

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

December 6, 2012 – 2:00 p.m.

December 7, 2012 – 8:30 a.m.

On December 7, 2012, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened for a regular meeting at 8:30 a.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

Frank Simpson, Chair
Julie Oakley, Vice Chair
April Nixon
Jim Parrish
Roel (“Roy”) Rodriguez

Absent: Ben Gorzell, Jr.

Present also were:

David Gavia, 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, Chief Investment Officer
Leslee Hardy, Staff Actuary
Christine Sweeney, General Counsel
Holly Macki, Director of Real Estate
Michelle Mellon-Werch, Associate General Counsel
Debbie Munoz, Director of Member Services
Bonnie Mitra, Director of Fixed Income
Kristin Qualls, Director of Equities
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Scott Willrich, Director of Information Resources
Robert Klausner, Klausner Kaufman Jensen & Levinson
Susan Warren, KPMG
Chris Stone, KPMG
Rebecca Goldstein, KPMG

Also in attendance:

Gary Anderson, Retiree
David Crow, Arlington Fire Fighters

Debbie Farahmandi, Investment Operations Specialist
Alex Harlan, JPMorgan
Keith Hopkins, Mesquite Fire Fighters Association
Glenn Johnson, Garland Fire Fighters
George Kauffman, City of Garland
Scott Kerr, Texas Association of Fire Fighters
Jim Moore, Mesquite Fire Fighters
Candace Nolte, Controller
Kate Reed, Investment Risk Analyst
David Rodriquez, Regional Manager – City Services
Bob Scott, GFOA/City of Carrollton
Mel Thomas, Editor

Mr. Simpson called the meeting to order at 8:35 a.m. and Julie Oakley gave the invocation.

5. Consider and Act on Board Resolution Regarding 2013 Legislative Session

Board action on this agenda item was deferred until today. Mr. Gavia provided clarification that if the Board adopts the resolution, it will be treated as guideline rather than as a TMRS policy.

Mr. Parrish made a motion that the Board adopt the attached resolution which reflects TMRS' legislative policy for the 83rd Legislative Session. Roy Rodriguez seconded the motion; which passed unanimously by the members of the Board present, 5-0.

7. Consider and Act on Consent Agenda

Mr. Gavia introduced this item and explained the Consent Agenda includes the quarterly service retirements, disability retirements, death benefits, financial statements. He added that in December of each year, the Consent Agenda also includes the Seven Year Inactive Report/Transfer of Inactive Accounts, Seven Year Inactive Report/Transfer of Unclaimed Refunds and the Updated Service Credit and Annuity Increase Ordinances Adopted Report. There were no questions or amendments to the Minutes. Ms. Nixon moved that the Board adopt the Consent Agenda as presented. Ms. Oakley seconded the motion, which passed unanimously by the members of the Board present, 5-0.

8. Consider and Act on External Auditor Selection

Ms. Covarrubias noted that the TMRS Act requires that the Board retain an auditor to perform an annual audit of the System's financial records. She reported that TMRS issued a Request for Proposal (RFP) for Professional Auditing Services on October 16, 2012, soliciting 14 firms in the Austin, Dallas, Fort Worth and Houston areas. Mr. Gavia pointed out that both Ernst & Young and PricewaterhouseCoopers were included, but chose not to respond. TMRS did receive responses from four firms. Ms. Covarrubias reviewed the respondent criteria, highlighting mandatory and technical qualifications that would be required. She next reviewed the process for evaluation and results of this evaluation. KPMG was selected as the finalist based on this review. Ms. Covarrubias then reviewed KPMG's characteristics and the primary reasons for their selection. In response to a question from Mr. Simpson, Ms. Covarrubias answered that the Internal Auditor's reports are provided to the

external auditor and the Director of Internal Audit is interviewed during the planning stage or during the early stages of audit fieldwork, as part of the external auditors process of interviewing management.

Ms. Susan Warren introduced the proposed audit team including Chris Stone and Rebecca Goldstein. Mr. Stone reviewed the lines of business that would benefit the TMRS audit. Ms. Warren reviewed the KPMG staff in various areas that would work on the audit. She discussed that the audit begins with accessing and testing of the information systems and security. Ms. Warren discussed KPMG's strong resources in the areas of their actuary, tax issues and professional practice. She next discussed the substantial changes coming out of GASB Statements 67 and 68 including a potential change to the CAFR.

Ms. Warren stated that there are no regulatory requirements for rotation of auditors for non-SEC clients. She informed the Board that KPMG has a firm policy for non-SEC clients, whereby the lead audit engagement and concurring review partners be rotated after serving for 10 years on the engagement and managers after 7 years (as part of the firms' risk management policy).

Ms. Goldstein then discussed the controls based audit approach. She gave an overview of the audit approach and audit planning. She discussed the controls evaluation and substantive testing. She also discussed testing of the benefit administration and plan funding as well as a CAFR review.

Ms. Warren concluded by highlighting KPMG's industry leadership and experience, as well as their service to TMRS and the pension industry.

Mr. Rodriguez moved that the Board select KPMG, LLP for its external auditor for the fiscal years ending December 31, 2012 through 2016, and authorize the Executive Director to enter into a contract with KPMG satisfactory to the System for fees as described in the Board Communication and to sign an Engagement Letter for services for the 2012 fiscal year audit. Ms. Oakley seconded the motion; the motion carried unanimously by the members of the Board present, 5-0.

9. Consider and Act on Proposed 2013 Operating Budget

Ms. Covarrubias began with a review of the 2012 budget, comparing it to 2011, highlighting changes in personnel services and reviewing actual expenses to expected budget. She next reviewed professional services, again highlighting key 2012 expense drivers, and pointed out that actual expenses for 2012 will be under budget. In the miscellaneous category, the actual to expected budget was reviewed. This item is also projected to be under budget. Overall for 2012, it is expected that about 90% of the budget will be utilized.

Ms. Covarrubias then moved into a review of the 2013 budget, aligning key budget points with the TMRS Strategic Plan. She highlighted the changes in actuarial fees. She noted the banking services fees for custodial services were new in 2013 and had previously been waived by State Street Bank, due to participation in SSB's securities lending program. She then reviewed the accomplishments attained in 2012.

Ms. Covarrubias then moved to a discussion of the 2013 budget, indicating that it exceeds 2012 by 5.5%, but excluding new items would decrease by approximately 2.8%.

Ms. Covarrubias then reviewed the five major budget categories, beginning by highlighting changes to the Personnel Services section. She discussed changes in the Professional Services section including budgeted funds to obtain a new IRS determination letter for qualified governmental plans. She then discussed the miscellaneous section, touching on the inclusion of the Intex market analytics tool. Regarding Capital Expenditures, she indicated that this is back down to more normal levels.

She next discussed the new personnel requests, explaining the rationale behind the request for each position. Board discussion centered on the new positions requested. In response to a question from Mr. Simpson, Mr. Willrich responded that outsourcing of IT services was not being actively considered at this time although the budget does include funds to examine the feasibility of "cloud computing". The Board asked that a more in depth presentation be given prior to posting of the Project Manager and the Member Services Business Process Analyst.

Ms. Nixon moved that the Board adopt the 2013 Proposed Operating and Capital Expenditures Budget as presented. Mr. Parrish seconded the motion, which passed unanimously by the members of the Board present 5-0.

10. Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund

Ms. Covarrubias reported that the Board's policy on transferring monies from the Interest Reserve Account to the Expense Fund is to maintain reserves in the Expense Fund of approximately 15% of the following budget year expenses. She reviewed the estimated 2012 operating expenses and resulting fund balance reserve. She indicated the amount needed to be transferred, which in addition to the fund reserve, are required to fund the 2013 operating budget.

Mr. Parrish moved that the Board adopt a resolution to transfer \$16,203,000 from the Interest Reserve Account to the Expense Fund to cover budgeted expenses for 2013 of \$17,386,000. Ms. Oakley seconded the motion which passed unanimously by the members of the Board present, 5-0.

11. Consider and Act on Final Adoption of Proposed Amendments to TMRS Rule 34 TAC §125.7 to Address Terminology Changes Due to Enactment of SB 350

Mr. Gavia stated that at the September 2012 Board of Trustees Meeting, the Board of Trustees authorized the Executive Director to file for publication the proposed amendments to 34 TAC Rule §125.7 with the *Texas Register*, in proposed form, with permanent adoption of the amended rule to take place at a later Board meeting, and to make non-substantive changes to the proposed rule amendments as necessary or desirable to conform the rule amendments to *Texas Register* requirements. Ms. Sweeney stated that during the last Texas legislative session, Senate Bill 350 (SB 350) was enacted into law, which provided for the

restructuring of fund obligations and accounts of TMRS. As part of such fund restructuring, the fund account known as the "municipality accumulation fund" was renamed the "benefit accumulation fund" and the assets and liabilities of the fund accounts formerly known as the "employees saving fund" and the "current service annuity reserve fund" were transferred to the benefit accumulation fund as described in SB 350. Ms. Sweeney explained that this rule change modifies language to reflect the change to the name "benefit accumulation fund" and reviewed the processes regarding publication of the proposed rule amendments on October 26, 2012 and for final adoption of this change.

Ms. Oakley moved that the Board of Trustees approve the Order adopting amended Administrative Rule 34 TAC §125.7, and to adopt the amendments to Rule §125.7 to be effective 20 days after it is filed with the *Texas Register*, without changes to the proposed language as published. Ms. Nixon seconded the motion; which passed unanimously by the members present, 5-0.

12. Consider and Act on Final Adoption of Proposed Amendments to TMRS Rule 34 TAC §127.4 to Address Compliance with the Federal HEART Act and Compliance with USERRA Payments (Use of Rollover Monies)

Ms. Sweeney discussed that the proposed amendments to Rule §127.4, which were approved for publication during the September 2012 Board of Trustees meeting, are changes made for compliance with the federal Heroes Earnings Assistance and Relief Tax Act of 2008 ("HEART Act") and the Uniformed Services Employment and Reemployment Rights Act (38 U.S.C. Section 4301 et seq.) ("USERRA"). The proposed rule amendments were filed with the *Texas Register* on October 15, 2012 and published on October 26, 2012, for final adoption by the Board at a later date. At the request of the Texas Register's office, and before publication, TMRS staff made certain non-substantive changes to the original wording approved by the Board of Trustees in order to provide for consistency with the terms used by the *Texas Register* in referencing sections, subsections, and paragraphs within the text. In addition, the original Board approved text in §127.4(d) was revised by staff prior to publication to change the term "survivors" to "beneficiaries" to be consistent with the terminology used throughout the TMRS Act. These proposed rule changes are designed to help ensure that TMRS is administered in a manner that the TMRS retirement benefit plan will be considered a tax-qualified plan under Internal Revenue Code Section 401(a).

Mr. Rodriguez moved that the Board of Trustees approve the Order adopting amended Administrative Rule 34 TAC§127.4 and adopt the amendments to Rule §127.4, to be effective 20 days after it is filed with the *Texas Register*, without changes to the proposed language as published. Mr. Parrish seconded the motion; which passed unanimously by the members present, 5-0.

13. Consider and Act on New Appointments and/or Reappointments to the Advisory Committee on Retirement Matters

Mr. Gavia stated that TMRS was recently notified of the need to appoint two new representatives to Group Class membership positions. First, Flor Garcia, Assistant Human Resources Manager with the City of San Antonio, resigned her position with the City. Her alternate, Mr. Robert Hammond also resigned his position with the City. On November 9,

2012, TMRS received a letter from Ed Belmares, Assistant City Manager of the City of San Antonio, requesting that Mr. Joe Angelo, Chief Human Resources Director, replace Flor Garcia, as their representative in the Group Class membership. Mr. Gavia also reported that Mr. Tadd Phillips, President of the Texas Municipal Human Resources Association (TMHRA), notified TMRS on November 20, 2012 that Don Byrne would be immediately transitioning off as their representative to the Advisory Committee. Mr. Phillips indicated that TMHRA is nominating Debbie Maynor as their new representative. Ms. Maynor is the immediate Past President of TMHRA and is the Director of Human Resources for the City of Killeen. Mr. Gavia also reported that Ron Cox's second three year term is expiring at the end of 2012. Per the terms of the Charter, an Individual Class Advisory Committee member is limited to serving two terms. Staff is commencing a search and is anticipated to provide the Board with candidates for that position at the February 2013 Board meeting.

Mr. Parrish moved that the Board approve the nomination of Joe Angelo to replace Flor Garcia and to represent the City of San Antonio in the Group Class of membership and to also appoint Debbie Maynor to replace Don Byrne to represent the Texas Municipal human Resources Association in the Group Class of membership. Ms. Nixon seconded the motion, which passed unanimously by the members present 5-0.

14. Consider and Act on Election of Board Officers

Mr. Gavia reviewed the Board's past practices in rotating the positions of Board Chair and Vice-Chair among Board trustees.

Ms. Nixon moved that Ms. Oakley be appointed the Chair and Mr. Rodriguez be appointed the Vice Chair for 2013. Mr. Parrish seconded the motion, which passed unanimously by the members present 5-0.

15. Discuss and Review the TMRS Act Statutory Maximum Contribution Requirements

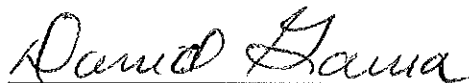
Mr. Simpson pointed out that this agenda item was requested by Mr. Gorzell who was unable to attend the meeting. Mr. Rodriguez moved to table this agenda item until a later date. Ms. Oakley seconded the motion; which carried unanimously by the present, 5-0.

16. Executive Director and Staff Reports

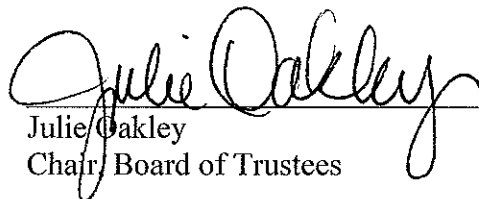
Mr. Gavia presented the staff reports and the Board had no questions or comments.

17. Call For Future Agenda Items

As the Board had none at this time, the meeting was adjourned at 10:05 a.m.



David Gavia
Executive Director



Julie Oakley
Chair Board of Trustees

Resolution

Whereas, the Texas Municipal Retirement System (TMRS) has provided Texas cities, municipal employees, and retirees a soundly funded, hybrid ("cash-balance") retirement program for over 60 years that provides superior retirement security when compared to defined contribution plan alternatives; and

Whereas, the design of TMRS provides local control of retirement benefits so that cities may choose the level of benefits appropriate for their employees and their communities; and

Whereas, the design of the TMRS program requires each city to pay the annual required contribution to ensure that benefits remain soundly funded over no more than a 30-year period; and

Whereas, the TMRS Board of Trustees is committed to operating under the highest ethical standards and incorporates best practices for its actuarial and investment policies; and

Whereas, in recent years, TMRS has worked with all constituent groups, including elected officials, employee associations, and representatives of city management, to craft important changes to the System that ensure its continued soundness; and

Whereas, the Legislature of the State of Texas has historically been supportive of TMRS, the local control it provides to cities, and the high standards of its operations; and

Whereas, legislation may be proposed in the next session of the Texas Legislature to affect TMRS without regard to its actuarial condition, plan design, or potential impact on the sponsoring cities; therefore

Be It Resolved by the Board of Trustees of TMRS, that the Board strongly supports the continuation of the current hybrid ("cash-balance") plan design, operational standards, local control for cities, and commitment to quality that have characterized TMRS since its inception, and furthermore

Be it Resolved by the Board of Trustees of TMRS, that the Board encourages the Texas Legislature to continue their support of TMRS and not support any legislative proposals that would negatively impact TMRS, including those that limit local control; benefit one city, group of members, or retirees; or that will have a negative fiscal impact on the System.