



City of Austin Employees' Retirement System

MINUTES
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD MEETING

Tuesday, June 27, 2006 – 1:30 PM

418 E. Highland Mall Boulevard, Austin, Texas 78752

Board Members Present

Francis E. Benoit – dep. 4:06 p.m.
Janet Bartles
Leslie Browder
Eyna Canales-Zarate
Reagan David
Ed Golden
Elizabeth S. Gonzales
Mark Monteith
Cathy Rodgers – arr. 1:56 p.m.
Anthony B. Ross, Sr.

Absent

Betty Dunkerley

Guests & Staff Present

Stephen Edmonds, Executive Director
Donna Boykin, Finance Manager
Rhonda Helm, Operations Manager
Jesse Ortega, Administrative Supervisor
Rosaree Koepsel, Executive Assistant
Barney Knight, General Counsel
Paige Saenz, Barney Knight Associates
Dr. Robert Dennison, Medical Consultant
Gus Neitsch and Wife, Retiree
Al Barber and Wife, Retiree

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

1. System Member and Citizen Comments / Correspondence

There were no System member or citizen comments.

2. Reports from Chairperson, Board Members, and Staff

A. Review of Meeting Agenda

No changes to the agenda were made. R. David stressed the need for Trustees to stay for the duration of the meeting to ensure adequate participation to complete action on all agenda items.

B. Chairperson Comments

There were no special comments from the Chair.

C. Board Member Recognition

R. David recognized and congratulated A.B. Ross, Sr. for his appointment as Secretary of the Texas Society of CPAs for 2006. Mr. Ross stated he appreciated the recognition and added that he had also been selected by the Austin Chapter of the Texas Society of CPAs to receive a long-term achievement award for representing Industry, Government and Education entities and also had the honor of being spotlighted in the publication "Today's CPA" for representing Texas CPAs on a trip to China in March. He added that he had also fulfilled a campaign promise by completing his Master's of Accounting Management Degree this Spring.

D. Board Member Comments

– City of Austin Audit & Finance Committee Report – Leslie Browder

L. Browder informed the Board that the June City of Austin Audit & Finance Committee Meeting had been postponed until July 25. She will present the Pension System Report from that meeting at the next regularly scheduled Board Meeting in September.

– Leadership Summit Travel Report – Mark Monteith

M. Monteith attended the first EnnisKnupp sponsored Leadership Summit designed for Trustees who are currently in or are likely to assume leadership roles as chair / vice-chair of pension and retirement systems. He stated that it was a valuable and unique opportunity to work with a small group of peers from similar organizations to discuss current and emerging issues and to compare and contrast organizational processes, policies, and procedures. He added that five actual case studies representative of challenges facing pension systems today were reviewed and discussed. He said he was initially reluctant to attend because it was the very first Leadership Summit by EnnisKnupp, but found the Summit to be very worthwhile.

E. Ethics Policy Disclosure Statements – Filed by Board Members and Staff to be included in Board Meeting Minutes

Board Trustee Declarations: R. David, M. Monteith, and J. Bartles declared a working lunch on May 2, 2006 with Eubel, Brady & Suttman during a site visit to the investment firm. M. Monteith, C. Rodgers, and E. Golden declared the following in connection with site visits to NYLIM, QMA, and INTECH (candidate firms for Enhanced Index Manager): receipt of a book tote from NYLIM, car transportation provided by the firms, dinner with Summit Strategies on 5/10/2006, a working lunch on 5/11/2006 with QMA, and a working lunch on 5/12/2006 with INTECH. Continental breakfast items were provided in the meeting rooms at NYLIM and QMA. M. Monteith declared a luncheon hosted by the Economic Club of Chicago associated with the EnnisKnupp Leadership Summit he attended in Chicago on 6/15-16, 2006.

Staff Declarations: S. Edmonds declared a working lunch on 5/2/2006 with Eubel, Brady & Suttman. He also declared the following in connection with site visits to NYLIM, QMA, and INTECH (candidate firms for Enhanced Index Manager): receipt of a book tote from NYLIM, car transportation provided by the firms, dinner with Summit Strategies on 5/10/2006, a working lunch on 5/11/2006 with QMA, and a working lunch on 5/12/2006 with INTECH. Continental breakfast items were provided in the meeting rooms at NYLIM and QMA. Other non-site visit meetings declared by Mr. Edmonds are: 1) Larysa Bemko of Baillie Gifford on 6/19/2006, and 2) Syed Hasnain and David Allen of Alliance Capital on 6/21/2006 (via teleconference).

F. 2006 Board and Committee Meeting Schedule

R. David announced that there would be a full-day Board Strategic Planning Session held on July 28 at the UT Club. He strongly encouraged all Trustees to attend. The primary purpose is to review and update the three year Strategic Plan. Board educational

sessions with GRS, the System's Actuary, and Summit Strategies, the System's Investment Consultant, are also planned.

Due to the announcement of the July 28 meeting, M. Monteith made a motion to cancel the regularly scheduled July 25 Board Meeting in order to avoid holding two meetings within the same week. E. Golden seconded the motion. A.B. Ross, Sr. opened discussion to ascertain what agenda items were slated for the regular Board Meeting. R. David and S. Edmonds responded that only two items were slated: educational sessions (which would be incorporated into the Strategic Planning Session) and presentation of the second quarter 2006 financial statements. A.B. Ross and E. Canales-Zarate stressed that they did not want normal Board business to be tagged onto the Strategic Session and that the regularly scheduled meeting on July 25 should remain on the calendar.

C. Rodgers arrived at 1:56 p.m.

After some additional discussion, the motion to cancel the July 25 Board Meeting passed with 7 yes votes (J. Bartles, L. Browder, R. David, E. Golden, E.S. Gonzales, M. Monteith, and C. Rodgers) and 3 no votes (F.E. Benoit, E. Canales-Zarate, and A.B. Ross, Sr.).

3. Consent Items

- A. April 25, 2006 Board Meeting Minutes
- B. Ratification of April 2006 Retirement and Death Benefits

All of the consent items were acted upon by one motion. E.S. Gonzales moved to approve the consent items and M. Monteith seconded the motion. The motion passed unanimously.

M. Monteith suggested that the Retirement and Death Benefits Report be reviewed and possibly altered to more adequately represent years of service when DROP payments are also chosen by retirees.

4. Convene into Executive Session:

- A. Pursuant to Sec. 13, Art. 6243n, and Sec. 551.0785 Texas Government Code, to Consider and Act on Disability Retirement for:
 - Ronny Miller Re-Evaluation
 - Roy Taylor Application
 - Larry Wagner Application
 - Denise Williams Application
- B. Pursuant to Texas Government Code 551.071 for Action on Non-compliant Annuitants re: Annual Affidavit Process:
 - Cedric Franklin
 - Mary Herrera
 - James Pinson
 - Alice Spooner
 - Larry Stewart
 - John Yocum
- C. Pursuant to Texas Government Code 551.074 to Confer with Board of Trustees re: Executive Director's Annual Performance Evaluation

The Board convened into Executive Session at 2:02 p.m. and reconvened into public session at 3:53 p.m. to consider action on the following three Executive Session agenda items.

5. Reconvene into Public Session and Take Action as Determined Appropriate by the Board regarding:

A. Disability Retirement:

- Ronny Miller Re-Evaluation
- Roy Taylor Application
- Larry Wagner Application
- Denise Williams Application

E.S. Gonzales moved to grant an extension to Ronny Miller until August 29, 2006 to allow him to submit the required documentation needed by the System's Medical Consultant to complete the re-evaluation of his disability status. The Medical Consultant's re-evaluation recommendation would be presented to the Board at the September 26 Board Meeting. M. Monteith seconded the motion. The motion passed unanimously.

M. Monteith moved to disallow disability benefits to Roy Taylor on the basis that he had failed to establish permanent disability from all gainful employment. J. Bartles seconded the motion. The motion passed unanimously.

M. Monteith moved to disallow disability benefits to Larry Wagner on the basis that he had failed to establish permanent disability from all gainful employment. C. Rodgers seconded the motion. The motion passed unanimously.

M. Monteith moved to disallow disability benefits to Denise Williams on the basis that she had failed to establish permanent disability from all gainful employment. E.S. Gonzales seconded the motion. The motion passed unanimously.

B. Action on Non-compliant Annuitants re: Annual Affidavit Process

- Cedric Franklin
- Mary Herrera
- James Pinson
- Alice Spooner
- Larry Stewart
- John Yocum

E.S. Gonzales moved to allow staff to immediately suspend annuity benefits to Cedric Franklin, Mary Herrera, Alice Spooner, Larry Stewart, and John Yocum until they become compliant by submitting a notarized affidavit (James Pinson's affidavit has been received). Once compliant, the annuitants will be retroactively reinstated. M. Monteith seconded the motion. The motion passed unanimously.

C. Executive Director's Annual Performance Evaluation

C. Rodgers inquired about the process used to determine pay adjustments for staff in 2005. S. Edmonds and R. Helm stated that five performance levels were used to evaluate employee performance and that possible increases associated with those rankings ranged from 0% for needs improvement up to 3.5% for superior performance. The highest "pay for performance" percentage applied in 2005 was 3%. All staff members also received a 2.5% increase in salary based on the most recent board-approved salary structure adjustment.

C. Rodgers moved to adjust the Executive Director's salary by 7% as a market adjustment and then apply a 3% increase for performance. E. Golden seconded the motion. The motion passed with 8 yes votes (J. Bartles, L. Browder, E. Canales-Zarate, R. David, E. Golden, E.S. Gonzales, M. Monteith, and C. Rodgers) and 2 no votes (F.E. Benoit and A.B. Ross, Sr.).

6. Policy Committee

A. Minutes and Report from June 13, 2006 Meeting

The minutes were provided for informational purposes only; no action was required.

B. Amendments to Board Approved Policy E-1 "Election Policy for Active-Contributory and Retired Board Members"

R. David stated that the amendments were minor and general in nature. The most significant change was to begin the election process earlier by about a month so that election results could be certified in December.

E. Canales-Zarate moved to approve the amendments to BAP E-1 and E.S. Gonzales seconded the motion. The motion passed unanimously.

C. Amendments to Board Approved Policy C-4 "Contracts for Professional Services"

R. David reviewed the amendments which include modifications to guidelines for reviewing and evaluating various professional service contracts and shifts the responsibility for review of the policy from the Audit & Finance Committee to the Policy Committee. Other amendments are minor and general in nature.

E. Canales-Zarate moved to approve the amendments to BAP C-4 and E.S. Gonzales seconded the motion. The motion passed unanimously.

D. Proposed New Board Policy D-6 "Disclosure of Certain Relationships"

R. David stated that the proposed new policy was being recommended to ensure compliance with Chapter 176 of the Texas Local Government Code regarding Disclosure of Certain Relationships.

C. Rodgers moved to approve the new policy D-6 and E. Canales-Zarate seconded the motion. The motion passed unanimously.

E. Committee Charter Format

R. David stated that the Policy Committee recommended modifying the current Committee "Mission/Goals and Objectives" format to a "Charter" format. This format would be used by all Board Committees.

E. S. Gonzales moved to approve the new format and C. Rodgers seconded the motion. The motion passed unanimously.

F. Policy Committee Charter

R. David stated that the Policy Committee had drafted a Charter using the newly approved format. E. Canales-Zarate moved to approve the Policy Committee Charter and M. Monteith seconded the motion. The motion passed unanimously.

7. Investment Committee

- A. Minutes and Report from May 19, 2006 Meeting
- B. Minutes and Report from June 13, 2006 Meeting

The minutes were provided for informational purposes only; no action was required.

C. Enhanced Index Equity Management Firm Selection & Funding Transition

C. Rodgers began to provide background information on the search and site visits for an Enhanced Index Equity Fund Management Firm.

R. David and E.S. Gonzales immediately recused themselves and left the dais at 3:42 p.m. during the discussion and possible action on this item due to a potential conflict of interest. Prior to departing the dais, R. David transferred the role of chairperson to Board Vice-Chair M. Monteith. Both Trustees completed and signed a Conflict of Interest Affidavit.

C. Rodgers continued stating that the Site Visit team (C. Rodgers, E. Golden, M. Monteith, S. Edmonds, and E. Ralph) visited three firms selected for consideration to provide enhanced index investment management services. The firms visited were New York Life Investment Management (NYLIM), Quantitative Management Associates (QMA), and Enhanced Investment Technologies, Inc. (INTECH). INTECH emerged as the finalist. INTECH's approach differs from the other two firms in that it heavily relies on computer-based programming to rebalance the indexed portfolio on a 6-day cycle. The firm is very conscious of controlling costs and their fees are performance based. The other two firms differ in that they are factor driven and manage tightly to parameters of the index with rebalancing largely based on individual stock performance.

Some additional discussion to clarify issues and to provide information on indexed funds in general continued.

C. Rodgers then moved to authorize contract negotiations with INTECH with review by the System's General Counsel and contract signatory passing to the Vice-Chair, M. Monteith. The motion included that the funding would come from the current equity index allocation. E. Golden seconded the motion. The motion passed unanimously.

R. David and E.S. Gonzales returned to the dais at 3:49 p.m.

D. Assignment of Walter Scott & Partners Limited Investment Manager Agreement to Mellon Financial Corporation

C. Rodgers stated that Walter Scott & Partners Limited had been acquired by Mellon Financial Corporation and that Walter Scott & Partners Limited needed consent to continue their investment management services to the System subsequent to the acquisition.

C. Rodgers moved to approve the consent and E. Golden seconded the motion.

Discussion followed and C. Rodgers stated that the acquisition is not expected to affect performance. Walter Scott is scheduled to present at the next regularly scheduled Investment Committee on August 18 where any issues will be addressed as is normal practice.

The role of chairperson was returned to R. David prior to the vote on this action.

A vote was then taken and the motion passed unanimously.

8. Retiree Member Place 11 Election – Nominating and Election Committee Nominees

S. Edmonds referred the Trustees to the updated list of nominees to serve on the Nominating and Election Committee for the 2006 Retiree Member Place 11 Election and stated that we had more nominees than is required by Statute and COA ERS Policy.

E.S. Gonzales moved to appoint the current listing of nominees (shown below) to serve on the Nominating and Election Committee for the Retiree Member Place 11 Election and L. Browder seconded the motion. The motion passed unanimously.

Imelda Canales	Joe Ed Johnson	Ben Ornelas
Bruce Calvery	Dean Labonte	Helen Priestley
Alex Duderstadt	Jessie Mercer	Donna Orsatti Valdez
Wallace Gootman	Elmo J. Miertchin	Molly Shannon
Aarne Hartikka	Ernie Nance	Marsha Wehmeyer

A.B. Ross, Sr. commented that the address of B. Ornelas was missing from the list. Staff advised that the address was available.

9. General Counsel Report

A. IRS Information Request

B. Knight reviewed the IRS information request letter received on May 9, 2006. He stated that all of the City of Austin affiliated pension systems received essentially the same correspondence. The Fire and Police systems received letters at the same time. C. Rodgers noted that the deferred compensation has been under review for some time. Gus Fields, the System's tax counsel, is working with the IRS to provide the requested information to show that COA ERS is in compliance with IRS requirements to be deemed a qualified pension plan. No material issues are anticipated. Any minor issues that may exist can most likely be resolved by passing a Board Resolution to clarify any findings.

F.E. Benoit departed the meeting at 4:06 p.m.

No Board action was needed and the General Counsel Report was for information only.

10. Executive Director's Report

- A. Calendar Items / Conferences / Training
- B. Retirement Office News
- C. Communications Update

- D. Member News
- E. Public Pensions in the News
- F. Investment News
- G. Comparative Calculation and Retirement Activity Levels

S. Edmonds reviewed the calendar of educational opportunities. He noted that registration forms for the TEXPERS Summer Educational Forum (August 20-21) should be submitted as soon as possible in order to secure hotel reservations. He also mentioned that the Public Funds Board Forum is tentatively set for December 9-12, 2006.

S. Edmonds announced that a limited supply of the Comprehensive Annual Financial Report for 2005 had just arrived and would be distributed the Board Members. The remainder of the order should be received within a few days.

Sprouse and Anderson (extended audit firm) has completed the audit process and draft report for the business process risk assessment. The report will be reviewed at the next Audit & Finance Committee scheduled for August 15. A.B. Ross, Sr. requested a copy of the audit plan.

S. Edmonds stated that Staff has started the process for disability renewal reviews. Notices have been sent to all disability retirees requesting authorization for COA ERS to contact the IRS directly to obtain tax return information. This is the first year to use this process and it seems to be working generally well. Additional updates will be provided as needed.

The 2nd Quarterly Retirement News Update has been completed and is in the process of distribution.

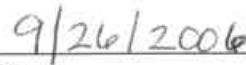
There was brief discussion about pension related news articles and the Comparative Calculation and Retirement Activity Levels Report. S. Edmonds advised the Board of an article in the Statesman over the weekend concerning under-funded plans; COA ERS was not mentioned in the article, presumably because we have a plan to address our funding situation.

E. Golden moved to adjourn the meeting. M. Monteith seconded the motion. The motion passed unanimously.

The meeting was adjourned at 4:20 p.m.



 Reagan David, Board Chair



 Date



 Stephen C. Edmonds, Executive Director



 Date