

**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Regular Meeting of the Board of Trustees**

**December 7-8, 2007**

On December 7, 2007, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a regular meeting at 1:00 p.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

**Board of Trustees**

Roel 'Roy' Rodriguez, PE, Vice Chair  
Carolyn Linér  
Rick Menchaca  
April Nixon  
H. Frank Simpson

Absent: Pat Hernandez, Chair

Present also were: Eric Henry, Executive Director & Chief Investment Officer  
Eric Davis, Deputy Executive Director  
Rhonda Covarrubias, Director of Finance  
Gary Craig, Director of Investments  
Bernie Eldridge, Director of Human Resources  
David Gavia, General Counsel  
Nancy Goerdel, Investment Officer  
Debbie Muñoz, Director of Member Services  
Eddie Solis, Director of Government Relations  
Bill Wallace, Director of Communications  
Scott Willrich, Director of Information Resources  
Patricia Brown, Executive Assistant  
Terrence Kendall, Legal Counsel  
Steve Harding, Independent Fiduciary Services  
Rocky Joyner, The Segal Company  
Russ Kuhns, R.V. Kuhns & Associates, Inc.  
Ron Lewis, Ron Lewis & Associates  
Joe LoCicero, The Segal Company  
Pete Madsen, R.V. Kuhns & Associates, Inc.  
Ray Perryman, The Perryman Group

Guests: Keith Brainard, NASRA  
Max S. Duplant, City of Irving  
Natalie Foerster, Governor's Office  
Dean Frigo, City of Amarillo  
Patrick Hillis, NRH  
Darlene Lanham, TMPA  
Martin McCaulay, PRB  
Jim Moore, City of Mesquite

Jim Parrish, City of Amarillo  
Monte Wynn, TML

Mr. Rodriguez called the meeting to order at 1:00 p.m.

### **Discuss TMRS 2009 Legislative Priorities**

Mr. Solis began a discussion of what should and should not be in TMRS' 2009 legislative package and the dynamic legislative environment. He reported that the House Pensions and Investments (P&I) Committee has released its list of interim charges, of which return-to-work for TMRS cities is one.

Mr. Lewis stated that the issues TMRS is facing in the next legislative session are of critical importance. His advice is for TMRS to attempt to resolve any differences that others may have with its legislative package before the legislative session begins and to keep its bill as clean as possible with only the most critical items included. Mr. Simpson asked whether, if cities are asking for changes in the TMRS Act, the System is better off including those items rather than leaving them out. Mr. Lewis stated that, even though TMRS should keep its own bill as clean as possible, it could help others who want to carry their own separate bill that might benefit the System. Mr. Rodriguez stated that he prefers that the TMRS bill be narrowly focused, even though the return-to-work and other features would be a great benefit for certain TMRS cities. He added that TMRS could offer itself as a resource to those cities that want to actually carry that legislation. Mr. Lewis stated that he will work with the Board regarding what it would like in the legislative package for TMRS, and would like to be finished with the bill process for TMRS by the end of April 2009.

### **Presentation of Economic Impact Study**

Dr. Perryman introduced the study that was commissioned by TMRS. The purpose of the study is to show that in addition to the retirement security it provides its retirees, the retirement benefits paid by TMRS have a substantial economic benefit to TMRS cities. Most of the retirement benefits paid by TMRS come from investment earnings and 96% of the retirement money is spent in Texas. Dr. Perryman then briefly discussed the methodology that went into the study, especially the effect of the spending multipliers. The money paid to retirees annually generates about \$1.3 billion in spending in Texas and creates approximately 9,300 Texas jobs.

Mr. Simpson asked what the contribution to the economy is for every dollar of benefit spent, to which Dr. Perryman replied about \$2.76.

Mr. Henry stated that TMRS will be working these numbers into the upcoming TMRS communication pieces.

### **Consider and Act on Adoption of Strategic Plan**

Mr. Henry presented the final draft of the Strategic Plan that the Board and staff developed for adoption. Mr. Henry stated that results of the progress made on the objectives of each goal in the

Plan will be reported to the Board twice per year and that the Plan should be updated annually, most probably at the December quarterly Board meeting.

Ms. Nixon moved to adopt the Strategic Plan as presented to the Board. Ms. Linér seconded the motion, which carried unanimously.

### **Consider and Act on Board Governance Consultant Proposals**

Mr. Henry introduced the two proposals presented, one from Nancy Williams of Ennis Knupp + Associates (EnnisKnupp) and one from Cortex Applied Research Inc (Cortex) and summarized the services each presented. This consultant will be used for ongoing support (twelve to eighteen months) regarding governance issues.

Mr. Simpson discussed choosing EnnisKnupp over Cortex because of familiarity with Nancy Williams and previous work with her on the Strategic Plan.

Mr. Simpson moved to engage Ennis Knupp + Associates as the Board's governance consultant and direct staff to negotiate fees and scope of services as needed. Ms. Linér seconded the motion, which carried unanimously.

### **Consider and Act on Proposed Budget for 2008**

Mr. Henry introduced the proposed budget, which has been approved by the Finance & Audit Committee. Mr. Rodriguez stated that the 2008 budget is a well-written and comprehensive document; Mr. Menchaca remarked on its positive evolution.

Discussion ensued regarding the executive director salary survey; Mr. Eldridge explained that TMRS is currently seeking competitive bidding on this survey, and is contemplating combining with it the employee salary survey to lower the overall cost of both, since both the executive director and the employee salary surveys are required to be performed every two years.

Mr. Eldridge added that the same benchmark organizations used in 2006 will be used in 2008.

Ms. Covarrubias presented a summary of the budget and stated that the biggest change is in personnel services.

Mr. Menchaca moved to implement the recommendation of the Finance & Audit Committee of the Board of Trustees at its November 15, 2007 meeting and adopt the 2008 Proposed Operating and Capital Expenditures Budget. Mr. Simpson seconded the motion, which carried unanimously.

### **Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund**

Ms. Covarrubias discussed the schedules included with this agenda item, focusing most of her discussion on the staff's calculation of the yearend budget reserve. There should be approximately \$850,000 remaining at yearend in the reserve account. She then discussed three options involving this reserve.

Following discussion, and upon motion made by Mr. Menchaca and seconded by Ms. Nixon, the following resolution was unanimously adopted:

**A RESOLUTION RELATING TO TRANSFER  
FROM THE INTEREST RESERVE ACCOUNT TO THE EXPENSE FUND  
OF THE AMOUNTS REQUIRED TO PAY OPERATING COSTS  
AND EXPENSES OF THE SYSTEM FOR 2008**

**BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE TEXAS MUNICIPAL RETIREMENT SYSTEM** that the sum of \$9,978,000, a part of the total heretofore credited to the Interest Reserve Account of the Endowment Fund as of December 31, 2007, be and the same shall be transferred to the Expense Fund as of January 1, 2008, to be used to cover expenditures of the System for the calendar year 2008.

Along with the adoption of the resolution relating to the transfer of funds for 2008, Mr. Menchaca moved to adopt a formal policy to maintain reserves in the expense fund of approximately 15% of the following budget year operating expenses. Ms. Nixon seconded the motion, which carried unanimously.

**Consider and Act on Renewal of Contract with JPMorgan Chase Bank for Depository Services**

Ms. Covarrubias stated that JPMorgan Chase (Chase) is the current depository bank. TMRS has not issued an RFP for this service for several years, but does plan on issuing an RFP for depository services in 2008, even though staff is pleased with Chase's services. This item was discussed at the November 15, 2007 Finance & Audit Committee meeting, with the Committee agreeing to extend Chase's depository services for one year.

Mr. Menchaca moved to adopt the recommendation of the Finance & Audit Committee of the Board of Trustees at its November 15, 2007 meeting to approve a one-year extension of the depository service agreement with JPMorgan Chase Bank. Ms. Linér seconded the motion, which carried unanimously.

**Consider and Act on Selection of Passive Equity Manager(s)**

Mr. Henry summarized the process made by the Investment Committee in interviewing external managers in conjunction with TMRS' investment advisor, R.V. Kuhns & Associates, Inc., and outlined the presentation made earlier in the day to the Investment Committee by Northern Trust Global Investments® (NTGI). NTGI represents the best combination of pricing, customer service, and index tracking.

The Investment Committee recommends that the Board select NTGI as TMRS' passive equity manager, and recommends that the Investment Policy be revised by adding the NTGI domestic and international funds selected by TMRS as eligible investments.

Mr. Simpson moved to adopt the recommendation of the Investment Committee of the Board of Trustees at its December 7, 2007 meeting to approve the selection of Northern Trust Global Investments® to manage both the 6% allocation to passive domestic equities in their commingled fund, the NTGI Russell 3000 Passive Strategy and the 6% allocation to passive international equities in their commingled fund, the NTGI-QM MSCI EAFE Passive Strategy; to amend the Investment Policy to include these funds as eligible investments; and to authorize the Executive Director to negotiate and execute the contract as necessary. Mr. Menchaca seconded the motion, which carried unanimously.

**Consider and Act on Draft RFP for External Actuary**

Mr. Henry outlined the recommendation of the Finance & Audit Committee for TMRS to develop and issue an RFP for an external actuary. A timeline was laid out for completion of the process. Rather than use the tentative timeline proposed by staff, the Committee recommended reviewing a draft RFP at a meeting in late January or early February to help expedite the process.

Ms. Linér moved to approve the recommendation of the Finance & Audit Committee for TMRS to develop and issue an RFP to engage an external actuary and to schedule the issuance of the RFP earlier than the staff recommended target date of March 28, 2008. Ms. Nixon seconded the motion, which carried unanimously.

At 2:05 p.m., Mr. Rodriguez declared the meeting recessed until 9:00 a.m. Saturday, December 8, 2007.

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On December 8, 2007, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a regular meeting at 9:00 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

**Board of Trustees**

- Roel ‘Roy’ Rodriguez, PE, Vice Chair
- Carolyn Linér
- Rick Menchaca
- April Nixon
- H. Frank Simpson

Absent: Pat Hernandez, Chair

- Present also were:
- Eric Henry, Executive Director & Chief Investment Officer
  - Eric Davis, Deputy Executive Director
  - Rhonda Covarrubias, Director of Finance
  - Gary Craig, Director of Investments
  - Bernie Eldridge, Director of Human Resources
  - David Gavia, General Counsel
  - Nancy Goerdel, Investment Officer
  - Debbie Muñoz, Director of Member Services
  - Eddie Solis, Director of Government Relations
  - Bill Wallace, Director of Communications
  - Scott Willrich, Director of Information Resources
  - Patricia Brown, Executive Assistant
  - Terrence Kendall, Legal Counsel
  - Bob Klausner, Klausner & Kaufman, PA

Rocky Joyner, The Segal Company  
Russ Kuhns, R.V. Kuhns & Associates, Inc.  
Joe LoCicero, The Segal Company  
Pete Madsen, R.V. Kuhns & Associates, Inc.

Guests: David Crow, Arlington FF Association  
Max S. Duplant, City of Irving  
Dean Frigo, City of Amarillo  
Mike Higgins, TSAFF  
Jim Moore, City of Mesquite  
Randy Moravec, Town of Addison  
Jim Parrish, City of Amarillo  
Bob Scott, City of Carrollton  
Monte Wynn, TML

Mr. Rodriguez called the meeting to order at 9:00 a.m. and gave the invocation.

### **Consent Agenda**

Mr. Henry introduced the Consent Agenda. This included: (1) the minutes of the October 16, 2007 Special Meeting of the Board of Trustees and the minutes of the November 16, 2007 Joint Meeting of the Board of Trustees and the Board Investment Committee; (2) the lists of 539 service retirement applications, 18 disability retirement applications, 34 active member and 89 retired member applications for supplemental death benefits, and 0 applications for extended supplemental death benefits coverage (attached hereto as Exhibit "A"); (3) the financial statements including: Statement of Plan Net Assets as of October 31, 2007 and 2006, the Statement of Changes in Plan Net Assets for the Ten Months Ending October 31, 2007 and 2006, the Unrealized Gain or Loss on Investments as of October 31, 2007, the Net Appreciation/Depreciation in Fair Value of Investments for the Ten Months Ending October 31, 2007 and 2006, the Expense Fund Balance Sheet as of October 31, 2007, the Schedule of Administrative Expenses for the Ten Months Ending October 31, 2007; (4) the transfer of inactive accounts and unclaimed refunds; and (5) the changes in benefit structure by certain participating municipalities.

Mr. Henry provided an overview of the items included in the Consent Agenda and advised the Board that all of the foregoing applications and reports met the requirements of the Act governing the System for the particular action sought.

Mr. Simpson moved that the Consent Agenda be adopted. Ms. Linér seconded the motion, which carried unanimously.

### **Quarterly Investment Report**

Mr. Henry presented and briefly discussed the charts and graphs provided in the internal management section of the investment report, as well as the written report provided in the external management section. Additionally, he announced that on the previous day, the Board engaged TMRS' first index manager.

**Consider and Act on New Appointments and/or Reappointments to Advisory Committee on Retirement Matters**

Mr. Rodriguez began the discussion on this item, stating that, as is obvious from the number of applications received, there has been great interest in the Advisory Committee on Retirement Matters of late, and asked the Board to please consider and refer to the map that was provided to indicate the geographic locations of the individuals currently on the Committee when making appointments to the Committee.

Mr. Menchaca suggested that, given the fact that the composition of the TMRS Board will be changing in the near future, the Board should table appointing new members of the Committee until new appointments to the Board itself have been made.

Ms. Linér moved to table any decision at this time to appoint or reappoint members to the Advisory Committee on Retirement Matters to positions whose terms expire on December 31, 2007. Mr. Menchaca seconded the motion, which carried unanimously.

**Consider and Act on Adoption of Actuarial Assumption Changes Recommended by Actuary in Connection with December 31, 2006 Actuarial Experience Study**

Ms. Duplant, President of the Government Finance Officers Association of Texas (GFOAT), and Mr. Scott, Assistant City Manager and Finance Director for the City of Carrollton, spoke to the Board on the changes TMRS will be facing. Ms. Duplant stated that this group is interested in working with TMRS to make these changes, but that GFOAT would like for cities to have more information regarding the changes.

Mr. Joyner then highlighted the main changes recommended by the experience study:

- the investment return assumption with the current 7% recommendation;
- the interest crediting rate at 5% and payroll growth at 3%;
- the mortality tables for valuing liability; and
- the slight changes in disability and withdrawal rates and the addition of salary scale and withdrawal rates.

Ms. Nixon moved to adopt the recommendations presented by the actuary as a result of the experience study covering the period from January 1, 2003 through December 31, 2006 as outlined in Exhibit A of the Board materials. Ms. Linér seconded the motion, which carried unanimously.

**Consider and Act on Adoption of Change in Actuarial Funding Method**

Mr. Joyner explained that since updated service credit and annuity increases are considered ‘committed’ benefits, in order to advance fund these future liabilities, the actuary recommends changing from the Traditional Unit Credit actuarial funding method to the Projected Unit Credit actuarial funding method.

Mr. Simpson noted that the experts TMRS has consulted have been consistent in their recommendation to change to the Projected Unit Credit method.

Mr. Simpson moved to adopt the change in actuarial funding method from Traditional Unit Credit to Projected Unit Credit beginning with the December 31, 2007 actuarial valuation. Ms. Nixon seconded the motion, which carried unanimously.

### **Consider and Act on Adoption of Change in Amortization Period**

Mr. Joyner recommended a 30-year amortization period if, as a result of actuarial changes, a city's contribution rate increases by more than one-half of one percent.

Mr. Menchaca moved to adopt a 30-year closed amortization period for cities with an increase of more than one-half of one percent that request such an extension, to be implemented with the December 31, 2007 actuarial valuation, contingent upon the Board's adoption of Rule 34 TAC §123.7 of the Texas Administrative Code. Ms. Linér seconded the motion, which carried unanimously.

### **Consider and Act on Adoption of Transition Items Related to Actuarial Changes**

Mr. Henry suggested that cities be allowed to phase in the cost increases due to these actuarial changes. He added that the Board has been contemplating a five-year phase-in period, but some cities would like more than five years. Mr. Joyner suggested that the phase-in cover two experience study cycles (an eight-year phase-in period).

Mr. Simpson asked for GFOAT's input on this issue. Mr. Scott stated that anything that adds flexibility for cities is a good thing. Mr. Kendall clarified that cities could pay a rate higher than the phase-in rate.

Mr. Simpson asked at what point administratively this would become difficult to handle, and if too many variables were being offered. Mr. Henry assured Mr. Simpson that he is confident that TMRS would be able to handle the administration of the phase-in. Mr. Rodriguez stated that he was now more comfortable with the longer, eight-year phase-in option because cities will have the option to pay more.

Mr. Menchaca moved to adopt a phase-in period of up to eight years for the contribution rate increases associated with actuarial changes. Ms. Nixon seconded the motion, which carried unanimously.

### **Consider and Act on Final Adoption of Proposed New Rule 34 TAC §125.7 Additional Contributions**

Mr. Gavia stated that this is a rule implementing the statutory authority granted to the Board by House Bill 1244 to allow cities to make extra contributions beginning in January 2008. The contribution can be made annually or with the normal monthly payroll. Mr. Rodriguez asked if there might be an instance when the System would not or could not accept an extra payment. Mr. Gavia responded that staff could not currently envision such a set of circumstances, but wanted to reserve the right to refuse an extra payment should it be in the best interests of the retirement system.

Mr. Menchaca moved to approve the attached order and adopt Rule 125.7 effective December 10, 2007 without changes to the proposed language. Ms. Linér seconded the motion, which carried unanimously.

**Consider and Act on Final Adoption of Proposed New Rule 34 TAC §127.9 Implementation of Deduction of Health Insurance Premiums of Pretax Tax Basis for Public Safety Retirees**

Mr. Gavia introduced this rule which allows TMRS to administer the Healthcare Enhancement for Local Public Safety (HELPS) provision of the Pension Protection Act. This rule allows the Board to permit public safety officer retirees to authorize annuity distributions to pay their qualified health insurance premiums, resulting in favorable tax benefits for these retirees.

Ms. Linér moved to approve the attached order and adopt Rule 127.9 effective December 10, 2007 without changes to the proposed language. Ms. Nixon seconded the motion, which carried unanimously.

**Consider and Act on Final Adoption of Proposed New Rule 34 TAC §123.8 Updated Service Credit**

Mr. Gavia introduced this rule, explaining that it changes the Updated Service Credit calculation by dropping the highest deposit and the lowest deposit from the calculation of a member's average updated service compensation, thereby decreasing the impact a large temporary increase in compensation can have on the Updated Service Credit calculation.

Ms. Nixon moved to approve the attached order and adopt Rule 123.8 effective December 10, 2007 without changes to the proposed language. Mr. Simpson seconded the motion, with Mr. Menchaca abstaining from the vote.

**Consider and Act on Final Adoption of Proposed New Rule 34 TAC §123.7 Actuarial Changes**

Mr. Gavia explained that this rule collects, in one place, the various actions the Board can take with regard to actuarial matters, namely, adopt changes to the actuarial funding method, adopt different actuarial assumptions due to an experience study or as otherwise appropriate, phase in contribution rate increases due to actuarial changes over a reasonable period of time, and change amortization periods.

Mr. Menchaca moved to approve the attached order and adopt Rule 123.7 effective December 10, 2007 without changes to the proposed language. Ms. Linér seconded the motion, which carried unanimously.

**Consider and act on Approval of New Forms**

Mr. Henry introduced this item regarding new forms for the Healthcare Enhancement for Local Public Safety (HELPS) provision. An *Application for Insurance Premium Deductions* has been created to implement the provision; a *Public Safety Employee Certification* form has been created to determine a member's status, at time of separation, regarding the 10% early withdrawal penalty.

Ms. Linér moved to approve the newly created forms. Ms. Nixon seconded the motion, which carried unanimously.

**Consider and Act on Amendment to Administrative Governance Policy Regarding Officer Rotation**

Mr. Gavia presented this item, stating that the current Administrative Governance Policy (which was created to supplement the Board’s Bylaws) provides an officer rotation policy and calls for the Board to adopt a rotation schedule so that officer rotation would proceed automatically every year. At the December 2006 meeting, Board members expressed an interest in eliminating this portion of the Policy, so staff has prepared an amendment to the Policy in that regard.

Mr. Simpson moved to adopt the amendment to the Administrative Governance Policy and Bylaws, eliminating the officer rotation schedule from the Policy. Mr. Menchaca seconded the motion, which carried unanimously.

**Consider and Act on Election of 2008 Board Officers**

After discussion by the Board, Mr. Menchaca moved that Mr. Rodriguez serve as Chair and Ms. Linér serve as Vice Chair for 2008. Mr. Simpson seconded the motion, which carried unanimously.

**Executive Director and Staff Reports**

There were no questions nor any discussion concerning the reports provided by staff in the Board material.

**Report by Legal Counsel**

None.

**Any Other Business**

None.

There being no further business to come before the Board, the meeting was adjourned at 10:10 a.m.

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Eric Henry  
Executive Director  
& Chief Investment Officer

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Roel ‘Roy’ Rodriguez, PE  
Vice Chair