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# Executive Director's Letter of Transmittal



June 9, 2023

## **To the Trustees, Members, Retirees, Beneficiaries, and Participating Cities of the Texas Municipal Retirement System**

I am pleased to present you with the Texas Municipal Retirement System (TMRS) Annual Comprehensive Financial Report for the year ended December 31, 2022 (Report).

### **TMRS Background**

Beginning in 1948 with eight participating cities, in 2022 TMRS was the retirement system of choice for 919 Texas cities, providing retirement, disability, and death benefits to 150,030 members and 71,265 retirees.

TMRS is a cash-balance retirement plan in which a Member's retirement benefit is calculated based on the sum of their contributions with interest, city monetary credits, the Member's age at retirement, and other actuarial factors. For 75 years, TMRS has provided billions of dollars in lifetime retirement benefits to thousands of Texans. In 2022, TMRS paid \$1.8 billion in benefits, an increase of \$136.2 million, or 8.3%, from \$1.6 billion in benefits paid in 2021.

### **Investments**

TMRS' 2022 net investment return was -7.35%, and Trust Fund investments totaled \$35.5 billion as of December 31, 2022. TMRS' three-year, five-year, and ten-year net investment returns were 4.10%, 4.81% and 5.98%, respectively, for the same periods. The Investment Section summarizes 2022 investment operations and asset class performance.

The TMRS Board of Trustees (Board) adopts an Investment Policy Statement (IPS) that establishes the Trust Fund's asset allocation, portfolio performance objectives, and benchmarks. The Board reviews the IPS and the Trust Fund's asset allocation annually and updates them to reflect prevailing investment and economic circumstances. Compliance with the IPS is monitored by Investment Department staff.

### **Actuarial Valuation Report**

In accordance with the TMRS Act, Gabriel, Roeder, Smith & Company (GRS), the Board's independent actuary, completes an annual actuarial valuation of Trust Fund assets and liabilities. GRS' Actuarial Valuation Report conforms with the Actuarial Standards of Practice issued by the Actuarial Standards Board and complies with the requirements of the TMRS Act, the Internal Revenue Code, and the Statements of the Governmental Accounting Standards Board. The assumptions and methods used in the Valuation Report are summarized in the Actuarial Section.

Each participating city chooses its own plan benefit provisions from various options. Whatever plan benefit options a city chooses, its funding objective is to provide retirement, death, and disability benefits for the city's employees financed by employee and city contributions.

# Executive Director's Letter of Transmittal

CONTINUED

TMRS provides each participating city with an annual actuarial valuation prepared by GRS that reconciles the required contribution rates from the prior valuation and establishes the city's contribution rate for the upcoming rate cycle. Participating cities' valuations and contribution rate letters are available on the TMRS website.

While each TMRS participating city has its own funded ratio, TMRS' composite funded ratio was 89.7% as of December 31, 2022, compared to 90.5% as of December 31, 2021.

## 2022 Operational Activities

TMRS' Senior Staff completed each item on its 2022 Action Plan, including:

- Implementing a new city portal contribution system.
- Completing a comprehensive RFP process resulting in the Board's retention of NEPC as TMRS' General Investment Consultant.
- Enhancing Member, participating city, and staff training.
- Improving the website's structure and content.
- Creating TMRS Fact Sheets for participating cities and Members.
- Selling TMRS' former headquarters building.

Each item strengthened the organization and improved service to Members and participating cities.

## Senior Staff Updates

TMRS' Senior Staff is experienced and talented. In 2022, we added David Hunter as Chief Investment Officer, Jac Greene as TMRS' first Chief Information Officer, and Mike Apperley as Director of Internal Audit.

The following Senior Staff were promoted during 2022: Debbie Munoz to Chief Service Officer, Andi Focht-Williams to Director of Benefit Administration, Nick O'Keefe to Deputy Chief Legal Officer, Tom Masthay to Deputy Chief Investment Officer, and Candace Nolte to Director of Finance.

In early 2023, Mike Apperley became TMRS' first Chief Financial Officer, and Nick O'Keefe moved to the Investment Department as Deputy Chief Investment Officer.

## TMRS Accountability, Transparency and Financial Integrity

**Financial Statements.** TMRS management prepared this Report and is responsible for the accuracy of the data contained in it and the completeness and fairness of the presentation of its financial information. To the best of management's knowledge, the Report's data is accurate in all material respects and is reported in a manner designed to present transparently TMRS' operating results, financial position, and Trust Fund assets.

TMRS' independent auditors, CliftonLarsonAllen LLP, performed an audit of the Report's 2022 financial statements. Information regarding the scope of their audit is included in the Independent Auditors' Report in the Financial Section.

Condensed financial information is provided after the Independent Auditors' Report in Management's Discussion and Analysis (MD&A) in the Financial Section. MD&A provides an analysis of financial information for the current and prior fiscal years and should be read in conjunction with this Transmittal Letter and the financial statements.

**Internal Controls.** TMRS management is responsible for establishing and maintaining internal controls designed to ensure that Trust Fund assets are protected from theft or misuse. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. Reasonable assurance recognizes the cost of a control relative to the benefits likely to be derived and that these judgments by management are based on estimates.

# Executive Director's Letter of Transmittal

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## Achievements in Financial Reporting and System Administration

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TMRS' Annual Comprehensive Financial Report for the year ended December 31, 2021 its Certificate of Achievement for Excellence in Financial Reporting. To receive this Certificate, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements. This was the 35th consecutive year that TMRS has achieved this recognition.

The GFOA's Certificate of Achievement is valid for one year. We believe that this Report meets the Certificate's requirements, and we will submit it to the GFOA to determine its eligibility for another Certificate.

The GFOA also recognized TMRS' 2021 Popular Annual Financial Report for Outstanding Achievement in Popular Annual Financial Reporting.

TMRS received the Public Pension Coordinating Council's 2022 Public Pension Standards Award for Funding and Administration in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

## Board Update

Jesús Garza, the City Manager of the City of Victoria, served as Board Chair in 2022, and Bob Scott, the Executive Director of Administration for the Town of Prosper, served as Vice Chair.

In March 2023, the Texas Senate unanimously confirmed Governor Abbott's reappointment of Trustee David Landis to the Board. Mr. Landis has more than a decade of Board service, and his leadership and experience have been instrumental to TMRS' success.

## Acknowledgements

TMRS had a successful 2022. I want to thank our Trustees for their leadership and support, and my staff colleagues for their passion in serving our members, retirees, beneficiaries, and participating cities.

Sincerely,



David B. Wescoe

Executive Director

# Board of Trustees

AS OF DECEMBER 31, 2022



**Jesús Garza, Chair**  
City Manager  
City of Victoria  
Term expires: February 1, 2023



**Bob Scott, Vice Chair**  
Executive Director of  
Administration  
Town of Prosper  
Term expires: February 1, 2025



**Anali Alanis**  
Interim City Manager  
City of Pharr  
Term expires: February 1, 2027



**Johnny Huizar**  
City Manager  
City of Pleasanton  
Term expires: February 1, 2023



**David Landis**  
City Manager  
City of Perryton  
Term expires: February 1, 2027



**Bill Philibert**  
Director of Human Resources  
and Risk Management  
City of Deer Park  
Term expires: February 1, 2025

# Board Committees

AS OF DECEMBER 31, 2022

## Advisory Committee on Benefit Design

The Advisory Committee on Benefit Design provides the Board with input on benefit design matters. The Committee has 10 non-Board members: three Individual Representatives consisting of TMRS members, retirees and elected officials and seven Group Representatives from organizations that represent TMRS Members.

Chair • Jesús Garza

Vice Chair • Anali Alanis

### Individual Representatives

- Allison Heyward, Councilmember, City of Schertz
- Barry Sullivan, City Manager, City of Gainesville
- Retiree representative – vacant

### Group Representatives

- Chereé Bontrager, Texas Municipal Human Resources Association
- Paulette Hartman, Texas City Management Association
- Mitch Landry, Texas Municipal Police Association
- Scott Leeton, Combined Law Enforcement Associations of Texas
- Evelyn Njuguna, Texas Municipal League
- Jaime Reyes, Texas State Association of Fire Fighters
- Casey Srader, Government Finance Officers Association of Texas

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## Audit Committee

The Audit Committee provides oversight of the internal and external audit functions, risk management and internal controls.

Chair • Bill Philibert

Vice Chair • David Landis

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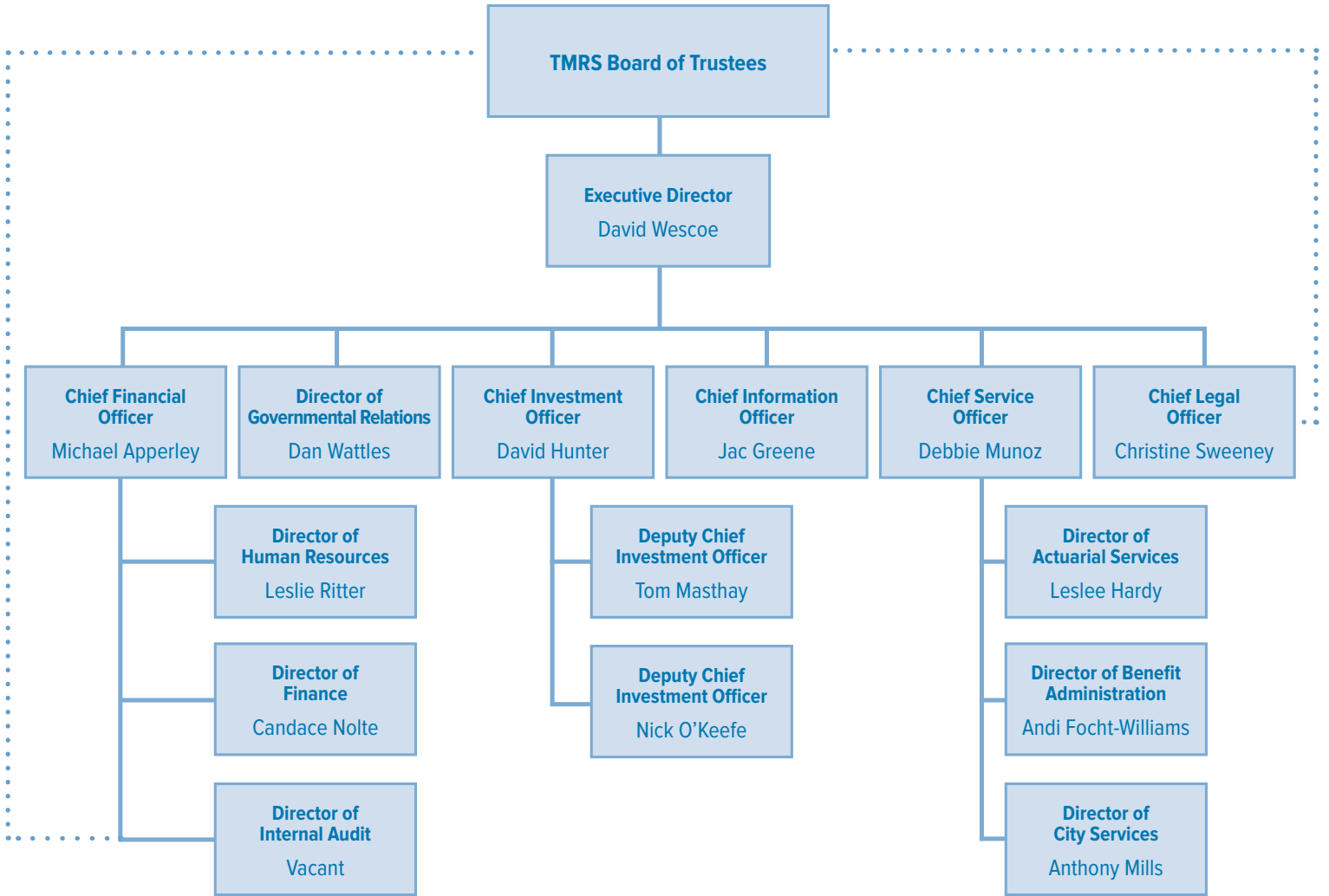
## Budget and Compensation Committee

The Budget and Compensation Committee reviews the annual budget and compensation policies.

Chair • Bob Scott

Vice Chair • Johnny Huizar

# Organization Chart



# Professional Advisors

AS OF DECEMBER 31, 2022

## Actuary

Gabriel, Roeder, Smith & Company  
Irving, TX

## Custodian

State Street Bank and Trust Company  
Boston, MA

## Depository Bank

JPMorgan Chase Bank, N.A.  
New York, NY

## Fiduciary Counsel

Robert D. Klausner, Esq.  
Klausner, Kaufman, Jensen & Levinson  
Plantation, FL

## Independent Auditor

CliftonLarsonAllen LLP  
Baltimore, MD

## Investment Consultants

Albourne America LLC  
San Francisco, CA

NEPC, LLC  
Boston, MA

TMRS' investments are managed by TMRS staff and external investment managers. Investment expenses, external investment fees and investment managers are presented in Tables I-6, I-7 and I-8 in the Investment Section.



# 2022 Highlights

| Financial Highlights (dollars in millions) |            | Participating Cities          |     |
|--|------------|-------------------------------|-----|
| City Contributions                         | \$1,144.8  | Total Participating Cities    | 919 |
| Member Contributions                       | \$529.9    | New Participating Cities      | 18  |
| Retirement Benefits                        | \$1,781.5  | Number of Cities with:        |     |
| Member Account Refunds                     | \$73.8     | City Match – 1:1              | 168 |
| Administrative Expenses                    | \$24.4     | City Match – 1.5:1            | 108 |
| Fiduciary Net Position                     | \$35,600.5 | City Match – 2:1              | 643 |
| System Funded Ratio                        | 89.7 %     | Member Contribution Rate – 3% | 3   |
|  |            | Member Contribution Rate – 5% | 329 |
|  |            | Member Contribution Rate – 6% | 99  |
|  |            | Member Contribution Rate – 7% | 488 |
|  |            | 5-Year Vesting                | 874 |
|  |            | 10-Year Vesting               | 45  |
| Investments (dollars in millions)          |            |                               |     |
| Investments                                | \$35,497.4 |                               |     |
| Time-Weighted Net Investment Returns:      |            |                               |     |
| 1 Year                                     | -7.35 %    |                               |     |
| 3 Years                                    | 4.10 %     |                               |     |
| 5 Years                                    | 4.81 %     |                               |     |
| 10 Years                                   | 5.98 %     |                               |     |
| Actuarial Investment Return Assumption     | 6.75 %     |                               |     |
| Membership Statistics                      |            |                               |     |
| Active Members                             | 119,528    |                               |     |
| Retired Members                            | 71,265     |                               |     |
| Inactive, Vested Members                   | 30,502     |                               |     |
| Total Members                              | 221,295    |                               |     |

Highlights presented are for the Pension Trust fund.

# GFOA Certificate of Achievement for Excellence in Financial Reporting



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Texas Municipal Retirement System**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

December 31, 2021

*Christopher P. Morill*

Executive Director/CEO

This Certificate of Achievement for Excellence in Financial Reporting was presented to TMRS by the Government Finance Officers Association (GFOA) for the year ended December 31, 2021. This is the 35th consecutive year that TMRS has received this prestigious award.



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2022***

Presented to

**Texas Municipal Retirement System**

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator

This Public Pension Standards Award for Funding and Administration was presented to TMRS by the Public Pension Coordinating Council (PPCC) for 2022. This is the 17th consecutive year that TMRS has received the award for meeting these standards.

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