

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

October 16, 2007

On October 16, 2007, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a regular meeting at 12:35 p.m. at the Hilton Austin Hotel, located at 500 East Fourth Street, Austin, Texas, with the following members present:

Board of Trustees

Carolyn Linér
Rick Menchaca
April Nixon
H. Frank Simpson

Absent: Pat Hernandez, Chair
Roel 'Roy' Rodriguez, Vice 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
Michelle Mellon-Werch, Associate General Counsel
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
Bob Klausner, Klausner & Kaufman, PA

Guests: Debbie Carpenter, Carrollton Firefighter Association
David Crow, Arlington Firefighters Association
Dean Frigo, City of Amarillo
Mike Higgins, TSAFF
Jim Moore, City of Mesquite
Jim Parrish, City of Amarillo

Mr. Menchaca, owing to the excused absence of Ms. Hernandez, Chair, and Mr. Rodriguez, Vice Chair, called the meeting to order at 12:35 p.m. Ms. Nixon gave the invocation.

Mr. Menchaca congratulated Mr. Henry for a well-run annual seminar that had just concluded at the Hilton. Mr. Henry thanked the TMRS staff, particularly Mr. Davis and Mr. Wallace and their staffs, for their exceptional contributions. Mr. Menchaca then recognized guests at the

Board meeting and asked for introductions from each, one of which was Jim Parrish, Human Resources Director for the City of Amarillo. Mr. Parrish announced to the group at this time that, as a member of the Texas Municipal Human Resources Association (TMHRA), he has been asked to serve as liaison between TMHRA and the TMRS Board regarding TMRS matters.

Consider and Act on Adoption of Minutes of September 7-8, 2007 Board of Trustees Meeting

Mr. Menchaca asked the Board if there were questions or comments regarding the minutes.

There being none, Ms. Linér moved to adopt the minutes of the September 7-8, 2007 Board of Trustees meeting. Mr. Simpson seconded the motion, which carried unanimously.

Consider and Act on Selection of External Auditor

Ms. Nixon summarized the external auditor selection process conducted by the Finance & Audit Committee. In so doing, she stated that both firms were exceptional, but that the Committee felt having a 'new set of eyes' would be beneficial for the System; therefore, the Committee recommended KPMG LLP for the engagement.

Mr. Simpson asked why KPMG chose initially to present a fee scale or range for services rather than one (set) fee estimate. Ms. Covarrubias explained that it was because GASB continues to require additional audit procedures; in this regard, KPMG, not knowing what new requirements might be in place for the period it will be servicing TMRS, thought it best to offer a range rather than a set fee. The firm later revised its offer in the form of a set fee.

Mr. Menchaca commented that it appeared that the Finance & Audit Committee and TMRS staff exercised sufficient due diligence in making their decision to engage KPMG.

Ms. Linér moved to adopt the recommendation of the Finance & Audit Committee of the Board of Trustees at its September 6, 2007 meeting to engage KPMG LLP as the external auditor for TMRS and that the Executive Director be authorized to negotiate and execute a five-year contract satisfactory to the System with KPMG. Ms. Nixon seconded the motion, which carried unanimously.

Discuss Rule to Implement Deduction of Health Insurance Premiums on Pretax Tax Basis for Public Safety Retirees

Mr. Gavia presented the background for this rule, stating that the Pension Protection Act of 2006 (PPA) authorized new tax benefits for certain retirees of governmental retirement plans. The PPA provides that a public safety officer who retires with a service retirement after reaching normal retirement age or a disability retirement may direct TMRS to pay, from his or her annuity payment, health or long-term care premiums for the retiree, spouse, and dependents, directly to an insurance carrier. Recently passed TMRS legislation, H.B. 1244, grants the TMRS Board authority, upon adoption of rules published in the Texas Administrative Code, to make payments in accordance with Section 845 of the PPA effective January 1, 2008. This rule proposed today authorizes TMRS to implement Section 845 of the PPA and delegates to the Executive Director the authority to adopt reasonable policies and procedures to implement and administer the program.

Mr. Menchaca asked staff how they will handle communication of this issue to TMRS members. Mr. Davis and Mr. Wallace explained that some communication has already been prepared and distributed via TMRS newsletters. Additionally, Ms. Muñoz is currently educating the Member Services staff so that they in turn are able to communicate this information to members.

There was further discussion regarding who is eligible for this benefit, what information must be collected by the System, how this benefit will be reported for tax purposes, and the definition of 'public safety officer.' The definition regarding those eligible to receive a tax exclusion needs to be communicated as clearly as possible.

Mr. Simpson moved to authorize the Executive Director to publish the rule to implement deduction of health insurance premiums on a pretax tax basis for public safety retirees in the Texas Register with final adoption of the rule to be considered at the December Board meeting. Ms. Linér seconded the motion, which carried unanimously.

Discuss Rule Dealing with Actuarial Changes

Mr. Gavia explained that this item is in response to H.B. 1244 and collects in one place the different actions the Board can take with regard to actuarial matters. It also provides the Board with maximum flexibility to act by allowing the Board to take action by Board resolution without having to continually amend its rules.

Mr. Simpson moved to publish the proposed rule dealing with actuarial matters in the Texas Register to be eligible for adoption by the Board at its December meeting. Ms. Nixon seconded the motion, which carried unanimously.

Any Other Business

Mr. Henry updated the Board on the Board Portal as a means to provide additional information to the Board.

Mr. Henry then updated the Board on the Strategic Plan and asked for guidance on areas that need additional input so that the Board can complete action in adopting the Plan at its December meeting. With regard to the goals for the Board, Mr. Menchaca suggested that these items be given to the appropriate Committee. Mr. Simpson stated his preference that Nancy Williams of EnnisKnupp attend the December Board meeting to help instruct the Board as to how to move forward on the Plan once it is adopted, and how to monitor the progress of the objectives.

Mr. Menchaca asked about the timeline for decisions regarding the investment portfolio. Mr. Henry responded that there will be an education session on investing in November, and that out of that session, some milestones should be introduced and decided upon. He then explained a plan to begin implementing a diversified portfolio in 2008 that will be discussed at the investment education session in November. Mr. Simpson asked if a one-day session would be enough; Mr. Henry is confident that it is for the initial asset class that TMRS will be considering, then stated that if it is not, staff will not proceed with the new, proposed investment strategy. Mr. Klausner then commented that the Board will need to come to terms with volatility with regard to TMRS' portfolio. He suggested that R.V. Kuhns provide the Board with information about index fund investing now so it can be discussed at the investment session in November. Mr. Henry then stated that staff will request, as an item on the agenda for the November meeting, that involvement by Anders Ekernas of Hillswick Asset Management LLC, who is currently a TMRS investment consultant, be expanded to include that of fixed income advisor, advising the

investment staff on the management of the fixed income portfolio and recommending which bonds to sell for the transition into index funds. Mr. Craig reported that staff will conduct a site visit to Hillswick in October; Mr. Henry concluded by stating that staff will return to the Board with full due diligence regarding this process.

Mr. Simpson then asked for information regarding the impact of changing the interest rate of return as opposed to not changing it. Mr. Menchaca suggested that at its next meeting, the Board needs to discuss how to move forward with the 2009 legislative package. Some issues for the 2009 legislative session were discussed, one of which was the return to work issue.

Mr. Menchaca suggested that the Board begin to discuss its 2009 legislative package and the involvement of its Advisory Committee at its December 2007 meeting.

Mr. Klausner at this time explained a Kentucky age discrimination case he will be arguing before the Supreme Court, reporting that he has asked certain pension systems to file an *amicus* brief in support of the argument, TMRS being one of the systems. The National Association of State Retirement Administrators is preparing a brief that TMRS could support, rather than authoring its own. The Board gave the Executive Director authority to proceed, and staff will provide a copy of the brief to the Board upon its completion.

There being no further business to come before the Board, the meeting was adjourned at 1:45 p.m.

Eric Henry
Executive Director
& Chief Investment Officer

Pat Hernandez
Chair