

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

March 12, 2010

On March 12, 2010, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 7:30 a.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

Ben Gorzell, Jr., Chair
April Nixon, Vice Chair
Carolyn Linér
Pat Hernandez
Roel ("Roy") Rodriguez
H. Frank Simpson

Present also were:

David Gavia, Acting Executive Director
Ian Allan, Director of Internal Audit
Rhonda Covarrubias, Director of Finance
Eric Davis, Deputy Executive Director
Bernie Eldridge, Director of Human Resources
Nancy Goerdel, Acting CIO/Director of Public Investments and Asset Allocation
Leslee Hardy, Staff Actuary
Holly Macki, Director of Fixed Income
Michelle Mellon-Werch, Associate General Counsel
Cindy Morse, Executive Assistant
Debbie Munoz, Director of Member Services
Eddie Solis, Director of Government Relations
Bill Wallace, Director of Communications
Scott Willrich, Director of Information Resources
Robert Klausner, Klausner & Kaufman
Mark Randall, Gabriel, Roeder, Smith and Company
Peter Madsen, R. V. Kuhns & Associates, Inc.
Maria Beard, R. V. Kuhns & Associates, Inc.

Guests:

David Crow, President, Arlington Professional Fire Fighters
Scott Hofstrom, Arlington Professional Fire Fighters
Jim Moore, City of Mesquite Fire Fighters
Candace Nolte, Comptroller
Kristin Qualls, Assistant Investment Officer
Katie Reissman, Investment Analyst – Fixed Income
Tino Robledo, KPMG
David Rodriguez, Regional Manager, City Services

Jim Parrish, Texas Municipal Human Resources Association
Bob Scott, Director of Finance, City of Carrollton
Sean Thompson, Regional Representative, City Services
Susan Warren, KPMG
Monty Wynn, TML

The meeting was called to order by Mr. Gorzell at 7:31 a.m., and Mr. Rodriguez gave the invocation.

1. **Executive Session**

At 7:31 a.m., the Board entered into Executive Session, pursuant to Texas Government Code, §§551.071 and 551.074 to consult with Legal Counsel to receive legal advice, and to discuss personnel matters. No action was taken during the Executive Session and the meeting was opened to the public again at 7:53 a.m. All members of the Board who had been present when the Board went into Executive Session were again present.

Mr. Gorzell recapped the Executive Director search and selection process, including the hiring of Mary Hobson of EFL Associates to serve as consultant for the national search. He said that after this comprehensive search, the Board of Trustees is convinced that David Gavia is the individual best suited to lead TMRS into the new decade as the System continues the mission of providing secure retirement to tens of thousands of dedicated municipal employees while maintaining strict fiscal responsibility to over 800 city governments. Mr. Simpson moved that the Board appoint David Gavia as the Executive Director and authorize Robert Klausner to negotiate the terms of an employment contract with Mr. Gavia. Mr. Rodriguez seconded the motion, which passed unanimously.

2. **Consider and Act on Consent Agenda**

Mr. Gavia presented this item and asked the Board to adopt the Consent Agenda, which included quarterly reports on service retirements, disability retirements, death benefits and financial statements. There was no discussion on this item. Ms. Nixon moved that the Consent Agenda be adopted as presented. Ms. Linér seconded the motion, which passed unanimously.

3. **Discussion of 2009 External Audit (SAS 114)**

Susan Warren, Audit Partner with KPMG, began the discussion of the audit plan. She stated that the audit will provide an opinion about whether the System's financial statements are presented fairly and in conformity with generally accepted accounting principles (GAAP). The audit is planned and will be performed to obtain reasonable (not absolute) assurance that the System's financial statements are free from material misstatements. KPMG's procedures include consideration of internal control over financial reporting and will include a review of the CAFR since it also contains the financial statement. Any significant matters will be reported to the Board; the audit does not relieve management or the Board of their responsibilities. Ms. Warren then reviewed the scope of work, the audit team, the definition of materiality and an overview of the timeline for the audit. She asked the Board if there were any other planning matters to consider. The only item noted by the Board was portfolio diversification.

4. **Investments Report as of February 28, 2010**

Mr. Madsen began by introducing Marcia Beard who will be a new addition to the TMRS team. Ms. Goerdel stated that Ms. Beard's addition to the team was vetted as part of the due diligence process. She stated that Ms. Beard is an excellent, value-added addition to the team.

Mr. Madsen presented the updated performance data and reported that TMRS is on target regarding the allocation. In the portfolio and the market in general, Mr. Madsen reported seeing first positive and then negative months. He said that the fixed income portfolio is performing the preservation of capital role and could be on track for a mid-single digit return for the year.

Ms. Goerdel stated that staff will review 2009 securities lending activities with the Board at the May meeting, and will recommend that the Board authorize hiring a Real Estate Consultant.

5. **Discussion on Fund Restructuring**

Mr. Randall began by reporting that GRS is in the midst of the 12/31/2009 actuarial valuation and they are ahead of schedule at this point. He discussed this topic and compared TMRS' current fund structure to a typical pension plan. He then contrasted cash flow in TMRS to a more typical pension fund. Mr. Simpson asked for a breakdown of a typical retiree's benefit check after 10 years and 20 years – what part of the check is from Current Service Annuity Reserve Fund (CSARF) and Municipality Accumulation Fund (MAF). Ms. Nixon asked for a side by side comparison of the cash flows under the current structure versus the potentially restructured plan. Mr. Randall showed the CSARF's percentage of the total fund and its expected growth. He discussed that the reserve has grown this year to help reduce volatility in the future, but still needs to be at a higher level. He next discussed the "settlement" that happens at the time of retirement. He discussed the advantages of restructuring: more normal volatility; decreased reserve requirements; potentially shorter time horizon before gain-sharing would be appropriate; possible lower contribution requirements without lowering benefits; and elimination of the settlement at retirement. He further stated that employers will bear the risk of their own retirees. He discussed how this would help with the possible need to change mortality tables on a phased basis at the city level. He stated that retirees will be at least as secure under the restructuring as under the current system structure.

Mr. Randall then moved into an example of restructuring for a "Group 6" city. The typical contribution rate reduction for this group would be about 14%. The example showed moving the CSARF, minus one year's worth of earnings, back into the MAF. Mr. Randall had extensive discussion with the Board on the mechanics of the example presented. Mr. Randall reported that going forward, once the valuation is completed, GRS will spend more time working on refining the potential impact of restructuring on city funding ratios and contribution requirements.

6. **Consider and Act on New Appointment to the Advisory Committee on Retirement Matters**

Mr. Gorzell introduced this item and briefly summarized it. Mr. Simpson moved that the Board confirm the appointment of Mr. Jerry Gonzalez (SEIU – San Antonio) to the Advisory Committee on Retirement Matters. Ms. Hernandez seconded the motion, which passed unanimously.

7. **Executive Director and Staff Reports**

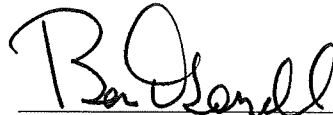
Mr. Gavia introduced this item and pointed out that TMRS recently received the Plan Sponsor Award in the public sector defined benefit category. He said that it serves as validation from an outside third party of what TMRS has accomplished in the past year. Mr. Gavia thanked the staff, Board, advisors, consultants and stakeholders for their hard work and support over the last year.

8. **Call For Future Agenda Items**

Mr. Gorzell stated that he would work with Mr. Gavia on agendas for the May and June meetings due to the number of heavy issues upcoming. As there was no further business, Ms. Linér moved that the meeting be adjourned. Ms. Hernandez seconded the motion, which passed unanimously. The meeting adjourned at 9:45 a.m.



David Gavia
Executive Director



Ben Gorzell, Chair
TMRS Board of Trustees