



City of Austin Employees' Retirement System

**MINUTES
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD MEETING
Tuesday, March 24, 2009
418 E. Highland Mall Boulevard, Austin, Texas 78752**

Board Members Present

Art Alfaro
Janet Bartles
Eyna Canales-Zarate
Reagan David
Francine Gertz
Ed Golden
Elizabeth S. Gonzales
Sam Jones
Mark Monteith
Anthony B. Ross, Sr.
Mayor Will Wynn

Absent

Staff and Guests Present

Stephen C. Edmonds, Executive Director
Donna Boykin, Finance Manager
Rhonda Helm, Operations Manager
Rosaree Koepsel, Administrative Supervisor
Kirk Stebbins, Chief Investment Officer
Barney Knight, General Counsel
Lewis Ward, GRS
Joe Newton, GRS
Dr. Robert Dennison, Medical Consultant

The meeting was called to order at 1:33 p.m. by Board Chair, E.S. Gonzales.

1. System Member and Citizen Comments / Correspondence

There were no member or citizen comments/correspondence.

2. Reports from Chairperson, Board Members, and Staff

A. Review of Meeting Agenda

No changes to the agenda order were made.

B. Chairperson Comments

There were no Board Chairperson comments.

C. Ethics Policy Disclosure Statements

Board-Approved Policy C-3 "Code of Ethics" requires that "Ethics Policy Disclosure Statement" forms be completed within 30 days of the Board meeting.

Board Trustee Declarations: A. Alfaro declared a March 18, 2009 meeting with K2, a hedge fund of funds firm that would like to do business with COA ERS. E. Golden, S. Jones, and A.B. Ross, Sr. declared attending a luncheon on March 3, 2009 with AEW Capital Management re: real estate investment market overview.

Staff Declarations: K. Stebbins declared meetings with K2 Advisors, J.P. Morgan Asset Management, Emcor Securities, Inc., Harbert Management Corporation, Texas Trust, UTIMCO, and Fischer Francis Trees & Watts, Inc.

S. Edmonds referred Trustees to the memo re: question 11 on the Annual Financial Disclosure form that was due for completion in January. General Counsel has advised that this question should be answered in conjunction with the previous question (#10) concerning relationships with individuals or business entities which have contracted or solicited business with COA ERS. Blank forms were provided for Trustees who need to amend their previously submitted forms.

D. Reports on Educational Programs Attended

Board-Approved Policy T-1 "Training, Research, Education Expense Policies" requires that "Trustee Educational Program Feedback Report" forms be completed within 30 days of travel completion. No forms were received for reporting at this meeting.

E. List of 2009 Committee Assignments

Board-Approved Policy D-2 "Duties and Responsibilities of Trustees, Officers, and Committee Chairs" authorizes the Board Chair and Vice-Chair to appoint Committee Chairs and committees as appropriate. A list of the 2009 assignments was provided.

F. 2009 Board and Committee Meeting Schedule

An updated schedule of remaining 2009 meetings was provided in the Board packet. No meetings are scheduled for April. The May meeting schedule and changes to the August Benefits and Services Committee meeting and the September Disability Committee meeting were noted.

3. Consent Items

All of the following items may be acted upon by one motion. No separate discussion or action on any of the items is necessary unless desired by a Board Member

- A. January 27, 2009 Board Meeting Minutes
- B. February 20, 2009 Special Called Board Meeting Minutes
- C. Ratification of October, November, and December 2008 Retirement and Death Benefits

A minor typographical error was noted in the January 27, 2009 minutes. A.B. Ross, Sr. moved to approve the consent items. E. Canales-Zarate seconded the motion. The motion passed unanimously.

4. Disability Retirement

- A. Convene into Executive Session Pursuant to Sec. 13, Art. 6243n, and Sec. 551.0785 Texas Government Code, to Consider and Act on Disability Retirement Application Ref: 9390

- B. Reconvene into Public Session and Take Action as Determined Appropriate by the Board Regarding Disability Application Ref: 9390

The Board convened into Executive Session at 1:41 p.m. and reconvened at 1:50 p.m. No action was allowed while in Executive Session.

F. Gertz made a motion to deny disability retirement application Ref: 9390. M. Monteith seconded the motion. The motion passed unanimously.

5. Benefits and Services Committee

- A. Minutes from March 10, 2009 Meeting – Committee Chair E. Canales-Zarate referenced the minutes provided for Board information.

- B. Gabriel, Roeder, Smith & Company (GRS) 2010 Engagement Letter

E. Canales-Zarate moved to approve the 2010 engagement letter with GRS. A.B. Ross, Sr. seconded the motion. The motion passed unanimously.

- C. Draft Report from Buck Consultants

Copies of the draft actuarial review report from Buck Consultants and GRS' responses to the report were provided to the Board. The Committee is recommending acceptance of GRS' responses to the actuarial review: There is no change necessary on recommendation #1; recommendations #2 and #3 will be incorporated as part of the next experience study scheduled for 2012; and recommendations #4 and #5 will be incorporated into the December 31, 2008 valuation.

A.B. Ross, Sr. moved to accept GRS' responses to the actuarial review. E. Canales-Zarate seconded the motion. The motion passed unanimously. S. Edmonds will submit GRS' response letter to Buck Consultants for inclusion with their report to the City of Austin.

- D. December 31, 2008 Valuation Results

L. Ward and J. Newton, GRS, presented the December 31, 2008 valuation results. The report measures the actuarial liabilities, determines the adequacy of the current statutory contributions, provides information for GASB #25 and CAFR reporting, explains the changes in the actuarial condition of COA ERS, tracks changes over time, and discusses possible future problems and issues. Per the Board's request, this valuation includes recommendations #4 and #5 from Buck Consultants' actuarial review re: the calculation of the total present value of liabilities and the present value of salaries.

The key issues were identified as follows:

- COA ERS was severely impacted by the collapse of the financial markets in the 4th quarter of 2008.
- The fair market value of assets declined by 27% (from \$1.698 billion to \$1.237 billion).

- The actuarial value is now hitting 120% of the fair market value corridor.
- Actuarial return was -8.8% in 2008, compared to 12.1% in 2007.
- Unfunded actuarial accrued liability increased from \$459.3 million to \$763.0 million.
- Funded ratio (actuarial assets divided by actuarial accrued liability) decreased from 78.3% in 2007 to 66.0% in 2008 due to asset losses.
- Investment returns are still the most important factor in determining the long term viability of the current benefits and contribution pattern. Return on market for 2008 was approximately -25.9%.
- Funded ratio using market value is 55.0% (from 80.4% in 2007).
- Funding period for this valuation remains at “infinite”.
- Since rate of return on investments was less than 12.0% for calendar year 2008, City will increase the contribution subsidy to 3% effective October 1, 2009 (total City contribution rate will be 11%).
- Supplemental Funding Plan is no longer expected to be sufficient. It would take a City employer contribution of 18.17% (ARC) to produce a 30-year funding period (increased from 13.18% in 2007).
- GRS recommends that the Board be proactive with the City in discussions about restoring the System to a benefit structure that can be supported by the contributions. This means either a substantial increase in contributions from the City and/or employees, or, benefit modifications for employees (which would require legislation). Although the legislation most likely could not be enacted until 2011, it is recommended that the discussions begin this year.

A.B. Ross, Sr. made a motion and E. Canales-Zarate seconded the motion to accept the actuarial valuation results. The motion passed unanimously.

The Board was updated on discussions that have taken place with the City concerning short-term and long-term options being considered.

6. Investment Committee

- A. Minutes from January 23, 2009 Investment Committee Meeting – These minutes were provided for Board information only since they were discussed at the January Board meeting. One slight change was noted re: attendees of this meeting.
- B. Minutes and Report from February 20, 2009 Meeting – The meeting minutes were provided for Board information.
- C. Asset Allocation and Funding of International Small Cap

R. David, Committee Chair, reported that the Committee discussed the goals and objectives of the System’s strategic target asset allocation in light of the revised higher expected return and risk estimates. R. David made a motion to approve funding of the international small cap equity mandate at 5% pending successful contract negotiations with Mondrian. E. Canales-Zarate seconded the motion. Motion passed unanimously.

K. Stebbins reported that funding is available and contract negotiations have successfully been resolved.

7. Policy Committee

A. Minutes and Report from March 10, 2009 Meeting

Committee Chair E.S. Gonzales provided an update to the Board concerning discussions on the review processes for consultants and employees who report to the Board (Executive Director, General Counsel, and Assistant General Counsel) and the decision to defer any action regarding possible office renovations with the exception of minor projects that can be completed within the current budget.

No Board action was necessary.

8. Executive Director's Report

- A. Conferences / Training
- B. Retirement Office News
- C. Legislation
- D. Communications Update
- E. Member / Employer News
- F. Public Pensions in the News
- G. Investment News
- H. Comparative Calculation and Retirement Activity Levels

S. Edmonds referenced information he had provided to the Trustees concerning the upcoming TEXPERS conference/events and the updated Board governance manual.

The Board was made aware of several legislative bills of interest that could affect COA ERS. S. Edmonds and E. Canales-Zarate provided updates on some of the legislation. A comparison and analysis prepared by the Texas Pension Review Board was included in the Board packet.

S. Edmonds reported that the actuarial report from Buck Consultants will be presented to the City; the City of Austin Audit and Finance Committee is scheduled to meet on April 28th. He called attention to the investment results for selected public pensions and referred the Trustees to several articles re: public pensions in the news.

The remaining items were included in the packet for Board information only.

The meeting adjourned at 3:23 p.m.


for Elizabeth S. Gonzales
Elizabeth S. Gonzales, Board Chair

05-26-09
Date


Stephen C. Edmonds, Executive Director

5-26-09
Date