



**COLORADO
PERA**
Record of Proceedings

**PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
BOARD MEETING MINUTES
1300 Logan Street
Denver, CO 80203
October 17, 2003**

Trustees Present: James Casebolt, Board Chair, Mark Anderson, Vice Chair, Sara Alt, Donna Bottenberg, Terry Campbell, F. Elizabeth Friot, Joanne Hill, Patricia Kelly, Richard Lansford, Dick Murphy, Amy Nichols, Scott Noller, Marcus Pennell, Gloria Santistevan-Feedback, Douglas Windes.

Trustees Absent: (There is one vacant seat.)

Staff Present: Lana Calhoun, Rob Gray, Katie Kaufmanis, Amber Malley, David Maurek, Kim Natale, Jennifer Paquette, Greg Smith, Meredith Williams.

James Casebolt, Board Chair, called the meeting to order at 9:23 a.m.

Approval of Agenda

James Casebolt, Board Chair, moved that: "*the Board agenda be approved as published.*" The motion was approved.

Approval of September 19, 2003 Board Meeting Minutes

James Casebolt, Board Chair, called for amendments to the September 19, 2003 Board minutes. Gloria Santistevan-Feedback, PERA Trustee, requested that the PERA/DPSRS Merger Update, located on page 11 of the minutes, be revised to reflect the July 1, 2004, and December 31, 2004, unrestricted and restricted merger termination dates.

By motion of Dick Lansford and second by Scott Noller, the September Board Meeting Minutes were approved as amended.



Public Comment

James Casebolt, Board Chair, then recognized the guests in attendance and requested that each guest introduce himself or herself and announce whether or not they intended to address the Board. Connie Anderson, Colorado Retired School Employees Association (CRSEA), thanked the PERA Board and staff for their continual commitment to educating the membership of PERA.

Legislative Package and Report

Rob Gray, PERA Director of Government Relations, with the assistance of Roberta Kirscht, PERA contract lobbyist and Dave Slishinsky, Mellon HRIS, presented information regarding PERA's funding status, the cost associated with particular components of the current benefit structure, the impact various changes in benefits could potentially have on the funded status of the plan, and responded to questions from Trustees.

Extensive discussion commenced regarding the implications of the funding status and the potential impact on PERA's liabilities of various benefit structure modifications. Mr. Gray then presented the Board with possible legislative package features including reducing interest on member contributions, suspending MatchMaker, including IRC Section 125 & 132 deferrals in salary, amending the due date for employer contributions, reallocating a portion of contributions from the health care trust fund to the pension fund, reducing the health care premium subsidy to future retirees under age 65, charging full actuarial cost for service credit purchases, restricting working after retirement provisions by requiring employers to pay contributions for retired members who return to work, modifying early retirement provisions, altering the method by which cost of living increases are calculated for new hires, increasing employer contribution rates, and providing DC plan choice in high-turnover state employee positions. Extensive discussion ensued regarding the potential legislative initiatives and their individual fiscal impacts on the fund, the influence of the alternatives on the membership and pros and cons of each alternative.

The Board took a break at 10:48 a.m. and the meeting reconvened with the commencement of the Rules Hearing at 11:00 a.m.



Rules Hearing

James Casebolt, Board Chair, called the meeting to order at 11:00 a.m. and pursuant to the Notice of Hearing, Rob Gray, PERA Director of Government Relations, presented the following rule amendment to the PERA Board of Trustees for their review and comment.

PROPOSED AMENDMENT TO PERA RULES

RULE 2 ADMINISTRATION

2.90 Actuarial Assumptions

C. Actuarial Investment Assumption Rate

The actuarial investment assumption rate is ~~8.75~~ 8.50 percent per year compounded annually, net after administrative expenses.

Patricia Kelly, moved that, *“the Board adopt the proposed amendment to the PERA Rules with an effective date of January 1, 2004, as well as the Statement of Basis and Purpose.”* This motion was seconded by Gloria Santistevan-Feedback and passed unanimously.

The Statement of Basis and Purpose for the Rule is printed below:

Pursuant to C.R.S. 24-51-204(5), the PERA Board commenced a rules hearing at 11:00 a.m. In accordance with its duty to administer the Public Employees' Retirement Association, the Board of Trustees adopted an amendment to the PERA Rules. The Board's authority to adopt and revise the Rules is set forth in 24-51-204(5), Colorado Revised Statutes. PERA Rules are contained in 8 CCR 1502-1.

An amendment to Rule 2.90 C was adopted to reduce the actuarial investment assumption rate from 8.75 percent per year to 8.5 percent per year. This rate is used by PERA in the calculation of the actuarial liabilities of the PERA trust funds, and for other purposes. Pursuant to C.R.S., 24-51-101(2), the rate is set by the Board with the advice of the actuary.

This amendment to the Rules becomes effective January 1, 2004. A copy of the rules and amendments may be obtained from the Public Employees' Retirement Association, 1300 Logan Street, Denver, Colorado 80203.



Legislative Package and Report (Continued)

Following the Rules Hearing, the Board resumed discussion of legislative package considerations. At the conclusion of discussion, Patricia Kelly moved that, *“Staff move forward with the development of the proposed legislative package subject to further discussion and review at the November Board meeting.”*

A dialogue ensued regarding the inclusion of the reduction of health care premium subsidies to future retirees under age 65 who become eligible for retirement after the date of the change and the reallocation of a portion of contributions from the health care trust fund to the pension fund.

After discussion, James Casebolt, Board Chair, called for a show of hands to determine whether the health care subsidy reduction should be included in the legislative options that staff would review in preparation for the November Board meeting. Eight Trustees voted to remove this benefit change option from consideration. Having obtained a majority vote, staff was instructed not to include this item in its formulation of a possible legislative package.

Mr. Casebolt then called for a show of hands regarding the continuation of the reallocation of a portion of contributions from the health care trust fund to the pension fund. By a show of hands, four Trustees voted to remove this proposal from consideration. This proposal failed to receive a majority vote and staff was instructed to include this option in their evaluation of a potential 2004 legislative package.

At the conclusion of discussion, the motion was seconded by Donna Bottenberg and passed unanimously.

The Board directed staff to prepare additional information concerning benefit structure modifications for consideration for action in the 2004 legislative session for further review and discussion at the November Board meeting.

The Board adjourned for lunch at 12:18 p.m. and reconvened at 12:56 p.m. with discussion regarding providing a defined contribution option to high turnover positions in the State. Extensive discussion ensued regarding the various types of defined contribution plan designs that could be considered, fiduciary concerns, political implications and the possible fiscal impact of introducing legislation that would result in the formation of a defined contribution plan. At the conclusion of discussion, Douglas Windes moved that, *“Staff move forward with the development of the proposed high-turnover state employee DC plan.”* Dick Lansford amended the motion with the addition of, *“subject to further discussion and review at the November*



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Board meeting". James Casebolt called for a vote on the motion which, as amended, directed, "Staff move forward with the development of the proposed high-turnover state employee DC plan subject to further discussion and review at the November Board meeting." This motion was seconded by Patricia Kelly and passed.

Monthly Reports

Executive Committee Report

Mark Anderson, Board Vice Chair, reported that the Executive Committee met earlier in the day and approved the September 19, 2003 Executive Committee minutes, reviewed the August 31, 2003 Unaudited Financial Statements and the September 30, 2003 Budget Reports, and reviewed the agenda for the October Board meeting. Mr. Anderson stated that the Committee had also discussed the Board Education Allocation process and policy, guidelines for retirement dinners and reviewed information regarding PERA operations.

Executive Director Report

Mr. Williams, PERA Executive Director, reviewed statistics on membership and the financial status of the fund. Mr. Williams then provided information to the Board regarding organizational accomplishments for 2003. At the conclusion of his report, Mr. Williams responded to a Trustee question regarding the status of litigation involving the Pointe at Park Center.

Market and Portfolio Update

Jennifer Paquette, Deputy Executive Director of Investments, provided a market and portfolio review and information regarding the economic outlook. Ms. Paquette commented on her staff's continued advancement in aligning PERA's investments with established asset class benchmarks.

General Counsel Update

Greg Smith, PERA General Counsel, reviewed the activities and issues involving the Legal Department. Mr. Smith then presented data to the Board regarding PERA's potential financial exposure with respect to charter schools. Mr. Smith stated that staff was establishing mechanisms for closely monitoring charter schools to minimize financial risk to the organization and PERA members who are employed by charter schools.



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Mr. Smith then requested the Board go into executive session to address pending and threatened litigation involving PERA. Pursuant to Colorado Revised Statutes § 24-6-402(3)(b), a motion was made to go into executive session at 2:32 p.m., and was approved unanimously. In addition to the Trustees and the General Counsel, the Executive Director, the three Deputy Executive Directors present, the Director of Communications, the Director of Government Relations, the Manager of Strategy and Innovation and the Legal Administrative Assistant remained present for the closed executive session.

The executive session concluded at 2:46 p.m.

"By my signature below, I certify that the only issues discussed by the members of the Board during the closed executive session were pending and threatened litigation involving PERA," Board Chair James Casebolt.

James Casebolt, Chair

Actuary Selection

Rob Gray, PERA Director of Government Relations, on behalf of the evaluation committee, presented information to the Board regarding the process by which actuary firms were solicited and evaluated. At the conclusion of his report, Mr. Gray presented the committee's recommendation that the Board select Mellon HRIS as its consulting actuary.

Mr. Gray then responded to Trustees' questions concerning the selection and evaluation process and discussion ensued regarding the fees quoted by Mellon HRIS. At the conclusion of discussion, Gloria Santistevan-Feeback moved, *"that the Board of Trustees authorize staff to negotiate a contract with Mellon HRIS to serve as the Board's consulting actuary. If staff is unable to reach a suitable agreement with Mellon HRIS on fees and other contractual provisions, staff is authorized to negotiate a contract with Gabriel Roeder, Smith & Co., to serve as the Board's consulting actuary"*. This motion was seconded by Scott Noller and passed.

The Board recessed for a short break at 3:05 p.m.



Ad hoc Board Vacancy Committee

The Board reconvened at 3:18 p.m. Terry Campbell, PERA Trustee, was not present. Gloria Santistevan-Feedback, PERA Trustee, stated that the Ad hoc Board Vacancy Committee had disseminated the announcement of the State and School Division, School Category vacancy, with a deadline for application submission of October 9, 2003 at 4:30 p.m. Ms. Santistevan-Feedback informed the Board that six applications had been received and an initial screening, including a background check, had been conducted by the committee. She then stated that the committee had identified three finalists to bring to the full Board for consideration.

Ms. Santistevan-Feedback then answered questions from Board members regarding the evaluation criteria utilized by the committee. At the conclusion of discussion, ballots were distributed to the 14 Board members in attendance whereon the three candidates, Richard Patrick Hickey, Linda Reeves and Sandra Mills were listed. Board members were instructed to select two names for further consideration. The ballots were collected and while they were being tabulated, Scott Noller, PERA Trustee, presented the Shareholder Responsibility Committee Report (see below).

Greg Smith, General Counsel, after tabulating the first round of votes, announced that Sandra Mills and Linda Reeves were selected to continue in the process. Mr. Smith then distributed another set of ballots and asked that each Board member select one candidate. While the ballots were collected and tabulated Kim Natale, PERA Deputy Executive Director, Support Services, presented the Board with information regarding the Board Education Policy (see below). At the conclusion of Mr. Natale's report, Mr. Smith announced that Ms. Mills and Ms. Reeves had each received seven votes and an additional round of voting would be required.

While additional ballots were being prepared, Karl Greve, PERA Director of Accounting, presented the 401(k) Investment Advisory Committee Recommendation (see below). At the conclusion of Mr. Greve's report, a third round of ballots were distributed to Trustees and, after completing tabulation, Mr. Smith announced that Sandra Mills had received the majority vote. Scott Noller moved that, *"the Board of Trustees appoint Ms. Sandra Mills to the PERA Board of Trustees to fill the vacancy created by the resignation of J. Kim Natale until June 30, 2004, and that staff contact Sandra Mills to determine whether she will accept the appointment and advise the Board Chair of the response."* This motion was seconded by Marcus Pennell and passed unanimously.



Shareholder Responsibility Committee

Scott Noller, Shareholder Responsibility Committee Chair, advised the Board that the Committee met on Thursday, October 9, 2003 and heard presentations regarding current activities including an update on the Council of Institutional Investors meeting, the potential use of GovernanceMetrics International for corporate governance ratings and received updates regarding current and potential securities litigation matters.

Board Education Policy

Kim Natale, PERA Deputy Executive Director, Support Services, distributed materials to the Board that outlined the Board Education Policy. After providing a brief overview of the distributed materials, Patricia Kelly, PERA Trustee, moved, *“that senior trustees, those in office for at least the last two years, be allotted a prorated amount of \$3,250 that is equal to the six months of the first fourth of the \$15,000 allocation that began on January 1, 2000. This amount will be added to the \$12,000 allocation that began on July 1, 2003. The total educational allocation for senior trustees will be \$15,250 for the period January 1, 2003 through June 30, 2005. New trustees, those beginning a term after an election and in office for less than two years, will receive an educational allocation of \$15,000 for the period July 1, 2003 through June 30, 2005. Off-cycle trustee F. Elizabeth Friot will carry her first \$15,000 educational allocation through January 1, 2005. Additionally, she will be allotted a prorated amount of \$3,000 that is equal to the last fourth of the regular \$12,000 allocation that will expire on June 30, 2005, for the period January 1, 2005 through June 30, 2005.”* The motion was seconded by Scott Noller and was approved unanimously.

401(k) Investment Advisory Committee Recommendation

Karl Greve, PERA Director of Accounting and Chair of the 401(k) Investment Advisory Committee, Jim Liptak, PERA Director of Equities, and Rebecca Gratsinger, R.V. Kuhns and Associates, provided an update to the Board pursuant to a Board directive at the September 19, 2003 Board meeting which required the evaluation of the continuation of the Janus Funds in the 401(k) Plan. Mr. Greve stated that after conducting a review of the Janus Funds the 401(k) Investment Advisory Committee considered a timely and orderly elimination of the Janus Funds to be the most prudent action for the Board to take. Discussion followed and staff was asked about the member notification process. At the conclusion of discussion, Patricia Kelly moved, *“that the Board accept the recommendation of the 401(k) Investment Advisory Committee to remove the Janus Fund from the 401(k) Plan at the time of transition to the new Plan administrator, and to*



transfer all Janus Fund assets to the new Growth Domestic Equity Fund that will be selected to replace the Janus Fund at transition.” The motion was seconded by Dick Lansford and passed.

Trustees Patricia Kelly and Amy Nichols left the meeting at 3:56 p.m.

Report on Compliance with Governance Manual

David Maurek, PERA Manager of Strategy and Innovation, presented information prepared by Cortex Applied Research Inc., regarding the Board's compliance with the governance framework that they approved in November of 2001. Mr. Maurek commented on the Board's success in achieving initiatives set forth in the Board Charter and discussed the many notable accomplishments of the Board since their adoption of the comprehensive governance framework.

Mr. Maurek then discussed recommendations for future strategic action contained in the report including setting specific timelines for charter reviews and formulating policies to address matters that do not currently have written policies. At the conclusion of Mr. Maurek's report, Scott Noller moved, *“that the PERA Board approve the Cortex 2003 strategic planning recommendations and request PERA staff pursue the proposed strategic and business priorities over the next 18 months, reporting back to the Board as appropriate.”* This motion was seconded by Sara Alt and passed.

Future Strategic Projects

David Maurek, PERA Manager of Strategy and Innovation, presented information regarding the possibility of retaining the services of an additional investment advisor responsible for advising the Board.

James Casebolt, Board Chair, appointed an Ad hoc committee for further review of this matter. Mr. Casebolt solicited volunteers for the committee and noted those Board members not in attendance would be asked if they wished to serve.

DPSRS Merger Update

Greg Smith, PERA General Counsel, provided an update to the Board regarding the activities surrounding the PERA/DPSRS merger. Mr. Smith informed the Board that he anticipated distributing an explanatory document at the November Board meeting. Mr. Smith then stated that Dave Stella, Executive Director of DPSRS, had resigned and Robert J. Scott had been selected as the new Executive Director and would be participating in the remainder of the merger process.



Committee Reports

Salary and Budget Committee

Mark Anderson, PERA Trustee, presented the Board with copies of the 2004 Budget. Kim Natale, PERA Deputy Executive Director, Support Services, explained how the data contained in the report was presented. Mr. Natale then advised the Board that he would answer any individual Trustees' questions outside of the presentation. Discussion and action regarding the 2004 Budget is planned for the November Board meeting.

Other Business

There was no other business.

Board Meeting Dates

Colorado law requires that the Board officially designate and publish a public meeting schedule. Scott Noller moved, "*that the proposed 2004 Board meeting schedule be approved.*" This motion was seconded by Gloria Santistevan-Feedback and passed. The approved 2004 meeting dates are as follows:

January 16, 2004
February 20, 2004
March (18) 19, 2004
April 16, 2004
May (20) 21, 2004
July 14-16, 2004 – Retreat
September (16) 17, 2004
October 15, 2004
November (18) 19, 2004

James Casebolt, Board Chair, stated that the date for the Board Retreat, currently scheduled for July 14-16, 2004 was subject to change.

Board Meeting Dates

November 21, 2003

With no further business to discuss, Chair James Casebolt adjourned the meeting at 4:23 p.m.



Respectfully submitted by

Amber Malley
Senior Administrative Assistant, Legal Services Division

James Casebolt, Chair

Meredith Williams, Executive Director