



Comprehensive Annual Financial Report

For the Year Ended December 31, 2020



TEXAS MUNICIPAL RETIREMENT SYSTEM

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tmrs.com

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City Halls of TMRS participating cities, from left to right, top to bottom: Graham, Grapevine, La Coste, Stamford, San Antonio, Denison, North Richland Hills, San Angelo and Mexia. Courtesy of the Texas Department of Transportation, the City of North Richland Hills and iStock photos.





Comprehensive Annual Financial Report

For the Year Ended December 31, 2020

Prepared by:

David Wescoe, Executive Director

Rhonda Covarrubias, Director of Finance

Candace Nolte, Assistant Finance Director

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Introductory Section

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Executive Director's Letter of Transmittal



To: The Trustees, Members, Retirees, Beneficiaries and Participating Cities of the Texas Municipal Retirement System

I am pleased to present the Comprehensive Annual Financial Report for the Year Ended December 31, 2020 (Report) for the Texas Municipal Retirement System (TMRS).

TMRS Background

TMRS is a Texas statewide public employee retirement system established in 1947 to provide retirement, disability and death benefits to employees of TMRS participating cities. TMRS administers a cash-balance defined benefit retirement plan. TMRS Members contribute a designated percentage of their compensation toward their own lifetime retirement benefit, and the Member's account balance (including credited annual interest) is combined with their employer city's matching contributions and credits to calculate the Member's retirement benefit.

As of December 31, 2020, TMRS had 141,475 Members, 64,121 retirees and 895 participating cities. In 2020, TMRS paid \$1.5 billion in benefits, an increase of \$98.5 million, or 6.8%, from \$1.4 billion paid in 2019.

Investments

TMRS' 2020 net investment return was 7.65%, and Trust Fund investments totaled \$34.5 billion as of December 31, 2020. TMRS' three-year, five-year and ten-year net investment returns were 6.46%, 7.99% and 6.74%, respectively, all as of December 31. The Investment Section contains a detailed summary of 2020 investment operations and asset class performance.

TMRS' Investment Policy Statement (IPS) establishes the Trust Fund's portfolio performance objectives, which include achieving a total rate of return consistent with the current 6.75% actuarial return assumption and exceeding appropriate benchmarks over rolling five-year periods. The Trust Fund's asset allocation is designed to meet the 6.75% actuarial return assumption.

The IPS and its asset allocation are updated at least annually to ensure that they remain consistent with prevailing investment and economic circumstances. Compliance with the IPS is monitored by TMRS staff, and updates are reported regularly to the TMRS Board of Trustees (Board).

Actuarial Valuation Report

GRS, the Board's independent actuary, details TMRS actuarial data in an annual Actuarial Valuation Report in accordance with Actuarial Standards of Practice, Governmental Accounting Standards Board (GASB) principles and state law. A summary of actuarial assumptions and funding progress is presented in the Actuarial Section.

As required by Texas law, TMRS prepares an annual actuarial valuation for each of its participating cities and provides each city with a letter that reconciles the city's contribution rate from the prior year's valuation and explains the components of the reconciling items (Rate Letter). Participating city Rate Letters are available on the TMRS website.

Executive Director's Letter of Transmittal

CONTINUED

Each TMRS participating city chooses its own retirement benefit design by selecting from various statutorily permitted options. Each city's plan objective is to accumulate sufficient assets to pay benefits when they become due and to finance its benefits through an annual contribution rate determined by GRS. TMRS' funding policy includes a 6.75% actuarial return assumption and requires that each city's unfunded liability, if any, be amortized over a closed period of 20 years.

While each TMRS participating city has its own funded ratio, TMRS' composite funded ratio was 89.5% as of December 31, 2020, an increase from 88.0% at December 31, 2019. TMRS' Actuarial Funding Policy is available on the TMRS website.

In March 2021, the Board approved an approximate 7.45% interest credit to participating city accounts as of December 31, 2020, based on account balances as of January 1, 2020. Member accounts were credited with 5%. The TMRS asset smoothing policy and partial recognition of excess investment returns resulted in an actuarial return of 7.01%.

2020 Operational Activities

Senior Staff's 2020 Action Plan. My first day as TMRS' Executive Director was July 27, 2020, and in August, the Senior Staff agreed on the following ambitious ten-item, five-month 2020 Action Plan. As a result of my colleagues' efforts, each item was completed by year-end.

Ensure an Effective Leadership Transition. After my arrival, I met with or communicated to the Senior Staff and all employees, TMRS Members and participating cities, the Board's Advisory Committee on Benefit Design, numerous Texas state executive and legislative branch leaders and their staff, dozens of stakeholders and other Texas statewide pension plan executives.

Confirm the Status of TMRS' 2018-2022 Strategic Plan. The Senior Staff renewed its focus on the four Goals and 21 Objectives in the 2018-2022 Strategic Plan. As a result, 17 of the Plan's 21 Objectives are now complete, and the remaining four should be completed by year-end 2021, one year ahead of schedule.

Evaluate the Status of the Pension Administration System Modernization Program (PASMod). The PASMod program includes three dozen projects, including implementing a new City Contribution System and adding functionality to MyTMRS and the City Portal. All PASMod projects are on or ahead of schedule, and the program's budget has been reduced by almost \$3 million, or 30%.

Make TMRS a "Best Place to Work." Making TMRS a "Best Place to Work" is critical for employee engagement and productivity. To accomplish this, staff focused on the following.

Ensure that the TMRS management structure is efficient and effective. The management structure was realigned to maximize organizational effectiveness, including:

- Eliminating two Deputy Executive Director positions and an Information Services Assistant Director position;
- Appointing General Counsel Christine Sweeney to be Chief Legal Officer;
- Creating a new division focused on serving Members and participating cities that includes the Actuarial Services, City Services and Member Services departments and appointing Eric Davis to lead this division as TMRS' first-ever Chief Service Officer;
- Creating the City Services department and promoting Senior Regional Manager Anthony Mills to be its first Director;
- Promoting Director of Internal Audit Sandra Vice to become TMRS' first Director of Administration, responsible for the Finance, Information Services, Internal Audit and Project Management departments;

Executive Director's Letter of Transmittal

CONTINUED

- Establishing three internal management teams (Administrative, Communications and Technology) to facilitate inter-departmental activities, communication and projects;
- Reorganizing the Member Services department's operational functions into three focused units: Active & Inactive Members; Retiree & Refund; and Beneficiary Benefits; and
- Creating a Member Service Center to coordinate all Member-related contacts, including the Call Center and Member retirement counseling and education.

Support candid and robust communications. Staff and management teams meet more frequently, including monthly All-Staff meetings, bi-weekly Senior Staff meetings, weekly Executive Director direct report meetings, and "in-the-boat" meetings that include staff involved in particular projects.

Ensure telework promotes productivity and work quality. Telework policies were implemented to ensure that staff productivity and work quality remained at high levels.

Provide employees feedback in a timely and productive manner. The staff performance evaluation process was simplified.

Ensure compensation and benefits are fair and communicated effectively. Staff compensation guidelines were modified to enhance TMRS' ability to hire, retain and motivate employees.

Develop and promote staff training and professional development programs. Staff were encouraged to create a personalized training plan to enhance their career potential, and the tuition reimbursement program was improved.

Create career development opportunities so that employees can reach their potential. Staff salary schedules were revised to create more internal career opportunities.

Ensure key positions have a succession plan in place. Succession plans were developed for all key management positions.

Verify that Operations and Administrative Services Policies, Procedures and Processes are Best Practice.

Since August, staff has:

- Submitted a new tax determination letter application to the IRS in August that covers recent TMRS Act amendments and newly adopted Board administrative rules and received a favorable determination letter in December;
- Implemented identity verification for Members logging onto MyTMRS to ensure the security of their personal data;
- Upgraded TMRS data imaging software and implemented an electronic workflow for retirement application processing to improve the Member Services department's operations;
- Started work on the implementation of the new City Contribution System that will add best practice features to the process and continued improving straight-through processing for Member changes to direct deposit and HELPS deductions; and
- Installed a new cloud-based phone system to improve Member service, business continuity, performance metrics, staff training and coaching, and teleworking.

Refine TMRS' Communication Plan. TMRS' communications plan was refined to clarify external audiences and media delivery methods, and a rebranding campaign was undertaken to improve the look and feel of TMRS communications, including the introduction of a new logo.

Implement "Best Practice" Board Governance Policies. New or amended Board governance policies or charters were approved.

Complete the Investment Beliefs Project. Eleven investment beliefs were approved by the Board for inclusion in the Investment Policy Statement.

Executive Director's Letter of Transmittal

CONTINUED

Confirm TMRS' 2021 Legislative Agenda. Legislation was introduced to amend TMRS' return-to-work provisions.

Prioritize Organization Projects. Senior Staff identified three projects as the most critical for operational success: the August - December 2020 Action Plan, the 2018 - 2022 Strategic Plan, and the PASMod program.

TMRS Accountability, Transparency and Financial Integrity

Financial Statements. TMRS management prepared this Report and is responsible for the accuracy of the data and the completeness and fairness of the presentation of the financial information in it. 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 is required to retain independent auditors to perform an annual audit of the financial statements contained in this Report. CliftonLarsonAllen LLP (CLA) performed the 2020 audit. Information regarding the scope of CLA's audit is included in the Independent Auditors' Report in the Financial Section.

Condensed financial information is provided in Management's Discussion and Analysis (MD&A) in the Financial Section immediately following the Independent Auditors' Report. 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.

Achievements in Financial Reporting and System Administration

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TMRS a Certificate of Achievement for Excellence in Financial Reporting for TMRS' Comprehensive Annual Financial Report for the Year Ended December 31, 2019. This was the 33rd consecutive year that TMRS has achieved this impressive recognition. To be awarded the Certificate of Achievement, 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.

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

The GFOA also recognized TMRS' 2019 Popular Annual Financial Report (PAFR) for Outstanding Achievement in Popular Annual Financial Reporting.

The Public Pension Coordinating Council awarded TMRS its 2020 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 of Trustees Update

Bill Philibert, the Director of Human Resources and Risk Management of the City of Deer Park, served as Board Chair in 2019 and 2020, and his tenure was one of the most successful in TMRS history. In 24 months, Mr. Philibert led the Board in a successful search for a new Executive Director (only the fifth such search in TMRS' 73-year history) and ensured a smooth and seamless leadership transition; prompted the initiative to relocate TMRS' headquarters building; approved the Pension Administration System Modernization Program; supported the introduction of important legislative initiatives; and oversaw the creation of a City Services department to improve

Executive Director's Letter of Transmittal

CONTINUED

TMRS' support of and service to participating cities. In every respect, he represented TMRS with dignity, distinction and humor.

David Landis, the City Manager of the City of Perryton, was elected Board Chair for 2021. Mr. Landis, who was appointed to the Board in 2013, has served as Chair of the Audit Committee and the Advisory Committee on Benefit Design. He was the Vice Chair in 2019 and 2020.

Julie Oakley, the City Manager of the City of Lakeway, was appointed to the Board in 2010, reappointed in February 2013 and served until July 2020. During her tenure on the Board, Ms. Oakley served as Board Chair in 2013 and 2015, as Board Vice Chair in 2012 and 2014, and as Chair of the Budget and Compensation Committee. She guided the System's strategic planning process, helped lead efforts in portfolio diversification and was instrumental in adopting a new asset allocation. She was an effective leader, and all TMRS Members and stakeholders owe her a debt of gratitude for her exemplary Board service.

Bob Scott, the Assistant City Manager and Chief Financial Officer of the City of Carrollton, was appointed in July 2020 by Governor Abbott to the Board to replace Ms. Oakley. Mr. Scott has a long history with TMRS, having served from 2008 to 2014 as the designated representative of the Government Finance Officers Association of Texas to the TMRS Advisory Committee on Benefit Design. Mr. Scott has served on the Governmental Accounting Standards Board (GASB) pension committee and is a past member of GASB's Executive Board.

Trustee Reappointments. In May 2021, the Texas Senate unanimously confirmed the reappointment of Trustees Alanis, Huizar, Philibert and Scott to the Board.

Former TMRS Executive Director David Gavia

My predecessor David Gavia, retired as Executive Director in August 2020, and I am a beneficiary of David's many accomplishments. David joined TMRS in 2001 as General Counsel and was appointed Executive Director in 2010. During his tenure, David led TMRS through many important changes, including the diversification of the investment portfolio, adoption of best practice governance practices and initiatives to ensure actuarial soundness. TMRS' funded ratio increased from 76% to 88%, and Trust Fund assets doubled to \$31 billion.

But more important than these achievements, David is a class act who is respected by all who have had the good fortune to know him, including me.

Acknowledgements

2020 was an historic year. The COVID-19 pandemic presented significant challenges, but TMRS met them all. Not one retiree or beneficiary payment was delayed, and Member service remained at high levels.

I want to thank Board Chair Bill Philibert, Vice Chair David Landis and their Board colleagues for their leadership and support during this difficult time.

Finally, I want to thank my colleagues for their warm welcome and commitment to our Members and participating cities. Their efforts were extraordinary.

Sincerely,



David B. Wescoe
Executive Director

June 4, 2021

TMRS Board of Trustees



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



David Landis, Vice Chair
City Manager
City of Perryton
Term expires: February 1, 2021



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



Jesús A. Garza
City Manager
City of Victoria
Term expires: February 1, 2023



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



Bob Scott
Assistant City Manager
and Chief Financial Officer
City of Carrollton
Term expires: February 1, 2025

Board Committees

Advisory Committee on Benefit Design

The Advisory Committee on Benefit Design was created by the TMRS Board of Trustees to provide valuable assistance in considering benefit changes and improvements to the System. The Committee acts as a voice for Members, retirees and cities regarding benefit design issues.

The Advisory Committee is a 10-member body of 3 Individual Representatives consisting of TMRS Members, retirees and elected officials; and 7 members representing stakeholder associations and groups with an interest in TMRS, called Group Representatives. Group Representatives are chosen by their respective associations and approved by the Board. The following members were on the Committee as of December 31, 2020.

Chair • David Landis

Vice Chair • Jesús Garza

Individual Representatives

- Allison Heyward, Councilmember, City of Schertz
- Paul Parker, Retiree
- Barry Sullivan, City Manager, City of Gainesville

Group Representatives

- 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
- David Riggs, Texas State Association of Fire Fighters
- Lauren Safranek, Texas Municipal Human Resources Association
- Casey Srader, Government Finance Officers Association of Texas

Audit Committee

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

Chair • David Landis

Vice Chair • Johnny Huizar

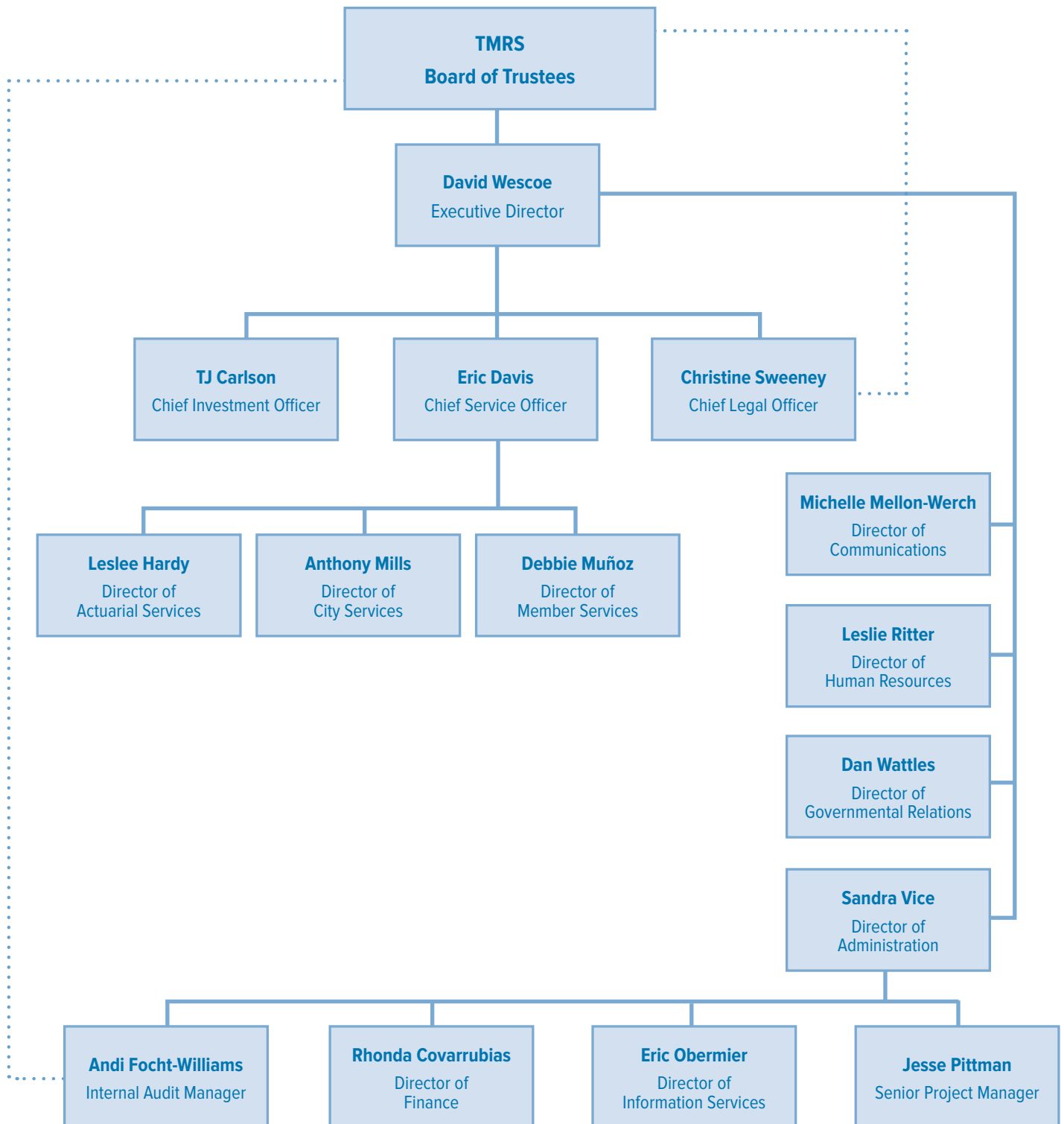
Budget and Compensation Committee

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

Chair • Bob Scott

Vice Chair • Anali Alanis

Organizational Chart



Professional Advisors

Actuary

Gabriel, Roeder, Smith & Company (GRS)
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 (CLA)
Baltimore, MD

Investment Consultants

Albourne America LLC
San Francisco, CA

RVK, Inc.
Portland, OR

External investment managers and investment management fees are presented in the Investment Section of this Report, Tables I-8 and I-9.

2020 Highlights

TMRS Highlights

For the Year Ended December 31, 2020

Financial Highlights (dollars in millions)		Participating Cities	
City Contributions	\$1,191.7	Total Participating Cities	895
Member Contributions	\$479.2	New Participating Cities	7
Retirement Benefits Paid	\$1,544.0	Number of Cities with:	
Inactive Member Refunds Paid	\$56.0	City Matching - 100%	189
Administrative Expenses	\$15.6	City Matching - 150%	112
Composite Funded Ratio	89.50 %	City Matching - 200%	594
Investment Portfolio Value	\$34,522.3	Member Contribution Rate - 3%	3
Investment Return, Net	7.65 %	Member Contribution Rate - 5%	342
		Member Contribution Rate - 6%	103
		Member Contribution Rate - 7%	447
		5-Year Vesting	845
		10-Year Vesting	50

Membership Statistics	
Active Members	114,334
Retired Members	64,121
Inactive, Vested Members	27,141
Total Members	205,596

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 Comprehensive Annual
Financial Report
For the Fiscal Year Ended

December 31, 2019

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 for the year ended December 31, 2019. This is the 33rd consecutive year that TMRS has received this prestigious award.



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2020***

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, reading '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 for 2020. This is the 15th consecutive year that TMRS has received the award for meeting these standards.

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