporated Community Ad-Hoc Committee Report [Verbal Report Only]

PUBLIC HEARING

12. Approval of Resolution 19-02 Adopting a Final Operating Budget for FY 2019-2020
13. Approval of Resolution 19-03 Approving the Comprehensive Update to Adopted Fee Schedule

EXECUTIVE OFFICER REPORT (discussion and possible action)

- a) Website Update [Verbal Report Only]
- b) Budget Update FY 2018-2019
- c) Current and Pending Proposals
- d) Update on MSR(s) [Verbal Report Only]
- e) Special Districts Election to LAFCo Seat Update [Verbal Report Only]
- f) Correspondences

COMMISSIONER ANNOUNCEMENTS AND REQUESTS

ADJOURNMENT TO NEXT MEETING

Thursday, August 8, 2019 | 7:00 pm

Marin Clean Energy | Charles McGlashan Room | 1125 Tamalpais Avenue, San Rafael, CA



Attest: Jason Fried
Executive Officer

Any writings or documents pertaining to an open session item provided to a majority of the Commission less than 72 hours prior to a regular meeting shall be made available for public inspection at Marin LAFCo Administrative Office, 1401 Los Gamos Drive, Suite 220, San Rafael, CA 94903, during normal business hours.

Pursuant to GC Section 84308, if you wish to participate in the above proceedings, you or your agent are prohibited from making a campaign contribution of \$250 or more to any Commissioner. This prohibition begins on the date you begin to actively support or oppose an application before LAFCo and continues until 3 months after a final decision is rendered by LAFCo. If you or your agent have made a contribution of \$250 or more to any Commissioner during the 12 months preceding the decision, in the proceeding that Commissioner must disqualify himself or herself from the decision. However, disqualification is not required if the Commissioner returns that campaign contribution within 30 days of learning both about the contribution and the fact that you are a participant in the proceedings. Separately, any person with a disability under the Americans with Disabilities Act (ADA) may receive a copy of the agenda or a copy of all the documents constituting the agenda packet for a meeting upon request. Any person with a disability covered under the ADA may also request a disability-related modification or accommodation, including auxiliary aids or services, in order to participate in a public meeting. Please contact the LAFCo office at least three (3) working days prior to the meeting for any requested arraignments or accommodations.

Marin LAFCo

Administrative Office
1401 Los Gamos Drive, Suite 220
San Rafael California 94903

T: 415-448-5877
E: staff@marinlafco.org
W: marinlafco.org



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Item No. 1 (Consent)

TO: Local Agency Formation Commission

FROM: Candice Bozzard, Clerk to the Commission

SUBJECT: **Approval of Minutes for April 11, 2019 Regular Meeting**

Background

The Ralph M. Brown Act was enacted by the State Legislature in 1953 and establishes standards and processes therein for the public to attend and participate in meetings of local government bodies as well as those local legislative bodies created by State law; the latter category applying to LAFCOs. The “Brown Act” requires – and among other items – public agencies to maintain minutes for all meetings.

Discussion

The action minutes for the April 11th regular meeting accurately reflect the Commission’s actions as recorded by staff. A video recording of the meetings are also available online for viewing at <http://marinlafco.org/AgendaCenter>

Staff Recommendation for Action

- 1) Staff recommendation – Approve the draft minutes prepared for the April 11, 2019 meeting with any desired corrections or clarifications.
- 2) Alternative option – Continue consideration of the item to the next regular meeting and provide direction to staff, as needed.

Procedures for Consideration

This item has been placed on the agenda as part of the consent calendar. Accordingly, a successful motion to approve the consent calendar will include taking affirmative action on the staff recommendation as provided unless otherwise specified by the Commission.

Attachment:

- 1) Draft Minutes for April 11, 2019

Administrative Office
Jason Fried, Executive Officer
1401 Los Gatos Drive, Suite 220
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www.marinlafco.org

Damon Connolly, Regular
County of Marin

Dennis J. Rodoni, Regular
County of Marin

Judy Arnold, Alternate
County of Marin

Sashi McEntee, Chair
City of Mill Valley

Sloan Bailey, Regular
Town of Corte Madera

Matthew Brown, Alternate
Town of San Anselmo

Craig K. Murray, Vice Chair
Las Gallinas Valley Sanitary

Lew Kiouss, Regular
Almonte Sanitary District

Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

DRAFT

NOTICE OF REGULAR MEETING MINUTES

Marin Local Agency Formation Commission

Thursday, April 11, 2019

Marin Clean Energy | Charles McGlashan Room | 1125 Tamalpais Avenue, San Rafael, California

CALL TO ORDER

Chair McEntee called the meeting order at 6:30 pm.

ROLL CALL BY COMMISSION CLERK

Roll call was taken and the quorum was met. The following were in attendance.

Regular Members Present: Sashi McEntee, Chair
Craig K. Murray, Vice Chair
Jack Baker
Sloan Bailey
Damon Connolly
Dennis Rodoni
Chris Skelton (seated due to vacant position)

Alternate(s) Present: Matt Brown
Lew Kious

Staff Present: Jason Fried, Executive Officer
Candice Bozzard, Commission Clerk
Jeren Seibel, Policy Analyst

Counsel Present: Mala Subramanian

ADJOURN TO CLOSED SESSION

At 6:32 pm the Commission adjourned to closed session to review the Executive Officer's job performance and possible salary adjustment.

RETURN TO OPEN SESSION

Commission returned to open session at 7:12 pm.
Legal Counsel Subramanian reported that the Commissioners gave direction to the labor negotiating team (Chair McEntee and Commissioner Connolly) for follow up with the Executive Officer.

AGENDA REVIEW

Chair McEntee asked for any changes to the agenda.

Approved: M/S by Commissioners Murray and Skelton to accept the agenda as written.

Ayes: Commissioners McEntee, Murray, Bailey, Baker, Connolly, Rodoni, Skelton

Nays: None

Abstain: None

Motion approved unanimously.

PUBLIC OPEN TIME

Chair McEntee opened the public comment period and, hearing none, closed the public open time.

CONSENT CALENDAR ITEMS

1. Approval of Minutes for February 14, 2019 Regular Meeting Minutes
2. Commission Ratification of Payments from February 1, 2019 through March 31, 2019.

Approved; M/S by Commissioners Baker and Murray to accept the consent calendar.

Ayes: Commissioners McEntee, Murray, Baker, Connolly, Rodoni, Skelton

Nays: None

Abstain: Commissioner Bailey

Motion approved.

BUSINESS ITEMS

3. Interviews for Public Member and Possible Appointment

Commissioner Skelton recused himself as a voting member to participate in the process.

The Commission had interviewed three (3) candidates – Lawrence Loder, Chris Skelton, and Cliff Waldeck - for the regular public member position at the February 14, 2019 meeting with continuance to the April meeting.

Chair McEntee offered the candidates the opportunity to address the Commissioners for three-minutes to reaffirm their qualifications for being the public member.

Commissioner Bailey noted that since he was unable to attend the February meeting, he reviewed the meeting video in preparation for determining the new public member.

Mr. Loder was unable to attend the meeting and submitted a letter stating interest in serving in seat. Chris Skelton began his three-minute testimonial with Cliff Waldeck following.

Chair McEntee opened public comment, and hearing none, closed the public comment.

Failed; M/S by Commissioners Connolly and Bailey to appoint Cliff Waldeck as the regular public member for the ensuing term ending May 2023.

Ayes: Commissioners McEntee, Bailey, Connolly, Rodoni
Nays: Commissioners Murray, Baker
Abstain: None

Motion failed by lack of support of a special district member.

Approved; M/S by Commissioners Baker and Murray to appoint Larry Loder as the regular public member for the ensuing term ending May 2023.

Ayes: Commissioners Murray, Bailey, Baker, Connolly, Rodoni
Nays: Commissioner McEntee
Abstain: None

Motion approved by quorum vote.

4. Approval of Marin MacTech Contract

Commissioner Skelton returned as the voting public member.

Executive Officer Fried explained the current working relationship with Marin MacTech and recommended to continue service including fee updates, as well as establish an additional service contract for an upgrade to our current phone system.

Chair McEntee opened public comment, and hearing none, closed the public comment.

Approved; M/S by Commissioners Skelton and Bailey to follow staff recommendation to execute the contract with Marin MacTech for IT and phone services, with the amendment that the new contract for the phone system become effective July 1st.

Ayes: Commissioners McEntee, Murray, Bailey, Baker, Connolly, Rodoni, Skelton
Nays: None
Abstain: None

Motion approved unanimously.

5. Adoption of Proposed Operating Draft Budget for FY 2019-2020

- a) Executive Officer Fried gave an overview of the proposed draft budget for FY 2019-20 noting the objective was to maintain the member contribution funds equivalent to last fiscal year.

Budget Committee Chair Rodoni commented that the budget was simplified for clarity. Committee Chair Rodoni added his appreciation to Executive Officer Fried for avoiding an increase to the fees to the member agencies.

Chair McEntee opened public comment, and hearing none, closed the public comment.

Approved; M/S by Commissioners Rodoni and Bailey to approve the proposed draft budget for FY 2019-2020.

Ayes: Commissioners McEntee, Murray, Baker, Brown, Connolly, Rodoni, Skelton

Nays: None

Abstain: None

Motion approved unanimously.

Executive Officer reported that staff will present an updated fee schedule at the June Commission meeting.

6. Legislative Committee Report

a) Executive Officer Fried generalized the twenty legislative bills that directly or indirectly affect LAFcos.

Chair McEntee opened public comment, and hearing none, closed the public comment.

Approved; M/S by Commissioners Skelton and Rodoni to approve the staff's recommendation to align with CALAFCO, except for AB 1253 and AB1822 where Marin LAFCo will take a "Support" instead of "Sponsor" position.

Ayes: Commissioners McEntee, Murray, Baker, Brown, Connolly, Rodoni, Skelton

Nays: None

Abstain: None

Motion approved unanimously.

7. Public/Technical Information Committee Report

Public/Technical Committee Chair Kious stated that he strongly supported staff's recommendation to proceed with Streamline for new website services.

Executive Officer Fried summarized the reasoning for contracting with Streamline for website services.

Chair McEntee opened public comment, and hearing none, closed the public comment.

Approved; M/S by Commissioners Skelton and Murray to authorize the Executive Officer to execute the contract with Streamline for website services and give notice to Civic Plus that Marin LAFCo will not extend the contract.

Ayes: Commissioners McEntee, Murray, Baker, Brown, Connolly, Rodoni, Skelton

Nays: None

Abstain: None

Motion approved unanimously.

8. Approval of Newly Revised Policy Handbook and the Separation of Personnel Section

Executive Officer Fried pointed out that the new process for the Special District member and the Public member selection policies would come before the Commission for approval after the current elections had concluded. The Executive Officer also reported the Personnel Policy would be a completely separate policy from the Policy Handbook.

Chair McEntee mentioned that in section 3.15(d) that consent outside of a Commission meeting would be reviewed by the Commission Chair for approval.

Commissioner Skelton requested the Public Member selection under 3.1(a) in the Policy Handbook remove "registered voter" as a requirement. Commissioner Skelton also requested that the fee schedule (3.11) be brought back to the Commission for review.

Chair McEntee opened public comment, and hearing none, closed the public comment.

Approved; M/S by Commissioners Bailey and Connolly to approve the revised Policy Handbook with the suggested amendments.

Ayes: Commissioners McEntee, Murray, Baker, Brown, Connolly, Rodoni, Skelton

Nays: None

Abstain: None

Motion approved unanimously.

9. Approval of Updated Retention Policy

The Executive Officer briefly reported on the recommended updates to the retention policy.

Chair McEntee opened public comment, and hearing none, closed the public comment.

Approved; M/S by Commissioners Rodoni and Bailey to approve the revised record retention policy.

Ayes: Commissioners McEntee, Murray, Baker, Brown, Connolly, Rodoni, Skelton

Nays: None

Abstain: None

Motion approved unanimously.

EXECUTIVE OFFICER REPORT (discussion and possible action)

The Executive Officer introduced Jeren Seibel to the LAFCo family.

A. Budget Update FY 2018-2019

LAFCo was currently under Budget.

B. Current and Pending Proposals

A few pending proposals and several possible upcoming applications.

C. Update on MSR(s) [Verbal Report Only]

Planwest possible draft available in May with potential final approval in August. Commission discussion on when to hold public hearing for comment on the San Rafael and Novato MSRs.

D. Special Districts Election to LAFCo Seats Update [Verbal Report Only]

The election is still open and we have already received quorum of ballots. Ballots to counted on April 23, 2019 at 1:00pm.

The Executive Officer added to his report that Jeren Seibel was able to join him at the CALAFCO Staff Workshop in San Jose.

COMMISSIONER ANNOUNCEMENTS AND REQUESTS

Hearing no announcements or requests, the Chair called for adjournment.

Approved; M/S by Commissioners Skelton and Baker to adjourn the meeting.

Ayes: Commissioners McEntee, Murray, Baker, Brown, Connolly, Rodoni, Skelton

Nays: None

Abstain: None

Motion passed unanimously.

Chair McEntee adjourned the meeting at 9:25 pm.

ADJOURNMENT TO NEXT MEETING

Thursday, April 11, 2019 | 7:00 pm

Marin Clean Energy | Charles McGlashan Room | 1125 Tamalpais Avenue, San Rafael, CA

Attest: Candice Bozzard
Commission Clerk

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disability under the Americans with Disabilities Act (ADA) may receive a copy of the agenda or a copy of all the documents constituting the agenda packet for a meeting upon request. Any person with a disability covered under the ADA may also request a disability-related modification or accommodation, including auxiliary aids or services, in order to participate in a public meeting. Please contact the LAFCo office at least three (3) working days prior to the meeting for any requested arraignments or accommodations.

[Marin LAFCo](#)

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Marin Local Agency Formation Commission

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AGENDA REPORT

June 13, 2019

Item No. 2 (Consent)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: Commission Ratification of Payments from April 1, 2019 to May 31, 2019

Background

Marin LAFCo adopted a Policy Handbook delegating the Executive Officer to make purchases and related procurements necessary in overseeing the day-to-day business of the agency. The Policy Handbook also directs all payments made by the Executive Officer to be reconciled by LAFCo's contracted bookkeeper. Additionally, all payments are to be reported to the Commission at the next available Commission meeting for formal ratification.

This following item is presented for the Commission to consider the ratification of all payments made by the Executive Officer between April 1, 2019, and May 31, 2019, totaling \$85,700.45. The payments are detailed in the attachment.

Staff Recommendation for Action

1. Staff Recommendation - Ratify the payments made by the Executive Officer between April 1, 2019, and May 31, 2019, as shown in attachment.
2. Alternate Option - Continue consideration of the item to the next regular meeting and provide direction to staff as needed.

Procedures for Consideration

This item has been placed on the agenda as part of the consent calendar. Accordingly, a successful motion to approve the consent calendar will include taking affirmative action on the staff recommendation unless otherwise specified by the Commission.

Attachment:

- 1) Payments from April 1, 2019, to May 31, 2019

Administrative Office
Jason Fried, Executive Officer
1401 Los Gamos Drive, Suite 220
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Sloan Bailey, Regular
Town of Corte Madera

Matthew Brown, Alternate
Town of San Anselmo

Craig K. Murray, Vice Chair
Las Gallinas Valley Sanitary

Lew Kiou, Regular
Almonte Sanitary District

Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member

Marin Local Agency Formation Commission
Expenses by Vendor Detail
 April through May 2019

Type	Date	Num	Memo	Account	Clr	Split	Amount	Balance
ALHAMBRA & SIERRA SPRINGS								
Check	04/16/2019	20171	Invoice # 159...	5220110 · Office Su...		1111300 · 403...	62.89	62.89
Check	05/15/2019	20180	Invoice # 159...	5220110 · Office Su...		1111300 · 403...	41.47	104.36
Total ALHAMBRA & SIERRA SPRINGS							104.36	104.36
Bailey, Sloan								
Check	04/16/2019	20163	April - Commi...	5211533 · Commissi...		1111300 · 403...	125.00	125.00
Total Bailey, Sloan							125.00	125.00
BAKER, JOHN M								
Check	04/16/2019	20164	March/ April - ...	5211533 · Commissi...		1111300 · 403...	250.00	250.00
Total BAKER, JOHN M							250.00	250.00
BARBIER SECURITY GROUP								
Check	05/07/2019	20179	Invoice #15842	5210110 · Professio...		1111300 · 403...	160.00	160.00
Total BARBIER SECURITY GROUP							160.00	160.00
BEST BEST & KRIEGER LLP								
Check	04/16/2019	20169	Invoice # 841...	5210131 · Legal Ser...		1111300 · 403...	1,282.83	1,282.83
Check	05/24/2019	10014	Invoice - #849...	5210131 · Legal Ser...		1111200 · 401...	3,000.83	4,283.66
Total BEST BEST & KRIEGER LLP							4,283.66	4,283.66
COMCAST								
Check	05/01/2019	20176	Bill Date Apr 12	5210710 · Communi...		1111300 · 403...	219.50	219.50
Check	05/24/2019	20184	Bill Date May ...	5210710 · Communi...		1111300 · 403...	219.51	439.01
Total COMCAST							439.01	439.01
COMMUNITY MEDIA CENTER OF MARIN								
Check	04/01/2019	20154	Vender Order ...	5210710 · Communi...		1111300 · 403...	450.00	450.00
Total COMMUNITY MEDIA CENTER OF MARIN							450.00	450.00
CONNOLLY, DAMON								
Check	04/16/2019	20166	April - Commi...	5211533 · Commissi...		1111300 · 403...	125.00	125.00
Total CONNOLLY, DAMON							125.00	125.00
COUNTY OF MARIN - DOF PAYROLL								
Check	04/01/2019	20155	Jan19 invoice	5130525 · Retiree H...		1111300 · 403...	449.02	449.02
Check	04/16/2019	20167	Feb 19 invoice	5130525 · Retiree H...		1111300 · 403...	449.02	898.04
Check	05/07/2019	20177	Mar 19 invoice	5130525 · Retiree H...		1111300 · 403...	449.02	1,347.06
Total COUNTY OF MARIN - DOF PAYROLL							1,347.06	1,347.06
FP MAILING SOLUTIONS								
Check	05/15/2019	20181	Invoice # RI 1...	5210710 · Communi...		1111300 · 403...	147.15	147.15
Total FP MAILING SOLUTIONS							147.15	147.15
Fried, Jason								
Check	04/05/2019	20158	Feb and Marc...	5211440 · Travel - ...		1111300 · 403...	58.00	58.00
Total Fried, Jason							58.00	58.00
GRAF VAN & STORAGE INC								
Check	04/01/2019	20153	Invoice # 041...	5211215 · Rent - St...		1111300 · 403...	34.44	34.44
Check	05/01/2019	20174	Invoice # 051...	5211215 · Rent - St...		1111300 · 403...	34.80	69.24
Total GRAF VAN & STORAGE INC							69.24	69.24
Indoff Incorporated								
Check	04/05/2019	20157	Invoice #3232...	5220110 · Office Su...		1111300 · 403...	187.37	187.37
Total Indoff Incorporated							187.37	187.37
Jeren Seibel								
Check	04/16/2019	20172	Mileage	5211440 · Travel - ...		1111300 · 403...	91.52	91.52
Total Jeren Seibel							91.52	91.52
KIOUS, LEWIS								
Check	04/16/2019	20160	March/April - ...	5211533 · Commissi...		1111300 · 403...	500.00	500.00
Total KIOUS, LEWIS							500.00	500.00

Marin Local Agency Formation Commission Expenses by Vendor Detail April through May 2019

Type	Date	Num	Memo	Account	Clr	Split	Amount	Balance
Marin County Community Development Agency								
Check	04/01/2019	20152	Invoice 372-3...	5210110 · Professio...		1111300 · 403...	255.00	255.00
Total Marin County Community Development Agency							255.00	255.00
MARIN INDEPENDENT JOURNAL								
Check	04/05/2019	20156	Invoice # 000...	5211520 · Publicatio...		1111300 · 403...	56.40	56.40
Total MARIN INDEPENDENT JOURNAL							56.40	56.40
MARIN MAC TECH								
Check	04/16/2019	20168	Invoice # 949 ...	5210710 · Communi...		1111300 · 403...	623.00	623.00
Check	05/24/2019	20185	Invoice # 106...	5210710 · Communi...		1111300 · 403...	776.50	1,399.50
Total MARIN MAC TECH							1,399.50	1,399.50
Matt Brown								
Check	04/16/2019	20173	March/April - ...	5211533 · Commissi...		1111300 · 403...	375.00	375.00
Total Matt Brown							375.00	375.00
McENTEE, SASHI								
Check	04/16/2019	20161	VOID: April C...	5211533 · Commissi...	X	1111300 · 403...	0.00	0.00
Check	05/24/2019	20183	April Commis...	5211533 · Commissi...		1111300 · 403...	125.00	125.00
Total McENTEE, SASHI							125.00	125.00
MURRAY, CRAIG K								
Check	04/16/2019	20159	April Commis...	5211533 · Commissi...		1111300 · 403...	125.00	125.00
Total MURRAY, CRAIG K							125.00	125.00
PAYROLL								
Check	04/05/2019	?		5110110 · Sal - Reg...		1110110 · Equi...	9,683.42	9,683.42
Check	04/05/2019	?		5110323 · Sick Leave		1110110 · Equi...	19.69	9,703.11
Check	04/05/2019	?		5110328 · Personal ...		1110110 · Equi...	0.00	9,703.11
Check	04/05/2019	?		5110324 · Vacation ...		1110110 · Equi...	0.00	9,703.11
Check	04/05/2019	?		5110313 · Holiday P...		1110110 · Equi...	0.00	9,703.11
Check	04/05/2019	?		5110335 · Vacation...		1110110 · Equi...	0.00	9,703.11
Check	04/05/2019	?		5130520 · Co Ret C...		1110110 · Equi...	504.88	10,207.99
Check	04/05/2019	?		5130521 · Co Ret C...		1110110 · Equi...	527.30	10,735.29
Check	04/05/2019	?		5130110 · Ben-Med...		1110110 · Equi...	49.56	10,784.85
Check	04/05/2019	?		5130120 · County of...		1110110 · Equi...	344.41	11,129.26
Check	04/05/2019	?		5130210 · Dental In...		1110110 · Equi...	93.56	11,222.82
Check	04/05/2019	?		5130310 · Vision Se...		1110110 · Equi...	9.82	11,232.64
Check	04/05/2019	?		5130410 · Benefits -...		1110110 · Equi...	5.08	11,237.72
Check	04/05/2019	?		5140140 · Payroll Tax		1110110 · Equi...	144.02	11,381.74
Check	04/05/2019	?		5130524 · Benefits -...		1110110 · Equi...	239.34	11,621.08
Check	04/05/2019	?		5130640 · Unused F...		1110110 · Equi...	210.09	11,831.17
Check	04/19/2019	2802		5110110 · Sal - Reg...		1110110 · Equi...	9,683.42	21,514.59
Check	04/19/2019	2802		5110323 · Sick Leave		1110110 · Equi...	19.69	21,534.28
Check	04/19/2019	2802		5110328 · Personal ...		1110110 · Equi...	0.00	21,534.28
Check	04/19/2019	2802		5110324 · Vacation ...		1110110 · Equi...	0.00	21,534.28
Check	04/19/2019	2802		5110313 · Holiday P...		1110110 · Equi...	0.00	21,534.28
Check	04/19/2019	2802		5110335 · Vacation...		1110110 · Equi...	0.00	21,534.28
Check	04/19/2019	2802		5130520 · Co Ret C...		1110110 · Equi...	504.88	22,039.16
Check	04/19/2019	2802		5130521 · Co Ret C...		1110110 · Equi...	527.30	22,566.46
Check	04/19/2019	2802		5130110 · Ben-Med...		1110110 · Equi...	49.56	22,616.02
Check	04/19/2019	2802		5130120 · County of...		1110110 · Equi...	344.41	22,960.43
Check	04/19/2019	2802		5130210 · Dental In...		1110110 · Equi...	93.56	23,053.99
Check	04/19/2019	2802		5130310 · Vision Se...		1110110 · Equi...	9.82	23,063.81
Check	04/19/2019	2802		5130410 · Benefits -...		1110110 · Equi...	5.08	23,068.89
Check	04/19/2019	2802		5140140 · Payroll Tax		1110110 · Equi...	144.02	23,212.91
Check	04/19/2019	2802		5130524 · Benefits -...		1110110 · Equi...	239.34	23,452.25
Check	04/19/2019	2802		5130640 · Unused F...		1110110 · Equi...	210.09	23,662.34
Check	05/03/2019	?		5110110 · Sal - Reg...		1110110 · Equi...	9,683.42	33,345.76
Check	05/03/2019	?		5110323 · Sick Leave		1110110 · Equi...	19.69	33,365.45
Check	05/03/2019	?		5110328 · Personal ...		1110110 · Equi...	0.00	33,365.45
Check	05/03/2019	?		5110324 · Vacation ...		1110110 · Equi...	0.00	33,365.45
Check	05/03/2019	?		5110313 · Holiday P...		1110110 · Equi...	0.00	33,365.45
Check	05/03/2019	?		5110335 · Vacation...		1110110 · Equi...	0.00	33,365.45
Check	05/03/2019	?		5130520 · Co Ret C...		1110110 · Equi...	504.88	33,870.33
Check	05/03/2019	?		5130521 · Co Ret C...		1110110 · Equi...	527.30	34,397.63
Check	05/03/2019	?		5130110 · Ben-Med...		1110110 · Equi...	49.56	34,447.19
Check	05/03/2019	?		5130120 · County of...		1110110 · Equi...	344.41	34,791.60
Check	05/03/2019	?		5130210 · Dental In...		1110110 · Equi...	93.56	34,885.16
Check	05/03/2019	?		5130310 · Vision Se...		1110110 · Equi...	9.82	34,894.98
Check	05/03/2019	?		5130410 · Benefits -...		1110110 · Equi...	5.08	34,900.06
Check	05/03/2019	?		5140140 · Payroll Tax		1110110 · Equi...	144.02	35,044.08
Check	05/03/2019	?		5130524 · Benefits -...		1110110 · Equi...	239.34	35,283.42

**Marin Local Agency Formation Commission
Expenses by Vendor Detail
April through May 2019**

Type	Date	Num	Memo	Account	Clr	Split	Amount	Balance
Check	05/03/2019	?		5130640 · Unused F...		1110110 · Equi...	210.09	35,493.51
Check	05/17/2019	?		5110110 · Sal - Reg...		1110110 · Equi...	9,683.42	45,176.93
Check	05/17/2019	?		5110323 · Sick Leave		1110110 · Equi...	19.69	45,196.62
Check	05/17/2019	?		5110328 · Personal ...		1110110 · Equi...	0.00	45,196.62
Check	05/17/2019	?		5110324 · Vacation ...		1110110 · Equi...	0.00	45,196.62
Check	05/17/2019	?		5110313 · Holiday P...		1110110 · Equi...	0.00	45,196.62
Check	05/17/2019	?		5110335 · Vacation...		1110110 · Equi...	0.00	45,196.62
Check	05/17/2019	?		5130520 · Co Ret C...		1110110 · Equi...	504.88	45,701.50
Check	05/17/2019	?		5130521 · Co Ret C...		1110110 · Equi...	527.30	46,228.80
Check	05/17/2019	?		5130110 · Ben-Med...		1110110 · Equi...	49.56	46,278.36
Check	05/17/2019	?		5130120 · County of...		1110110 · Equi...	344.41	46,622.77
Check	05/17/2019	?		5130210 · Dental In...		1110110 · Equi...	93.56	46,716.33
Check	05/17/2019	?		5130310 · Vision Se...		1110110 · Equi...	9.82	46,726.15
Check	05/17/2019	?		5130410 · Benefits -...		1110110 · Equi...	5.08	46,731.23
Check	05/17/2019	?		5140140 · Payroll Tax		1110110 · Equi...	144.02	46,875.25
Check	05/17/2019	?		5130524 · Benefits -...		1110110 · Equi...	239.34	47,114.59
Check	05/17/2019	?		5130640 · Unused F...		1110110 · Equi...	210.09	47,324.68
Check	05/31/2019	?		5110110 · Sal - Reg...		1110110 · Equi...	9,683.42	57,008.10
Check	05/31/2019	?		5110323 · Sick Leave		1110110 · Equi...	19.69	57,027.79
Check	05/31/2019	?		5110328 · Personal ...		1110110 · Equi...	0.00	57,027.79
Check	05/31/2019	?		5110324 · Vacation ...		1110110 · Equi...	0.00	57,027.79
Check	05/31/2019	?		5110313 · Holiday P...		1110110 · Equi...	0.00	57,027.79
Check	05/31/2019	?		5110335 · Vacation...		1110110 · Equi...	0.00	57,027.79
Check	05/31/2019	?		5130520 · Co Ret C...		1110110 · Equi...	504.88	57,532.67
Check	05/31/2019	?		5130521 · Co Ret C...		1110110 · Equi...	527.30	58,059.97
Check	05/31/2019	?		5130110 · Ben-Med...		1110110 · Equi...	49.56	58,109.53
Check	05/31/2019	?		5130120 · County of...		1110110 · Equi...	344.41	58,453.94
Check	05/31/2019	?		5130210 · Dental In...		1110110 · Equi...	93.56	58,547.50
Check	05/31/2019	?		5130310 · Vision Se...		1110110 · Equi...	9.82	58,557.32
Check	05/31/2019	?		5130410 · Benefits -...		1110110 · Equi...	5.08	58,562.40
Check	05/31/2019	?		5140140 · Payroll Tax		1110110 · Equi...	144.02	58,706.42
Check	05/31/2019	?		5130524 · Benefits -...		1110110 · Equi...	239.34	58,945.76
Check	05/31/2019	?		5130640 · Unused F...		1110110 · Equi...	210.09	59,155.85
Total PAYROLL							59,155.85	59,155.85
RICCIARDI, R J								
Check	05/07/2019	10013	Invoice 11190	5210110 · Professio...		1111200 · 401...	4,715.00	4,715.00
Total RICCIARDI, R J							4,715.00	4,715.00
RICOH USA INC								
Check	05/15/2019	20182	Invoice # 505...	5211520 · Publicatio...		1111300 · 403...	175.14	175.14
Total RICOH USA INC							175.14	175.14
RODONI, DENNIS JAMES								
Check	04/16/2019	20162	April - Commi...	5211533 · Commissi...		1111300 · 403...	125.00	125.00
Total RODONI, DENNIS JAMES							125.00	125.00
SCHIFFMANN, ALYSSA								
Check	04/16/2019	20170	Invoice # 72	5210110 · Professio...		1111300 · 403...	1,170.55	1,170.55
Total SCHIFFMANN, ALYSSA							1,170.55	1,170.55
SECURITY MORTGAGE GROUP 2								
Check	04/01/2019	20151	April Rent	5211270 · Office Le...		1111300 · 403...	2,638.82	2,638.82
Check	05/01/2019	20175	May Rent	5211270 · Office Le...		1111300 · 403...	2,638.82	5,277.64
Total SECURITY MORTGAGE GROUP 2							5,277.64	5,277.64
SKELTON, CHRIS								
Check	04/16/2019	20165	March/April -2...	5211533 · Commissi...		1111300 · 403...	375.00	375.00
Total SKELTON, CHRIS							375.00	375.00
STATE OF CALIFORNIA-EMPLOYMT DEVELO								
Check	04/25/2019	4260		5140140 · Payroll Tax		1110110 · Equi...	868.00	868.00
Total STATE OF CALIFORNIA-EMPLOYMT DEVELO							868.00	868.00
Streamline								
Check	05/01/2019	10012	Invoice 10014...	5210710 · Communi...		1111200 · 401...	3,110.00	3,110.00
Total Streamline							3,110.00	3,110.00

1:16 PM

06/06/19

Accrual Basis

Marin Local Agency Formation Commission
Expenses by Vendor Detail
April through May 2019

Type	Date	Num	Memo	Account	Cir	Split	Amount	Balance
Town of Fairfax Check	05/07/2019	20178	May MCCMC ...	5211325 · Conferen...		1111300 · 403...	55.00	55.00
Total Town of Fairfax							55.00	55.00
TOTAL							85,700.45	85,700.45



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Item No. 3 (Business Item)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: Election of Chair and Vice-Chair

Background

Marin LAFCo's policy 3.5 directs the election of Chair and Vice Chair, to one-year terms, at the first regular meeting in or immediately following May of each year.

The Chair shall also serve as the immediate supervisor to the Executive Officer and is responsible for confirming agendas, as well as making committee appointments. The Vice-Chair shall have all the powers and duties of the Chair during their absence or inability to act.

The voting members retain full discretion in proceeding with the selection process as collectively deemed appropriate, and compliant with the Brown Act.

Staff does not take a position on this subject matter and leaves it to the discretion of the Commission as a whole to decide.

Staff Recommendation for Action

1. Alternate Option – Elect by a majority of voting members (a) Chair and (b) Vice-Chair to one-year terms commencing immediately and extending to May 2019, and/or until successors are elected.
2. Alternate Option – Continue consideration of this item to a future meeting and give staff any needed instructions or further action.

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County of Marin

Dennis J. Rodoni, Regular
County of Marin

Judy Arnold, Alternate
County of Marin

Sashi McEntee, Chair
City of Mill Valley

Sloan Bailey, Regular
Town of Corte Madera

Matthew Brown, Alternate
City of San Anselmo

Craig K. Murray, Vice Chair
Las Gallinas Valley Sanitary

Lew Kious, Alternate
Almonte Sanitary District

Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Item No. 4 (Business)

TO: Local Agency Formation Commission

FROM: Candice Bozzard, Commission Clerk

SUBJECT: **Retiring of Commissioner Jack Baker**
Commendation of the Marin Local Agency Formation Commission honoring Jack Baker on the occasion of his retirement from Marin LAFCo.

Background

The Commission will recognize the contributions of Commissioner Jack Baker whose service began in October 2013 as the Alternate Special District Member, and then the Regular seated Special District Member until his term ended in May 2019.

Mr. Baker dedicated many years to furthering the goals of Marin LAFCo and he will be missed.

Staff Recommendation for Action

- 1) Staff recommendation – Approve and present Commissioner Baker with the attached Resolution.

Attachment:

1. Resolution

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Public Member

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Public Member

**RESOLUTION OF COMMENDATION
FOR
JACK BAKER**

**BY THE MARIN LOCAL AGENCY FORMATION COMMISSION
EXPRESSING ITS GRATITUDE FOR HIS SERVICE**

WHEREAS Jack Baker served the citizens of Marin County from October 2013 to May 2019, as both the Alternate and Regular Special District Member of the Marin Local Agency Formation Commission; and

WHEREAS his objectivity, honesty and compassion in the practices of local government has earned the respect of his colleagues, representatives of other public agencies, as well as the general public and has been an invaluable resource to the Commission; and

WHEREAS during the nine years Jack Baker served as Alternate and Special District Member, his work with the Local Agency Formation Commission has provided the special districts of Marin County with excellent representation; and

WHEREAS Jack Baker devoted many hours attending Commission and Committee meetings to provide leadership, commitment and continuity in order to achieve Marin LAFCo's purpose to encourage the orderly, efficient and responsible organization of local government in Marin County.

NOW, THEREFORE, BE IT RESOLVED that the members of this Commission, wish to express their genuine appreciation and gratitude for Jack Baker's service on the Marin Local Agency Formation Commission and lasting contributions to the people of Marin County.

PASSED AND ADOPTED by the Marin Local Agency Formation Commission on this 13th day of June, 2019.

Sashi McEntee, Chairperson

Attest:

Jason Fried, Executive Officer



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT
June 13, 2019
Item No. 5 (Business)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: **Accept and File Annual Audit Report for Fiscal Year 2017-2018.**

Background

Marin LAFCo's (LAFCo) financial accounting system is directly managed by staff with contract bookkeeping support provided by Alyssa Schiffmann. Marin LAFCo's current accounting system was implemented in August 2016 and relies on QuickBooks to record the agency's financial transactions.

At the June 12, 2014, regular meeting, the Commission entered into an agreement with R.J. Ricciardi and Associates (San Rafael) to prepare an independent audit beginning with fiscal year 2012-2013. The agreement includes providing the Commission with an option to contract for additional audits each year thereafter. The Commission has exercised this option to engage and receive audit reports from R.J. Ricciardi and Associates for the fiscal year 2013-2014 through fiscal years 2017-2018.

This item is for the Commission to formally review and file the completed audit report (see attachments) covering the 2017-2018 fiscal year prepared by R.J. Ricciardi and Associates. A summary of key findings and related items underlying the audit report and the accompanying management letter follows:

- The management letter identifies one new observation that "...some vendor invoices could not be located by Marin Local Agency Formation Commission due to employee turnover." R.J. Ricciardi's recommendation is "all vendor invoices be approved, retained and properly filed for future reference."
- The management letter also revisits two recommendations made in previous audit reports. The first is for Marin LAFCo to do a quarterly payroll tax reconciliation. The management letter states this recommendation has not been implemented. The second item is "Wells Fargo checking account reconciliation has a \$659 irreconcilable difference at June 30, 2017."

With respect to the recommendations included in the accompanying management letter, staff has already taken action on many of these items:

- Staff agrees with the comment about vendor invoices. Eleven of the twelve months of this audit, FY 17-18, current staff was not here. Over the course of our current fiscal year, FY 18-19, staff has worked hard to have a better system in place. For example, we did not have invoices for

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Public Member

Chris Skelton, Alternate
Public Member

Commission stipends which is why each Commissioner now signs a document that says you were at a meeting so we will have an invoice to go with the payment. In addition, applications fees in the past were simply deposited in the bank with no record keeping to go with the deposit. Now we create an invoice for the applicant and keep a copy for our records.

- One of the previous years' observations staff has talked with our bookkeeper who, starting with January 2019, the first month of FY 18-19 where LAFCo had staff, will do a quarterly reconciliation of the payroll tax returns to the general ledger. Staff now considers this dealt with for future years which would be reflected in the next audit that gets performed.
- On the other previous year observation dealing with the Wells Fargo Checking account reconciliation, R.J. Ricciardi and Associates stated, "This recommendation has been implemented."

Future Audits

Based on past best practices LAFCo Policy 3.13(l) in part states "Marin LAFCo shall select a different independent auditor no less than every five years. The Commission may waive this requirement upon a majority vote of the membership at a public meeting." This is the fifth year that we have used the same auditor. Staff's question to the Commission is: does LAFCo wish to remain with the same auditor for another year? Staff would suggest that given all the changes that occurred with Marin LAFCo, such as changing banks and using consultants for half of the year instead of staff, that having an auditor who knows LAFCo may make for an audit that will not take as much staff time in explaining all the changes. State government code section 12410.6(b) indicates that starting in fiscal year 2013-2014 local agencies will not have lead audit partner or coordinating audit partner perform the audit for more than six consecutive fiscal years. If the commission approved the extension by one year this would put us in line with state government code section 12410.6(b) of six audits with the same lead auditor.

Staff Recommendation for Action – approve items 1 and 3 below.

- 1) Staff recommendation – Accept and file the audit report for 2017-2018.
- 2) Alternative option – Continue consideration of this item to a future meeting and provide direction to staff with respect to providing additional information as needed.
- 3) Additional possible action – Approve to use the same auditor for a 6th fiscal year audit report to do Fiscal Year 2018-2019.

Attachment:

- 1) R.J. Ricciardi – Basic Financial Statements
- 2) R.J. Ricciardi – Board of Commissioners & Management Report

**MARIN LOCAL AGENCY
FORMATION COMMISSION**

SAN RAFAEL, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Commissioners
Marin Local Agency Formation Commission
San Rafael, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Marin Local Agency Formation Commission, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Marin Local Agency Formation Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Marin Local Agency Formation Commission, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-6) and the required supplementary information (page 23-27), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
May 14, 2019

Marin Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

This section of Marin Local Agency Formation Commission's (LAFCo's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2018. We encourage the reader to consider the information presented here in conjunction with the basic financial statements as a whole.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to LAFCo's audited financial statements, which are composed of the basic financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*. The Single Governmental Program for Special Purpose Governments reporting model is used, which best represents the activities of LAFCo.

The required financial statements include the Statement of Net Position and Governmental Funds Balance Sheet; and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of LAFCo.

The Basic Financial Statements

The Basic Financial Statements comprise the Combined Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of LAFCo's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of LAFCo's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of LAFCo as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of LAFCo's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of LAFCo's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All of LAFCo's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report LAFCo's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of LAFCo's Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of LAFCo and are presented individually. Major Funds are explained below.

The Government-wide Financial Statements

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of LAFCo as a whole.

The Statement of Net Position and the Statement of Activities present information about the following: *Governmental Activities* – LAFCo's basic services are considered to be governmental activities. These services are supported by specific general revenues from local agencies.

Marin Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of LAFCo's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Major Funds present the major activities of LAFCo for the year, and may change from year-to-year as a result of changes in the pattern of LAFCo's activities.

In LAFCo's case, there is only one Major Governmental Fund.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

Analyses of Major Funds

Governmental Funds

General Fund revenue increased this fiscal year compared to the prior year due primarily to increases in intergovernmental charges. Actual revenues were less than budgeted amounts by \$2,363.

General Fund expenditures were \$441,081, a decrease of (\$45,771) from the prior year primarily due to a decrease in employees' salaries and benefit costs due to staff turnover. Expenditures were \$100,151 less than budgeted.

Governmental Activities

Table 1
Governmental Net Position

	2018	2017
	Governmental Activities	Governmental Activities
Current assets	\$ 292,619	\$ 187,129
Total assets	292,619	187,129
Deferred outflows of resources	24,254	50,342
Current liabilities	28,602	43,154
Non-current liabilities	55,337	50,625
Total liabilities	83,939	93,779
Deferred inflows of resources	6,134	3,382
Net position		
Unrestricted	226,800	140,310
Total net position	\$ 226,800	\$ 140,310

LAFCo's governmental net position amounted to \$226,800 as of June 30, 2018, an increase of \$86,490 from 2017. This decrease is the Change in Net Position reflected in the Statement of Activities shown in Table 2 and the prior period adjustment. LAFCo's net position as of June 30, 2018 comprised the following:

Marin Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018

- Cash and investments comprised \$286,255 of cash on deposit with the Marin County Treasury and Wells Fargo.
- Accounts payable totaling \$28,602.
- OPEB liabilities totaling \$20,986
- Compensated absences of \$0 and net pension liability of \$34,351.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. LAFCo had \$226,800 of unrestricted net position as of June 30, 2018.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Table 2
Changes in Governmental Net Position

	<u>2018</u> Governmental Activities	<u>2017</u> Governmental Activities
<u>Expenses</u>		
Services and supplies	\$ 430,195	\$ 531,500
Total expenses	430,195	531,500
<u>Revenues</u>		
Program revenues:		
Charges for services	27,637	25,512
Total program revenues	27,637	25,512
General revenues:		
Intergovernmental	514,781	469,161
Interest income	2,853	-
Total general revenues	517,634	469,161
Total revenues	545,271	494,673
<u>Change in net position</u>	\$ 115,076	\$ (36,827)

As Table 2 above shows, \$27,637 or 5% of LAFCo's fiscal year 2018 governmental revenue, came from program revenues and \$517,634 or 95%, came from general revenues such as contributions from local agencies.

Program revenues were composed of application and related fees of \$27,637.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Capital Assets

LAFCo has no capital assets.

Debt Administration

LAFCo does not utilize long-term debt to fund operations or growth.

Marin Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Economic Outlook and Major Initiatives

Financial planning is based on specific assumptions from recent trends, State of California economic forecasts and historical growth patterns in the various agencies served by LAFCo.

The economic condition of LAFCo as it appears on the balance sheet reflects financial stability. LAFCo will continue to maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

Contacting LAFCo's Financial Management

The basic financial statements are intended to provide citizens, taxpayers, and creditors with a general overview of LAFCo's finances. Questions about this report should be directed to Marin Local Agency Formation Commission, 1401 Los Gatos Drive, Suite 220, San Rafael, California 94903.

Marin Local Agency Formation Commission
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2018

	General	Adjustments (Note 9)	Statement of Net Position
<u>ASSETS</u>			
Cash and investments	\$ 286,255	\$ -	\$ 286,255
Prepaid items	6,364	-	6,364
Total assets	\$ 292,619	-	292,619
<u>DEFERRED OUTFLOW OF RESOURCES</u>			
Deferred outflow of resources-pension		3,183	3,183
Deferred outflow of resources-OPEB		21,071	21,071
Total deferred outflows		24,254	24,254
<u>LIABILITIES</u>			
Accounts payable	\$ 28,602	-	28,602
Long term liabilities:			
Net OPEB liability		20,986	20,986
Net pension liability	-	34,351	34,351
Total liabilities	28,602	55,337	83,939
<u>DEFERRED INFLOW OF RESOURCES</u>			
Deferred inflow of resources-pension		5,975	5,975
Deferred inflow of resources-OPEB		159	159
Total Deferred Inflows		6,134	6,134
<u>FUND BALANCES/NET POSITION</u>			
Fund balances:			
Unassigned fund balance	264,017	(37,217)	226,800
Total fund balances	264,017	(37,217)	226,800
Total liabilities and fund balances	\$ 292,619		
Net position:			
Unrestricted		226,800	226,800
Total net position		\$ 226,800	\$ 226,800

The accompanying notes are an integral part of these financial statements.

Marin Local Agency Formation Commission
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
For the period ended June 30, 2018

	<u>General</u>	<u>Adjustments (Note 10)</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Services and supplies	\$ 441,081	\$ (10,886)	\$ 430,195
Total expenditures/expenses	<u>441,081</u>	<u>(10,886)</u>	<u>430,195</u>
Program revenues:			
Charges for services	<u>27,637</u>	<u>-</u>	<u>27,637</u>
Net program expense			<u>(402,558)</u>
General revenues:			
Intergovernmental	514,781	-	514,781
Interest income	<u>2,853</u>	<u>-</u>	<u>2,853</u>
Total general revenues and transfers	<u>517,634</u>	<u>-</u>	<u>517,634</u>
Excess (deficiency) of revenues and transfer in over (under) expenditures and transfers out	104,190	(104,190)	-
Changes in net position	<u>-</u>	<u>115,076</u>	<u>115,076</u>
Fund balance/Net position at beginning of period	159,827	(19,517)	140,310
Prior period adjustment	<u>-</u>	<u>(28,586)</u>	<u>(28,586)</u>
Fund balance/Net position at beginning of period restated	<u>159,827</u>	<u>(48,103)</u>	<u>111,724</u>
Fund balance/Net position at end of period	<u>\$ 264,017</u>	<u>\$ (37,217)</u>	<u>\$ 226,800</u>

The accompanying notes are an integral part of these financial statements.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - REPORTING ENTITY

A. Organization of LAFCo

Marin Local Agency Formation Commission (LAFCo) was formed in 1963. LAFCo is responsible for coordinating logical and timely changes in local government boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structure, and preparing a sphere of influence for each city and special district within its county. LAFCo's efforts are directed toward seeing that services are provided efficiently and economically while agricultural and open-space lands are protected. LAFCo also conducts service reviews to evaluate the provision of municipal services within its county.

B. Principles that Determine the Scope of Reporting Entity

LAFCo consists of seven voting members and exercises the powers allowed by state statutes. This follows section 56325 of the Government Code. The basic financial statements of LAFCo consist only of the funds of LAFCo. LAFCo has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by, or dependent on, LAFCo.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

LAFCo's basic financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

LAFCo has chosen to present its basic financial statements using the reporting model for special purpose governments engaged in a single government program.

This model allows the fund financial statements and the government-wide statements to be combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements rather than at the bottom of the statements or in an accompanying schedule.

Government-wide Financial Statements

LAFCo's financial statements reflect only its own activities; it has no component units. The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through intergovernmental revenues and charges for services.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of LAFCo's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods and services offered by the program. Revenues that are not classified as program revenues, including all intergovernmental revenues, are presented as general revenues.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation (concluded)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. General Fund operations are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. LAFCo's resources are accounted for based on the purposes for which they are to be spent and the means by which spending activities are controlled. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of LAFCo or meets the following criteria: Total assets, liabilities, revenues or expenditures (or expenses) of the individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type. The General Fund is always a major fund.

Governmental Funds

General Fund: This is the operating fund of LAFCo. The major revenue source for this fund is intergovernmental revenues. Expenditures are made for intergovernmental revenues projects and administration.

B. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under this method, revenues are recognized when "measurable and available." LAFCo considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are intergovernmental, certain charges for services and interest revenue. Charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which LAFCo gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

LAFCo may fund programs with a combination of charges for services and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. LAFCo's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

C. LAFCo Budget

Pursuant to Section 56381, et seq of the Government Code, LAFCo adopts a proposed budget by May 1 and a final budget by June 15 of each year.

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Budget/actual comparisons in this report use this budgetary basis. These budgeted amounts are as originally adopted or as amended by LAFCo. Individual amendments were not material in relation to the original appropriations that were amended.

D. Property, Plant and Equipment

LAFCo currently has no fixed assets.

E. Compensated Absences

Compensated absences comprise unpaid vacation. Vacation and sick time are accrued as earned.

F. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, LAFCo recognizes deferred outflows and inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by LAFCo that is applicable to a future reporting period.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of LAFCo's Marin County Employees Retirement Association (MCERA) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by MCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 3 - CASH AND INVESTMENTS

LAFCo's cash is maintained with the Marin County Treasury in an interest-bearing account. LAFCo's cash on deposit with Marin County Treasury at June 30, 2018 was \$286,255.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (concluded)

Credit Risk, Carrying Amount and Market Value of Investments

LAFCo maintains specific cash deposits with Marin County. Marin County is restricted by state code in the types of investments it can make. Furthermore, the Marin County Treasurer has a written investment policy, approved by the Board of Supervisors, which is more restrictive than state code as to terms of maturity and type of investment. Also, Marin County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134. In addition, LAFCo has its own investment policy as well.

Marin County's investment policy authorizes Marin County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. At June 30, 2018, LAFCo's cash with the Marin County Treasurer was maintained in an interest-bearing account.

NOTE 4 - USE OF ESTIMATES

The basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

NOTE 5 - CONTINGENCIES

LAFCo may be involved from time to time in various claims and litigation arising in the ordinary course of business. LAFCo management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters should not have a materially adverse effect on LAFCo's financial position or results of operations.

NOTE 6 - FUND EQUITY

The accompanying basic financial statements reflect certain changes that have been made with respect to the reporting of the components of Fund Balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance. Due to the implementation of GASB Statement No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below. In the fund financial statements, governmental fund balances are reported in the following classifications:

Nonspendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level of decision-making authority. The Commissioners serve as LAFCo's highest level of decision-making authority and have the authority to establish, modify or rescind a fund balance commitment via minutes action.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - FUND EQUITY (concluded)

Assigned fund balance includes amounts intended to be used by LAFCo for specific purposes, subject to change, as established either directly by the Commissioners or by management officials to whom assignment authority has been delegated by the Commissioners.

Unassigned fund balance is the residual classification that includes spendable amounts in the General Fund that are available for any purpose.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, LAFCo specifies that restricted revenues will be applied first. When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available, LAFCo's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Net Position

Net Position is the excess of all LAFCo's assets over all its liabilities, regardless of fund. Net Position is divided into three captions under GASB Statement No. 34. These captions apply only to Net Position, which is determined only at the government-wide level, and are described below:

Invested in capital assets, net of related debt describes the portion of Net Position that is represented by the current net book value of LAFCo's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that LAFCo cannot unilaterally alter.

Unrestricted describes the portion of Net Position that is not restricted to use.

All of LAFCo's Net Position is unrestricted.

NOTE 7 - LAFCO'S EMPLOYEES' RETIREMENT PLAN

A. Plan Description

LAFCo's retirement plan is administered by the Marin County Employees' Retirement Association (MCERA), a retirement system established in July 1950 and governed by the California Constitution; the County Employees Retirement Law of 1937 (CERL or 1937 Act, California government Code Section 31450 et seq.); the Public Employees' Pension Reform Act of 2013 (PEPRA, Government Code Section 7522); the provisions of California Government Code Section 7500 et seq; and the bylaws, procedures, and policies adopted by MCERA's Board of Retirement. The Marin County Board of Supervisors may also adopt resolutions, as permitted by the CERL and PEPRA, which may affect the benefits of MCERA members.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - LAFCO'S EMPLOYEES' RETIREMENT PLAN (continued)

A. Plan Description (concluded)

MCERA operates as a cost-sharing multiple employer defined benefit plan for the County and eight other participating employers: City of San Rafael, Local Agency Formation Commission (LAFCo), Marin City Community Services District, Marin County Superior Court, Marin/Sonoma Mosquito and Vector Control District, Novato Fire Protection District, Southern Marin Fire Protection District, and Tamalpais Community Services District. Separate actuarial valuations are performed for these other agencies and districts, and the responsibility for funding their plans rest with those entities. Post-retirement benefits are administered by MCERA to qualified retirees.

Copies of MCERA's annual financial reports, which include required supplementary information (RSI) for the Plan may be obtained from their office at One McInnis Parkway, Suite 100, San Rafael, CA 94903 or online at www.mcera.org.

Administration

Retirement system administration is managed by the Retirement Board. All Retirement Board members, except the County Director of Finance, serve for a term of three years. By statute, retirement Board members include the following:

- The Director of Finance of the County (ex-officio).
- Four members who are qualified electors of the County and not connected with County government in any capacity, except one may be a County Supervisor. The Board of Supervisor appoints these members.
- Two General members of MCERA elected by the General membership.
- One Safety member and one Safety member alternative elected by the Safety membership.
- One retired member and one retired member alternate elected by the retired membership.

Membership

MCERA provides service retirement, disability, and death and survivor benefits to its general and safety members. Safety membership primarily includes law enforcement and firefighters of MCERA, as well as other classifications as allowed under the CERL and adopted by the employer. General membership is applicable to all other occupational classifications. The retirement benefits within the plan are tiered based on the participating employer and the date of the member's entry into MCERA membership.

Vesting

Members become vested in retirement benefits upon completion of five years of credited service.

B. Benefit Provisions

Service Retirement

MCERA's service retirement benefits are based on the years of credited service, final average compensation, and age at retirement, according to the applicable statutory formula. Members who qualify for service retirement are entitled to receive monthly retirement benefits for life.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - LAFCO'S EMPLOYEES' RETIREMENT PLAN (continued)

B. Benefit Provisions (continued)

General members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 (except tiers 3a and 4, whereby the minimum age is 55) and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. A member who is age 70 or older is eligible to retire regardless of service credit. General members who are first hired on or after January 1, 2013 are eligible to retire once they have attained the age of 52, and have acquired 5 years of retirement service credit, or age 70, regardless of service.

Disability Retirement

A member with five years of service, regardless of age, who becomes permanently incapacitated for the performance of duty is eligible to apply for a non-service connected disability retirement. Any member who becomes permanently incapacitated for the performance of duty as a result of injury or disease arising out of and in the course of employment is eligible to apply for a service-connected disability retirement, regardless of service length or age.

Death Benefits

MCERA provides specified death benefits to beneficiaries and members' survivors. The death benefits provided depend on whether the member is active or retired.

The basic active member death benefit consists of a members' retirement contributions plus interest plus one month's pay for each full year of service (up to a maximum of six month's pay). Retiring members may choose from five retirement benefit payment options. Most retirees elect to receive the unmodified allowance which provides the maximum benefit to the retiree and continuance of 60% of the retiree's allowance to the surviving spouse or registered domestic partner after the retiree's death. Other death benefits may be available based on the years of service, marital status, and whether the member has minor children.

Cost of Living Adjustment

Retirement allowances are indexed for inflation. Most retirees receive automatic basic cost of living adjustments (COLA's) based upon the Urban Consumer Price Index (UCPI) for the San Francisco Bay Area. These adjustments go into effect on April 1 of each year. Annual COLA increases are statutorily capped at 2%, 3%, or 4% depending upon the member's retirement tier. When the UCPI exceeds the maximum statutory COLA for the member's tier, the difference is accumulated for use in future years when the UCPI is less than the maximum statutory COLA. The accumulated percentage carryover is known as the COLA Bank.

For the year ended June 30, 2018, the contributions recognized as part of pension expense for the Plan were as follows:

Employer Contributions:	\$ 14,430
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As of June 30, 2018, LAFCo's reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous Plan as follows:

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 7 - LAFCO'S EMPLOYEES' RETIREMENT PLAN (continued)

B. Benefit Provisions (continued)

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 34,351
Total Net Pension Liability	<u>\$ 34,351</u>

LAFCO's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. LAFCO's proportion of the net pension liability was based on a projection of LAFCO's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. LAFCO's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

<u>LAFCO Miscellaneous Plan</u>	
Proportion - June 30, 2016	.0088%
Proportion - June 30, 2017	.001%
Change – Increase (Decrease)	.0012%

For the year ended June 30, 2018, LAFCO recognized pension expense of \$6,750. At June 30, 2018, LAFCO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ -	\$ -
Differences between actual and expected experience	-	318
Changes in assumptions	3,183	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net differences between projected and actual earnings on plan investments	-	5,657
Total	<u>\$ 3,183</u>	<u>\$ 5,975</u>

\$0 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 7 - LAFCO'S EMPLOYEES' RETIREMENT PLAN (continued)

B. Benefit Provisions (concluded)

<u>Year Ended June 30</u>	<u>Inflows</u>
2019	\$ 38,095
2020	19,306
2021	724
2022	(1,268)
Thereafter	-

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date:	June 30, 2017 (to determine FY 2017-18 contributions)
Timing:	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Market Value
Amortization Method:	Closed 17 year period (13 years remaining as of 6/30/17)
Discount Rate	7.00%
Price Inflation:	2.75%
Salary Increases:	3.00% plus merit component based on employee classification and years of service.
Administrative Expenses:	Administrative expenses in the actuarial valuation are assumed to be \$4.917 million for FY 2017-18, to be split between employees and employers based on their share of the overall contributions. Administrative expenses shown in this report are based on the actual FY 2017-18 amounts.
Postretirement COLA:	Post retirement COLAs are assumed at the rate of 2.7% for members with a 4% COLA cap, 2.6% for members with a 3% COLA cap, and 1.9% for members with a 2% COLA cap.
Mortality Rates for Healthy Members and Inactives:	Rates of mortality for active Members are specified by CalPERS 2017 Pre-Retirement Non-Industrial Death rates (plus Duty-Related Death rates for Safety Members), with the 20-year static projection used by CalPERS replaced by generational improvements from a base year of 2014 using Scale MP-2017.

A complete description of the methods and assumptions used to determine contribution rates for the year ended June 30, 2018 can be found in the June 30, 2018 actuarial report.

Discount Rate - The discount rate used to measure the total pension liability was 7.00% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions intended to fund benefits of current plan members and their beneficiaries are included.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 7 - LAFCO'S EMPLOYEES' RETIREMENT PLAN (concluded)

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (concluded)

Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	32.0%	4.60%
Fixed Income	23.0%	0.75%
International Equity	22.0%	4.75%
Public Real Assets	7.0%	5.60%
Private Equity	8.0%	3.50%
Real Estate	8.0%	5.10%
Total	<u>100.0%</u>	

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents LAFCo's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what LAFCo's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.00%
Net Pension Liability	\$73,069
Current Discount Rate	7.00%
Net Pension Liability	\$34,351
1% Increase	8.00%
Net Pension Liability	\$2,476

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MCERA financial reports.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT (OPEB)

Plan Description

LAFCo provides a defined benefit healthcare plan (the "Retiree Health Plan"). The Retiree Health Plan provides lifetime healthcare insurance for eligible retirees through the CalPERS Health Benefit Program, which covers both active and retired members.

For retirees hired between October 1, 1993 and December 31, 2007 (Plan 3), LAFCo would pay a percentage of retirees' single-coverage premiums up to a dollar cap based on years of service at retirement, where the dollar cap is reviewed each year by the Board of Supervisors. Through January 1, 2007 the cap was increased to cover single Blue Cross Prudent Buyer Classic and Delta Dental premiums. The Board of Supervisors has implemented a policy to limit annual increases in the cap to no more than 3%, subject to annual approval regarding whether any increase will be granted and, if so, the amount of the increase. Cap increases were 3% effective January 1, 2008 and January 1, 2009. No cap increases have been adopted since that time. The dollar cap is currently \$442.65 per year of service up to \$8,853 per year.

For retirees hired on or after January 1, 2008 (Plan 4), LAFCo would pay \$150 per year of service up to \$3,000 per year for the retiree's single health plan premiums only.

Funding Policy

LAFCo's Board of Commissioners will not be funding the plan in the current year but will follow a pay-as-you-go approach. The Board will review the funding requirements and policy annually.

Membership of LAFCo as of the valuation date consisted of the following:

Active plan members	3
Inactive employees or beneficiaries currently receiving benefit payments	<u>1</u>
Total	<u><u>4</u></u>

Contribution

As of June 30, 2018, LAFCo has accumulated \$59,235 in an irrevocable trust toward this liability. With LAFCo's approval, the discount rate used in this valuation is 5.75% as of June 30, 2017; the long term expected return on trust assets.

Actuarial Methods and Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Funding method	Entry Age Normal Cost, level percent of pay
Asset valuation method	Market value of trust assets
Long term return on assets	5.75% as of June 30, 2017
Discount rates	5.75% as of June 30, 2017
Participants valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation.
Salary increase	Not applicable, there are no active plan members
Assumed wage inflation	Not applicable, there are no active plan members
General inflation	2.75% per year
Mortality improvements	MacLeod Watts Scale 2017 applied generationally
Healthcare trend	5.0% per year over the long term.

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) (continued)

Discount Rate

When the financing of OPEB liabilities is on a pay-as-you-go basis, GASB Statement No. 75 requires that the discount rate used for valuing liabilities be based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). When a plan sponsor makes regular, sufficient contributions to a trust in order to prefund the OPEB liabilities, GASB Statement No. 75 allows use of a rate up to the expected rate of return of the trust. Therefore, prefunding has an advantage of potentially being able to report overall lower liabilities due to future expected benefits being discounted at a higher rate. The discount rate as of June 30, 2017 and June 30, 2016 is 5.75%.

Change in the Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position
Service cost	\$ -	\$ -
Interest	3,529	1,894
Contributions	-	25,102
Benefit payments, including refunds of employee contributions	(5,615)	(5,615)
Administrative expenses	-	(15)
Net change in total OPEB liability	(2,086)	21,366
Total OPEB liability – beginning of year	64,175	19,737
Total OPEB liability – end of year	\$ 62,089	\$ 41,103
		June 30, 2018
Total OPEB Liability		\$ 62,089
Fiduciary Net Position		(41,103)
Net OPEB Liability		\$ 20,986
Impact on Statement of Net Position, FYE 2017		\$ 19,336
OPEB Expense (Income)		1,809
Employer Contributions During the Fiscal Year		(21,071)
Impact on Statement of Net Position, FYE 2018		\$ 74
 <u>OPEB Expense</u>		
Employer Contributions During the Fiscal Year		\$ 21,071
Deterioration (Improvement) in Net Position		(19,262)
OPEB Expense (Income), FYE 2018		\$ 1,809

Sensitivity of Liabilities to Changes in the Discount Rate and Medical Cost Inflation

The discount rate used for the fiscal year end June 30, 2018 is 5.75%. Medical Cost Inflation was assumed to start at 7.50% and grade down to 5.00% for years 2024 and thereafter. The impact of a 1% increase or decrease in these assumptions is shown in the chart below.

Plan's Net OPEB Liability / (Asset)		
Discount Rate – 1% (4.75%)	Current Discount Rate (5.75%)	Discount Rate + 1% (6.75%)
\$ 67,351	\$ 62,089	\$ 57,504

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT (OPEB) (concluded)

Plan's Net OPEB Liability / (Asset)		
Medical Trend - 1% (6.50%)	Current Medical Trend (7.50%)	Medical Trend + 1% (8.50%)
\$ 62,039	\$ 62,089	\$ 62,104

Deferred Resources and Expected Future Recognition

For the fiscal year ended June 30, 2018, LAFCo recognized OPEB expense of \$1,809. At June 30, 2018, LAFCo reported deferred resources from OPEB from the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made subsequent to the measurement date	\$ 21,071	\$ -
Difference between expected and actual experience	-	-
Changes of assumptions	-	-
Net difference between projected and actual earnings on investment	-	159
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Total	\$ 21,071	\$ 159

\$21,071 reported as the net deferred (outflows) / inflows of resources related to contributions subsequent to measurement date will be recognized as increase of the net OPEB liability in the year ended June 30, 2019.

LAFCo will recognize the Contributions Made Subsequent to the Measurement Date in the next fiscal year. In addition, future recognition of these deferred resources is shown below.

Fiscal Year Ending June 30,	Recognized Net Deferred Outflows (Inflows) of Resources
2019	\$ (40)
2020	(40)
2021	(40)
2022	(40)
Thereafter	-

Marin Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET POSITION

Reconciling adjustments are as follows:

Non-current portion of compensated absences	\$ -
Other post-employment benefits	(20,986)
Deferred outflows	24,254
Deferred inflows	(6,134)
Net pension liability	(34,351)
Total fund balances – governmental funds	<u>264,017</u>
Net position of governmental activities	<u>\$ 226,800</u>

NOTE 10 - RECONCILIATION OF GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

Reconciling adjustments are as follows:

Net change in fund balance – total governmental funds	\$ 104,190
The amounts below included in the statement of activities do not provide (require) the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (net change):	
Compensated absences	18,174
Other post-employment benefits	44,364
Pension expense	<u>(51,652)</u>
Change in net position of governmental activities	<u>\$ 115,076</u>

NOTE 11 - PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2018, the beginning net position has been adjusted by \$28,586 to decrease the net position balance as of the beginning of the period. The net OPEB liability was adjusted in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

NOTE 12 - OPERATING LEASE COMMITMENTS

LAFCo has an operating lease for office space expiring in May during the fiscal year ending June 30, 2023. The total expense for office rent was \$31,795 for the fiscal year ended June 30, 2018. The minimum future rental payments under non-cancelable operating leases for each of the next five years and in the aggregate are:

For the year ended June 30, 2019	\$ 31,742
For the year ended June 30, 2020	32,653
For the year ended June 30, 2021	33,589
For the year ended June 30, 2022	34,559
For the year ended June 30, 2023	<u>32,514</u>
Total	<u>\$ 165,057</u>

REQUIRED SUPPLEMENTARY INFORMATION

Marin Local Agency Formation Commission
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

Required Supplemental Information
 Budget and Actual
 General Fund (Unaudited)
 For the period ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue:				
Intergovernmental	\$ 514,781	\$ 514,781	\$ 514,781	\$ -
Charges for services	30,000	30,000	27,637	(2,363)
Interest income	<u>2,000</u>	<u>2,000</u>	<u>2,853</u>	<u>853</u>
Total revenue	<u>546,781</u>	<u>546,781</u>	<u>545,271</u>	<u>(1,510)</u>
 Expenditures:				
Salaries and benefits	360,639	360,639	207,530	153,109
Services and supplies	<u>190,593</u>	<u>190,593</u>	<u>233,551</u>	<u>(42,958)</u>
Total expenditures	<u>551,232</u>	<u>551,232</u>	<u>441,081</u>	<u>110,151</u>
 Excess (deficit) of revenue over expenditures	 <u>\$ (4,451)</u>	 <u>\$ (4,451)</u>	 104,190	 <u>\$ 108,641</u>
 Fund balance, beginning of period			 <u>159,827</u>	
 Fund balance, end of period			 <u>\$ 264,017</u>	

The accompanying notes are an integral part of these basic financial statements.

Marin Local Agency Formation Commission

As of June 30, 2018

Last 4 Years

SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

Measurement Date	2017	2016	2015	2014
Proportion of the net pension liability	0.01%	.0088%	0.00%	0.00%
Proportionate share of the net pension liability	\$ 34,351	\$ 32,451	\$ -	\$ 185,355
Covered - employee payroll	\$ 123,490	\$ 206,613	\$ 173,394	\$ 192,619
Proportionate share of the net pension liability as a percentage of covered-employee payroll	28%	15.7%	0%	96%
Plan fiduciary net position as a percentage of the total pension liability	88.3%	86.3%	84.3%	89.0%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become

Marin Local Agency Formation Commission

As of June 30, 2018

Last 4 Years

SCHEDULE OF CONTRIBUTIONS

<u>Fiscal Year Ending June 30</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 14,430	\$ 46,997	\$ 48,485	\$ 43,313
Contributions in relation to the actuarially determined contributions	<u>(14,430)</u>	<u>(46,997)</u>	<u>(48,485)</u>	<u>(43,313)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll during the fiscal year	 \$ 123,490	 \$ 206,613	 \$ 173,394	 \$ 192,619
Contributions as a percentage of covered-employee payroll	11.70%	22.70%	27.96%	22.49%

Marin Local Agency Formation Commission
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE IN THE NET OPEB LIABILITY AND RELATED RATIOS
For the period ended June 30, 2018

Total OPEB Liability	<u>2018</u>	
Service cost	\$	-
Interest		3,529
Change of benefit terms		-
Difference between expected and actual experience		-
Change of assumptions		-
Benefit payments, included refunds of employee contributions		<u>(5,615)</u>
Total OPEB liability - beginning of year		<u>64,175</u>
Total OPEB liability - end of year	\$	<u><u>62,089</u></u>
Plan Fiduciary Net Position		
Net investment income	\$	1,894
Contributions		
Employer		25,102
Benefit payments, included refunds of employee contributions		(5,615)
Administrative expense		<u>(15)</u>
Net change in plan fiduciary net position		21,366
Plan fiduciary net position - beginning of year		<u>19,737</u>
Plan fiduciary net position - end of year	\$	<u><u>41,103</u></u>
Commission's net OPEB liability - end of year	\$	<u><u>20,986</u></u>
Covered-employee payroll	\$	217,782
Net OPEB liability as a percentage of covered-employee payroll		9.64%

Notes to Schedule:

The schedules present information to illustrate the changes in Marin LAFCO's net OPEB liability over a ten year period when the information is available. Marin LAFCO adopted GASB 75 for the fiscal year ending June 30, 2018.

Marin Local Agency Formation Commission
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - OPEB
For the period ended June 30, 2018

	2018
Actuarial Determined Contribution	\$ 19,487
Contributions in relation to the actuarially determined contribution	(19,487)
	\$ -
 Covered payroll	 \$ 217,782
 Contributions as a percentage of covered payroll	 8.95%

Notes to Schedule:

The schedules present information to illustrate changes in Marin LAFCO's contributions over a ten year period when the information is available.

GASB 75 requires this information for plans funding with OPEB trusts to be reported in the employer's Required Supplemental Information for 10 years or as many years as are available upon implementation. The plan was not funded with an OPEB trust prior to June 30, 2018. Marin LAFCO adopted GASB 75 for the fiscal year ending June 30, 2018.

May 20, 2019

Mr. Jason Fried
Marin Local Agency Formation Commission
1401 Los Gatos, Suite 220
San Rafael, CA 94903

Dear Jason:

Enclosed please find one bound copy of the Basic Financial Statements for Marin Local Agency Formation Commission for the fiscal year ended June 30, 2018. Also enclosed is the Board of Commissioners & Management Report.

Should you have any questions or concerns, please do not hesitate to contact us. We appreciate the opportunity to provide our services to you.

Very truly yours,

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

RJR:af
Enclosures

No copies of the report have been forwarded to any other funding sources.

Copies of the report have been forwarded to other funding sources (copy of transmittals enclosed or electronically provided).

**MARIN LOCAL AGENCY FORMATION COMMISSION
BOARD OF COMMISSIONERS & MANAGEMENT REPORT**

**For the Year Ended
JUNE 30, 2018**

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R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

Commissioners
Marin Local Agency Formation Commission
San Rafael, California

In planning and performing our audit of the basic financial statements of Marin Local Agency Formation Commission (LAFCo) for the fiscal year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of Marin Local Agency Formation Commission's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist Marin Local Agency Formation Commission in implementing the recommendations.

This report is intended solely for the information and use of management, the Commissioners, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank Marin Local Agency Formation Commission's staff for its cooperation during our audit.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
May 14, 2019

Commissioners
Marin Local Agency Formation Commission
San Rafael, California

We have audited the basic financial statements of the Marin Local Agency Formation Commission (LAFCo) for the year ended June 30, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 19, 2018, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of LAFCo. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by LAFCo are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by LAFCo during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences;
- Calculation of unearned revenue;
- Pension plan and post employment benefit actuarial computations;
- Fair value of investments and financial instruments.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements (Audit Adjustments)

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Of the eight accounting adjustments detected as a result of audit procedures and corrected by management most were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 6, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to LAFCo's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as LAFCo's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and the Budgetary Comparison Schedule for the General Fund, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This report is intended solely for the information and use of management and the Board of Commissioners of Marin Local Agency Formation Commission and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Marin Local Agency Formation Commission
BOARD OF COMMISSIONERS & MANAGEMENT REPORT
For the Year Ended June 30, 2018

Current Year Observation

1) Vendor Invoices

Observation:

During the course of our audit it was noted some vendor invoices could not be located by Marin Local Agency Formation Commission (LAFCo) due to employee turnover.

Recommendation:

We recommend all vendor invoices be approved, retained and properly filed for future reference.

Prior Year Observations

1) Payroll Tax Return Reconciliation

Observation:

During the course of our audit it was noted that LAFCo does not reconcile the salaries and payroll tax amounts on the quarterly payroll tax returns to the general ledger.

Recommendation:

We recommended LAFCo reconcile the quarterly payroll tax returns to the general ledger on a quarterly basis.

Status:

This recommendation has not been implemented.

2) Wells Fargo Checking

Observation:

During the course of our audit it was noted the Wells Fargo Checking account reconciliation had a \$659 irreconcilable difference at June 30, 2017.

Recommendation:

The difference is immaterial to the financial statements but future reconciliations should be monitored for an increase in the amount noted above.

Status:

This recommendation has been implemented.



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Item No. 6 (Business Item)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: Approval of Deferred Compensation Program for LAFCo Employees

Background

Marin LAFCo currently uses the County of Marin to administer its Human Resources process which includes such items as payroll and benefits. In January 2019, LAFCo brought on a new Executive Officer and another staff person in April. When going through new staff orientation, staff asked to join Marin County's Deferred Compensation program but was informed that based on how Marin County set-up its program, LAFCo employees were not qualified to join. Since then staff has put some research into this and has worked with Nationwide to create a program that LAFCo employees could voluntarily join. Nationwide was selected since they already work in partnership with the County of Marin to administer the program the County offers its employees so they know Marin County HR and payroll systems.

Marin County's deferred compensation program is only open to County employees so Nationwide suggests LAFCo utilize the National Association of Counties (NACo) program, another program they oversee. NACo allows other government organizations to join its system and, given LAFCo's small staff size, joining another program is really the only cost-effective option. All costs associated with the deferred compensation program are recovered off the investments made by employees who choose to participate. This deferred compensation program will have no costs to the Commission itself and LAFCo has indemnification provided by Morningstar. Attached are some background documents with more details on the program.

At the time of the writing of this, Best, Best and Krieger staff had raised a few items that LAFCo staff should review with Nationwide prior to signing any final documents. Staff will report on any outstanding items at the Commission meeting.

Staff is requesting through the attached resolution the authority to fill out and sign needed documents.

Staff Recommendation for Action

1. Staff Recommendation – Approve the attached resolution.
2. Alternate Option – Take no action today and give staff further instructions.

Attachment

1. Resolution 19-01
2. Background documents

Administrative Office

Jason Fried, Executive Officer
1401 Los Gatos Drive, Suite 220
San Rafael, California 94903
T: 415-448-5877 E: staff@marinlafco.org
www.marinlafco.org

Damon Connolly, Regular
County of Marin

Dennis J. Rodoni, Regular
County of Marin

Judy Arnold, Alternate
County of Marin

Sashi McEntee, Chair
City of Mill Valley

Sloan Bailey, Regular
Town of Corte Madera

Matthew Brown, Alternate
City of San Anselmo

Craig K. Murray, Vice Chair
Las Gallinas Valley Sanitary

Lew Kious, Alternate
Almonte Sanitary District

Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member

MARIN LOCAL AGENCY FORMATION COMMISSION

RESOLUTION 19-01

RESOLUTION ESTABLISHING DEFERRED COMPENSATION PROGRAM WITH THE NATIONAL ASSOCIATION OF COUNTIES (NACo)

WHEREAS Marin Local Agency Formation Commission (LAFCo) has considered the establishment of a Deferred Compensation Plan to be made available to all eligible LAFCo employees, elected officials, and independent contractors pursuant to Section 457 of the Internal Revenue Code permitting such plans; and

WHEREAS certain tax benefits could accrue to employees, elected officials, and independent contractors participating in said Deferred Compensation Plans; and

WHEREAS such benefits will act as incentives to Marin LAFCo employees to voluntarily set aside and invest portions of the current income to meet their future financial requirements and supplement their Marin LAFCo retirement; and

WHEREAS National Association of Counties has established a master deferred compensation program for its member agencies, permitting its member agencies and their employees to enjoy the advantages of this program; and

WHEREAS by adoption of the NACo Program all regulatory, operational, administrative, and fiduciary responsibilities are hereby assumed by NACo on behalf of Marin LAFCo; and

WHEREAS NACo, as Plan Administrator, agrees to hold harmless and indemnify Marin LAFCo and its appointed and elected officers and participating employees from any loss resulting from NACo or its Agent's failure to perform its duties and services pursuant to the NACo Program; and

WHEREAS the Executive Officer is hereby authorized to execute for Marin LAFCo, individual participation agreements with each said employee requesting same, and to act as the "Administrator" of the Plan representing Marin LAFCo, and to execute such agreements and contracts as are necessary to implement the program. It is implicitly understood that other than the incidental expenses of collecting and disbursing the employee's deferrals and other minor administrative matters, that there is to be no cost to Marin LAFCo for the Program; and

NOW, THEREFORE, the MARIN LOCAL AGENCY FORMATION GOVERNING BODY DOES HEREBY RESOLVE, DETERMINE, AND ORDER as follows:

Section 1. The Marin Local Agency Formation Commission governing body, meeting in a regular scheduled session, this 13th day of June, 2019, hereby adopts the National Association of Counties Deferred Compensation Program and hereby establishes the Marin Local Agency Formation Commission Deferred Compensation Plan for the voluntary participation of all eligible Marin LAFCo employees, elected officials, and independent contractors.

PASSED AND ADOPTED by the Marin Local Agency Formation Commission, on June 13, 2019, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Sashi McEntee, Chair
Marin LAFCo

ATTEST:

APPROVED AS TO FORM:

Jason Fried, LAFCO Executive Officer

Malathy Subramanian, LAFCo Counsel



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Industry Average⁵:

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² Dalbar Service Award: 2014 Plan Participant Service Award - December 2014.

³ Dalbar Inc. Innovations in the World of Mobile Optimized Websites: Quarter 3-2014.

⁴ Nationwide Internal Sales and Actuarial Reports, December 2014.

⁵ Plansponsor.com, 2014 Recordkeeping Survey.

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FOR PLAN SPONSOR ONLY

NRM-13064AO.1 (09/15)



Plan Sponsor: All required documents (in addition to any documents pertaining to the optional features you select) should be returned in their entirety to Nationwide. A fully executed copy of these documents will be sent to you following establishment of your Plan on Nationwide's recordkeeping system.

Required Plan Setup Documents

1. Employer Data Sheet
 - Signatures: The Nationwide Field Representative must sign this document. No Plan Sponsor signature is required.
 - Document is considered not-in-good-order if the UE/Hardship Section contains both a check mark stating "yes" as well as Employer contact names (must be one or the other).
 - If more than one payroll center exists and separate payroll confirmations are desired for each payroll center, please see Page 2 of the Employer Data Sheet to include all required pay center information.
2. Specimen Copy of Order/Resolution (NACo)
 - A Resolution on Plan letterhead is acceptable in lieu of the enclosed sample Resolution.
3. Adoption Agreement for Eligible Governmental 457 Plans
 - Signatures: Plan Sponsor signature is the only required signature on this document.
4. Plan Specific 457(b) Deferred Compensation Basic Plan Document
5. Administrative Services Agreement for NACo
 - Signatures: Required signatures include Plan Sponsor and a Nationwide Officer of the Company. Nationwide Field Representative does not sign.
6. Option Selection Form for New 457 Plans
 - Signatures: Plan Sponsor signature is the only required signature on this document.
7. Application for Group Flexible Purchase Payment Deferred Variable Annuity Contract
 - Signatures: Nationwide Field Representative must sign this document in addition to Plan Sponsor signature.
 - The Fixed Account checkbox must be marked "Yes," and the Plan Sponsor must then choose one of two exchange restriction options.
8. Investment Fiduciary Service Agreement
 - Signatures: Plan Sponsor signature is the only required signature on this document.
9. Governmental 457(b) Plan Loan Procedures
10. Employer Security Administrator Request Form
 - Signatures: Plan Sponsor signature is the only required signature on this document.

Optional Features

1. ProAccount Plan Sponsor Agreement
2. Additional Products and Services Plan Sponsor Authorization Agreement

Important Plan Information

The following documents are included for informational purposes only and should be retained by the Plan Sponsor. These documents are not required to be sent back to Nationwide:

- Nationwide SecurePay
- Disclosures
- Customer Identification Program Disclosure
- NISC Disclosure Statement
- Nationwide Privacy Statement
- Group Flexible Purchase Payment Deferred Variable Annuity and Plan Program
- Morningstar ADV Part 2A: Firm Brochure
- Morningstar Sample Fiduciary Services Document
- Morningstar Methodology

Return Instructions

Please return completed forms to welcome@nationwide.com

MARIN COUNTY LAFCO 457(B) DEFERRED COMPENSATION PLAN

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ARTICLE I DEFINITIONS

1.01 "**Account**" means the separate Account(s) which the Plan Administrator or the Trustee maintains under the Plan for a Participant's Deferred Compensation. The Plan Administrator or Trustee may establish separate Accounts for multiple Beneficiaries of a Participant to facilitate required minimum distributions under Section 4.03 based on each Beneficiary's life expectancy.

1.02 "**Accounting Date**" means the last day of the Plan Year. The Plan Administrator will allocate Employer contributions and forfeitures for a particular Plan Year as of the Accounting Date of that Plan Year, and on such other dates, if any, as the Plan Administrator determines, consistent with the Plan's allocation conditions and other provisions.

1.03 "**Beneficiary**" means a person who the Plan or a Participant designates and who is or may become entitled to a Participant's Account upon the Participant's death. A Beneficiary who becomes entitled to a benefit under the Plan remains a Beneficiary under the Plan until the Plan Administrator or Trustee has fully distributed to the Beneficiary his or her Plan benefit. A Beneficiary's right to (and the Plan Administrator's or a Trustee's duty to provide to the Beneficiary) information or data concerning the Plan does not arise until the Beneficiary first becomes entitled to receive a benefit under the Plan.

1.04 "**Code**" means the Internal Revenue Code of 1986, as amended.

1.05 "**Compensation**"

(A) Uses and Context. Any reference in the Plan to Compensation is a reference to the definition in this Section 1.05, unless the Plan reference, or the Employer in the Adoption Agreement, modifies this definition. Except as the Plan otherwise specifically provides, the Plan Administrator will take into account only Compensation actually paid during (or as permitted under the Code, paid for) the relevant period. A Compensation payment includes Compensation paid by the Employer through another person under the common paymaster provisions in Code §§3121 and 3306. In the case of an Independent Contractor, Compensation means the amounts the Employer pays to the Independent Contractor for services, except as the Employer otherwise specifies in the Adoption Agreement. The Employer in the Adoption Agreement may elect to allocate contributions based on a Compensation within specified 12 month period which ends within a Plan Year.

(B) Base Definitions and Modifications. The Employer in the Adoption Agreement must elect one of the following base definitions of Compensation: W-2 Wages, Code §3401(a) Wages, or 415 Compensation. The Employer may elect a different base definition as to different Contribution Types. The Employer in the Adoption Agreement may specify any modifications thereto, for purposes of contribution allocations under Article III. If the Employer fails to elect one of the above-referenced definitions, the Employer is deemed to have elected the W-2 Wages definition.

(1) W-2 Wages. W-2 Wages means wages for federal income tax withholding purposes, as defined under Code §3401(a), plus all other payments to an Employee in the course of the Employer's trade or business, for which the Employer must furnish the Employee a written statement under Code §§6041, 6051, and 6052, but determined without regard to any

rules that limit the remuneration included in wages based on the nature or location of the employment or services performed (such as the exception for agricultural labor in Code §3401(a)(2)).

(2) Code §3401(a) Wages (income tax wage withholding). Code §3401(a) Wages means wages within the meaning of Code §3401(a) for the purposes of income tax withholding at the source, but determined without regard to any rules that limit the remuneration included in wages based on the nature or the location of the employment or the services performed (such as the exception for agricultural labor in Code §3401(a)(2)).

(3) Code §415 Compensation (current income definition/simplified compensation under Treas. Reg. §1.415(c)-2(d)(2)). Code §415 Compensation means the Employee's wages, salaries, fees for professional service and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the Plan to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits and reimbursements or other expense allowances under a nonaccountable plan as described in Treas. Reg. §1.62-2(c)).

Code §415 Compensation does not include:

(a) Deferred compensation/SEP/SIMPLE. Employer contributions (other than Elective Deferrals) to a plan of deferred compensation (including a simplified employee pension plan under Code §408(k) or to a simple retirement account under Code §408(p)) to the extent the contributions are not included in the gross income of the Employee for the Taxable Year in which contributed, and any distributions from a plan of deferred compensation (whether or not qualified), regardless of whether such amounts are includible in the gross income of the Employee when distributed.

(b) Option exercise. Amounts realized from the exercise of a non-qualified stock option (an option other than a statutory option under Treas. Reg. §1.421-1(b)), or when restricted stock or other property held by an Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture under Code §83.

(c) Sale of option stock. Amounts realized from the sale, exchange or other disposition of stock acquired under a statutory stock option as defined under Treas. Reg. §1.421-1(b).

(d) Other amounts that receive special tax benefits. Other amounts that receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are not includible in the gross income of the Employee and are not salary reduction amounts under Code §125).

(e) Other similar items. Other items of remuneration which are similar to any of the items in Sections 1.11(B)(3)(a) through (d).

(4) Alternative (general) 415 Compensation. Under this definition, Compensation means as defined in Section 1.05(B)(3) but with the addition of: (a) amounts described in Code §§104(a)(3), 105(a), or 105(h) but only to the extent that these amounts are includible in Employee's gross income; (b) amounts paid or reimbursed by the Employer for moving expenses incurred by the Employee, but only to the extent that at the time of payment it is reasonable to believe these amounts are not deductible by the Employee under Code §217; (c) the value of a nonstatutory option (an option other than a statutory option under Treas. Reg. §1.421-1(b)) granted by the Employer to the an Employee, but only to the extent that the value of the option is includible in the Employee's gross income for the Taxable Year of the grant; (d) the amount includible in the Employee's gross income upon the Employee's making of an election under Code §83(b); and (e) amounts that are includible in the Employee's gross income under Code §409A or Code §457(f)(1)(A) or because the amounts are constructively received by the Participant. [Note if the Plan's definition of Compensation is W-2 Wages or Code §3401(a) Wages, then Compensation already includes the amounts described in clause (e).]

(C) Deemed 125 Compensation. Deemed 125 Compensation means, in the case of any definition of Compensation which includes a reference to Code §125, amounts under a Code §125 plan of the Employer that are not available to a Participant in cash in lieu of group health coverage, because the Participant is unable to certify that he/she has other health coverage.

(D) Modification to Compensation. The Employer must specify in the Adoption Agreement the Compensation the Plan Administrator is to take into account in allocating Deferral Contributions to a Participant's Account. For all Plan Years other than the Plan Year in which the Employee first becomes a Participant, the Plan Administrator will take into account only the Compensation determined for the portion of the Plan Year in which the Employee actually is a Participant.

(E) Elective Contributions. Compensation under Section 1.05 includes Elective Contributions unless the Employer in the Adoption Agreement elects to exclude Elective Contributions. "Elective Contributions" are amounts excludible from the Employee's gross income under Code §§125, 132(f)(4), 402(e)(3), 402(h)(1)(B), 403(b), 408(p) or 457, and contributed by the Employer, at the Employee's election, to a cafeteria plan, a qualified transportation fringe benefit plan, a 401(k) arrangement, a SARSEP, a tax-sheltered annuity, a SIMPLE plan or a Code §457 plan.

(F) Post-Severance Compensation. Compensation includes Post-Severance Compensation to the extent the Employer elects in the Adoption Agreement or as the Plan otherwise provides. Post-Severance Compensation is Compensation paid after a Participant's Severance from Employment from the Employer, as further described in this Section 1.05(F). As the Employer elects, Post-Severance Compensation may include any or all of regular pay, leave cash-outs, or deferred compensation paid within the time period described in Section 1.05(F)(1), and may also include salary continuation for disabled Participants, all as defined below. Any other payment paid after Severance from Employment that is not described in this Section 1.05(F) is not Compensation even if payment is made within the time period described below. Post-Severance Compensation does not

include severance pay, parachute payments under Code §280G(b)(2) or payments under a nonqualified unfunded deferred compensation plan unless the payments would have been paid at that time without regard to Severance from Employment.

(1) Timing. Post-Severance Compensation includes regular pay, leave cashouts, or deferred compensation only to the extent the Employer pays such amounts by the later of 2 1/2 months after Severance from Employment or by the end of the Limitation Year that includes the date of such Severance from Employment.

(a) Regular pay. Regular pay means the payment of regular Compensation for services during the Participant's regular working hours, or Compensation for services outside the Participant's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, but only if the payment would have been paid to the Participant prior to a Severance from Employment if the Participant had continued in employment with the Employer.

(b) Leave cash-outs. Leave cash-outs means payments for unused accrued bona fide sick, vacation, or other leave, but only if the Employee would have been able to use the leave if employment had continued and if Compensation would have included those amounts if they were paid prior to the Participant's Severance from Employment.

(c) Deferred compensation. As used in this Section 1.05(F), deferred compensation means the payment of deferred compensation pursuant to an unfunded deferred compensation plan, if Compensation would have included the Deferred Compensation if it had been paid prior to the Participant's Severance from Employment, but only if the payment would have been paid at the same time if the Participant had continued in employment with the Employer and only to the extent that the payment is includible in the Participant's gross income.

(2) Salary continuation for disabled Participants. Salary continuation for disabled Participants means Compensation paid to a Participant who is permanently and totally disabled (as defined in Code §22(e)(3)).

(G) Differential Wage Payments. An individual receiving a Differential Wage Payment, as defined by Code §3401(h)(2), shall be treated as an employee of the employer making the payment and the Differential Wage Payment shall be treated as compensation for purposes of Code §457(b) and any other Internal Revenue Code section that references the definition of compensation under Code §415, including the definition of Includible Compensation as provided in Section 1.15.

1.06 **"Deferral Contributions"** means as the Employer elects on the Adoption Agreement, Salary Reduction Contributions, Nonelective Contributions and Matching Contributions. The Plan Administrator in applying the Code §457(b) limit will take into account Deferral Contributions in the Taxable Year in which deferred, or if later, in the Taxable Year in which the Deferral Contributions are no longer subject to a Substantial Risk of Forfeiture. The Plan Administrator in determining the amount of a Participant's Deferral Contributions disregards the net income, gain and loss attributable to Deferral Contributions unless the Deferral Contributions are subject to a Substantial Risk of Forfeiture. If a Deferral Contribution is subject to a Substantial Risk of Forfeiture, the Plan Administrator takes into the Deferral Contribution as adjusted

for allocable net income, gain or loss in the Taxable Year in which the Substantial Risk of Forfeiture lapses.

1.07 **"Deferred Compensation"** means as to a Participant the amount of Deferral Contributions, Rollover Contributions and Transfers adjusted for allocable net income, gain or loss, in the Participant's Account.

1.08 **"Effective Date"** of this Plan is the date the Employer specifies in the Adoption Agreement. The Employer in the Adoption Agreement may elect special effective dates for Plan provisions the Employer specifies provided any such date(s) are permitted by the Code, by Treasury regulations, or by other applicable guidance.

1.09 **"Elective Deferrals"** means a contribution the Employer makes to the Plan pursuant to a Participant's Salary Reduction Agreement, as described in Section 3.02. The term "Elective Deferrals" includes Pre-Tax Elective Deferrals and Roth Elective Deferrals.

1.10 **"Employee"** means an individual who provides services for the Employer, as a common law employee of the Employer. The Employer in the Adoption Agreement must elect or specify any Employee, or class of Employees, not eligible to participate in the Plan (an "Excluded Employee"). See Section 1.16 regarding potential treatment of an Independent Contractor as an Employee.

1.11 **"Employer"** means the entity specified in the Adoption Agreement, any successor which shall maintain this Plan; and any predecessor which has maintained this Plan. In addition, where appropriate, the term Employer shall include any Participating Employer.

1.12 **"Employer Contribution"** means Nonelective Contributions or Matching Contributions.

1.13 **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended.

1.14 **"Excess Deferrals"** means Deferral Contributions to a Governmental Eligible 457 Plan or to a Tax-Exempt Organization Eligible 457 Plan for a Participant that exceed the Taxable Year maximum limitation of Code §§457(b) and (e)(18).

1.15 **"Includible Compensation"** means, for the Employee's Taxable Year, the Employee's total Compensation within the meaning of Code §415(c)(3) paid to an Employee for services rendered to the Employer. Includible Compensation includes Deferral Contributions under the Plan, compensation deferred under any other plan described in Code §457, and any amount excludible from the Employee's gross income under Code §§401(k), 403(b), 125 or 132(f)(4) or any other amount excludible from the Employee's gross income for Federal income tax purposes. The Employer will determine Includible Compensation without regard to community property laws.

1.16 **"Independent Contractor"** means any individual who performs service for the Employer and who the Employer does not treat as an Employee or a Leased Employee. The Employer in the Adoption Agreement may elect to permit Independent Contractors to participate in the Plan. To the extent that the Employer permits Independent Contractor participation, references to Employee in the Plan include Independent Contractors and Compensation means the amounts the Employer pays to the Independent Contractor for services, except as the Employer otherwise specifies in the Adoption Agreement.

1.17 **"Leased Employee"** means an Employee within the meaning of Code §414(n).

1.18 **"Matching Contribution"** means an Employer fixed or discretionary contribution made or forfeiture allocated on account of Salary Reduction Contributions.

1.19 **"Nonelective Contribution"** means an Employer fixed or discretionary contribution not made as a result of a Salary Reduction Agreement and which is not a Matching Contribution.

1.20 **"Normal Retirement Age"** means the age the Employer specifies in the Adoption Agreement consistent with Section 3.05(B).

1.21 **"Participant"** is an Employee other than an Excluded Employee who becomes a Participant in accordance with the provisions of Section 2.01.

1.22 **"Plan"** means the 457 plan established or continued by the Employer in the form of this basic Plan and (if applicable) Trust Agreement, including the Adoption Agreement. The Employer in the Adoption Agreement must designate the name of the Plan. All section references within the Plan are Plan section references unless the context clearly indicates otherwise.

1.23 **"Plan Administrator"** is the Employer unless the Employer designates another person to hold the position of Plan Administrator. The Plan Administrator may be a Participant.

1.24 **"Plan Entry Date"** means the dates the Employer elects in Adoption Agreement.

1.25 **"Plan Year"** means the consecutive 12-month period the Employer elects in the Adoption Agreement.

1.26 **"Pre-Tax Elective Deferrals"** means a Participant's Salary Reduction Contributions which are not includible in the Participant's gross income at the time deferred and have been irrevocably designated as Pre-Tax Elective Deferrals by the Participant in his or her Salary Reduction Agreement. A Participant's Pre-Tax Elective Deferrals will be separately accounted for, as will gains and losses attributable to those Pre-Tax Elective Deferrals.

1.27 **"Rollover Contribution"** means the amount of cash or property which an eligible retirement plan described in Code §402(c)(8)(B) distributes to an eligible Employee or to a Participant in an eligible rollover distribution under Code §402(c)(4) and which the eligible Employee or Participant transfers directly or indirectly to a Governmental Eligible 457 Plan. A Rollover Contribution includes net income, gain or loss attributable to the Rollover Contribution. A Rollover Contribution excludes after-tax Employee contributions, as adjusted for net income, gain or loss.

1.28 **"Roth Elective Deferrals"** means a Participant's Salary Reduction Contributions that are includible in the Participant's gross income at the time deferred and have been irrevocably designated as Roth Elective Deferrals by the Participant in his or her Salary Reduction Agreement. A Participant's Roth Elective Deferrals will be separately accounted for, as will gains and losses attributable to those Roth Elective Deferrals. However, forfeitures may not be allocated to such account. The Plan must also maintain a record of a Participant's investment in the contract (i.e., designated Roth contributions that have not been distributed) and the year in which the Participant first made a Roth Elective Deferral.

1.29 "**Salary Reduction Agreement**" means a written agreement between a Participant and the Employer, by which the Employer reduces the Participant's Compensation for Compensation not available as of the date of the election and contributes the amount as a Salary Reduction Contribution to the Participant's Account.

1.30 "**Salary Reduction Contribution**" means a contribution the Employer makes to the Plan pursuant to a Participant's Salary Reduction Agreement.

1.31 "**Service**" means any period of time the Employee is in the employ of the Employer. In the case of an Independent Contractor, Service means any period of time the Independent Contractor performs services for the Employer on an independent contractor basis. An Employee or Independent Contractor terminates Service upon incurring a Severance from Employment.

(A) "**Qualified Military Service**. Service includes any qualified military service the Plan must credit for contributions and benefits in order to satisfy the crediting of Service requirements of Code §414(u). A Participant whose employment is interrupted by qualified military service under Code §414(u) or who is on a leave of absence for qualified military service under Code §414(u) may elect to make additional Salary Reduction Contributions upon resumption of employment with the Employer equal to the maximum Deferral Contributions that the Participant could have elected during that period if the Participant's employment with the Employer had continued (at the same level of Compensation) without the interruption of leave, reduced by the Deferral Contributions, if any, actually made for the Participant during the period of the interruption or leave. This right applies for five years following the resumption of employment (or, if sooner, for a period equal to three times the period of the interruption or leave). The Employer shall make appropriate make-up Nonelective Contributions and Matching Contributions for such a Participant as required under Code §414(u). The Plan shall apply limitations of Article III to all Deferral Contributions under this paragraph with respect to the year to which the Deferral Contribution relates.

(B) "**Continuous Service**" as the Adoption Agreement describes means Service with the Employer during which the Employee does not incur a Severance from Employment.

(C) "**Severance from Employment.**"

(1) **Employee.** An Employee has a Severance from Employment when the Employee ceases to be an Employee of the Employer. A Participant does not incur a Severance from Employment if, in connection with a change in employment, the Participant's new employer continues or assumes sponsorship of the Plan or accepts a Transfer of Plan assets as to the Participant.

(2) **Independent Contractor.** An Independent Contractor has a Severance from Employment when the contract(s) under which the Independent Contractor performs services for the Employer expires (or otherwise terminates), unless the Employer anticipates a renewal of the contractual relationship or the Independent Contractor becoming an Employee. The Employer anticipates renewal if it intends to contract for the services provided under the expired contract and neither the Employer nor the Independent Contractor has eliminated the Independent Contractor as a potential provider of such services under the new contract. Further, the Employer intends to contract for services conditioned only upon the Employer's need for the services provided under the expired contract or the Employer's availability of funds. Notwithstanding the preceding provisions of this Section 1.31, the Plan Administrator will

consider an Independent Contractor to have incurred a Severance from Employment: (a) if the Plan Administrator or Trustee will not pay any Deferred Compensation to an Independent Contractor who is a Participant before a date which is at least twelve months after the expiration of the Independent Contractor's contract (or the last to expire of such contracts) to render Services to the Employer; and (b) if before the applicable twelve-month payment date, the Independent Contractor performs Service as an Independent Contractor or as an Employee, the Plan Administrator or Trustee will not pay to the Independent Contractor his or her Deferred Compensation on the applicable date.

(3) **Deemed Severance.** Notwithstanding Section 1.05(F), if the Employer elects in the Adoption Agreement, then if a Participant performs service in the uniformed services (as defined in Code §414(u)(12)(B)) on active duty for a period of more than 30 days, the Participant will be deemed to have a severance from employment solely for purposes of eligibility for distribution of amounts not subject to Code §412. However, the Plan will not distribute such a Participant's Account on account of this deemed severance unless the Participant specifically elects to receive a benefit distribution hereunder. If a Participant elects to receive a distribution on account of this deemed severance, then no Deferral Contributions may be made for the Participant during the 6-month period beginning on the date of the distribution. If a Participant would be entitled to a distribution on account of a deemed severance, and a distribution on account of another Plan provision, then the other Plan provision will control and the 6-month suspension will not apply.

1.32 "**State**" means (a) one of the 50 states of the United States or the District of Columbia, or (b) a political subdivision of a State, or any agency or instrumentality of a State or its political subdivision. A State does not include the federal government or any agency or instrumentality thereof.

1.33 "**Substantial Risk of Forfeiture**" exists if the Plan expressly conditions a Participant's right to Deferred Compensation upon the Participant's future performance of substantial Service for the Employer.

1.34 "**Tax-Exempt Organization**" means any tax-exempt organization other than a governmental unit or a church or qualified church-controlled organization within the meaning of Code §3121(w)(3).

1.35 "**Taxable Year**" means the calendar year or other taxable year of a Participant.

1.36 "**Transfer**" means a transfer of Eligible 457 Plan assets to another Eligible 457 Plan which is not a Rollover Contribution and which is made in accordance with Section 9.03.

1.37 "**Trust**" means the Trust created under the adopting Employer's Plan. A Trust required under a Governmental Eligible 457 Plan is subject to Article VIII. Any Trust under a Tax-Exempt Organization Eligible 457 Plan is subject to Section 5.09.

1.38 "**Trustee**" means the person or persons who as Trustee execute the Employer's Adoption Agreement, or any successor in office who in writing accepts the position of Trustee.

1.39 **Type of 457 Plan.** This Plan is an Eligible 457 Plan, which is a plan which satisfies the requirements of Code §457(b) and Treas. Reg. §§1.457-3 through -10. The Employer in the Adoption Agreement must specify whether the plan is either a

Eligible 457 Plan

Governmental Eligible 457 Plan or a Tax-Exempt Organization Eligible 457 Plan, as defined below:

(A) "Governmental Eligible 457 Plan" means an Eligible 457 Plan established by a State.

(B) "Tax-Exempt Organization Eligible 457 Plan" means an Eligible 457 Plan established by a Tax-Exempt Organization.

1.40 **"Vested"** means a Participant's Deferral Contributions that are not subject to a Substantial Risk of Forfeiture, including a vesting schedule.

ARTICLE II
ELIGIBILITY AND PARTICIPATION

2.01 ELIGIBILITY. Each Employee who is not an Excluded Employee becomes a Participant in the Plan in accordance with the eligibility conditions and as of the Plan Entry Date the Employer elects in the Adoption Agreement. If this Plan is a restated Plan, each Employee who was a Participant in the Plan on the day before the Effective Date continues as a Participant in the Plan, irrespective of whether he/she satisfies the eligibility conditions in the restated Plan, unless the Employer indicates otherwise in the Adoption Agreement.

2.02 PARTICIPATION UPON RE-EMPLOYMENT. A Participant who incurs a Severance from Employment will re-enter the Plan as a Participant on the date of his or her re-employment. An Employee who satisfies the Plan's eligibility conditions but who incurs a Severance from Employment prior to becoming a Participant will become a Participant on the later of the Plan Entry Date on which he/she would have entered the Plan had he/she not incurred a Severance from Employment or the date of his or her re-employment. Any Employee who incurs a Severance from Employment prior to satisfying the Plan's eligibility conditions becomes a Participant in accordance with the Adoption Agreement.

2.03 CHANGE IN EMPLOYMENT STATUS. If a Participant has not incurred a Severance from Employment but ceases to be eligible to participate in the Plan, by reason of becoming an Excluded Employee, the Plan Administrator must treat the Participant as an Excluded Employee during the period such a Participant is subject to the Adoption Agreement exclusion. The Plan Administrator determines a Participant's sharing in the allocation of Employer Contributions by disregarding his or her Compensation paid by the Employer for services rendered in his or her capacity as an Excluded Employee. However, during such period of exclusion, the Participant, without regard to employment classification, continues to share fully in Plan income allocations under Section 5.07 and to accrue vesting service if applicable.

ARTICLE III
DEFERRAL CONTRIBUTIONS/LIMITATIONS

3.01 AMOUNT.

(A) Contribution Formula. For each Plan Year, or other period the Employer specifies in the Adoption Agreement, the Employer will contribute to the Plan the type and amount of Deferral Contributions the Employer elects in the Adoption Agreement.

(B) Return of Contributions. The Employer contributes to this Plan on the condition its contribution is not due to a mistake of fact. If the Plan has a Trust, the Trustee, upon written request from the Employer, must return to the Employer the amount of the Employer's contribution (adjusted for net income, gain or loss) made by the Employer on account of a mistake of fact. The Trustee will not return any portion of the Employer's contribution under the provisions of this paragraph more than one year after the Employer made the contribution on account of a mistake of fact. In addition, if any Participant Salary Reduction Contribution is due to a mistake of fact, the Employer or the Trustee upon written request from the Employer shall return the Participant's contribution (adjusted for net income, gain or loss), within one year after payment of the contribution.

The Trustee will not increase the amount of the Employer contribution returnable under this Section 3.01 for any earnings attributable to the contribution, but the Trustee will decrease the Employer contribution returnable for any losses attributable to it. The Trustee may require the Employer to furnish it whatever evidence the Trustee deems necessary to enable the Trustee to confirm the amount the Employer has requested be returned is properly returnable.

(C) Time of Payment of Contribution. If the Plan has a Trust, the Employer may pay its contributions for each Plan Year to the Trust in one or more installments and at such time(s) as the Employer determines, without interest. A Governmental Employer shall deposit Salary Reduction Contributions to the Trust within a period that is not longer than is reasonable for the administration of Participant Accounts.

3.02 SALARY REDUCTION CONTRIBUTIONS. The Employer in the Adoption Agreement must elect whether the Plan permits Salary Reduction Contributions, and also the Plan limitations, if any, which apply to Salary Reduction Contributions. Unless the Employer elects otherwise in the Adoption Agreement, all such limitations apply on a payroll basis.

(A) Deferral from Sick, Vacation and Back Pay. The Employer in the Adoption Agreement must elect whether to permit Participants to make Salary Reduction Contributions from accumulated sick pay, from accumulated vacation pay or from back pay.

(B) Automatic Enrollment. The Employer in the Adoption Agreement may provide for automatic Salary Reduction Contributions of a specified amount, subject to giving notice to affected Participants of the automatic election and of their right to make a contrary election.

A Governmental Employer under an Eligible 457 Plan may elect to provide an Eligible Automatic Contribution Arrangement ("EACA"). If the Employer elects to provide an EACA, the Employer will amend the Plan to add necessary language.

(C) Application to Leave of Absence and Disability. Unless a Participant in his or her Salary Reduction Agreement elects otherwise, the Participant's Salary Reduction Agreement shall

continue to apply during the Participant's leave of absence or the Participant's disability (as the Plan Administrator shall establish), if the Participant has Compensation other than imputed compensation or disability benefits.

(D) Post-severance deferrals limited to Post-Severance Compensation. Deferrals are permitted from an amount received following Severance from Employment only if the amount is Post-Severance Compensation.

3.03 MATCHING CONTRIBUTIONS. The Employer in the Adoption Agreement must elect whether the Plan permits Matching Contributions and, if so, the type(s) of Matching Contributions, the time period applicable to any Matching Contribution formula, and as applicable, the amount of Matching Contributions and the Plan limitations, if any, which apply to Matching Contributions. Any Matching Contributions apply to age 50 catch-up contributions, if any, and to any Normal Retirement Age catch-up contributions unless the Employer elects otherwise in the Adoption Agreement.

3.04 NORMAL LIMITATION. Except as provided in Sections 3.05 and 3.06, a Participant's maximum Deferral Contributions (excluding Rollover Contributions and Transfers) under this Plan for a Taxable Year may not exceed the lesser of:

(a) The applicable dollar amount as specified under Code §457(e)(15) (or such larger amount as the Commissioner of the Internal Revenue may prescribe), or

(b) 100% of the Participant's Includible Compensation for the Taxable Year.

3.05 NORMAL RETIREMENT AGE CATCH-UP CONTRIBUTION. If selected in the Adoption Agreement, a Participant may elect to make this catch-up election. For one or more of the Participant's last three Taxable Years ending before the Taxable Year in which the Participant attains Normal Retirement Age, the Participant's maximum Deferral Contributions may not exceed the lesser of:

(a) Twice the dollar amount under Section 3.04(a) Normal Limitation, or (b) the underutilized limitation.

(A) Underutilized Limitation. A Participant's underutilized limitation is equal to the sum of: (i) the normal limitation for the Taxable Year, and (ii) the normal limitation for each of the prior Taxable Years of the Participant commencing after 1978 during which the Participant was eligible to participate in the Plan and the Participant's Deferral Contributions were subject to the Normal Limitation or any other Code §457(b) limit, less the amount of Deferral Contributions for each such prior Taxable Year, excluding age 50 catch-up contributions.

(B) Normal Retirement Age. Normal Retirement Age is the age the Employer specifies in the Adoption Agreement provided that the age may not be: (i) earlier than the earliest of age 65 or the age at which Participants have the right to retire and receive under the Employer's defined benefit plan (or money purchase plan if the Participant is not eligible to participate in a defined benefit plan) immediate retirement benefits without actuarial or other reduction because of retirement before a later specified age; or (ii) later than age 70 1/2.

(1) Participant Designation. The Employer in the Adoption Agreement may permit a Participant to designate his or her Normal Retirement Age as any age including or between the foregoing ages.

(2) **Multiple 457 Plans.** If the Employer maintains more than one Eligible 457 Plan, the Plans may not permit any Participant to have more than one Normal Retirement Age under the Plans.

(3) **Police and Firefighters.** In a Governmental Eligible 457 Plan with qualified police or firefighter Participants within the meaning of Code §415(b)(2)(H)(ii)(I), the Employer in the Adoption Agreement may elect (or permit the qualified Participants to elect) a Normal Retirement Age as early as age 40 and as late as age 70 1/2.

(C) **Pre-2002 Coordination.** In determining a Participant's underutilized limitation, the Plan Administrator, in accordance with Treas. Reg. §1.457-4(c)(3)(iv), must apply the coordination rule in effect under now repealed Code §457(c)(2). The Plan Administrator also must determine the Normal Limitation for pre-2002 Taxable Years in accordance with Code §457(b)(2) as then in effect.

3.06 **AGE 50 CATCH-UP CONTRIBUTION.** An Employer sponsoring a Governmental Eligible 457 Plan must specify in the Adoption Agreement whether the Participants are eligible to make age 50 catch-up contributions.

If an Employer elects to permit age 50 catch-up contributions, all Employees who are eligible to make Salary Reduction Contributions under this Plan and who have attained age 50 before the close of the Taxable Year are eligible to make age 50 catch-up contributions for that Taxable Year in accordance with, and subject to the limitations of, Code §414(v). Such catch-up contributions are not taken into account for purposes of the provisions of the Plan implementing the required limitations of Code §457. If, for a Taxable Year, an Employee makes a catch-up contribution under Section 3.05, the Employee is not eligible to make age 50 catch-up contributions under this Section 3.06. A catch-up eligible Participant in each Taxable Year is entitled to the greater of the amount determined under Section 3.05 or Section 3.06 Catch-Up Amount plus the Section 3.04 Normal Limitation.

3.07 **CONTRIBUTION ALLOCATION.** The Plan Administrator will allocate to each Participant's Account his or her Deferral Contributions. The Employer will allocate Employer Nonelective and Matching Contributions to the Account of each Participant who satisfies the allocation conditions in the Adoption Agreement in the following manner:

(a) **Fixed match.** To the extent the Employer makes Matching Contributions under a fixed Adoption Agreement formula, the Plan Administrator will allocate the Matching Contribution to the Account of the Participant on whose behalf the Employer makes that contribution. A fixed Matching Contribution formula is a formula under which the Employer contributes a specified percentage or dollar amount on behalf of a Participant based on that Participant's Salary Reduction Contributions.

(b) **Discretionary match.** To the extent the Employer makes Matching Contributions under a discretionary Adoption Agreement formula, the Plan Administrator will allocate the Matching Contributions to a Participant's Account in the same proportion that each Participant's Salary Reduction Contributions taken into account under the formula bear to the total Salary Reduction Contributions of all Participants.

(c) **Tiered match.** If the Matching Contribution formula is a tiered formula, the Plan Administrator will allocate separately the Matching Contributions with respect to each tier

of Salary Reduction Contributions, in accordance with the tiered formula.

(d) **Discretionary nonelective.** The Plan Administrator will allocate discretionary Nonelective Contributions for a Plan Year in the same ratio that each Participant's Compensation for the Plan Year bears to the total Compensation of all Participants for the Plan Year, unless the Employer elects otherwise in the Adoption Agreement.

(e) **Fixed nonelective.** The Plan Administrator will allocate fixed Nonelective Contributions for a Plan Year in the same ratio that each Participant's Compensation for the Plan Year bears to the total Compensation of all Participants for the Plan Year, unless the Employer elects otherwise in the Adoption Agreement.

(f) **Other nonelective.** The Plan Administrator will allocate Nonelective Contributions for a Plan Year as specified in the Adoption Agreement.

3.08 **ALLOCATION CONDITIONS.** The Plan Administrator will determine the allocation conditions applicable to Nonelective Contributions or to Matching Contributions (or to both) in accordance with the Employer's elections in the Adoption Agreement. The Plan Administrator will not allocate to a Participant any portion of an Employer Contribution (or forfeiture if applicable) for a Plan Year or applicable portion thereof in which the Participant does not satisfy the applicable allocation condition(s).

3.09 **ROLLOVER CONTRIBUTIONS.** If elected in the Adoption Agreement, an Employer sponsoring a Governmental Eligible 457 Plan may permit Rollover Contributions.

(A) **Operational Administration.** The Employer, operationally and on a nondiscriminatory basis, may elect to limit an eligible Employee's right or a Participant's right to make a Rollover Contribution. Any Participant (or as applicable, any eligible Employee), with the Employer's written consent and after filing with the Trustee the form prescribed by the Plan Administrator, may make a Rollover Contribution to the Trust. Before accepting a Rollover Contribution, the Trustee may require a Participant (or eligible Employee) to furnish satisfactory evidence the proposed transfer is in fact a "Rollover Contribution" which the Code permits an employee to make to an eligible retirement plan. The Trustee, in its sole discretion, may decline to accept a Rollover Contribution of property which could: (1) generate unrelated business taxable income; (2) create difficulty or undue expense in storage, safekeeping or valuation; or (3) create other practical problems for the Trust.

(B) **Pre-Participation Rollover.** If an eligible Employee makes a Rollover Contribution to the Trust prior to satisfying the Plan's eligibility conditions, the Plan Administrator and Trustee must treat the Employee as a limited Participant (as described in Rev. Rul. 96-48 or in any successor ruling). A limited Participant does not share in the Plan's allocation of any Employer Contributions and may not make Salary Reduction Contributions until he/she actually becomes a Participant in the Plan. If a limited Participant has a Severance from Employment prior to becoming a Participant in the Plan, the Trustee will distribute his or her Rollover Contributions Account to the limited Participant in accordance with Article IV.

(C) **Separate Accounting.** If an Employer permits Rollover Contributions, the Plan Administrator must account separately for: (1) amounts rolled into this Plan from an eligible retirement plan (other than from another Governmental Eligible 457 plan); and (2) amounts rolled into this Plan from another

Governmental Eligible 457 Plan The Plan Administrator for purposes of ordering any subsequent distribution from this Plan, may designate a distribution from a Participant's Rollover Contributions as coming first from either of (1) or (2) above if the Participant has both types of Rollover Contribution Accounts.

(D) May Include Roth Deferrals. If this Plan is an eligible governmental 457(b) plan which accepts Roth Elective Deferrals, then a Rollover Contribution may include Roth Deferrals made to another plan, as adjusted for Earnings. Such amounts must be directly rolled over into this Plan from another plan which is qualified under Code §401(a), from a 403(b) plan, or from an eligible governmental 457 plan. The Plan must account separately for the Rollover Contribution, including the Roth Deferrals and the Earnings thereon.

(E) In-Plan Roth Rollover Contributions. A Governmental Employer under an Eligible 457 Plan may elect to permit In-Plan Roth Rollover Contribution. If the Employer decides to permit In-Plan Roth Rollover Contributions, the Employer will amend the Plan to add necessary language.

3.10 DISTRIBUTION OF EXCESS DEFERRALS. In the event that a Participant has Excess Deferrals, the Plan will distribute to the Participant the Excess Deferrals and allocable net income, gain or loss, in accordance with this Section 3.10.

(A) Governmental Eligible 457 Plan. The Plan Administrator will distribute Excess Deferrals from a Governmental Eligible 457 Plan as soon as is reasonably practicable following the Plan Administrator's determination of the amount of the Excess Deferral.

(B) Tax-Exempt Organization Eligible 457 Plan. The Plan Administrator will distribute Excess Deferrals from a Tax-Exempt Organization Eligible 457 Plan no later than April 15 following the Taxable Year in which the Excess Deferral occurs.

(C) Plan Aggregation. If the Employer maintains more than one Eligible 457 Plan, the Employer must aggregate all such Plans in determining whether any Participant has Excess Deferrals.

(D) Individual Limitation. If a Participant participates in another Eligible 457 Plan maintained by a different employer, and the Participant has Excess Deferrals, the Plan Administrator may, but is not required, to correct the Excess Deferrals by making a corrective distribution from this Plan.

3.11 DEEMED IRA CONTRIBUTIONS. A Governmental Employer under an Eligible 457 Plan may elect to permit Participants to make IRA contributions to this Plan in accordance with the Code §408(q) deemed IRA rules. If the Employer elects to permit deemed IRA contributions to the Plan, the Employer will amend the Plan to add necessary IRA language and either the Rev. Proc. 2003-13 sample deemed IRA language or an appropriate substitute.

3.12 ROTH ELECTIVE DEFERRALS. The Employer may elect in the Adoption Agreement to permit Roth Elective Deferrals. Unless elected otherwise, Roth Elective Deferrals shall be treated in the same manner as Elective Deferrals. The Employer may, in operation, implement deferral election procedures provided such procedures are communicated to Participants and permit Participants to modify their elections at least once each Plan Year.

(A) Elective Deferrals. "Elective Deferral" means a contribution the Employer makes to the Plan pursuant to a Participant's Salary Reduction Agreement, as described in Section 3.02. The term "Elective Deferrals" includes Pre-tax Elective Deferrals and Roth Elective Deferrals.

(B) Pre-Tax Elective Deferrals. "Pre-Tax Elective Deferrals" means a Participant's Salary Reduction Contributions which are not includable in the Participant's gross income at the time deferred and have been irrevocably designated as Pre-Tax Elective Deferrals by the Participant in his or her Salary Reduction Agreement. A Participant's Pre-Tax Elective Deferrals will be separately accounted for, as will gains and losses attributable to those Pre-Tax Elective Deferrals.

(C) Roth Elective Deferrals. "Roth Elective Deferrals" means a Participant's Salary Reduction Contributions that are includable in the Participant's gross income at the time deferred and have been irrevocably designated as Roth Elective Deferrals by the Participant in his or her Salary Reduction Agreement. A Participant's Roth Elective Deferrals will be separately accounted for, as will gains and losses attributable to those Roth Elective Deferrals. However, forfeitures may not be allocated to such account. The Plan must also maintain a record of a Participant's investment in the contract (i.e., designated Roth contributions that have not been distributed) and the year in which the Participant first made a Roth Elective Deferral.

(D) Ordering Rules for Distributions. The Administrator operationally may implement an ordering rule procedure for withdrawals (including, but not limited to, withdrawals on account of an unforeseeable emergency) from a Participant's accounts attributable to Pre-Tax Elective Deferrals or Roth Elective Deferrals. Such ordering rules may specify whether the Pre-Tax Elective Deferrals or Roth Elective Deferrals are distributed first. Furthermore, such procedure may permit the Participant to elect which type of Elective Deferrals shall be distributed first.

(E) Corrective distributions attributable to Roth Elective Deferrals. For any Plan Year in which a Participant may make both Roth Elective Deferrals and Pre-Tax Elective Deferrals, the Administrator operationally may implement an ordering rule procedure for the distribution of Excess Deferrals (Treas. Reg. §1.457-4(e)). Such an ordering rule may specify whether the Pre-Tax Elective Deferrals or Roth Elective Deferrals are distributed first, to the extent such type of Elective Deferrals was made for the year. Furthermore, such procedure may permit the Participant to elect which type of Elective Deferrals shall be distributed first.

(F) Loans. If Participant loans are permitted under the Plan, then the Administrator may modify the loan policy or program to provide limitations on the ability to borrow from, or use as security, a Participant's Roth Elective Deferral account. Similarly, the loan policy or program may be modified to provide for an ordering rule with respect to the default of a loan that is made from the Participant's Roth Elective Deferral account and other accounts under the Plan.

(G) Rollovers. A direct rollover of a distribution from Roth Elective Deferrals shall only be made to a Plan which includes Roth Elective Deferrals as described in Code §402A(e)(1) or to a Roth IRA as described in Code §408A, and only to the extent the rollover is permitted under the rules of Code §402(c).

The Plan shall accept a rollover contribution of Roth Elective Deferrals only if it is a direct rollover from another Plan which permits Roth Elective Deferrals as described in Code §402A(e)(1) and only to the extent the rollover is permitted under the rules of Code §402(c). The Employer, operationally and on a uniform and nondiscriminatory basis, may decide whether to accept any such rollovers.

The Plan shall not provide for a direct rollover (including an automatic rollover) for distributions from a Participant's Roth Elective Deferral account if the amount of the distributions that are eligible rollover distributions are reasonably expected to total less than \$200 during a year. In addition, any distribution from a Participant's Roth Elective Deferrals are not taken into account in determining whether distributions from a Participant's other accounts are reasonably expected to total less than \$200 during a year. Furthermore, the Plan will treat a Participant's Roth Elective Deferral account and the Participant's other accounts as held under two separate plans for purposes of applying the automatic rollover rules. However, eligible rollover distributions of a Participant's Roth Elective Deferrals are taken into account in determining whether the total amount of the Participant's account balances under the Plan exceed the Plan's limits for purposes of mandatory distributions from the Plan.

The provisions of the Plan that allow a Participant to elect a direct rollover of only a portion of an eligible rollover distribution but only if the amount rolled over is at least \$500 is applied by treating any amount distributed from a Participant's Roth Elective Deferral account as a separate distribution from any amount distributed from the Participant's other accounts in the Plan, even if the amounts are distributed at the same time.

(H) Automatic Enrollment. If the Plan utilizes an automatic enrollment feature as described in Section 3.02(B), then any such automatic contribution shall be a Pre-Tax Elective Deferral.

(I) Operational Compliance. The Plan Administrator will administer Roth Elective Deferrals in accordance with applicable regulations or other binding authority.

3.13 BENEFIT ACCRUAL. If the Employer elects to apply this Section, then effective as of the date adopted, for benefit accrual purposes, the Plan treats an individual who dies or becomes disabled (as defined under the terms of the Plan) while performing qualified military service with respect to the Employer as if the individual had resumed employment in accordance with the individual's reemployment rights under USERRA, on the day preceding death or disability (as the case may be) and terminated employment on the actual date of death or disability.

(A) Determination of benefits. The amount of Matching Contributions to be made pursuant to this Section 3.13 shall be determined as though the amount of Salary Reduction Contributions of an individual treated as reemployed under this Section on the basis of the individual's average actual Salary Reduction Contributions for the lesser of: (i) the 12-month period of service with the Employer immediately prior to qualified military service; or (ii) the actual length of continuous service with the Employer.

3.14 ELIGIBLE AUTOMATIC CONTRIBUTION ARRANGEMENT (EACA). As elected in the Adoption Agreement, the Employer maintains a Plan with automatic enrollment provisions as an Eligible Automatic Contribution Arrangement ("EACA"). Accordingly, the Plan will satisfy the (1) uniformity requirements, and (2) notice requirements under this Section.

(A) Uniformity. The Automatic Deferral Percentage must be a uniform percentage of Compensation. All Participants in the EACA, are subject to Automatic Deferrals, except to the extent otherwise provided in this Plan. If a Participant's Affirmative Election expires or otherwise ceases to be in effect, the Participant will immediately thereafter be subject to Automatic Deferrals, except to the extent otherwise provided in this Plan. However, the Plan does not violate the uniform Automatic Deferral Percentage merely because the Plan applies any of the following provisions:

(a) Years of participation. The Automatic Deferral Percentage varies based on the number of plan years the Participant has participated in the Plan while the Plan has applied EACA provisions;

(b) No reduction from prior default percentage. The Plan does not reduce an Automatic Deferral Percentage that, immediately prior to the EACA's effective date was higher (for any Participant) than the Automatic Deferral Percentage;

(c) Applying statutory limits. The Plan limits the Automatic Deferral amount so as not to exceed the limits of Code Section 457(b)(2) (determined without regard to Age 50 Catch-Up Deferrals).

(B) EACA notice. The Plan Administrator annually will provide a notice to each Participant a reasonable period prior to each plan year the Employer maintains the Plan as an EACA ("EACA Plan Year").

(a) Deemed reasonable notice/new Participant. The Plan Administrator is deemed to provide timely notice if the Plan Administrator provides the EACA notice at least 30 days and not more than 90 days prior to the beginning of the EACA Plan Year.

(b) Mid-year notice/new Participant or Plan. If: (a) an Employee becomes eligible to make Salary Reduction Contributions in the Plan during an EACA Plan Year but after the Plan Administrator has provided the annual EACA notice for that plan year; or (b) the Employer adopts mid-year a new Plan as an EACA, the Plan Administrator must provide the EACA notice no later than the date the Employee becomes eligible to make Salary Reduction Contributions. However, if it is not practicable for the notice to be provided on or before the date an Employee becomes a Participant, then the notice will nonetheless be treated as provided timely if it is provided as soon as practicable after that date and the Employee is permitted to elect to defer from all types of Compensation that may be deferred under the Plan earned beginning on that date.

(c) Content. The EACA notice must provide comprehensive information regarding the Participants' rights and obligations under the Plan and must be written in a manner calculated to be understood by the average Participant in accordance with applicable guidance.

(C) EACA permissible withdrawal. If elected in in the Adoption Agreement, a Participant who has Automatic Deferrals under the EACA may elect to withdraw all the Automatic

Deferrals (and allocable earnings) under the provisions of this Section 3.14. Any distribution made pursuant to this Section will be processed in accordance with normal distribution provisions of the Plan.

(a) Amount. If a Participant elects a permissible withdrawal under this Section, then the Plan must make a distribution equal to the amount (and only the amount) of the Automatic Deferrals made under the EACA (adjusted for allocable gains and losses to the date of the distribution). The Plan may separately account for Automatic Deferrals, in which case the entire account will be distributed. If the Plan does not separately account for the Automatic Deferrals, then the Plan must determine earnings or losses in a manner similar to the rules of Treas. Reg. §1.401(k)-2(b)(2)(iv) for distributions of excess contributions.

(b) Fees. Notwithstanding the above, the Plan Administrator may reduce the permissible distribution amount by any generally applicable fees. However, the Plan may not charge a greater fee for distribution under this Section than applies to other distributions. The Plan Administrator may adopt a policy regarding charging such fees consistent with this paragraph.

(c) Timing. The Participant may make an election to withdraw the Automatic Deferrals under the EACA no later than 90 days, or such shorter period as specified in the Adoption Agreement, after the date of the first Automatic Deferral under the EACA. For this purpose, the date of the first Automatic Deferral is the date that the Compensation subject to the Automatic Deferral otherwise would have been includible in the Participant's gross income. Furthermore, a Participant's withdrawal right is not restricted due to the Participant making an Affirmative Election during the 90 day period (or shorter period as specified in Adoption Agreement.).

(d) Rehired Employees. For purposes of this Section, an Employee who for an entire Plan Year did not have contributions made pursuant to a default election under the EACA will be treated as having not had such contributions for any prior Plan Year as well.

(e) Effective date of the actual withdrawal election: The effective date of the permissible withdrawal will be as soon as practicable, but in no event later than the earlier of (1) the pay date of the second payroll period beginning after the election is made, or (2) the first pay date that occurs at least 30 days after the election is made. The election will also be deemed to be an Affirmative Election to have no Salary Reduction Contributions made to the Plan.

(f) Related matching contributions. The Plan Administrator will not take any deferrals withdrawn pursuant to this section into account in computing the contribution and allocation of matching contributions, if any. If the Employer has already allocated matching contributions to the Participant's account with respect to deferrals being withdrawn pursuant to this Section, then the matching contributions, as adjusted for gains and losses, must be forfeited. Except as otherwise provided, the Plan will use the forfeited contributions to reduce future contributions or to reduce plan expenses.

(D) Compensation. Compensation for purposes of determining the amount of Automatic Deferrals has the same meaning as Compensation with regard to Salary Reduction Contributions in general.

(E) Definitions.

(a) Definition of Automatic Deferral. An Automatic Deferral is a Salary Reduction Contribution that results from the operation of this Article III. Under the Automatic Deferral, the Employer automatically will reduce by the Automatic Deferral Percentage as elected the Compensation of each Participant subject to the EACA. The Plan Administrator will cease to apply the Automatic Deferral to a Participant who makes an Affirmative Election as defined in this Section.

(b) Definition of Automatic Deferral Percentage/Increases. The Automatic Deferral Percentage is the percentage of Automatic Deferral (including any scheduled increase to the Automatic Deferral Percentage the Employer may elect).

(c) Effective date of EACA Automatic Deferral. The effective date of an Employee's Automatic Deferral will be as soon as practicable after the Employee is subject to Automatic Deferrals under the EACA, consistent with (a) applicable law, and (b) the objective of affording the Employee a reasonable period of time after receipt of the notice to make an Affirmative Election (and, if applicable, an investment election).

(d) Definition of Affirmative Election. An Affirmative Election is a Participant's election made after the EACA's Effective Date not to defer any Compensation or to defer more or less than the Automatic Deferral Percentage.

(e) Effective Date of Affirmative Election. A Participant's Affirmative Election generally is effective as of the first payroll period which follows the payroll period in which the Participant made the Affirmative Election. However, a Participant may make an Affirmative Election which is effective: (a) for the first payroll period in which he or she becomes a Participant if the Participant makes an Affirmative Election within a reasonable period following the Participant's entry date and before the Compensation to which the Election applies becomes currently available; or (b) for the first payroll period following the EACA's effective date, if the Participant makes an Affirmative Election not later than the EACA's effective date.

3.15 IN-PLAN ROTH ROLLOVER CONTRIBUTION

(a) Employer Election. The Employer in its Adoption Agreement in which the Employer has elected to permit Roth Deferrals also will elect whether to permit an In-Plan Roth Rollover Contribution in accordance with this Section with regard to otherwise distributable amounts and/or otherwise nondistributable amounts. If the Employer elects to permit such contributions, the Employer in its Adoption Agreement will specify the Effective Date thereof which may not be earlier than distributions made after September 27, 2010, and may not be earlier than January 1, 2013 in the case of rollovers of otherwise nondistributable amounts. An In-Plan Roth Rollover Contribution means a Rollover Contribution to the Plan that consists of a distribution or transfer from a Participant's Plan Account, other than a Roth Deferral Account, that the Participant transfers to the Participant's In-Plan Roth Rollover Contribution Account in the Plan, in accordance with Code §402(c)(4). In-Plan Roth Rollover Contributions will be subject to the Plan rules related to Roth Deferral Accounts, subject to preservation of protected benefits.

(b) Eligibility for Distribution and Rollover. A Participant may not make an In-Plan Roth Rollover Contribution with regard to an otherwise distributable amount which is not an Eligible Rollover Distribution.

(1) Parties eligible to elect. For purposes of eligibility for an In-Plan Roth Rollover, the Plan will treat a Participant's surviving spouse Beneficiary or alternate payee spouse or alternate payee former spouse as a Participant. A non-spouse Beneficiary may not make an In-Plan Roth Rollover.

(2) Distribution from partially Vested account. In-Plan Roth Rollovers are permitted only from Vested amounts allocated to a qualifying source but may be made from partially Vested Accounts. If a distribution is made to a Participant who has not incurred a Severance from Employment and who is not fully Vested in the Participant's Account from which the In-Plan Roth Rollover Contribution is to be made, and the Participant may increase the Vested percentage in such Account.

(c) Form and Source of Rollover.

(1) Direct Rollover. An In-Plan Roth Rollover Contribution may be made only by a Direct Rollover.

(2) Account source. A Participant may make an In-Plan Roth Rollover from any account (other than a Roth account).

(3) Cash or in-kind. The Plan Administrator will effect an In-Plan Roth Rollover Contribution by rolling over the Participant's current investments to the In-Plan Roth Rollover Account. A Plan loan so rolled over without changing the repayment schedule is not treated as a new loan. However the

Employer may provide that loans cannot be rolled over in an In-Plan Roth Rollover.

(4) No Rollover or Distribution Treatment. Notwithstanding any other Plan provision, an In-Plan Roth Rollover Contribution is not a Rollover Contribution for purposes of the Plan. Accordingly: (a) if the Employer in its Adoption Agreement has elected \$5,000 as the Plan limit on Mandatory Distributions, the Plan Administrator will take into account amounts attributable to an In-Plan Roth Rollover Contribution, in determining if the \$5,000 limit is exceeded, regardless of the Employer's election as to whether to count Rollover Contributions for this purpose; (b) no spousal consent is required for a Participant to elect to make an In-Plan Roth Rollover Contribution; (c) protected benefits with respect to the amounts subject to the In-Plan Roth Rollover are preserved; and (d) mandatory 20% federal income tax withholding does not apply to the In-Plan Roth Rollover Contribution.

(5) In-Plan Roth Rollover Contribution Account. An In-Plan Roth Rollover Contribution Account is a sub-account the Plan Administrator may establish to account for a Participant's Rollover Contributions attributable to the Participant's In-Plan Roth Rollover Contributions. The Plan Administrator has authority to establish such a sub-account, and to the extent necessary, may establish sub-accounts based on the source of the In-Plan Roth Rollover Contribution. The Plan Administrator will administer an In-Plan Roth Rollover Contribution Account in accordance with Code and the Plan provisions.

ARTICLE IV TIME AND METHOD OF PAYMENT OF BENEFITS

4.01 **DISTRIBUTION RESTRICTIONS.** Except as the Plan provides otherwise, the Plan Administrator or Trustee may not distribute to a Participant the amounts in his or her Account prior to one of the following events:

- (a) The Participant's attaining age 70 1/2;
- (b) The Participant's Severance from Employment; or
- (c) The Participant's death.

4.02 **TIME AND METHOD OF PAYMENT OF ACCOUNT.** The Plan Administrator, or Trustee at the direction of the Plan Administrator, will distribute to a Participant who has incurred a Severance from Employment the Participant's Vested Account under one or any combination of payment methods and at the time(s) the Adoption Agreement specifies. If the Adoption Agreement permits more than one time or method, the Plan Administrator, in the absence of a Participant election described below, will determine the time and method applicable to a particular Participant. In no event will the Plan Administrator direct (or direct the Trustee to commence) distribution, nor will the Participant elect to have distribution commence, later than the Participant's required beginning date, or under a method that does not satisfy Section 4.03.

(A) Participant Election of Time and Method. The Employer in the Adoption Agreement must elect whether to permit Participants to elect the timing and method of distribution of their Account in accordance with this Section 4.02. The Plan Administrator must consent to the specific terms of any such Participant election and the Plan Administrator in its sole discretion may withhold consent. Subject to the foregoing conditions, a Participant: (1) may elect to postpone distribution of his or her Account beyond the time the Employer has elected in the Adoption Agreement, to any fixed or determinable date

including, but not beyond, the Participant's required beginning date; and (2) may elect the method of payment. A Participant in a Tax Exempt Organization Eligible 457 Plan may elect the timing and method of payment of his or her Account no later than 30 days before the date the Plan Administrator or Trustee first would commence payment of the Participant's Account in accordance with the Adoption Agreement. The Plan Administrator must furnish to the Participant a form for the Participant to elect the time and a method of payment. A Participant in a Governmental Eligible 457 Plan is not subject to any such requirement in election the timing or method of payment.

(B) Number of Initial Elections/Subsequent Elections. A Participant in a Tax-Exempt Organization Eligible 457 Plan may make any number of elections or revoke any prior election under Section 4.02(A) within the election period. Once the initial election period expires, a Participant, before payment would commence under the Participant's initial election, may make one additional election to defer (but not to accelerate) the timing of payment of his or her Account and also as to the method of payment.

(C) No Election/Default. If the Participant does not make a timely election regarding the time and method of payment, the Plan Administrator will pay or direct the Trustee to pay the Participant's Account in accordance with the Adoption Agreement.

(D) Mandatory Distribution. The Employer in the Adoption Agreement will elect whether the Plan will make Mandatory Distributions. If the Employer elects Mandatory Distributions, the Employer may determine operationally whether to include Rollover Contributions in determining whether the Participant is subject to Mandatory Distributions.

4.03 **REQUIRED MINIMUM DISTRIBUTIONS.** The Plan Administrator may not distribute nor direct the Trustee to distribute the Participant's Account, nor may the Participant elect any distribution his or her Account, under a method of payment which, as of the required beginning date, does not satisfy the minimum distribution requirements of Code §401(a)(9) or which is not consistent with applicable Treasury regulations.

(A) General Rules.

(1) Precedence. The requirements of this Section 4.03 will take precedence over any inconsistent provisions of the Plan.

(2) Requirements of Treasury Regulations Incorporated. All distributions required under this Section 4.03 will be determined and made in accordance with the Treasury regulations under Code §401(a)(9).

(B) Time and Manner of Distribution.

(1) Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's required beginning date.

(2) Death of Participant Before Distribution Begins. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(a) Spouse Designated Beneficiary. If the Participant's surviving spouse is the Participant's sole designated Beneficiary, then, except as the Employer may elect in the Adoption Agreement, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant dies, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.

(b) Non-Spouse Designated Beneficiary. If the Participant's surviving spouse is not the Participant's sole designated Beneficiary, then, except as the Employer may elect in the Adoption Agreement, distributions to the designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(c) No Designated Beneficiary. If there is no designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(d) Death of Spouse. If the Participant's surviving spouse is the Participant's sole designated Beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this Section 4.03(B)(2) other than Section 4.03(B)(2)(a), will apply as if the surviving spouse were the Participant.

For purposes of this Section 4.03(B) and Section 4.03(D), unless Section 4.03(B)(2)(d) applies, distributions are considered to begin on the Participant's required beginning date. If Section 4.03(B)(2)(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under Section 4.03(B)(2)(a). If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's required beginning date or to the Participant's surviving spouse

before the date distributions are required to begin to the surviving spouse under Section 4.03(B)(2)(a), the date distributions are considered to begin is the date distributions actually commence.

(3) Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution calendar year distributions will be made in accordance with Sections 4.03(C) and 4.03(D). If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Code §401(a)(9) and the Treasury regulations.

(C) Required Minimum Distributions during Participant's Lifetime.

(1) Amount of Required Minimum Distribution for Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

(a) ULT. The quotient obtained by dividing the Participant's account balance by the number in the Uniform Life Table set forth in Treas. Reg. §1.401(a)(9)-9, using the Participant's attained age as of the Participant's birthday in the distribution calendar year; or

(b) Younger Spouse. If the Participant's sole designated Beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in Treas. Reg. §1.401(a)(9)-9, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

(2) Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this Section 4.03(C) beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

(D) Required Minimum Distributions after Participant's Death.

(1) Death On or After Distributions Begin.

(a) Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated Beneficiary, determined as follows:

(i) Participant's Life Expectancy. The Participant's remaining life expectancy is calculated using the attained age of the Participant as of the Participant's birthday in the calendar year of death, reduced by one for each subsequent calendar year.

(ii) Spouse's Life Expectancy. If the Participant's surviving spouse is the Participant's sole designated Beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar

years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the attained age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

(iii) Non-Spouse's Life Expectancy. If the Participant's surviving spouse is not the Participant's sole designated Beneficiary, the designated Beneficiary's remaining life expectancy is calculated using the attained age of the Beneficiary as of the Beneficiary's birthday in the calendar year following the calendar year of the Participant's death, reduced by one for each subsequent calendar year.

(b) No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no designated Beneficiary as of September 30 of the calendar year after the calendar year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the calendar year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the attained age of the Participant as of the Participant's birthday in the calendar year of death, reduced by one for each subsequent calendar year.

(2) Death before Date Distributions Begin.

(a) Participant Survived by Designated Beneficiary. Except as the Employer may elect in the Adoption Agreement, if the Participant dies before the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's designated Beneficiary, determined as provided in Section 4.03(D)(1).

(b) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated Beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under Section 4.03(B)(2)(a), this Section 4.03(D)(2) will apply as if the surviving spouse were the Participant.

(d) 5-year or Life Expectancy rule; possible election. The Employer in its Adoption Agreement will elect whether distribution of the Participant's Account will be made in accordance with the life expectancy rule under Section 4.03(D)(2)(a) or the 5-year rule under Section 4.03(D)(2)(b). The Employer's election may permit a Designated Beneficiary to elect which of these rules will apply or may specify which rule applies. However, the life expectancy rule (whether subject to election or not) applies only in the case of a Designated Beneficiary. The 5-year rule applies as to any Beneficiary who is not a Designated Beneficiary. A permitted election under this Section must be made no later than the earlier of September 30 of the calendar year in which distribution would be required to begin under Section 4.03(D)(2)(a), or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving spouse's) death.

(E) Definitions.

(1) Designated Beneficiary. The individual who is designated as the Beneficiary under the Plan and is the designated beneficiary under Code §401(a)(9) and Treas. Reg. §1.401(a)(9)-1, Q&A-4.

(2) Distribution calendar year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which the distributions are required to begin under Section 4.03(B)(2). The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

(3) Life expectancy. Life expectancy as computed by use of the Single Life Table in Treas. Reg. §1.401(a)(9)-9.

(4) Participant's account balance. The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The account balance for the valuation calendar year includes any Rollover Contributions or Transfers to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

(5) Required beginning date. A Participant's required beginning date is the April 1 of the calendar year following the later of: (1) the calendar year in which the Participant attains age 70 1/2, or (2) the calendar year in which the Participant retires or such other date under Code §401(a)(9) by which required minimum distributions must commence.

4.04 DEATH BENEFITS. Upon the death of the Participant, the Plan Administrator must pay or direct the Trustee to pay the Participant's Account in accordance with Section 4.03. Subject to Section 4.03, a Beneficiary may elect the timing and method of payment in the same manner as a Participant may elect under Section 4.02, if such elections apply.

If a Participant dies while performing qualified military service (as defined in Code §414(u)), the survivors of the Participant are entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan as if the Participant had resumed and then terminated employment on account of death.

4.05 DISTRIBUTIONS PRIOR TO SEVERANCE FROM EMPLOYMENT. The Employer must elect in the Adoption Agreement whether to permit in-service distributions of a Participant's Vested Account under this Section 4.05, notwithstanding the Section 4.01 distribution restrictions.

(A) Unforeseeable Emergency. In the event of a Participant's or the Participant's spouse, dependents or beneficiaries' unforeseeable emergency, the Plan Administrator may make a

distribution to a Participant who has not incurred a Severance from Employment (or who has incurred a Severance but will not begin to receive payments until some future date). In the event of an unforeseeable emergency, the Plan Administrator also may accelerate payments to a Participant or to a Beneficiary. The Plan Administrator will establish a policy for determining whether an unforeseeable emergency exists. An unforeseeable emergency is a severe financial hardship of a Participant or Beneficiary resulting from: (1) illness or accident of the Participant, the Beneficiary, or the Participant's or Beneficiary's spouse or dependent (as defined in Code §152(a)); (2) loss of the Participant's or Beneficiary's property due to casualty; (3) the need to pay for the funeral expenses of the Participant's or Beneficiary's spouse or dependent (as defined in Code §152(a)); or (4) other similar extraordinary and unforeseeable circumstances arising from events beyond the Participant's or Beneficiary's control, or which applicable law may define as an unforeseeable emergency. The Plan Administrator will not pay the Participant or the Beneficiary more than the amount reasonably necessary to satisfy the emergency need, which may include amounts necessary to pay taxes or penalties on the distribution. The Plan Administrator will not make payment to the extent the Participant or Beneficiary may relieve the financial hardship by cessation of deferrals under the Plan, through insurance or other reimbursement, or by liquidation of the individual's assets to the extent such liquidation would not cause severe financial hardship.

The Participant's Beneficiary is a person who a Participant designates and who is or may become entitled to a Participant's Plan Account upon the Participant's death.

(B) De minimis distribution. In accordance with the Employer's Adoption Agreement elections, the Plan Administrator may allow a Participant to elect to receive a distribution or the Plan Administrator will distribute (without a Participant election) any amount of the Participant's Account where: (1) the Participant's Account (disregarding Rollover Contributions) does not exceed \$5,000 (or such other amount as does not exceed the Code §411(a)(11)(A) dollar amount); (2) the Participant has not made or received an allocation of any Deferral Contributions under the Plan during the two-year period ending on the date of distribution; and (3) the Participant has not received a prior distribution under this Section 4.05(B).

(C) Distribution of Rollover Contributions. The Employer in the Adoption Agreement may elect to permit a Participant to request and to receive distribution of the Participant's Account attributable to Rollover Contributions (but not to Transfers) before the Participant has a distributable event under Section 4.01.

4.06 DISTRIBUTIONS UNDER QUALIFIED DOMESTIC RELATIONS ORDERS (QDROs).

Notwithstanding any other provision of this Plan, the Employer in the Adoption Agreement may elect to apply the QDRO provisions of this Section 4.06. If Section 4.06 applies, the Plan Administrator (and any Trustee) must comply with the terms of a QDRO, as defined in Code §414(p), which is issued with respect to the Plan.

(A) Time and Method of Payment. This Plan specifically permits distribution to an alternate payee under a QDRO at any time, notwithstanding any contrary Plan provision and irrespective of whether the Participant has attained his or her earliest retirement age (as defined under Code §414(p)) under the Plan. A distribution to an alternate payee prior to the Participant's attainment of earliest retirement age is available only if the QDRO specifies distribution at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution. Nothing in this Section 4.06

gives a Participant a right to receive distribution at a time the Plan otherwise does not permit nor authorizes the alternate payee to receive a form of payment the Plan does not permit.

(B) QDRO Procedures. The Plan Administrator must establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Plan Administrator promptly will notify the Participant and any alternate payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the qualified status of the order. Within a reasonable period of time after receiving the domestic relations order, the Plan Administrator must determine the qualified status of the order and must notify the Participant and each alternate payee, in writing, of the Plan Administrator's determination. The Plan Administrator must provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order.

(C) Accounting. If any portion of the Participant's Account Balance is payable under the domestic relations order during the period the Plan Administrator is making its determination of the qualified status of the domestic relations order, the Plan Administrator must maintain a separate accounting of the amounts payable. If the Plan Administrator determines the order is a QDRO within 18 months of the date amounts first are payable following receipt of the domestic relations order, the Plan Administrator will distribute or will direct the Trustee to distribute the payable amounts in accordance with the QDRO. If the Plan Administrator does not make its determination of the qualified status of the order within the 18-month determination period, the Plan Administrator will distribute or will direct the Trustee to distribute the payable amounts in the manner the Plan would distribute if the order did not exist and will apply the order prospectively if the Plan Administrator later determines the order is a QDRO.

To the extent it is not inconsistent with the provisions of the QDRO, the Plan Administrator may segregate or may direct the Trustee to segregate the QDRO amount in a segregated investment account. The Plan Administrator or Trustee will make any payments or distributions required under this Section 4.06 by separate benefit checks or other separate distribution to the alternate payee(s).

(D) Permissible QDROs. A domestic relations order that otherwise satisfies the requirements for a qualified domestic relations order ("QDRO") will not fail to be a QDRO: (i) solely because the order is issued after, or revises, another domestic relations order or QDRO; or (ii) solely because of the time at which the order is issued, including issuance after the annuity starting date or after the Participant's death.

4.07 DIRECT ROLLOVER OF ELIGIBLE ROLLOVER DISTRIBUTIONS – GOVERNMENTAL PLAN.

(A) Participant Election. A Participant (including for this purpose, a former Employee) in a Governmental Eligible 457 Plan may elect, at the time and in the manner the Plan Administrator prescribes, to have any portion of his or her eligible rollover distribution from the Plan paid directly to an eligible retirement plan specified by the Participant in a direct rollover election. For purposes of this election, a "Participant" includes as to their respective interests, a Participant's surviving spouse and the Participant's spouse or former spouse who is an alternate payee under a QDRO.

(B) Rollover and Withholding Notice. At least 30 days and not more than 180 days prior to the Trustee's distribution of an

eligible rollover distribution, the Plan Administrator must provide a written notice (including a summary notice as permitted under applicable Treasury regulations) explaining to the distributee the rollover option, the applicability of mandatory 20% federal withholding to any amount not directly rolled over, and the recipient's right to roll over within 60 days after the date of receipt of the distribution ("rollover notice").

(C) Default distribution or rollover. Except as provided in Paragraph (D), in the case of a Participant who does not elect timely to roll over or to receive distribution of his or her Account, the Plan Administrator or the Trustee, at the Plan Administrator's direction, may distribute to the Participant or may directly roll over the Participant's Account in accordance with the Plan's rollover notice.

(D) Mandatory default rollover. If (1) the Plan is a Governmental Eligible 457 Plan, (2) the Plan makes a mandatory distribution after the Code §401(a)(31)(B) Effective Date, greater than \$1,000, and (3) the Participant does not elect to have such distribution paid directly to an eligible retirement plan specified by the Participant in a direct rollover or to receive the distribution directly, then the Plan Administrator will pay the distribution in a direct rollover to an individual retirement plan designated by the Plan Administrator.

(E) Non-spouse beneficiary rollover right. A non-spouse beneficiary who is a "designated beneficiary" under Section 4.03(E)(1), by a direct trustee-to-trustee transfer ("direct rollover"), may roll over all or any portion of his or her distribution to an individual retirement account the beneficiary establishes for purposes of receiving the distribution. In order to be able to roll over the distribution, the distribution otherwise must satisfy the definition of an eligible rollover distribution.

(1) Certain requirements not applicable. Although a non-spouse beneficiary may roll over directly a distribution as provided in Section 4.07(E), the distribution is not subject to the direct rollover requirements of Code §401(a)(31) (including the automatic rollover provisions of Code §401(a)(31)(B)), the notice requirements of Code §402(f) or the mandatory withholding requirements of Code §3405(c). If a non-spouse beneficiary receives a distribution from the Plan, the distribution is not eligible for a "60-day" rollover.

(2) Trust beneficiary. If the Participant's named beneficiary is a trust, the Plan may make a direct rollover to an individual retirement account on behalf of the trust, provided the trust satisfies the requirements to be a designated beneficiary within the meaning of Code §401(a)(9)(E).

(3) Required minimum distributions not eligible for rollover. A non-spouse beneficiary may not roll over an amount which is a required minimum distribution, as determined under applicable Treasury regulations and other Revenue Service guidance. If the Participant dies before his or her required beginning date and the non-spouse beneficiary rolls over to an IRA the maximum amount eligible for rollover, the beneficiary may elect to use either the 5-year rule or the life expectancy rule, pursuant to Treas. Reg. §1.401(a)(9)-3, A-4(c), in determining the required minimum distributions from the IRA that receives the non-spouse beneficiary's distribution.

(F) Definitions. The following definitions apply to this Section:

(1) Eligible rollover distribution. An eligible rollover distribution is any distribution of all or any portion of a Participant's Account, except an eligible rollover distribution does not include: (a) any distribution which is one of a series of substantially equal periodic payments (not less frequently than

annually) made for the life (or life expectancy) of the Participant or the joint lives (or joint life expectancies) of the Participant and the Participant's designated Beneficiary, or for a specified period of ten years or more; (b) any Code §401(a)(9) required minimum distribution; (c) any unforeseeable emergency distribution; and (d) any distribution which otherwise would be an eligible rollover distribution, but where the total distributions to the Participant during that calendar year are reasonably expected to be less than \$200.

(2) Eligible retirement plan. An eligible retirement plan is an individual retirement account described in Code §408(a), an individual retirement annuity described in Code §408(b), an annuity plan described in Code §403(a), a qualified plan described in Code §401(a), an annuity contract (or custodial agreement) described in Code §403(b), or an eligible deferred compensation plan described in Code §457(b) and maintained by an Employer described in Code §457(e)(1)(A), which accepts the Participant's, the Participant's spouse or alternate payee's eligible rollover distribution.

A Participant or beneficiary may elect to roll over directly an eligible rollover distribution to a Roth IRA described in Code §408A(b). For this purpose, the term "eligible rollover distribution" includes a rollover distribution described in this Section.

(3) Direct rollover. A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee.

(4) Mandatory distribution. A mandatory distribution is an eligible rollover distribution without the Participant's consent before the Participant attains the later of age 62 or Normal Retirement Age (see paragraph 3.05 (B)). A distribution to a beneficiary is not a mandatory distribution.

(5) 401(a)(31)(B) Effective Date. The 401(a)(31)(B) Effective Date is the date of the close of the first regular legislative session of the legislative body with the authority to amend the Plan that begins on or after January 1, 2006.

4.08 ELECTION TO DEDUCT FROM DISTRIBUTION. An Eligible Retired Public Safety Officer may elect annually for that taxable year to have the Plan deduct an amount from a distribution which the Eligible Retired Public Safety Officer otherwise would receive and include in income. The Plan will pay such deducted amounts directly to pay qualified health insurance premiums.

(A) Direct payment. The Plan will pay directly to the provider of the accident or health insurance plan or qualified long-term care insurance contract the amounts the Eligible Retired Public Safety Officer has elected to have deducted from the distribution. Such amounts may not exceed the lesser of \$3,000 or the amount the Participant paid for such taxable year for qualified health insurance premiums, and which otherwise complies with Code §402(l).

(B) Definitions.

(1) Eligible retired public safety officer. An "Eligible Retired Public Safety Officer" is an individual who, by reason of disability or attainment of Normal Retirement Age, is separated from service as a Public Safety Officer with the Employer.

(2) Public safety officer. A "Public Safety Officer" has the same meaning as in Section 1204(9)(A) of the Omnibus Crime Control and Safe Streets Act of 1968 (42 U.S.C. 3796b(9)(A)).

(3) Qualified health insurance premiums. The term "qualified health insurance premiums" means premiums for coverage for the Eligible Retired Public Safety Officer, his or

her spouse, and dependents, by an accident or health insurance plan or qualified long-term care insurance contract (as defined in Code §7702B(b)).

ARTICLE V
PLAN ADMINISTRATOR - DUTIES WITH RESPECT TO PARTICIPANTS' ACCOUNTS

5.01 TERM/VACANCY. The Plan Administrator will serve until his or her successor is appointed. In case of a vacancy in the position of the Plan Administrator, the Employer will exercise any and all of the powers, authority, duties and discretion conferred upon the Plan Administrator pending the filling of the vacancy.

5.02 POWERS AND DUTIES. The Plan Administrator will have the following powers and duties:

- (a) To select a committee to assist the Plan Administrator;
- (b) To select a secretary for the committee, who need not be a member of the committee;
- (c) To determine the rights of eligibility of an Employee to participate in the Plan and the value of a Participant's Account;
- (d) To adopt rules and procedures and to create administrative forms necessary for the proper and efficient administration of the Plan provided the rules, procedures and forms are not inconsistent with the terms of the Plan;
- (e) To construe and enforce the terms of the Plan and the rules and regulations the Plan Administrator adopts, including interpretation of the Plan documents and documents related to the Plan's operation;
- (f) To direct the distribution of a Participant's Account;
- (g) To review and render decisions respecting a claim for (or denial of a claim for) a benefit under the Plan;
- (h) To furnish the Employer with information which the Employer may require for tax or other purposes;
- (i) To establish a policy in making distributions for unforeseeable emergencies;
- (j) To establish under a Governmental Eligible 457 Plan, policies regarding the receipt of Rollover Contributions and default rollover distributions;
- (k) To establish a policy regarding the making and the receipt of Transfers;
- (l) To establish a policy regarding Participant or Beneficiary direction of investment;
- (m) To engage the services of any person to invest any Account under this Plan and to direct such person to make payment to a Participant of his or her Vested Account;
- (n) To establish under a Governmental Eligible 457 Plan, a policy (see Section 5.02(A)) which the Trustee must observe in making loans, if any, to Participants and Beneficiaries;
- (o) To undertake correction of any Plan failures as necessary to preserve eligible Plan status; and
- (p) To undertake any other action the Plan Administrator deems reasonable or necessary to administer the Plan.

The Plan Administrator shall have total and complete discretion to interpret and construe the Plan and to determine all questions arising in the administration, interpretation and

application of the Plan. Any determination the Plan Administrator makes under the Plan is final and binding upon any affected person.

(A) Loan Policy. In a Governmental Eligible 457 Plan, the Plan Administrator, in its sole discretion, may establish, amend or terminate from time to time, a nondiscriminatory policy which the Trustee must observe in making Plan loans, if any, to Participants and to Beneficiaries. If the Plan Administrator adopts a loan policy, the loan policy must be a written document and must include: (1) the identity of the person or positions authorized to administer the participant loan program; (2) the procedure for applying for a loan; (3) the criteria for approving or denying a loan; (4) the limitations, if any, on the types and amounts of loans available; (5) the procedure for determining a reasonable rate of interest; (6) the types of collateral which may secure the loan; and (7) the events constituting default and the steps the Plan will take to preserve Plan assets in the event of default. A loan policy the Plan Administrator adopts under this Section 5.02(A) is part of the Plan, except that the Plan Administrator may amend or terminate the policy without regard to Section 9.01.

(B) QDRO Policy. If the QDRO provisions of Section 4.06 apply, the Plan Administrator will establish QDRO procedures.

5.03 COMPENSATION. The Plan Administrator and the members of the Committee will serve without compensation for services, but the Employer will pay all expenses of the Plan Administrator and Committee.

5.04 AUTHORIZED REPRESENTATIVE. The Plan Administrator may authorize any one of the members of the Committee, if any, or the Committee's Secretary, to sign on the Plan Administrator's behalf any Plan notices, directions, applications, certificates, consents, approvals, waivers, letters or other documents.

5.05 INDIVIDUAL ACCOUNTS/RECORDS. The Plan Administrator will maintain a separate Account in the name of each Participant to reflect the value of the Participant's Deferred Compensation under the Plan. The Plan Administrator will maintain records of its activities.

5.06 VALUE OF PARTICIPANT'S ACCOUNT. The value of each Participant's Account consists of his or her accumulated Deferred Compensation, as of the most recent Accounting Date or any later date as the Plan Administrator may determine.

5.07 ACCOUNT ADMINISTRATION, VALUATION AND EXPENSES.

(A) Individual Accounts. The Plan Administrator, as necessary for the proper administration of the Plan, will maintain, or direct the Trustee to maintain, a separate Account, or multiple Accounts, in the name of each Participant to reflect the Participant's Account Balance under the Plan. The Plan Administrator will make its allocations of Employer Contributions and of Earnings, or will request the Trustee to make such allocations, to the Accounts of the Participants as necessary to maintain proper Plan records and in accordance with the applicable: (i) Contribution Types; (ii) allocation conditions; (iii) investment account types; and (iv) Earnings allocation methods. The Plan Administrator may also maintain, or direct the Trustee to maintain, a separate temporary Account for Participant forfeitures which occur during a Plan Year,

pending their accrual and allocation in accordance with the Plan terms, or for other special items as the Plan Administrator determines is necessary and appropriate for proper plan administration.

(1) By Contribution Type. The Plan Administrator, will establish Plan Accounts for each Participant as necessary to reflect his or her Accounts attributable to the following Contribution Types and the Earnings attributable thereto: Pre-Tax Deferrals, Roth Deferrals, Matching Contributions, Nonelective Contributions, Rollover Contributions (including Roth versus pre-tax amounts), and Transfers.

(2) By investment account type. The Plan Administrator will establish separate Accounts for each Participant as necessary to reflect his or her investment account types as described below:

(a) Pooled Accounts. A Pooled Account is an Account which for investment purposes is not a Segregated Account or a Participant-Directed Account. If any or all Plan investment Accounts are Pooled Accounts, each Participant's Account has an undivided interest in the assets comprising the Pooled Account. In a Pooled Account, the value of each Participant's Account Balance consists of that proportion of the net worth (at fair market value) of the Trust Fund which the net credit balance in his or her Account (exclusive of the cash value of incidental benefit insurance contracts) bears to the total net credit balance in the Accounts of all Participants plus the cash surrender value of any insurance contracts held by the Trustee on the Participant's life. As of each Valuation Date, the Plan Administrator must reduce a Participant-Directed Account for any forfeiture arising from Section 5.07 after the Plan Administrator has made all other allocations, changes or adjustments to the Account (excluding Earnings) for the valuation period.

(b) Participant-Directed Accounts. A Participant-Directed Account is an Account that the Plan Administrator establishes and maintains or directs the Trustee to establish and maintain for a Participant to invest in one or more assets that are not pooled assets held by the Trust, such as assets in a brokerage account or other property in which other Participants do not have any interest. As the Plan Administrator determines, a Participant-Directed Account may provide for a limited number and type of investment options or funds, or may be open-ended and subject only to any limitations imposed by applicable law. A Participant may have one or more Participant-Directed Accounts in addition to Pooled or Segregated Accounts. A Participant-Directed Account is credited and charged with the Earnings. As of each Valuation Date, the Plan Administrator must reduce a Participant-Directed Account for any forfeiture arising from Section 5.07 after the Plan Administrator has made all other allocations, changes or adjustments to the Account (excluding Earnings) for the valuation period.

(c) Segregated Accounts. A Segregated Account is an Account the Plan Administrator establishes and maintains or directs the Trustee to establish and maintain for a Participant: (i) to facilitate installment payments; (ii) to hold a QDRO amount; (iii) to prevent a distortion of Plan Earnings allocations; or (iv) for such other purposes as the Plan Administrator may direct. A Segregated Account receives all income it earns and bears all expense or loss it incurs. The Trustee will invest the assets of a Segregated Account consistent with the purpose for which the Plan Administrator or Trustee established the Account. As of

each Valuation Date, the Plan Administrator must reduce a Segregated Account for any forfeiture arising after the Plan Administrator has made all other allocations, changes or adjustments to the Account (excluding Earnings) for the Valuation Period. Notwithstanding anything in this Section to the contrary, transferred amounts are not required to be separately accounted for and may be combined with the corresponding Account maintained in this Plan provided all rights, benefits and features and other attributes are identical with respect to each account, or are identical after the combination and such combination does not result in the impermissible elimination of any Code §411(d)(6) protected benefits.

(3) Amount of Account/distributions. The amount of a Participant's Account, as determined by the Plan Administrator, is equal to the sum of all contributions, Earnings and other additions credited to the Account, less all distributions (including distributions to Beneficiaries and to alternate payees and also including disbursement of Plan loan proceeds), expenses and other charges against the Account as of a Valuation Date or other relevant date. For purposes of a distribution under the Plan, the amount of a Participant's Account Balance is determined based upon its value on the Valuation Date immediately preceding or coinciding with the date of the distribution. If any or all Plan investment Accounts are Participant-Directed Accounts, the directing Participant's Account Balance consists of the assets held within the Participant-Directed Account and the value of the Account is determined based upon the fair market value of such assets.

(4) Account statements. As soon as practicable after the Accounting Date of each Plan Year, the Plan Administrator will deliver to each Participant (and to each Beneficiary) a statement reflecting the amount of his or her Account Balance in the Trust as of the statement date or most recent Valuation Date. No Participant, except the Plan Administrator/Participant or Trustee/Participant, has the right to inspect the records reflecting the Account of any other Participant.

(B) Allocation of Earnings. This Section 5.07(B) applies solely to the allocation of Earnings of the Trust Fund. The Plan Administrator will allocate Employer Contributions and Participant forfeitures, if any, in accordance with Article III. Earnings means the net income, gain or loss earned by a particular Account, by the Trust, or with respect to a contribution or to a distribution, as the context requires.

(1) Allocate as of Valuation Date. As of each Valuation Date, the Plan Administrator must adjust Accounts to reflect Earnings for the Valuation Period since the last Valuation Date.

(2) Definition of Valuation Date. A Valuation Date under this Plan is each: (a) Accounting Date; (b) Valuation Date the Employer elects in the Adoption Agreement; or (c) Valuation Date the Plan Administrator establishes. The Employer in the Adoption Agreement or the Plan Administrator may elect alternative Valuation Dates for the different Contribution Types which the Plan Administrator maintains under the Plan.

(3) Definition of Valuation Period. The Valuation Period is the period beginning on the day after the last Valuation Date and ending on the current Valuation Date.

(4) Allocation methods. The Plan Administrator will allocate Earnings to the Participant Accounts in accordance with the daily valuation method, balance forward method, balance forward with adjustment method, weighted average method, Participant-Directed Account method, or other method the Employer elects under the Adoption Agreement. The Employer in the Adoption Agreement may elect alternative methods under which the Plan Administrator will allocate the Earnings to the Accounts reflecting different Contribution Types or investment Account types which the Plan Administrator maintains under the Plan. The Plan Administrator first will adjust the Participant Accounts, as those Accounts stood at the beginning of the current Valuation Period, by reducing the Accounts for any forfeitures, distributions, and loan disbursement payments arising under the Plan, for expenses charged during the Valuation Period to the Accounts (expenses directly related to a Participant's Account). The Plan Administrator then, subject to the restoration allocation requirements of the Plan, will allocate Earnings under the applicable valuation method.

(a) Daily valuation method. If the Employer in the Adoption Agreement elects to apply the daily valuation method, the Plan Administrator will allocate Earnings on each day of the Plan Year for which Plan assets are valued on an established market and the Trustee is conducting business. Under the daily valuation method, all assets subject to such method are subject to daily valuation. The assets may be held in Participant-Directed Accounts or in Accounts which are subject to Trustee or other fiduciary investment direction.

(b) Balance forward method. If the Employer in the Adoption Agreement elects to apply the balance forward method, the Plan Administrator will allocate Earnings pro rata to the adjusted Participant Accounts, since the last Valuation Date.

(c) Balance forward with adjustment method. If the Employer in the Adoption Agreement elects to apply the balance forward with adjustment method, the Plan Administrator will allocate pursuant to the balance forward method, except it will treat as part of the relevant Account at the beginning of the Valuation Period the percentage of the contributions made as the Employer elects in the Adoption Agreement, during the Valuation Period the Employer elects in the Adoption Agreement.

(d) Weighted average method. If the Employer in the Adoption Agreement elects to apply a weighted average allocation method, the Plan Administrator will allocate pursuant to the balance forward method, except it will treat a weighted portion of the applicable contributions as if includible in the Participant's Account as of the beginning of the Valuation Period. The weighted portion is a fraction, the numerator of which is the number of months in the Valuation Period, excluding each month in the Valuation Period which begins prior to the contribution date of the applicable contributions, and the denominator of which is the number of months in the Valuation Period. The Employer in the Adoption Agreement may elect to substitute a weighting period other than months for purposes of this weighted average allocation.

(e) Participant-Directed Account method. The Employer in the Adoption Agreement must elect to apply the Participant-Directed Account method to any Participant-Directed Account under the Plan. Under the Participant-Directed Account method: (i) each Participant-Directed Account is credited and charged with the Earnings such Account generates;

(ii) the Employer's election, if any, in the Adoption Agreement of another method for the allocation of Earnings will not apply to any Participant-Directed Account; and (iii) the Participant-Directed Account may be valued as often as daily, but will be valued at least annually, and all assets in the Account are not necessarily valued on the same frequency. An Account which is subject to the Participant-Directed Account method includes an individual brokerage account or similar account in title to the Trustee for the benefit of the Participant.

(C) Allocation of Net Income, Gain or Loss (No Trust). In a Tax-Exempt Eligible 457 Plan that does not maintain a trust the Plan Administrator will allocate net income, gain or loss in accordance with this provision. As of each Accounting Date (and each other valuation date determined under the Adoption Agreement), the Plan Administrator will adjust Accounts to reflect net income, gain or loss, if any, since the last Accounting Date or Account valuation. The Employer in the Adoption Agreement will elect the method for allocating net income gain or loss. The Plan Administrator will continue to allocate net income, gain and loss to a Participant's Account subject to an installment distribution, until the Account is fully distributed.

5.08 ACCOUNT CHARGED. The Plan Administrator will charge all distributions made to a Participant or to his or her Beneficiary, or transferred under Section 9.03 from his or her Account, against the Account of the Participant when made.

5.09 OWNERSHIP OF FUND/TAX-EXEMPT ORGANIZATION. If the Employer is a Tax-Exempt Organization, the Plan is an unfunded plan and all Deferred Compensation, property and rights to property purchased by Deferred Compensation and all income attributable thereto remain, until paid or made available under the Plan, the sole property and rights of the Employer, subject only to the claims of the Employer's general creditors. No Participant or Beneficiary will have any vested interest or secured or preferred position with respect to an Account or have any claim against the Employer except as a general creditor. No Participant or Beneficiary shall have any right to sell, assign, transfer or otherwise convey his or her Account or any interest in his or her Deferred Compensation. The Employer or the Plan Administrator, acting as the Employer's agent, may enter into a trust agreement solely for the purpose of investing all or part of the Accounts, which will be subject to the claims of the Employer's general creditors, and in which the Participants or Beneficiaries will not have a vested interest nor a secured or preferred position or have any claim except as the Employer's general creditor. The Employer may not purchase life insurance contracts under this Plan unless the Employer retains all incidents of ownership in such contracts, the Employer is the sole beneficiary of such contracts and the Employer is not under any obligation to transfer the contracts or pass through the proceeds to any Participant or to his or her Beneficiary. The Employer may adopt and attach to the Plan as "Appendix A," the Internal Revenue Service Model Rabbi Trust under Rev. Proc. 92-64 (as amended) to hold the assets of a Tax-Exempt Organization Eligible 457 Plan. If the Employer adopts the Model Rabbi Trust, the Plan incorporates by reference the provisions of the Model Rabbi Trust as if fully set forth herein.

5.10 PARTICIPANT DIRECTION OF INVESTMENT. Subject to the terms of the Plan Administrator's adopted policy, if any, and also to written consent of the Trustee, if the Plan has a Trust, a Participant will have the right to direct the investment or re-investment of the assets comprising the Participant's Account. The Plan Administrator will account separately for the Participant-Directed Accounts. The Participant's right to direct investment does not give the Participant any vested interest or secured or preferred position with respect to assets over which he/she has investment responsibility.

5.11 VESTING/SUBSTANTIAL RISK OF FORFEITURE. The Employer in the Adoption Agreement may elect to apply a vesting schedule or to specify any other Substantial Risk of Forfeiture applicable to any or all Deferral Contributions.

(A) Forfeiture Allocation. The Employer in the Adoption Agreement must elect the method the Plan Administrator will use to allocate any Participant forfeitures, including those related to lost Participants under Section 5.14. The Plan Administrator will allocate a forfeiture in the Plan Year in which the forfeiture occurs or in the next following Plan Year.

5.12 PRESERVATION OF ELIGIBLE PLAN STATUS. The Plan Administrator may elect to sever from this Plan and to treat as a separate 457 plan, the Accounts of any Participants who have Excess Deferrals that the Plan Administrator has not corrected in accordance with Section 3.10 or in the case of any other Code §457(b) failure that the Employer may not otherwise correct, and which failure would result in the Plan ceasing to be an Eligible 457 Plan. In such event, the Plan Administrator will take any necessary or appropriate action consistent with the Employer's maintenance of separate 457 plans and with preservation of Eligible 457 Plan status of this Plan.

5.13 LIMITED LIABILITY. The Employer will not be liable to pay plan benefits to a Participant in excess of the value of the Participant's Account as the Plan Administrator determines in accordance with the Plan terms. Neither the Employer nor the Plan Administrator will be liable for losses arising from depreciation or shrinkage in the value of any investments acquired under this Plan.

5.14 LOST PARTICIPANTS. If the Plan Administrator is unable to locate any Participant or Beneficiary whose Account becomes distributable (a "lost Participant"), the Plan Administrator will apply the provisions of this Section 5.14.

(A) Attempt to Locate. The Plan Administrator will attempt to locate a lost Participant and may use one or more of the following methods: (1) provide a distribution notice to the lost Participant at his or her last known address by certified or registered mail; (2) use a commercial locator service, the internet or other general search method; (3) use the Social Security Administration or PBGC search program; or (4) use such other methods as the Plan Administrator believes prudent.

(B) Failure to Locate. If a lost Participant remains unlocated for 6 months following the date the Plan Administrator first attempts to locate the lost Participant using one or more of the methods described in Section 5.14(A), the Plan Administrator may forfeit the lost Participant's Account. If the Plan Administrator forfeits the lost Participant's Account, the forfeiture occurs at the end of the above-described 6-month period and the Plan Administrator will allocate the forfeiture in accordance with Section 5.11. The Plan Administrator under this Section 5.14(B) will forfeit the entire Account of the lost Participant, including Salary Reduction Contributions.

If a lost Participant whose Account was forfeited thereafter at any time but before the Plan has been terminated makes a claim for his or her forfeited Account, the Plan Administrator will restore the forfeited Account to the same dollar amount as the amount forfeited, unadjusted for net income, gains or losses occurring subsequent to the forfeiture. The Plan Administrator will make the restoration in the Plan Year in which the lost Participant makes the claim, first from the amount, if any, of Participant forfeitures the Plan Administrator otherwise would allocate for the Plan Year, then from the amount, if any, of Trust net income or gain for the Plan Year and last from the amount or

additional amount the Employer contributes to the Plan for the Plan Year. The Plan Administrator will distribute the restored Account to the lost Participant not later than 60 days after the close of the Plan Year in which the Plan Administrator restores the forfeited Account.

(C) Nonexclusivity and Uniformity. The provisions of this Section 5.14 are intended to provide permissible but not exclusive means for the Plan Administrator to administer the Accounts of lost Participants. The Plan Administrator may utilize any other reasonable method to locate lost Participants and to administer the Accounts of lost Participants, including the default rollover under Section 4.07(C) and such other methods as the Revenue Service or the U.S. Department of Labor ("DOL") may in the future specify. The Plan Administrator will apply Section 5.14 in a reasonable manner, but may in determining a specific course of action as to a particular Account, reasonably take into account differing circumstances such as the amount of a lost Participant's Account, the expense in attempting to locate a lost Participant, the Plan Administrator's ability to establish and the expense of establishing a rollover IRA, and other factors. The Plan Administrator may charge to the Account of a lost Participant the reasonable expenses incurred under this Section 5.14 and which are associated with the lost Participant's Account.

5.15 PLAN CORRECTION. The Plan Administrator, in conjunction with the Employer and Trustee as appropriate, may undertake such correction of Plan errors as the Plan Administrator deems necessary, including but not limited to correction to maintain the Plan's status as an Eligible 457 Plan. The Plan Administrator under this Section 5.15 also may undertake Plan correction in accordance with any correction program that the Internal Revenue Service makes applicable to 457 plans.

ARTICLE VI
PARTICIPANT ADMINISTRATIVE PROVISIONS

6.01 BENEFICIARY DESIGNATION. A Participant from time to time may designate, in writing, any person(s) (including a trust or other entity), contingently or successively, to whom the Plan Administrator or Trustee will pay the Participant's Account (including any life insurance proceeds payable to the Participant's Account) in the event of death. A Participant also may designate the method of payment of his or her Account. The Plan Administrator will prescribe the form for the Participant's written designation of Beneficiary and, upon the Participant's filing the form with the Plan Administrator, the form revokes all designations filed prior to that date by the same Participant. A divorce decree, or a decree of legal separation, revokes the Participant's designation, if any, of his or her spouse as his or her Beneficiary under the Plan unless the decree or a QDRO provides otherwise. The foregoing revocation provision (if applicable) applies only with respect to a Participant whose divorce or legal separation becomes effective on or following the date the Employer executes the Adoption Agreement, unless the Employer in the Adoption Agreement specifies a different effective date.

6.02 NO BENEFICIARY DESIGNATION. If a Participant fails to name a Beneficiary in accordance with Section 6.01, or if the Beneficiary named by a Participant predeceases the Participant, then the Plan Administrator will pay the Participant's remaining Account in accordance with Article IV in the following order of priority, to:

- (a) The Participant's surviving spouse; or
- (b) The Participant's children (including adopted children), in equal shares by right of representation (one share for each surviving child and one share for each child who predeceases the Participant with living descendants); and if none to
- (c) The Participant's estate.

If the Beneficiary survives the Participant, but dies prior to distribution of the Participant's entire Account, the Trustee will pay the remaining Account to the Beneficiary's estate unless: (1) the Participant's Beneficiary designation provides otherwise; or (2) the Beneficiary has properly designated a beneficiary. A Beneficiary only may designate a beneficiary for the Participant's Account Balance remaining at the Beneficiary's death, if the Participant has not previously designated a successive contingent beneficiary and the Beneficiary's designation otherwise complies with the Plan terms. The Plan Administrator will direct a Trustee if applicable as to the method and to whom the Trustee will make payment under this Section 6.02.

6.03 SALARY REDUCTION AGREEMENT.

(A) General. A Participant must elect to make Salary Reduction Contributions on a Salary Reduction Agreement form the Plan Administrator provides for this purpose. The Salary Reduction Agreement must be consistent with the Employer's Adoption Agreement elections and the Plan Administrator in a Salary Reduction Agreement may impose such other terms and limitations as the Plan Administrator may determine.

(B) Election Timing. A Participant's Salary Reduction Agreement may not take effect earlier than the first day of the calendar month following the date the Participant executes the Salary Reduction Agreement and as to Compensation paid or made available in such calendar month. However, if an

Employee is eligible to become a Participant during the Employee's calendar month of hire, the Employee may execute a Salary Reduction Agreement on or before the date he/she becomes an Employee, effective for the month in which he/she becomes an Employee.

(C) Sick, Vacation and Back Pay. If the Employer in the Adoption Agreement permits Participants to make Salary Reduction Contributions from accumulated sick pay, from accumulated vacation pay or from back pay, a Participant who will incur a Severance from Employment may execute a Salary Reduction Agreement before such amounts are paid or made available provided: (i) such amounts are paid or made available before the Participant incurs the Severance; and (ii) the Participant is an Employee in that month.

(D) Modification of Salary Reduction Agreement. A Participant's Salary Reduction Agreement remains in effect until a Participant modifies it or ceases to be eligible to participate in the Plan. A Participant may modify his or her Salary Reduction Agreement by executing a new Salary Reduction Agreement. Any modification will become effective no earlier than the beginning of the calendar month commencing after the date the Participant executes the new Salary Reduction Agreement. Filing a new Salary Reduction Agreement will revoke all Salary Reduction Agreements filed prior to that date. The Employer or Plan Administrator may restrict the Participant's right to modify his or her Salary Reduction Agreement in any Taxable Year.

6.04 PERSONAL DATA TO PLAN ADMINISTRATOR. Each Participant and each Beneficiary of a deceased Participant must furnish to the Plan Administrator such evidence, data or information as the Plan Administrator considers necessary or desirable for the purpose of administering the Plan. The provisions of this Plan are effective for the benefit of each Participant upon the condition precedent that each Participant will furnish promptly full, true and complete evidence, data and information when requested by the Plan Administrator, provided the Plan Administrator advises each Participant of the effect of his or her failure to comply with its request.

6.05 ADDRESS FOR NOTIFICATION. Each Participant and each Beneficiary of a deceased Participant must file with the Plan Administrator from time to time, in writing, his or her address and any change of address. Any communication, statement or notice addressed to a Participant, or Beneficiary, at his or her last address filed with the Plan Administrator, or as shown on the records of the Employer, binds the Participant, or Beneficiary, for all purposes of this Plan.

6.06 PARTICIPANT OR BENEFICIARY INCAPACITATED. If, in the opinion of the Plan Administrator or of the Trustee, a Participant or Beneficiary entitled to a Plan distribution is not able to care for his or her affairs because of a mental condition, a physical condition, or by reason of age, the Plan Administrator or at the direction of the Plan Administrator, the Trustee, may make the distribution to the Participant's or Beneficiary's guardian, conservator, trustee, custodian (including under a Uniform Transfers or Gifts to Minors Act) or to his or her attorney-in-fact or to other legal representative upon furnishing evidence of such status satisfactory to the Plan Administrator and to the Trustee. The Plan Administrator and the Trustee do not have any liability with respect to payments so made and neither the Plan Administrator nor the Trustee has any duty to make inquiry as to the competence of any person entitled to receive payments under the Plan.

**ARTICLE VII
MISCELLANEOUS**

7.01 NO ASSIGNMENT OR ALIENATION. A Participant or Beneficiary does not have the right to commute, sell, assign, pledge, transfer or otherwise convey or encumber the right to receive any payments under the Plan or Trust and the Plan Administrator and the Trustee will not recognize any such anticipation, assignment, or alienation. The payments and the rights under this Plan are nonassignable and nontransferable. Furthermore, a Participant's or Beneficiary's interest in the Trust is not subject to attachment, garnishment, levy, execution or other legal or equitable process.

7.02 EFFECT ON OTHER PLANS. This Plan does not affect benefits under any other retirement, pension, or benefit plan or system established for the benefit of the Employer's Employees, and participation under this Plan does not affect benefits receivable under any such plan or system, except to the extent provided in such plan or system.

7.03 WORD USAGE. Words used in the masculine will apply to the feminine where applicable, and wherever the context of the Plan dictates, the plural will be read as the singular and the singular as the plural.

7.04 STATE LAW. The laws of the state of the Employer's principal place of business will determine all questions arising with respect to the provisions of this Plan, except to the extent Federal law supersedes State law.

7.05 EMPLOYMENT NOT GUARANTEED. Nothing contained in this Plan, or any modification or amendment to the Plan, or in the creation of any Account, or the payment of any benefit, gives any Employee, Participant or Beneficiary any right to continue employment, any legal or equitable right against the Employer, the Plan Administrator, the Trustee, any other Employee of the Employer, or any agents thereof except as expressly provided by the Plan.

7.06 NOTICE, DESIGNATION, ELECTION, CONSENT AND WAIVER. All notices under the Plan and all Participant or Beneficiary designations, elections, consents or waivers must be in writing and made in a form the Plan Administrator specifies or otherwise approves. To the extent permitted by Treasury regulations or other applicable guidance, any Plan notice, election, consent or waiver may be transmitted electronically. Any person entitled to notice under the Plan may waive the notice or shorten the notice period except as otherwise required by the Code.

ARTICLE VIII
TRUST PROVISIONS—GOVERNMENTAL ELIGIBLE 457 PLAN

8.01 GOVERNMENTAL ELIGIBLE 457 PLAN. The provisions of this Article VIII apply to a Governmental Eligible 457 Plan and do not apply to a Tax-Exempt Organization Eligible 457 Plan. The Employer in the Adoption Agreement may elect to substitute another trust (attached to this Plan as "Appendix A") or to modify any provision of Article VIII, consistent with Code §457(g) and applicable Treasury regulations.

8.02 ACCEPTANCE/HOLDING. The Trustee accepts the Trust created under the Plan and agrees to perform the duties and obligations imposed. The Trustee must hold in trust under this Article VIII, all Deferred Compensation until paid in accordance with the Plan terms.

8.03 RECEIPT OF CONTRIBUTIONS. The Trustee is accountable to the Employer for the funds contributed to it by the Employer or the Plan Administrator, but the Trustee does not have any duty to see that the contributions received comply with the provisions of the Plan.

8.04 FULL INVESTMENT POWERS. The Trustee has full discretion and authority with regard to the investment of the Trust, except with respect to a Trust asset under Participant direction of investment, in accordance with Section 8.12. The Trustee is authorized and empowered, but not by way of limitation, to exercise and perform the following powers, rights and duties:

(a) To invest any part or all of the Trust in any common or preferred stocks, open-end or closed-end mutual funds, put and call options traded on a national exchange, United States retirement plan bonds, corporate bonds, debentures, convertible debentures, commercial paper, U. S. Treasury bills, U. S. Treasury notes and other direct or indirect obligations of the United States Government or its agencies, improved or unimproved real estate situated in the United States, limited partnerships, insurance contracts of any type, mortgages, notes or other property of any kind, real or personal, and to buy or sell options on common stock on a nationally recognized options exchange with or without holding the underlying common stock, as a prudent person would do under like circumstances. Any investment made or retained by the Trustee in good faith will be proper but must be of a kind constituting a diversification considered by law suitable for trust investments;

(b) To retain in cash so much of the Trust as it may deem advisable to satisfy liquidity needs of the Plan and to deposit any cash held in the Trust in a bank account at reasonable interest;

(c) To invest, if the Trustee is a bank or similar financial institution supervised by the United States or by a State, in any type of deposit of the Trustee (or a bank related to the Trustee within the meaning of Code §414(b)) at a reasonable rate of interest or in a common trust fund as described in Code §584, or in a collective investment fund, the provisions of which the Trust incorporates by this reference, which the Trustee (or its affiliate, as defined in Code §1504) maintains exclusively for the collective investment of money contributed by the bank (or its affiliate) in its capacity as Trustee and which conforms to the rules of the Comptroller of the Currency;

(d) To manage, sell, contract to sell, grant options to purchase, convey, exchange, transfer, abandon, improve, repair, insure, lease for any term even though commencing in the future or extending beyond the term of the Trust, and otherwise deal with all property, real or personal, in such manner, for such

considerations and on such terms and conditions as the Trustee decides;

(e) To credit and distribute the Trust as directed by the Plan Administrator of the Plan. The Trustee will not be obliged to inquire as to whether any payee or distributee is entitled to any payment or whether the distribution is proper or within the terms of the Plan, or as to the manner of making any payment or distribution. The Trustee will be accountable only to the Plan Administrator for any payment or distribution made by it in good faith on the order or direction of the Plan Administrator;

(f) To borrow money, to assume indebtedness, extend mortgages and encumber by mortgage or pledge;

(g) To compromise, contest, arbitrate or abandon claims and demands, in the Trustee's discretion;

(h) To have with respect to the Trust all of the rights of an individual owner, including the power to exercise any and all voting rights associated with Trust assets, to give proxies, to participate in any voting trusts, mergers, consolidations or liquidations, to tender shares and to exercise or sell stock subscriptions or conversion rights;

(i) To lease for oil, gas and other mineral purposes and to create mineral severances by grant or reservation; to pool or unitize interest in oil, gas and other minerals; and to enter into operating agreements and to execute division and transfer orders;

(j) To hold any securities or other property in the name of the Trustee or its nominee, with depositories or agent depositories or in another form as it may deem best, with or without disclosing the trust relationship;

(k) To perform any and all other acts in its judgment necessary or appropriate for the proper and advantageous management, investment and distribution of the Trust;

(l) To retain any funds or property subject to any dispute without liability for the payment of interest, and to decline to make payment or delivery of the funds or property until a court of competent jurisdiction makes a final adjudication;

(m) To file all tax returns required of the Trustee;

(n) To furnish to the Employer and the Plan Administrator an annual statement of account showing the condition of the Trust and all investments, receipts, disbursements and other transactions effected by the Trustee during the Plan Year covered by the statement and also stating the assets of the Trust held at the end of the Plan Year, which accounts will be conclusive on all persons, including the Employer and the Plan Administrator, except as to any act or transaction concerning which the Employer or the Plan Administrator files with the Trustee written exceptions or objections within 90 days after the receipt of the accounts; and

(o) To begin, maintain or defend any litigation necessary in connection with the administration of the Trust, except that the Trustee will not be obliged or required to do so unless indemnified to its satisfaction.

(A) Nondiscretionary Trustee. The Employer in the Adoption Agreement may elect to appoint a Nondiscretionary Trustee, subject to this Section 8.04(A). The Nondiscretionary Trustee does not have any discretion or authority with regard to the

investment of the Trust, but must act solely as a directed Trustee hereunder. The Nondiscretionary Trustee is authorized and empowered to exercise and perform the above Section 8.04 powers, rights and duties provided that the Trustee shall act solely as a directed Trustee and only in accordance with the written direction of the Employer, the Plan Administrator or of a Participant as applicable. The Nondiscretionary Trustee is not liable for making, retaining or disposing of any investment or for taking or failing to take any other action, in accordance with proper Employer, Plan Administrator or Participant direction.

8.05 RECORDS AND STATEMENTS. The records of the Trustee pertaining to the Trust will be open to the inspection of the Plan Administrator and the Employer at all reasonable times and may be audited from time to time by any person or persons as the Employer or Plan Administrator may specify in writing. The Trustee will furnish the Plan Administrator whatever information relating to the Trust the Plan Administrator considers necessary.

8.06 FEES AND EXPENSES FROM FUND. The Trustee will receive reasonable annual compensation in accordance with its fee schedule as published from time to time. The Trustee will pay from the Trust all fees and expenses the Trustee reasonably incurs in its administration of the Trust, unless the Employer pays the fees and expenses.

8.07 PROFESSIONAL AGENTS. The Trustee may employ and pay from the Trust reasonable compensation to agents, attorneys, accountants and other persons to advise the Trustee as in its opinion may be necessary. The Trustee may delegate to any agent, attorney, accountant or other person selected by it any non-Trustee power or duty vested in it by the Trust, and the Trustee may act or refrain from acting on the advice or opinion of any agent, attorney, accountant or other person so selected.

8.08 DISTRIBUTION OF CASH OR PROPERTY. The Trustee may make distribution under the Plan in cash or property, or partly in each, at its fair market value as determined by the Trustee.

8.09 RESIGNATION AND REMOVAL. The Trustee or the Custodian may resign its position by giving written notice to the Employer and to the Plan Administrator. The Trustee's notice must specify the effective date of the Trustee's resignation, which date must be at least 30 days following the date of the Trustee's notice, unless the Employer consents in writing to shorter notice.

The Employer may remove a Trustee or a Custodian by giving written notice to the affected party. The Employer's notice must specify the effective date of removal which date must be at least 30 days following the date of the Employer's notice, except where the Employer reasonably determines a shorter notice period or immediate removal is necessary to protect Plan assets.

8.10 SUCCESSOR TRUSTEE.

(A) Appointment. In the event of the resignation or the removal of a Trustee, where no other Trustee continues to service, the Employer must appoint a successor Trustee if it intends to continue the Plan. If two or more persons hold the position of Trustee, in the event of the removal of one such person, during any period the selection of a replacement is pending, or during any period such person is unable to serve for any reason, the remaining person or persons will act as the Trustee. If the Employer fails to appoint a successor Trustee as of the effective date of the Trustee resignation or removal and no other Trustee remains, the Trustee will treat the Employer as

having appointed itself as Trustee and as having filed the Employer's acceptance of appointment as successor Trustee with the former Trustee.

(B) Automatic Successor. Any corporation which succeeds to the trust business of the Trustee, or results from any merger or consolidation to which the Trustee is a party, or is the transferee of substantially all the Trustee's assets, will be the successor to the Trustee under this Trust. The successor Trustee will possess all rights, duties and powers under this Trust as if the successor Trustee were the original Trustee. Neither the Trustee nor the successor Trustee need provide notice to any interested person of any transaction resulting in a successor Trustee. The successor Trustee need not file or execute any additional instrument or perform any additional act to become successor Trustee.

8.11 VALUATION OF TRUST. The Trustee will value the Trust as of each Accounting Date to determine the fair market value of the Trust assets. The Trustee will value the Trust on such other date(s) the Plan Administrator may direct.

8.12 PARTICIPANT DIRECTION OF INVESTMENT. Consistent with the Plan Administrator's policy adopted under Section 5.02(1), the Trustee may consent in writing to permit Participants in the Plan to direct the investment to the Trust assets. The Plan Administrator will advise the Trustee of the portion of the Trust credited to each Participant's Account under the Plan, and subject to such Participant direction. As a condition of Participant direction, the Trustee may impose such conditions, limitations and other provisions as the Trustee may deem appropriate and as are consistent with the Plan Administrator's policy. The Trustee will report to the Plan Administrator the net income, gain or losses incurred by each Participant-Directed Account separately from the net income, gain or losses incurred by the general Trust during the Trust Year.

8.13 THIRD PARTY RELIANCE. No person dealing with the Trustee will be obliged to see to the proper application of any money paid or property delivered to the Trustee, or to inquire whether the Trustee has acted pursuant to any of the terms of the Trust. Each person dealing with the Trustee may act upon any notice, request or representation in writing by the Trustee, or by the Trustee's duly authorized agent, and will not be liable to any person whomsoever in so doing. The certificate of the Trustee that it is acting in accordance with the Trust will be conclusive in favor of any person relying on the certificate.

8.14 INVALIDITY OF ANY TRUST PROVISION. If any clause or provision of this Article VIII proves to be or is adjudged to be invalid or void for any reason, such void or invalid clause or provision will not affect any of the other provisions of this Article VIII and the balance of the Trust provisions will remain operative.

8.15 EXCLUSIVE BENEFIT. The Trustee will hold all the assets of the Trust for the exclusive benefit of the Participants and their Beneficiaries and neither the Employer nor the Trustee will use or divert any part of the corpus or income of the Trust for purposes other than the exclusive benefit of the Participants and Beneficiaries of the Plan. The Employer will not have any right to the assets held by the Trustee and the Trust assets will not be subject to the claims of the Employer's creditors or, except as provided in Section 4.06, of the creditors of any Participant or Beneficiary. No Participant or Beneficiary shall have any right to sell, assign, transfer or otherwise convey his or her Account or any interest in his or her Deferred Compensation. Notwithstanding the foregoing, the Plan Administrator may pay from a Participant's or Beneficiary's Account the amount the Plan Administrator finds is lawfully

demanded under a levy issued by the Internal Revenue Service with respect to that Participant or Beneficiary or is sought to be collected by the United States Government under a judgment resulting from an unpaid tax assessment against the Participant or Beneficiary. The Trust created under the Employer's Plan is irrevocable and its assets will not inure to the benefit of the Employer.

8.16 SUBSTITUTION OF CUSTODIAL ACCOUNT OR ANNUITY CONTRACT. The Employer in the Adoption Agreement may elect to use one or more custodial accounts or annuity contracts in lieu of or in addition to the Trust established in this Article VIII. Any such custodial account or annuity contract must satisfy the requirements of Code §457(g)(3) and applicable Treasury regulations.

8.17 GROUP TRUST AUTHORITY. Notwithstanding any contrary provision in this Plan, the Trustee may, unless restricted in writing by the Plan Administrator, transfer assets of the Plan to a group trust that is operated or maintained exclusively for the commingling and collective investment of monies provided that the funds in the group trust consist exclusively of trust assets held under plans qualified under Code §401(a), individual retirement accounts that are exempt under Code §408(e), and eligible governmental plans that meets the requirements of Code §457(b). For this purpose, a trust includes a custodial account that is treated as a trust under Code §401(f) or under Code §457(g)(3). For purposes of valuation, the value of the interest maintained by the Plan in such group trust shall be the fair market value of the portion of the group trust held for Plan, determined in accordance with generally recognized valuation procedures.

**ARTICLE IX
AMENDMENT, TERMINATION, TRANSFERS**

9.01 AMENDMENT BY EMPLOYER/SPONSOR. The Employer has the right at any time and from time to time:

(a) To amend this Plan and Trust Agreement and the Adoption Agreement in any manner it deems necessary or advisable in order to continue the status of this Plan as an Eligible 457 Plan; and

(b) To amend this Plan and Trust Agreement and the Adoption Agreement in any other manner, including deletion, substitution or modification of any Plan, Trust or Adoption Agreement provision.

The Employer must make all amendments in writing. The Employer may amend the Plan by an Adoption Agreement election, by addenda, by separate amendment, or by restatement of the Adoption Agreement or Plan. Each amendment must state the date to which it is either retroactively or prospectively effective. The Employer also may not make any amendment that affects the rights, duties or responsibilities of the Trustee or the Plan Administrator without the written consent of the affected Trustee or the Plan Administrator.

9.02 TERMINATION/FREEZING OF PLAN. The Employer has the right, at any time, to terminate this Plan or to cease (freeze) further Deferral Contributions to the Plan. Upon termination or freezing of the Plan, the provisions of the Plan (other than provisions permitting continued Deferral Contributions) remain operative until distribution of all Accounts. Upon Plan termination, the Plan Administrator or Trustee shall distribute to Participants and Beneficiaries all Deferred Compensation as soon as is reasonably practicable following termination.

9.03 TRANSFERS. The Employer may enter into a Transfer agreement with another employer under which this Plan: (a) may accept a Transfer of a Participant's Account in the other employer's Eligible 457 Plan; or (b) may Transfer a Participant's (or Beneficiary's) Account in this Plan to the other employer's Eligible 457 Plan. The plan sponsors of the plans involved in the Transfer both must be States or both must be Tax-Exempt Organizations and the plans must provide for Transfers. The Participant or Beneficiary, after the Transfer will have Deferred Compensation in the recipient plan at least equal to his or her Deferred Compensation in the transferring plan immediately before the Transfer. Any Transfer also must comply with applicable Treasury regulations, and in particular Treas. Reg. §§1.457-10(b)(2) as to post-severance transfers between Governmental Eligible 457 Plans; 1.457-10(b)(3) as to transfers of all assets between Governmental Eligible 457 Plans; 1.457-10(b)(4) as to transfers between Governmental Eligible 457 Plans of the same Employer; and 1.457-10(b)(5) as to post-severance transfers between Tax-Exempt Organization Eligible 457 Plans. The Plan Administrator will credit any Transfer accepted under this Section 9.03 to the Participant's Account and will treat the transferred amount as a Deferral Contribution for all purposes of this Plan except the Plan Administrator, will not treat such Transfer as a Deferral Contribution subject to the limitations of Article III. In addition, in the case of a Transfer between Tax-Exempt Organization Eligible Plans, the recipient plans shall apply a Participant's distribution elections made under the transferor plan in accordance with Treas. Reg. §1.457-10(b)(6)(ii). The Plan's Transfer of any Participant's or Beneficiary's Account under this Section 9.03 completely discharges the Employer, the Plan Administrator, the Trustee and the Plan from any liability to the Participant or Beneficiary for any Plan benefits.

9.04 PURCHASE OF PERMISSIVE SERVICE CREDIT.

A Participant in a Governmental Eligible 457 Plan, prior to otherwise incurring a distributable event under Article IV, may direct the Trustee to transfer all or a portion of his or her Account to a governmental defined benefit plan (under Code §414(d)) for: (a) the purchase of permissive service credit (under Code §415(n)(3)(A)) under such plan, or (b) the repayment of contributions and earnings previously refunded with respect to a forfeiture of service credited under the plan (or under another governmental plan within the same State) to which Code §415 does not apply by reason of Code §415(k)(3).



**APPLICATION FOR
GROUP FLEXIBLE PURCHASE PAYMENT DEFERRED VARIABLE ANNUITY CONTRACT**
underwritten by
Nationwide Life Insurance Company
One Nationwide Plaza
Columbus, Ohio 43215
1-877-677-3678

APPLICANT

_____ (the "Applicant"), applies to be the Contract Owner of a Group Flexible Purchase Payment Deferred Variable Annuity Contract (the "Contract") underwritten by Nationwide Life Insurance Company ("Nationwide").

The Group Flexible Purchase Payment Deferred Variable Annuity Contract applied for will become effective on the "Effective Date of Contract" if the initial Purchase Payment and this application are accepted by Nationwide. In the event the initial Purchase Payment or this application are not accepted, Nationwide's liability will be limited to a return of the initial Purchase Payment, and any subsequent Purchase Payments remitted.

PURCHASE PAYMENT

Applicant agrees to permit Participants in its Plan to allocate Purchase Payments to the following Underlying Investment Options that Nationwide agrees to make available as of the "Effective Date of Contract".

Nationwide NMF Investor Destinations Aggressive Fund - Service Class	Nationwide Destination 2040 Fund - Institutional Service Class	MFS International Diversification Fund - Class R3
Nationwide NMF Investor Destinations Conservative Fund -Service Class	Nationwide Destination 2045 Fund - Institutional Service Class	Nationwide International Index Fund - Class A
Nationwide NMF Investor Destinations Moderate Fund - Service Class	Nationwide Destination 2050 Fund - Institutional Service Class	Nationwide Mid Cap Market Index Fund Class A
Nationwide NMF Investor Destinations Moderately Aggressive Fund - Service Class	Nationwide Destination 2055 Fund - Institutional Service Class	Nationwide S&P 500® Index Fund - Institutional Service Class
Nationwide NMF Investor Destination Moderately Conservative Fund - Service Class	Nationwide Destination 2060 Fund - Institutional Service Class	Nationwide Small Cap Index Fund - Class A
Nationwide Destination 2015 Fund - Institutional Service Class	American Funds New Perspective Fund - Class R3	Parnassus Core Equity Fund - Investor Class
Nationwide Destination 2020 Fund - Institutional Service Class	American Funds Washington Mutual Investors Fund - Class R3	PIMCO All Asset Fund - Class A
Nationwide Destination 2025 Fund - Institutional Service Class	Diamond Hill Small Cap Fund - Class A	Pioneer Strategic Income Fund - Class A
Nationwide Destination 2030 Fund- Institutional Service Class	Eaton Vance Atlanta Capital SMID - Cap Fund - Class A	T. Rowe Price Blue Chip Growth Fund - Class R
Nationwide Destination 2035 Fund - Institutional Service Class	Invesco Global Real Estate Fund - Class A	Wells Fargo Core Bond Fund - Class A
	JP Morgan Emerging Markets Equity Fund - Class A	

FIXED ACCOUNT

Yes No Applicant elects to add via endorsement to the Contract, a Fixed Account option funded by the general account of Nationwide.

If the Applicant elected the Fixed Account, one of the exchange restrictions options listed below must be elected.

Contract Level Aggregate Exchange Limitation (the limitation on *Outgoing* Exchanges from the Fixed Account is determined based on total assets held in the Contract's Fixed Account as a percentage of the Fixed Account's value under the Contract as of the last Business Day preceding the current calendar year).

Participant Level Exchange Limitation (the limitation on *Outgoing* Exchanges from the Fixed Account is applied to each Participant Account under the Contract. The Contract Owner, or its designated Record-Keeper is responsible for applying this limitation.)



Plan: (the "Plan") _____

Plan Sponsor: (the "Plan Sponsor") _____

The foregoing Plan currently utilizes services and products offered by Nationwide Retirement Solutions, Inc. ("NRS") and its affiliated companies (the "Nationwide Retirement Program"). On behalf of the Plan, the Plan Sponsor desires to appoint Nationwide Investment Advisors, LLC ("NIA"), an Ohio limited liability company, registered as an investment adviser with the Securities and Exchange Commission under the Investment Adviser's Act of 1940 ("Advisers Act") and an affiliate of NRS, as an authorized provider of investment advisory services to participants in the Plan ("Plan Participants") who desire professional guidance in managing their self-directed accounts within the Plan ("Accounts"). NIA's ProAccount program (the "Advice Program") offers individualized investment advice using an investment process developed and maintained by an independent financial expert ("IFE") selected and retained by NIA.

WHEREAS, on behalf of the Plan, the Plan Sponsor hereby approves NIA as an authorized provider of investment advisory services through the Advice Program to those Plan Participants who choose to have their Accounts managed by NIA (collectively, the "Plan's Account");

WHEREAS, the Plan Sponsor hereby authorizes each such Plan Participant's self-direction of their own Account, subject to guidelines imposed by the Plan, and authorizes each Plan Participant to enter into an investment advisory agreement directly with NIA for the management of their account;

WHEREAS, the Plan Sponsor acknowledges that such advisory services are permitted under the documents establishing the Plan ("Plan Documents") and that the investments and investment strategies proposed by NIA through the Advice Program are consistent with the Investment Policy of the Plan; and

WHEREAS, Plan Sponsor acknowledges that NIA and NRS are affiliates and that NRS will provide to NIA certain administrative services in support of the Advice Program;

NOW, THEREFORE, in consideration of the foregoing and the promises, covenants and mutual agreements set forth herein, the adequacy of which is hereby mutually acknowledged, NIA and the Plan Sponsor, each intending to be legally bound, hereby do agree as follows:

I. APPOINTMENT OF INVESTMENT ADVISOR

The Plan Sponsor hereby appoints NIA to exercise discretionary authority to allocate and reallocate Plan Participant Accounts in the manner described in Section II below and NIA hereby accepts this appointment, subject to the terms and conditions of this Agreement. NIA's authority under this Agreement will remain in effect until changed or terminated pursuant to the termination provisions described in this Agreement. NIA's authority under this Agreement shall apply to all defined contribution plans sponsored by the Plan Sponsor that are record kept at Nationwide or any of its affiliates on a single Nationwide record keeping system. To the extent that the Plan Sponsor desires to exclude a defined contribution plan from coverage under this Agreement subsequent to coverage of such plan, the Plan Sponsor must notify NIA of such individual plan's termination of services under this Agreement in accordance with Section IX of this Agreement.

II. ADVICE PROGRAM DESCRIPTION

The Advice Program is a discretionary managed account service offered by NIA for retirement plan participants who desire professional guidance in managing their self-directed retirement plan account. The Advice Program offers individualized investment advice using an investment process developed and maintained by an IFE.

Under the Advice Program, the IFE develops and maintains managed account portfolios ("Portfolios") based on all eligible investment options available under the Plan's menu of investments ("Advice Program Investments"). In addition, the Plan may offer investment options other than Advice Program Investments, including, but not limited to, individual stocks, employer stock, guaranteed certificate funds, and collective investment funds (collectively, "Non-Advice Program Investments"), which will not be considered by the IFE in the development of Portfolios.

In order for Plan Accounts to be eligible for management under the Advice Program, they must be invested in mutual funds or variable insurance sub-accounts at the time the Plan Participant enrolls in the Advice Program. Plan Sponsor hereby acknowledges that any employer-directed assets, restricted assets (including assets invested in the Nationwide Fixed Contract), or assets held in self-directed brokerage accounts are not eligible for the Advice Program and will remain invested in their current manner until further action is taken by the Plan Participant or the Plan.

Nationwide Investment Advisors, LLC

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The IFE is not a party to this Agreement, and there is no contractual relationship between the Plan and the IFE. All fees and expenses charged by the IFE for its services will be paid by NIA. The advice provided to Plan Participants under the Advice Program is limited to the independent advice provided based on the Portfolios created by the IFE, which NIA cannot modify. By signing this Agreement, you agree that NIA has discretion to terminate its relationship with the IFE at any time, without notice to you, and engage the services of a suitable replacement.

By allowing the Advice Program to be offered to the Plan, you are naming NIA as an authorized provider of investment advisory services to those Plan Participants who choose to have their accounts managed by NIA.

III. OBLIGATIONS AND REPRESENTATIONS OF THE PLAN SPONSOR

The Plan Sponsor agrees to notify NIA of any change to the Plan Documents that affects NIA's rights or duties to the Plan or Plan Participants, and acknowledges that such change will bind NIA, as the case may be, only when NIA agrees to it in writing.

The Plan Sponsor represents that (1) NIA's investment advisory services are permitted under the Plan Documents; (2) the Plan Sponsor has the authority to enter into this Agreement on behalf of the Plan; and (3) the Plan is operated, and NIA's appointment is, in compliance with all applicable federal and state laws, rules and regulations.

IV. OBLIGATIONS AND REPRESENTATIONS OF NIA

NIA agrees that in performing any of its duties and obligations hereunder, NIA will act in conformity with all terms and provisions of the agreements entered into between NIA and the Plan Participants and any instructions given pursuant thereto or otherwise, and will conform to and comply with the requirements of the Advisers Act and all other applicable federal and state laws, rules and regulations, as each may be amended from time to time.

NIA represents that it is registered as an investment adviser under the Advisers Act or under applicable state law in each state in which it is providing investment advisory services or is otherwise required to be registered and/or notice filed, and each of its representatives are properly registered, licensed and/or qualified to act as such under all applicable federal and state securities statutes and regulations.

NIA does not have any duty, responsibility or liability for Plan assets that are not part of the Plan's Account that NIA manages through the Advice Program. NIA will not be providing investment advice regarding, or have fiduciary responsibility for, the selection and monitoring of investment options available in the Plan.

NIA shall have no obligation or authority to take any action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in the Advice Program.

V. ADVICE PROGRAM FEES

In consideration of services rendered to Plan Participants, the Plan Sponsor hereby approves, subject to specific approval by each Plan Participant electing to have their Accounts managed by NIA, a participant level Advice Program fee ("Advice Program Fee") as outlined in the following schedule:

Account Balance	Annual Program Fee
The first \$99,999.99	0.65%
The next \$150,000	0.60%
The next \$150,000	0.55%
The next \$100,000	0.50%
Assets of \$500,000 and above	0.45%

To the extent the ProAccount Fee applies to multiple plans of the Plan Sponsor, the ProAccount Fee shall be based on the combined balances within the ProAccount but will be withdrawn on a pro rata basis among the Participant's accounts in the separate plans. The Advice Program Fee is separate from the fees and expenses charged by investment options offered through the Plan and in addition to any trustee, custodial, asset, service, administrative or transactional fees that the Plan Participants or the Plan may incur through the Nationwide Retirement Program. The Advice Program Fee shall be calculated daily based on the Participant's daily balance and the calculated Advice Program Fee withdrawn quarterly in accordance with each Plan Participant's investment advisory agreement with NIA. The Plan Sponsor hereby consents to the withdrawal of the Advice Program Fee from the applicable Plan Participant Accounts and agrees that it will use its best efforts to facilitate payment of such Advice Program Fee. If this Agreement ends before the end of the applicable calendar quarter, then a pro-rata share of the Advice Program Fee will be withdrawn from the Plan's Account.

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To the extent permitted by applicable law or regulation, affiliates of NIA may receive payments from, or in connection with, investment options selected by the IFE which are included in the Portfolios. In addition, the IFE may select certain investment options for which NIA or an investment advisory affiliate acts as investment adviser. The IFE's fees for services provided under the Advice Program are not related to the investment options the IFE selects for the Portfolios or otherwise influenced by the payments NIA or its affiliates may receive from such investment options.

Certain Advice Program Investments may charge a redemption fee or impose a trade restriction on certain transactions. Redemption fees vary in amount and application from investment option to investment option. It is possible that transactions initiated by NIA under the Advice Program may result in the imposition of redemption fees or trade restrictions on one or more investment options held in Plan Participant Accounts. Any redemption fees will be deducted from the Plan Participant's Advice Program Account balance. For further information on redemption fees or trade restrictions, including whether they will be applicable to any of the investment options within your Plan, please consult the individual fund prospectus or other investment option disclosure material.

VI. INDEMNIFICATION, LIMITATION OF LIABILITY, AND RISK ACKNOWLEDGMENT

Each party agrees to hold harmless, defend and indemnify the other party (including its directors, officers, employees, affiliates and agents) from and against any and all claims, liabilities, losses, costs, damages or expenses (including, without limitation, cost of litigation and reasonable attorneys' fees) (collectively, "Losses") arising out of or attributable to the indemnifying party's (i) willful misconduct, bad faith, criminal activity, or gross negligence, (ii) material breach of this Agreement or the material inaccuracy of any representation or warranty provided hereunder, or (iii) violation of any law to which such party is subject.

Plan Sponsor, on behalf of the Plan, agrees to hold harmless, defend and indemnify NIA (including its directors, officers, employees, affiliates and agents) from and against any and all Losses arising out of or attributable to NIA's following directions or carrying out instructions, or using obsolete, inaccurate or incomplete information, given or furnished by the Plan or its agents.

A party that seeks indemnification under this Section VI must promptly give the indemnifying party written notice of any legal action. But a delay in notice does not relieve an indemnifying party of any liability to an indemnified party, except to the extent the indemnifying party shows that the delay prejudiced the defense of the action. The indemnifying party may participate in the defense at any time or it may assume the defense by giving notice to the other party. After assuming the defense, the indemnifying party: must select an attorney that is satisfactory to the other party; is not liable to the other party for any later attorney's fees or for any other later expenses that the other party incurs, except for reasonable investigation costs; must not compromise or settle the action without the other party's consent (but the other party must not unreasonably withhold its consent); and is not liable for any compromise or settlement made without its consent.

If the indemnifying party fails to participate in or assume the defense within 15 days after receiving notice of the action, the indemnifying party is bound by any determination made in the action or by any compromise or settlement made by the other party.

Federal and state securities laws impose liabilities in certain circumstances on persons who act in good faith, and nothing in this Agreement waives or limits any rights either party has under those laws.

Risk Acknowledgment

NIA uses reasonable care, consistent with industry practice, in providing advisory services through the Advice Program. Investments within the Plan, as all investments in securities, involve risk and will not always be profitable. Investment return and principal will fluctuate with market conditions, and Plan Participant Accounts may lose money. Past performance of investments is no guarantee of future results. The analysis and advice provided by the IFE and delivered by NIA depends upon a number of factors, including the information you or the Plan Participants may provide, various assumptions and estimates, and other considerations. As a result, the advice developed and the recommendations provided are not guarantees that Plan Participants will achieve their retirement goals or anticipated performance. The investment advice provided under this Agreement relates only to the Plan Participant Accounts and will not apply to any other assets a Plan Participant may own.

VII. CONFIDENTIALITY

Each party agrees that it will not, without the prior written consent of the other party, at any time during the term of this Agreement or any time thereafter, except as may be required by competent legal authority or as necessary to facilitate the implementation of services hereunder, use or disclose to any person, firm or other legal entity, including any affiliate or other representative of the party, any confidential records, secrets or information related to the other party (collectively, "Confidential Information"). Confidential Information shall include, without limitation, information about the other party's products and services, customer lists, customer or client information, Plan and Plan Participant information, and all other proprietary information used by the party in its business. The parties acknowledge and agree that all Confidential Information that it has acquired, or may acquire, was received, or will be received in confidence. Each party will exercise utmost diligence to protect and guard such Confidential Information.

The Plan Sponsor (1) acknowledges that it is authorized to provide Confidential Information, including but not limited to Plan Participant information, to NIA for the operation of the Advice Program, and the provision of such information does not violate any Plan or company provisions or policies; and (2) authorizes the sharing of Plan Participant information among NIA and its affiliates as necessary for the operation of the Advice Program.

VIII. TERM OF AGREEMENT

This Agreement shall become effective upon acceptance by NIA, or its designated agent, upon review and receipt in its principal place of business, and such acceptance may be evidenced by internal records maintained by NIA or its designated agent. This Agreement shall continue until terminated by either party upon at least 30 days' advance written notice to the other. This Agreement will terminate immediately if the Plan terminates its participation in the Nationwide Retirement Program. In the event NIA terminates its relationship with the current IFE and has not designated a successor IFE, this Agreement shall automatically terminate upon written notice from NIA. The Plan Sponsor understands that upon termination of this Agreement, the Plan's Account will remain invested in the Advice Program Investments last allocated by NIA until such time as Plan Participants make changes to their individual Accounts.

IX. MISCELLANEOUS

Notices

All notices required to be delivered under this Agreement will be delivered in person or by U.S. standard mail, overnight courier, electronic, facsimile or other method agreed upon the parties, in each case prepaid as applicable, to NIA at the address provided below and to the Plan Sponsor at the address provided on the signature page of this Agreement (or to such other addresses as the parties may specify to one another in writing):

Nationwide Investment Advisors, LLC
Attention: Nationwide ProAccount
PO Box 182797, Mail Stop: 5-05-201J
Columbus, OH 43272-4227
Phone: 888-540-2896
Fax: 877-677-4329

Notices will be deemed given upon dispatch.

Disclosure Documents

As an SEC registered investment adviser, NIA provides its Privacy Policy and Form ADV Parts 2a and 2B ("Form ADV") before or at the time you enter into this Agreement. The Form ADV is a disclosure document that summarizes the investment advisory services provided by an investment adviser registered with the SEC and/or the states. The Form ADV contains information regarding the fees, risks and expenses associated with ProAccount.

You acknowledge having received and reviewed these document upon entering into this Agreement and understand that a current version of Form ADV is available free of charge online at nationwide.com/proaccountadv.jsp or by calling Nationwide at 877-677-3678.

Entire Agreement; Amendment

This Agreement constitutes the entire agreement between the parties hereto with respect to the obligations arising hereunder and supersedes and cancels any prior agreements, representations, warranties or communications, whether oral or written, among the parties hereto relating to the subject matter hereof. This Agreement may be amended by NIA upon 30 days' prior written notice to the Plan Sponsor and may be amended immediately upon notice to the extent required to satisfy federal or state regulatory requirements.

Nationwide Investment Advisors, LLC

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Headings

All Section headings in this Agreement are for convenience of reference only and do not form part of this Agreement. Section headings will not, in any way, affect the meaning or interpretation of this Agreement.

Waiver

No delay by either party in requiring performance by the other shall affect the right of such party to require performance; no waiver by either party of any breach shall be construed as a waiver of any subsequent breach or as a waiver of the provision itself or any other provision.

Survival

All terms and provisions of this Agreement, including without limitation: "Indemnification, Limitation of Liability, and Risk Acknowledgment," "Confidentiality," and Miscellaneous" which should by their nature survive the termination of this Agreement, shall so survive the termination of this Agreement.

Assignment

Neither party may assign this Agreement (within the meaning of the Advisers Act) or assign any of the rights or delegate any of the duties or obligations of this Agreement without the other party's prior consent. Any assignment in violation of this provision shall be void and of no force or effect.

Force Majeure

Neither party shall be liable for failure to perform if the failure results from a cause beyond its control, including, without limitation, fire, electrical, mechanical, or equipment breakdowns, delays by third party providers and/or communications carriers, civil disturbances or disorders, terrorist acts, strikes, acts of government authority or new governmental restrictions, or acts of God.

Severability

Should any provision of this Agreement be held invalid or unenforceable by any court, arbitrator, statute, rule or otherwise, the remaining provisions of this Agreement will not be affected thereby and will continue in full force and effect to the fullest extent practicable.

Governing Law

This Agreement and its enforcement will be governed by and construed in accordance with the laws of the State of Ohio, without regard to the conflicts of law provisions or principles. Nothing herein will be construed in any manner inconsistent with the Advisers Act or any rule or order of the Securities and Exchange Commission, as applicable.

IN WITNESS WHEREOF, the Plan Sponsor, on behalf of the Plan, has executed this Agreement to be effective as of the date set forth below.

Plan:
By: (Signature)
Title:
Print Name:
Plan Address:
Plan Contact/Telephone:
Date:

Feeling overwhelmed with payroll processing?

With Nationwide SecurePaySM you just update it, submit it and forget it.

Nationwide SecurePay brings deferred compensation plan sponsors upgraded functionality that streamlines the way you submit payroll online. Through Nationwide SecurePay you can:

- ▶ Select from six pay period templates, or create one of your own
- ▶ Delete participants from payroll detail
- ▶ Identify participants whose accounts are not yet setup, reducing contributions going to suspense
- ▶ Sort detail by Amount, Social Security Number and Name, helping to identify where a detail submission may be out of balance
- ▶ Edit your submissions multiple times if needed
- ▶ Print the payroll acknowledgement for your records
- ▶ Access an enhanced, more thorough and easy-to-read User Guide
- ▶ And, view payroll-submission history — something you've never been able to do!

Nationwide SecurePay is EASY

No special software. You use your browser to log in, view your history, enter new information or edit current information, update your contribution information, and submit the data file online. Then, you just send us the funds.

Nationwide SecurePay is FAST

You get your processing done efficiently. The system is easy-to-use, intuitive and quick.

Nationwide SecurePay is GREEN

Your processing is done online, through paperless transactions and filing. Unless you print documents for your own files, no trees are lost due to Nationwide SecurePay!

Nationwide SecurePay is SECURE

Nationwide uses encrypted processing through a 128-bit Secure Socket Layer: Your data is protected behind billions of possible combinations. If you get interrupted, you'll be logged off after 15 minutes of inactivity — an extra layer of protection safeguarding your data.

Make your deferred compensation processing faster and easier

Sign up for Nationwide SecurePay. Talk with your Nationwide representative today or contact the Payroll Automation Team.

Call **1-877-496-1630**

Email Welcome@nationwide.com



NACo Endorsement Disclosure

Nationwide Retirement Solutions and Nationwide Life Insurance Company (collectively 'Nationwide') have endorsement relationships with the National Association of Counties (NACo). More information about the endorsement relationships may be found online at www.nrsforu.com.

Mutual Fund Service Fee Payments

Nationwide Retirement Solutions, Inc. and its affiliates (Nationwide) offer a variety of investment options to public sector retirement plans through variable annuity contracts, trust or custodial accounts. Nationwide may receive payments from mutual funds or their affiliates in connection with those investment options. For more detail about the payments Nationwide receives, please visit www.nrsforu.com.



Customer Identification Program Disclosure

Important Information About Procedures For New Clients

Section 326 of the USA Patriot Act requires financial institutions, including broker/dealers, to have a Customer Identification Program. Nationwide Retirement Solutions is required to give its new clients notice about its Customer Identification Program.

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each client, when you agree to contract with Nationwide.

What this means to a governmental deferred compensation plan: As part of our Customer Identification Program, we will ask you for your name, address, tax identification number, and other information that will allow us to identify you. Your organization may be contacted by Nationwide to help verify this information. There is no action required on your part in this process, other than providing the necessary information for verification.



Nationwide Investment Services Corp. (NISC) Disclosure Statement

Nationwide Investment Services Corp. (NISC), a subsidiary of Nationwide Financial Services, Inc., firmly believes in the value of pre-planning for business interruptions. In an effort to serve both our internal and external customers by providing on-going service operations, NISC has developed a business continuity plan to address the possibility of a significant business disruption.

Should an event occur that hinders our ability to conduct normal business operations, NISC has secured remote locations to resume critical business operations within a reasonable period of time. Should business functions be interrupted by the loss of a primary business facility, associates and/or “work” would be relocated to an alternate NISC site. In the event of a systems facility loss, applications would be redirected to their primary recovery location, which could be an alternate NISC facility or a remote recovery service provider. The hierarchical structure of the NISC recovery plans includes the ability to address incidents that are department, facility, city, state or regional in nature.

It is NISC’s intention to transact business during an interruption whenever possible. Depending on the nature and severity of the interruption, recovery timeframes may vary. For small scope outages, i.e. business unit or single application disruption, recovery timeframes would be controllable and limited. With processing and servicing functions primarily concentrated in the Midwest, a regional disruption could have extended recovery timeframes that range from hours to days. To help mitigate this risk, redundant networks, alternate remote systems recovery sites and alternate power sources are included in our recovery strategy.

FACTS

WHAT DOES NATIONWIDE FINANCIAL SERVICES DO WITH YOUR PERSONAL INFORMATION?

Why?

Financial companies choose how they share your personal information. Federal and state laws give consumers the right to limit some but not all sharing. Federal and state laws also require us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and income
- Account balances, transaction history, and credit history
- Assets and insurance claim history

How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Nationwide Financial Services chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does NFS share?	Can you limit this sharing?
For our everyday business purposes— such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes— to offer our products and services to you	Yes	No
For joint marketing with other financial companies	No	We don't share
For our affiliates' everyday business purposes— information about your transactions and experiences	Yes	No
For our affiliates' everyday business purposes— information about your creditworthiness	No	We don't share
For our affiliates to market to you	No	We don't share
For nonaffiliates to market to you	No	We don't share

Questions?

Call 1-866-280-1809

Who we are

Who is providing this notice?

Nationwide Financial Services, Inc.; Nationwide Life Insurance Company; Nationwide Life and Annuity Insurance Company; Harleysville Life Insurance Company; Nationwide Retirement Solutions, Inc.; Nationwide Investment Advisors, LLC; and Nationwide Fund Distributors, LLC. (collectively “NFS”)

What we do

How does NFS protect my personal information?

To protect your personal information from unauthorized access and use, we use security measures that comply with federal and state laws. These measures include computer safeguards and secured files and buildings. We limit access to your information to those who need it to do their job.

How does NFS collect my personal information?

We collect your personal information, for example, when you

- apply for insurance or give us your contact information
- pay your insurance premiums or file an insurance claim
- show your driver’s license

We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.

Why can’t I limit all sharing?

Federal and state laws give you the right to limit only

- sharing for affiliates’ everyday business purposes—information about your creditworthiness
- affiliates from using your information to market to you
- sharing for nonaffiliates to market to you

State laws and individual companies may give you additional rights to limit sharing. See below for more on your rights under state law.

Definitions

Affiliates

Companies related by common ownership or control. They can be financial and nonfinancial companies. Our affiliates include companies with the Nationwide name, such as Nationwide Bank and Nationwide Mutual Insurance Company. Visit nationwide.com for a list of affiliated companies.

Nonaffiliates

Companies not related by common ownership or control. They can be financial and nonfinancial companies. NFS does not share with nonaffiliates so they can market to you.

Joint marketing

A formal agreement between nonaffiliated financial companies that together market financial products or services to you. NFS doesn’t jointly market.

Other important information

Nevada Residents: You may request to be placed on our internal Do Not Call list. Send an email with your phone number to privacy@nationwide.com. You may request a copy of our telemarketing practices. For more on this Nevada law, contact Bureau of Consumer Protection, Office of the Nevada Attorney General, 555 E. Washington St., Suite 3900, Las Vegas, NV 89101; phone number: 1-702-486-3132; email: BCPINFO@ag.state.nv.us.

For Vermont Customers: We will not disclose information about your creditworthiness to our affiliates and will not disclose your personal information, financial information, credit report, or health information to nonaffiliated third parties to market to you, other than as permitted by Vermont law, unless you authorize us to make those disclosures.

For insurance customers in AZ, CT, GA, IL, ME, MA, MT, NV, NJ, NM, NC, ND, OH, OR, and VA only: The term “Information” means information we collect during an insurance transaction. We will not use your medical information for marketing purposes without your consent. We may share your Information with others, including insurance-support organizations, insurance regulatory authorities, law enforcement, and consumer reporting agencies, without your prior authorization as permitted or required by law. Information obtained from a report prepared by an insurance-support organization may be retained by the insurance-support organization and disclosed to other persons.

Accessing your information: You have a right to access and correct your personal information. To request a copy of your personal information, write to: **Nationwide, One Nationwide Plaza, 1-25-101, Columbus, OH, 43215**. For your protection, have your signature notarized. Please include your name, address, and your policy, contract, or account number. You can change your personal information at Nationwide.com or by calling your agent. We can’t change information that other companies, like credit agencies, provide to us. You’ll need to ask them to change it.

Variable Annuity
and Plan Program

Group Flexible Purchase Payment Deferred Variable Annuity and Plan Program



Nationwide[®]
is on your side



GROUP FLEXIBLE PURCHASE PAYMENT DEFERRED VARIABLE ANNUITY AND PLAN PROGRAM DESCRIPTION

Underwritten by

Nationwide Life Insurance Company

One Nationwide Plaza
Columbus, Ohio 43215

INFORMATIONAL BROCHURE & DISCLOSURE DOCUMENT

This Informational Brochure and Disclosure Document (“Brochure”) is designed to provide basic information regarding the Group Flexible Purchase Payment Deferred Variable Annuity Contract (“Contract”) and Fixed Account Endorsement, if applicable, that provide Contract benefits to the Plan. This Brochure is designed for Plan Participants, Retired Participants, beneficiaries of the Plan, and the Contract Owner.

This Brochure includes basic information about the Contract and benefits under it. Read this Brochure carefully before investing and retain it for future reference. If Contract and Brochure provisions differ, the provisions of the Contract will govern.

Questions regarding this Brochure or requests for additional information should be directed using the contact information below.

Regular Mail	E-Mail	Telephone
[Nationwide Retirement Solutions P.O. Box 182797 Columbus, OH 43218-2797]	nrsforu@nationwide.com	[1-877-NRS-FORU (677-3678)]

Before contributing money to the Plan, remember the Contract and this Brochure are not insured by the FDIC, NCUSIF, or any other government agency. Except as otherwise stated in this Brochure, the Investment Options offered under the Contract and this Brochure involve investment risk and may lose value.

The Contract and this Brochure have not been registered with the Securities and Exchange Commission.

Information deemed reliable as of April 30, 2010.

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SPECIAL TERMS USED IN THIS BROCHURE

Brochure - This disclosure document describing the benefits under the Contract. Where required by state law, this Brochure shall also be the Certificate of Participation.

Business Day - Each day the New York Stock Exchange and our home office are open for business or any other day during which there is enough trading of the Sub-Accounts of the Variable Account that the current net asset value of its Units might be materially affected.

Companion Investment Option(s) - Another investment option under the Plan. This may include other investment contracts and options offered by us or by another provider.

Contract - The annuity contract (NRC-0105) and any endorsements or amendments thereto describing the obligations and rights between the Employer and Nationwide.

Contract Owner - The entity identified on the face page of the Contract and the Contract Specifications Page as the Contract Owner; typically, the State, or political subdivision thereof, that establishes and maintains the Plan.

Contract Specifications Page - A page of the Contract that is customized to reflect the specific elections of the Contract Owner and associated charge structures. Changes to Contract elections or charge structures are reflected in updated Contract Specifications Pages sent to the Contract Owner.

Employer - The employer of the Participants that makes contributions to the Plan on the Participants' behalf.

Exchange - The movement of amounts in the Participant Account to a Companion Investment Option under the Plan or from one or more Sub-Accounts of the Variable Account to one or more Sub-Accounts of the Variable Account.

Fixed Account - A funding option that is part of our general account and credits interest rates. If made available by the Contract Owner, Participants may allocate Participant Contributions to the Fixed Account.

Investment Options - the Sub-Accounts of the Variable Account that correspond to the Underlying Investments.

Nationwide - Nationwide Life Insurance Company and its affiliates. References to "we," "our," or "us," will also mean Nationwide Life Insurance Company.

Participant - An employee or independent contractor eligible to participate in the Plan and entitled to benefits under the Plan. In the case of a deceased Participant, Participant refers to a beneficiary of a Participant under the terms of the Plan. The Participant is not the owner of the Contract.

Participant Account - An individual account established for each Participant in the Plan. A Participant Account will record all transactions attributable to the Plan on his or her behalf. This includes, but is not limited to, Participant Contributions, allocations of Participant Contributions to the Variable or Fixed Accounts, Exchanges, Transfers, and investment experience.

Participant Account Value - The present value of the Units attributable to each Participant Account.

Participant Benefit Payments - All payments of benefits that result from a Participant's retirement, termination of employment, or any payment that he or she is entitled to based on the terms of the Plan.

Participant Contributions - The portion of Purchase Payment that is contributed by the Employer to the Plan on behalf of the Participants including deferrals, deposited in the Contract pursuant to the Plan, and allocated by the Participants to the Variable or Fixed Accounts.

Plan - The retirement plan or tax deferred arrangement provided by the Plan Sponsor.

Plan Sponsor – The Sponsor of the Plan for which the Contract is issued, typically a city, county or other political subdivision of a State) that establishes and maintains the Plan and that acts as the Employer of the Participants in the Plan. The Plan Sponsor may delegate responsibilities to another entity or an independent board.

Purchase Payment – New money deposited into the Contract by the Contract Owner. It can include Participant Contributions and Employer Contributions.

Retired Participant – A Participant who has severed employment with the Employer sponsoring the Plan. In the case of a deceased Retired Participant, Retired Participant refers to a beneficiary of a Retired Participant under the terms of the Plan.

SEC - The United States Securities and Exchange Commission or any successor federal authority charged with the regulation of securities.

Sub-Account(s) – The Investment Options in the Variable Account corresponding to Underlying Investments where units are maintained separately.

Transfer - The movement of amounts attributable to a Participant Account to a non-Companion Investment Option.

Underlying Investments - The investment(s) corresponding to a Sub-Account of the Variable Account. These investments, to the extent permitted by law, may include: (1) registered or unregistered mutual funds offered by Nationwide or a third-party; (2) managed separate account options offered by Nationwide or one of its affiliates; or (3) any other investment vehicle Nationwide chooses to offer that is allowed by law and consistent with the investment guidelines of the Variable Account.

Unit - An accounting unit of measure used to calculate the value of the Sub-Account of the Variable Account.

Unit Value - The dollar value attributed to each Unit. This value increases or decreases based on the investment experience of the corresponding Sub-Account.

Variable Account - Our segregated investment account or “separate account” that owns shares or interests in the Underlying Investments and fluctuates in value based on the performance of the Underlying Investments.

DESCRIPTION OF CHARGES AND EXPENSES

Nationwide’s Contracts contain charges and expenses that reduce the value of the Contracts and thus the value of Participants’ Accounts. The charges and expenses listed below are the current maximum charges and expenses Nationwide assesses for this Contract. These charges and expenses are subject to change. The charges and expenses shown in this Brochure are in addition to the charges and expenses assessed by the Underlying Investment, and that are reflected in the value of those investments. The Contract Specifications page(s) issued to the Contract Owner details the Contract’s specific charges and expenses.

The following table describes the maximum possible charges and expenses that will reduce the value of the Contract, and thus the value of the Participant Accounts, periodically during the life of the Contract (not including Underlying Investment fees and expenses). We reserve the right to charge less than the maximum rate.

Recurring Contract Expenses

Maximum Allowable Variable Account Charge Allowable Under the Contract	2.00% ¹
Maximum Allowable Fixed Account Charge Allowable Under the Contract (Endorsement?)	2.00% ²
Maximum Allowable Contract Maintenance Charge	\$10,000,000
Maximum Allowable Participant Account Charge	\$100
Nationwide FundGuardSM	1.25% ³

The following table describes the charges and expenses assessed at the time various transactions are conducted under the Contract.

Transaction Based Expenses

Maximum Premium Tax Charge	5% ⁴
Maximum Short-Term Trading Fee (as a percentage of transaction amount)	2%

Variable Account Charge

We assess a charge against each Sub-Account of the Variable Account. The charge is deducted as part of our calculation of each Sub-Account's Unit Value pursuant to the formula in the Contract. The charge is designed to reimburse us for expenses associated with administration, distribution, maintenance and risks assumed in connection with the Contract and this Brochure. We may earn a profit from this charge.

The Variable Account charge may be reduced under two different circumstances.

First, we may provide for reductions in the charge when the value of the Contract reach a certain total dollar value (or "break-point"). For example, if total Plan assets contributed to invested in the Contract reach \$10,000,001 we may decrease the Variable Account charge by 0.05%. Nationwide may not offer break points to every Contract.

Second, we may provide for reductions in the charge based upon the Investment Option in which Participant Contributions are allocated. We may designate "fund tiers" and apply a specific Variable Account charge reduction to all Investment Options in that tier. The Variable Account charge will vary by fund tier, meaning we may assess a different Variable Account charge against one Investment Option than another. Fund tiers are determined at our sole discretion but are commonly identified by expense characteristics that result in cost-savings to Nationwide, including the amount of payments the Underlying Investment providers make to us. Nationwide may not utilize fund tiers in every Contract.

Fixed Account Charge

¹ The Variable Account charge is an annualized rate of total Variable Account charges expressed as a percentage of daily net assets. The Variable Account Charge can range between 0% and 2.00% and may vary by Investment Option.

² If the Fixed Account is an available investment option, we may assess a fee at any time during the term of the Contract. The fee may range between 0% and 2.00% of assets in the Fixed Account option.

³ New FundGuard programs are currently unavailable. If the Nationwide FundGuard was elected, we will assess monthly a maximum annualized rate of 1.25%. Withdrawals from the Contract when FundGuard is elected may be assessed a withdrawal Charge. Refer to the Addendum to this Brochure for details regarding FundGuard programs, including associated charges.

⁴ Nationwide may charge between 0% and 5% of Purchase Payments for premium taxes levied by state or other government entities.

If the Contract Owner has elected to include the Fixed Account, we may assess a Fixed Account charge against the interest credited under the Contract any time during the term of the Contract. The charge is deducted from the interest yield we credit, resulting in a lower overall credited interest rate. We may earn a profit from this charge. Any applicable Fixed Account charge will be assessed on each Business Day. Contract Owners will receive 90-days' advance notice of any changes to the amount of the Fixed Account Charge.

Contract Maintenance Charge

The Contract maintenance charge is a flat-dollar fee assessed under the Contract. We may earn a profit from this charge. Any applicable Contract maintenance charge will either be taken instead of, or in addition to, the Variable Account charge. If we assess this fee, it will be collected on a monthly, quarterly, or annual basis as is negotiated between the Contract Owner and us. The Contract Owner will direct us how to apportion this charge among all Participant Accounts.

Participant Account Charge

The Participant Account charge is a flat-dollar fee we assess against Participant Accounts for administrative expenses incurred in maintaining these account. We may earn a profit from this charge. Any applicable Participant Account charge will either be taken instead of, or in addition to, the Variable Account charge. If we assess this charge, it will be collected on a monthly, quarterly, semi-annual, or annual basis as is negotiated between the Contract Owner and us. The Contract Owner will direct us how to apportion this fee among all Participant Accounts.

Nationwide FundGuardSM

If elected, the FundGuardSM program was added as an optional feature by endorsement to the Contract. Refer to the Addendum to this Brochure and your Contract endorsement for details. New Nationwide FundGuard programs are currently not available.

Expenses of the Underlying Investments

Expenses assessed by the Underlying Investments are in addition to fees and charges assessed by Nationwide and are reflected in the value of the Underlying Investments. Some Underlying Investments may also assess transaction based fees, such as redemption fees. Details concerning each Underlying Investment's fees and expenses are contained in the prospectus or other available disclosure document for such Investment.

Premium Taxes

Nationwide will deduct under the terms of the Contract the amount of any premium taxes levied by a state or other government entity. The method for recouping the amount of such taxes will be determined by Nationwide and in accordance with applicable law.

Short-Term Trading Fees

Some Underlying Investments may assess (or reserve the right to assess) a short-term trading fee in connection with transfers from a Sub-Account that occur within a specified number of days after the date of allocation to the Sub-Account. Please refer to the applicable prospectus or other available disclosure document for the Underlying Investments for specific information about the applicability of short-term trading fees.

Other Expense and Service Charges

The Plan Sponsor may request us to perform additional services for the Plan, provide additional Participant level services, or agree to deduct non-Contract, plan expenses under the Contract. We will determine the amount of charges associated with any additional services we provide and, at the direction of the Plan Sponsor, may deduct these charges from the Value of the Contract. With regard to any additional, non-Contract plan expenses, the

Contract Owner will direct us with regard to how these charges are deducted from the Contract's value, and how they will be applied among all Participant Accounts.

Spread

Nationwide may earn a spread on assets held in the Fixed Account, which is reflected in the crediting rate. The spread represents the difference between what Nationwide earns on investments and what it credits to the Fixed Account as interest.

Important Discussion about Contract Charges and Expenses

Nationwide and certain of its affiliates offer retirement plan products and services to a diverse array of governmental retirement plan clients. Our clients range from very large state retirement plans to the smallest special purpose district plans, and include city, county, and other state and special district plans of all sizes and demographic profile. We actively market our products and services to all of these plan types. Our revenue, expenses and any resulting profit vary widely among plan-types.

Negotiated Pricing. Nationwide including our affiliates does not negotiate charges and expenses with every plan, or with plans having similar characteristics. In many cases, only a standard package of products and services – with charges and expenses that are not negotiated -will be offered, regardless of the economic and demographic characteristics of the Plan. The Contract provides the flexibility to allow us to adjust the price to meet the needs of our varied client base.

Normally, whether Nationwide and its affiliates will negotiate the charges and expenses of any Nationwide product or service is based on one, or a combination, of the following: plan asset levels, number of participants, choice of companion Nationwide products, choice of Investment Options, historical or anticipated continuity of the plan's business with Nationwide, competitive considerations in the market, the overall expense structure of the Plan, and any specific requirements or processes of the plan as determined by the sponsor of the Plan. This category of factors, which largely relates to the economic and demographic characteristics of the plan, are typically and frequently considered but are by no means exclusive of other factors.

General Pricing Considerations. Regardless of whether charges and expenses are negotiated or standard, common factors and business interests have an influence on the price we establish for our products and services. These factors and considerations include, but are not limited to: current and expected profitability; the amount of payments received, or expected to be received, from Underlying Investment providers; expenses we incur, including payments to third parties for endorsement or promotion of products and services offered by Nationwide and its affiliates and commonplace business expenses (e.g., salaries and wages, rents, taxes, legal expenses, computer software, etc.); prevailing economic conditions; competitive considerations; and promotional and licensing activity expenses.

Payments to Third Parties. With respect to promotional and licensing activity, Nationwide incurs significant expense in the form of payments to unaffiliated organizations and associations which exclusively endorse and/or promote Nationwide's products and services. Services provided under these arrangements commonly include use of logos, access to conferences, promotion in various publications, and information concerning product competitiveness. The value of these endorsements can lead to increased sales and asset retention. Greater sales, and more successful asset retention, in turn, lead to economies of scale which, on a long-term basis, ultimately benefit both Nationwide and its public sector clients.

As with any expense, the cost of these relationships is reflected in the charges and expenses, of the contract and their impact is not uniform. In certain cases, a greater proportion of aggregate pricing may be attributable to this expense. Determining the precise correlation (or whether a precise correlation exists) between actual charges and expenses (and the interest rates credited by Nationwide if the fixed account is available), and payments by Nationwide, depends on the particular plan and the particular facts and circumstances associated with that plan and its association with the endorsing and promoting entity. See, the section titled, "Other Information" and visit www.nrsforu.com for additional information concerning our relationships with these third parties. The costs we incur to maintain our exclusive endorsements may have an impact on the long-term value of Participant Accounts.

Investment Options. The menu of Investment Options available through the Contract is selected by the Plan Sponsor. That menu is selected from an array of choices presented by Nationwide. That array is based upon several factors, many of which are detailed in the “Guidelines for the Array of Investment Options” section. For example, Nationwide may give priority for inclusion in the Contract to Investment Options that correspond to Underlying Investments managed by affiliates.. Affiliates manage proprietary investments and receive investment management and other fees from those investments. Those fees are in addition to fees Nationwide receives on the Contract or its affiliates may receive for record-keeping, trust or custodial services being provided. The expenses and other information about the available investment options are contained in their prospectuses or other disclosure documents available at www.nrsforu.com.

Nationwide also has business interests in deciding which Underlying Investment(s) or even which share class of a particular Investment Option, are included in the array of choices available with respect to a Contract. Our business interests include covering our own costs and expenses and achieving a profit. These interests may result in Nationwide choosing to offer a certain investment option or a more expensive share class of a particular investment option in order to ensure receipt of adequate payments from the underlying investment provider. More information about the payments Nationwide receives can be found in the “Other Information” section or at www.nrsforu.com.

Nationwide is committed to providing quality products and services to Plan Sponsors and Participants. As a for-profit business, Nationwide expects to earn a profit, which is reflected in product pricing. Plan Sponsors are encouraged to review the advantages and disadvantages of the product including charges and expenses.

DESCRIPTION OF THE CONTRACT

We issue the Contract to the Contract Owner to provide Investment Options and other benefits in connection with a Plan. Typically, the Plan is a governmental deferred compensation plan receiving favorable tax treatment under section 457(b) of the Internal Revenue Code or a defined contribution plan receiving favorable tax treatment under section 401(a) of the Internal Revenue Code. However, we may issue the Contract in connection with other employer sponsored benefit plans.

This Brochure describes some of the important terms of the Contract between Nationwide and the Contract Owner. You should read the Contract for a full description of its terms. The Contract does not create any contractual rights or obligations between us and the Participants. The Contract is not a trust, and its terms (and Nationwide’s performance of its terms) do not create any fiduciary relationship between Nationwide or any of its affiliates and the Contract Owner, the Plan, or any of the Participants. The Plan and its Participants exercise all authority and control respecting the management and disposition of any Plan assets. Nationwide and its affiliates do not and will not act as a fiduciary for the Plan or exercise discretion over assets of the Plan. The only legal relationship is between Nationwide and the Contract Owner, and that relationship is limited to the terms of the Contract.

The Contract Owner or Nationwide may terminate the Contract under certain circumstances and transfer Participant Accounts to a successor that provides Investment Options. Unless otherwise specified in the Contract, termination of the Contract ends all benefits under the Contract.

The Contract is not a part of the Plan. Rights to receive benefits and tax treatment of benefits are not governed by the Contract, but instead are determined by the Plan.

THE VARIABLE ACCOUNT

The Contract may be accompanied by one or more Variable Accounts. Singular references to Variable Account will also include the plural.

A Variable Account is a segregated asset account we established under Ohio law. A Variable Account has its own income, gains, and losses based on its own investment experience. The Variable Account’s assets are held separately from our assets and are not chargeable with liabilities incurred in any of our other business. Purchase Payments allocated to the Variable Account are not Plan assets. We are obligated to accept those Purchase

Payments, and to pay benefits, in connection with the Variable Account under the terms of the accompanying Contract only, and do not assume any other legal obligations with respect to those Purchase Payments.

The Variable Account is divided into Sub-Accounts that are referred to here as Investment Options. Each Sub-Account corresponds to a mutual fund or other investment vehicle that is referred to here as an Underlying Investment. The Investment Options made available through the Contract are selected by the Plan Sponsor as described above. The particular Investment Options available through the Contract may change from time to time, and may be added, removed or closed off to future investment.

The Plan Sponsor is responsible for considering and directing any such additions, removals or other changes to the available Investment Options. Nationwide is not responsible for those decisions. Participants will receive advance notice of any such changes.

Guidelines for the Array of Investment Options

The array of Investment Options that Nationwide will make available generally is based upon several factors, many of which are detailed in the investment guidelines established for the contracts by Nationwide. The contract investment guidelines serve as the basis for periodic monitoring (at least annually) of the array of options to determine continued product competitiveness, consistency with the purposes and opportunities presented by Underlying Investments, and Nationwide's business purposes. This evaluation and monitoring does not take into account the needs or interests of any particular Plan, Plan Sponsor, or Participant, and is not performed on behalf of any particular Plan. In some cases where the Contract is offered as part of an endorsed program, the third party endorser may have established guidelines applicable to the array of investment options available as part of the program. In any case, the Plan Sponsor is responsible for determining whether the available Investment Options meets the needs of the Plan both initially, and on an on-going basis. The guidelines are subject to change and may be amended by Nationwide from time to time. They are made available to Contract Owners upon request and as they are amended.

With respect to the array of available Investment Options, Nationwide or its designee (i) periodically reviews the options offered through the Variable Account for diversification of risk/return profiles; (ii) periodically monitors the performance of the Underlying Investment Options; and (iii) may remove, replace or add Underlying Investment Options in accordance with its own business interests. Nationwide or its designee will provide written or electronic notice to the Plan Sponsor of any such removal, replacement or addition. These notices will: (i) explain the proposed changes to the Investment Options; (ii) disclose any resulting changes in the fees paid to Nationwide by the Plan and by the investment option providers; (iii) identify the general effective date of the change; (iv) explain that the Plan Sponsor may reject the change; and (v) state that failure by the Plan Sponsor to object by the date contained in the notice will constitute consent to the proposed change. To the extent the Plan Sponsor provides an objection to the proposed change to Nationwide or its designee within the time frame contained in the notice, Nationwide will not make such change in respect of the Plan. The Plan Sponsor may also terminate the Contract if it no longer meets the needs of the Plan.

Nationwide may implement reasonable procedures, including notices to affected Participants and blackout periods, to accomplish changes to the Investment Options. Generally, Nationwide will provide written notice to the affected Participants at least thirty (30) days prior to implementation of the proposed change.

In its capacity as issuer of the Contract, Nationwide has its own business interests in deciding which Investment Options to offer in the Variable Account, and is expected to and will act in accordance with those business interests. Nationwide does not take into consideration the needs or objectives of any individual Participant or Plan when determining or reviewing the available array of Investment Options. Nationwide may propose proprietary Investment Options (investment options made available through itself or its affiliates) as part of its arrays for selection by the Plan Sponsor.

The Plan Sponsor has the sole and absolute discretion to determine whether the Investment Options are suitable and appropriate for the Plan, and exercises all authority and control over the investment options that should be selected.

THE FIXED ACCOUNT

The Contract may be endorsed to provide for the availability of a Fixed Account as an investment option under the Contract. The Contract Owner elects whether to include the Fixed Account in connection with the Contract. Nationwide generally accepts exchanges and transfers to the Fixed Account, but we reserve the right to discontinue accepting additional Purchase Payments, Exchanges and Transfer allocations to the Fixed Account at any time. Certain restrictions also apply, see “Limitations on Exchanges and Transfers” in this Brochure and refer to the Contract Owner’s Contract Specifications Page for more details.

The Fixed Account, if available, is backed by Nationwide’s general account. This means any guarantees associated with the Fixed Account are liabilities of the general account and are guaranteed by Nationwide. Assets held in the Fixed Account are subject to the claims-paying ability of Nationwide, are not insured by the FDIC, NCUSIF, or any other governmental agency. The Fixed Account is non-participating – allocations do not share in any surplus of Nationwide.

The Fixed Account is structured with guaranteed annual minimum interest rates and guaranteed quarterly interest rates. The annual minimum guaranteed interest rate is established at the beginning of each calendar year. This guarantee means interest credited through the current calendar year will never be less than this minimum rate. The guaranteed quarterly rate is established at the beginning of each calendar quarter. During the current calendar quarter, interest credited will never be less than this minimum rate.

Nationwide establishes interest rate guarantees for the Fixed Account at our own discretion and based upon a multitude of factors not the least of which is our expectation of profit; *e.g.*, one measure of which is the difference between what we are able to earn on our investments in the general account and the rates we are able to guarantee within our contracts, or spread. Anticipated or required profit levels will change over time and may result in varying and lower rates of return on the Fixed Account which could lower overall return for Participants. Market fluctuations and costs we incur to manage the assets of the general account are some of the other significant factors that influence the amount of interest we can guarantee for any given period of time.

The Plan Sponsor has the discretion and responsibility to determine whether the interest credited in the Fixed Account is appropriate for the Plan, and exercises all authority and control over the decision to include or terminate the Fixed Account if the credited interest is not appropriate.

Payments to Third Parties. With respect to promotional and licensing activity, Nationwide incurs significant expense in the form of fees paid to unaffiliated organizations and associations which exclusively endorse and/or promote Nationwide’s products and services. As with any expense, the cost of these relationships is reflected in product and service charges and expenses, and their impact is not uniform. Determining the precise correlation (or whether a precise correlation exists) between the interest rates guaranteed by Nationwide if the Fixed Account is available and payments by Nationwide depends on the particular Plan and the particular facts and circumstances associated with that Plan and its association with the endorsing and promoting entity. See, “Important Discussion about the Impact of Contract Pricing on the Value of Participant Accounts” for additional discussion about how Nationwide prices products. The costs we incur to maintain our exclusive endorsements may have some impact on the long-term value of Participant Accounts, including the long-term value of Purchase Payments to the Fixed Account.

Market Value Adjustment. In the event the Contract is terminated and the Contract Owner requests a lump-sum payment on the effective date of termination, amounts allocated to the Fixed Account (including Fixed Account allocations attributable to Participant Accounts) are subject to a market value adjustment that may reduce the value of the Contract and the Participants’ Accounts. More information, including the assumptions used in calculating the market value adjustment, can be found in the “Termination of the Contract” section, and in “Exhibit A”.

PARTICIPANT ACCOUNTS

General Information Regarding Participant Accounts

We establish a Participant Account for each Participant under the Plan. A Participant Account records all relevant transactions the Participant makes, or in some cases the Plan makes. Those transactions include Participant Contributions, allocations of those Participant Contributions among the Investment Options, Exchanges and Transfers of money among the Investment Options after the initial allocation, and Participant Benefit Payments.

We may delegate responsibilities regarding maintaining Participant Accounts to one of our third-party affiliates. The Contract Owner may direct us to use another third-party to maintain Participant Accounts. Even if we delegate responsibilities regarding Participant Accounts to a third-party, we will continue to be ultimately responsible for maintaining Participant Accounts.

Calculating the Value of Participant Accounts

Each Business Day, we calculate the value of each Participant Account based on the terms of the Contract. If the Participant Account includes money allocated to Investment Options, the value of each such Sub-Account is determined by multiplying its Unit Value by the number of Units. The number of Units in a Sub-Account is increased by allocations of Participant Contributions and incoming Exchanges and Transfers. The number of Units in a Sub-Account is decreased by outgoing Exchanges and Transfers and the deduction of charges (except the Variable Account Charge, which is included in the calculation of the Unit Value). The combined value of the Sub-Accounts determines the Participant Account Value. If the Contract Owner has elected the Fixed Account, and the Participant Account includes any money allocated to that Fixed Account, any such amounts are added to determine the Participant Account Value.

Exchanges and Transfers

If Participants have allocated money to a Sub-Account, they are permitted Exchanges from that Sub-Account to another or from the Sub-Accounts of the Variable Account to a Companion Investment Option (if applicable). Participants are also permitted Transfers from his or her Participant Account to a non-Companion Investment Option if permitted by the Plan. A Retired Participant is permitted Transfers to a funding successor.

When an Exchange or Transfer occurs, the outgoing dollar value attributable to the requested transaction is divided by the Unit Value as of the Business Day the Exchange or Transfer is effective. The result is the number of Units associated with the outgoing transaction. These Units are then subtracted from the Sub-Account. If an Exchange is being made to another Sub-Account, the incoming dollar value attributable to the requested transaction is divided by the Unit Value as of the Business Day the Exchange is requested. The result is the number of Units associated with the incoming Exchange. These Units are then added to the Sub-Account.

If there is a Fixed Account, and Participants have allocated money to that Fixed Account, Transfers and Exchanges can occur from that Fixed Account to a Variable Account. Those Transfers or Exchanges add or subtract to the value of the Fixed Account on the Business Day the transaction is requested. Exchanges to a Companion Investment Option or Transfers to a non-Companion Investment Option are governed by the terms and conditions of these external investment options.

We may permit Exchanges or Transfers to be performed in more than one manner, such as the telephone, in writing, or over the internet. All Exchange and Transfer requests are subject to rules we establish. Rules covering Exchanges and Transfers are designed to protect Participants and us, and to ensure all transactions are conducted in an orderly fashion consistent with all applicable laws.

Limitations on Exchanges and Transfers

Exchanges and Transfers may be subject to the limitations and/or fees imposed by any of the Underlying Investment Options. Exchanges and Transfers are subject to any rules and regulations imposed by the SEC or any other applicable laws, rules or regulations.

We may refuse, limit or otherwise restrict Exchange and Transfer requests, or take any other reasonable action we deem necessary to protect the Contract Owner, Participants and Retired Participants from short-term trading strategies or other harmful investment practices that have a negative impact on the performance of an Underlying Investment Option.

If the Fixed Account is made available, then outgoing Exchanges and Transfers will be limited depending on elections made by the Contract Owner and reflected on the Contract Specifications Page. We will provide specific information regarding the restrictions applicable to the Fixed Account upon request.

Our failure to take action with regard to any one or more of the restrictions listed above is not a waiver on our part of our right to enforce the restrictions later. A failure to take action on the restrictions in one instance it is not a waiver of our right to enforce the restrictions at a later date.

Excessive Trading and Market Timing

As an intermediary for the Underlying Investment Options, Nationwide is in the position of managing excessive trading activity without consistent guidance from the investment options themselves, regulators or legislators. That notwithstanding, it is important to have measures in place designed to limit excessive trading activity.

As a general practice, Nationwide monitors all trading activity. Any Participant identified under Nationwide's monitoring process to be participating in excessive trading will receive a warning letter. If the activity continues, that participant will be restricted to trading by U.S. Mail only. In addition, Nationwide will support managers of the investment options in their investigations of suspected excessive trading activity.

Monitoring

Generally, Nationwide or its designee will limit trade activity to twenty (20) trades within a calendar year. A trade is defined as any exchange, restructure, or series of exchanges in a given day. Also, if a Participant is on pace to exceed this 20 trade limit, Nationwide will require additional trade requests to be submitted in paper form by regular U.S. Mail.

- **If 6 or more trade events occur in one calendar quarter**, the Participant will be notified by U.S. Mail that they have been identified as engaging in potentially harmful trading practices.
- Subsequent to this notification, **if more than 11 trade events occur in 2 consecutive calendar quarters**, all future trade requests will be required to be submitted in paper form by regular U.S. Mail for the remainder of the calendar year.
- **If 20 trade events occur in a calendar year**, all future trade requests will be required to be submitted in paper form by regular U.S. Mail for the remainder of the calendar year.

The policies and procedures identified above are Nationwide's *general* policy for deterring the harmful effects that frequent or short-term trading may have on all investors in an investment option. Nationwide reserves the right to restrict trades made under any Participant Account for which it has been determined that it is necessary for the Participant to remain limited to U.S. mail requested trades, and may also be required to take other immediate actions as required by the managers of the investment option. Certain trades may be excluded from this policy. Common exceptions include trading related asset allocation tools or a managed account service.

Nationwide may make further changes to its trading policy as industry, fund management, regulatory and legislative responses develop. Additionally, Nationwide may be required to implement more restrictive or different procedures immediately and without notice to protect the interests of all plan participants.

Emergencies and Market Closure

Situations may arise where the New York Stock Exchange or other stock exchanges are closed for short or extended periods of time. As a result, transaction activity and requests impacting the Contract and Participant Accounts may

be impossible to perform. If this situation occurs, we will comply with any emergency rules or regulations enacted by the governing authority (normally the SEC).

Participant Benefit Payments

The Plan provides the right for Participants to receive Participant Benefit Payments. In most instances, Retired Participant or Participants who have otherwise severed employment with the Employer are permitted to receive Participant Benefit Payments. There may be other instances or conditions that arise that may permit a Participant to receive payment from his or her Participant Account in the form of a Participant Benefit Payment. Requirements and conditions of such payments are governed by the Plan and subject to the terms of the Contract.

Retirement Income Payment Options

We will make the following payment schedules and annuity options available to Retired Participants. Payment frequencies available under these income payment options are monthly, quarterly, semi-annual and annual. All variable annuity payments are calculated using an assumed investment return of 3.5% or 5.0% depending on an election by the Contract Owner (or by the Participant if permitted by the Plan).

- (1) Payments of a Designated Amount - This payment schedule option represents a systematic liquidation of the Participant Account by taking a specified dollar amount at a determined frequency.
- (2) Payments of a Designated Period - This payment schedule option represents a systematic liquidation of the Participant Account by taking payments over a specific period of time at a determined frequency.
- (3) Life Income - This annuity payment provides the Retired Participant with payment contingent exclusively on his or her continuation of life. Payments are calculated using current annuity purchase rates and methods.
- (4) Life Income with Payment Certain (5, 10, 15 and 20 Years) - This annuity payment option provides the Participant with payment contingent on continuation of his or her life, but with a guarantee that at least a minimum pre-determined duration of payments are received by his or her beneficiaries, regardless of the Participant's mortality. Payments are calculated using our current annuity purchase rates and methods.
- (5) Joint and Last Survivor Life Income - This annuity payment option allows a Participant and another named individual to receive payments guaranteed throughout life and the life of the additional individual named. Payments cease upon the last "survivor's" death. We may also permit Joint and Last Survivor annuities with payment reductions after the first death. Payments are calculated using our current annuity purchase rates and methods.
- (6) Any Other Option - We may make any other payment plans available upon agreement of the Contract Owner and us. Additional annuity payment options we make available will be calculated using our current annuity purchase rates and methods.

TERMINATION OF THE CONTRACT

The Contract may be terminated by the Contract Owner or us at any time. The proceeds of the Contract will be paid within one-hundred twenty days (120) of receipt of the notice to terminate by the non-terminating party (the "effective date of termination"). However, if an Underlying Investment cannot reasonably liquidate amounts on the effective date of termination, we may deliver, in addition to cash, any unliquidated securities held by the Underlying Investment Option that could not reasonably be liquidated.

We will discontinue accepting additional Purchase Payments to the Contract within thirty (30) days following receipt by the non-terminating party of notice to terminate. We may continue to accept Purchase Payments, however, if we reach a mutual agreement to do so with the Contract Owner. After notice of termination is received by the non-terminating party, further liquidations from the Contract will not be permitted.

Until the effective date of termination is reached, we will continue to maintain Participant Accounts and permit Participants to receive any applicable Participant Benefit Payments. Participants will not be able to make any Participant Contributions thirty (30) days after notice of termination is received by the non-terminating party. We may continue to accept Purchase Payments, however, if we reach a mutual agreement to do so with the Contract Owner. We will permit Participants continue to make Exchanges and Transfers, subject to any of the limitations imposed on Participant Accounts prior to termination.

When the effective date of termination is reached, the Contract, including amounts attributable to Participant Accounts, will be transferred to a funding successor. Once the Contract is terminated, our liability with regard to benefits and Participant Accounts and any benefits described in the Contract and this Brochure will end. However, if a Participant has purchased an annuity payment option (assuming one is available under the Contract) we will continue to send annuity payments and be obligated to provide such Participants the guaranteed income stream under the annuity payment option.

If the Contract Owner elected a Fixed Account to offer in conjunction with the Contract, the Fixed Account will be paid in one of the following two ways (depending on election of the Contract Owner).

- (1) Lump-sum Payment. This payment method involves a total liquidation of the Fixed Account, including amounts allocated to Participant Accounts. Participant Accounts will, however, be subject to a market value adjustment if the present value of assets in the Fixed Account are less than the value of the Contract's allocation to the Fixed Account. We determine any market value adjustment (MVA) at our sole discretion, but we do so in a manner consistent with approximation of the present value of assets attributable to the Fixed Account. Exhibit A explains the basic assumptions Nationwide uses to determine the MVA. If the MVA is applied, it will decrease the value of the Fixed Account, which, depending on the action taken by the Contract Owner, may reduce the amount of the Fixed Account allocated to Participant Accounts.

Nationwide calculates the MVA five (5) business days prior to the effective date of termination. An MVA can be avoided if the Contract Owner selects to withdraw the Fixed Account in sixty (60) monthly installments. The MVA is subject to change daily and fluctuates as a result of market conditions and other factors. The MVA calculation is complex and incorporates factors and data that may not be readily available. For example, one factor used in the calculation is the Baa component of the Barclays Capital Credit Index. Consequently, MVA calculations will almost certainly change, and may vary greatly from the MVA ultimately applied to any withdrawal. Consulting any other data to attempt to estimate the MVA is discouraged. At the request of the Contract Owner, Nationwide will provide periodic updates to the MVA calculations or the information used in the calculation.

- (2) Sixty (60) Monthly Installments. This payment method results in the Fixed Account being paid in sixty (60) monthly installments. We may not begin installment payments until the first month of the calendar year following the effective date of termination of the Contract. The amount of each installment is determined by the following:
 - (a) the Fixed Account value on the date before the installment is paid; divided by
 - (b) the number of remaining installments.

We will generally not permit Fixed Account liquidations, including Exchanges or Transfers, in addition to the installment payments described above. Participant Benefit Payments may be permitted.

Recapture of Acquisition Expenses

If Nationwide has provided any additional credits to the initial Purchase Payment that have not been recouped upon termination, Nationwide will deduct any unrecouped expenses associated with such credits from the Withdrawal Value.

OTHER INFORMATION

Legal Proceedings

Nationwide is currently involved in lawsuits common to the industry, which stem from routine business practices associated with administering employee benefit plans. These suits have not had an impact on our ability to service any of our plans nor does NRS foresee them having any impact on our ability to service our plan. Any specific information to pending litigation affecting Nationwide may be furnished upon request.

Mutual Fund Payments

Nationwide offers a variety of investment options to public sector retirement plans through variable annuity contracts, trust or custodial accounts. Nationwide may receive payments from mutual funds or their affiliates in connection with those investment options. For more detail about the payments Nationwide receives, please visit www.nrsforu.com.

Other Relationships

Nationwide has endorsement relationships with the National Association of Counties and the International Association of Firefighters-Financial Corporation. More information about the endorsement relationships may be found online at www.nrsforu.com.

Exhibit A
Nationwide's Market Value Adjustment Assumptions

Nationwide's market value adjustment formula assumes that the net cash flow received each calendar quarter had been invested in a 10-year semi-annual coupon bond purchased at par, callable after 5 years at par. The rate on that bond is assumed to be the actual rate earned on investments acquired in that calendar quarter with an average quality of Baa. Therefore, the result is a set of hypothetical assets that reasonably represent the actual portfolio.

The hypothetical assets are assumed to be callable at par after 5 years. That means that if the yield on the hypothetical asset exceeds that current market rate (i.e. market rates have decreased), the bond is assumed to be called at the end of the 5-year call protection period. If the bond is already older than 5 years, it is assumed to be called immediately at par.

The current market rate, against which each hypothetical asset is compared, assumes that any asset that might be sold would have a rating of Baa. The current market rate is assumed to be the Lehman Baa component of the U.S. Credit index rate.

Nationwide determines any market value adjustment by:

1. Calculating the book value of each hypothetical asset. The book value is the:

accumulation account balance increase (or zero if the balance decreased), **plus** the amount reinvested during the quarter from a prior quarter's maturing hypothetical asset, **less** any hypothetical asset sales resulting from accumulation account decreases (i.e. net cash outflow) in later quarters. In other words, if a calendar quarter's accumulation account balance decreases more than rollover, the hypothetical assets from prior quarters are liquidated pro-rata until account balance decrease is satisfied.

The sum of the book values for all calendar quarters will equal accumulation account balance on the cash out date.

2. Calculating the market value for each hypothetical asset. This is the present value of the hypothetical asset discounted at the **current market rate** (currently, Barclays Capital Baa). If the present value were calculated at the hypothetical bond's original rate, the present value would equal the book or par value. However, since discounting is done at the current market rate, the current market value results.

3. Calculating the total market value which is the sum of the market values for each hypothetical asset. The market value adjustment is the amount by which the total book value exceeds the total market value. If the total book value is less than the total market value, there will be no market value adjustment.



Morningstar Investment Management LLC Form ADV Part 2A: Firm Brochure *Institutional Advisory Services*

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March 27, 2018

This brochure provides information about the qualifications and business practices of Morningstar Investment Management LLC. If you have any questions about the contents of this brochure, please contact us at 312.696.6000 or send an email to compliance@morningstar.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Morningstar Investment Management LLC is available on the SEC's website at www.adviserinfo.sec.gov.

Morningstar Investment Management LLC is registered with the SEC as a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.

Please retain this brochure for future reference.

All current versions of our firm brochures are available in the Part 2 Brochures section of this record on the SEC's website. You may also request a copy of our current brochure free of charge by contacting our Compliance Department at 312.696.6000, or by email to compliance@morningstar.com. In your request, please indicate the name of the company (Morningstar Investment Management) and the service brochure(s) (Retirement Plan Services for Individuals or Institutional Advisory Services) you are requesting.

Item 2. Material Changes

This annual amendment to the *Investment Advisory Services* Firm Brochure dated March 26, 2018 contains the following material changes since our last Firm Brochure and Brochure Supplement annual update, dated March 28, 2017.

The *Advisory Business* section of our Firm Brochure was updated to reflect that we have filed the appropriate notices to conduct business in Guam.

The *Advisory Business* section was updated to show our assets under management as of December 31, 2017. In early 2018, Morningstar Investment Management undertook a review of agreements relating to arrangements structured in accordance with Department of Labor's Advisory Opinion 2001-09A dated December 14, 2001 (commonly referred to as the "SunAmerica Opinion.") where we service as the independent Financial Expert and reclassified the assets connected to some of those arrangements from *Regulatory Assets under Management* (RAUM) to *Assets under Advisement*. This action resulted in a decrease

in our reported RAUM as compared to 2016. For comparative purposes, if the classifications used in 2016 were applied, the December 31, 2017 RAUM would be \$80,867,200,000 compared to the report December 31, 2016 RAUM of \$64,865,300,000. Conversely, if the classifications used for 2017 were applied in 2016, the December 31, 2016 RAUM would have been \$25,504,100,000 compared to December 31, 2017 RAUM of \$33,601,800,000.

The *Methods of Analysis, Investment Strategies and Risk of Loss* section of our brochure was updated to reflect that our regional governance bodies' selection committees may select security types other than funds, and therefore have been renamed "investment selection committees." We also omitted returns-based style analysis from our Investment Selection for Investment Lineups from our methods of analysis.

We made other edits to our Firm Brochure and Brochure Supplement where necessary to correct grammar or punctuation, to provide clarification or further information, for consistency in terminology or content, or to improve the readability of the brochure. We do not deem these edits to be material in nature. These edits included:

The *Advisory Business* section was updated to include a description of the Guidance service offered through Morningstar® Retirement ManagerSM. While Guidance is not an advisory service, we are including it here so that users of Morningstar Retirement Manager have a complete description of all services offered through that program. We also added a statement to the Select List service to clarify that Morningstar Research Services LLC, our affiliate, acts as a sub-adviser to Morningstar Investment Management for that service.

Throughout this Firm Brochure, we omitted references to the Newsletter Content service as Morningstar Investment Management is not providing advice through this service, nor is it a core offering of our firm.

In the *Fees and Compensation* section, we now separately list the advisory fees for the Morningstar Retirement Manager Managed Account service and the Advice Services, to better reflect the fees we charge clients.

In our Brochure Supplement, Michael Corty replaced John Owens as head of U.S. equity strategies for Morningstar Investment Management. John Owens remains part of the U.S. Equity Strategies team as a Senior Portfolio Manager.

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Item 4. Advisory Business

Firm Information

Morningstar Investment Management LLC (“Morningstar Investment Management”, “we”, “us” or “our”) is a Delaware limited liability company that was incorporated in 1999. Morningstar Investment Management is a wholly owned subsidiary of Morningstar, Inc. (“Morningstar”). Morningstar is a publicly traded company (Nasdaq Ticker: MORN) with Mr. Joseph Mansueto, Executive Chairman of Morningstar, holding more than 50% of Morningstar’s outstanding shares. Because of that ownership, Mr. Mansueto is an indirect owner of Morningstar Investment Management.

Morningstar Investment Management is registered with the SEC under Section 203(c) of the Investment Advisers Act of 1940, as amended (“Advisers Act”). Morningstar Investment Management has filed the appropriate notices to conduct business in all 50 states, the District of Columbia, Guam, and the Commonwealth of Puerto Rico.

Morningstar Investment Management is part of Morningstar’s Investment Management group, a global investment team composed of more than 90 investment analysts, portfolio managers, and other investment professionals. The Investment Management group consists of Morningstar’s subsidiaries that are authorized in the appropriate jurisdiction to provide investment management and advisory services. The Investment Management group’s investment and operations teams span the globe, with 10 country offices and primary offices in Chicago, London, and Sydney.

This brochure focuses on the products and services we provide to institutional clients. You may obtain a copy of our brochure describing our products and services for individuals (managed account and advice services for retirement plan participants) by following the instructions above.

Advisory Services We Offer – Overview

Morningstar Investment Management offers various investment advisory services that focus on our core capabilities in asset allocation, investment selection, and portfolio construction to financial or other institutions including, but not limited to, asset management firms, banks, broker/dealers, endowments, foundations, insurance companies, investment fiduciaries, plan sponsors of retirement plans, providers of retirement plan services, trusts, and other business entities (collectively “Institutional Clients” or individually, an “Institutional Client”).

Morningstar® Managed PortfoliosSM

For Institutional Clients who offer a proprietary advisory program, or a platform that makes investment strategies available for use by other financial institutions, we create model portfolios for use through such programs or platforms. These model portfolios are designed for use by a financial professional with their retail investor clients. We generally provide sales support on behalf of the Institutional Client by educating financial professionals who use the program or platform about the model portfolio strategies we provide.

In providing this service, we may act as a discretionary investment manager or non-discretionary model manager. We select and monitor the asset allocation and underlying holdings of each strategy we provide based on a universe of investments defined by the Institutional Client. We typically provide ongoing monitoring of the strategies, along with rebalancing and reallocating recommendations. As an investment manager, we invest each investor’s account in their chosen strategy, taking into consideration any requested reasonable restrictions, and submit trade instructions to the investor’s custodian. The investor’s financial professional is responsible for suitability, choice of custodian, and other services as detailed in the agreement between the Institutional Client and Morningstar Investment Management. As a model manager, the Institutional Client or the financial professional using the advisory program or platform has discretion over the accounts invested in each strategy and may deviate from our model recommendations.

In addition, our subsidiary, Morningstar Investment Services LLC, offers a discretionary managed accounts service and non-discretionary model manager advisory services. Morningstar Investment Management’s investment professionals provide model portfolio construction and ongoing monitoring of those model portfolios on behalf of Morningstar Investment Services.

Institutional Asset Management

For Institutional Clients who sponsor registered or pooled investment products, we serve as a portfolio manager, portfolio construction adviser, or sub-adviser. We provide recommendations for asset class allocation targets and/or selection of underlying holdings to fulfill each asset class allocation target. Underlying holdings may include, but are not limited to, open-end mutual funds and exchange-traded funds (“ETFs”). The universe of underlying holdings is generally defined by the Institutional Client and may include investment products that are affiliated with that Institutional Client. This service typically includes ongoing responsibilities such as monitoring the underlying holdings and reviewing and updating asset allocation percentages and/or underlying holdings as necessary.

Asset Allocation Services

We provide Institutional Clients and their financial representatives tools for identifying their clients’ investment goals and risk tolerance (such as risk tolerance questionnaires), and a mechanism to match those goals and risks with an appropriate asset allocation strategy. Asset allocation services are typically used by our Institutional Clients in their investment products, wrap programs, variable annuity asset allocation programs, or similar programs. If included in an agreement with an Institutional Client, asset allocation models are reviewed and adjusted as needed, on a periodic basis. We may provide Institutional Clients with rebalancing triggers and recommendations on when the allocations for asset classes should be revisited or adjusted.

Custom Model Portfolios

We construct custom asset allocation model portfolios for use with employer-sponsored retirement plan accounts using the investment options available in a plan’s lineup. Model portfolios can be time-based, risk-based, or a combination of time- and risk-based. Model portfolios, including target-date glide paths where relevant, are customized to the specific plan, and can take into account a wide range of factors including the presence of defined benefit assets, company stock holdings, savings rates, and account balances. We provide ongoing monitoring of the model portfolios (and glide paths), making recommendations to change

investment allocations, and/or to add, remove, or modify the model portfolios' underlying investment options when necessary.

Fiduciary Services

We provide Institutional Clients with retirement plan services that include the construction, monitoring, and/or management of plan lineups. These services typically include automated reporting capabilities, marketing and sales support, and an online reporting delivery mechanism. We provide documentation of the process used to select, review, monitor, and update the funds chosen. We offer a workforce profile questionnaire designed to help a plan sponsor identify the investment sophistication, funding status, investment goals, and/or risk tolerance of the retirement plan or its participants. We also typically provide methodology documents, an investment policy statement, quarterly fund and plan performance reports, annual summary reports, and a quarterly market summary.

In providing these services, we serve as a fiduciary, as defined in section 3(21)(A)(ii) of the Employee Retirement Income Savings Act of 1974 ("ERISA"), as amended, and may additionally serve as an investment manager, as defined in section 3(38) of ERISA.

We construct a list of lineup options (including, but not limited to, mutual, money market, and stable value funds) from the universe of investment options defined by the Institutional Client. We provide asset-class requirements for the lineup, with specific investment options identified for each asset class, for use in developing a lineup for a defined contribution or defined benefit retirement plan. This process is designed to provide the Institutional Client with investment choices that will result in a lineup that is appropriately diversified with a sufficient broad range of risk/return characteristics.

Under our standard 3(21) service, we serve as a fiduciary with respect to the investment selection and monitoring we provide, but the Institutional Client retains responsibility for investing plan assets in accordance with our recommendations. We provide ongoing monitoring of the specific investments in the approved investment list and monitor individual plans to ensure they are meeting our asset-class requirements and investing in approved funds. Typically, if we recommend modifications to a lineup, we provide notice to the Institutional Client who has discretion to implement our recommended changes.

For our "flexible" 3(21) service, we offer the services outlined under our standard 3(21) service but allow the Institutional Client the flexibility to choose investments from our approved investment list along with non-approved investment options for their lineup. Our fiduciary support covers the use of investment options from our approved list only. Under this service, we do not provide any fiduciary coverage on the end lineup.

In some cases, Institutional Clients may delegate discretionary management responsibilities to us. For our standard 3(38) service, in addition to the 3(21) services we offer, we act as an investment manager for the plan, with full authority to select, remove and replace investment options from the plan lineup.

For our "flexible" 3(38) service, we offer the services outlined in our standard 3(38) service, but for a period of time allow the Institutional Client the flexibility to request some variability in our standard process, such as the ability to include more approved investment options in asset classes than we allow under our standard service. This service is

designed to help avoid too much disruption in a short period of time as Institutional Clients convert their plans to our service.

We offer Morningstar® Plan AdvantageSM, an online platform designed to help small retirement plan sponsors served by financial professionals of Institutional Clients (1) identify a category-level plan lineup, (2) choose a plan provider (choice of plan provider is limited to those that have entered into an agreement with us and may be further limited by the Institutional Client), and (3) access our 3(38) fiduciary services (as described above) as part of a bundled offering. Once enrolled, plan sponsors can review their lineup and access reports, view notifications, and learn more about plan lineup changes.

Morningstar® Retirement ManagerSM

We offer services to Institutional Clients for use with individual participants in their employer-sponsored retirement plans. These services typically include guidance, advice and/or managed account services, along with an online platform to access those services. Our guidance service includes general and education information and tools to help participants manage their retirement account. Under the guidance service, the participant is responsible for determining the suitability of investments, implementing changes to their retirement account, and monitoring their account on an ongoing basis. Our advice service offers each participant a target retirement income goal, projected retirement income amount, recommendations on savings rate and retirement age, personalized asset allocation strategy, and professional investment selection. Under the advice service, the participant is responsible for the implementation of any changes to and the monitoring of their retirement account. Under our managed accounts service, we will manage the participant's account on an ongoing basis, in addition to the items provided under our advice service. Our account management includes ongoing monitoring, automatic account rebalancing and implementation of changes, quarterly progress reports, and an annual progress report. We use the investment options available in a participant's retirement plan to construct a portfolio and, when applicable, monitor model portfolios designed for participants across a broad range of risk exposure levels.

Advice Services

We offer advice services to Institutional Clients who offer investment advice or managed account programs to individual participants in retirement plans. In most cases, we serve as the independent Financial Expert as noted within the Department of Labor's Advisory Opinion 2001-09A dated December 14, 2001 (commonly referred to as the "SunAmerica Opinion.") We use the investment options available in a participant's retirement plan to construct and, when applicable, monitor model portfolios designed for participants across a broad range of risk exposure levels. We may also use information provided by independent third parties such as mutual fund data or index providers in the construction of advice for the program.

Select Lists

We work with Institutional Clients to analyze an investment universe they determine and create a subset or "select list" of investments that meet specific criteria, including the Institutional Client's proprietary requirements. A select list is typically used by the Institutional Client's financial professionals when working with their clients to put together an investment strategy. Each select list is derived through a combination of quantitative screens and qualitative analysis, resulting in a menu of investments under various asset categories. Typically, we provide

ongoing monitoring of those investments within the select list to help ensure that the investment options initially selected for the select list continue to satisfy the criteria that led to their initial selection. This service may be provided by a sub-adviser, Morningstar Research Services LLC, who is affiliated with Morningstar Investment Management.

Investment Analytics, Monitoring, and Comparative Analysis Reports

We offer Institutional Clients investment performance and style monitoring reports. These reports range from a one-page snapshot view of multiple investments, such as those investments in a defined contribution plan lineup to multi-page, in-depth reports on a single investment that provides information on various aspects of the investment such as profile, style and sector analysis, total return/risk summary, performance, expense, portfolio metrics, top holdings, and an optional written analysis of the investment. To fulfill any monitoring responsibilities, we follow the same comprehensive due diligence process that we use to facilitate our investment selection research in these reports.

Customized Services

At an Institutional Client's request, we will take under consideration a request to provide them with a customized version of the above services or a different type of advisory services that would utilize our core capabilities in asset allocation, investment selection, or portfolio construction. Given the customized nature, the Institutional Client may impose constraints/restrictions on such things as security types, asset classes, or proprietary security requirements and/or wish to collaborate with us on such things as investment methodology and screening criteria.

Wrap Fee Programs

We do not sponsor a wrap fee program, but we do provide portfolio management services to a wrap fee program offered by our subsidiary, Morningstar Investment Services LLC, through the Morningstar Managed Portfolios program.

Assets Under Management

As of December 31, 2017, the discretionary assets under management for Morningstar Investment Management (rounded to the nearest \$100,000) were:

Retirement Services to Individuals: \$ 11,420,800,000
Investment Management Services to Institutional Clients:
\$22,181,000,000

Total Asset Under Management: \$33,601,800,000

The non-discretionary assets under advisement for Morningstar Investment Management (rounded to the nearest \$100,000) were \$130,366,300,000.

Item 5. Fees and Compensation

Fees and Compensation – Overview

We may negotiate our fees, payment terms, and payment schedules on an individual basis with each Institutional Client. The services we provide, the specific fees for such services, and the contract term are governed by the contractual agreement between us and our Institutional Client. Institutional Clients may not receive all of the services listed above. Our fees vary depending on the services selected and may include a fixed fee,

a basis-point fee, and/or a technology licensing fee. Fees for some services take into consideration such factors as the number of services being provided and service specific variables such as the universe of investments, variables in monitoring frequency, delivery type, investment types, and frequency of written analysis.

Morningstar® Managed PortfoliosSM

Morningstar® Managed PortfoliosSM fees are typically non-negotiable and range from 14 – 55 basis points. The actual fee depends on our role in offering the service (including whether we act as a model manager or have discretion over client portfolios), asset size, the complexity involved, and any other services we provide to the Institutional Client. The fee is typically charged monthly and may be charged in advance or arrears. If, in accordance with the contractual terms, the Institutional Client terminates the Morningstar Managed Portfolios agreement they have with us prior to the end of the billing period, we may refund any unearned fees on a pro rata basis after the termination of the contract.

Institutional Asset Management

Our Institutional Asset Management fees are negotiable, but generally include a minimum annual fee and/or an asset-based fee. The asset-based fee typically ranges from 3 to 15 basis points of the assets being managed or consulted upon while the minimum annual fee is \$100,000 - \$200,000. The actual fee depends on a range of variables including our role in providing the services, the type of security we are providing services for, and the amount of assets involved. The fee is typically charged monthly in arrears.

Asset Allocation Services

Our Asset Allocation Services fees are negotiable, but generally range from \$50,000 to \$500,000 annually. The actual amount charged depends on a range of variables including the terms of distribution, number of sets, type and scope of the models requested (including the number of asset classes used in the asset allocation models), and whether the client receives other advisory services from us. The fee is typically charged annually in arrears. In addition to the fee, payment terms and schedules are negotiable.

Custom Model Portfolios

Our Custom Model Portfolio fees are negotiable, but generally include a minimum and an asset-based fee. Asset-based fees generally range between 3 and 8 basis points. Minimum fees typically vary from \$100,000 to \$300,000. The actual fees depend on a range of variables including our fiduciary role, services used, asset size, and whether services are opt-in or opt-out. The licensing and/or minimum fee is typically charged in arrears. The asset-based fee is generally charged quarterly by applying the pro-rated basis point rate to the average assets in a retirement account during the quarter.

Fiduciary Services

Our 3(21) and 3(38) Fiduciary Services fees are negotiable, but generally include a minimum and an asset-based fee. Asset-based fees generally range between 2 and 8 basis points. Minimum fees typically vary from \$100,000 to \$300,000. The actual fees depend on a range of variable including our fiduciary role, service used, asset size, and whether services are opt-in or opt-out. The fee is typically charged quarter in arrears based on assets held at calendar quarter-end.

Our Morningstar Plan Advantage fees are negotiable, but generally include an asset-based fee that typically ranges between 8 and 10 basis

points annually. The actual fee depends on a range of variables including our fiduciary role, services used, and asset size. The fee is typically charged quarterly in arrears by applying the pro-rated basis point rate to the average assets in a plan during the quarter.

Morningstar® Retirement ManagerSM and Advice Services

Our Advice and Morningstar Retirement Manager fees are negotiable, but generally include a minimum, licensing, and an asset-based fee. Minimum and/or licensing fees typically vary from \$100,000 to \$600,000. Asset-based fees for our Morningstar® Retirement ManagerSM Managed Accounts service typically range from 20 to 50 basis points annually. Asset-based fees for our Advice service typically range from 5 to 9 basis points. The actual fees depend on a range of variables including our fiduciary role, services used, asset size, and whether services are opt-in or opt-out. The licensing and/or minimum fee is typically charged annually in advance. The asset-based fee is typically charged quarterly in arrears by applying the pro-rated basis point rate to the average assets in a retirement account during the quarter.

Select Lists

Our Select List fees are negotiable, but generally range from \$50,000 to \$400,000 annually. The actual amount charged depends on a range of variables including the intended use of the Select List, the number of type of securities included, the type of reporting the Institutional Client wishes to receive from us, the degree of customizations or constraints placed on us, and whether the service includes on-going monitoring of the Select List. The fee is typically charged quarterly in advance. If, in accordance with the contractual terms, the Institutional Client terminates the Licensing and Consulting Agreement they have with us prior to the end of the billing period, we may refund any unearned fees on a pro rata basis after the termination of the contract. In addition to the fee, payment terms and payment schedules are negotiable.

Investment Analytics, Monitoring, and Comparative Analysis Reports

Our Investment Analysis, Monitoring, and Comparative Analysis Report fees are negotiable, and vary widely. A flat fee is typically charged per report. The actual amount charged depends on a range of variables including the type of service being sought, the type of securities involved, the intended purpose for our service, the type of output being sought from us, and the intended use of the Morningstar name. The fee is typically charged annually and is due upon delivery of the report(s). In addition to the fee, payment terms and payment schedules are negotiable.

Payment

Payments, payment terms and payment schedules are negotiated and governed by the contractual agreement we enter into with each Institutional Client. We typically send an invoice on a periodic basis (e.g., monthly or quarterly), although in some instances, we may bill annually. For services we provide to an affiliate, fees are charged through an intercompany charge. Fixed and licensing fees are typically paid in advance of services being provided, and basis-point fees are typically charged in arrears.

Other Costs in Connection with Our Advisory Services

For our Morningstar Managed Portfolios service, our fees noted above do not include the underlying fees and expenses charged by the underlying holdings (e.g., mutual funds, ETFs, or equities) including redemption fees, asset- or transaction-based trading fees, and fees and expenses charged

by the proprietary advisory program, platform, and/or clearing firm, if applicable.

Our fees are separate from fees and expenses charged by the investment options, fees and expenses charged by the Institutional Client for their products (including any revenue sharing arrangements that they may have with the investment option's investment adviser and/or distributor), or fees that may be charged by a third party, such as a transfer agent, plan provider, or recordkeeper. The investment options' fees and expenses are described in the prospectus or equivalent. These fees will generally include a management fee, other investment expenses, and possibly a distribution fee (e.g., 12b-1). In some cases, an investment option may also charge an initial or deferred sales charge. Neither Morningstar Investment Management nor any of our employees receive transaction-based compensation for the investment recommendations we make.

Fees Charged in Advance

Our services may be terminated as outlined in the contractual agreement between Morningstar Investment Management and the Institutional Client. Termination of services and refunds of fees, if any, are governed by the contractual agreement between the parties, which is negotiated on an individual basis. Upon termination, any earned, unpaid fees by the Institutional Client are due and payable. If, in accordance with contractual terms, the Institutional Client terminates their contract prior to the end of the billing period, we may refund any unearned fees on a pro rata basis after the termination of the contract.

Compensation from Sales of Securities

We do not expect, accept or receive compensation for the sales of securities, including asset-based sales charges or service fees from the sale of open-end mutual funds.

You may have the option to purchase investment products we recommend or similar services through other investment advisers or financial professionals not affiliated with us.

Revenue Sharing Arrangements

We do not have any revenue sharing arrangements with any registered investment advisers or mutual funds.

Item 6. Performance Based Fees and Side-by-Side Management

We do not have performance-based fee arrangements with any qualified client pursuant to Rule 205-3 under the Advisers Act.

Item 7. Types of Clients

Our clients include advisory programs or platforms of third-party advisory or platform providers, entities such as financial institutions, third-party advisory programs, investment companies, and other business entities, plan providers and sponsors who offer investment advice programs to individual participants in defined contribution plans such as 401(k), 457, and 403(b) retirement plans, individual retirement plan participants, and individuals who are in retirement. Please see our Retirement Services for Individuals brochure, available on the SEC website, for further information.

We do not require a minimum account size for our institutional investment advisory services, and we generally do not impose other conditions for using our institutional advisory services.

Item 8. Methods of Analysis, Investment Strategies, and Risk of Loss

Investment Philosophy

Morningstar Investment Management group's investment philosophy is driven by the investment principles that are promoted throughout our organization. The principles are intended to guide our thinking, behavior and decision making. These principles have been inspired by a number of the most experienced and successful investors in the last century. These principles also reflect and align with the history and foundation of Morningstar. The investment principles are:

- We put investors first
- We're independent-minded
- We invest for the long term
- We're valuation-driven investors
- We take a fundamental approach
- We strive to minimize costs
- We build portfolios holistically

Building upon our investment principles, the Investment Management group's investment philosophy is built on the belief that portfolios should maintain a risk profile commensurate with the desired long-term asset allocation guidelines we provide to the client. We focus extensively on the portfolio structure to maintain a careful balance between being allocated similarly to the portfolio benchmarks and one that reflects our assessment of the value available in the current market environment. We select managers that we believe manage fund assets with a consistent and disciplined process that can provide for sustainable long-term results. We prefer managers with a prudent, logical, and repeatable process and remain keenly focused on the consistency of the implementation of their investment disciplines.

Regardless of whether we are working with discretionary or non-discretionary clients, we build portfolios with the same research- and valuation-driven approach for all clients. We build portfolios holistically, so the asset allocation process begins with idea generation and continues through portfolio construction, where allocation tweaks can be made.

Global Investment Policy Committee

The Investment Management group's Global Investment Policy Committee and its regional governance bodies are responsible for oversight of the investment methodologies across all our products and services. Members of the Investment Policy Committee may include officers, chief investment officers, managing directors, or managers of Morningstar Investment Management or its affiliates. The regional governance bodies include regional investment policy committees, asset allocation committees, investment selection committees and portfolio construction (peer review) committees. Global best practice working groups also exist with the goal of sharing methodologies and research across regions. These groups focus on specific investment areas such as valuation models driven by our capital markets research and methodologies used for asset allocation, investment selection, portfolio construction for different investment strategies and advice.

An investment team provides the investment advice used in the products and services referenced in this brochure. Information on key members of this investment team is included in the attached Form ADV Part 2B brochure supplement.

Morningstar® Managed PortfoliosSM, Institutional Asset Management, and Asset Allocation Model Portfolios

Investment Process

Our approach to managing money starts with research, and our tradition of researching the fundamental drivers of asset class returns stretches back 40 years. For us, fundamentals are the key driver of returns for long-term investors. Today, our capital markets views are informed by the extensive research conducted by the investment professionals in Morningstar's Investment Management group and the 200-strong equity and credit analysts from Morningstar, Inc. and its affiliates. We look broadly, investigating asset classes, sub-asset classes, sectors, and securities in markets around the world. Our capital markets research extends to more than 200 equity markets, regions, or sectors, while our fixed-income research covers more than 100 sectors. We also track 37 world currencies.

But it's not enough to look at past returns; investors need a framework to help them understand how investments look for the future. Prices can lag fundamentals, giving investors potentially attractive opportunities. Our framework for seeking to understand these dynamics applies not only to securities but to sectors and asset classes, too, enabling us to take a valuation-driven approach to asset allocation.

This valuation-driven approach is designed to integrate our high-conviction investment ideas into portfolios that seek greater reward for a given amount of risk. We hunt the globe for mispricing opportunities. We aim to buy overlooked investments, especially those indicated by our research to offer sound fundamentals at an attractive price. Similarly, we look to trim positions as valuations become rich or we find more attractive options.

But we aren't content to look only at valuation; studying investor sentiment and positioning adds contrarian elements to our process and tells us how the market consensus views an investment idea we're considering. We prefer to invest in ideas contrary to the market consensus because one needs to be different to be able to outperform.

We also look closely at each asset class' risk, which can be complex, multifaceted, and vary over time. We see risk not as market volatility but as the permanent loss of capital. So, a powerful way to help control risk is to focus on buying fundamentally strong assets that are underpriced. Diversification is a great tool, but over-diversification can erode value. When seeking to manage risk and diversification, valuation again is key.

Our in-depth valuation analysis and contrarian indicators, when brought together, are the key ways we generate investment ideas for our own portfolios. These ideas might be names to include in a stock portfolio or our best thinking on reward for risk at the asset class-level. In addition, our valuation-driven asset allocation process paired with our in-house investment selection skill allows us to holistically build portfolios for our clients for the long term. The Investment Management group, as a global team, works around the clock and around the globe to understand markets and opportunities, monitor risk in existing portfolios, and vet ideas to make investment changes. We use this ongoing investment process to manage a variety of equity and multi-asset portfolios for our Institutional Clients.

Investment Selection

Finding investment opportunities isn't just about great ideas; it's also about selecting great investments for our clients. Investments may be securities in a stock portfolio, or active managers and/or passive

exchange-traded products in a multi-asset portfolio. Our research-driven approach to selecting investments is designed to help investors reach their goals and objectives.

Our investment selection process begins with analysis from Morningstar and its affiliates, which covers hundreds of thousands of investment offerings globally, including mutual funds, closed-end funds, separate accounts, exchange-traded products, individual stocks, and hedge funds. We build on Morningstar's quantitative and qualitative fundamental analyses by refining the investment universe and hand-selecting investments we determine are right for our portfolios. Our investment team has years of experience evaluating active investment managers, comparing managerial track records, and determining how an investment may fit into a portfolio.

We know the active managers we use in our portfolios or recommend to clients. They haven't just been screened; we have met each one in person and subjected them to our rigorous review process. We assess whether their investment team is qualified, experienced, and talented; that they follow a consistent and disciplined investment process; that their organization is strong and stable; and that they operate professionally and ethically.

We study managers' holdings using our proprietary tools and analytics to assess how well their strategy may work in combination with those of other managers. And we consider managers' ability to outperform in different market environments. Rather than following simple style analytics or style neutrality blends, we seek process diversification and try to avoid the pitfalls of over-diversification often found in fund-of-fund investment strategies.

Our own assessments lead us to managers that are typically career portfolio managers who oversee a focused and consistent strategy, with investment shops so that investment decisions are not constrained by other parts of the business. We aren't just looking for the best managers but those that we feel fit best into the portfolios we build.

As for passive vehicles, ETFs are often less expensive than their open-end mutual fund counterparts but assessing them has to go beyond this fact. We closely examine the risk characteristics that define ETFs—including tracking to the index, trading volume, bid/ask spread, and premium/discount—to help ensure the goals are realistic and the liquidity is what we expect. As with other funds, we assess ETFs within a portfolio context to achieve access to a particular market segment or sub-asset class.

Specific to our Institutional Asset Management and Asset Allocation Model Portfolio services, the portfolios we build for an Institutional Client are typically constrained to a universe of investment options defined by our client, which may include their affiliated investment products. Our analysis will still include quantitative analytics and fundamental research on the investment options available. We draw on Morningstar's comprehensive database of fund and security analytics as well as utilizing portfolios information provided by our Institutional Client, if applicable. In some instances, we work closely with our Institutional Client to identify and evaluate manager candidates for possible addition to or removal from the available investment universe.

Building Portfolios

Armed with investment ideas, our global team works together to holistically build portfolios suited to each strategy we offer or the

objectives of our clients. Portfolio construction is about ranking and risk management. We seek to gain the largest exposure to our best ideas, while building robust portfolios designed to stand up to challenging investment environments or investment errors.

As our investment ideas are implemented, they are crafted for use in each portfolio we build, a process in which we apply disciplined judgment to a multitude of dimensions. In this way, our choices come from people, not a machine.

This judgment-driven approach helps us to maximize our exposure to our best investment ideas and accounts for the complexity and multifaceted nature of investment risk. We view risk as the permanent loss of capital. Our valuation-based approach (that is, seeking underpriced assets and avoiding overpriced assets), fundamental diversification, and forward-looking approach to viewing asset class co-movements (that is, those that buffer gains and losses), all help mitigate risk in the portfolios we build.

It is important to understand risk looking ahead into the future, not looking at the past. Our research produces insight into not only future investment opportunities but also their attendant fundamental drivers of risk. By better understanding these forward-looking risk drivers, we can diversify portfolios for the future rather than basing these decisions on the past.

To prepare investors for the future, we seek to construct robust portfolios designed to perform well in different environments rather than being considered "optimal" based on expected results or a specific environment. We avoid forecasts and building strategies based on our ability to predict specific environments. Instead, we aim to prepare for different environments through constructing portfolios that will hold up under many possible environments—even ones that we haven't seen before. In effect, this involves trade-offs of aggregate reward for risk and a calibration of the probability and impact of negative outcomes.

Asset allocation guidelines for multi-asset portfolios are developed by our Asset Allocation Committee, which comprises most of the investment professionals in Morningstar's Investment Management group. Our investment professionals serve in different asset-class specialties on the committee. The committee jointly decides on organization-wide portfolio positioning policy, and strategy teams and portfolio managers adapt the positioning decision, as applicable, to their particular strategies and client portfolios. Teams of our portfolio managers are supported by the broad array of investment professionals within the Investment Management group, who contribute to manager research, asset-class research, investment-process enhancement, and the development and maintenance of portfolio management tools used in providing this service. All portfolios are reviewed by a team of peers before we deliver them to our Institutional Client.

Managing Portfolios

Once we've holistically built portfolios, for most clients, we continue to manage them. This part of the process is simply reviewing our positions, continuing to find opportunities, thinking through ways those opportunities might be included in our portfolios, and watching markets closely for any signs that would call for adjustments within the portfolio. Given that markets are dynamic, we continue to reassess the portfolio given the changes in investment ideas, aggregate risks, and portfolio

exposures. This iterative process reconsiders the opportunity set, with a constant eye on fundamental diversification and portfolio allocations.

Portfolio management is not a stop/start process. Each strategy we manage has a set of investment guidelines that outline the investment objectives, risk levels, and investment constraints. These are monitored to stay within the defined ranges.

Turnover and trading reduce returns for investors and therefore any changes should be expected to add value by a comfortable margin. Investment decisions happen in the real world rather than on paper—transaction costs and taxes are real. This means being biased toward inaction and long-term holdings, keeping turnover and transaction costs as low as possible.

Our global investment team works around the clock to understand markets and opportunities, monitor risk in existing portfolios, and vet ideas to make investment changes. This ongoing investment process powers every portfolio managed by the entities within Morningstar's Investment Management group.

We have processes and risk controls in place at multiple levels of the investment process to ensure that our portfolios are created in a manner consistent with their risk and return objectives. We evaluate risk at both the asset class model level and the portfolio level. At the asset class level, we monitor easily observable metrics such as standard deviation, skew, kurtosis, historical beta and overall tracking error relative to our stated benchmark. Our standard deviation and covariance matrix figures are estimated by a proprietary factor analysis system that ensures consistency across multiple asset classes and time periods. We delve deeper by examining conditional value-at-risk and conducting scenario analysis testing under different market conditions.

At the portfolio level, we conduct a detailed style analysis of our underlying funds using holdings information, quantitative regressions, and manager meetings. The underlying styles allow us to determine the effective rolled up portfolio asset class exposures and compare them to our asset allocation targets. Further, we analyze each manager's style consistency to make sure we monitor and adjust for huge swings in our effective asset class exposures. This analysis ensures that we are aware of, and comfortable with, our effective asset class exposures. Additional analysis is done routinely to measure our fund portfolio duration, tracking error, sector exposures and betas.

While actively managed portfolios will exhibit certain biases in terms of asset class weightings or security characteristics relative to their blended benchmarks at times (based on our intended investment decisions and the actions of the underlying managers), they are constrained by setting minimum and maximum allocations to different asset classes, as stated in our investment policy guidelines. Establishing allowable ranges for asset classes helps enable the strategy to take advantage of opportunities and avoid risks at the asset class level, but also keeps the portfolios tethered to their blended benchmarks.

Ongoing monitoring of the underlying position weights is critical to keeping the portfolio exposures as intended. Each fund is assigned a target position and a "deviation threshold," which governs the degree to which a fund may sway from its target. Each fund has a different degree of latitude, based on both its weight in the portfolio and the volatility of the assets in which it typically invests. If a fund deviates from its target

weight, we evaluate whether the accounts that contain the fund need to be adjusted (i.e. rebalanced) to bring the alignment back in order.

For registered or collective investment products we manage on behalf of an Institutional Client, we review and revise portfolio allocation targets on a continuous basis to ensure that asset class targets outlined in the prospectus are maintained. Reviews are implemented to ensure that the underlying investments in the portfolio don't exceed allocations noted in the product's prospectus or breach other restrictions.

Asset Allocation Services – Capital Market Assumptions and Risk Tolerance Questionnaires

As part of our Asset Allocation Services, we typically offer a combination of Asset Class Model Portfolio(s), Risk Tolerance Questionnaire(s) ("RTQ"), and our Capital Market Assumptions ("CMAs"). Our construction method for Asset Class Model Portfolios is described above. This section will focus on our CMA and RTQ methods.

Capital Market Assumptions

We provide forward-looking CMAs for both taxable and tax-deferred account types. Our CMAs consist of expected return, standard deviation and correlation among asset classes based on our proprietary equity, fixed income, currency and risk models. In our CMAs, we use valuation-implied returns, which are based on the idea that asset class returns can be decomposed into underlying corporate and economic fundamentals and the valuations impact near-term returns. Our Capital Markets and Asset Allocation Best-Practice Working Group develop and enhance the capital market model used to determine the estimates on an ongoing basis. We analyze the available opportunity set of asset classes and constructs long-term expected returns, standard deviations, and correlation coefficients for each. We provide further details below on our valuation-implied return forecasts, which are specific to the current valuation and to 10- and 20-year horizons, for different asset classes as well as risk and correlations.

For equity valuation-implied returns, we use a supply-side approach to forecast equity returns. The supply-side model is based on the idea that equity returns can be decomposed into underlying economic and corporate fundamentals. Our approach separates the expected return of each equity asset class into four key return drivers:

- 1) **Inflation:** Our long-term inflation expectations are based on several consensus and professional long-term inflation forecasts, as well as central banks' medium- to long-term inflation targets where inflation targeting is part of the monetary policy mandate. We generally prefer inflation forecasts from professional forecasters to market-based measures of inflation expectations due to potential biases induced by current market prices.
- 2) **Total Yield:** We base our estimates of future total yield on an analysis of the historical payout rates and total payout yields for a given asset class. We estimate total yield for each equity asset class at both the country and sector level.
- 3) **Growth:** The growth term measures the change in corporate cash flows per share (excluding repurchases). Our long-run growth expectations are based on forecasts of productivity growth for each country and expected cash flow growth at the equity sector level. We use per-capita GDP growth as our

preferred measure of economic productivity. The expected productivity growth for a given equity market is the weighted average of GDP-per-capita growth and an estimate of the geographic revenue breakdown of the equity market, accounting for the increasingly global revenue base of multinational firms. The expected equity sector cash flow growth is informed by both the historical trend growth and the forward-looking growth expectations of our global equity research team.

- 4) **Change in Valuation:** We use several valuation models to estimate the fair value of equity asset classes and assumes reversion to fair value over a 10-year period. Specifically, our valuation models rely on several forward-looking measures of normalized earnings such as profit margin, return on book-equity, and inflation-adjusted average earnings over the business cycle. The fair values produced by these models are determined at both the regional and sector level.

For fixed-income valuation-implied returns, we use a building-block approach to forecast returns of fixed-income asset classes. The key inputs into our fixed-income model are:

- 1) **Inflation:** The inflation forecast is the same as the one used in our equity model.
- 2) **Real Rate:** The real rate of return is the expected return of cash after inflation. We forecast real rates based on an examination of long-run historical real-rate data and consideration of the macroeconomic environment for each fixed-income asset class. Specifically, we assume that real rates will converge to their long-run equilibrium value over 15 years, as our research suggests that this is an appropriate time period over which interest rates can be expected to revert to their fair value.
- 3) **Term Spread:** We base our forecast of the term spread on the long-run shape of the yield curve, current market data, and surveys. The expected shape of the yield curve also determines our forecast of the roll return of a fixed-income asset class. Our model assumes that term spreads are mean-reverting over a 10-year period.
- 4) **Credit Spread:** We forecast default and recovery rates across credit ratings and industries. Our model takes into account the impact of rating upgrades and downgrades (credit migration) on credit bond prices. Within high-grade credit, default rates are typically relatively low, and credit migration is a key factor in explaining the difference between initial credit spread and effective excess return. Consistent with other variables, our model assumes that that credit spreads revert to their long-run fair values over a 10-year period.

These components form the basis for our forecast of fair interest rates. The valuation-implied return of a fixed-income asset class is the return implied by the convergence of the prevailing interest rate to the fair interest rate. In particular, we rely on an internal rate of return (IRR) calculation to solve for the rate of return implied the current interest rate and the expected future cash flows.

The equation below is a generalization of the return components that make up the expected return:

$$\text{Valuation-Implied Return} = \text{Income Return} + \text{Shift Return} + \text{Roll Return} + \text{Credit Migration Cost} + \text{Default Loss}$$

For currency valuation-implied returns, the currency return is our forecast of the change in the spot exchange rate. In general, for any asset not denominated in the reference currency, the valuation-implied return of the asset is based on the expected return in local currency plus the expected currency return. The currency valuation-implied return has two main components: 1) the inflation differential between the local currency and the reference currency, and 2) the reversion of real exchange rate to its fair value. The inflation differential is the difference between the expected inflation rate of the local and reference currencies, where the inflation forecast is based on the same methodology as the one discussed in the equity section above. In the very long run (i.e., at the unconditional horizon), we expect the inflation differential to be the sole driver of changes in the spot rate. The change in the real exchange rate is estimated based on multiple deflators (including CPI and PPI) to account for potential differences in the importance of the tradable versus nontradable sector in a given economy. These price-based measures of real exchange rates are adjusted for differences in export quality and productivity differentials, accounting for potential differences in the value of goods not reflected in the price indexes. The expected change in the real exchange rate is generally based on the assumption that the real exchange rate will revert to a long-run average.

We decompose hedge fund returns into two components: the systematic market exposure and the value added by hedge fund managers. The systematic factors can be directly linked either to observable market factors or to mechanical trading strategies, and consequently these nontraditional factors have quantifiable performance histories just like those of traditional market factors. At the peer group level, we assume that the aggregate alpha is zero, because our research suggests that performance is well-explained by systematic factors, and the alpha term is generally not statistically significant. In addition to the concurrent factors, we also include lagged factors because hedge funds tend to have lagged reporting of performance to data vendors (due in part to so-called "stale pricing" attributable to illiquid portfolio positions) relative to traditional asset classes. These regression betas are then multiplied by the expected return of the respective market asset classes to find the market portion of the hedge fund expected return.

Similar to the building-block approach to estimating returns for traditional stock, bond, and cash asset classes, we decompose commodity returns into various components. As commodity portfolios represent a basket of fully collateralized commodity futures contracts, the return to a commodity portfolio is driven by two main sources: futures return and collateral return. The return to commodity futures comes from many sources, including changes in commodity spot prices, an insurance or risk premium, a convenience yield, and a diversification/rebalancing return. This return can be measured through historical commodity index excess return series such as the S&P GSCI. Because the weighting for each commodity contract can vary greatly across different index vendors, we consider the makeup of each commodity index in terms of major commodity sectors when estimating the commodity return. The current weight of each sector is applied to the historical excess return series for each series to determine the commodity return. The return to the collateral is measured by the estimate of return to three-month T-bills.

Mean-variance analysis requires a quantifiable measure of risk for each asset class. We forecast standard deviation as an estimate of that risk to represent the dispersion around an average return. We employ a factor model approach to forecasting standard deviation. The idea behind this estimation approach is to model each benchmark as a combination of components ("factors") that explain the systematic variance in that benchmark's returns. These factors are derived from macroeconomic data or tradable market assets. The set of factors chosen to represent each benchmark is based on well-established research and statistical verification.

Mean-CVaR analysis requires a quantifiable measure of Conditional Value at Risk (CVaR) for the resulting portfolio. To calculate this measure, we must provide estimates of skewness and kurtosis to more accurately represent the dispersion of expected monthly returns. Skewness measures the lack of symmetry in the distribution of returns. Kurtosis measures the likelihood of extreme events. We currently employ historical data to forecast skewness and kurtosis because it provides the most accurate representation of any abnormality without subjective input. We calculate historical skewness and kurtosis using all available and relevant data (beginning in 1926 and 1970 for equity and fixed income, respectively).

The risk of a portfolio is based not only on the risk of each asset class, but on the relationship between the returns of asset classes as well. The relationship between the returns of asset classes is measured by the correlation coefficient. We estimate correlation coefficients using the same factor model approach as for standard deviation.

We provide annual updates on our capital market assumptions and asset allocation recommendations.

Risk Tolerance Questionnaire

A Risk Tolerance Questionnaire (RTQ) is a paper-based survey and scoring system designed to assess an investor's willingness and ability to assume investment risk. The RTQs we develop for clients typically consist of 6-8 questions appropriate to determine distinct risk and returns profiles. The scoring system assigns investor responses into distinct risk to map to a standard set of asset allocation profiles.

The primary objective of our RTQ and scoring system is to identify the investor's willingness to accept various level of risk and to determine the investor's capacity to accept risk. To identify this, we focus on risk/return tradeoff, loss aversion, and an investor's ability to stay the course. Like the RTQ itself, the scoring system is divided into time horizon and risk tolerance sections. The time horizon score restricts an investor's access to certain portfolios based on their need for liquidity while the risk tolerance section captures the investor's willingness to take risk.

Our RTQ leverages our history in building capital market assumptions and analyzing the risk and return characteristics of different asset classes. The risk and return estimates referenced in the RTQ are based on our capital market assumptions and can be tied directly to asset allocation profiles. We also do multiple scenario testing with the potential responses to avoid any potential outcomes that would score an investor too far from their intended risk profile.

Custom Model Portfolios

For our Custom Model Portfolios service, the portfolios we build for an Institutional Client are typically constrained to a universe of investment

options defined by our client, which may include their affiliated investment products. Our analysis will include quantitative analytics and fundamental research on the investment options available. We draw on Morningstar's comprehensive database of fund and security analytics as well as utilizing portfolio information provided by our Institutional Client, if applicable.

We believe that asset allocation policy is one of the most important determinants of a portfolio's risk and return characteristics over time. When constructing a model portfolio, we believe it is critical to take advantage of potential diversification benefits over the long run. The primary objective of our investment selection process is to find the best combination of investment options that will maximize alpha (excess return above a benchmark) for any given level of tracking error (risk/standard deviation of the alpha), while hitting the appropriate target asset allocation.

We use a five-step investment process that relies on a number of complex optimization routines to find the right mix of asset classes and managers to meet our objective. We use the following five-step process to construct an investment portfolio for our custom models:

Step 1: Develop Asset Class Inputs

Asset class performance expectations are critical in developing a diversified portfolio that aims to help meet an individual's retirement income goal. We forecast expected risk and returns for each asset class we are considering. To do that, we gather and analyze a broad range of data points, including historical data, current market information, and the correlations between asset classes. More details on this step are provided above, in the Capital Market Assumptions section.

We use historical data for these benchmarks/proxies in an attempt to forecast the expected return, standard deviation, and cross-correlation of the asset classes. We use several statistical techniques to extend the returns data for all domestic equity asset classes back to 1926. Fixed income and non-U.S. equity asset classes go back to 1970, due to significant structural changes in the fixed income market that made the interest rate environment since 1970 inherently different from previous periods. We then use a "building-blocks" approach to help derive expected returns for asset classes. The return building blocks are based on forward-looking assumptions about an asset's underlying economic and corporate fundamentals. We use historical data to help forecast standard deviation. Since most data series only extend back to the 1970s, we use the ratio method to extend the standard deviation estimates of the shorter-lived asset class benchmarks so that they incorporate relevant economic events. The ratio method attempts to extend the standard deviation estimate for certain asset class benchmarks using a short benchmark (an asset class benchmark that does not have historical data over the full, relevant time period starting from 1926 for domestic equities and 1970 for fixed income and non-U.S. equities) and a long proxy (an index that has historical data over the full, relevant time period and is economically similar to the short benchmark). The ratio method leads to an estimate of what the standard deviation of the short benchmark would have been had it existed over the full, relevant period.

We use correlation coefficients derived from the historical returns of the asset class benchmarks, going back from 1970 to the present. Correlation coefficients must be extended for series that do not have history for the full relevant period. In an attempt to create this history, we

use a sophisticated statistical process that extends asset class benchmarks that do not have complete data histories but do have a relatively high correlation coefficient with another proxy (or benchmark). This estimate is an approximation of what the correlation coefficient between the two series might have been if both had existed over the longer time period.

Step 2: Create Asset Allocation Models

Once we've identified the available data, we process the data using a series of optimization routines. These optimization routines serve as a blueprint for how we combine the asset classes to help achieve an optimal portfolio for a given level of risk. We take the additional step of testing the asset class models under a wide range of market conditions and then adjust them based on their performance. This helps us build a portfolio that is better aligned with investor expectations. Our model portfolios include both equity and non-equity asset classes that are chosen to represent a broad range of investment categories available in a plan sponsor's retirement plan menu.

Our asset allocation process requires that there be significant benefit (generally through increased diversification) to adding the asset class to the model portfolios. In addition, investment options within the investment/plan menus must provide significant exposure to the desired asset class in order to be selected. The asset classes that are ultimately used will depend on the available investment options that are considered for the construction of the fund-level model portfolios. In other words, we will only recommend asset classes that can be fulfilled by an investment option or combination of investment options within the plan.

This also applies to optional specialty asset classes such as emerging markets equity, real estate, direct real estate, TIPS, high-yield bonds and foreign bonds. In order to be considered in the investment option-level portfolios, an optional asset class must have an available investment option, which exhibits sufficient exposure to its specialty asset class.

The foundation of our asset class model portfolio construction is mean-variance optimization (MVO); a mathematical process for calculating the asset class mix that can provide a portfolio with the maximum expected return for any given level of risk. Conversely, the portfolio may also provide the minimum risk for any given expected return. MVO requires three inputs for each asset class: expected returns, expected standard deviations, and expected cross-asset class correlations.

Although the conceptual foundation of MVO is considered to be solid and its use has greatly enhanced the portfolio management process, it can produce portfolios that are not suitable for real-life application. This is primarily because the inputs are statistical estimates (created by analyzing current and historical data), and therefore are subject to estimation error. As a result, MVO can result in over-allocation in some asset classes and under-allocation in others, along with frequent shifts between asset classes.

We use a variety of methods to minimize the effects of various MVO shortcomings by applying practical considerations to the results and constraining certain allocations to limit the amount of over-weighting or underweighting to certain asset classes.

In addition, we employ a statistical technique called "resampling", which combines MVO and a Monte Carlo simulation. Monte Carlo simulation generates thousands of variations of the original MVO inputs. By

incorporating multiple possible scenarios for asset class performance, resampling considers a wider range of outcomes and can create more diversified portfolios, which are less sensitive to imperfections in performance forecasts. We also conduct sensitivity analysis to ensure that the portfolio recommendations are consistent under a variety of market scenarios.

Step 3: Analyze Investment Options

Investment screening is particularly important when working with investment menus that have many options for an investment option-level model portfolio from which to choose. Once we've built the asset allocation targets for the portfolio, we determine which investment options from the lineup to use to meet our asset class targets and our standards for quality. Our selection process relies on both quantitative and qualitative measures. The selection criteria we use to narrow the available universe include manager experience, performance record, manager history, alpha, style consistency, fund type, and fund fees. Here is an overview of the some of the key steps:

Investment options with less than 36 months of history for actively managed funds and 12 months of history for index funds, sector funds; target-date funds; and risk-based funds will not be recommended.

Once investment options pass the initial screening, we then peer group all remaining funds for further analysis. The peer grouping process begins by evaluating investments based on their Morningstar Category (if available). Returns Based Style Analysis ("RBSA"), which looks at the "behavior" of an investment option rather than its actual holdings, is used to determine the appropriate category, because it takes a longer-term view of an investment option's style and consistency, which is important for peer grouping. The category is validated through a series of regression analyses against sets of benchmark returns. The Morningstar Category determines which set of benchmarks is used in the initial regression. Based on this initial regression result, R-square, and benchmark exposures, the investment option may be sent for further regression analysis to better determine the appropriate peer group. If the R-square of the final regression is greater than or equal to 65, then the peer group is assigned. If through all sets of regression analysis, the investment option does not achieve an R-square of 65 or greater, then the investment option is unclassified and may not be used.

If an investment option is not a public fund or does not have a Morningstar Category, the same process is followed, but the initial set of benchmarks used in the regression analyses is a general set. Again, the investment option goes through a series of regression tests to determine the best peer group fit.

One of the quantitative inputs we use when constructing fund-level portfolios is a proprietary measurement known as forward-looking alpha ("FLA"). This measure helps us identify managers that we believe will add alpha and help drive the long-term positive performance of their portfolios.

FLA uses historical data to forecast how well an investment option is likely to perform in the near-term future. Unlike traditional methods of calculating alpha, FLA is based on alpha over two time periods (12 months and 60 months), and rewards managers for consistent performance over both the short and long term. By using these two time periods, we believe that they are better able to predict how a manager might perform in the future.

From the investment options that pass all of the prior screening criteria above, we will form a “main” list, and ultimately a “select” list of the funds that are included in the final fund optimization process. However, arriving at the select list is a two-tiered screening process. To form the main list, index funds are ranked by their tracking error. The top two funds in each peer group (with the lowest tracking error) form the main list. When there aren’t enough index funds available, the actively managed fund with the lowest tracking error is chosen instead. The two index funds on the main list are then ranked by expense ratio, and the one with the lowest expense ratio is included in the select list. Actively managed funds are evaluated based on their information ratio and FLA. The three funds in each peer group with the highest information ratio and FLA form the main list. Active funds are then ranked on R-square relative to a single peer-group primary benchmark, the number of years the fund outperformed its customized benchmark from the RBSA results over the past five years, and a customized consistency score from the RBSA results. One fund from the “highest information ratio” main list and one fund from the “highest FLA” main list, each with the highest average score, form the select list.

In addition to using the above quantitative steps based, we may also consider qualitative measures such as an investment option’s holdings, style changes, style drift over time, manager changes, and SEC actions. These qualitative steps are mainly used when the quantitative results are questionable due to low statistical significance, quantitative results differing from expectations, or simply to ensure that the quantitative techniques are accurate. For example, this analysis may help confirm the peer group and style analysis, confirm that the processes in place that generated past returns are still relevant, and gives us an opportunity to apply human judgment to the process.

Step 4: Construct the Portfolio

Once we determine the asset class models and which funds from the plan’s lineup will be included in the portfolio, our portfolio construction team then determines what combination of these funds will help us reach our asset class weights. The team also considers the combination of funds that we think will help drive the portfolio’s performance in the future.

Using the select list, we construct the fund-level model portfolios using a proprietary alpha-tracking error optimization process. The primary objective is to find the best combination of investment options (for each of seven risk levels) that will maximize the FLA for any given level of tracking error, while hitting the asset class allocation targets.

This alpha-tracking error optimization is similar to MVO described earlier. MVO is conducted using as inputs the expected return, standard deviation, and correlations of the asset class returns. The alpha-tracking error optimization, however, is conducted using the FLA and tracking errors of each investment option. The asset class exposures of the available investment options are determined using HBSA.

HBSA calculates the exposure of a fund based on the characteristics of each of its underlying securities. The most recent portfolio available in our database is used for this analysis. In addition, there are certain tolerances, constraints, and maximum fund allocations.

The alpha-tracking error frontier offers an entire spectrum of efficient allocations among all funds for the target asset allocation. We select the

appropriate portfolio based on multiple iterations of evaluating possible outcomes, starting with a higher emphasis on alpha (i.e., portfolios with higher excess returns). If the portfolio is found to be outside these tolerances, the emphasis on alpha is lowered and a new set of portfolios is generated for evaluation.

The final step is to generate portfolios that place all the emphasis on the tracking error, to help ensure the asset allocation targets are met. If at this point the portfolios generated are not within the tolerances set, including hitting the asset allocation targets, then the investment menu would not qualify for our advice services. This multiple iterative process helps ensure that for each portfolio the investment options chosen maximize the potential portfolio alpha within the tolerances for tracking error while hitting the asset allocation targets.

We first attempt to build fund-level portfolios at the highest level of complexity/granularity. The large-, mid-, and small-cap asset classes are split into growth and value; aggregate bonds are split into long- and short-term bonds. If we are unable to hit the asset class targets at the highest complexity, then a second attempt is made at a lower complexity. The process continues until the asset class targets are met (within the tolerances), while minimizing tracking error and maximizing alpha. If an investment menu fails at all of the asset class complexities, we will not be able to construct fund-level portfolios.

Step 5: Monitor the Portfolio

Once the portfolio is constructed, we will monitor and re-evaluate the investments on an ongoing basis to ensure it is still aligned with asset allocation targets and diversification objectives.

When a new fund is added to an investment menu, we reevaluate the new investment mix and determines if new asset class and fund-level model portfolios are necessary. When a fund that is used in a portfolio is dropped from a plan menu or closes, the plan’s portfolios will be immediately rebalanced, as it would not be possible to implement the existing fund-level portfolios.

We monitor fund lineups on a quarterly basis to determine if changes are needed. We review and rebalance the fund-level portfolios quarterly. We’ve established a range of +/- 5% based on the most recently delivered fund-level allocations to prevent large fluctuations in investment option allocations from quarter to quarter. If a more attractive alternative is present, an investment option will be phased out over time rather than in one quarter, to minimize large portfolio reallocations on a quarterly basis. This approach also helps to minimize short-term redemption fees to investors, should they exist. All asset class model portfolios are updated annually, as we review and update the MVO inputs (expected returns, standard deviations, and cross- correlation).

Glide Path Construction

Our approach to constructing the glide path is based on a significant number of assumptions.

At a high level, our approach to determining the glide path is based on using the financial assets (i.e., the 401k plan balance) as a “completion portfolio” that is optimized based on the other assets owned by the investor and the risk attributes of those assets (a concept referred to as background risk). Determining the glide path effectively means determining the appropriate stock/bond split for different participants, a process we generally refer to as “portfolio assignment”. Our approach

towards portfolio assignment considers an individual's total wealth, of which human capital is a dominant asset for younger individuals.

When building a glide path, we determine the optimal allocation for each participant individually, and then aggregate the individual allocations into an aggregate cohort portfolio (e.g., into a 2040 Target Date portfolio). These cohort portfolios can then be viewed in combination to form the glide path. The actual portfolio selected to represent a given cohort can be based on a number of different factors, and it is possible for us to create different glide paths for different groups of employees (e.g., hourly versus salary, union versus non-union). This enables us to determine the relative difference for different employee groups and cohorts. It is worth noting that our glide path approach is not static, and the actual portfolios will change over time based on the risk characteristics of the defined contribution plan participants in that cohort.

Fiduciary Services

Investment Selection for Investment Lineups

For our Fiduciary Services, the lineups we build for an Institutional Client are typically constrained to a universe of investment options (typically a subset of the entire universe of investment options publicly available for purchase by investors) defined by our client, which may include their affiliated investment products. We have no ability to choose the investment options that are made available under our Institutional Client's products and contracts and may have more favorable opinions of certain investment options which are not included in the defined universe of investment options. Our analysis includes quantitative analytics and fundamental research on the investment options available, holdings-based style analysis to determine an investment's style over time. We draw on Morningstar's comprehensive database of fund and security analytics as well as utilizing portfolio information provided by our Institutional Client, if applicable.

When analyzing investment options or managers for use in a lineup, our goal is to determine their true investment style, identify what we believe to be best-in-class managers, and identify the factors contributing to their performance and risk characteristics with the aim of assessing whether their performance appears to be sustainable over time.

We start with a proprietary peer grouping analysis using the available investment options. Once investment options have been placed into their appropriate peer groups, our methodology begins with a quantitative review process. First, we apply a series of screens designed to flag funds that exhibit characteristics that are apt to hinder long-term performance in order to efficiently filter a large universe of investment options to focus our efforts on a more manageable opportunity set. Second, we use a multitude of statistics to begin to assess the overall quality of an investment option. We gather current and historical data points to evaluate investment style, structure, and performance and consider key factors that include fees, management tenure, style consistency, alpha, volatility, fund size, asset class exposure, and holdings concentration.

We conduct further style analyses on managers that pass our initial screens to identify nuances of their style positioning. Just as important as selecting qualified managers is determining how well an investment option will fit with other investments in the lineup. We want each investment to fill a distinct stylistic role within a plan lineup, so we carefully assess how it can be expected to complement other options we are recommending in adjacent styles. In general, we want to have a

number of strategies investing in a specific space while employing different investment approaches.

To accomplish this, we rely largely on a holdings-based style analysis to build a picture of an investment option's style positioning based on its underlying holdings. This means drilling down to examine the asset class exposure within the investment option. We evaluate overall diversification to ensure that the investment option is not exposed to undue security or sector specific risk. We also require an investment option to reveal a minimum level of exposure to its primary asset class. The goal is to provide a selection of investments that are likely to meet their investment mandate, but also to provide options that differ in their pursuit of that objective.

After an extensive quantitative review, we review an investment from a qualitative perspective. The purpose here is to allow our investment professionals to gain conviction in their investment thesis by developing a firm fundamental understanding of the strategy. Our professionals draw from their extensive experience in evaluating investment managers to analyze the people and process behind the investment. In doing so, our goal is to anticipate how an investment option is likely to be positioned in the future, which helps us build expectations of performance and capability of consistently playing a specific portfolio role.

In our fundamental assessment, we review a number of characteristics of the investment option and its manager that could be relevant to how well it can fill the role for which it is being considered. Those include reviewing the manager's performance and risk record against his or her peers in the same style—not just at the manager's current fund but also any other investment vehicles they've managed in the past. We analyze the subtleties of the manager's investment process to understand what drives performance. We observe which types of markets the investment option fares best in and which types are trouble for its style. We also determine what it is about their style that explains the performance pattern.

We assess whether a manager's investment process leads to a more aggressive or more conservative performance profile relative to its style peers, and how a manager's process might lead to persistent over- or under-weights in certain sectors. For periods of underperformance or outperformance, we assess how much is attributable to style traits or market timing versus manager skill. We also assess how performance, both absolute and relative to a peer group, has changed as a manager's assets have grown.

Our selection process entails an investment thesis for each investment option which spells out the rationale for its selection, the barometers by which we'll measure its performance, and highlights the specific factors we'll watch on an ongoing basis to ensure it continues to fill the role for which we selected it. We use many factors to evaluate funds depending on the specific situation and the questions we are trying to answer including investment sub-style, manager skill, impact of asset growth on performance, sources of investment ideas, investment decision-making process, actions in previous market environments, manager ownership, process repeatability, and performance attribution.

Lineup Design and Construction

The area of behavioral finance has shown that investors don't always behave rationally and that the manner in which a problem is posed can impact individual actions. We are mindful of simple heuristics employed by participants in making investment-related decisions and design lineups

that attempt to drive better action on the part of investors. When constructing a lineup, we consider issues around choice overload, naïve allocations, and loss aversion. We strive to select investments to fill a distinct stylistic role within a lineup, and carefully assess how each investment can be expected to fit with other investments. We strive to choose funds that are clearly different from one another, rather than similar or redundant. The goal is to establish a specific role for each investment option in the lineup that minimizes holdings overlap and maximizes diversification.

Managing Lineups

We formally review investment options in our investment lineups quarterly. The majority of our watch-list notifications (a notice to indicate an investment option is under extra scrutiny due to factors such as performance, risk, straying from its stated investment style, or management changes) and approval changes occur on a regular quarterly schedule. However, we are always monitoring our approved investment options and if something occurs intra-quarter that we believe merits immediate action, we will take action outside of the normal review schedule.

When an investment option is removed by one of our investment professionals, a memo to the plan is produced outlining the rationale for such a decision, and for Institutional Clients of our 3(21) services, a timeframe is typically noted for a plan to make a particular change. If the plan opts out of the replacement investment option or fails to choose a replacement investment option from the approved list of investment option, the plan is terminated from the service. A negative consent process for changes can also be implemented whereas an investment option change is automatically implemented if the plan does not take any action within a specified window of time. For Institutional Clients of our 3(38) services, we will implement the change as detailed in the memo.

For Institutional Clients utilizing our Fiduciary Services website, notices are sent to the plan sponsor via the website portal. For those Institutional Clients who opt to own communications to plan sponsors, they are responsible for creating their own notifications, but we will provide memos outlining our rationale for making any change decision.

Advice Services, Morningstar® Retirement ManagerSM

Investment Process

In providing our Advice services and employer-sponsored retirement plan participant-level advice and managed accounts services through Morningstar Retirement Manager, we start with investment process detailed above in the Custom Model Portfolios section to build model portfolios. Plan data that is incorporated in the recommendations include the plan's investment lineup and plan design requirements such as plan limits and matching formulas.

For these services, the portfolios we build are typically constrained to a universe of investment options defined by our Institutional Client, which may include their affiliated investment products. Our analysis will still include quantitative analytics and fundamental research on the investment options available. We draw on Morningstar's comprehensive database of fund and security analytics as well as utilizing portfolios information provided by our Institutional Client, if applicable.

We use a combination of model portfolios and customization as part of a larger portfolio construction and fund implementation process. We generate 589 unique model portfolios (ranging from conservative to

aggressive) for each plan using a customized approach to blending traditional asset allocation models with liability-driven investing and decumulation strategies. Which asset classes and sub-asset classes are used to build these model portfolios is dependent on the specific fund lineup for each plan. We always try to build the model portfolios with the greatest number of sub-asset classes, but this is contingent on whether the funds available in the plan can fulfill each asset class.

Each participant that receives investment advice is assigned into one of the 589 model portfolios. The large number of model portfolios is to address the personalization that is needed by participants. These model portfolios account for not only varying equity/fixed-income allocations but also how close the participant is to retirement. As the participant nears retirement, the sub-asset allocation changes to reflect a liability-driven investment overlay used in the model portfolios for a participant near or in retirement. Any change within the model portfolios is reflected at the individual level as soon as the participant is reevaluated each quarter.

In creating the participant recommendations, we believe that the more information the participant provides to us, the better the investment solution we are able to deliver. We collect information the plan provider is able to provide to us. For Morningstar Retirement Manager, we pre-populate the participant data so that upon entry into the user interface, the participant is prompted to provide any additional data that wasn't available from the plan provider. After collecting those key pieces of data, the participant is presented with an initial strategy as a starting point. The participant can model many scenarios by changing variables such as retirement age, desired retirement income, and savings rate. We will dynamically update the participant's retirement strategy to reflect any changes made. The participant is also encouraged to enter additional retirement account information such as out-of-plan assets or benefits for themselves or their spouse/partner in order to further personalize the recommendations. They can provide detail regarding the investments or select from one of the pre-defined investment styles. We do not provide advice or guidance on outside assets, but will take those into consideration when determining the investment strategy for the plan assets. The portfolio recommendation for the plan assets will take into account the amount of advisable plan assets relative to outside assets as well as the equity/fixed composition of those outside assets.

We start with all of the available participant-specific data and then makes assumptions about certain pieces of information. A participant can review and refine some of these assumed data points through the user interface. These assumptions can have a significant impact on the strategies we will create for them and are related to social security income, salary growth, inflation rates, retirement income goal, and risk capacity. We combine this information with other factors into a proprietary software program that can provide investment recommendations and a projection of different outcomes. Using this model, we develop an investment strategy tailored to each participant's investment goals.

For those participants that are accumulating for retirement, our investment strategy is generally based on information such as the participant's retirement account balance, expected retirement age, contribution rate and other preferences. If a participant has already retired, and our Institutional Client makes available our In-Retirement services, our strategy is based on information such as the participant's current account balance, additional cash flows and life expectancy. This retirement strategy may include some or all of the following:

Retirement Income Goal (accumulation phase). We define the retirement income goal as the projected amount of money that the participant will need during retirement. We calculate this amount based on current income, adjusted to reflect the estimated dollar value at retirement age. Typically, we use an amount equal to 100% of take-home pay, however, plan providers may request we use a different rate. We then project the value of that amount at retirement age to determine the retirement income goal. A participant using our user interface has the option to change this projected retirement income amount.

Income Outlook (accumulation phase). We define the income outlook as a projection of the annual income that the participant may receive during retirement. We base this on an annualized view of the investment wealth accumulated, combined with social security benefits and any pension or other income the participant might receive.

Total Retirement Income (in-retirement phase). For those plans that offer our In-Retirement service, we define total retirement income as the projected amount of money, typically at some level of probability that the participant can expect to receive on an annual basis in order to maintain income throughout retirement.

For our Advice services, many of our Institutional Clients offer a similar experience to participants either through our user interface or their proprietary user interface.

We believe in long-term strategic asset allocation based on an individual's risk capacity. Changes in an investor's financial situation, such as the addition of outside retirement accounts, pension benefits, or contribution rates, may result in a change to their model portfolio assignment. In addition, changes to their personal situation, such as the addition of a spouse or partner or a different retirement age, could also impact the model portfolio assignment. For the managed account service through Morningstar Retirement Manager, we will typically review portfolios on a quarterly basis to determine if market shifts require a rebalancing of the portfolio. Participant wealth re-forecasting occurs on an annual basis for our managed accounts service. For our advice service through Morningstar Retirement Manager, we encourage participants to re-enter our user interface on a periodic or as-needed basis, in order to review their information and receive an updated strategy. At a minimum, we recommend that a participant portfolio is rebalanced on an annual basis. At this point, the participant is one year closer to retirement and we will shift the participant along their glide path.

Our projections are provided based upon an investor's personal financial situation using our total wealth approach. We use MVO, resampling the mean-variance outputs using a Monte Carlo simulation, and our process incorporates liability-relative optimization. We solve for a 70% probability of success when determining the sustainable retirement income. The Monte Carlo simulation uses our long-term capital market assumptions when projecting the future returns for the various asset classes.

Approximately 20,000 participant cases are used to routinely test engine functionality to help ensure our recommendations are in line with our expectations. The test data consists of real participant information as well as generated cases, and covers a gamut of possible ages, balances, salaries, and other optional data points. Running these cases and

analyzing the results help ensure we are confident in the advice we provide participants.

Key Assumptions

Social Security - We can incorporate Social Security for both the participant and their spouse. This can be calculated using an estimate based on current salary information or input by the participant. To calculate the estimate, a participant/spouse must have 35 years of contributions. If the participant/spouse has more than 35 years of service remaining, all projections are forward-looking. If the participant/spouse has fewer than 35 years of service remaining, the difference in contributions is back-calculated. Social Security payments are inflated using a simulated cost-of-living allowance designed to replicate the actual Social Security Administration formulas and are applied at the maximum benefit age as defined by the Social Security Administration. Participants can override the estimate by including information from their Social Security statement. In addition to standard payments, we account for reduction in payments while working in retirement, increases in benefits for the spouse 50% rule and increased benefits for the surviving spouse 100% rule. The program assumes the participant/spouse completes all applications required to collect the maximum benefit. We treat Social Security as similar to income from fixed-income investments. We also take Social Security into consideration while analyzing income replacement. We default to the age at which the participant will receive full benefits from the Social Security Administration. Participants can adjust the benefit amount and start age if desired, however, the start age must be between the ages of 62 and 70.

Salary Growth - To estimate future salary, we use a salary growth curve based on academic research rather than assuming a single, fixed growth rate. This curve takes into account the fact that salaries tend to grow most rapidly for young employees, peak around age 51, and then slightly decline later in life.

Retirement Age - We assume a default retirement age of 67, or the participant's current age plus one year if they are older than 67. Participants have the option to change this to a different retirement age.

Estimated Tax - We estimate federal and state income, and capital gains taxes based on marginal tax rate calculations. Tax data is updated annually based on U.S. Internal Revenue Code (IRC) and similar state tax data. We use income data for the participant, as well as for a spouse/partner, to estimate federal and state tax exposure. Tax exposure is appropriately reduced for pretax deferrals, tax-deferred capital gains, and yield and distribution of Roth proceeds. Based on the information we know about the participant, we provide an estimate of tax exposure, but may not include all tax considerations.

Inflation Assumptions - When projecting the growth of various income sources and expenses, we use a variety of different inflation rates. These rates are reviewed and updated annually by our research team. Different inflation rates are used for different projections and major expenses. We believe that our multifaceted approach to calculating inflation results in more realistic and more accurate projections compared with using one set rate.

IRS Limitations and Application of Penalties - We incorporate all IRS contribution limits, eligibility requirements, and withdrawal penalties into the retirement strategies.

Select Lists

For our Select List service, our analysis is typically constrained to a universe of investment options defined by our Institutional Client, which may include their affiliated investment products. Our analysis will still include quantitative analytics and fundamental research on the investment options available. We draw on Morningstar's comprehensive database of fund and security analytics as well as utilizing portfolio information provided by our Institutional Client, if applicable. Select lists are fully customized around a firm's asset allocation, portfolio construction, and investment objective needs. We work with our Institutional Client to determine the universe of investment options from which we are to choose from, the asset classes to be addressed, the number of investment selections per asset class, the intended users of the list, and the intended account type (e.g., taxable or tax-deferred). We typically update select lists quarterly, or on another basis as defined by our client.

To build the select list, we employ a disciplined process incorporating quantitative screens (e.g., manager tenure, portfolio exposure, and risk and return characteristics) to the available investment universe to narrow the list. Investment options passing those initial quantitative screens are then subject to a qualitative analysis. During that analysis, we are assessing each security on its own merits. During the qualitative analysis phases, we are also assessing how the investment options compares to others in its asset class as well among all the asset classes, paying attention to diversification of investment approach within each asset class and overall.

The investment selection process is guided by a proprietary due diligence process, which combines quantitative analysis with qualitative assessment of an investment's management team and investment process. The assessment we make represents our overall level of conviction in an investment based on various factors that we believe are important in determining which investments have the best chance of delivering above-average risk-adjusted performance in the future. These factors include the following:

Process – We strive to identify managers who employ a disciplined and prudent investment process that has been executed in a consistent fashion. We favor attributes such as insightful security analysis, a robust valuation discipline, and sound risk management and portfolio construction.

Parent – The culture and structure of a firm can have a significant impact on its ability to attract and retain talent and its penchant for serving in the best interests of shareholders. We look at ownership structure of the firm, its organizational stability and financial strength. We also place considerable emphasis on stewardship by favoring investments where the firm has shown a tendency to act in the best interests of shareholders and where the portfolio managers eat their own cooking, so to speak, and have their incentives aligned with shareholders.

People – We judge the depth and capabilities of members of the investment team and the stability of the organization. We look beyond the lead portfolio manager to assess the quality of research analysts.

Performance – We strive to identify investments that have shown the ability to deliver solid risk-adjusted performance over time. We

evaluate performance from several angles and over various time periods. We favor managers that have added value over an appropriate benchmark or peer group in a consistent manner.

Price – Research indicates that expenses are one of the most important factors in predicting mutual fund performance. While a lower expense ratio is always better, we put expenses into the proper context and consider factors such as the size of the fund, trend in expenses, and investment strategy.

Our access to fund managers allows us to conduct constant research, and face-to-face meetings are an important part of our process. We not only check in with our fund managers when they release their quarterly holdings, but also remain in touch as markets shift or management teams change. This deepens our understanding of the processes these managers use and gives us valuable perspective on the state of the economy and capital markets.

After creating a new select list, we will conduct monitoring, typically on a quarterly basis, following the same process used for the initial selection. We also maintain a watch list, which includes investment options that have undergone changes we believe may negatively affect its long-term prospects. The intent of the watch process is to ensure that the investments initially selected continue to satisfy the criteria that led to their initial selection. Generally, an investment option's watch period is two to four quarters, at which point, we will make a recommendation to remove the option from the select list or take it off watch. In addition, if any investments experience significant change prior to the quarterly update, such as a manager change, we will notify the client as the case arises.

Investment Analytics, Monitoring, and Comparative Analysis Reports

For Institutional Clients that request investment analytics, monitoring, or comparative analysis reports, we begin the process by defining the scope of the report(s) in consultation with the Institutional Client. During this phase, various items are determined including, but not limited to, the universe of investments or asset classes from which we are to work from, the number of investments, the intended user(s) of the report(s), the type of display for the report(s), and the data points or written analysis to be included. If the Institutional Client requests ongoing monitoring of a universe of investments, we will determine how often report(s) are to be generated. We then utilize our resources to create the requested reports. Our reporting services typically are one-time projects in which we do not provide ongoing reviews or updates.

Risk of Loss and Strategy Risk

Investments in securities are subject to market risk, risk of loss, and other risks and will not always be profitable. There is no assurance or guarantee that the intended investment objectives of our recommendations will be received. We do not represent or guarantee that our investment recommendations can or will predict future results, will successfully identify market highs or lows, or will result in a profit or protect clients from loss. Past performance of a security may or may not be sustained in the future and is no indication of future performance. A security's investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. We are unable to predict or forecast market fluctuations or other uncertainties that may affect the value of any investment.

Asset allocation and diversification are investment strategies which spread assets across various investment types for long-term investing. However, as with all investment strategies, these strategies do not ensure a profit and do not guarantee against losses.

Capital market assumptions are forecasts which involve known and unknown risks, uncertainties, and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance, or achievements expressed or implied by those projections for any reason. Past performance does not guarantee future results.

Income projections used in our Advices and Morningstar Retirement Manager services are based on hypothetical performance data and do not represent actual or guaranteed results. Projections may vary over time and with each use of our service.

Our recommendations are made without taking into consideration potential tax consequences and we do not provide tax advice. Potential tax consequences may exist. We encourage you to consult with a tax professional about these and other tax consequences.

Information Sources

Our global resources used in the formulation of our advisory services go down to our roots—the data and analysis from Morningstar that form the base of our investment process. This expansive, in-house network of global data and investment analysis spans asset classes and regions to help drive timely new ideas. More than 300-plus analysts of Morningstar or its affiliates cover more than 500,000 investment options. The extensive data, analysis, and methodologies from these resources, along with external research reports, data, and interviews with investment managers are combined with financial publications, annual reports, prospectuses, press releases, and SEC filings to serve as the basis of our primary sources of information.

For some of our services, we combine this information with other factors—including actuarial data, stock market exposure, probability analysis, and mean-variance optimization—into a proprietary software program to analyze a complex set of market data and variables that results in an advanced model that can provide investment recommendations and a projection of different outcomes.

Methodology Updates

Our CMA, asset allocation, and advice methodology committees all meet monthly. These committees have oversight for their respective areas of expertise. If any of these committees makes an adjustment, the changes are thoroughly reviewed and tested before being implemented. These changes are manifested in participant portfolios through expected future returns, and asset allocations. CMAs are updated on an annual basis. We also update our methodologies with updated tax limits on an annual basis. Asset allocation and advice methodologies are updated only when there is a regulatory change that requires an update or when research we have completed warrants enhancing our asset allocation process or advice methodology.

Item 9. Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that would influence a potential client to engage us. We do not have any material legal or disciplinary events to disclose.

Item 10. Other Financial Industry Activities and Affiliations

Morningstar Investment Management is a wholly-owned subsidiary of Morningstar. Our offerings center on advisory services in our core capabilities of asset allocation, investment selection, and portfolio construction that we offer to individual investors (advice and managed accounts services to retirement plan participants) and institutions (including the services described in this brochure.)

Our portfolio managers and their team members who are responsible for the day-to-day management of our portfolios are paid a base salary plus a discretionary bonus. The discretionary bonus is based in part on the investment performance of select portfolios over three-, five-, and seven-year time periods, and in part on Morningstar's overall annual revenue and profitability, and the individual's contribution to the business unit. Benchmarks are used as a measure of investment performance and are chosen by senior personnel and approved by the Global Investment Policy Committee's Regional Investment Policy Committee. To mitigate the conflict of interest that could arise from partially basing an employee's bonus on performance of a select portfolio or portfolios, all investment decisions made within a portfolio must be peer reviewed by a regional governance body within the Regional Investment Policy Committee, which includes asset allocation committees, manager selection committees, and portfolio construction (peer review) committees.

For many of our advisory services, the universe of investment options from which we make our investment selections is defined by our Institutional Client. In some cases, this universe of investment options may include proprietary investment options of the Institutional Client. To mitigate any actual or potential conflict of interests presented by this situation, we subject all investment options to the same quantitative and qualitative investment selection methodology, based on several factors, including performance, risk, and expense so that the proprietary nature of an investment option does not influence our selection.

We may provide consulting or advisory services to Institutional Clients that offer registered or pooled investment products, such as mutual funds, variable annuities, collective investment trusts, or model portfolios. To mitigate the conflict of interest presented by our role in these investment products, we exclude such investment products from the universe of investment options from which we make our recommendations to other clients.

We receive compensation for our research and analysis activities (e.g., research papers) from a variety of financial institutions including large banks, brokerage firms, insurance companies, and mutual fund companies. In order to mitigate any actual or potential conflicts of interest that may arise from this service, we ensure that our research and analytical activities are non-biased and objective given our business relationships. Employees who provide research and analysis for clients are separate from our sales and relationship manager staff in order to mitigate the conflict of interest that an employee may feel pressure to present results in such a way as to maintain existing or gain new business. In addition, as noted above, all investment decisions must be peer reviewed by a regional governance body within the Regional Investment Policy Committee, which mitigates the conflict of interest by providing checks and balances so that no employee can act unilaterally in making recommendation decisions.

Our investment professionals provide portfolio construction and ongoing monitoring and maintenance for the portfolios within Morningstar Investment Services' Morningstar® Managed PortfoliosSM program on Morningstar Investment Services' behalf. While the same or similar portfolios are offered by us to our Institutional Clients under the Morningstar Managed Portfolios program, we do not believe these responsibilities create any material conflicts of interest for our clients. In order to mitigate any perceived conflict of interest, when we offer discretionary services under the Morningstar Managed Portfolios program, transactions for our clients are placed at the same time as transactions for Morningstar Investment Services' discretionary clients as part of block trades. We have procedures in place to ensure that trades are allocated in such a manner as to not favor one client over another. When we offer non-discretionary services under the Morningstar Managed Portfolios program, our Institutional Clients receive trade recommendations just after trades are placed for discretionary clients, due to our heightened fiduciary responsibilities to our discretionary clients. In addition, all non-discretionary clients are notified of transaction recommendations after the close of the trading day, so that no one such client has an advantage over another.

When we, along with Morningstar and/or our other affiliates offer services to the same client, we may enter into a bundled agreement with the client that encompasses all or part of those services. Additional fee(s) for such product(s) or service(s), if required, will be set forth in our agreement with the client. In these situations, clients may pay a fee directly to us and each such affiliate for its products or services, or as part of a joint fee schedule which encompasses all services.

Affiliations – Investment Management Group Registered Entities

Morningstar has an Investment Management group that consists of various subsidiaries across the globe that are each registered with and governed by the applicable regulatory body or bodies in that country. We are part of this group and share resources, as described earlier in this brochure. One member of this group, Morningstar Investment Services LLC, is our subsidiary and is also an investment adviser registered under the Advisers Act. Morningstar Investment Services is additionally registered with the Securities and Exchange Commissions as a broker-dealer and a member of the Financial Industry Regulatory Authority (FINRA). Morningstar Investment Services' offerings include discretionary managed portfolios and model manager services under the Morningstar Managed Portfolios brand name, plan sponsor services, and retirement plan services for institutional and retail clients.

In some cases, our senior management members have management responsibilities to these other affiliated entities. We do not believe that these management responsibilities create any material conflicts of interests for our clients.

The Investment Management group has set up a shared services team, composed of employees of our affiliate and located at our affiliate's office in Mumbai, India. We compensate our affiliate for services rendered via an intercompany charge. The services and compensation will be governed by an intercompany agreement. This compensation will likely be lower than compensation negotiated with non-affiliated firms for the same or similar services. To mitigate any conflict of interest between us and our affiliate we have established dual reporting lines for employees on the shared services team so that such employees report up to our Director of Operations. We've also established information security boundaries and technology separation to protect our non-public

information and Morningstar's compliance department monitors the personal trading activity of these employees.

Affiliations – Other Registered Entities

Morningstar Research Services LLC is not part of the Investment Management group but is also a wholly-owned subsidiary of Morningstar and an investment adviser registered under the Advisers Act. Morningstar Research Services' offerings center around the production of investment research reports and investment consulting services to financial institutions/institutional investors who themselves are registered with and governed by a regulatory body. Conflicts of interests between us and Morningstar Research Services are mitigated by such things as the maintenance of separate legal entities and reporting/organization lines, and the utilization of physical (i.e. separate floors) and technological separation. Morningstar Research Services also maintains a committee structure so as to limit any unilateral decisions. Morningstar's compliance department monitors the personal trading activities of Morningstar Research Services' employees.

We may engage Morningstar Research Services to perform investment manager due diligence and/or fund selection services on our behalf as a sub-adviser. The notification to and authorization by the Institutional Client to our engaging Morningstar Research Services is addressed in our agreement with the Institutional Client. On such occasions, we compensate Morningstar Research Services for services rendered via an intercompany charge. The services and compensation will be governed by an intercompany agreement. This compensation will likely be lower than compensation negotiated with non-affiliated financial institutions/institutional investors for same or similar services. Morningstar Research Services' employees who are engaged to provide manager due diligence and/or fund selection service are prohibited from using non-public/confidential information obtained because of their engagement in its investment research reports and/or investment consulting services to clients, including us.

Morningstar Research Services provides information to the public about various securities, including open-end mutual funds and ETFs, which may include written analyses of these investment products. Although we use certain products, services, or databases that contain this information, we do not participate in or have any input in the written analyses that Morningstar Research Services produces. While we consider the analyses of Morningstar Research Services, our investment recommendations are typically based on our separate and independent research and analysis of the available investment product.

Morningstar Research Services may issue investment research reports on securities we may hold in our portfolios or recommend to our clients, but they do not share any yet-to-be published views and analysis and/or changes in estimates (i.e., their confidential information) with us on these securities. Other than the use of their publicly available analysis as part of our review process, we do not solicit the input of Morningstar Research Services prior to making investment decisions or recommendations (unless we engage them as a sub-adviser as noted under the 2nd paragraph of the *Affiliations – Other Registered Entities* section), nor do we have access to their analysis prior to its public dissemination. We mitigate any actual or potential conflicts of interest that could arise from the access of their analysis prior to publication through measures such as informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department.

Some of Morningstar Research Services' clients may be sponsors of funds or associated with other securities that we may recommend to our Institutional Clients. We mitigate any actual or potential conflicts of interests resulting from this fact through such measures as informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department. In addition, we do not factor in the relationship between Morningstar Research Services when analyzing investments or making recommendations.

Morningstar Investment Management serves as an investment adviser to investment companies registered under the Investment Company Act of 1940, as amended, and to other pooled investment products. To mitigate conflicts of interest, Morningstar Research Services does not prepare qualitative analysis on nor recommend as part of their investment consulting services any investment company we are an investment adviser to.

Affiliations – Morningstar, Inc.

Our parent company, Morningstar, Inc., is publicly traded (Ticker Symbol: MORN). We may recommend an investment product that holds a position in publicly-traded shares of Morningstar's stock. Such an investment in Morningstar's stock is solely the decision of the investment product's portfolio manager. We have no input into a portfolio manager's investment decision nor do we require that the investment products we recommend own shares of Morningstar. An investment product's position in Morningstar has no direct bearing on our investment selection process. We mitigate any actual or potential conflicts of interest by not factoring Morningstar's publicly traded stock into our qualitative or quantitative analysis nor in our recommendations.

Morningstar offers various products and services to the public. Some of Morningstar's clients are service providers (e.g., portfolio managers, advisers, or distributors affiliated with a mutual fund or other investment option). We may have a contractual relationship to provide consulting or advisory services to these same service providers or we may recommend the products of these service providers to our advisory clients. To mitigate any actual or potential conflicts of interest, we do not consider the relationship between Morningstar and these service providers when making recommendations. We are not paid to recommend one investment option over another, including products of service providers with which Morningstar has a relationship.

Morningstar provides information to the public about various investment products, including open-end mutual funds and ETFs. In some cases, this information includes written analyses of these investment products. Although we may use certain products, services, or databases of Morningstar, we do not participate in or have any input in the written analyses that Morningstar provides its licensees. While we consider the analyses of Morningstar, our investment recommendations are typically based on our separate and independent research and analysis of the available investment product.

Morningstar offers various products and services to retail and institutional investors. In certain situations, we may recommend an investment product that tracks an index created and maintained by Morningstar. In such cases, the investment product sponsor has entered into a licensing agreement with Morningstar to use such index. To mitigate any conflicts of interest arising from our selection of such investment products, we

may use solely quantitative criteria established by our advisory client to make such selection, or, in the alternative, Morningstar's compensation from the investment product sponsor will not be based on nor will it include assets that are a result of our recommendation to our advisory client to invest in those investment products. In other cases, some of Morningstar's clients may be sponsors of funds that we may recommend to our clients. Morningstar does not and will not have any input into our investment decisions, including what investment products will be recommended for our recommended portfolios. We mitigate any actual or potential conflicts of interest by imposing informational barriers (both physical and technological), maintaining separate organizational reporting lines, and monitoring by the compliance department. In addition, we do not factor in the relationship between Morningstar when analyzing investments or making recommendations. We mitigate any actual or potential conflicts of interests resulting from that by not producing qualitative analysis on any such exchange-traded fund as well as imposing informational barriers (both physical and technological), maintaining separate organizational reporting lines between, and monitoring by the compliance department.

Morningstar has and maintains accounts which they invest in accordance with investment strategies created and maintained by us. Those investment strategies are deployed using equity securities. As we have discretion over these accounts, Morningstar's accounts are traded at the same time as our and Morningstar Investment Services' other discretionary client accounts in order to ensure that Morningstar's accounts are not treated more favorably than our client accounts. Some of Morningstar's accounts are used as the subject of newsletters offered by Morningstar. In order to ensure that Morningstar's newsletter subscribers are not treated more favorably than our clients, which would result in a breach of our fiduciary duty, we do not report trades in Morningstar's accounts invested in our strategies to newsletter subscribers until after our client accounts have been traded or our non-discretionary clients have been notified.

As a wholly-owned subsidiary, we use the resources, infrastructure, and employees Morningstar and its affiliates to provide certain support services in such areas as technology, procurement, human resources, account, legal, compliance, information security, and marketing. We do not believe this arrangement presents a conflict of interests to us in terms of our advisory services. Employees of Morningstar that provide support services to us may maintain their Financial Industry Regulatory Authority ("FINRA") security licenses under Morningstar Investment Services' limited broker/dealer registration, if appropriate for their current job responsibilities. Morningstar Investment Services utilizes its broker/dealer registration solely for the receipt of 12b-1 fees, therefore, we believe no conflict of interest exists due to the maintenance of these security licenses.

We may make our clients aware of various products and services offered by Morningstar or its affiliates. We do not receive compensation for that introduction. Morningstar and its affiliates, in turn, may make their clients aware of various products and services offered by us. Morningstar and its affiliates do not receive any compensation from us for that introduction.

Affiliations – Morningstar, Inc.'s Subsidiaries

Equity and manager research analysts based outside the United States are employed by various wholly-owned subsidiaries of Morningstar. These analysts follow the same investment methodologies and process as Morningstar Research Services, as well as being held to the same

conduct standards. As a result, we do not believe this structure causes actual or a potential for a conflict of interest.

Affiliations – Credit Rating Agency

One of Morningstar's subsidiaries, Morningstar Credit Ratings LLC, is a credit rating agency registered with the Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (NRSRO). In our analysis of certain securities, we may use the publicly available credit rating and analysis issued by Morningstar Credit Ratings. Because of our use of Morningstar Credit Ratings' ratings and analysis is limited to that which is publicly available, we do not believe there is an actual or potential conflict of interest that arises from such use.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code Of Ethics

We have in place a Code of Ethics pursuant to Rule 204A-1 under the Advisers Act ("Code of Ethics"). Our Code of Ethics strives to uphold the highest standards of moral and ethical conduct, including placing our clients' interest ahead of our own. Our Code of Ethics covers all our officers and employees as well as other persons who have access to our non-public information (collectively "Access Persons"). Our Code of Ethics addresses such topics as professional and ethical responsibilities, compliance with securities laws, our fiduciary duty, and personal trading practices. Our Code of Ethics also addresses receipt and/or permissible use of material non-public information and other confidential information our Access Persons may be exposed and/or have access to given their position. The Code of Ethics is provided upon hire and at least annually thereafter and at each time, the Access Person must certify in writing that she or he has received, read, and understands the Code of Ethics and that they agree to or have complied with its contents.

A copy of our Code of Ethics is available to existing and prospective clients by sending written request to compliance@morningstar.com.

Interest In Client Transactions

Our Access Persons may maintain personal investment accounts and may purchase or sell investments in those accounts that are the same as or different from the investments we recommend to clients. Because we generally recommend mutual funds and ETFs, our Access Persons' personal investing activities should not conflict with our advisory activities or the timing of our recommendations. In addition, our Code of Ethics is designed to ensure that Access Persons' personal trading activities will not interfere with our clients' interests, while allowing our Access Persons to invest in their own accounts.

We do not engage in principal transactions (transactions where we, acting in our own account or in an affiliated account, buy a security from or sell a security to a client's account) nor do we engage in agency cross transactions (transactions where we or our affiliate executes a transaction while acting as a broker for both our client and the other party in the transaction).

Interest In Securities That We May Recommend

Morningstar Investment Management has and maintains a number of seed accounts (accounts used to establish a strategy we may wish to offer), many of which follow strategies we offer to clients. We place block trades for our accounts, therefore trade requests for our seed

accounts are placed at the same time as trades are placed for those client accounts invested in the same strategy and for which we have discretion. Block trades are allocated in such a manner as to ensure that our seed accounts do not receive more favorable trades than our clients' accounts. Client accounts that we manage on a discretionary basis and thus, our seed accounts, are traded just before we provide model portfolio trade recommendations to other clients using our U.S. managed portfolios. However, our model portfolio clients receive trade recommendation after the close of the trading day, so that no one model portfolio client is favored over another.

Personal Trading By Access Persons

Our Code of Ethics is designed to ensure that Access Persons' personal trading activities does not interfere with our clients' interests. While our Access Persons may maintain personal investment accounts, they are subject to certain restrictions. Our Code of Ethics includes policies designed to prevent Access Persons from trading based on material non-public information. Access Persons in possession of material non-public information may not trade in securities which are the subject of such information and may not tip such information to others. In certain instances, we employ information blocking devices such as restricted lists to prevent illegal insider trading. Morningstar's compliance department monitors the activities in the personal accounts of our Access Persons (and any accounts in which they have beneficial ownership) upon hire and thereafter. Access Persons are required to pre-clear IPO and private placement transactions with Morningstar's compliance department.

Item 12. Brokerage Practices

Where we exercise investment discretion, we will generate trade instructions for each portfolio that requires investment, reallocation or rebalancing and forward those instructions to the appropriate institution as designated by the client. As a result, we do not have the ability to make decisions regarding which broker is used to execute the transactions. We do not participate in any soft dollar practices.

Item 13. Review of Accounts

If included in our contract with the Institutional Client, we will provide ongoing monitoring of the underlying holdings in investment portfolios and reallocation or rebalancing of investment portfolios. The frequency and nature of our reviews and rebalancing is governed by our contract with each Institutional Client.

In instances where we act as a discretionary investment manager through Morningstar Managed Portfolios, financial advisors of the Institutional Client or financial advisors using the Institutional Client's platform are typically responsible for periodically reviewing client accounts.

We do not provide periodic reviews or ongoing monitoring of plan participant accounts where we solely provide recommendations or advice to the Institutional Client regarding their retirement plan and are not providing managed accounts services to the participants in the plan. We may provide periodic reports to our Institutional Clients on the investment portfolios and the underlying holdings or retirement plan lineup if included in our contract with the Institutional Client.

Our model portfolios and valuation models are reviewed on at least an annual basis. Investment-specific model portfolios for an employer sponsored retirement plan are reviewed on a quarterly basis. The

participants' financial situation (reforecast) is reviewed on at least a quarterly basis.

Item 14. Client Referrals and Other Compensation

We may make direct or indirect cash payments to our affiliates or to unaffiliated third parties for recommending our services as described in Item 4 above. If such payments occur, they will be done pursuant to Rule 206(4)-3(a)(2)(ii) of the Advisers Act. Clients referred by third party solicitors may in some cases pay a higher fee than clients who contract with us directly. Solicited Clients referred by a third-party solicitor should refer to the disclosure document for information on the effect of the fees paid to third-party solicitors.

Item 15. Custody

We do not serve as a custodian of client assets. However, in cases where we have the ability to debit fees directly from client accounts, we may be deemed to have custody of client assets under Rule 206(4)-2 of the Advisers Act, even if we do not act as a custodian. The Institutional Client is responsible for selecting the custodian for assets.

Item 16. Investment Discretion

In some cases, we may have complete investment discretion in managing investment portfolios, retirement plans, or registered funds for our Institutional Clients. In other cases, we may make investment recommendations to an investment committee, board, or other person(s) within an institution, but the institution has the discretion to accept, reject, or modify our recommendations. In offering our services to plan sponsors, we typically provide the Institutional Client with information designed to help them make investment choices regarding their retirement plans, but they retain responsibility for managing the investments in their plans. However, in some cases investment management discretion is delegated to us.

As described in our Retirement Services for Individuals firm brochure, we may also have complete investment discretion in managing plan participant accounts through our retirement plan services managed accounts program. In other cases, we may make investment recommendations to retirement plan participants through our retirement plan services advice or guidance programs, but the participants have the discretion to accept, reject, or modify our recommendations.

The extent of our investment discretion is set forth in our contract with the Institutional Client or participants in our retirement plan services program.

Item 17. Voting Client Securities

For all of our institutional advisory service arrangements, we do not have the authority to and will not vote proxies. Proxies or other solicitations will be sent directly to the Institutional Client. We cannot provide information or advice in regard to questions an Institutional Client has about a particular solicitation.

Item 18. Financial Information

We are required to provide you with certain financial information or disclosures about our financial condition. We do not have any financial commitment that impairs our ability to meet our contractual and fiduciary commitments to clients, have we been the subject of any bankruptcy proceeding.



Morningstar Investment Management LLC Form ADV Part 2B: Brochure Supplement

Institutional Advisory Services

22 West Washington Street, Chicago, IL 60602
Phone: 312.696.6000
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March 27, 2018

This Brochure Supplement provides information about key members of the investment team for Morningstar Investment Management LLC's institutional advisory services. This Brochure Supplement provides information on the members of the investment team with the most significant responsibility for day-to-day investment advice and is not a complete list of all the members of the investment advisory team.

Please contact the Compliance Department at 312.696.6000 or compliancemail@morningstar.com if you did not receive a copy of our firm brochure or if you have questions about the content of this Brochure Supplement. In your request, please indicate the name of the company (Morningstar Investment Management) and the type of service (Institutional Advisory Services or Retirement Plan Services for Individuals.)

Michael Corty, CFA

Educational Background and Business Experience: Michael is a senior portfolio manager for Morningstar Investment Management and head of U.S. equity strategies. He joined Morningstar, Inc. in 2004 as a senior equity analyst before joining Morningstar Investment Services LLC as a portfolio manager in 2013. Michael moved to Morningstar Investment Management in 2016 as part of the investment management group's re-organization. Before joining Morningstar, Michael spent two years as a senior loan analyst for Bank of America and three years as an auditor at Arthur Andersen. Born in 1973, Michael has a bachelor's degree from Loyola Marymount University, a MBA from the Johnson Graduate School of Management at Cornell University and is a CFA* charterholder. Michael does not have any disciplinary information, other business activities or additional compensation to disclose.

Brian Huckstep, CFA

Educational Background and Business Experience: Brian is a senior portfolio manager and co-head of target risk strategies for Morningstar Investment Management. Brian joined Morningstar, Inc. as the director of data acquisition in 2003. He joined Morningstar Investment Management in 2005 as a portfolio manager. Born in 1970, Brian has a bachelor's degree in economics from the University of Michigan, a MBA from the University of Chicago Booth School of Business, and is a CFA* charterholder. Brian does not have any disciplinary information, other business activities or additional compensation to disclose.

Dan McNeela, CFA

Educational Background and Business Experience: Dan is a senior portfolio manager and co-head of target risk strategies for Morningstar Investment Management. He joined Morningstar, Inc. in 2000 as a manager research analyst, and served as associate director of fund analysis and editor of Morningstar Mutual Funds before joining Morningstar Investment Management LLC in 2006. Born in 1965, Dan has a bachelor's degree in finance from Indiana University, a MBA from the University of Illinois, and is a CFA* charterholder. Dan does not have any disciplinary information, other business activities or additional compensation to disclose.

Lucian Marinescu, CFA

Educational Background and Business Experience: Lucian is a portfolio manager and head of target date strategies for Morningstar Investment Management. He served as a project manager for Morningstar, Inc. beginning in 2002 before joining Morningstar Investment Management in 2007. Born in 1979, Lucian has a bachelor's degree in economics and business administration from Monmouth

College, a MBA from University of Chicago Booth School of Business, and is a CFA* charterholder. Lucian does not have any disciplinary information, other business activities or additional compensation to disclose.

Marta Norton, CFA

Educational Background and Business Experience: Marta is a portfolio manager for Morningstar Investment Management and head of outcome based strategies. She joined Morningstar, Inc. in 2005 as a manager research analyst before joining Morningstar Investment Services LLC as a portfolio manager in 2008. Marta moved to Morningstar Investment Management in 2016 as part of the investment management group's re-organization. Before joining Morningstar, Marta was an economist with the Bureau of Labor Statistics. Born in 1980, Marta has a bachelor's degree from Wheaton College and is a CFA* charterholder. Marta does not have any disciplinary information, other business activities or additional compensation to disclose.

Investment Team Supervision – Daniel Needham, CFA

Daniel is president and global chief investment officer for the Investment Management group at Morningstar, Inc., which includes Morningstar Investment Management. Before adding the role of president in 2015, Daniel was global chief investment officer for the Investment Management group. In 2013 his role expanded to include responsibility for Morningstar's investment management operations in Europe. Prior to 2013, Daniel was chief investment officer and managing director for Investment Management in Asia-Pacific. Daniel joined Morningstar in 2009 through the company's acquisition of Intech Pty Ltd, where he served as chief investment officer. He also held other investment roles including analyst, portfolio manager, and head of multi-strategy. Before joining Intech in 2002, Needham worked for Zurich Financial Services in Sydney.

Daniel oversees the United States investment team, including setting the strategic direction and goals for the team. The activities of the investment team are guided by the Americas Investment Policy Committee of the Global Investment Policy Committee, which Daniel chairs. The Global Investment Policy Committee and its working sub-committees and investment teams are responsible for oversight of the investment methodologies. The sub-committees and investment teams focus on specific investment capabilities such as valuation models and asset allocation, manager selection, portfolio construction and portfolio risk analytics. Daniel holds a bachelor's degree in commerce from the University of Sydney, where he majored in finance and economics. He also is a CFA* charterholder.

**The Chartered Financial Analyst (CFA) designation is an international professional certification offered by the CFA Institute. To become a CFA charterholder, candidates must pass three six-hour exams, possess a bachelor's degree, and have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct. The CFA is a qualification for finance and investment professionals, particularly in the fields of investment management and financial analysis of stocks, bonds and their derivative assets. The program focuses on portfolio management and financial analysis, and provides a general knowledge of other areas of finance.*

*** Certified Public Accountant (CPA) is the statutory title of qualified accountants in the United States who have passed the Uniform Certified Public Accountant Examination and have met additional state education and experience requirements for certification as a CPA. To achieve this designation, an individual usually has to complete 5 years of education and a certain degree of work experience. Additionally, once an individual becomes a CPA, they typically must complete a certain number of hours of continuing education each year.*

NRN-0677AO.6 (03/2018)

Morningstar Associates, LLC (“Morningstar”) provides this model Investment Policy Statement as part of its plan fiduciary service. This model document is consistent with Morningstar’s plan fiduciary services. As the Plan Sponsor, you may choose to adopt this model document as the Investment Policy Statement for your Plan.

If you choose not to adopt this model Investment Policy Statement, it is your responsibility as Plan Sponsor to review the Plan documents, including any existing investment policy statement, to determine whether Morningstar’s fiduciary services are consistent with the terms of the Plan documents. If the terms of the Plan documents, including any existing Investment Policy Statement, are inconsistent with the services provided in the Program, it is your responsibility to amend the Plan documents accordingly.

Investment Policy Statement

Plan Name:		"Plan"
Plan Sponsor:		"Plan Sponsor"
Service Provider:		"Service"
Investment Advisor:	Morningstar Associates, LLC	"Morningstar"

1. Overview

This Investment Policy Statement ("IPS") is intended for use in connection with Plan Sponsor's use of the fiduciary service product provided through Service Provider, and in connection with Plan Sponsor's retention of Morningstar as discretionary investment manager with respect to selection and monitoring of the investment lineup for the Plan. When adopted by Plan Sponsor, this IPS shall become part of the Plan document and shall remain in effect until revoked by Plan Sponsor or until such time as Morningstar stops providing discretionary investment management services.

The above-named Plan is a defined contribution retirement plan available to eligible employees as provided in the Plan document. Investment of Plan assets will be made for the sole interest and exclusive purpose of providing benefits to Plan participants. The Plan is a participant-directed individual account plan. As such, it provides individual accounts for Plan participants and allows participants to select how these individual accounts shall be invested.

2. Purpose of Plan

The Plan's purpose is to provide eligible employees with a vehicle through which they can accumulate retirement savings through employee and/or employer contributions and the investment earnings thereon. While Plan participants are ultimately responsible for their own investment decisions, Plan Sponsor endeavors to provide a suitable range of diversified investment options allowing participants to invest in accordance with their own circumstances, risk tolerances, savings time horizons, and retirement goals. Plan Sponsor intends to provide investment options that can meet a wide spectrum of risk preferences, from conservative to aggressive. Plan Sponsor strives to achieve the following goals:

- Promote retirement saving and encourage wealth accumulation by Plan participants.
- Provide Plan participants with a suitable range of asset categories and investment options that are intended to help Plan participants meet their retirement goals and investment objectives.
- Encourage participation by eligible employees in the Plan and reinforce consistent saving habits.
- Attract and retain qualified employees by providing competitive benefits.
- Obtain plan services, administration and investment options at a reasonable cost.

3. Purpose of Investment Policy Statement

This IPS is being adopted by Plan Sponsor on behalf of the Plan to provide guidelines for the investment and management of assets held for the benefit of participants and beneficiaries of the Plan. The purpose of the IPS is to:

- Establish a framework for structuring a retirement savings program for Plan participants by making available diversified investment options that support a range of long-term needs, goals and risk tolerances.
- Formulate policies for selecting appropriate asset categories and investment options within the framework of the Plan structure.
- Provide Plan participants with investment options which, when prudently used, will diversify portfolio risks and better accommodate the range of risk/return preferences they may have.
- Establish prudent procedures for monitoring and evaluating the performance of the

investment options available within the Plan.

- Describe the investment process used to select the investment options available within the Plan.
- Describe the roles and responsibilities of the various parties that may be involved in the oversight of Plan investment activities.

Plan Sponsor intends to review periodically this IPS and amend it when necessary.

4. Selection of Investment Classes

The Plan intends to provide a broad range of investment alternatives. This includes having diversified investment alternatives that are sufficient in permitting Plan participants to materially affect the potential return and degree of risk on their accounts, as well as minimizing the risk of large losses. Given the Plan's demographics, the Plan will provide a variety of investment options within various asset class categories. These offerings, when prudently used by the Plan participants, will diversify individual portfolio risks and better accommodate the range of risk/return preferences among participants.

5. Selection and Monitoring of Investment Options

Plan Sponsor is responsible for the administration of the Plan, including selecting, monitoring and evaluating the performance of service providers retained to perform services on behalf of the Plan. As permitted in the Plan document, Plan Sponsor may retain an investment adviser to provide assistance in selecting and monitoring the investment options to be made available under the Plan. In a separate Advisory Services Agreement, Plan Sponsor has appointed Morningstar as a discretionary investment manager to the Plan. Morningstar will select an appropriate lineup of investment options for the Plan, and will provide ongoing monitoring of investment options. Morningstar's process for selecting and monitoring the investment options available within the Plan is outlined in Exhibit A attached.

Plan Sponsor will periodically review the performance of Morningstar. If Plan Sponsor determines that Morningstar has consistently failed to satisfy the terms of the applicable Advisory Services Agreement, failed to maintain a stable organization; failed to employ the investment approach that formed the basis for Plan Sponsor's decision to retain Morningstar, incurred a significant number of complaints by affected Plan participants, or otherwise failed to perform its duties, Plan Sponsor may initiate termination procedures.

6. Participant Education and Communication

Plan Sponsor will communicate to participants that they are responsible for investment of the assets in their Plan accounts and keep them informed of the Plan's rules for the provision of investment instructions. The Plan will also endeavor to provide information and disclosures to Plan participants regarding the investment options available under the Plan.

7. Coordination with Plan Document

Notwithstanding the foregoing, if any term or condition of this IPS conflicts with any term or condition in the Plan document, the Plan document shall control.

By signing below, Plan Sponsor adopts this IPS and revokes any prior investment policy statement it may have previously adopted.

Signature

Date

Name (Print)

Title

Exhibit A

Morningstar's Investment Process

This document is attached to and made a part of the Investment Policy Statement, and outlines the process

Morningstar uses to select and monitor the investment options available under the Plan.

Scope of Investment Universe

Morningstar selects investment options from the universe of investment options that are available under Morningstar's product or contract selected by Plan Sponsor, which is a subset of the entire universe of investment options publicly available for purchase by investors. Morningstar has no ability to choose the investment options that are made available under Morningstar's products and contracts. This universe of investment options may include options that are both proprietary and non-proprietary investments of Morningstar. Only Morningstar proprietary investments may be made available in the stable-value, target date, and other investment categories. Many fund companies pay Morningstar in return for having their funds offered as investment options, as well as for the recordkeeping and related services Morningstar provides. Morningstar is not responsible for the selection or ongoing monitoring of company stock options or self-directed brokerage options within the Plan.

Investment Selection Process

From the investment universe defined above, Morningstar evaluates quantitative and qualitative factors to select investment options to meet a variety of investment objectives. In addition, Morningstar uses returns-based style analysis and holdings-based style analysis of the investment options to determine the investment's style over time.

Once investments are placed into their appropriate asset class categories, Morningstar applies a series of screens designed to flag funds that exhibit characteristics that its experience has shown to hinder long-term performance. Next, Morningstar uses a multitude of statistics to begin to assess the overall quality of an investment option and to evaluate investment style, structure, and performance. Some of the factors Morningstar considers in this stage of the process are:

- Fees
- Management tenure
- Style consistency
- Relative alpha
- Volatility
- Fund size
- Asset exposure
- Holding concentration
- Turnover

After this quantitative review, Morningstar reviews investments from a qualitative perspective, to develop a fundamental understanding of the investment and to create an investment thesis that identifies the rationale for selecting the investment, as well as the barometers by which its success is measured. The thesis also identifies the specific factors Morningstar will monitor to ensure the investment continues to meet expectations.

Morningstar reviews a number of characteristics of an investment that could be relevant to it successfully filling its intended role. Morningstar observes which types of markets the investment fares best in, and which types are trouble for the investment's style, and determines what it is about the investment that explains the pattern. Morningstar uses many factors to evaluate investments, including:

- Investment sub-style
- Manager skill (including history at other funds)
- Impact of asset growth on performance
- Source of investment ideas
- Investment decision-making process
- Actions in previous market environments
- Manager ownership
- Process repeatability
- Performance attribution

Lineup Design

The area of behavioral finance has shown that investors don't always behave rationally and that the manner in which a problem is posed can impact individual actions. Morningstar is mindful of simple heuristics employed by participants in making investment-related decisions and designs lineups that attempt to drive better action on the part of investors.

The following are several of the concepts Morningstar considers when constructing a lineup:

- Choice Overload – Participants should have options, but they shouldn't be given so many choices that they become overwhelmed.
- Naïve Allocations – A lineup should be balanced and diverse such that an individual making naïve allocations (equally weighting all investment options is the most common) will still produce a portfolio of reasonable risk-reward tradeoff.
- Loss Aversion – Ensure that the volatility and relative performance of the investment options are appropriate for the given investment category.

Lineup Construction

Using the process outlined above, Morningstar narrows the universe of investment options to create an investment lineup appropriate for the Plan. Morningstar strives to select investments to fill a distinct stylistic role within a lineup, and carefully assesses how each investment can be expected to fit with other investments. To accomplish this, Morningstar relies largely on our holdings-based style analysis (returns-based style analysis plays a more limited role in this process) to deconstruct each investment into its individual holdings. This means drilling down into individual holdings and comparing them with the holdings of other offerings in the lineup. Morningstar evaluates stock overlap and return correlation between investment options, Morningstar® Style Box placement, and how sector exposures complement those of investment options. Morningstar strives to choose funds that are clearly different from one another, rather than similar or redundant. The goal is to establish a specific role for each investment option in the Plan lineup that minimizes holdings overlap and maximizes diversification.

Ongoing Investment Monitoring Process

Morningstar's investment professionals will continue to monitor and evaluate the specific investment options on an ongoing basis. However, Morningstar is not responsible for the ongoing monitoring of company stock options or self-directed brokerage options within the Plan. Morningstar continues to evaluate the investment options based on the same process used in the review and selection stage, but understands that the ongoing due diligence of an investment option presents different challenges. Morningstar remains objective about a fund that it has already determined to be an appropriate option. As such, Morningstar focuses on specific issues or events that could change its opinion of the investment option and challenges its original investment thesis. The monitoring process focuses on the following issues:

- Regulatory issues
- Organizational and/or manager changes
- Management team updates
- Style and process consistency
- Portfolio characteristics
- Risk-adjusted performance
- Asset growth

Morningstar performs a fundamental review of any investment options that appear to have strayed from their investment styles, have experienced management and/or organizational changes, have failed one or more of the initial quantitative screens used in selection or have relative declines in their performance or risk rankings.

Menu Design, Investment Selection, and Monitoring Methodology

Morningstar Associates, LLC



Our Approach

Building high-quality investment menus for plan sponsors

Morningstar Associates (“Morningstar”) provides a variety of institutional investment consulting services to both retirement plan providers and retirement plan sponsors. We have investment expertise in the areas of asset allocation, manager selection, and portfolio construction. Morningstar applies its investment expertise to build, manage, and monitor investment lineups that help plan sponsors fulfill their ERISA obligations, and help participants structure efficient, high-quality portfolios to meet their retirement objectives.

This purpose of this document is to describe the methodology and process we use to design menus, select investments, and monitor fund lineups.

Morningstar uses the following tools to support its fund selection and monitoring process:

- ▶ Morningstar EnCorr
- ▶ Morningstar Direct
- ▶ Bloomberg

Our process for creating and overseeing investment lineups comprises three phases:

Phase 1: Menu Design

Phase 2: Investment Selection

Phase 3: Ongoing Monitoring

Phase 1: Menu Design

Providing appropriate choice and diversification

Framing the problem to drive better decisions

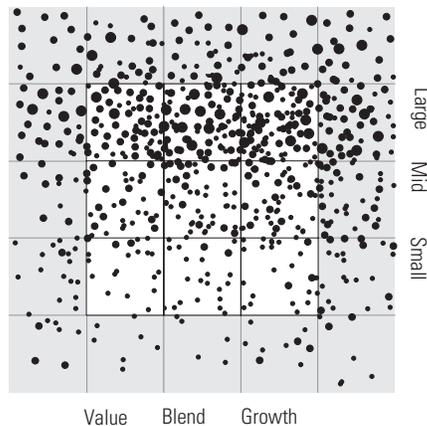
Behavioral finance has shown that investors don't always behave rationally and that the manner in which a problem is posed can impact individual actions. We are mindful of simple heuristics employed by participants in making investment-related decisions and we design lineups that attempt to limit such action.

Less can be more

According to a number of studies, participants can be driven to inaction if they feel overwhelmed by their list of options. Additionally, including too many investment choices can result in unnecessary overlap among participants' fund holdings without any incremental diversification benefits. One of our primary goals in constructing an efficient lineup is to provide sufficient choice without overburdening the participant. We believe that keeping things simple has the potential to result in more optimal plan design.

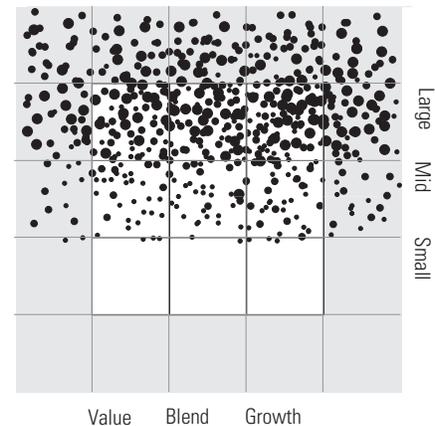
Provide access to asset classes that allow plan participants to build well-diversified portfolios

Morningstar leverages its knowledge of historical asset class characteristics to determine the proper exposure for plan participants. Using factors such as historical risk and return, we determine how appropriate each asset class is for plans of varying demographics. We look also at historical correlation measures in identifying the right combination of asset classes. Lastly, we want to cover as many areas of the market as possible without any meaningful gaps. This can be evaluated in the style boxes below, which compare the holdings of a typical Morningstar equity allocation with those of the S&P 500 Index. While it seems as though it would offer proper diversification, the S&P 500 Index has a roughly 90% allocation to large-cap stocks and a 10% allocation to mid-cap stocks.



Typical Morningstar Stock Allocation¹

Large Cap	67%
Mid Cap	22%
Small Cap	11%



S&P 500 Index Allocation (as of 12-31-09)¹

Large Cap	88%
Mid Cap	12%
Small Cap	0%

¹ Source: Morningstar Inc., proprietary data. Graphics are for illustrative purposes only.

By contrast, our lineups are designed to provide exposure to stocks across the full capitalization range (large, mid, and small) while also seeking a balance between value and growth stocks. We seek to achieve comparable levels of diversification, whenever possible, in our international equity and fixed-income exposures.

It is important to provide diversification not just within broad asset class categories, but also across those categories. To the extent possible, we attempt to strike a balance between the equity and the fixed income investment options available to participants. This equalizes the importance of each of the broad asset classes and helps ensure that even those participants who choose to naively allocate equal assets to each investment option can construct a balanced portfolio.

Smoothing Volatility: A Long-Term Perspective

Within the broad asset class of stocks or bonds, there are always short-term leaders and laggards across investment categories. Because of our long-term investment perspective, we don’t attempt to predict which specific investment categories will outperform over short time periods. Instead, by providing a broad level of diversification across investment categories and adhering to long-term targets, our category lineups are designed to avoid the short-term volatility that can occur in less diversified lineups or those designed to time the hot-performing segments of the market.

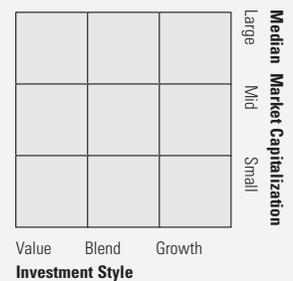
Understanding Fund Style

The Morningstar® Style Box™ was introduced to help investors more easily determine the investment style of a fund. The equity Style Box is a nine-square grid that classifies securities by size along the vertical axis and by value and growth characteristics along the horizontal axis. Different investment styles often have different levels of risk and lead to differences in returns. Therefore, it is crucial that investors understand style and have a tool to measure their style exposure.

Morningstar, Inc.’s equity style methodology uses a “building block,” holdings-based approach that is consistent with Morningstar’s fundamental approach to investing. Style is first determined at the stock level and then those attributes are “rolled up” to determine

the overall investment style of a fund or portfolio. This framework can link what are often treated as separate processes—stock research, fund research, portfolio assembly, and market monitoring—in the belief that a shared analytical framework will lead to better portfolio construction and fund usage.

Morningstar, Inc. uses 10 different stock characteristics to measure value and growth, and this produces more accurate and stable stock and portfolio style assignments. Morningstar, Inc. uses both forward-looking and historical-based components to ensure that information available to active portfolio managers is incorporated in the model. This robust approach to style analysis is a powerful lens for understanding stocks, funds, and portfolios.



Within the grid, nine possible combinations exist, ranging from large-cap value to small-cap growth.

Phase 2: Investment Selection

Applying expertise to find high-quality investment managers

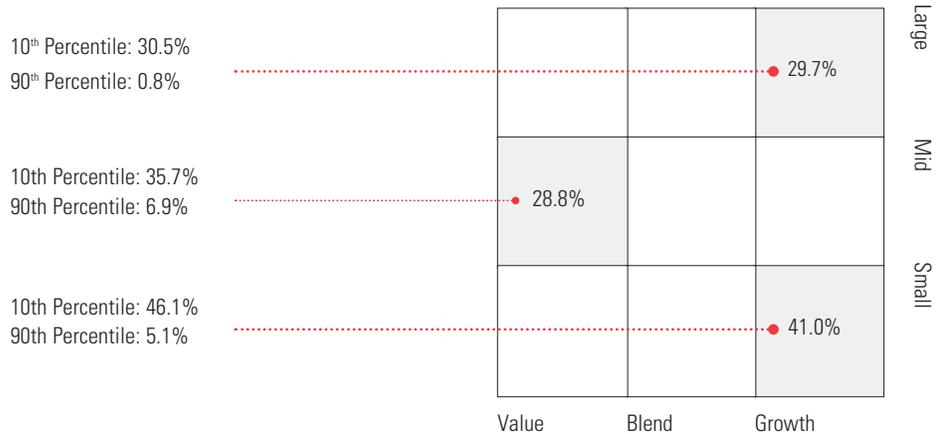
At Morningstar, menu design is only the first step in building a well-diversified menu. Just as important is selecting the right investment fund options to fill those asset categories. Our knowledgeable investment team has years of experience evaluating investment managers, understanding the nuances of different styles, and comparing managerial track records.

Investment Manager Quality: Managers Matter

Investment manager quality is a critical component of a portfolio's investment success. As the graphic below illustrates, despite funds in the same category having similar asset allocations, there can be a significant gap between good- and poor-performing managers even among those who share similar investment styles.

Our investment professionals perform in-depth manager due diligence on the available managers in a given category by looking for those investments that they believe will provide outperformance for a reasonable amount of risk. As a result of our experience and resources in evaluating investment managers, we have developed a core competency in the area of manager research.

Difference in Returns² (between 10th percentile and 90th percentile funds)



²Source: Morningstar Associates, LLC. Data represents the difference between five-year cumulative returns of the top decile and bottom decile funds in three Morningstar, Inc. mutual fund categories as of December 31, 2010. Categories shown were selected to illustrate concept. Past performance does not guarantee future results.

The Investment Selection Process

Morningstar considers a variety of quantitative and qualitative factors when selecting funds for use in a lineup. Morningstar uses returns-based style analysis and holdings-based style analysis, as well as factor analysis. Numerous other quantitative and qualitative inputs are also evaluated as part of this process.

The goal of analyzing funds or managers is to determine their true investment style, identify superior managers, and forecast their ability to outperform in the future for a given level of risk. To accomplish these goals, Morningstar starts with a proprietary peer-grouping analysis. For each investment option, we conduct both holdings-based and returns-based style analysis to determine the fund's investment style over time.

Once we've placed investments into their appropriate asset class categories, we begin the quantitative review process. Here, the purpose is twofold. First, we apply a series of screens designed to flag funds that exhibit characteristics that are apt to hinder long-term performance. This allows us to efficiently filter a large universe of investment options and to focus our efforts on a more manageable opportunity set. Second, we use a multitude of statistics to begin to assess the overall quality of an investment option. We gather current and historical data points to evaluate investment style, structure, and performance. The following represent some of the key factors we consider in this stage of the process:

- ▶ Fees
- ▶ Management tenure
- ▶ Style consistency
- ▶ Alpha
- ▶ Volatility
- ▶ Fund size
- ▶ Asset exposure
- ▶ Holding concentration
- ▶ Turnover

After an extensive quantitative review, Morningstar reviews an investment from a qualitative perspective. The purpose here is to allow our consultants to gain conviction in their investment thesis by developing a firm fundamental understanding of the strategy. Our professionals draw from their extensive experience in evaluating investment managers to analyze the people and process behind the investment. By doing so, we can anticipate how a fund is likely to perform in different market conditions.

In our fundamental assessment, we review a number of characteristics of the fund and its manager that could be relevant in how successful it is in filling the role for which it is being considered. Those include reviewing the manager's performance and risk record against his or her peers in the same style—not just at the manager's current fund but also any other investment vehicles they've managed in the past. We analyze the subtleties of the manager's investment process to understand what drives performance. We observe which types of markets the fund fares best in, and which types are trouble for the fund's style. We also determine what it is about the fund's style that explains the pattern.

Additionally, we assess whether a manager's investment process leads to a more aggressive or more conservative performance profile relative to its style peers, and how a manager's process might lead to persistent over- or under-weights in certain sectors. For periods of underperformance or outperformance, we assess how much is attributable to style traits or market timing versus manager skill. We also assess how performance, both absolute and relative to a peer group, has changed as a manager's assets have grown.

We also develop a thesis for each selected fund. A fund's thesis spells out the rationale for its selection, as well as the barometers by which we'll measure its success. The thesis also highlights the specific factors we'll watch on an ongoing basis for each fund to ensure it continues to adequately fill the role for which we selected it.

We use many factors to evaluate funds depending on the specific situation and the questions we are trying to answer. Those factors include:

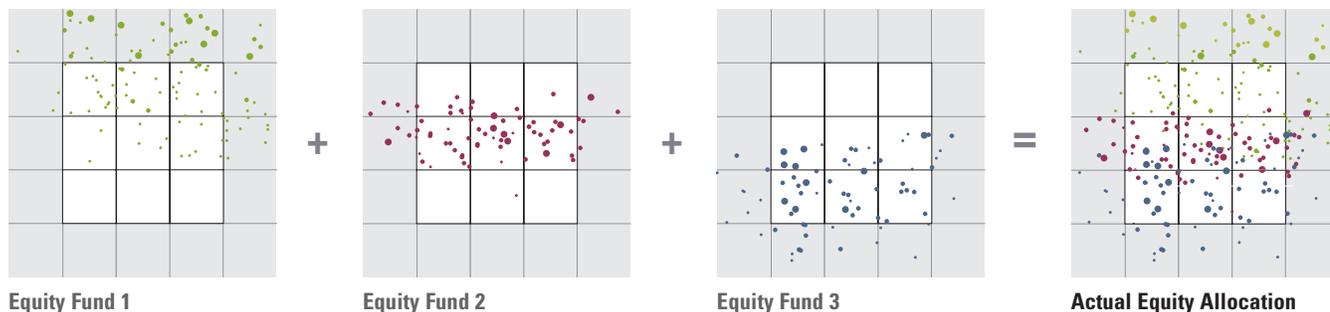
- ▶ Investment substyle
- ▶ Manager skill (including history at other funds)
- ▶ Impact of asset growth on performance
- ▶ Source of investment ideas
- ▶ Investment decision-making process
- ▶ Actions in previous market environments
- ▶ Manager ownership
- ▶ Process repeatability
- ▶ Performance attribution

Holdings-Based Analysis: Drilling Deeper

Just as important as selecting qualified managers is determining how well a fund will fit with other funds in the lineup. Since we want each fund to fill a distinct stylistic role within a plan lineup, we carefully assess exactly how it can be expected to complement other options we are recommending in adjacent styles.

To accomplish this, we rely largely on our holdings-based style analysis (returns-based style analysis plays a more limited role in this process) to deconstruct a fund into its individual investment holdings. This means drilling down into a fund's holdings and comparing them with the holdings of other offerings in the lineup. We evaluate stock overlap and return correlation between funds, Style Box placement, and how funds' sector exposures complement those of other funds. In the end, we choose funds that are clearly different from one another, rather than similar or redundant.

The goal is to establish a specific role for each fund that we make available within a plan's lineup by minimizing holdings overlap and maximizing diversification. We use Morningstar's vast fund-holdings database to uncover the individual characteristics of each investment. With access to holdings-based information, we can select managers whose holdings complement each other rather than overlap.



For illustrative purposes only. Not an actual investment.

Phase 3: Ongoing Monitoring

Ensuring that your portfolio remains on track

Once we have established the lineup, our experienced investment professionals will monitor and evaluate the specific funds on the lineup on an ongoing basis. We continue to evaluate the fund based on the same process used in the review and selection stage but understand that the ongoing due diligence of an investment presents different challenges. We are required to remain objective about a fund that we've already determined to be an appropriate option. As such, we focus on specific issues or events that could change our opinion of the fund and we challenge our original thesis regarding an investment to ensure that it is sound and persistent. The monitoring process focuses on the following issues:

- ▶ Regulatory issues
- ▶ Organizational developments
- ▶ Management team updates
- ▶ Style and process consistency
- ▶ Portfolio characteristics
- ▶ Risk-adjusted performance
- ▶ Asset growth

We will immediately perform a fundamental review of any funds that appear to have strayed from their investment styles, experienced management and/or organizational changes, failed one or more of the initial quantitative screens used in selection, or experienced significant declines in their performance or risk rankings. At this stage, we rely on our knowledge of portfolio behavior, investment-style nuances, and managers' histories. We routinely speak with fund management to help us determine whether a fund's deviation from its selection thesis represents a significant change in its overall quality. This ongoing commitment helps ensure that we provide plan sponsors with well diversified lineups that continue to meet their objectives.

Determining Next Steps

Our review has three possible outcomes: We may remove the fund from the lineup, place the fund on a watch list, or take no action.

1. Remove the Fund

If we determine that a fund has been permanently impaired in some way and our original thesis for the investment no longer holds true, we will recommend that the fund be removed from the lineup. A recommendation to remove an investment could be made mid-cycle or conform to the standard reporting period depending on the issue and the severity of the issue.

2. Place the Fund on a Watch List

In less severe cases in which the fund's issues are too serious to ignore, but which could potentially be resolved over time, Morningstar will place the fund on a watch list for some period of time, depending on the nature of the issue. Such funds will be subject to increased scrutiny, and Morningstar will be in frequent contact with the funds' management and with the client until a determination about the fund's future is made. If the fund's problems have eased, Morningstar may recommend that the fund be taken off the watch list.

3. Take No Action

In certain instances, an event impacting the fund turns out to be only a minor issue, or no issue at all. In those cases, we will not put the fund on a watch list. However, this information will be documented through our quarterly reports.

Summary

The rigorous methodology we use to build menus, select investments, and monitor fund lineups is designed to help plan sponsors offer their employees a high-quality, diversified plan lineup. We believe that such lineups will better enable participants to achieve their retirement goals and plan sponsors to better meet their growing fiduciary responsibilities.

Morningstar Associates, LLC

Morningstar Associates is one of three registered investment advisors that comprise Morningstar Investment Management, a division of Morningstar, Inc. Morningstar Associates is a wholly owned subsidiary of Morningstar Inc. and leading provider of investment management and retirement solutions for institutions and the clients. Combined, the Morningstar Investment Management group advises on \$130 billion in assets as of Dec. 31, 2010, and its services are made available to 23.5 million plan participants through 150,000 plan sponsors and 25 plan providers.





Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT
June 13, 2019
Item No. 7 (Business)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: Consideration of Vendor for Personnel Policy Revision

Background

At the April 11, 2019, meeting, the Commission approved a new Marin LAFCo Policy Handbook. At the same time, the Commission separated out of the Policy Handbook the Personnel section and turned it into its own document. The personnel section has not been updated for years and needs to be overhauled. In order to do this revision, the Policy and Personnel Committee will need some assistance from an outside expert to make sure LAFCo is current with its personnel handbook.

Staff reached out to three groups to check on prices on assistance with a revamp; Best, Best, and Krieger (BBK), Regional Government Services (RGS), and Liebert Cassidy Whitmore (LCW). BBK is LAFCo's current legal counsel with LCW having recently provided legal services for a personnel matter that LAFCo needed assistance with. RGS is another firm that does personnel matters, along with other services, for other local agencies. BBK and RGS both gave high level estimates accompanied by costs that could be in the high \$6,000 to low \$7,000 range. LCW offers a slightly different approach through a service called LCW Mode Personnel Policies Portal (LMP3). LMP3 is a system that has over 200 prewritten policy sections (see attachment for list) from which we can pick and choose which policies we want to have in our handbook. Starting July 1st this basic service would cost \$1000 for one year of service. Should LAFCo wish to modify any policy in the LMP3 system, LCW staff would review it to make sure we are in compliance with state laws, but we would then pay the hourly rate to review those changes.

Staff's question to the Commission is: does LAFCo want to have a highly personalized policy or is a more generic policy system acceptable? If a more generic personnel policy is acceptable, then the LMP3 seems to be the best option. LMP3 will put more work on the staff and the Personnel and Policy committee since they will need to wade through all the policies but it would be more cost effective and get the Commission an updated personnel handbook that complies with all current laws. If the commission wants a highly personalized personnel policy, then staff would recommend BBK for this work since they know Marin LAFCo and its needs well.

Currently, staff leans to the LMP3 model as it is cost effective and gets the LAFCo policies that meet current government code.

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Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member

Staff Recommendation for Action

- 1) Staff recommendation – Authorize the Executive Officer to purchase LMP3 system from Liebert Cassidy Whitmore and for the Executive Officer to work with the Policy and Personnel Committee to create a new policy handbook with LCW assistance as needed.
- 2) Alternate option – Authorize the Policy and Personnel Committee to work with Best, Best, and Krieger to create a customized personnel policy handbook.
- 3) Alternate option – Continue consideration of this item to a future meeting and provide direction to staff with respect to providing additional information as needed.

Attachment:

- 1) Liebert Cassidy Whitmore LMP3 list of Policies

LCW Model Personnel Policies Portal (LMP3)

Last Updated – March 2019

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Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT
June 13, 2019
Item No. 8 (Business)

TO: Marin Commissioners

FROM: Mala Subramanian, General Counsel

SUBJECT: **Approval of First Amendment to Executive Officer Employment Agreement**

Background

The Commission approved an Employment Agreement for Executive Officer's Services with Jason Fried effective January 2, 2019. The Employment Agreement provided for an annual salary of \$142,000. The Agreement will expire on June 30, 2019. The Agreement provides for a benefit package consistent with County of Marin unrepresented employees with a similar classification.

Discussion

Attached for consideration and approval is a First Amendment to Employment Agreement for Executive Officer's Services with Jason Fried. The First Amendment provides for an annual salary of \$150,000. The term of the Agreement has been extended by one year and will expire on June 30, 2020.

Recommendation

Authorize the Chair to execute the First Amendment to Executive Officer Employment Agreement with Jason Fried.

Attachments:

1. First Amendment to Executive Officer Employment Agreement
2. Executive Officer Employment Agreement

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Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment to the Employment Agreement for Executive Officer is made and entered into as of June 13, 2019, by and between the Marin Local Agency Formation Commission, an Agency established by State of California (hereinafter referred to as "Commission"), and Jason Fried (hereinafter referred to as "Employee").

RECITALS

The Commission and Employee entered into an agreement, effective January 2, 2019, to hire and appoint Employee as EXECUTIVE OFFICER ("Agreement").

The Commission and Employee now desire to amend the Agreement in order to extend the term of the Agreement to June 30, 2020 and increase compensation.

In consideration of the mutual promises and covenants hereinafter contained, the parties do hereby agree as follows:

1. **Salary.** The first sentence of Section 2 is hereby amended as follows:

"Commission agrees to pay Employee for his services rendered pursuant hereto an annual base salary of \$150,000 (ONE HUNDRED FIFTY THOUSAND DOLLARS), payable in accordance with the Commission's standard payroll practices."

2. **Term, Termination and Potential Severance.** Section 12A is hereby amended as follows:

"A. This Agreement shall expire on June 30, 2020 unless terminated earlier in accordance with these provisions."

3. Except as amended herein, all provisions of the Agreement shall remain in full force and effect and shall govern the actions of the parties under this First Amendment.

4. This First Amendment may be signed in counterparts, each of which shall constitute an original.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the date first herein above written.

By: _____
SASHI MCENTEE, CHAIR
MARIN LOCAL AGENCY FORMATION
COMMISSION

By: _____
JASON FRIED, EMPLOYEE

Approved as to form:

MALA SUBRAMANIAN,
COMMISSION COUNSEL

AGREEMENT

This Agreement (hereinafter referred to as "Agreement"), made and entered into on the latest date of signature below by and between the Marin Local Agency Formation Commission, an Agency established by the State of California (hereinafter referred to as "Commission") and Jason Fried (hereinafter referred to as "Employee"), to appoint Employee as the duly appointed EXECUTIVE OFFICER of the Commission.

RECITALS

1. Through action of its membership on December 13, 2018, the Commission voted to extend Employee appointment as EXECUTIVE OFFICER of the Commission effective January 2, 2019.
2. It is the desire of the Commission to provide certain benefits, establish certain conditions of employment, and set working conditions of said EXECUTIVE OFFICER.
3. It is the desire of the Commission to (1) retain the services of Employee and to provide inducement for him to continue in such employment; and (2) to provide an equitable means for terminating Employee' services at such time as the Commission in its sole discretion may desire to terminate his employ.
4. In consideration of the mutual promises and covenants hereinafter contained, the parties do hereby agree as follows:

Section 1. Duties.

The powers and duties of the EXECUTIVE OFFICER shall be as those described generally in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 codified at Section 56000 et seq. of the California Government Code, and any local standards, policies, guidelines or procedures adopted by the Commission. In addition the Commission may direct the EXECUTIVE OFFICER to perform other legally permissible and proper duties and functions as the Commission shall from time to time assign to carry out the functions of the Commission.

Section 2. Salary.

Commission agrees to pay Employee for his services rendered pursuant hereto an annual base salary of \$142,000 (ONE HUNDRED FORTY-TWO THOUSAND DOLLARS), payable in accordance with the Commission's standard payroll practices. The Commission may otherwise grant Employee cost-of-living salary adjustments as part of the annual performance evaluation.

Section 3. Hours of Work

Employee is expected to generally be working and available during regular business hours (Mon-Fri, 9am to 5pm), as well as at any other time needed to carry out the duties of the position. Employee's schedule of work each day and week may vary in accordance with the work required to be performed and in accordance with any specific direction provided by the Commission. Employee understands and agrees that he is an exempt executive management employee, and that he shall not be entitled to any additional compensation and/or time off as a result of working more than 40 hours in any given week. It is recognized that work in some weeks may exceed 40 hours and, conversely, work in other weeks may be less than 40 hours. Employee is expected to work the hours required to get the job done.

Section 4. Full Energy and Skills; Conflicts

Employee shall faithfully, diligently, and to the best of Employee's abilities, perform all duties that may be required under this Agreement. Employee agrees that Employee has a duty of loyalty and a general fiduciary duty to the Commission. Absent advance written permission from the Commission, Employee shall devote the whole of Employee's working time, skill, experience, knowledge, ability, labor, energy, attention, and best effort exclusively to the Commission's business and affairs.

Employee shall not engage in any employment, activity, consulting service, or other enterprise, for compensation or otherwise, which is actually or potentially in conflict with, inimical to, or which interferes with the performance of Employee's duties.

Section 5. Vacation Leave.

Employee shall accrue and have credited to his personal account, vacation which is accrued on a pro rata basis as hours are worked at the following schedule:

1. Commencing on the date of hire - 10 working days (.0385 hourly)
2. After 3 years of service - 15 working days (.0577 hourly)
3. After 10 years of service - 20 working days (.0770 hourly)
4. After 20 years of service - 25 working days (.0962 hourly)
5. After 30 years of service - 30 working days (.1154 hourly)

Employee may accumulate a maximum accrual cap of 300 hours of vacation leave, and Employee may not earn any further vacation leave until some vacation is used and the balance

falls below the cap. The cash value of all accrued, but unused vacation at time of Employee' separation from Commission service, for any reason, shall be paid to Employee in a lump sum payment unless another method of payment is mutually agreed upon.

Section 6. Sick Leave.

Employee shall accrue and have credited to his personal account, sick leave at the rate of 96 hours per year, accrued on a pro rata basis each pay period, and not subject to any accrual cap. Such sick leave is not discretionary leave, but may be used for personal illness/injury or the illness/injury of Employee's family members (in accordance with the Healthy Workplaces, Healthy Families Act of 2014), as well as for such time as is reasonably necessary or during otherwise unpaid medical leaves provided by law. Sick leave shall have no cash or other value at the time of Employee separation from Commission service for any reason.

Section 7. Holidays and Personal Leave.

Employee shall receive ten (10) paid holidays annually, namely July 4, Labor Day, Veteran's Day, Thanksgiving Day, the day after Thanksgiving, December 25, New Year's Day, Martin Luther King Jr. Day, Presidents' Day, and Memorial Day. He will also be allocated FORTY (40) hours of personal leave annually (accrued on a pro rata basis as hours are worked), which may be used in accordance with vacation leave use parameters. Any unused Personal Leave hours remaining at the conclusion of the calendar year will be cashed out with the next regularly scheduled payday. Any such cash payments will not be considered as "compensation earnable" for Marin County Employees' (MCERS or MCERA) Retirement System purposes.

Section 8. Benefits.

The Commission agrees to provide to Employee a benefit package consistent with County of Marin unrepresented employees with a similar classification (bargaining group 21-01) to be used to pay the cost of benefits which include, but are not limited to disability, health, life, vision, and dental plans. Employee recognizes and agrees that Employee contributions to the dental, vision services and basic life insurance plans are mandatory. Health insurance contributions are also mandatory absent Employee providing annual documentation demonstrating qualifying alternative coverage.

Section 9. Pension and Retiree Health Care.

Employee is a mandatory member of the Marin County Employees Retirement System (MCERS or MCERA), in Tier 3 thereof, for the purposes of pension and retiree health care, as the terms and provisions of such Tier 3 exist upon the execution of this Agreement. Notwithstanding the preceding, it is anticipated that the Commission will explore the option of

enrolling Employee in a defined benefit plan administered by CalPERS in lieu of continued participation in MCERS or MCERA.

Section 10. Expenses, Phone and Mileage.

The Commission agrees to reimburse Employee for work-related expenses for purposes including, but not limited to, professional dues and subscriptions, professional development, job related travel and meal expenses and general expenses of a job related and non-personal nature subject to reasonable control and budgetary approval by the Commission. All reimbursements must be based on receipts and similar documentation. Commission shall provide, at its expense, a cell phone and cell phone service package to Employee for Commission business. Commission shall reimburse Employee for his business-related auto mileage at the applicable IRS rate.

Section 11. Performance Evaluation.

A. The Commission shall review and evaluate the performance of the Employee within six months, and thereafter at least once annually. Said review and evaluation shall be in accordance with specific criteria developed jointly by the Commission and Employee, consistent with Commission's adopted Policies, Procedures and Guidelines. Said criteria may be added to or deleted from as the Commission may from time to time determine, in consultation with Employee. Further, the Chair of the Commission shall provide Employee with a written summary statement of findings of the Commission and provide an adequate opportunity for the Employee to discuss his evaluation with the Commission.

B. Annually, the Commission and Employee shall define such goals and performance objectives that they determine necessary for the proper operation of the Commission and shall further establish a relative priority among those various goals and objectives.

Section 12. Term, Termination, and Potential Severance.

A. This Agreement shall expire on June 30, 2019 unless terminated earlier in accordance with this provisions.

B. Employee recognizes and agrees that the position of EXECUTIVE OFFICER to the Commission is "at will," that he serves at the pleasure of the Commission, and that he has no property interest in such employment but rather may be terminated or asked to resign by the Commission at any time, with or without cause, and with or without advance notice. Either party may terminate this Agreement at any time upon two (2) weeks written notice to the other party in the sole discretion of the party seeking to terminate this agreement.

C. Subject to this subsection and subsection D below, should Employee be terminated or should he resign, in lieu of termination, in the first two (2) years of this Agreement he shall receive two (2) pay periods of salary and should Employee be terminated or should he resign, in lieu of termination, beginning in the third year and anytime thereafter of this Agreement he shall receive four (4) pay periods of salary. Any payments provided under this section are expressly conditioned on Employee's written release of any and all claims against the Commission, its Board members, officers and employees. Further, any payments under this section are subject to and must comply with the limitations set forth in Government Code Sections 53260 and 53243-53243.4.

D. If the termination of Employee is the result of gross mismanagement and/or an act or acts of moral turpitude, Employee shall not be eligible for or paid any severance pay. In such an instance, Employee's sole remedy shall be a judicial action in declaratory relief to determine whether there was substantial evidence of gross mismanagement and/or an act or acts of moral turpitude. If the court determines there was not substantial evidence, Employee shall receive the severance pay provided in this Section 12, but no other damages.

Section 13. Indemnification.

In accordance with statutory indemnification applicable to the EXECUTIVE OFFICER through Marin County Code and/or State and Federal statutes, the Commission, shall defend, hold harmless and indemnify Employee against any tort, professional liability claim or other legal action, whether groundless or otherwise, arising out of an alleged act or omission occurring in the performance by Employee of his duties. The Commission may, in its discretion, compromise and settle any such claim or suit, and will pay the amount of any settlement or final judgment rendered against Employee occurring in the performance of his duties as EXECUTIVE OFFICER.

Section 14. Other Terms and Conditions.

The Commission, with the mutual consent of Employee, may fix any such other terms and conditions of employment, as it may determine from time to time, provided such terms and conditions are not inconsistent with or in conflict with the provisions of this Agreement or any law.

Section 15. Notices.

Notices pursuant to this Agreement shall be given by deposit in the custody of the United States Postal Service, First Class postage prepaid, or by traceable overnight delivery service (FedEx or equivalent), addressed as follows:

A. COMMISSION:

Chair
Marin Local Agency Formation Commission
1401 Los Gamos Drive, Suite 220
San Rafael, CA 94903

B. EXECUTIVE OFFICER:

Jason Fried

Alternatively, notices required pursuant to this agreement may be personally served in the same manner as if applicable to civil judicial practice. Notice shall be deemed given as of the date of personal service, or as of the date of deposit of such written notice with the United States Postal Service or overnight delivery service.

Section 16. General Provisions.

A. The text of this Agreement shall constitute the entire agreement between the parties, and it supersedes any and all prior or contemporaneous agreements, representations and understandings of the parties. This Agreement may be amended at any time by mutual agreement of the parties, but any such amendment must be in writing, dated, and signed by the parties.

B. Employee may not assign this Agreement in whole or in part.

C. This Agreement shall be binding upon and inure to the benefit of the heirs at law and executors of Employee.

D. This agreement shall become effective on the latest date of signature below.

E. This Agreement shall be governed by and construed in accordance with the laws of the State of California. Employee and City agree that venue for any dispute shall be in Marin County, California.

F. If any provision or any portion thereof contained in this Agreement is held unconstitutional, invalid or unenforceable, the remainder of this agreement or portion thereof shall be deemed severable, shall not be affected and shall remain in full force and effect.



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Item No. 9 (Business Item)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: Amending the Adopted Five-Year MSR Study Schedule

Background

In October 2018 the Commission adopted a five-year Municipal Service Review (MSR) study schedule. The commission instructed staff to come back with any needed updates as we continued to have discussions with each jurisdiction on the list to see if any special needs or other circumstances warranted moving items around.

In April 2019 the Commission approved an amendment to address the fact that five western Marin jurisdictions had not been listed.

In May staff met with Marin County staff who oversee the Marin County Flood Control and Water Conservation District (District). The District currently oversees 8 different flood control zones spread out across 6 different study regions. Each of the Districts operates as its own separate entity where money is not transferrable between zones. In talking with District staff, it became clear to both LAFCo and District staff that instead of reviewing the district and all its zones as one large group in FY 22-23, it makes more sense to break the District up by flood control zones. Staff is suggesting the Commission break the District up and do the MSR for each flood control zone in the MSR region where the zone is located. See attachment for suggested amendments.

Since three of the flood control zones are in the San Rafael and Novato study areas, instead of slowing down or holding up the current MSR for those regions, staff suggests doing these three flood control zones as a supplemental side MSR that would be done by LAFCo staff instead of the consultants doing the current MSRs.

Staff Recommendation for Action

1. Staff Recommendation – Approve the attached amended MSR Schedule with any amendments desired by the Commission.
2. Alternate Option – Take no action today and give staff further instructions.

Attachment

1. Proposed Amended MSR schedule.

Administrative Office

Jason Fried, Executive Officer
1401 Los Gatos Drive, Suite 220
San Rafael, California 94903
T: 415-448-5877 E: staff@marinlafco.org
www.marinlafco.org

Damon Connolly, Regular
County of Marin

Dennis J. Rodoni, Regular
County of Marin

Judy Arnold, Alternate
County of Marin

Sashi McEntee, Chair
City of Mill Valley

Sloan Bailey, Regular
Town of Corte Madera

Matthew Brown, Alternate
City of San Anselmo

Craig K. Murray, Vice Chair
Las Gallinas Valley Sanitary

Lew Kious, Alternate
Almonte Sanitary District

Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member

Marin LAFCo - Adopted Five-Year Study Schedule | FY 2018-2023

Adopted October 11, 2018

Revised ~~April~~ June 2019

FY 2018-2019

San Rafael Area Study (Region Specific)

- City of San Rafael
- Marinwood Community Services District
- CSA No. 6 (Santa Venetia)
- CSA No. 9 (Northbridge)
- CSA No. 13 (Lucas Valley)
- CSA No. 18 (Gallinas Village)
- CSA No. 19 (Unincorporated San Rafael)
- ~~CSA No. 23 (Terra Linda)~~
- [Marin County Flood Control Zone 6 and 7 \(Supplemental\)](#)

Novato Area Study (Region Specific)

- City of Novato
- Novato Sanitary District
- Novato Fire Protection District
- Bel Marin Keys Community Services District
- CSA No. 1 (Loma Verde)
- CSA No. 20 (Indian Valley)
- ~~CSA No. 25 (San Marin)~~
- [Marin County Flood Control Zone 1 \(Supplemental\)](#)

FY 2019-2020

East Peninsula Area Study (Region Specific)

- Town of Tiburon
- City of Belvedere
- Strawberry Recreation District
- Tiburon Sanitary District No. 5
- Tiburon Fire Protection District
- ~~CSA No. 29 (Paradise Cay)~~
- [Marin County Flood Control Zone 4/4a](#)
-

Ross Valley Area Study (Region Specific)

- Town of Fairfax
- Town of Ross
- Town of San Anselmo
- Kentfield Fire Protection District
- Sleepy Hollow Fire Protection District
- Ross Valley Fire Authority (JPA)
- CSA No. 27 (Ross Valley)
- Marin County Flood Control Zone 9

Date to be Determined

- Countywide Fire Service Study
- Countywide Police Service Study

FY 2020-2021

Twin Cities Area Study (Region Specific)

- City of Larkspur
- Town of Corte Madera
- CSA No. 16 (Greenbrae)
- CSA No. 17 (Kentfield)
- Central Marin Police Authority (JPA)

West Marin (Region Specific)

- Stinson Beach Fire Protection District
- Tomales Village Community Services District
- CSA No. 28 (West Marin)
- CSA No. 31 (Fire Services)
- ~~CSA No. 33 (Stinson Beach)~~
- [Marin County Flood Control Zone 5 and 10](#)

FY 2021 – 2022

Golden Gate Corridor Study (Region Specific)

- City of Mill Valley
- City of Sausalito
- Marin City Community Services District
- Tamalpais Community Services District
- Marin City – Sausalito Sanitary District
- Southern Marin Fire Protection District
- ~~CSA No. 14 (Homestead)~~
- [Marin County Flood Control Zone 3](#)

Park and Open Space (Services Specific)

- Marin County Parks and Open Space District
- Marin County Resources Conservation District
- Multiple CSAs

FY 2022-2023

Southern Marin Wastewater Study (Service Specific)

- City of Mill Valley
- Almonte Sanitary District
- Alto Sanitary District
- Homestead Valley Sanitary
- Las Gallinas Valley Sanitary
- Richardson Bay Sanitary District
- Sewer Agency of Southern Marin (JPA)

Public Healthcare Services Study (Service Specific)

- Marin Healthcare District
- Multiple CSAs

~~**Flood Control and Storm Drainage Study (Service Specific)**~~

- ~~- Marin County Flood Control and Water Conservation District~~
- ~~- Multiple CSA~~



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Item No. 10 (Business Item)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: SDRMA Board of Directors Elections

Background

The Special District Risk Management Authority (SDRMA) is holding its 2019 Board of Directors elections. Ballots must be submitted by August 21, 2019. SDRMA provides LAFCo with many of our insurance products such as workers' compensation and property/liability.

Attached is the election packet we received. The Commission can vote for up to three candidates in this election should it wish. Staff views this as a decision for the Commission to make and has no recommendation.

Staff Recommendation for Action

1. Approve attached resolution choosing up to three candidates to vote for in the election.
2. Take no action today and give staff further instructions.

Attachment

1. Official Election Packet and Ballot

Administrative Office

Jason Fried, Executive Officer
1401 Los Gatos Drive, Suite 220
San Rafael, California 94903
T: 415-448-5877 E: staff@marinlafco.org
www.marinlafco.org

Damon Connolly, Regular
County of Marin

Dennis J. Rodoni, Regular
County of Marin

Judy Arnold, Alternate
County of Marin

Sashi McEntee, Chair
City of Mill Valley

Sloan Bailey, Regular
Town of Corte Madera

Matthew Brown, Alternate
City of San Anselmo

Craig K. Murray, Vice Chair
Las Gallinas Valley Sanitary

Lew Kiouss, Alternate
Almonte Sanitary District

Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member



SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

2019 BOARD OF DIRECTORS ELECTION

OFFICIAL ELECTION BALLOT ENCLOSED

This is an official election packet that contains items that require ACTION by your Agency's governing body for the selection of up to three (3) candidates to the SDRMA Board of Directors.

ELECTION PACKET ENCLOSURES

- Election Ballot Instructions
- Official Election Ballot (Action Required)
- Candidate's Statements of Qualifications (5)
- Self-addressed, Stamped Envelope

SDRMA'S BOARD OF DIRECTORS ELECTION BALLOT INSTRUCTIONS

Notification of nominations for three (3) seats on the Special District Risk Management Authority's (SDRMA's) Board of Directors was mailed to the membership in January 2019.

On May 2, 2019, SDRMA's Election Committee reviewed the nomination documents submitted by the candidates in accordance with SDRMA's Policy No. 2017-10 Establishing Guidelines for Director Elections. The Election Committee confirmed that five (5) candidates met the qualification requirements and those names are included on the Official Election Ballot.

Enclosed is the Official Election Ballot along with a Statement of Qualifications as submitted by each candidate. Election instructions are as follows:

1. The enclosed Official Election Ballot must be used to ensure the integrity of the balloting process.
2. After selecting up to three (3) candidates, your agency's governing body must approve the enclosed Official Election Ballot at a public meeting. **Ballots containing more than three (3) candidate selections will be considered invalid and not counted.**
3. The signed Official Election Ballot MUST be sealed and received by mail or hand delivery at SDRMA's office on or before 4:30 p.m. on Wednesday, August 21, 2019 to the address below. A self-addressed, stamped envelope is enclosed. Faxes or electronic transmissions are NOT acceptable.

Special District Risk Management Authority
Election Committee
1112 "I" Street, Suite 300
Sacramento, California 95814

4. The four-year terms for newly elected Directors will begin on January 1, 2020 and terminate on December 31, 2023.
5. Important balloting and election dates are:

August 21, 2019:	Deadline for members to return the signed Official Election Ballot
August 22, 2019:	Ballots are opened and counted
August 23, 2019:	Election results are announced, and candidates notified
September 25, 2019:	Newly elected Directors are introduced at the SDRMA Annual Breakfast to be held in Anaheim at the CSDA Annual Conference
November 6-7, 2019:	Newly elected Directors are invited to attend SDRMA board meeting (Sacramento)
January 2020:	Newly elected Directors are seated, and Board officer elections are held

If you have any questions regarding the election and balloting process, please do not hesitate to call SDRMA's Chief Operating Officer Paul Frydendal at 800.537.7790.



OFFICIAL 2019 ELECTION BALLOT
SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY
BOARD OF DIRECTORS

VOTE FOR ONLY THREE (3) CANDIDATES

Mark each selection directly onto the ballot, voting for no more than three (3) candidates. Each candidate may receive only one (1) vote per ballot. A ballot received with more than three (3) candidates selected will be considered invalid and not counted. All ballots must be sealed and received by mail or hand delivery in the enclosed self-addressed, stamped envelope at SDRMA on or before 4:30 p.m., Wednesday, August 21, 2019. Faxes or electronic transmissions are NOT acceptable.

- BOB SWAN (INCUMBENT)**
Board Member, Groveland Community Services District
- JESSE D. CLAYPOOL**
Board Chair, Honey Lake Valley Resource Conservation District
- PATRICK K. O'ROURKE, MPA/CFRM**
Board Member, Redwood Region Economic Development Commission
- SANDY SEIFERT- RAFFELSON (INCUMBENT)**
Finance Manager/Treasurer, Herlong Public Utility District
- JAMES (Jim) M. HAMLIN**
Board President, Burney Water District

ADOPTED this ____ day of _____, 2019 by the Marin Local Agency Formation Commission at a public meeting by the following votes:

AYES: _____

NOES: _____

ABSTAIN: _____

ABSENT: _____

ATTEST:

APPROVED:

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

This information will be distributed to the membership with the ballot, "exactly as submitted" by the candidates – no attachments will be accepted. No statements are endorsed by SDRMA.

Candidate* Bob Swan

District/Agency Groveland Community Services District (GCSD) ■

Work Address P.O. Box 350, Groveland, CA 95321

Work Phone (209) 962-7161

Home Phone (408) 398-4731

*The name or nickname and any designations (i.e. CPA, SDA, etc.) you enter here will be printed on the official ballot, exactly as submitted.

Why do you want to serve on the SDRMA Board of Directors? (Response Required)

I am a current Board member. I would like to be elected to a second term because:

1. As a board member of Groveland CSD, I am particularly aware of the great value that smaller districts get from SDRMA, and I'd like to continue to do my part to make sure that this important agency continues to operate smoothly and stably into the indefinite future.
2. The insurance market in California (and nationwide) is going through a period of rapid change. The Board and staff are engaged in a major re-evaluation of SDRMA's approach to fulfilling its mission of providing cost-effective risk management services to its members. I believe that it is important to maintain Board continuity in this effort.
3. SDRMA Board members are either board members ("electeds") or employees of a member agency. I think there is value in having a balance between elected and employee Board members. The Board seats that are NOT up for election are currently 3 employees / 1 elected. I'd like to make sure the new Board has at least 2 elected members.

What Board or committee experience do you have that would help you to be an effective Board Member? (SDRMA or any other organization) (Response Required)

1. SDRMA Board Member since 2016. This year (2019), I serve as Secretary. During our "no CEO" period in late 2017 - early 2018, I was a member of the ad hoc Personnel Committee. I am also a member of the Alliance Executive Council, and a backup member of the Legislative Committee.
2. Groveland CSD Board Member since I was appointed in June 2013. For the years 2014-2018, I served as Board President. (We finally implemented mandatory rotation of the office in 2019).
3. Member of the Board of Southside Community Connections, a local nonprofit in Groveland that provides educational, social, and recreational services to seniors, as well as free transportation to those who cannot drive.
4. Board Member (currently Treasurer) of Pine Cone Performers, a local choral and acting group, since 2010.
5. Back during my work life, I was a corporate representative on an IEEE standards committee concerned with wireless networking. It was very educational being on a committee where the members had widely differing (competing) goals.

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

**What special skills, talents, or experience (including volunteer experience) do you have?
(Response Required)**

History: BS Physics, MS Computer Science. 3 years in USAF. 30 years in the semiconductor industry, first as an engineering manager, later as a business unit manager. Now retired (so I have plenty of time).

Skills, etc.: Very familiar with financial reports, cost accounting, quantitative analysis. Working knowledge of modern computer and communications technology. Managed distributed organizations with up to 150 technical people and up to \$120M in annual sales. Pretty good at listening to different views, and helping to achieve consensus (or, at least, compromise).

What is your overall vision for SDRMA? (Response Required)

Well, obviously I support our (newly revised) vision statement: "To be the exemplary public agency risk pool of choice for California special districts and other public agencies". In order to achieve this vision, I believe the key issues are:

1. Maintain long term financial stability. This includes ensuring that there is a fair allocation of cost versus risk across the pool membership.
2. Continue to retain / acquire highly qualified staff, and ensure that this is a desirable place to work.
3. Remember who are our target clientele, which in my opinion are small to mid-sized districts with limited options for insurance.
4. In light of ever-evolving California workers-compensation law, expand risk-management training even further than we now provide.
5. Maintain good relations with our re-insurers (who insulate us from catastrophe). In the long run, explore the possibility of joining a "captive" re-insurer to improve stability.

I certify that I meet the candidate qualifications as outlined in the SDRMA election policy. I further certify that I am willing to serve as a director on SDRMA's Board of Directors. I will commit the time and effort necessary to serve. Please consider my application for nomination/candidacy to the Board of Directors.

Candidate Signature

 Date 4-24-2019

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

**What special skills, talents, or experience (including volunteer experience) do you have?
(Response Required)**

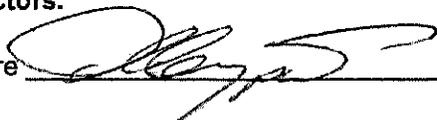
My experience with special districts and governance, belief in the importance of quality governing policies, the ability to work effectively with the other board members and staff and a desire to give back to SDRMA and its membership will be what I bring to the SDRMA Board of Directors.

What is your overall vision for SDRMA? (Response Required)

For SDRMA to continually advance as an industry leader providing affordable solutions for special districts of any size enabling them to be effective within the communities they serve.

I certify that I meet the candidate qualifications as outlined in the SDRMA election policy. I further certify that I am willing to serve as a director on SDRMA's Board of Directors. I will commit the time and effort necessary to serve. Please consider my application for nomination/candidacy to the Board of Directors.

Candidate Signature



Date

4-26-19

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

This information will be distributed to the membership with the ballot, "exactly as submitted" by the candidates – **no attachments will be accepted.** No statements are endorsed by SDRMA.

Candidate* Patrick K. O'Rourke, MPA/CFRM
District/Agency Redwood Region Economic Development Commission (RREDC)
Work Address 520 E Street Eureka, CA 95501
Work Phone 707-445-9651 Home Phone 707-726-6700

*The name or nickname and any designations (i.e. CPA, SDA, etc.) you enter here will be printed on the official ballot, exactly as submitted.

Why do you want to serve on the SDRMA Board of Directors? (Response Required)

I have considerable interest, knowledge, and experience in board leadership; board service; and board governance/policy development & oversight in for-profits, nonprofits, a joint powers authority/SDRMA member organization, and as an elected city councilman. I also have considerable experience (as a top-level executive board leader and manager) in organizational risk management and risk mitigation/prevention. I would like to share my knowledge, skills, abilities, and experience in service to SDRMA members, via my service on SDRMA's board of directors. I believe that my knowledge, experience, and dedication to excellence and implementation of best practices in governance and policy development/oversight will serve SDRMA well, and will assist SDRMA in maintaining its "Excellence" accreditation via the California Association of Joint Powers Authorities (CAJPA).

What Board or committee experience do you have that would help you to be an effective Board Member? (SDRMA or any other organization) (Response Required)

Having served in board leadership roles (25+ years in for-profit entities; 25+ years in nonprofit & private/public foundations; and 2+ years in a Joint Powers Authority [SDRMA member organization]), I am well-versed and experienced in board governance; policy development; financial statement analysis and budget review; executive management search/selection, oversight and evaluation; organizational risk management/mitigation; litigation oversight; and best practices in organizational governance. At SDRMA member organization, Redwood Region Economic Development Commission (RREDC), I have served as 2019 Immediate Past Chair; 2018 Board Chair; 2017 Vice Chair; Chair of Executive Committee; and Member of the Loan Committee. I have in-depth knowledge of policy governance (Culver, et al.); I am an advocate for transparency & best practices; and I am knowledgeable & experienced in California's Ralph M. Brown Act and Roberts Rules of Order. I have also served in board governance and board leadership roles in several nonprofit organizations and in both public and private foundations, including as Board Chair (12+ years) and in President & Vice President roles. I have also Chaired Search/Selection committees; Public Relations committees; Fund Development committees; and Finance/Audit committees.

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

**What special skills, talents, or experience (including volunteer experience) do you have?
(Response Required)**

Besides holding a Master of Public Affairs degree, with a specialty in nonprofit management; having completed all coursework and written/oral exams (all except dissertation) for a PhD in Mass Communication, with a specialty in public relations and a cognate in organizational communication management, I have several other directly-relevant skills/talents/experience including: I am expertly adept at executive-level relationship development and stewardship, and have served as an organizational & industry advocate and liaison working closely with community organizations, local/county/state elected officials, and public/private entities/organizations and foundations. I am expertly adept at financial and operational analysis, and at asset/portfolio management and risk mitigation. I have taught for-credit university courses in corporate leadership; in entrepreneurial leadership research and practice; as well as having published peer-reviewed academic research on leadership in public relations.

What is your overall vision for SDRMA? (Response Required)

My vision for SDRMA would be for SDRMA to continue to add value to its members; operate with the highest ethical practices and transparency; continue in providing excellence in service, education, safety and compliance training; help members to mitigate and reduce risk; provide expedient claims review and response; provide members with state-of-the-art education and information; educate members to minimize losses/risk in member workplaces; and to continue to provide members with comprehensive coverage for property/liability, workers comp, and health benefits.

I would envision SDRMA management and staff enjoying a quality of life that will ensure their happiness and continue an atmosphere of dedicated service to SDRMA members. I would also envision that SDRMA will continue to operate with efficiencies that minimize costs/expenses, continue to enable SDRMA to maintain competitive premium rates, and (when possible) lower organizational and member costs. I would also envision a governing board that embraces and employs best governing practices in all areas of policy development; executive management oversight; financial review/audit; and in investing and spreading portfolio assets to minimize portfolio investment risks and maximize return on investments. Finally, I would envision SDRMA, and its management team/staff, operating in ways that will continue to earn accreditation "Excellence" from the California Association of Joint Powers Authorities (CAJPA).

I certify that I meet the candidate qualifications as outlined in the SDRMA election policy. I further certify that I am willing to serve as a director on SDRMA's Board of Directors. I will commit the time and effort necessary to serve. Please consider my application for nomination/candidacy to the Board of Directors.

Candidate Signature _____

Date _____

3/25/1959 2019

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

This information will be distributed to the membership with the ballot, "exactly as submitted" by the candidates. No statements are endorsed by SDRMA.

Candidate* Sandy Seifert-Raffelson

District/Agency Herlong Public Utility District

Work Address 447-855 Plumas St., P o Box 115, Herlong, CA 96113

Work Phone (530) 827-3150 Cell Phone (530) 310-4320

*The name or nickname and any designations (i.e. CPA, SDA, etc.) you enter here will be printed on the official ballot, exactly as submitted.

Why do you want to serve on the SDRMA Board of Directors?

I am a current Board member of SDRMA and feel that I have added my financial background to make better informed decisions for our members. As a Board member, I continue to improve my education of insurance issues and look forward to representing small District's and Northern California as a voice on the SDRMA Board. I feel I am an asset to the Board with my degree in Business and my 30 plus years' experience in accounting and auditing.

I understand the challenges that small District face every day when it comes to managing liability insurance, worker's compensation and health insurance for a few employees with limit revenue and staff. My education and experience give me an appreciation of the importance of risk management services and programs, especially for smaller District that lack expertise with insurance issues on a daily basis.

I feel I am an asset to this Board, and would love a chance to stay on 4 more years!

What Board or committee experience do you have that would help you to be an effective Board Member? (SDRMA or any other organization)

While serving on the SDRMA Board, I have been privilege to be Secretary of the Board for two years, and currently the Vice-President. I have served on CSDA's Audit and Financial Committee's for 6 years; I have served on the SDLF Board; Northeastern Rural Health Clinic Board; Fair Board; School and Church boards; 4-H Council and leader for 15 years; and UC Davis Equine Board. In the past 25 years, I have learn that there is no "I" in Board and it can be very rewarding to be part of a team that makes a difference for others.

As part of my many duties working with Herlong PUD, I worked to form the District and was directly involved with LAFCo, Lassen County Board of Supervisors and County Clerk to establish the initial Board of Directors and first Policies for HPUD. I have administered the financial portion of 2 large capital improvement project with USDA as well as worked on the first ever successful water utility privatization project with the US Army and Department of Defense. I am currently working on a 4.2 million grant from California for new infrastructure for the small District HPUD absorb through LAFCo in 2017. I am also the primary administrator of a federal contract for utility services with the Federal Bureau of Prison and the US Army.

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

What special skills, talents, or experience (including volunteer experience) do you have?

I have my Bachelor's Degree in Business with a minor in Sociology. I have audited Small Districts for 5 years, worked for a Small District for almost 15 years and have over 30 years of accounting experience. I am a good communicator and organizer. I have served on several Boards and feel I work well within groups or special committee. I am willing to go that extra mile to see things get completed.

I believe in recognition for jobs well done. I encourage incentive programs that get members motivated to participate and strive to do their very best to keep all losses at a minimum and reward those with no losses.

I have completed my Certificate for Special District Board Secretary/Clerk Program in both regular and advance course work through CSDA and co-sponsored by SDRMA. I have completed the CSDA Special District Leadership Academy and Special District Governance Academy. I am in the processes of getting my small District re-certified for their District of Transparency and hope one day to attain our District of Distinction.

I work for a District in Northeastern California that has under gone major changes from a Cooperative Company to a 501c12 Corporation, to finally a Public Utility District. I have worked with LAFCo to become a District. Also our small District consolidated another small District into our District. Through past experience I feel I make a great Board member representing the small districts of Northern California and their unique issues and will make decisions that would help all rural/small districts.

What is your overall vision for SDRMA?

For SDRMA to be at the top of the risk management field and to continue communicating and listening to the needs of all California Special Districts and meeting those needs at a reasonable price that Special Districts can afford. I would like to continue education and rewards for no claims and explore avenues of financial endeavors that will benefit our customers.

I certify that I meet the candidate qualifications as outlined in the SDRMA election policy. I further certify that I am willing to serve as a director on SDRMA's Board of Directors. I will commit the time and effort necessary to serve. Please consider my application for nomination/candidacy to the Board of Directors.

Candidate Signature



Date

4/16/19

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

This information will be distributed to the membership with the ballot, "exactly as submitted" by the candidates
– no attachments will be accepted. No statements are endorsed by SDRMA.

Candidate* James (Jim) M. Hamlin
District/Agency Burney Water District
Work Address 20222 Hudson St. Burney, Ca. 96013
Work Phone (530) 335-3582 Cell Phone _____

*The name or nickname and any designations (i.e. CPA, SDA, etc.) you enter here will be printed on the official ballot, exactly as submitted.

Why do you want to serve on the SDRMA Board of Directors? (Response Required)

Hope to serve and help with decisions being made to both strengthen SDRMA and
move into new areas. Our districts are facing new challenges constantly.

**What Board or committee experience do you have that would help you to be an effective Board Member?
(SDRMA or any other organization) (Response Required)**

See Next

**Special District Risk Management Authority
Board of Directors
Candidate's Statement of Qualifications**

What special skills, talents, or experience (including volunteer experience) do you have? (Response Required)

September 1972 until January 2014, owned and operated a Insurance brokerage
Sold business and retired.

Board Member of Mayers Memorial Hospital District From 1990 until 2014
Served on the Associal of Hospital Districts for six years.

Served on the board of Burney Water District the previous six years. Current
Serving on Mayers Memorial Hospital Financial Board.

What is your overall vision for SDRMA? (Response Required)

SDRMA Board must be strong and protect the concerns of their members. Need
to have a listening ear for the districts that are represented. Need to
use caution when jumping into new areas, not jepordise their strong programs
and beliefs for new programs.

I certify that I meet the candidate qualifications as outlined in the SDRMA election policy. I further certify that I am willing to serve as a director on SDRMA's Board of Directors. I will commit the time and effort necessary to serve. Please consider my application for nomination/candidacy to the Board of Directors.

Candidate Signature James M. Hamble Date 3-27-2019



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Item No. 12 (Public Hearing)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer
(On behalf of the Budget and Workplan Committee – Chair Rodoni, Vice Chair McEntee, and Member Bailey)

SUBJECT: Approval of Final Operating Budget for FY 2019-2020

Background

The Cortese-Knox-Hertzberg Act, Government Code Section 56381, requires that Local Agency Formation Commissions adopt a proposed budget by May 1 and a final budget by June 15. On April 11, 2019, the Commission approved its proposed budget. Staff distributed the proposed budget to all agencies for comment and as of the writing of this report has not gotten any official communications about the budget. Today the Commission has in front of it the final budget and should the Commission take action today it would fulfill the final step in this process.

As discussed at previous LAFCo meetings, this Fiscal Year 2019-2020 budget and budget line items have been reworked to better reflect the current state of Marin LAFCo. This system should allow for easier budgeting and tracking of projects that are not fully completed in one fiscal year. Attached is the final budget for your review. As a reminder, color line items are the line items where, in the past, multiple line items would have normally occurred and have now been merged together.

The main source of income is the agency contribution. For the last several years LAFCo has been increasing the agency contribution line item to meet LAFCo needs. This year staff has worked hard to present a budget that keeps the agency contribution at the same level for next year as was requested for this year. This is being done even given the fact that for the first time since 2015 LAFCo will be back to its full staffing level.

The only change that has occurred from the proposed to the final budget was an increase in the professional services line item by \$20,000. This increase has occurred because the amount of work that LAFCo has been charged for so far by Planwest was less than anticipated for the current fiscal year, 2018-2019. Staff does anticipate Planwest to spend the entire contract amount during Fiscal Year 2019-2020 with the completion of the San Rafael and Novato MSRs. The carryforward amount was increased by the same \$20,000 amount so no increase is needed to agency contributions.

A balanced budget is achieved with some lines getting increased and a few other seeing decreases. The main increases are in the benefits and pension line items. Both of these line items were geared for only two staff, so with the addition of a third staff, they needed to be increased. In addition, MCERA has a

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larger than normal increase where, for Tier 4 members, LAFCo is seeing an increase from 7.59% to 17.36%.

An increase is also seen in the Communications Services. This increase is needed for two reasons. First, based on current bills for this line, LAFCo will spend more than was budgeted for this year. Second, at the April 11, 2019, Commission meeting, a new phone system was approved that will allow us to better function as a three-person office.

In order to offset the increases, the Salary, Legal Services, Travel-Mileage, and Publication/Notices line items have decreased. The other line items are adjusted to meet expected workload for next year and ensure we do not need to ask for an increase from our member jurisdictions.

This budget is geared to deal with our current and future work needs. As a reminder as part of the restructuring that LAFCo has been going through, in October of 2018, the Commission approved a work plan that was both Fiscal Year 2018-2019 and 2019-2020. See attachment for approved work plan with current status on each item.

The County of Marin, based on state government code, handles the billing and collection of all contributions from member agencies. LAFCo uses the county account for payroll, benefits and other limited functions. All other outside bills are paid out of our Bank of Marin accounts. Based on LAFCo policy 3.13(B)(i), in order to transfer funds from the County of Marin account to the Bank of Marin, account a majority of the Commission must approve the transfer of funds. Staff would recommend \$165,000 be transferred to cover all costs that would be paid for out of that account. This amount does not include unspent money for Planwest work as that money has already been transferred as part of the last year's transfer.

Staff Recommendation for Action

1. Staff Recommendation – Approve the attached final budget with any needed adjustments based on other actions the Commission makes tonight. In addition, staff is authorized to transfer \$165,000 from the Commissions County of Marin accounts to Bank of Marin account.
2. Alternate Option – Postpone any action tonight and give staff instructions on changes needed. Call a special meeting prior to the June 15 deadline to approve a final budget.

Attachment:

1. [Budget for FY 2019-2020](#)
2. [Work Plan for FY 2018-2020](#)
3. [Resolution 19-02](#)

Line Items	Proposed FY 19-20	Budget 18-19	Budget 17-18	Budget FY 16-17
Expense		(unadjusted)		
5110110 · Sal - Regular Staff	\$305,553.00	328,449.00	265,913.14	234,111.02
5130120 · Benefits	\$61,110.60	41,122.00	41,549.32	38,137.90
5130500 · Pension	\$56,911.23	23,901.00	37,561.07	57,852.41
5130525 · Retiree Health	\$16,000.00	15,615.00	15,615.00	15,615.00
5210110 · Professional Services	\$70,000.00	48,731.00	42,293.00	30,520.00
5210131 · Legal Services	\$35,000.00	40,500.00	35,880.00	58,578.75
5210525 · General Insurance	\$4,000.00	3,993.00	3,993.39	2,677.02
5210710 · Communications Services	\$14,000.00	8,608.00	8,236.00	6,567.60
5210935 · Office Equipment Purchases	\$4,500.00	4,620.00	23,066.00	5,137.16
5211215 · Rent - Storage	\$500.00	401.00	400.94	400.94
5211270 · Office Lease/Rent	\$32,652.95	34,652.00	31,252.75	24,938.30
5211325 · Conferences	\$4,000.00	2,965.00	2,965.00	2,450.00
5211330 · Memberships & Dues	\$15,000.00	14,734.00	14,556.00	14,368.68
5211340 · Training	\$1,700.00	1,500.00	1,250.00	1,800.00
5211440 · Travel - Mileage	\$4,000.00	7,239.00	4,538.50	4,117.50
5211510 · Misc Services	\$2,000.00	2,045.00	1,961.00	0.00
5211520 · Publications/Notices	\$3,500.00	5,000.00	5,000.00	5,000.00
5211533 · Commissioner Per Diems	\$13,500.00	13,500.00	11,000.00	10,875.00
5220110 · Office Supplies and Postage	\$4,000.00	4,300.00	4,200.00	7,590.00
Total Expense	\$647,927.78	\$601,875.00	\$551,231.11	\$520,737.28
Income				
Carry Forward Balance	\$88,405.27			
4410125 · Interest Earnings	(starting in FY 19/20 carry forward shall replace these 2 line items)	2,000.00	2,000.00	1,500.00
4640333 · Application Fees		30,000.00	30,000.00	30,000.00
4710510 · Agency Contributions	\$559,522.51	559,875.00	514,781.10	470,362.28
Total Income	\$647,927.78	591,875.00	546,781.10	501,862.28

Project	Responsible for work	Basic Description	Latest Update
General MSR on San Rafael Area	Staff/consultant	MSR for Region (FY 18-19)	Currently in Progress
General MSR on Novato Area	Staff/consultant	MSR for Region (FY 18-19)	Currently in Progress
General MSR on East Peninsula Area	Staff	MSR for Region (FY 19-20)	To be started in FY19/20
General MSR on Ross Valley Area	Staff	MSR for Region (FY 19-20)	To be started in FY19/20
General MSR on Countywide Fire Services	Staff	MSR for Fire Services across Marin County	Still to be determined
General MSR on Countywide Police Services	Staff	MSR for Police Services across Marin County	Still to be determined
Sphere of Influence Updates	Staff	Update, as needed, and approval of current SOI is for all Cities and Districts in Marin County.	No special requests received
MPSMD Consolidation with RVSD	Staff	Based on the Central Marin Wastewater MSR work with district staff on the possibility of consolidating services with RVSD.	Currently in progress with goal of completion in FY 19-20
SQVSMD Consolidation with RVSD	Staff	Based on the Central Marin Wastewater MSR work with district staff on the possibility of consolidating services with RVSD.	On hold while issues around merger are reviewed by RVSD
County of Marin transferring of support services to LAFCo	Staff/Policy & Personnel Committee	County has been the provider of some back office services, such as HR and payroll, for LAFCo for many years. In 2016 the County started a process to stop providing those services and now LAFCo must create alternate ways to have those services provided.	Next service to be transferred is HR services. County is still in internal set-up and will update LAFCo when ready to move forward.

Project	Responsible for work	Basic Description	Latest Update
Policy Review: Reorganization (Dual Annexation) Policy	Policy & Personnel Committee	Follows San Rafael and Novato Region MSRs; Define Substantially Surrounded	Policy Committee has reviewed "Substantially Surrounded" and is not suggesting any changes.
Disadvantaged Unincorporated Communities	Staff/ad hoc committee	Work with County Planning to ID any DUCs and possibly create a LAFCo policy	Ad-Hoc Committee formed and reviewing
Update Application Packet	Staff	Current Application Dated; Need to Address New Requirements; Make User-Friendly	Staff has started to draft new packet. Will present at a future Commission meeting.
Review GIS Needs and Options	Staff	Existing Benefit of MarinMap Relative to Cost Merits Review; Address Data Limitations	To be worked on in FY 2019-2020.
General Update to Policy Handbook	Policy & Personnel Committee	Various updates to Handbook including update Chapter 6 (Personnel Policies).	New Policy Handbook approved at April 2019 meeting. Chapter 6 now own handbook w/updates coming in FY 19-20.
Fee Schedule	Staff/Policy & Personnel Committee	Policy Handbook page 31 - "amend therein no less than every two years." Last done Oct 2016. (May want to do after staffing positions are filled).	Updated Fee Schedule part of the June 2019 meeting.
PERS Transition	Staff/Policy & Personnel Committee	Work with CalPERS to transition new staff to that retirement system.	Staff believes at this time best to stay within MCERA
Review of Current Website	Public/Technical Information Committee	Currently LAFCo is in year 3 of a 3 year contract. When the contract expires Aug. 2019 we can renew with a 5% increase that also comes with a "redesign."	New website vendor approved and working on updates launch should occur

MARIN LOCAL AGENCY FORMATION COMMISSION

RESOLUTION 19-02

ADOPTING A FINAL BUDGET FOR FISCAL YEAR 2019-2020

WHEREAS, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 requires the Marin Local Agency Formation Commission (“Commission”) to perform certain regulatory and planning duties for purposes of facilitating efficient and accountable local government; and

WHEREAS the Commission is required to adopt proposed and final budgets each year by May 1st and June 15th, respectively; and

WHEREAS the Commission’s Executive Officer prepared a written report outlining the recommendations of the Budget Committee with respect to budgetary needs in 2019-2020; and

WHEREAS the Executive Officer’s written report on a proposed budget for 2019-2020 has been presented to the Commission in the manner provided by law; and

WHEREAS the Commission has heard and fully considered all the evidence on a proposed budget for 2019-2020 presented at a public hearing held on April 11, 2019;

WHEREAS the Commission has heard and fully considered all the evidence on a final budget for 2018-2019 presented at a public hearing held on June 13, 2019;

WHEREAS, the adoption of a budget is not a project under the California Environmental Quality Act.

NOW, THEREFORE, THE COMMISSION DOES HEREBY RESOLVE, DETERMINE, AND ORDER as follows:

Section 1. The proposed operating budget for 2019-2020 shown as Exhibit “A” is APPROVED.

PASSED AND ADOPTED by the Marin Local Agency Formation Commission, on June 13, 2019, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Sashi McEntee, Chair

Marin LAFCo

ATTEST:

APPROVED AS TO FORM:

Jason Fried, LAFCO Executive Officer

Malathy Subramanian, LAFCo Counsel



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Item No. 13 (Public Hearing)

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer
Mala Subramanian, Legal Counsel

SUBJECT: Authorization to Update Fee Schedule for Applications

Background

LAFCo first approved its current fee schedule August 14, 2014, and last amended it October 13, 2016. Based on Marin LAFCo policy 3.11 “Marin LAFCo will maintain a schedule of fees to reasonably recover the agency’s costs in fulfilling its regulatory and planning responsibilities. Marin LAFCo shall periodically review the fee schedule and consider amendments therein no less than every two years.” As mentioned by staff at previous meetings the update was delayed by a few months so we could get LAFCo back to full staffing and know all true costs to be used in the update.

Government Code section 56383 provides that the Commission may establish a schedule of fees for filing and processing applications. Furthermore, Government Code section 66014 also states in part “...filing and processing applications and petitions filed with the local agency formation commission ... those fees may not exceed the estimated reasonable cost of providing the service for which the fee is charged, unless a question regarding the amount of the fee charged in excess of the estimated reasonable cost of providing the services or materials is submitted to, and approved by, a popular vote of two-thirds of those electors voting on the issues.” Staff and legal counsel have used this as the basis of our review and update of the fee schedule.

Two different types of changes are occurring with this update. The first type was updating the current cost for staff time and allocation of staff time. In the attached charts these all fall under staff process, staff process percent of staff time needed, and cost of staff time.

The Staff Process section generally remains the same as previous years with 2 notes. The first is that some items got merged together. For example, what is now the Prepare Staff Report and Resolution which is 13 hours had been listed in the past under 3 different line items; draft (10 hours), review (1 hour) and finalize (2 hours) of the staff report and resolution. While several line items got merged only one new line is being added to this section: Administrative Processing. This addition is needed due to the change in how the non-staff costs are calculated which will be discussed later in this memo. For this line item there are a couple of steps in the process that are not covered in the current system. Mainly this is to handle the checks for applications and that, in our annual audit, various deposits and other bookkeeping matters that are directly related to an application get flagged by the auditor for review which takes staff and bookkeeper time to respond to.

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The second change deals with how and for what we recoup our non-staff costs. The current formula used is one that is not favored by staff and legal counsel. What is being presented for this section are strictly the items that are the result of the additional work that is being performed because of the application. Excluding any outside consultants that do work for things like CEQA review, it comes down to two items: legal services and bookkeeping. Bookkeeping services are to ensure checks are in Quick Books correctly and to help address any questions that come from the annual audit in relation to that application. Legal Services covers any questions staff has and any review needing resolution for Commission approval. With the updated fee schedule for Legal services we only have a set rate for the basic applications that have a Notice of Exemption under CEQA and don't require any additional studies. For applications that require CEQA or other outside consultant work, it is staff and legal counsel's recommendation to charge those applications for services for the needed hours since those types of application's needs can have a large variance of hours. As such, average cost fee structure is not advised for that part. In all cases, we would also have an at-cost factor for any needed consultant to perform things such as CEQA reports.

Other costs have been updated to cover increases that have occurred over the past 2 years. The only major change in other costs recovered is for General Staff Research. Currently, we charge just a generic per hour staff rate no matter who is doing the work. What is being proposed is to first charge a standard fee to cover administrative costs and then a per hour rate based on which staff person(s) is doing the research. In addition, staff is recommending we change the set fee for Request for Reconsideration and Request to Hold Special Meeting lines to an at-cost deposit fee since in both cases costs can vary widely depending on the individual case.

Finally, charges that 3rd parties have for services shall be listed with our fee schedule so applicants are aware of charges and changed as the 3rd party changes its rates. Also, for ease and efficiency to the applicant, LAFCo shall collect those fees and submit them with other materials we already need to submit at no additional charge to the applicant.

Two new concepts are also being added to the attached updated fee schedule. The first is when an emergency out of service agreement (OSA) application is submitted. In some cases, those lead to a permanent annexation into a district at a later date. When this occurs some of the work that is needed to be completed by staff for the permanent annexation would be covered during the OSA work but how much work can vary by application. Staff is suggesting the Commission give discretion to the Executive Officer to, on a case by case basis, lower the regular application fee based on the amount of work already completed for the OSA application. Staff would report to the full Commission when the application is in front of them for any case where this is done.

The second new concept is to provide relief to LAFCo member agencies on applications that have been recommended through an MSR or SOI update. Currently, it is not clear to staff on how we charge for these applications. Staff recommends that LAFCo only charge the jurisdiction for any additional legal services and material costs associated with the application, and not for staff time, in these situations. For applications that come in separate from an MSR or SOI update, they will be charged the same as other applications LAFCo receives.

Each type of application is broken into two different types, those with 100% consent or without 100% consent. This is referring to whether or not all the parcel owners in the applications have agreed to the

application request. When all parcel owners are in agreement with the application at the time of submittal it saves the staff time and material costs since noticing to impacted parcels does not need to occur. This is why a differential in costs occurs between the same type of application based on if it has 100% consent or not. Most applications LAFCo receives are 100% consent applications.

Staff Recommendation for Action

1. Staff Recommendation – Approve the amended Fee Schedule with any amendments desired by the Commission.
2. Alternate Option – Take no action today and give staff further instructions.

Attachment

1. Resolution approving Fee Schedule
2. Fee Schedule
3. Cost breakdown charts

MARIN LOCAL AGENCY FORMATION COMMISSION

RESOLUTION 19-03

RESOLUTION APPROVING THE COMPREHENSIVE UPDATE TO THE ADOPTED FEE SCHEDULE

WHEREAS the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56000 et seq.) authorizes the Marin Local Agency Formation Commission (“Commission”) to adopt a schedule of fees and deposits; and

WHEREAS the Commission established and adopted by resolution a fee schedule on October 13, 2016, in a manner by provided by law; and

WHEREAS the Commission’s Policy Committee has prepared and presented a proposed comprehensive update to the fee schedule to improve cost-recovery and implementation; and

WHEREAS the Commission has scheduled and noticed a public hearing on June 13, 2019, to consider taking formal action on the proposed comprehensive fee schedule update; and

WHEREAS the Commission has heard and fully considered all written and verbal comments provided on the proposed comprehensive update to the fee schedule; and

WHEREAS the adoption and setting of fees are not projects under the California Environmental Quality Act under Regulations Code Section 15273(a).

NOW THEREFORE, THE COMMISSION DOES HEREBY RESOLVE, DETERMINE, AND ORDER as follows:

Section 1. The proposed comprehensive update to the fee schedule shown as Exhibit A is APPROVED.

Section 2. The effective date of the approved update shall be 60 days out and commence on August 13, 2019.

PASSED AND ADOPTED by the Marin Local Agency Formation Commission on this 13th day of June, 2019, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Sashi McEntee, Chair
Marin LAFCo

ATTEST:

APPROVED AS TO FORM:

Jason Fried, LAFCO Executive Officer

Malathy Subramanian, LAFCo Counsel

Attachments to Resolution No. 19-XX

1. Exhibit "A" – Fee Schedule

Marin Local Agency Formation Commission
Subdivision of the State of California

Schedule of Fees and Deposits

As Adopted on *****

These are the policies of the Marin Local Agency Formation Commission (“Commission”) in setting and collecting fees along with associated deposits in administering the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 in Marin County. Amendments to this schedule shall require a majority vote of the Commission.

I. Authority

This schedule shall be administered in accordance with the allowances provided by the State of California under California Government Code Sections 56383 and 66014.

II. Policy Statements

The following policies direct the setting and collecting of Commission fees and deposits.

- 1) The fee schedule emphasizes “fixed” charges and represents reasonable cost estimates for processing generally routine proposals and requests based on a number of predetermined staff hours to complete.
- 2) Fixed fees are non-refundable and – while not typical – may be augmented by one or more deposits when additional time is needed beyond the predetermined staff hour allocation as determined by the Executive Officer.
- 3) The fee schedule includes a number of “at-cost” charges for processing non-routine proposals and requests when there is an inherent need to incorporate and address unique and pervasive local conditions.
- 4) At-cost charges require a refundable deposit set by the Executive Officer to cover an estimated number of staff hours specific to the proposal or request. Additional deposits may be required if the initial staff hour estimate proves insufficient.
- 5) The Commission shall provide periodic invoices to applicants with outstanding deposit balances showing the work performed and charges applied therein during the covered period.
- 6) Remaining deposit balances for completed or withdrawn proposals or requests shall be returned to the applicant within 30 days with closing invoices.
- 7) All fees required under this schedule shall be submitted in check and made payable to “Marin Local Agency Formation Commission.”
- 8) Proposals and requests subject to this fee schedule will be deemed incomplete until the appropriate fee has been received by the Commission.
- 9) All additional staff time required to process proposals or requests subject to this fee schedule beyond the coverage of the initial fixed fee or collected at-cost deposit will be billed based on the staff hourly rate plus a base administrative fee process where applicable.

- 10) All fees collected under this schedule cover a one-year processing period. Proposals or requests that remain incomplete beyond one year or have been denied “without prejudice” by the Commission may be resubmitted within one year of the date of adoption of the resolution terminating proceedings for an additional fee as provided in this schedule.
- 11) Applicants with proposals or requests subject to this fee schedule requiring outside consultants will be responsible for all direct costs therein and will be required to provide a dedicated deposit as determined by the Executive Officer.
- 12) The Executive Officer may stop work on any proposal or request subject to this fee schedule until receipt of a requested fee or deposit.
- 13) The Commission, upon majority vote, may reduce or waive fees, a service charge, or deposit for the following reasons:
 - Proposals or requests covered under this schedule involving overriding public benefit as determined by the Commission and payment would be detrimental to the public interest.
 - Renewed applications with current information that were not previously denied and for which prior processing remains relevant to the renewed application as determined by the Commission.

The Commission will leave to the discretion of the Executive Officer the ability to reduce an application for annexation into a district in cases where an Emergency Out of Service Agreement had been recently completed. The reduction in cost shall only be when time spent by staff is due to the duplicative nature of the two applications. Staff shall report to the Commission any fee reduction with justification at the next available meeting.

Fee reductions shall not be granted for the following reasons:

- Applications amended or denied.
- Misinformation provided in the application or by other public agencies, groups, or individuals.

Prior to consideration by the Commission, a request for a fee reduction shall be submitted in writing to the Marin LAFCo office. The request will be considered at the next regular meeting of the Commission or – and at the discretion of the Executive Officer – in step with consideration of the actual proposal or request so long as the appropriate fee amount is on file with the Marin LAFCo office.

- 14) The Commission shall biennially review this schedule to help maintain an appropriate level of cost-recovery as determined by the membership.
- 15) Research requests on any particular subject – including for purposes to inform a potential future application – will be provided at no cost for the first two hours. Any additional research time will be billed at the hourly rate plus administrative costs.
- 16) The Commission’s schedule of fees and related charges are detailed in Table One.

III. Direction to Applicants

Applicants are strongly encouraged to contact LAFCo staff to discuss a proposal or request and all related fees prior to submittal. Staff will provide any prospective applicant a written summary of all expected costs for a proposal or request at no charge.

IV. Fee Schedule

TABLE ONE

**Boundary Change or Outside Service Agreements (non-emergency)
Change of Organization Proposal / Fixed Fee Made Payable to Marin LAFCo:**
(Excludes Special District Formations, Mergers or Dissolutions and City Incorporations or Disincorporations)

Single Boundary or Outside Service Extension (non-emergency)						
	Notice of Exemption		Addendum / Initial Study		Environmental Impact Rpt.	
	With 100% Consent	Without 100% Consent	With 100% Consent	Without 100% Consent	With 100% Consent	Without 100% Consent
Fee	\$2,982.49	\$4,142.78	\$3,989.03	\$4,989.70	\$4,595.09	\$5,608.05
	Plus material costs		Plus any costs for consultant, legal services and material costs			
Additional Boundary Change to be added to above charge (per boundary change)						
Total Additional Costs	\$244.63	\$292.81	\$418.31	\$466.74	\$594.03	\$644.41

Other Proposals and Fees Made Payable to Marin LAFCo

Emergency Outside Service Agreement	\$1,269.09
Request for Time Extension	\$977.41
General Staff Research (Base fee plus hourly rate for staff time used)	Base Fee - \$246.81
.....Executive Officer - \$99.06/hr	
.....Clerk - \$56.68/hr	
.....Analyst \$51.02/hr	
.....Legal Counsel – at-cost	
Photocopies or Printed pages	Black and White \$0.10 per page
.....	Color \$0.87 per page

Following Services shall be done on an at-cost deposit charge system. Deposit size shall be determined by Executive Officer on a case by case basis:

- Request for Reconsideration
- Request to Hold a Special Meeting
- Sphere of Influence Amendment
- Municipal Service Review
- Special District Formation, Dissolution, Consolidation
- City Incorporation, Merger, Disincorporation

IV. Third Party Fee Schedule:

Collected by Marin LAFCo and Made Payable to the Affected Agencies

Some or all of the following types of services shall be required by outside agencies in the course of processing proposals or requests submitted to Marin LAFCo. Applicable fee will be identified by Marin LAFCo staff during the consultation process with the applicant and shall be collected by Marin LAFCo on behalf of the affected agencies. Should certain fees be collected but ultimately not needed Marin LAFCo shall immediately remit to the applicant. The current costs per agency are listed below and may be increased by the respective agency. LAFCo shall charge the applicant the actual cost as determined by the respective agency.

Third-Party Services	Amount
County Environmental Health Department Review	\$231 (hour)
County Public Works Department/Surveyor Review	\$600 (deposit/first 5 hours)
County Community Development Agency/GIS Update*	\$85 (hour)
County Election's Office/Registered Voter List	At-cost
County Assessor's Office/Landowner List	At-cost
County Clerk Recorder/Recording CEQA Determination*	\$50
CA Fish and Game/Recording CEQA Determination*	
- Negative Declaration	\$2,181.25
- Mitigated Negative Declaration	\$2,181.25
- Environmental Impact Report	\$3,029.75
State Board of Equalization*	
- 0.0 to less than 1.0 acre	\$300
- 1.0 to 5.99 acres	\$350
- 6.0 to 10.99 acres	\$500
- 11.0 to 20.99 acres	\$800
- 21.0 to 50.99 acres	\$1,200
- 51.0 to 100.99 acres	\$1,500
- 101.0 to 500.99 acres	\$2,000
- 501.0 to 1,000.99 acres	\$2,500
- 1001.0 to 2,000.99 acres	\$3,000
- 2001.0 acres or more	\$3,500

* Payment of these fees is not required until such time Marin LAFCo has approved a proposal

Single Boundary or Outside Service Extension (non-emergency)	Notice of Exemption		Addendum / Initial Study		Environmental Impact Rpt.	
	With	Without	With	Without	With	Without
Staff Process (In hours)	100% Consent	100% Consent	100% Consent	100% Consent	100% Consent	100% Consent
Initial Consultation with Applicants	1.50	2.00	2.50	3.00	3.00	3.50
Receive and Set Up Applicant Proposal	0.50	0.50	0.50	0.50	0.50	0.50
Preliminary Proposal Review / Initial GIS Work	1.50	2.00	1.50	2.00	1.50	2.00
CEQA Review and Document Preparation	1.00	1.00	15.00	15.00	20.00	20.00
Prepare and Circulate Agency Review	1.50	1.50	1.50	1.50	1.50	1.50
Prepare and Circulate Property Tax Exchange Notice	0.50	0.50	0.50	0.50	0.50	0.50
Prepare and Circulate Petition Verification	0.15	0.15	0.15	0.15	0.15	0.15
Prepare Certificate of Petition Sufficiency	0.00	0.15	0.00	0.15	0.00	0.15
Prepare and Circulate Status Letter	2.00	2.00	2.00	2.00	2.00	2.00
Prepare and Post Hearing Notice / 300 ft	0.00	1.50	0.00	1.50	0.00	1.50
Prepare Staff Report and Resolution	13.00	14.00	14.00	16.00	15.00	17.00
Prepare and Circulate Certificate of Filing	0.50	0.50	0.50	0.50	0.50	0.50
Commission Meeting	0.50	1.00	0.50	1.00	0.50	1.00
Prepare and Issue Notice to Applicants	1.00	1.00	1.00	1.00	1.00	1.00
Prepare and Record Environmental Determination	1.00	1.00	1.00	1.00	1.00	1.00
Conducting Authority Proceedings	0.00	5.00	0.00	5.00	0.00	5.00
Work with Applicant on Completing Terms	1.20	2.20	1.20	2.20	1.20	2.20
Prepare and Record Certificate of Completion	1.00	1.00	1.00	1.00	1.00	1.00
Prepare and File Boundary Change with SBE	0.50	0.50	0.50	0.50	0.50	0.50
Close Proposal File and File Contents	0.50	0.50	0.50	0.50	0.50	0.50
Administrative Processing	1.00	1.00	1.50	1.50	1.50	1.50
Total Hours	28.85	39.00	45.35	56.50	51.85	63.00
Percent of Staff Time Needed						
Executive Officer	60.00%	65.00%	65.00%	67.50%	67.50%	70.00%
Clerk	30.00%	25.00%	25.00%	25.00%	25.00%	22.50%
Analyst	10.00%	10.00%	10.00%	7.50%	7.50%	7.50%
Cost for staff time						
Executive Officer (\$99.06/hr)	\$1,714.73	\$2,511.17	\$2,920.04	\$3,777.90	\$3,466.98	\$4,368.55
Clerk (\$56.68/hr)	\$490.57	\$552.63	\$642.61	\$800.61	\$734.71	\$803.44
Analyst (\$51.02/hr)	\$147.19	\$198.98	\$231.38	\$216.20	\$198.40	\$241.07
Total Staff Costs	\$2,352.49	\$3,262.78	\$3,794.03	\$4,794.70	\$4,400.09	\$5,413.05
Non-Staff Costs						
Legal Services	2.00	3.00	at hours used	at hours used	at hours used	at hours used
Bookkeeping	1.00	1.00	1.50	1.50	1.50	1.50
Cost for non-staff						
Legal (\$250/hr)	\$500.00	\$750.00	Billed for needed hours			
Bookkeeping (\$130/hr)	\$130.00	\$130.00	\$195.00	\$195.00	\$195.00	\$195.00
Total	\$630.00	\$880.00	\$65 plus cost of legal services billable hours			
Total Fee	\$2,982.49	\$4,142.78	\$3,989.03	\$4,989.70	\$4,595.09	\$5,608.05
	Plus material costs		Plus any costs for consultant, legal services and material costs			
Additional Boundary Change to be added to above charge (per boundary change)						
Staff time to review and coordinate with extra jurisdiction	3	3.5	5	5.5	7	7.5
Executive Officer (\$99.06/hr)	\$178.31	\$225.36	\$321.95	\$367.76	\$468.06	\$520.07
Clerk (\$56.68/hr)	\$51.01	\$49.60	\$70.85	\$77.94	\$99.19	\$95.65
Analyst (\$51.02/hr)	\$15.31	\$17.86	\$25.51	\$21.05	\$26.79	\$28.70
Total Additional Costs	\$244.63	\$292.81	\$418.31	\$466.74	\$594.03	\$644.41

Emergency Outside Service Extension	
Staff Process	In hours
Initial Consultation with Applicant	1.00
Receive and Set Up Applicant Proposal	0.50
Preliminary Proposal Review	1.00
Confirm with EHS and District	1.00
Prepare and Circulate Status Letter	1.00
Work with Chair to authorize agreement	1.00
Work with District and Applicant on getting everything needed completed	3.00
Send Approval Notice	1.00
Close Proposal File and File Contents	1.00
Administrative Processing	1.00
Total Hours	11.50
Non-Staff Process	In hours
Legal Services	0.50
Bookkeeping	1.00
Percent of Staff Time Needed	
Executive Officer	75.00%
Clerk	20.00%
Analyst	5.00%
Staff Costs	
Executive Officer (\$99.06/hr)	\$854.39
Clerk (\$56.68/hr)	\$130.36
Analyst (\$51.02/hr)	\$29.34
Total Staff Costs	\$1,014.09
Non-Staff Costs	
Legal (\$250/hr)	\$125.00
Bookkeeping (\$130/hr)	\$130.00
Total Non-Staff Costs	\$255.00
Total Fee	\$1,269.09

Request for Time Extension to Complete Approved Terms	
Staff Process	In hours
Staff Review	0.5
Coordination with Impacted Agency and Applicant	1.5
Prepare Staff Report	4
Post Hearing Communication	1
Administrative Processing	1
Total Hours	8
Percent of Staff Time Needed	
Executive Officer	80.00%
Clerk	15.00%
Analyst	5.00%
Non-Staff Process	
Legal Services	0.50
Bookkeeping	1.00
Staff Costs	
Executive Officer (\$99.06/hr)	\$633.98
Clerk (\$56.68/hr)	\$68.02
Analyst (\$51.02/hr)	\$20.41
Total Staff Costs	\$722.41
Non-Staff Costs	
Legal (\$250/hr)	\$125.00
Bookkeeping (\$130/hr)	\$130.00
Total Non-Staff Costs	\$255.00
Total Fee	\$977.41

General Staff Research Base Fee	
Staff and non-staff process	In hours
Administrative Processing	1.5
Bookkeeping	1
Percent of Staff Time Needed	
Executive Officer	50.00%
Clerk	50.00%
Staff and non-staff costs	
Staff Costs	
Executive Officer (\$99.06/hr)	\$74.30
Clerk (\$56.68/hr)	\$42.51
Total	\$116.81
Bookkeeping (\$130/hr)	\$130.00
Base Total Fee (does not include staff time researching item)	\$246.81



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Executive Officer Report – Section B

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: Budget Update for FY 2018-2019

Background

Marin Local Agency Formation Commission (LAFCo) adopted a budget for FY 2018-2019 totaling \$601,875. This amount represents the total approved operating expenditures for the fiscal year divided between three (3) active expense units: salaries and benefits; administrative activities; and services and supplies. A purposeful operating deficit of (\$10,000) was budgeted leaving the annual revenues at \$591,875 in step with the phasing of corresponding contribution increases among the funding agencies in recent years. Budgeted revenues are divided between three (3) active units: intergovernmental contributions; service charges; and investments.

LAFCo budgeted and received \$559,875 from all the contributing agencies.

From July 1, 2018, through May 31, 2019, LAFCo has spent \$452,418.04 or about 75% of the FY 2018 - 2019 budget. At this point in the budget cycle, we should be at 91% spent. Now that we are fully staffed we should see the percent of the budget spent go up which is not reflected in this report. As a reminder, given line item adjustments to expenditure and the use of carry fund balance made earlier this fiscal year, the "Budget" column in the "Expense" section looks higher than what we are really budgeted to spend this year.

Attached is the budget report for FY 2018-2019.

Attachment:

- 1) FY 2018-2019 Budget Report as of 6/06/19

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Las Gallinas Valley Sanitary

Lew Kious, Regular
Almonte Sanitary District

Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member

Marin Local Agency Formation Commission
2018/19 BUDGET REPORT
 July 2018 through May 2019

1:04 PM
 06/06/19
 Accrual Basis

	Jul '18 - May 19	Budget	\$ Over Budget	% of Budget
Income				
4410125 · Interest Earnings	5,431.69	2,000.00	3,431.69	271.6%
4640333 · Fees for Services	31,068.20	30,000.00	1,068.20	103.6%
4710510 · Agency Contributions	559,875.00	559,875.00	0.00	100.0%
Total Income	596,374.89	591,875.00	4,499.89	100.8%
Expense				
5111000 · Salary and Benefit Costs				
5110110 · Sal - Regular Staff	86,217.60	197,737.00	-111,519.40	43.6%
5110313 · Holiday Pay	1,643.50	0.00	1,643.50	100.0%
5110323 · Sick Leave	98.45	0.00	98.45	100.0%
5130120 · County of Marin - Group Health				
5130110 · Ben-Med-GrpLifeInsur	464.48	0.00	464.48	100.0%
5130121 · Health Insurance	0.00	28,524.00	-28,524.00	0.0%
5130210 · Dental Insurance	935.60	3,114.00	-2,178.40	30.0%
5130310 · Vision Service Plan	94.50	345.00	-250.50	27.4%
5130410 · Benefits - Disability Plan	50.80	330.00	-279.20	15.4%
5130524 · Benefits - Fringe Retirement	2,018.47	0.00	2,018.47	100.0%
5130640 · Unused Fringe Ben	1,600.90	0.00	1,600.90	100.0%
5130120 · County of Marin - Group Health - Other	3,444.10	0.00	3,444.10	100.0%
Total 5130120 · County of Marin - Group Health	8,608.85	32,313.00	-23,704.15	26.6%
5130500 · MCERA / Pension				
5130520 · Co Ret Cont Tier III	4,947.82	0.00	4,947.82	100.0%
5130521 · Co Ret Cont Tier IV	4,626.29	0.00	4,626.29	100.0%
5130522 · MCERA Pension	0.00	23,901.00	-23,901.00	0.0%
Total 5130500 · MCERA / Pension	9,574.11	23,901.00	-14,326.89	40.1%
5130525 · Retiree Health	4,563.82	15,615.00	-11,051.18	29.2%
5140115 · Workers Compensation	1,829.33	1,965.00	-635.67	67.7%
5140140 · Payroll Tax	2,069.78	3,131.00	-1,061.22	66.1%
5140145 · Unemployment Insurance	0.00	3,713.00	-3,713.00	0.0%
Total 5111000 · Salary and Benefit Costs	114,105.44	278,375.00	-164,269.56	41.0%
5210110 · Professional Services	208,141.41	237,000.00	-28,858.59	87.8%
5210129 · Graphic Design	0.00	11,613.00	-11,613.00	0.0%
5210131 · Legal Services	58,015.27	52,000.00	6,015.27	111.6%
5210230 · Support Services	0.00	6,438.00	-6,438.00	0.0%
5210525 · General Insurance	4,533.74	3,993.00	540.74	113.5%
5210710 · Communications Services	15,536.13	12,000.00	3,536.13	129.5%
5210935 · Office Equipment Purchases	789.74	4,620.00	-3,830.26	17.1%
5211215 · Rent - Storage	413.20	401.00	12.20	103.0%
5211270 · Office Lease/Rent	26,386.20	34,652.00	-8,263.80	76.2%
5211325 · Conferences	5,261.53	2,965.00	2,296.53	177.5%
5211330 · Memberships & Dues	1,377.00	14,734.00	-13,357.00	9.3%
5211340 · Training	0.00	1,500.00	-1,500.00	0.0%
5211440 · Travel - Mileage	207.80	7,238.00	-7,031.20	2.9%
5211510 · Misc Services	0.00	2,045.00	-2,045.00	0.0%
5211520 · Publications/Notices	1,954.93	5,000.00	-3,045.07	39.1%

Marin Local Agency Formation Commission
2018/19 BUDGET REPORT
 July 2018 through May 2019

1:04 PM
 06/06/19
 Accrual Basis

	Jul '18 - May 19	Budget	\$ Over Budget	% of Budget
5211533 - Commissioner Per Diems	11,250.00	13,500.00	-2,250.00	83.3%
5220110 - Office Supplies	4,443.65	4,300.00	143.65	103.3%
Total Expense	452,418.04	692,375.00	-239,956.96	65.3%
Net Income	143,956.85	-100,500.00	244,456.85	-143.2%



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Executive Officer Report – Section C

TO: Local Agency Formation Commission

FROM: Jason Fried, Executive Officer

SUBJECT: Current and Pending Proposals

Background

The Commission is invited to discuss the item and provide direction to staff on any related matter as needed for future discussion and/or action.

New Proposals

File #1342 (Reorganization of 4576 Paradise Drive) – This is a new application where the parcel owner would like to annex into Sanitary District 2 and since they are in an unincorporated island and border the Town of Tiburon, they would also like to be annexed into the Town as well. This is still out for agency comment.

File #1443 (Reorganization of 2260 Vineyard Rd) - This is a new application where the parcel owner would like to annex into Novato Sanitary District. They are the last parcel on this street still on a septic tank and the City of Novato is about to repave the street at which point they will not allow anybody to dig under the street for several years. The applicant is looking to set-up a connection prior to the repaving. They still need to get us some documents prior to agency review and comment period.

Current Proposals – Under Review and Awaiting Hearing

File #1335 (Reorganization of 400 Upper Toyon Road) – While not officially communicated to LAFCo the San Rafael City Council approved a property tax exchange with the Town of Ross. Waiting for Town of Ross to act on tax exchange.

Attachment:

1) Chart of Current and Pending Proposals

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Tod Moody, Alternate
Sanitary District #5

Larry Loder, Regular
Public Member

Chris Skelton, Alternate
Public Member

Current and Pending Proposals

LAFCo File #	Status	Proposal	Description	Government agency	Latest Update
1324	Approved by Commission and Awaiting Terms Completion	Annexation of 1501 Lucas Valley Road	Landowner (Andre Souang) requesting approval to annex approximately 61.3 acres of unincorporated/improved territory (164-280-35) located at 1501 Lucas Valley Road to Marin Municipal Water District (MMWD). The applicant requested annexation to MMWD to provide a reliable source of domestic water service given concerns regarding the continued use of an onsite well. The Commission approved the proposal without amendments and with additional terms at its December 14, 2017 meeting. Terms remain outstanding as of date and therefore the proposal remains active.	Marin Municipal Water District	Terms must be completed by 12/13/19
1337	Approved by Commission and Awaiting Terms Completion	Reorganization of Mesa Road	Landowner (Brad Drury) requesting annexation approval of 276 Mesa Road (188-170-54) in the unincorporated coastal community of Bolinas to the Bolinas Community Public Utility District. The affected territory is approximately 20.6 acres in size and is currently undeveloped. The stated purpose of the proposal is to provide water service to the affected territory in order for the development of a single-family residence. The Commission approved the proposal with amendments to include the entire public right-of-way extending to 276 Mesa Road on October 12, 2017, with additional terms. Terms remain outstanding as of date and therefore the proposal remains active.	Bolinas Community Public Utility District	Terms must be completed by 8/9/19.
1335	Under Review and Awaiting Hearing	Reorganization of 400 Upper Toyon Road	Landowner (Raphael de Balmann) requesting approval to reorganize one incorporated parcel totaling 2.5 acres located at 400 Upper Toyon Drive (012-121-28) in the City of San Rafael. The proposed reorganization involves the detachment of the affected territory and concurrent annexation therein to the Town of Ross. The affected territory is developed to date with a four-bedroom single family residence and accessible through a privately-owned and maintained road located atop a ridge at approximately 520 feet. The stated purpose of the proposal is to match the affected territory with the applicant's preferred municipality given the communities of interests with Ross. Concurrent sphere of influence amendments would be needed to accommodate the request. The application is currently under administrative review and is deemed incomplete at this time.	City of San Rafael and Town of Ross	While not officially communicated to LAFCo yet San Rafael has accepted tax exchange agreement, waiting for Ross to do the same.

Current and Pending Proposals

LAFCo File #	Status	Proposal	Description	Government agency	Latest Update
1341	Emergency OSA and Future application	Emergency OSA and awaiting application to annex into San Rafael Sanitation District	32 Fairway Dr, San Rafael had a failed septic tank which they reported to Marin County Environmental Health Services Division and needs an OSA to connect into SRSD. The applicant also plans to annex permanently into SRSD but first needs to get all needed materials, such as legal description and legal maps produced. They should be submitting application in the near future.	San Rafael Sanitation District	On 3/28/19 SRSD informed LAFCo the basic plans had been approved for OSA.
1342	Under Review and Awaiting Hearing	Reorganization of 4576 Paradise Drive	Sierra Pines Group LLC (“applicant”) requesting approval to annex one lot totaling 9.575 acres to the Town of Tiburon and Corte Madera Sanitary District #2. The affected territory is near the Town of Tiburon with a situs address of 4576 Paradise Drive (038-142-02.)	Town of Tiburon and SD#2	Waiting for agency comments
1343	Under Review and Awaiting Hearing	Reorganization of 2260 Vineyard Rd	Patrick and Erin Sheedy (“applicant”) requesting approval to annex one lot to Novato Sanitary District. The affected territory is in City of Novato with a situs address of 2260 Vineyard (132-311-61.)	Novato Sanitary District	Waiting for final documents before moving to agency comment
	Possible Future Item	San Quentin Village Sewer Maintenance District consolidation with Ross Valley Sanitary District	Based on past action of Marin LAFCo, discussion of possible consolidation between SQVSMD with RVSD has been deemed as seemingly in the best interest of the community of San Quentin Village customers.	SQVSMD and RVSD	Staff is currently reviewing outstanding issues with the staffs from both SQVSMD and RVSD.

Current and Pending Proposals

LAFCo File #	Status	Proposal	Description	Government agency	Latest Update
	Possible Future Item	Murray Park Sewer Maintenance District consolidation with Ross Valley Sanitary District	Based on past action of Marin LAFCo, discussion of possible consolidation between MPSMD with RVSD has been deemed as seemingly in the best interest of the community of San Quentin Village customers.	MPSMD and RVSD	Public Meeting held on June 5th and process is moving forward
	Possible Future Item	Boundary Adjustment	The County Service Area No. 29, which provides dredging for properties located within the District, has conveyed interest on a potential proposal to detach at least six parcels that do not benefit from the municipal service and the addition of one parcel that is currently outside of CSA 29's jurisdictional boundary and does benefit from the dredging. The proposal would essentially match public services to the appropriate service area.	County Service Area No. 29 - Paradise Cay	This item will be looked at as part of its MSR
1322	Completed	Annexation of 700 and 726 Sequoia Valley Road	Filed by the Homestead Valley Sanitary District requesting approval to annex approximately 1.1 acres of unincorporated territory. The stated purpose of the proposal is to align HVSD's existing jurisdictional boundary with its existing service area given the affected territory and its two developed residential parcels at 700 (046-231-07) and 726 (046-301-01) Sequoia Valley Road connected to the District through non-conforming connections in the early 1990s. The Commission approved the proposal with amendments to include adjacent portions of the public right-of-way along Sequoia Valley Road and Panoramic Highway on June 9, 2016, with standard terms. The Commission separately approved a one-year extension to complete the terms in June 2017.	Homestead Valley Sanitary District	File reported completed at 8/9/18 meeting

Current and Pending Proposals

LAFCo File #	Status	Proposal	Description	Government agency	Latest Update
1336	Completed	Reorganization of 238 Summit Drive et al	This proposal was filed by Sanitary District No. 2 (Corte Madera) requesting approval to annex four incorporated parcels in the Town of Corte Madera totaling 4.5 acres to Sanitary District No. 2 and Ross Valley Sanitary District. The proposal's purpose is to formalize and rationalize current public wastewater services provided in the affected territory through earlier actions outside of Marin LAFCO. The Commission approved the proposal with amendments to include an adjacent public right-of-way along Summit Drive on June 8, 2017, with standard terms.	Corte Madera Sanitary District and Ross Valley Sanitary District	File reported completed at 8/9/18 meeting
1338	Completed	Detachment of 610 Calle de La Mesa	Proposal by the affected landowner, Janice Tate, requesting a boundary line adjustment for the lot located at 610 Calle de La Mesa (160-171-15) in the unincorporated island community of Loma Verde to the County of Marin. The affected territory is approximately 0.18 acres in size and currently developed with a single-family residence. The applicant wishes to de-annex 0.03 acres of land adjoining the affected territory from the City of Novato into the County of Marin. The applicant believed that the proposed annexation territory was included in her lot line, but after requiring to install a fence, was informed that the 0.03 acres of land contiguous to her parcel was in fact within the City of Novato. The application is currently under administrative review and is deemed incomplete at this time.	County of Marin and City of Novato	File reported completed at 2/14/19 meeting
1339	Completed	516 E. Hospital Drive annexation to NSD	Application from Becky McCormick, LPAS, Inc. ("applicant") requesting approval for annexing one of three lots totaling 14.55 acres to Novato Sanitary District (NSD). The affected territory is formerly known as the Hamilton Hospital site with a situs address of 516 E. Hospital Drive (157-690-52.) The proposal, as stated by the applicant, will turn the former Hamilton Hospital into an 80 bed assisted living facility. The parcel was part of a former military base.	Novato Sanitary District	File reported completed at 4/11/19 meeting

Current and Pending Proposals

LAFCo File #	Status	Proposal	Description	Government agency	Latest Update
1340	Completed	28 Teaberry Lane Annexation into Sanitary District #5	Application from Peter Kiritchenko (“applicant”) requesting approval to annex one lot totaling 2.01 acres to Sanitary District Number 5 of Marin. The affected territory is a new residential unit in the incorporated part of Marin County near the Town of Tiburon with a situs address of 28 Teaberry Lane (058-071-01.) The proposal, as stated by the applicant, is to build one new single-family home that can include an accessory dwelling unit.	Sanitary District #5	File reported completed at 4/11/19 meeting
1328	Deemed Terminated	Annexation of 255 Margarita Drive	Landowner (Paul Thompson) requesting annexation approval of 255 Margarita Drive (016-011-29) in the unincorporated island community of Country Club to the San Rafael Sanitation District. The affected territory is approximately 1.1 acres in size and currently developed with a single-family residence. It has also established service with the SRSD as part of a LAFCo approved outside service extension due to evidence of a failing septic system. The outside service extension was conditioned – among other items – on the applicant applying to LAFCo to annex the affected territory to the San Rafael Sanitation District as a permanent means to public wastewater service. The application remains incomplete at this time and awaits consent determination by SRSD.	San Rafael Sanitation District	Application is now deemed terminated and staff is working to get SRSD to disconnect.



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

AGENDA REPORT

June 13, 2019

Executive Officer Report – Section F

TO: Local Agency Formation Commission

FROM: Candice Bozzard, Commission Clerk

SUBJECT: Marin LAFCo Correspondence

Background

The attached communications were sent on behalf of the Commission regarding bill proposals which may directly or indirectly impact LAFCos' duties. Based on recommendations from CALAFCo, correspondences were in opposition of AB 600, and in support of AB 818, AB 1253, and AB 1822.

Attachment:

- 1.) AB 600 Opposition Letter
- 2.) AB 818 Support Letter
- 3.) AB 1253 Support Letter
- 4.) AB 1822 Support Letter

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Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

April 18, 2019

The Honorable Kansen Chu
California State Assembly
State Capital Room 3126
Sacramento, CA 95814

Subject: **Oppose AB 600 (as amended April 11, 2019)**

Dear Assembly Member Chu:

The Marin Local Agency Formation Commission (LAFCo) joins the California Association of Local Agency Formation Commissions (CALAFCO) to oppose your bill **AB 600**. LAFCos are aware of and concerned about the disparity of local public services, especially for residents and properties located within disadvantaged unincorporated communities (DUCs). All Californians deserve adequate and safe drinking water and wastewater facilities. We support your efforts to address these problems, which persist in many counties, however **AB 600** in its current version does not represent a collective stakeholder dialogue with reasonable and systemic solutions to the problem.

Annexations concerns. Changes proposed to Government Code Section 56375 pose several problems. First, the proposed changes in §56375(a)(8)(A) and (B) seem to confuse the annexation of territory into an incorporated city and the annexation of territory into a special district. When the Legislature created LAFCos in 1963, one of LAFCos' primary missions was and still is to ensure orderly growth and development. This is done in a variety of ways including the authority to adopt spheres of influence for local agencies and approve annexations. To ensure orderly growth, when the LAFCo approves a service extension outside the jurisdictional boundary but within the sphere of influence, they do so in anticipation of a later change of organization (annexation), pursuant to §56133(b). Changes to §56375(a)(8)(A) add the exclusion of annexation into a qualified special district.

Further, changes to §56375(a)(8)(B) create an inconsistent exception for protest proceedings which takes away rights that have been long-established in governmental reorganizations in California. The residents of the DUC are afforded the right to file protests for boundary changes but other residents living within a larger annexation boundary that are not part of the DUC would lose their right to protest.

Removes LAFCo discretion. When considering a change of organization pursuant to §56133, LAFCo has the discretion to consider the unique local circumstances and conditions that exist. This is an important and basic construct within the legislatively stated purpose of LAFCos. This bill removes that discretion and authority through proposed changes to §56375(a)(9), §56425(k)(1) and (2), and §56425 (l).

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Lack of clarity. The bill proposes changes to §56301 by adding “considerations of equity” as an additional basis upon which LAFcos fulfill their purposes. Yet the bill does not define “considerations of equity”, which leads to a wide-open interpretation. Each LAFco will create their own local policies related to “considerations of equity”.

Accessibility plans. The bill requires LAFco, within five years of the approval of an accessibility plan (pursuant to §56440), to hold a noticed public hearing for the purposes of reviewing the status of every DUC that is subject to an accessibility plan. This has the potential of being a vast number of public hearings and comprehensive reviews without the necessary resources to execute such a requirement.

Additionally, the bill requires LAFco to initiate a change of organization, reorganization or service extension should the commission determine the needs of the DUC remain unaddressed. LAFco-initiated actions are costly to the LAFco (as there is no funding source to support the action) and like all other changes of organization or reorganization, are subject to protest proceedings. Further, a service extension without annexation would not be a likely LAFco-initiated action.

The required contents of the accessibility plan are confusing. First, §56440(a)(5)(A) states: *“Any actions and alternatives necessary to be taken by the commission, if any, to enable the entity determined pursuant to paragraph (2) to provide services to the affected territory.”* How is a county, city or special district best positioned and informed to prescribe to the LAFco commission what actions the LAFco should be taking?

Second, §56440(a)(6)(B) requires the commission to approve or approve with conditions the accessibility plan. Once again there is a divestiture in LAFco authority. Further, we fail to see LAFcos’ authority to enforce any conditions that may be applied to the accessibility plan.

Third, §56440(a)(2) requires the commission to determine which entity is best positioned to provide adequate water or wastewater services to the affected territory. Without a thorough study of surrounding service providers, this may be difficult to determine.

One size does not fit all. We are concerned that the bill has unintended consequences in the ability to provide necessary services to an existing DUC. For example, if it is reasonable to extend services to a particular DUC but not to others, this bill prevents the extension of services to the area that can reasonably be serviced. The same is true for those areas currently contained within a city’s sphere, where it may make better sense to have another service provider providing the service. These changes are complicated by the fact the bill interchangeably uses the term “disadvantaged community” and “disadvantaged unincorporated community”.

Creates a significant unfunded mandate to LAFco and local agencies. The studies, analysis, preparation of recommendations regarding underserved disadvantaged communities and public hearings on all accessibility plans and potential subsequent actions initiated by LAFco that would be required, all impose unfunded mandates on counties, cities, qualified special districts and LAFcos. By law LAFco is forced to pass their costs on to cities, counties – and in 30 counties – special districts which fund the commissions.

We support workable and sustainable policy solutions to the disparities in service delivery to disadvantaged communities. However, a major obstacle remains the infrastructure and operational funding for these services. We believe that addressing the needs of disadvantaged communities through the planning process and finding tools to support the infrastructure deficiencies and implementation actions remain a very important part of the solution.

For all of the reasons noted above, the Marin LAFCo is opposed to **AB 600**. Please contact me should you have any questions.

Yours sincerely,

A handwritten signature in blue ink that reads "Jason Fried". The signature is written in a cursive, flowing style.

JASON FRIED
EXECUTIVE OFFICER

Cc: Members, Assembly Local Government Committee
Jimmy MacDonald, Consultant, Assembly Local Government Committee
William Weber, Consultant, Assembly Republican Caucus
Pamela Miller, Executive Director, CALAFCO



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

April 18, 2019

Assembly Member Ken Cooley
California State Assembly
State Capital Room 3013
Sacramento, CA 95814

Subject: Support of AB 818

Dear Assembly Member Cooley:

The Marin Local Agency Formation Commission (LAFCo) is pleased to support **Assembly Bill AB 818**, which would assist the fiscal viability of future city incorporations that meet all other state requirements.

The VLF gap created by SB 89, one of the 2011 budget bills, created a financial disincentive for future city incorporations and annexations of inhabited territory. For the past seven years, no new cities have formed. Given the growing population in our state and the need for orderly growth and adequate service provision, this policy issue needs to be addressed.

AB 818 by no means guarantees that a community wishing to incorporate will become a city. In order to incorporate, local communities have to overcome many hurdles, including compliance with state LAFO policies, negotiations with counties, and ultimately a public vote. This bill simply gives communities considering incorporation the same opportunity to incorporate that other California cities have previously had.

In 2017, the Legislature addressed the financial harm caused by SB 89 (2011) to four recently incorporated cities via the passage of SB 130 (Budget). SB 130 provides the legislature a template to address the fiscal viability of future incorporation. **AB 818** adopts the template provided by SB 130 and extends the fix to future incorporations. The state budget conditions have vastly improved since 2011 and the fiscal challenges of the four most recently incorporated cities have finally been addressed with the passage of SB 130. **AB 818** provides the same option for any future incorporations.

Reinstating revenues for incorporations is consistent with policies of providing communities with local governance and efficient service delivery options, including the ability to incorporate. The inability to do so creates a tremendous detriment to the creation of logical development boundaries and to the prevention of urban sprawl. Because **AB 818** reinstates a critical funding component to future cities incorporating, Marin LAFCo supports this bill.

Please do not hesitate to contact me with any questions you may have on our position.

Sincerely,

Jason Fried
Executive Officer

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Marin Local Agency Formation Commission

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April 18, 2019

The Honorable Robert Rivas
California State Assembly
State Capital Room 5158
Sacramento, CA 95814

Subject: *Support of AB 1253*

Dear Assemblymember Rivas:

The Marin Local Agency Formation Commission (LAFCo) is pleased to join the California Association of Local Agency Formation Commissions (CALAFCO) in support for **Assembly Bill 1253**. Sponsored by CALAFCO, the bill establishes a five-year pilot grant program to provide grants to LAFCos to address known service and governance concerns in disadvantaged communities. This program provides grants to LAFCos for conducting special in-depth studies and analyses of local government agencies and services for the purposes of creating improved efficiencies in the delivery of local government services and completing the dissolution of inactive special districts. The grant program would be administered by the Strategic Growth Council and sunset on December 31, 2025.

The Legislature established LAFCos in 1963 to encourage the orderly formation of local government agencies. Since that time, the regulatory role and responsibilities of LAFCos has substantially increased without additional funding. Operating in all 58 California counties, LAFCos are responsible for meeting important statutory directives to maintain orderly boundaries and seek greater efficiencies in delivering local services, and yet these directives often times cannot be met under current funding mechanisms. As a result, much needed LAFCo activities are sometimes delayed or rejected.

In August 2017, the Little Hoover Commission published a report on special districts and their oversight by LAFCos, which contained several recommendations directly related to LAFCo. One recommendation was for the Legislature to provide one-time grant funding to pay for specified LAFCo activities, particularly to incentivize LAFCos or smaller special districts to develop and implement dissolution or consolidation plans with timelines for expected outcomes.

By establishing this one-time grant funding, **AB 1253** provides an additional tool for LAFCos to address known service and governance concerns in disadvantaged communities by conducting detailed studies and potentially implementing greater efficiencies in delivering local services based on local circumstances and conditions. For these reasons, Marin LAFCo is pleased to support **AB 1253**.

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Public Member

Thank you for authoring this important piece of legislation. Please feel free to contact me should you have any questions about Marin LAFCo's position.

Sincerely yours,

A handwritten signature in blue ink that reads "Jason Fried". The signature is written in a cursive, flowing style.

Jason Fried
Executive Officer

Cc: Senator Robert Hertzberg, co-author
Senator Anna Caballero, co-author
Pamela Miller, Executive Director, CALAFCO



Marin Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

April 18, 2019

Honorable Cecilia Aguiar-Curry, Chair
Assembly Local Government Committee
California State Assembly
State Capitol, Room 5144
Sacramento, CA 95814

RE: **SUPPORT of AB 1822: Local Government Committee Omnibus Bill (as amended April 8, 2019)**

Dear Chair Aguiar-Curry:

The Marin Local Agency Formation Commission (LAFCo) is pleased to support the Assembly Local Government Committee Bill **AB 1822** (amended April 8, 2019) which makes technical, non-substantive changes to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (the Act).

This annual bill includes technical changes to the Act which governs the work of LAFCos. These changes are necessary as Commissions implement the Act and small inconsistencies are found or clarifications are needed to make the law as unambiguous as possible. **AB 1822** currently makes minor technical corrections to language used in the Act. The Marin LAFCo is grateful to your Committee, staff and CALAFCO, all of whom worked diligently on this language to ensure there are no substantive changes while creating a significant increase in the clarity of the Act for all stakeholders.

This legislation helps insure the Cortese-Knox-Hertzberg Act remains a vital and practical law that is consistently applied around the state. We appreciate your Committee's authorship and support of this bill, and your support of the mission of LAFCos.

Yours sincerely,

Jason Fried
Executive Officer

cc: Members, Assembly Local Government Committee
Jimmy MacDonald, Consultant, Assembly Local Government Committee
William Weber, Consultant, Assembly Republican Caucus
Pamela Miller, Executive Director, CALAFCO

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