

**MINUTES OF THE
ADVISORY COMMITTEE ON RETIREMENT MATTERS
OF THE BOARD OF TRUSTEES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM**

On June 19, 2014, the Advisory Committee on Retirement Matters (the Committee) of the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 8:30 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas. The following members were present:

Advisory Committee Members

Julie Oakley, TMRS Trustee and Advisory Committee Chair
David Landis, TMRS Trustee
Joe Angelo, City of San Antonio
Allen Bogard, City of Sugarland
David Crow, Arlington Professional Fire Fighters Association
Keith Dagen, Government Finance Officers Association, Alternate
Michael Dane, City of San Angelo
Dean Frigo, Retiree
Jerry Gonzalez, Service Employees International Union
Paulette Hartman, Texas City Managers Association, Alternate
Victor Hernandez, City Councilmember, City of Lubbock
Scott Kerr, Texas State Association of Fire Fighters
Kevin Lawrence, Texas Municipal Police Association
Bryan Langley, City of Denton
Tadd Phillips, Texas Municipal Human Resources Association
Gregg Shipley, Combined Law Enforcement Association of Texas
Charles Windwehen, Retiree
Julie Masters, Mayor, City of Dickinson

The following staff, consultants and guests were also present:

David Gavia, TMRS Executive Director
Eric Davis, TMRS Deputy Executive Director
T.J. Carlson, TMRS Chief Investment Officer
Christine Sweeney, TMRS General Counsel
Dan Wattles, TMRS Director of Government Relations
Leslee Hardy, TMRS Director of Actuarial Services
Jesse Pittman, TMRS Project Manager
Michelle Mellon-Werch, TMRS Associate General Counsel
Karen Jackson, TMRS Executive Assistant
David Rodriguez, TMRS Regional Manager – City Services
Debbie Munoz, TMRS Director of Member Services
Bill Wallace, TMRS Director of Communications
Ian Allen, TMRS Director of Internal Audit
Melanie Thomas, Editor

Scott Willrich, TMRS Director of Information Services
Nancy Williams, Hewitt EnnisKnupp
Amy McDuffee, Hewitt EnnisKnupp
Mark Randall, Gabriel, Roeder, Smith and Company
George Kauffman, City of Garland
David Russell, Texas Municipal Police Association

Julie Oakley called the meeting to order at 8:30 a.m.

1. **Opening Remarks**

Ms. Oakley offered condolences to the family of Ron Crabtree. He passed away on June 2, 2014. Mr. Landis gave the invocation and Ms. Oakley asked for the Committee Members and staff to introduce themselves. She welcomed the two newest members to the Advisory Committee.

2. **Purpose of Advisory Committee and Meetings**

Ms. Oakley reviewed the charge for these Committee meetings. She stated that the Committee is an invaluable resource for the Board; the members' knowledge and perspectives are very helpful to the Board, as is the dialogue and open discussion. Even if there is not a consensus agreement, the process is very beneficial.

3. **Review of Agenda**

Ms. Williams reviewed the agenda for the meeting.

4. **Approval of Minutes from the May 15, 2014 Meeting**

Ms. Oakley asked if there were any comments or revisions to the minutes. There being none, Mr. Lawrence moved to adopt the minutes and Mr. Dane seconded. The minutes were approved unanimously.

5. **Legislative Update**

Mr. Wattles began by stating that national news has centered on cities having financial difficulties and public concerns with public pension systems. Locally, three Texas systems have had very public issues such as with the Houston and Fort Worth funds. However, the majority of Texas systems are doing well. Mr. Gavia stated that many constituents view unfunded accrued liabilities as debt. Employee Retirement System is still facing a declining funded ratio, which may be the focus of the Texas Legislature next session.

Mr. Wattles discussed the elections and the landscape of the Texas Legislature. Representative Joe Straus has been the Speaker of the House for the past three sessions; it appears he most likely will continue in that role, as there is currently no serious contender and a sizable Republican majority. In the Senate, we will have a new Lieutenant Governor. The results of this year's

primary and runoff results indicate that we will have new officials in the six major statewide offices. The Senate has 31 members, over which the Lt. Governor presides, with a current 19-12 Republican majority. There are fewer committees than in the House of Representatives. The Senate State Affairs Committee has oversight over all public pension-related matters. Senator Tommy Williams, who has carried TMRS legislation, and Senator Duncan, Chair of the State Affairs Committee, are both leaving the Senate. Therefore, there will be a new Senate presiding officer and eight or possibly nine new Senators. Since there were 5 and 2 new members, respectively, over the past 2 sessions this means that almost half (15) of the Senators will have two sessions of less of experience in the 2015 Legislature.

In the House of Representatives, Mr. Wattles indicated the likelihood of approximately 20 new members. There were 41 new members the last session and 35 new members the session before that. This means that almost 2/3 of the members of the Texas House will have less than two sessions of experience. Mr. Wattles discussed the effect of all of the turnovers as they relate to the House Pensions Committee. Education will be very important with all of the new legislators.

Mr. Crow stated that the leaders leaving the Senate are creating a great deal of anxiety over how the Senate will operate. Senator Duncan, in his role as Chair of the Senate State Affairs Committee, worked well with his counterpart on the House Pensions Committee to ensure there were no surprises. There was discussion regarding the changing political climate and its effect on local finances, state agencies and pension issues. Ms. Oakley discussed how limitations on raising revenue for local governments has an effect on pensions, specifically TMRS. Mr. Langley observed that it appears that newly elected officials have a mandate and they do not always want to learn about issues and then make a decision; they have an opinion without knowing much about our issues.

Mr. Wattles announced that the House Pensions Committee set its interim meetings for July 9th & 10th. The July 9 meeting will focus on GASB reporting requirements' impact and statewide systems oversight, followed by health care issues at the July 10 meeting. The July 10 meeting will be a joint meeting with the House Appropriations Committee. The Pension Review Board (PRB) is putting together rules for training requirements for board trustees and plan administrators. The proposed rules should be published at the end of June. The PRB is also required to publish a report on the health of public retirement systems in Texas. It wants to include city level information for TMRS, which is different from what has been provided in prior reports. This year's report from TMRS will include funded ratios, contribution rates and amortization periods.

Ms. Williams asked who in the Senate is knowledgeable on TMRS or pension issues. Mr. Wattles and Mr. Gavia both stated that we really do not have anyone with experience specific to TMRS at this time. Discussion ensued on the need for education efforts, and relationship building and the need for assistance from the Committee on these efforts.

6. Review of April and May 2014 Meetings

Ms. McDuffee reviewed the discussions from the April and May meetings. She highlighted the four topics brought to the Committee: two COLA alternatives, a two-tiered benefit structure, and

changing the eligibility threshold for participation in TMRS. She reviewed the presentations and the discussions of the Committee. The major themes she noted from those meetings are an interest in local control and concerns with introducing issues during the upcoming session.

7. Results of Straw Poll

Mr. Wattles reviewed the results of the straw poll administered prior to the meeting. All members of the Advisory Committee participated. He began with the proposals to adopt a fixed rate COLA and modify the COLA catch-up provision. The results were split evenly in favor and opposition to the proposed changes. Participants were invited to provide other proposals; however, none were offered. For those that stated they want do not wish to make changes to the current COLAs at TMRS, Mr. Wattles noted that the survey did not capture the reasoning behind their position.

The Committee discussed the legislative environment, the interest in local control and the effect of the changes discussed on contribution rates. Many of the constituency groups are waiting to see the intentions of the new legislators. Mr. Crow stated that his association is working on a defensive strategy. Mr. Frigo indicated that he would still like to see a feature where a city could have the option to increase the COLA without the retroactive catchup provision. Other Committee members stated that each city makes its choices for how they act when they have tight budgets. Mr. Angelo stated that we should consider what the ultimate goal should be, regardless of timing issues, and create a long-term philosophy for what the Committee wants. Mr. Lawrence stated that his biggest concern last session was having a provision hijacked by those who wish to do away with pensions altogether.

There was discussion regarding the current TMRS plan, including the COLA provision. Ms. Oakley stated that the board has made some difficult decisions in the past few years to help stabilize the contribution rates for the cities, which will help increase the sustainability of the system. She indicated that the Board wants retirees to have a stable system to rely on because that is the purpose of the system. Mr. Phillips agreed that there is no consensus at this time and asked if there the Committee could create a subcommittee to look further into COLAs to address issues and look at possible long-term options. Mr. Dane and Mr. Bogard agreed. Mr. Hernandez stated that as an elected official, he supports flexibility and local control; however, he has come to believe that it would be best to not try to make changes to TMRS this session because of the political climate.

Mr. Wattles continued with his review of the straw poll noting that there was a clear consensus that no change should be made to the eligibility threshold for employees. With regard to two-tier structures, again, there was a clear consensus against the proposal. Mr. Windwehen pointed out that the two-tier option is the only option that allows a community to maintain their commitments to retirees, if they have a serious financial crisis. Good financial management should be first level of defense against the need to make changes, but this item should be kept as a potential option if needed in the future. He stated that there should be a greater commitment to retirees than to those eligible to retire (approximately 21% of the workforce), next to those vested employees (65% of the workforce), then to non-vested employees and last to future

employees. He feels it should be a viable option for the future. Mr. Bogard asked a question regarding the decrease in his city's contribution rates. He believes there should be more information and education to cities regarding the decrease in prior service rates after 20 years.

Mr. Wattles stated that one Committee member included a "13th check" as an additional option that should be considered. Mr. Wattles indicated that there was a time that TMRS paid a distributive benefit to retirees, frequently called a 13th check. This proposal is slightly different. It is for TMRS to allow a pass-through of an extra one-time payment to retirees from city funds, not from the TMRS system, with certain limitations. Mr. Gavia discussed the constitutional limitations and other issues that would require a city to go through TMRS to make an additional contribution to retirees.

Discussion moved on to whether the Committee wanted to create a statement of philosophy to communicate its position to the Board. Mr. Wattles reviewed the previous resolutions adopted by the Board. The Committee generally tended to be in support of the current system plan and against any changes to the system at this time. Many Committee members focused on education of legislators.

8. Discussion

Ms. Williams stated that we have already had a lot of discussion, and asked the Committee members to give a final statement regarding what they would like the Board of Trustees to do in the short term and longer term.

Mr. Lawrence felt that there are too many unknown factors; he did not see making tweaks to the system in the next four years. Mr. Langley did not think we should propose any changes to the system; he proposed a defensive strategy, focusing on education regarding TMRS. Mr. Crow felt that he had already expressed his opinion numerous times. Mr. Hernandez agreed with the prior statements. He would like to see more long-term planning, but understands the inherent difficulties when the participants keep changing. He was concerned with succession planning for TMRS education and the need to create a broader base of support. Mr. Dagen agreed that a proposal is too risky right now. Ms. Hartman also agreed; she would like to educate city managers/finance directors on options currently available at TMRS. Mr. Windwehen agreed with Mr. Dagen and Ms. Hartman regarding the risk of pursuing proposed changes to the System. Mr. Frigo appreciated Mr. Windwehen's perspective on two-tiers and wanted to keep it as an option for discussion. He also stressed the need for education regarding TMRS. He also stated that he wished the Board could have a legislative package ready to substitute in if there is an opportunity. He would like to see a legislative strategy, not just avoidance. Mr. Phillips stated that he did not have anything to add for the short-term but would like to focus on longer-term issues. During off session years, he would like the Committee to provide input for long-term strategy and vision to the TMRS Board and executive staff.

Ms. Oakley generally described the two board resolutions, and read provisions of the Board's Legislative Resolution adopted prior to last session. Mr. Wattles explained that the Committee proposed adoption of a resolution to the Board prior to last session and that the final Board resolution was used by the System and Committee Members to support or not support proposed

bills. Ms. Oakley asked the Committee to give input on whether these resolutions were useful, or if there was an interest in changing them in some way.

Mr. Dane agreed that he has not seen any issues that are important enough to go to the legislature. For the short term, he would like to improve legislative relationships and in the long term, he liked the idea of discussing guiding principles and vision for TMRS. Ms. Masters expressed an interest in long term planning for TMRS. Ms. Masters does not want to put anything out in session in the short term, but she would like to have some defensive strategies in place in case there are unfavorable proposed bills or actions toward TMRS. Mr. Bogard would like TMRS to work with TML to try to avoid any proposals from them that are counter to what TMRS is interested in proposing. He does not want to sacrifice the current stability of the System. Mr. Gonzales felt that there is a need to educate the new members and see how they take to the education. Mr. Angelo believes it is clear that there is not a consensus to bring forward, so he agrees that there should be no short-term proposals. He would support the concept of two-tier proposals because it is another tool for cities. He does not think it is a great option, but he is concerned with fiscal issues many cities are facing and he sees it as a way to maintain commitments to retirees. Mr. Shipley agreed that there should be an active defense.

Mr. Kerr felt that the Board should adopt the same resolution not to support any legislation that would negatively affect TMRS. Mr. Kerr would like to see the language on page 33 in the packet of materials sent to the Committee, in the Advisory Committee Communication for Agenda Item No. 7, under "Statement of Philosophy", in the third bullet, items 1, 2 and 3, make up the Committee's statement of philosophy.¹

Ms. Williams asked if most people agree with Mr. Kerr. Mr. Langley asked how this resolution might affect TMRS's actions when a proposed bill is filed. Mr. Wattles explained that it depends on the bill, but that it provides a framework for the Board to make decisions. TMRS always works with the bill sponsors and legislative committees to provide information and comment on proposed bills. In addition, TMRS will keep the Advisory Committee informed of relevant bills as they are proposed and the estimated impact on TMRS. Mr. Kerr went on to express his view that since there is a vetting process for proposals at TMRS, that if a new proposal comes forward in the legislative session, all of the involved parties should be able to explain to legislators that proposals need to go through the vetting process at TMRS and be reviewed by the Committee, staff and the Board. Mr. Langley felt the resolution is too vague. He would like to have it be more clear as to whether TMRS will support or not support certain bills. The Committee discussed the Board's and TMRS staff's roles in the legislative process, and certain issues that should be emphasized in a resolution, including, but not limited to local control, education, and long term planning. Mr. Wattles stated that the educational piece is going to be very important this session. TMRS needs all of the stakeholder groups represented by the Committee to also educate and reinforce TMRS's statements to legislators.

¹ The third bullet under "Statement of Philosophy" in the Advisory Committee Communication for Agenda Item No. 7 reads:

There were four comments about what should be included in a "Statement of Philosophy" should one be developed. The four statements were: 1) conveying that current options are currently more than adequate for controlling costs, 2) the Committee is not in favor of pursuing changes, 3) playing defense and that changes are not needed, and 4) a general statement with support for TMRS and its many participants and retirees.

Ms. Oakley stated that the comments from the Committee are important and have been heard by the Board in both the last interim and this interim. Mr. Landis believes it may be the time to have an official position from the Committee. Mr. Dane suggested that the committee adopt the following message:

“This committee finds:

1. The current options available at TMRS are adequate for controlling costs at this time;
2. The Committee is not interested in making changes in this session; and
3. The Board should adopt a resolution similar to the one adopted last session.”

Ms. Williams asked for a show of hands on how many would like to do an official message to the Board and support the statement put forth by Mr. Dane. A majority of the Committee Members raised their hands in favor. Mr. Phillips wondered whether TMRS and the Committee have made it clear to constituents that the correct process is to put recommendations through the Advisory Committee. He stated that the second part of the statement implies that TMRS will oppose any legislation that has not gone through the Committee’s vetting process. Ms. Hartman asked how TMRS works with TML and its public policy processes. Several of the Committee Members participate in both committee processes. Mr. Langley stated that there are currently no proposals at TML regarding TMRS, but they have just begun with their legislative policy committee processes.

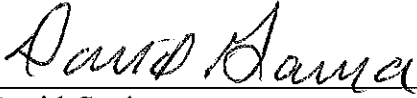
Ms. Williams asked if anyone wanted to add anything to the recommendation statement to the board, especially regarding long term planning/strategy. The Committee felt it had expressed its interest to the Board regarding the need for long-term planning and some members expressed frustration with the lack of ability to plan long-term because of the amount of turnover in the Legislature and the Committee. Many of these discussions have occurred in the past and the newer members were just not aware of them.

Ms. Oakley explained that the Board has created a strategic plan that is reviewed annually and updated as needed. Ms. Williams asked if there were any other topics for discussion. The next meeting will be the Joint Advisory Committee and Board Meeting in August.

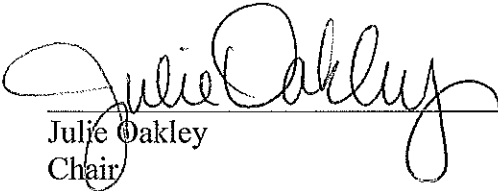
9. Concluding Remarks

Ms. Williams stated that the Board of Trustees would see the results of the straw poll and the discussion from this meeting at the joint meeting in August. Ms. Oakley thanked everyone for their participation and stated that these meetings have been productive and she appreciates the willingness and openness of the Committee members to participate.

Mr. Bogard moved to adjourn the meeting and Mr. Kerr seconded, with unanimous approval.
The meeting adjourned at 11:40 a.m.



David Gavia
Executive Director



Julie Oakley
Chair