



City of Austin Employees' Retirement System

MINUTES
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Tuesday, November 29, 2005 – 1:30 pm
418 E. Highland Mall Blvd.

Board Members Present

Janet Bartles
Leslie Browder
Eyna Canales-Zarate
Reagan David
Betty Dunkerley – dep. 3:35 pm
Francine Gertz
Elizabeth S. Gonzales – dep. 3:35 pm
Mark Monteith
Cathy Rodgers – arr 1:40 pm, dep. 3:35 pm

Absent

Ed Golden
Francis Benoit

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
Paige Saenz, Barney Knight Associates
Lewis Ward, GRS
David Hubach, Retired Member

The meeting was called to order at 1:35 pm by Board Chair, R. David.

I. System Member and Citizen Comments/Correspondence

A. Correspondence from Emanuel Limuel

Mr. Limuel was not present. No other member requested to speak.

II. Reports from Chairperson, Board Members, and Staff

A. Review of Meeting Agenda - *Consent Items

The minutes are presented in chronological order; therefore, some items in this document are out of the numerical sequence presented in the Board agenda. The items affected in this document are referenced below.

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

Item XIV. Disability Retirement was moved after Item II. Reports from Chairperson, Board Members, and Staff

Item X. Annual Board Evaluation was moved to be the final agenda item.

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

III. September 27, 2005 Board Meeting Minutes

IV. October 19, 2005 Annual Members' Meeting Minutes

V. Ratification of September and October 2005 Retirement and Death Benefits

E. S. Gonzales made a motion to recommend approval of the three consent items. E. Canales-Zarate seconded the motion. Motion carried unanimously.

B. Chairperson Comments

R. David had no special comments.

C. Board Member Recognition

R. David recognized that Ed Golden's birthday was December 14 and his own birthday was December 12.

D. Board Member Comments

L. Browder stated that she would attend the quarterly City Council Audit Committee Meeting on December 6 and asked to be placed on the January 2006 Board agenda to provide an update.

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

Board Trustee Declarations: M. Monteith, E. Canales-Zarate, and C. Rodgers declared the following meals associated with the Non-Large Cap Site Visit trip: dinner with Summit on Oct. 24, lunch with AQR on Oct. 24, lunch with Brandywine on Oct. 25, and dinner with Aronson on Oct. 25.

Staff Declarations: S. Edmonds declared the following meals associated with the Non-Large Cap Site Visit trip: dinner with Summit on Oct. 24, lunch with AQR on Oct. 24, lunch with Brandywine on Oct. 25, and dinner with Aronson on Oct. 25.

NOTE: Item XIV was taken out of order to accommodate discussion with the COA ERS medical consultant.

XIV. 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 Applications for:

1. Doris Carr
2. Kenneth Miller

B. Reconvene from Executive Session Pursuant to Sec. 13, Art. 6243n, and Sec. 551.0785 Texas Government Code, to Consider and Act on:

1. Doris Carr
2. Kenneth Miller

The Board convened into Executive Session at 1:42 pm and reconvened at 2:24 pm to consider action on the above disability retirement issues.

F. Gertz made a motion to disapprove disability retirement for Doris Carr. E.S. Gonzales seconded the motion. Motion carried unanimously.

F. Gertz made a motion to approve disability retirement benefits for Kenneth Miller. E.S. Gonzales seconded the motion with a friendly amendment of re-evaluation in one year. Mr. Miller is currently likely to be disabled from all gainful employment. However, Board Chair R. David mentioned that re-evaluation is advised because new treatment may become available for this illness. F. Gertz accepted the friendly amendment. Motion carried unanimously.

III. September 27, 2005 Board Meeting Minutes

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

IV. October 19, 2005 Special Called Board Meeting Minutes

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

V. Ratification of September and October 2005 Retirement and Death Benefits

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

VI. General Counsel Report

A. City of Austin Supplemental Funding Plan

General Counsel B. Knight addressed the Board concerning his written opinion on the City of Austin Supplemental Funding Plan to clarify that the term of the agreement is indefinite and cannot legally be interpreted to be effective forever. He further stated that the agreement is a Council resolution and as such is binding only on the Council that adopted the resolution. The funding is subject to annual appropriation, consequently is subject to termination by either party on an annualized basis. The Council may decide to fund in some other fashion. The resolution would continue so long as the Board and future City Councils wish it to continue or until such time that the terms and conditions are met or until amended.

VII. Goals and Objectives Committee Minutes and Report from October 11, 2005 Meeting

A. Methodology for Calculating the Benefit for Rehired Retirees

E. Canales-Zarate presented two items for Board action associated with calculating the benefit for rehired employees: 1) methodology for calculating the value of prior payments, and 2) methodology for determining the optional form of payment conversion factor.

E. Canales-Zarate referred the Trustees to the Goals & Objectives (G&O) Committee Minutes and the presentation material from L. Ward, GRS Actuarial Consultant, contained in the Board meeting material for details and examples used to evaluate the options available.

E. Canales-Zarate made a motion to accept the recommendation from the G&O Committee and the Actuary to use the following methodology for calculating the value of prior payments: Method 3 - The sum of the accumulated value of each payment received with interest being determined from the date the payment was made to the retiree until the subsequent date of retirement. M. Monteith seconded the motion. Motion carried unanimously.

E. Canales-Zarate made a motion to accept the recommendation from the G&O Committee and the Actuary to use the following methodology for determining the optional form of payment conversion factor: Method 2 - Use age at subsequent retirement. M. Monteith seconded the motion. Motion carried unanimously.

B. Resolution Concerning Health Insurance for Retirees from COA ERS

E. Canales-Zarate presented an amendment to the existing resolution relating to Health Insurance for Retirees from COA ERS to resolve an issue for employees who have retired with service from both the City of Austin and COA ERS and who are receiving health insurance related subsidies from both entities. The amendment resolves a tax issue to provide that the monthly amount being reimbursed to the retiree will be non-taxable to the retiree.

E. Canales-Zarate made a motion to accept the amended resolution and C. Rodgers seconded the motion. Motion carried unanimously.

C. Retiree Monthly Deposit Statements

E. Canales-Zarate, G&O Committee Chair, made a motion to accept the G&O Committee recommendation to discontinue monthly deposit

statements to retirees and to start the process to deliver an annual deposit statement in the month of January. Statements would also be sent any time there is a change (e.g. taxes, insurance). M. Monteith seconded the motion.

S. Edmonds answered questions from the Board and stated his understanding that the Social Security Administration adopted this practice several years ago and that other retirement systems have done this as well.

M. Monteith remarked on the annual savings and J. Bartles asked about the process to communicate this change to retirees. S. Edmonds advised that it would be communicated in the December and January deposit statements, in the December newsletter, and on the website.

After discussion concerning initial member concerns and transition issues, the motion carried unanimously.

VIII. Investment Committee Minutes from the September 20, 2005 Meeting and Report from November 18, 2005 Meeting

A. Non-Large Cap Investment Manager Due Diligence Site Visit Team Report and Recommendation

1. Recommendation from Site Visit Team

C. Rodgers reported that the due diligence site visit trip to evaluate and recommend a candidate for the Non-Large Cap Investment Manager was conducted in October by Board Members C. Rodgers, E. Canales-Zarate, M. Monteith; Executive Director S. Edmonds and our Investment Consultant from Summit Strategies, E. Ralph. Three candidate firms were visited: AQR Capital Management, Byram Capital Management, and Brandywine Asset Management. AQR emerged as the leading candidate from both the Site Visit team and the Investment Committee.

C. Rodgers thanked the site team for their efforts citing that four firms in three cities in two days were visited. (The fourth firm visited was Aronson, one of our Large-Cap U.S. Equity firms.)

C. Rodgers made a motion to authorize staff and general counsel to negotiate the final contract with AQR, to be signed by Board Chair. M. Monteith seconded the motion. Motion carried unanimously.

Possible Termination of Current Fund Manager

With the passage of the motion to negotiate a contract with AQR, C. Rodgers made a motion to authorize staff and investment consultant to notify Sterling Capital of contract termination and to take necessary steps for transition of assets to AQR. F. Gertz seconded the motion. Motion carried unanimously.

B. Board-Approved Policy I-1 “Statement of Investment Policies and Objectives”

C. Rodgers referred the Board to proposed changes to the Board-Approved Policy I-1 “Statement of Investment Policies and Objectives” as presented in the Board packet. The changes primarily clarify and customize the investment guidelines and reporting requirements to the various styles of investment and update fixed income benchmarking to reflect current methodology

C. Rodgers made a motion to accept the amendments. M. Monteith seconded the motion. Motion carried unanimously.

IX. Report and Recommendations from Gabriel, Roeder, Smith & Company

A. 2006 Retiree Annuity Adjustment Consideration

L. Ward, Actuarial Consultant from Gabriel, Roeder, Smith & Company (GRS), stated that there would not be a recommendation to the Board for a 2006 cost of living adjustment. Without this recommendation, the Board is unable to grant a COLA or 13th check for 2006. He referenced his letter to the System dated November 14, 2005 and discussed the reasons for this determination.

Questions from Board Members followed the actuary’s presentation to confirm the reasons for the lack of a recommendation for a 2006 COLA and to evaluate the effect that the City of Austin Supplemental Funding Plan would have on the granting of future COLAs.

The effect of a new GASB requirement associated with health insurance benefits was also discussed.

B. Interest Allocation in January, 2006

L. Ward, GRS, referenced his letter to the System dated November 14, 2005, and reviewed the process for determining the interest rate to be credited on member contributions for the 2005 plan year. The yield on the constant maturity 10-year U.S. Treasury notes as of October 31, 2005 was 4.57%. The actuarial soundness of the System would not be impacted if

this interest rate or another annual rate less than or equal to 6.00% was selected. Given the current funded status of the System, the current uncertainty in the financial markets, and the current market interest rates which are still near historical lows, GRS believes that the 4.57% rate rounded up or down to the nearest quarter percent (e.g. 4.5% or 4.75%) would be an appropriate annual rate. It was discussed that the rate authorized the last two years has been 3.75%.

M. Monteith made a motion to accept the actuary report and approve an interest rate of 4.50%. E.S. Gonzales seconded the motion. Motion carried unanimously.

NOTE: Item X. Annual Board Evaluation was discussed out of order and moved to be the final item of the meeting.

XI. Proposed 2006 Board/Committee Meetings and Planning Retreat

The proposed Board Meeting schedule for 2006 is:

- Seven scheduled monthly Board meetings: January 24, March 28, April 25, June 27, July 25, September 26, and November 28. All at 1:30 pm at the Retirement Office.
- Annual Members' Meeting – October 18, 5:00 pm, Retirement Office

A tentative schedule for Committee meetings was included in Board Meeting materials. This schedule will be discussed and finalized with Board Chair, Vice Chair, and Committee Chairs after the January 24th Board meeting.

The Board Strategic Planning Meeting was tentatively scheduled for February 23-24, 2006. S. Edmonds will try to secure the City-operated Reicher Ranch facility as the meeting location. Anticipated topics will be centered on Board Governance and the Board evaluation process. R. David highly encouraged all Board Trustees to attend the retreat.

B. Dunkerley, E.S. Gonzales, and C. Rodgers departed at 3:35 pm.

XII. Executive Director's Report

- A. Calendar Items / Conferences / Training**
- B. Retirement Office News**
 - 1. Election Process**
 - 2. Newsletter**
 - 3. Website Content**
 - 4. Seminars**
- C. Member News**
- D. Public Pensions in the News**
- E. Investment News**
- F. Third Quarter 2005 Financials**
- G. Comparative Calculation and Retirement Activity Levels**

Calendar Items: There is no Board Meeting scheduled for December. The next Board Meeting is scheduled for January 24, 2006, 1:30 pm.

A Special Called Board Meeting may be needed in December for a disability retirement application. If so, it will be scheduled to follow the Disability Committee Meeting on December 13, 2005.

Election News: Five candidates are running for two seats: Places 8 and 9. The deadline for ballots is December 30. Tabulation will occur on January 3 and swearing in will occur at January Board Meeting. The Board requested staff to send them a sample of the ballot.

Seminars Update: S. Edmonds said there had been great success with the seminars for employees nearing retirement and that the Spanish sessions were well received. He also indicated that staff is working with departments to tailor the seminars to the specific needs of the audiences.

S. Edmonds expressed appreciation to the Member Services Specialists and Coordinators for their dedication and excellent work to make the seminars a great success.

XIII. Disability Committee Minutes and Report from October 11, 2005 Meeting

A. Board-Approved Policy D-1 "Disability Retirement"

F. Gertz reviewed the changes to BAP D-1 "Disability Retirement". Changes allow for copies of all medical records to be obtained for the twelve-month period immediately preceding the date of application and also require disability retirees to annually authorize the Retirement System to obtain a copy of their latest tax return information from the IRS (form 4506-T).

F. Gertz made a motion to accept the changes to the Disability Retirement Policy. E. Canales-Zarate seconded the motion. Motion passed unanimously.

NOTE: Item XIV. Disability Retirement was taken out of order. The minutes for this section can be found after Item II.

Item X. Annual Board Evaluation was discussed out of order and moved to be the final item of the meeting.

X. Annual Board Evaluation

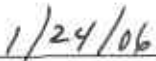
R. David reviewed the results of the Annual Board Evaluation and encouraged Board Members to participate in the process. He recommended that the process be evaluated at the Annual Board Retreat tentatively scheduled for February 2006.

F. Gertz expressed an interest that Board Members themselves become involved in the training and education of other Board members in order to gain a perspective that staff might not be able to provide.

R. David thanked everyone for attending and wished everyone a Happy Holiday Season. The meeting adjourned at 3:52 p.m.



Reagan David, Board Chair



Date



Stephen C. Edmonds, Executive Director



Date