



City of Austin Employees' Retirement System

**MINUTES**  
**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM**  
**Tuesday, September 27, 2005 – 1:30 pm**  
**418 E. Highland Mall Blvd.**

**Board Members Present**

Janet Bartles; departed 4:20 p.m.  
Francis E. Benoit, departed 4:20 p.m.  
Leslie Browder; arrived 1:35 p.m.  
Eyna Canales-Zarate  
Reagan David  
Betty Dunkerley  
Francine Gertz  
Elizabeth S. Gonzales, arrived 1:36 p.m.  
Cathy Rodgers; arrived 1:37 p.m.

**Absent**

Ed Golden  
Mark Monteith

**Guests and Staff Present**

Stephen C. Edmonds, Executive Director  
Donna Boykin, Finance Manager  
Rhonda Helm, Operations Manager  
Rosaree Koepsel, Executive Assistant  
Jesse Ortega, Administrative Supervisor  
Barney Knight, General Counsel  
Robert Dennison, M.D., Medical Consultant  
Mike O'Brien, Sprouse & Anderson  
Susan Konakei, KPMG  
Paige Saenz, Barney Knight Associates  
Tom Medders, Members' Association  
George Greene, Active Member  
Darlene Blackburn, Guest  
Diane Bryant, Retired Member  
Verna Cereceree, Retired Member  
Alison Ender, Retired Member  
Chester Falk, Retired Member  
Wallace Gootman, Retired Member

The meeting was called to order at 1:34 p.m. by Board Chair, R. David.

**I. System Member and Citizen Comments/Correspondence**

Tom Medders represented the Members' Association to address their concerns about operational expenses of the System especially in light of the fact that there have been no cost of living adjustments (COLA) for retirees in the past two years. He requested that the Board be aware of the need to keep expenses as low as possible to achieve a COLA for its retired members. Mr. Medders specifically mentioned travel and staffing expenditures as areas of concern. He commended the Board for working with the City of Austin on the supplemental funding plan and cautioned the Board to use this funding in a fiscally responsible way.

Alison Ender, a retired member, addressed the Board to convey her concerns over the lack of COLAs for the past two years and asked that the Board be fiscally conservative. She also raised concerns regarding the 23 year rule for full retirement and the purchasing of time to attain retirement and asked the Board to consider reformulating programs that are costing the System. She asked the Board to conserve wherever possible but said she was supportive of research, travel, and educational expenditures as long as it counts for the members.

R. David stated that the Board is sensitive to all of the issues and will consider all of the comments received.

## **II. Reports from Chairperson, Board Members, and Staff**

### **A. Review of Meeting Agenda - \*Consent Items**

There were three agenda items that were taken out of order as indicated by R. David:

Disability Items XI. and XII. were moved after Item VI. General Counsel Report to accommodate the discussion with COA ERS' medical consultant, and

Item II.F. 2005 Board and Committee Meeting Schedule was discussed following Item IX. Investment Committee Minutes and Reports.

There were three agenda items recommended to be taken on consent:

III. July 26, 2005 Board Meeting Minutes

IV. August 18, 2005 Special Called Board Meeting Minutes

V. Ratification of July and August 2005 Retirement and Death Benefits

C. Rodgers made a motion to recommend approval of the three consent items. E.S. Gonzales seconded the motion. Motion carried unanimously.

J. Bartles stated that Grace Monroe passed away recently. Ms. Monroe was the first retired person to ever serve on the Board.

### **B. Chairperson Comments**

R. David expressed his appreciation for the flowers and letters that were sent upon the recent passing of his mother.

### **C. Board Member Recognition**

R. David recognized that E. Canales-Zarate's birthday was August 21, M. Monteith's was September 3, C. Rodgers' was September 22, and E. Gonzales' was September 25, 2005.

### **D. Board Member Comments**

F. Gertz thanked S. Edmonds for his recent written responses to member inquiries; in addition she encouraged all members to come to the upcoming Annual Members' meeting on October 19 from 5:00 to 7:00 p.m. She added that the actuary would be in attendance and available to answer questions.

L. Browder informed the Board that the first pension quarterly update with the Austin City Council Audit and Finance Committee occurred earlier in the day on September 27. This update was part of the process associated with the supplemental funding plan. The Committee was especially interested in the allocation of fund assets. She stated that S. Edmonds advised that asset allocation is reviewed periodically, however, there is no immediate change.

B. Dunkerley added that the City Council was eager to work in partnership with the System to help the stability and health of the retirement fund.

**E. Ethics Policy Disclosure Statement – To be filed by Board Members and included in Board Meeting Minutes**

Board Trustee Declarations: R. David, F. Gertz, E.S. Gonzales, M. Monteith, and C. Rodgers declared a dinner with Northern Trust. E. Gonzales and M. Monteith each declared a meal with Aureus & Alliance Bernstein.

Staff Declarations: D. Boykin declared a goody bag with a book, golf balls, T-shirt, and lunches on Sept. 15 & 16 at the Sage Advisory Fall Conference. She also met with Bob Smith from Sage Advisory. S. Edmonds declared a dinner with Northern Trust and in-office meetings with Alliance Capital, Abel Noser, Lynch Jones and Ryan, Research Affiliates, Greenwich Associates, and Fisher Investments. R. Helm declared a breakfast with Cathy Williams, a previous COA ERS Northern Trust representative.

**F. 2005 Board and Committee Meeting Schedule**

This item was deferred to Item X.A. Executive Director's Report – Calendar Items/Conferences/Training

**III. July 26, 2005 Board Meeting Minutes**

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

**IV. August 18, 2005 Special Called Board Meeting Minutes**

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

**V. Ratification of July and August 2005 Retirement and Death Benefits**

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

**VI. General Counsel Report**

**A. Agreement with Godwin Gruber for Legal Services as Tax/Special Counsel**

General Counsel B. Knight advised that A.D. "Gus" Fields, Tax Counsel used by COA ERS for several years, has merged his practice (Lawson Fields & Calhoun, P.C.) with the firm of Godwin Gruber. In recent years, there was no formal agreement since requests were being coordinated through B. Knight. An agreement for services is being recommended to formalize the engagement with Godwin Gruber to continue to use Mr. Fields as our Tax Counsel. B. Knight reviewed the proposed letter of agreement and stated that we would still have access to the same staff and resources as before. Questions were answered concerning fees, confidence in firm, and the frequency of need for a tax counsel. B. Knight and S. Edmonds responded that fees are in line and appropriate, with only a \$15/hour increase, that the firm has provided beneficial service in the past and that the need for tax counsel varies.

F. Gertz made a motion to accept the letter of agreement with Godwin Gruber. E. Canales-Zarate seconded the motion. Motion carried unanimously.

NOTE: Items XI and XII were taken out of order to accommodate discussion with the COA ERS medical consultant.

**XI. Disability Committee Minutes and Report from September 13, 2005 Meeting**

- A. Board-Approved Policy D-1 "Disability Retirement"**
- B. Disability Committee Mission and Goals and Objectives**

F. Gertz, Disability Committee Chair, reviewed the proposed changes to Board-Approved Policy D-1 "Disability Retirement" for Board consideration/approval. She also reviewed the proposed change to the Disability Committee's Mission and Goals and Objectives for Board consideration/approval.

F. Gertz made a motion to accept the proposed changes to Board-Approved Policy D-1 "Disability Retirement" and proposed change to the Disability Committee's Mission and Goals and Objectives. B. Dunkerley seconded the motion. Motion carried unanimously.

**XII. 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:**
  - 1. Suspension of Disability Retirement for Alfred Gallardo**
  - 2. Disability Retirement Applications for:**
    - a. Leاون Wade Re-evaluation**
    - b. Linda Osborne**
    - c. Kenneth Miller**
    - d. Denisee Daugherty**
- B. Reconvene from Executive Session Pursuant to Sec. 13, Art. 6243n, and Sec. 551.0785 Texas Government Code, to Consider and Act on:**

1. **Suspension of Disability Retirement for Alfred Gallardo**
2. **Disability Retirement Applications for:**
  - a. **Leaon Wade Re-evaluation**
  - b. **Linda Osborne**
  - c. **Kenneth Miller**
  - d. **Denisee Daugherty**

The Board convened into Executive Session at 1:19 p.m. and reconvened at 3:33 p.m. to consider action on the above disability retirement issues.

F. Gertz stated that action on Alfred Gallardo will be tabled until the October 11, 2005 Disability Committee meeting.

F. Gertz made a motion to approve disability retirement for Leaon Wade and Linda Osborne. J. Bartles seconded the motion. Motion carried unanimously, with F. Benoit absent.

E.S. Gonzales made a motion to require K. Miller to provide additional medical information from psychological and sleep apnea specialists at System expense. F. Gertz seconded the motion. Motion carried unanimously.

F. Gertz made a motion to require D. Daugherty to provide additional information from all treating physicians and to table the decision until the information is received, no later than March 2006. F. Benoit seconded the motion. Motion carried unanimously.

## **VII. Audit and Finance Committee Minutes and Reports from August 9, 2005 and September 13, 2005 Meetings**

### **A. 2005 Extended Audit Final Report Acceptance**

M. O'Brien, Sprouse & Anderson, previously from KPMG, presented the 2005 Extended Audit Final Report for Board consideration/acceptance. The results were reviewed in detail at the September 13, 2005 Audit and Finance Committee meeting. The audit found no material weaknesses. Seven recommendations were suggested to enhance internal control structures or operational efficiencies. They are noted for consideration in the full report. R. David commented that the audit was a valuable tool to see what is going on operationally; he commended the staff for a clean bill of health.

E.S. Gonzales made a motion to accept the 2005 Extended Audit Final Report. B. Dunkerley seconded the motion. Motion carried unanimously.

### **B. Agreement with Sprouse & Anderson, L.L.P. for Extended Audit Services**

E.S. Gonzales, Audit and Finance Committee Chair, explained that COA ERS currently has separate engagement letters with KPMG for both our

financial and extended audits. We have completed the third year of a five-year financial audit proposal and are one year into a four-year extended audit plan with KPMG.

She further explained that Mike O'Brien who had been the managing partner of our audits with KPMG had recently retired from that firm to join the local firm of Sprouse & Anderson LLP. This presented an opportunity to separate audit work with the extended audit going to Sprouse & Anderson LLP with a 5 year commitment and the financial audit continuing with KPMG. She stated that the Audit and Finance Committee recommended that we accept the proposed letter of engagement with Sprouse & Anderson for the Extended Audit with a 5-year commitment for Fiscal Years 2006-2010.

E.S. Gonzales made a motion to accept the letter of agreement for extended audit services with Sprouse & Anderson LLP. B. Dunkerley seconded the motion. Motion carried unanimously.

**C. Proposed Adjustments to COA ERS Insurance Coverage**

E.S. Gonzales reviewed the proposed adjustments to COA ERS insurance coverage for Board consideration/approval. She stated that the insurance agents explained the coverage limits of the System at the September 13, 2005 Audit and Finance Committee meeting. The liability limits had not been adjusted for several years and it was felt the adjustments were necessary. She added that all Trustees were subject to personal liability in their service to COA ERS.

The recommended changes are to increase Directors & Officers (D&O) coverage from \$1MM to \$5MM and Fiduciary liability coverage from \$10MM to \$20MM. This would result in an estimated annual increase in premium of \$79K.

B. Dunkerley indicated support for the increase and that it was prudent to have coverage that was comparable to funds of similar size. She also recommended an annual review of coverage amounts. R. David stated that this was the first formal review and it was long overdue.

E.S. Gonzales made a motion to approve the new coverage amounts of \$5MM for D&O and \$20MM for Fiduciary. R. David amended the proposal to be effective October 1, 2005. B. Dunkerley seconded the motion. Motion carried unanimously.

**D. Proposed 2006 Administrative Budget**

E.S. Gonzales explained that the proposed 2006 Administrative Budget had been reviewed and discussed in great detail at Audit and Finance Committee meetings. She complimented D. Boykin and the COA ERS staff for their excellent work on the budget. The proposed budget is an

increase of \$147K or 8.5% over the previous year's budget. The greatest increase is for D&O and Fiduciary liability coverage.

F. Benoit expressed concern over increasing budget levels and possible effects from budget padding. R. David explained that a line-by-line review was performed and that some line items experienced decreases. B. Dunkerley recommended that we find comparable pension funds to obtain benchmarking analysis and that our goal should be to make sure that we were not out of line in term of expenses in either direction: either too high or too low. S. Edmonds indicated that a preliminary benchmarking analysis had been done and that we were favorably positioned in terms of both costs per member and costs based on fund size. S. Edmonds also indicated that continued efforts were in progress to further this analysis. F. Benoit stressed the need to make sure that appropriate comparable entities were used in any benchmarking study that is done.

E.S. Gonzales made a motion to approve the 2006 Administrative Budget as submitted to the Board. C. Rodgers seconded the motion. Motion carried with one dissenting vote from F. Benoit.

#### **E. Proposed Salary Structure Adjustment**

E.S. Gonzales reviewed the proposed adjustments to COA ERS salary structure for Board approval/consideration. She stated that a compensation consultant had recommended an annual review of the survey data. S. Edmonds provided information on a recently published survey for the public administration in the Southern Region that indicated an upward shift in salary class structures of approximately 2.5%.

E.S. Gonzales made a motion to approve the 2.5% salary structure adjustment to be effective January 1, 2006. C. Rodgers seconded the motion.

S. Edmonds answered questions and stated that this proposal would change the ranges for all salary classifications by 2.5%. The resulting effect to employees would be weighed based on individual reviews, but the intention was to apply the increase to all employees to maintain their relative positions within their classification. The Board is responsible for establishing salary ranges; the Executive Director is responsible for setting salaries within the approved ranges.

B. Dunkerley commented that it is a good policy to keep up with the market on an annual basis; she stated that the City of Austin is trying to play catch-up to the market and are financially unable to do so. Adjusting salary structures annually is critical to the personnel system.

F. Benoit stated that he wanted to review the study results to determine whether total compensation, including fringe benefits, was evaluated. He stressed this was an important element to obtain appropriate comparable

data. R. David responded that the study that was completed compared COA ERS to other systems with comparable benefits.

Motion carried with one dissenting vote from F. Benoit.

NOTE: F. Benoit and J. Bartles left the meeting at the conclusion of Item VII.E. at 4:20 p.m.). A quorum of the Board was still met for continued business.

## **VIII. Policy Committee Minutes and Report from August 9, 2005 Meeting**

### **A. Board-Approved Policy P-1 “Statement of Personnel Policy and Guidelines”**

R. David, Policy Committee Chair, introduced the proposal for changes to Board-Approved Policy P-1 “Statement of Personnel Policy and Guidelines” for Board consideration/approval.

B. Knight then reviewed the changes and stated they were made as a result of Board requests. The primary changes were made to the Grievance Section of the policy to establish two categories of grievances and the process to address them. The existing policy did not provide for any distinctions and all grievances could be taken all the way to the Board for review. The revised policy distinguishes between minor “complaints” and major “grievances” where major grievances, as outlined in the policy, can rise to the level of Board review, while minor complaints stop at the Executive Director level.

C. Rodgers made a motion to approve the changes to the Personnel Policy. E. Canales-Zarate seconded the motion. Motion carried unanimously.

### **B. Board-Approved Policy C-2 “Committee Authority and Procedures”**

R. David reviewed the proposed changes to Board-Approved Policy C-2 “Committee Authority and Procedures” for Board consideration/approval. The primary changes were to formally define the membership of the Policy Committee and Trustee roles during Committee meetings, and to provide encouragement for attendance to all Committee meetings by all Trustees.

E.S. Gonzales made a motion to approve the changes to the policy. F. Gertz seconded the motion. Motion carried unanimously. (C. Rodgers was absent.)

### **C. Board-Approved Policy C-3 “Code of Ethics”**

R. David reviewed the proposed changes to Board-Approved Policy C-3 “Code of Ethics” for Board consideration/approval. Only minor, cosmetic changes were made to this policy.

E. Canales-Zarate made a motion to approve the changes to the policy. F. Gertz seconded the motion. Motion carried unanimously. (C. Rodgers was absent.)

**D. Board-Approved Policy D-2 “Duties and Responsibilities of Trustees, Officers, and Committee Chairs”**

R. David reviewed the proposed changes to Board-Approved Policy D-2 “Duties and Responsibilities of Trustees, Officers, and Committee Chairs” for Board consideration/approval. B. Knight explained that the primary change was to clarify Board/Trustee responsibilities; additional revisions address communication between Trustees, clarification of vote abstentions, inclusion of a process for Board Members to make their home addresses/telephone numbers available upon request, and Open Meetings and Open Records Act training requirements provision.

C. Rodgers made a motion to approve the changes to the policy. B. Dunkerley seconded the motion. Motion carried unanimously.

**IX. Investment Committee Minutes and Report from August 19, 2005 Meeting and Report from September 20, 2005 Meeting**

**A. Selection of Small Cap Value Investment Manager Finalists and Authorization of Due Diligence Site Visits**

C. Rodgers, Investment Committee Chair, reported from both the August 19 and September 20, 2005 Committee meetings, including necessary Board action on selection of Small Cap Value Investment Manager Finalists and authorization of due diligence site visits.

C. Rodgers stated that the Investment Committee determined a need to evaluate new Small Cap Value Investment Managers to potentially replace Sterling Capital Management due to a performance issue. Of the five firms evaluated, three finalists emerged: AQR based in Greenwich, CT, Brandywine based in Wilmington, DE, and Byram Capital based in Greenwich, CT. (Lee Munder based in Boston and First Quadrant based in Los Angeles did not emerge as finalists for further consideration at this time.)

C. Rodgers stated that the Investment Committee recommended due diligence site visits for the three finalists be scheduled October 23 – 25, 2005. Site visit participants would include C. Rodgers, E. Canales-Zarate, M. Monteith, S. Edmonds, and Eric Ralph. In addition, the team will visit Aronson + Johnson + Ortiz.

C. Rodgers made a motion to continue the process with the three finalists for the Small Cap Value Manager and to conduct site visits to evaluate candidates. F. Gertz seconded the motion. Motion carried unanimously.