



**Colorado Public Employees' Retirement Association
Board Meeting Minutes**

1300 Logan Street
Denver, Colorado
January 21, 2005
9:00 a.m.

Trustees Present: James Casebolt, Board Chair, Mark Anderson, Board Vice Chair, Sara Alt, Donna Bottenberg, Joanne Hill (arrived 10:34 a.m.), Patricia Kelly, Richard Lansford, Tamela Long, Amy Nichols, Scott Noller, Marcus Pennell, Gloria Santistevan-Feedback, Ben Stein, David Williamson, Douglas Windes

Trustees Absent: F. Elizabeth Friot

Staff Present: Lana Calhoun, Jake Fennell, Rob Gray, Katie Kaufmanis, David Maurek, Brenda Meidl, Kim Natale, Jennifer Paquette, Greg Smith, John Spielman, Meredith Williams

James Casebolt, Board Chair, called the meeting to order at 9:03 a.m.

Approval of Agenda

By motion of Sara Alt and second by Patricia Kelly, that *"the Board Agenda be approved as published."* The motion was approved.

Approval of November 19, 2004, Board Meeting Minutes

By motion of Gloria Santistevan-Feedback and second by Patricia Kelly, that *"the November 19, 2004, Board Meeting minutes be approved as published."* The motion was approved.

Public Comment

Louis Morton, Colorado Retired Schools Employees Association President, inquired about what security measures PERA has in place. John Spielman, Director of Internal Audit, explained that PERA has several measures in place to ensure security of PERA's membership information.



Monthly Report

Executive Committee Report

Mark Anderson, Board Vice Chair, reported that the Executive Committee met earlier in the day and approved the November 19, 2004, Executive Committee minutes. Mr. Anderson reported that they also reviewed the November 30, 2004 Unaudited Financial Statements, the December 31, 2004 Budget Report, operations, and follow-up issues. Finally, they reviewed the agenda for today's meeting.

Board Election Notification

Kim Natale, PERA Deputy Executive Director, Support Services, explained what the PERA's procedures are when an election packet is requested. Mr. Natale reported that PERA does not divulge the names of individuals who have requested packets; only the total number of packets requested is given to those who inquire. The Board decided not to take action to alter this policy. The current procedures will remain in place.

DC Plan Update

David Maurek, PERA Manager of Strategy and Innovation, provided the Board with an update of the DC Plan. He presented the goals, major issues, and a proposed DC Plan design. Mr. Maurek explained that the Board will be informed of the progress of the DC Plan at future meetings and he responded to questions from the Trustees.

2005 Executive Director Evaluation Criteria

James Casebolt, Board Chair, reviewed the 2005 Executive Director Evaluation document. The document was transmitted to the Trustees on Friday, January 14, 2005, as Tab B. Discussion ensued regarding the criteria contained in the evaluation tool.

By motion of Patricia Kelly and second by Richard Lansford, that "*the 2005 Executive Director Evaluation Criteria, transmitted to the Board on January 14, 2005 as Tab B, be adopted as transmitted.*" The motion was approved. Ben Stein abstained from the vote.

Board Governance Manual Update

David Maurek, PERA Manager of Strategy and Innovation, provided an update to the changes that have been proposed to the Board Governance Manual. Mr. Maurek explained that the Board will receive a current version via electronic transmittal by Monday, January 24, 2005. Mr. Maurek requested that the Trustees review the document and communicate any changes or suggestions they may have via electronic mail. Changes will be presented at the February Board meeting for approval. Finally, Mr. Maurek responded to questions from the Trustees.



Monthly Reports

Executive Director's Report

Meredith Williams, PERA Executive Director, reviewed the regular monthly information report. The presentation was transmitted to the Trustees on Friday, January 14, 2005, as Tab D. Mr. Williams reported on PERA activities, noting the significant increase in the number of Freedom of Information Act (FOIA) or Colorado Open Records Act (CORA) requests. Mr. Williams also reported that he had given a presentation regarding PERA to the Joint Finance Committee of the Legislature the previous day. Finally, Mr. Williams informed the Board of the items that will be presented at the February Board meeting.

The Board recessed for a break at 10:48 a.m. and reconvened at 11:02 a.m.

Rules Hearing

Gregory Smith, PERA General Counsel, with the assistance of Adam Franklin, Staff Attorney, reviewed the *Statement of Basis and Purpose* and explained each proposed change of the *PERA Rules*. The *Notice of Hearing*, *Statement of Basis and Purpose*, and the *Colorado PERA Rules* proposed changes were transmitted to the Trustees on Friday, January 14, 2005, as Tab C. Testimony was heard from Tony Manfredi, retired teacher, regarding his support of the amendment to Rule 11.10 A. (2). Mr. Smith responded to questions from the Trustees.

A motion was made by Donna Bottenberg and second by Amy Nichols, that *"the Board approve and adopt the proposed amendments and additions to the PERA Rules as presented along with the Statement of Basis and Purpose, with an effective date of March 30, 2005."* The motion was approved.

Monthly Reports (continued)

Market and Portfolio Update

Jennifer Paquette, Deputy Executive Director of Investments, provided an update and highlights on market and portfolio performance as transmitted to the Trustees on Friday, January 14, 2005, as Tab E. Ms. Paquette updated the Board on the EAFE index manager search as well as the recent combination of three internal small capitalization portfolios into one portfolio. She also discussed recent staff consideration of liability hedging investment vehicles. Ms. Paquette responded to questions from Trustees.

The Board recessed for lunch at 12:03 p.m. and reconvened at 12:40 p.m.

Legislative Report

Rob Gray, PERA Director of Government Relations, with the help of Bob Kirscht, PERA lobbyist, provided a summary of the *Legislative Report* transmitted to Trustees on Friday, January 14, 2005, as Tab F. Mr. Gray began with an explanation of Senate Bill 05-73, Working After Retirement by PERA Retirees for PERA Employers. The bill is sponsored by Senator Dave Owen. The Board discussed the bill at length. Several members of the Board



were opposed to the second section of the bill, since it would raise the employer contribution rate paid on PERA retirees' salary above the regular rate of 10.15 percent plus the Amortization Equalization Disbursement (AED) amount. The Board directed staff to work with Senator Owen on optional language for part of the bill.

Mr. Gray provided an explanation of House Bill 05-1117, sponsored by Representative Bill Berens, which would provide a "3+3" window for state employees who retire between July 1, 2005 and July 1, 2006. Mr. Gray explained that he had discussed the bill with Representative Berens and that the cost to PERA trust funds would be over one billion dollars. Representative Berens' goal was to allow state employees to leave employment with an enhancement to their retirement if large reductions in the number of State employees were necessary due to budget limitations. Representative Berens was also not aware of PERA's current funding status.

By motion of Gloria Santistevan-Feedback and second by Scott Noller, that *"the PERA Board oppose House Bill 05-1117 as proposed by Representative Bill Berens."* The motion was approved.

Mr. Gray, with the help of Gregory Smith, PERA General Counsel, continued with an explanation of Senate Bill 05-93, attachment of public pension benefits. Senator Mark Hillman is the sponsor of this bill. It would allow for attachment of a public pension participant's pension benefits if the participant is required to pay restitution for theft, embezzlement, misappropriation, or wrongful conversion of public property or if the participant is in a fiduciary position with a public pension plan and has violated his or her fiduciary duties to the plan. The draft bill would amend sections in the statutes of public pensions in Colorado, including the PERA statute, which are entitled "Moneys not subject to legal process." Discussion ensued regarding the impact of this bill. The Board directed staff to work on an amendment to address their concerns with respect to the fiduciary responsibility language contained in the bill.

Mr. Gray also reported on Senate Bill 05-54. The Pinnacol Assurance Board is seeking this legislation that would convert Pinnacol Assurance to non-profit status. Mr. Gray explained that under the bill, Pinnacol would be more independent from the state, but not structured completely like a private company. Pinnacol is proposing to PERA and to the Legislature that its membership in PERA be frozen as of June 30, 2006. Employees hired prior to July 1, 2006, would continue to be covered by PERA. Employees hired on July 1, 2006, or later would be covered by a different retirement plan, which would be developed. Mr. Gray explained that PERA has told Pinnacol that it would want to be assured under the bill and accompanying membership freeze agreement between PERA and Pinnacol that Pinnacol and its continuing members of PERA pay their appropriate cost for benefits earned under PERA. Also, PERA would want to be assured that the remaining State Division members of PERA and the State Division Trust Fund are not harmed



financially as a result of a membership freeze. Discussion ensued regarding this legislation.

By motion of Patricia Kelly and second by Doug Windes, that *“the Board oppose SB 05-54, conversion of Pinnacle Assurance to non-profit status, unless a lump-sum payment of the liabilities to PERA be made.”* The motion was approved.

The Board recessed for a break at 2:04 p.m. and reconvened at 2:15 p.m.

Monthly Reports (continued)

Legislative Report

Mr. Gray, with the assistance of Mr. Smith, continued with his report. Mr. Gray explained legislation being proposed by the Denver Public Schools (DPS) and the Denver Public School Retirement System (DPSRS). Mr. Gray informed Trustees that earlier in the week DPS and DPSRS met with PERA staff and that DPS and DPSRS are willing to pay the costs required to accomplish a merger on an actuarially neutral basis without adversely affecting PERA's funding status. The draft of legislation for 2005 would authorize a merger that would be effective January 1, 2007, and would contain key elements. Senator Paula Sandoval has agreed to introduce the legislation. Mr. Gray and Mr. Smith responded to the Trustees' questions. Discussion ensued regarding this proposed legislation and the Board directed to staff to continue to work with DPS and DPSRS on PERA's concerns.

Mr. Gray also reported on Pension Obligation Bonds (POBs). Mr. Gray stated that there is no legislation being proposed at this time. A number of investment firms have met with PERA during the last few months to outline the advantages of POBs as a method for helping to improve PERA's funding status. It is unclear whether the Legislature would be willing to commit to issuing POBs with repayment to bondholders over a period of up to 20 years, before the Legislature has decided how it proposes to fix the state's long-term budget shortfall.

Finally, Mr. Gray discussed PERA's actuarial reporting timeline. He noted that in an effort to assure the Board, members, and legislature that PERA is on the right track in evaluating its funding status that the Board should consider having the actuarial review this year rather than the scheduled five-year follow-up review due in 2006. Mr. Gray responded to questions and the Trustees discussed this issue.

By motion of Patricia Kelly and second by Scott Noller, that *“PERA staff proceed with an actuarial study, and have staff bring forth a recommendation regarding an approach for another asset/liability study.”* The motion was approved.

General Counsel Report

Gregory Smith, General Counsel, reported that the CitiStreet 401(k) loans problems are in process of being resolved. Mr. Smith updated the Trustees on



the Wal-Mart issue raised by member Benjamin Dancer in his letter to the Board in November 2004. A copy of the letter to Wal-Mart from Mr. Smith and Wal-Mart's response was transmitted to the Trustees on Friday, January 14, 2005, as Tab G.

Mr. Smith also reported on the CORA requests that have been received. Mr. Smith explained that the CORA requests were from the print media, news channels, and law firms. Mr. Smith expressed that he is very concerned about the cost that is being incurred to comply with these requests from the law firms. Mr. Smith responded to questions. He also reminded the Trustees to respond to the Secretary of State's *Financial Disclosures* request.

Finally, Mr. Smith provided an explanation of the Colorado Attorney General Office's Opinion regarding *Benefits Changes, the Contract Clause of the Colorado Constitution*, and his *Memorandum Regarding Contract Rights in Pension Benefits*. Mr. Smith explained the Memorandum was his assessment of litigation risk and the ability to defend a challenge to legislation that changes benefits, based on a national survey of law and that the Colorado Attorney General's Formal Opinion sets forth the law as established in Colorado based upon Colorado cases. Mr. Smith responded to questions.

Mr. Smith then requested the Board go into Executive Session to address pending and threatened litigation involving PERA. Pursuant to C.R.S. § 24-6-402(3) (a). James Casebolt, Board Chair, polled the Trustees in attendance and received the consent of all members present to go into Executive Session at 3:37 p.m. In addition to the Trustees and the General Counsel, the Executive Director, the three Deputy Executive Directors, the Directors of Government Relations, Internal Audit, and Communications, the Manager of Strategy and Innovation, and the Legal Administrative Assistant remained present for the closed Executive Session.

The Executive Session concluded at 4:00 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

Other Business

James Casebolt, Board Chair, disclosed that at future meetings he will be recusing himself from all discussion regarding evaluation of PERA's investment advisor, Ennis Knupp, or the scope of its contract or compensation. The basis for his recusal relates to the recent employment of his spouse, Nancy Williams, by Ennis Knupp, about which Mr. Casebolt advised the Board.



2005 Board Meeting Dates

February 18, 2005
March (17) 18, 2005
April 15, 2005
June (16) 17, 2005
July 13-15, 2005 (Planning Session)
September (15) 16, 2005
October 21, 2005
November (17) 18, 2005

With no further business to discuss, Chair James Casebolt adjourned the meeting at 4:04 p.m.

Respectfully submitted by
Brenda Meidl
Senior Administrative Assistant, Legal Services Division

James Casebolt, Chair

Meredith Williams, Executive Director