



City of Austin Employees' Retirement System

MINUTES
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Tuesday, March 22, 2005 – 1:30 pm
418 E. Highland Mall Blvd.

Board Members Present

Janet Bartles
Francis E. Benoit – *departed 4:22 p.m.*
Eyna Canales-Zarate
Francine Gertz
Ed Golden
Elizabeth S. Gonzales
Jackie Goodman – *arrived 1:44 p.m.;
departed 4:00 p.m.*
Mark Monteith
Cathy Rodgers
Dennis Waley

Absent

Reagan David

Guests and Staff Present

Stephen C. Edmonds, Executive Director
Ruth Ann Eledge, WCG
Chester Falk, Retired Member
Rhonda Helm, Operations Manager
Barney Knight, General Counsel
Tom Medders, Members' Association
Jesse Ortega, Administrative Supervisor
Mark Randall, GRS
Paige Saenz, Barney Knight Associates
Lewis Ward, GRS

The meeting was called to order at 1:39 p.m. by Board Chair, D. Waley.

I. System Member and Citizen Comments/Correspondence

Tom Medders, from the Members' Association, addressed the Board with comments about travel. He expressed his opinion that a lot of the travel of the Board is unnecessary, and that if travel stopped today, it is his personal feeling that half of the Board would no longer be on the Board. He advised that the Members' Association would like to ask that minutes be posted on the website since they provide important information to all members. He stated that he believes the vacant Executive Assistant position should be eliminated. His final comment was that the Members' Association would like a cap on travel for each Board Member.

II. Reports from Chairperson, Board Members, and Staff

A. Review of Meeting Agenda - *Consent Items

There were no comments or changes to the agenda from Board Members or staff.

The agenda items recommended to be taken on consent included items III. January 25, 2005 Board Meeting Minutes, IV. February 22, 2005 Special

Called Board Meeting Minutes, and V. Ratification of January and February 2005 Retirement and Death Benefits. E. C-Zarate made a motion to recommend approval of the three consent items. J. Bartles seconded the motion. The motion carried unanimously.

B. Chairperson Comments

D. Waley advised that he was going to skip this agenda item until later in the meeting.

C. Board Member Recognition

D. Waley advised that there was no Board Member recognition at this meeting.

D. Board Member Comments

E.S. Gonzales advised that she has been invited to be a panelist for the Stars and Stripes conference on fiduciary responsibility. She said that there is no cost to the System for her participation.

E. Ethics Policy Disclosure Statement

D. Waley asked for any disclosures and reminded the Board to submit the disclosure form even if there was nothing to declare.

C. Rodgers declared she attended dinners with Alliance Capital Management and GRS as part of the annual TEXPERS conference. E.S. Gonzales declared that she also had dinner with GRS and attended a dinner with Ryan – ALM. E. Golden declared that he attended the GRS and Ryan – ALM dinners. J. Bartles declared that she attended the dinners with GRS, Ryan – ALM, and Alliance Capital. F. Gertz declared that she attended the GRS and Ryan – ALM dinners. M. Monteith declared his attendance at the Alliance Capital dinner. S. Edmonds declared that he also attended the GRS dinner.

F. 2005 List of Committee Assignments

The Board was referred to the corrected 2005 list of Committee assignments handout, reflecting one change from the list in the Board packet.

G. 2005 Board and Committee Meeting Schedule

D. Waley noted the changes to the meeting schedule: the June Board meeting is being changed from June 28 to June 21 due to the GFOA Conference conflict; the Board's Strategic Planning meeting, tentatively scheduled for 1Q2005, is being moved to the fall of 2005; April 12th 10:30

a.m. Audit and Finance Committee and 11:30 a.m. Policy Committee meetings have been scheduled.

III. January 25, 2005 Board Meeting Minutes

This item was taken on consent by the Board (see item II.A.).

IV. February 22, 2005 Special Called Board Meeting Minutes

This item was taken on consent by the Board (see item II.A.).

V. Ratification of January and February 2005 Retirement and Death Benefits

This item was taken on consent by the Board (see item II.A.).

VI. Investment Committee Meeting Minutes and Report from February 18, 2005 Meeting

C. Rodgers referred the Board to the February 28, 2005 Investment Committee meeting minutes and advised that there was no report from the Committee.

VII. Sterling Capital Management Consent Agreement

S. Edmonds advised that this was briefly mentioned at the February 18th Investment Committee meeting, but the issue was not received early enough to be included on the agenda for discussion and recommendation. He explained that 70% of Sterling Capital Management is being acquired by BB&T Corporation, a large financial holding company. The company is currently 100% employee owned. Ramifications of the ownership change will be discussed with Sterling at the May 20th Investment Committee meeting.

COA ERS is requested to sign a consent to the transaction, which is fairly standard procedure in cases like this, to ensure continuity of the System's relationship with the investment manager. The Investment Committee will discuss the ownership structure at their next meeting to review the longer term implications.

C. Rodgers made a motion to consent to the assignment of the current investment advisory contract. F. Gertz seconded the motion.

Additional discussion ensued about the capital and percentage of cash on hand by each company, why did the companies merge, and who is benefiting from the merger. S. Edmonds was requested to ask E. Ralph, Summit Strategies, to address these questions at the next Investment Committee meeting. The Board reiterated that this was an interim step; the ownership structure and change will be discussed with Sterling in great detail at the May 20th Investment Committee meeting. B. Knight, General Counsel, advised that signing the consent does not prohibit the Board from taking additional action as deemed necessary.

With no further discussion, the motion passed unanimously.

VIII. Policy Committee Minutes from January 18, 2005 Meeting

A report of this meeting was made at the January 25, 2005 Board meeting. Copies of the minutes were being provided for Board information only; no action was required.

IX. Policy Committee Minutes and Report from March 8, 2005 Meeting

Due to R. David's absence, C. Rodgers was asked to present the report and recommendations of the Policy Committee.

A. Compensation Consultant's Market Compensation Analysis/Implementation

C. Rodgers explained that Ruth Ann Eledge from the Waters Consulting Group, Inc. (WCG) had discussed the methodology and implementation of the market compensation analysis with the Policy Committee. Most of the Board Members had attended these Committee meetings.

R. Eledge reviewed that COA ERS had contracted with WCG to review the compensation structure and market competitiveness of the System. She advised that the pay structure is somewhat behind, however, there is minimal overall fiscal impact. There are recommended adjustments for some employees to progress them closer to the mid-range (market competitiveness). The cost to this one-time alternative implementation is approximately \$16,000. Pay-for-performance increases (e.g. merit increases) are not included in the implementation plan, however are recommended in the proposed administrative guidelines for employee movement through the pay structure.

The Board discussed that since the current job descriptions had recently been revised considering employee input, job description inventory and data collection were not part of the study.

C. Rodgers made a motion to adopt the pay grades recommended by WCG and the alternative implementation schedule effective with the April 3, 2005 pay period. E. C-Zarate seconded the motion.

Further discussion ensued about the methods of implementation. The study looked only at salary; overall fringe benefits were not within the scope of the study. The purpose of the study was to determine what employees are being paid doing similar work in similar positions in other organizations. The Board requested that the Policy Committee consider the issues concerning job description inventory and overall benefit structure; it was also suggested the Committee may also consider expanding the scope of the contract next time such a study is requested.

With no further discussion, the motion passed unanimously.

B. Board-Approved Policy P-1 “Statement of Personnel Policy and Guidelines”, Section IX.F.1. Vacation Leave

C. Rodgers presented the recommended changes to the vacation leave accruals; she advised that the City of Austin changed their rates about three years ago, and adjusting COA ERS’ rates to these rates is not a big change.

C. Rodgers recommended adopting the vacation leave accruals as proposed effective with the April 3, 2005 pay period. J. Bartles seconded the motion. Motion carried unanimously.

C. Board-Approved Policy T-2 “Tuition Reimbursement Program”

C. Rodgers referred the Board to the proposed changes to the Tuition Reimbursement program. S. Edmonds explained that the proposed changes provide for cost-sharing financial assistance, 80% of tuition up to \$100.00/hour. Individual courses must be job-related, and degree programs must also be job-related (e.g. Business Administration, Technology, or Public Administration). The proposal also encourages employees to make their financial assistance needs known by July each year for budgetary planning.

C. Rodgers made a motion to approve the changes as proposed. E.S. Gonzales seconded the motion. Motion carried unanimously.

The Board reiterated that each of the above issues was discussed in great detail with the Policy Committee.

X. Goals and Objectives Committee Minutes and Report from March 8, 2005 Meeting

A. December 31, 2004 Actuarial Valuation Results

L. Ward, GRS, introduced M. Randall, Sr. Consultant with GRS. L. Ward advised that the valuation results being presented were also presented to the Goals and Objectives Committee on March 8th; the final valuation report will be provided at a later date pending review of the System’s auditors. If there are material changes to the report, the report will be re-presented to the Board.

L. Ward explained that the City had higher than expected salary increases and lower than expected turnover which produced actuarial losses. The continued rebound in the financial markets has helped the funding situation, however it is difficult to see because: 80% of 2004’s gain and 60% of 2003’s gain are still being deferred; the Unfunded Actuarial Accrued Liability (UAAL) increased by approximately \$118 million (from \$203.0 million to \$321.4 million); there is a loss on actuarial value of assets of \$67 million; the funding period remains at infinite; funding ratio (actuarial assets divided by actuarial

accrued liability) has declined again, from 86.9% last year to 80.8% this year, and may still not have bottomed out.

The actuarial value of assets (\$1.357 billion compared to \$1.349 billion last year) is 98.7% of fair market value. Unfortunately, the bad news is not over. The remaining deferred investment losses will be recognized faster than the deferred investment gains. However it is possible that the markets could completely undo the damage they have caused. Two or three years of good returns (13%-15.5%) in the next five years could put the System back on a path toward the current contribution rate structure being adequate.

GRS recommended that there should be no benefit enhancements, without adequate contribution rate increases for the foreseeable future, including no ad hoc increase. The Board should work with the City to establish a plan for an increase in the contribution rate(s) (preferably City only, but possibly both City and employee). A larger contribution would increase the money available to amortize the UAAL. The Board should continue to be proactive with the Pension Review Board, keeping them informed of the System's plans for dealing with current funding issues.

E.S. Gonzales made a motion to accept the December 31, 2004 Actuarial Valuation Results. E. Golden seconded the motion. Motion carried unanimously.

B. Board-Approved Policy A-3 "Annual Retiree Affidavits"

S. Edmonds advised the proposed changes to Policy A-3 "Annual Retiree Affidavits" clean up and streamline the policy to conform to current practice.

E. C-Zarate made a motion to approve the revisions to the Policy. C. Rodgers seconded the motion. Motion passed unanimously.

XI. Strategic Funding Proposals/Communication Strategy with Stakeholders

D. Waley presented a proposal outlining the City Manager's plan for funding COA ERS' deficit. If the Board accepts the proposal, the City Manager will meet with each Council Member individually, and then present a resolution to the full City Council to put the plan in place.

The proposal provides that starting in Fiscal Year (FY) 2007, the City of Austin will provide a 1% subsidy (9% contribution instead of the current 8%), in FY 2008, 2% (10% contribution rate), in FY 2009, 3% (11% contribution rate), and in FY 2010, 4% (12% contribution rate). The maximum subsidy of 12% could bring the System to a 30-year funding period in the year 2013. After the 30-year funding period is achieved, the subsidy will be reduced to whatever is required for the System to stay at a 30-year funding period.

There are two conditions to the proposal. If the System earns 12% net of fees in any calendar year, any subsidy increase will be delayed one Fiscal Year. In

addition, future benefit enhancements, including Cost of Living Adjustments (COLAs) must be presented by the Board to the City Manager for subsequent approval by the City Council on an indefinite basis regardless of the System's funding.

D. Waley acknowledged GRS for their assistance in this process. L. Ward advised that if the Board adopts the plan and the City Council approves, this funding will be recognized in future valuations, and the System's funding period will no longer be infinite. It was clarified that time weighted return will be used instead of dollar weighted return.

The Board had extensive discussion about COLAs for retirees. As long as the CPI is 3%, the Board can recommend an increase through the City's budget process. The City would fund the cost of the COLA as an additional subsidy. The next COLA consideration would be FY 2007/2008; General Counsel will confirm whether or not such an adjustment could be effective in October 2007 versus January 2008 (per Statute).

The Board also discussed in great detail the "indefinite" requirement of the City Manager and City Council approval of any System benefit enhancements. J. Goodman requested that the funding plan also be developed with language retaining the Board's control of benefit enhancements/COLAs once the System is adequately funded.

B. Knight suggested that the Board approve the funding plan with the provision that the City reconsider the ongoing benefit enhancement process. L. Ward advised that most Boards report to a governing body and are unable to grant enhancements without approval of the governing body responsible for funding the enhancement.

C. Rodgers made a motion to accept the funding plan as proposed. E. C-Zarate seconded the motion with a friendly amendment to identify the item of indefinite approval as a point of discussion with the City. C. Rodgers accepted the friendly amendment.

D. Waley advised that he will clarify time-weighted rate of return on the first page of the plan. If the plan is approved by the Board, the revised plan will be sent to S. Edmonds who will forward to B. Knight. B. Knight will draft a resolution. The resolution will be sent to the Board prior to being sent to the City Manager and City Council for consideration/action.

D. Waley was again commended for the excellent job he has done in working with the City on resolving the funding situation.

B. Knight clarified that a City Council resolution will bind future Councils to this agreement. He suggested that the Board send a transmittal letter supporting the City Manager's recommendation, offering a resolution for City Council consideration, and request reconsideration of the indefinite approval of benefit

enhancements. A suggestion was made to also include the fact that retirees may not receive COLAs for another two-three years in the transmittal letter.

With no further discussion, the motion carried unanimously.

XII. General Counsel Report

General Counsel had no agenda items to report.

XIII. Executive Director's Report

- A. Calendar Items/Conferences/Training**
- B. Retirement Office News**
- C. Member News**
- D. Public pensions in the News**
- E. Investment News**
- F. Comparative Calculation and Retirement Activity Levels**

S. Edmonds briefly reviewed the information presented in the Executive Director's Report. He noted that Teresa Cantu had been promoted to the position of Member Services Specialist. Recruitment is underway to now fill her prior position as Member Services Coordinator.

COA ERS has been notified that the 2003 Comprehensive Annual Financial Report has received the Certificate of Achievement for Excellence in Financial Reporting. Donna Boykin, Rhonda Helm, and Melissa Adams were commended for their diligence in producing the report. He also noted that the external auditors were completing their field work and that the draft audit report will be presented at the April 12 Audit and Finance Committee meeting.

The annual affidavit process is underway and more than 2,000 affidavits have already been received. Member inquiries have been received about the financial status of the System and about the possibility of an increase in allowable purchases of prior active duty military service.

Jesse Ortega was commended for his efforts to tackle the issue of address problems with active employees, which included a recent meeting with the City of Austin Human Resources Advisors.

It was noted that the California governor's proposal to overhaul California public pensions and the resulting controversy continues to dominate pension news.

Calculation and retirement activity level charts were included in the Board binders.

XIV. Disability Retirement

A. Convene into Executive Session Pursuant to Sec. 13, Art. 6243n., and Sec. 551.0795, Texas Government Code to Consider and Act on Disability Retirement Applications for:

1. Patsy Bailey
2. Robert Howard

B. Reconvene into Public Session and Take Action as Determined Appropriate by the Board regarding Disability Retirement Applications for:

1. Patsy Bailey
2. Robert Howard

The Board convened into Executive Session at 4:15 p.m. and reconvened at 4:22 p.m.

E. C-Zarate made a motion to approve disability retirement benefits for Patsy Bailey and Robert Howard. F. Gertz seconded the motion. The motion passed unanimously.

XV. Executive Director's Annual Performance Evaluation

A. Convene into Executive Session Pursuant to Texas Government Code 551.071 to Confer with Board of Trustees re: Executive Director's Annual Performance Evaluation

B. Reconvene into Public Session and Take Action as Determined Appropriate by the Trustees re: Executive Director's Annual Performance Evaluation

D. Waley advised that the Executive Director's Annual Performance Evaluation will be postponed until the April Board meeting.

II. Reports from Chairperson, Board Members, and Staff

B. Chairperson Comments

D. Waley referred the Committee back to item II.B. He advised the Board that he is retiring this summer, June 30, 2005. He plans to finish up the funding plan before he leaves and stated that he is not sure who will be appointed as his replacement.

The meeting adjourned at 4:25 p.m.



Dennis Waley, Board Chair

4-25-05

Date



Stephen C. Edmonds, Executive Director

4/25/05

Date