

Pension Review Board
January 24, 2019
Minutes

1. Meeting called to order (00:02)

The first meeting of 2019 of the Pension Review Board began on Thursday, January 24, 2019, at 10:02 am in the William P. Clements Building, Room 402, 300 W 15th Street, Austin, Texas 78701.

2. Roll call of Board members (00:12)

Board Members Present

Chair Josh McGee
Keith Brainard
Andrew Cable
Marcia Dush
Rosy Fariña-Strauss
Stephanie Leibe
Ernest Richards

A quorum being present, the meeting was called to order by Chair McGee.

3. Discuss and consider approval of the October 4, 2018 Board meeting minutes – Chair McGee (00:38)

Chair McGee entertained a motion to suspend the reading of the minutes of the PRB meeting held March 1, 2018, and to approve them as circulated.

Motion made by Ms. Dush and seconded by Judge Cable.

Motion Approved Unanimously

4. Receive update on plans for addressing funding shortfalls – Chair McGee (01:27)

A. City of Fort Worth and Fort Worth Employees' Retirement Fund

Chair McGee invited the representatives from City of Fort Worth to provide testimony. The City of Fort Worth representatives included Mr. David Cook, City Manager, and Ms. Susan Alanis, Assistant City Manager.

Mr. Cook referred to the Pre-Council Briefing presentation included in the board packet for the discussion of Fort Worth Employees Retirement Fund (FWERF).

Mr. Cook stated that as a result of their December 2018 meeting, the City called for an employee vote on an employee contribution rate increase, which would take place during a three-week period in February. He stated that if the vote was successful, they would incorporate the employee contribution increase into their Funding Soundness Restoration Plan (FSRP). He stated that the City's pension reform package included increased employer and employee contributions and made changes to benefits and retirement eligibility.

Mr. Cook stated that the projected funded ratio would drop to zero if no changes are made to the fund.

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Mr. Cook stated that they have identified the scope of the problem and have developed a solution to include a 30-year closed amortization period and an assumed discount rate lower than that of the Employees Retirement System of Texas (ERS).

Mr. Cook stated that he felt that FWERF's law was unique because an employee vote on a contribution increase would require 50% of all the employees plus one to vote in favor of the proposed changes. He emphasized that if somebody did not vote, it would be considered a 'no' vote. He noted that the City was spending the months of January and February to explain the changes and to relay the importance of voting to the employees.

Mr. Cook explained that the reform included a risk-sharing mechanism where the City and members would share increases on a 60/40 basis with 60% coming from the City and 40% coming from the employees.

Mr. Cook discussed cost-of-living-adjustments (COLAs) and stated that the City voted to maintain the COLA for retirees while requiring changes to the COLA for other groups of employees. He explained that under the reform plan, if a member did not retire by a certain date, then they would be moved to a variable COLA. If the Fund outperformed expectations, it would grant a COLA; however, this would be unlikely.

Mr. Cook noted that additional changes proposed by the City included requiring contributions to the Fund for overtime, and that sick leave may no longer be used to calculate service credit.

Chair McGee agreed that based on the slides from the presentation, changes needed to be made. He stated that the Fund and City were taking a step in the right direction. He also mentioned that he liked the use of a 30-year closed target amortization period and having ex-ante risk-sharing plans explicitly laid out. He noted that capital market assumptions anticipate most investments to yield less than a 7% rate of return over the next 10 years.

Mr. Richards asked what needed to happen for the vote on contribution increases to pass. Mr. Cook responded that 3,401 of the 6,800 employees would need to vote in favor of the proposed changes. He added that if the vote was not successful, the City and Fund will get together and implement the previously mentioned changes in the City contribution rates and the benefit eligibility changes since they have been approved by City Council; also, one option would be to ask the legislature to change state law.

Chair McGee asked Mr. Cook to walk through the process the City used to determine their parameters for the actuarially determined contribution (ADC) calculation. Mr. Cook responded that the City used a different discount rate than the fund. He added that they agreed to independently calculate a discount rate and then average the two.

Chair McGee invited the representatives from FWERF to provide testimony. Mr. Rick Van Houten, Vice Chairman of the Fund, introduced himself.

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Chair McGee requested Mr. Van Houten to elaborate on the Fund's investment performance and risks described earlier by Mr. Cook, because the Fund's investment performance was concerning to the Board. Mr. Van Houten stated that the Fund hired a governance consultant and was looking into splitting the executive director and Chief Investment Officer (CIO) position. He stated that this would allow for the Fund to have a stricter CIO that would look deeper into investment returns and be held more accountable for the returns. He noted that over the past year, they have taken a deeper dive into fee structures. He also stated that the Fund had a 7.75% rate of return assumption, and the Fund should be talking with their actuary in the next month and making some decisions on reducing their assumed rate of return.

The Board encouraged the Fund to focus on a 5- to 10-year investment return projection and to submit a copy of their asset/liability study to the PRB.

Chair McGee recommended a follow-up with the Fund once the vote was completed.

B. City of Galveston and Galveston Employees' Retirement Plan for Police

Chair McGee invited the representatives from Galveston Employees' Retirement Plan for Police and the City of Galveston to provide testimony.

Mr. Geoff Gainer, Plan Chairman, and Mr. Dan Buckley, Galveston City Manager, thanked the board for the invitation to the meeting. Mr. Buckley stated that they have met several times with the PRB Actuarial Committee to provide updates on the Galveston Employees' Retirement Plan for Police, going back to 2016 when they submitted their FSRP. He noted that they have been working diligently to achieve the plan.

Mr. Buckley stated that they have already increased the City contribution to 14.83% and also increased the retirement eligibility age for new hires. He noted that they are still in negotiations regarding the plan provisions and governance, which was their biggest issue. Mr. Buckley explained that the Plan's board had four police union members and three City representatives. He stated that the City would prefer a greater say in decisions regarding the Plan because the police members have the majority of seats on the board and may therefore nullify the effect of the City representatives' votes.

Mr. Mark Fenlaw, Actuary with Rudd and Wisdom, stated that he was working with the City to review information. He stated that the City and Fund initially discussed implementing a modified fixed-rate plan, but the Plan wanted an ADC rate. The City worked on a modified ADC arrangement, but the Plan wanted a pure ADC funding method. Mr. Fenlaw stated that the City was concerned with having a pure ADC plan because they would not have any control over benefits. He stated that the City wanted to implement restraints that would give the City a maximum contribution limit and share adverse experience with employees. The members did not like the restraints the City proposed so they got stuck in the negotiation process.

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Mr. Buckley stated that the City was seeking changes to state law. He noted that one ongoing discussion was requiring a supermajority to change the Plan. Mr. Buckley stated that legal changes or implementing a supermajority were the only two options the City saw because the issue boiled down to taxpayer dollars. He stated that the City was very concerned that the Fund's assumed rate of return was too high and not in line with the current market. Mr. Buckley stated that the City started to reach out to the legislature to see if they can work with them to bring some legislative changes. He noted that the City was in favor of general language that would mandate certain requirements such as a closed 30-year amortization period and address the board's structure. One consideration would be implementing an experience requirement for trustees because sometimes it is difficult to fully understand pensions without a finance background.

Mr. Gainer stated that the Galveston Employees' Retirement Plan for Police was the lowest cost plan out of all the safety plans, as they had no COLA, a low multiplier, the benefit was based on an average of 5 years' salary, and employees contributed more than the normal cost of the plan.

Mr. Gainer noted that in negotiations, the City and Plan developed a closed amortization period of 30 years and offered a supermajority vote on benefits. Mr. Gainer stated that he had a fiduciary responsibility to the current members and felt that the City should be required to uphold the benefits they offered to members when they were hired. He stated that he saw the situation not as a benefit problem, but as a contribution problem. The Plan's pension reformation proposal included a shared cost of the ADC rate, where the City would pay 2/3rd of the Plan's ADC and members would pay 1/3rd of the Plan's ADC, and had offered the City three different scenarios of how that could be implemented. He stated that the options were presented to the City and they were not interested.

Mr. Gainer stated that the Plan would like to see changes to the Galveston plan similar to those of the Houston plans, and that the only major differences were the corridor mechanism and that the Plan does not have COLAs.

Chair McGee stated that by scanning the information, it appeared as though the Plan did have the lowest normal cost of the public safety plans. He noted that it could be problematic when a sponsor does not have ownership in the decision-making process and mentioned the Dallas Police and Fire Pension System's previous issues.

Mr. Buckley stated that their path forward was to meet collectively and talk about agreed upon changes, noting that if they could not reach an agreement, Representative Middleton and Senator Taylor could help resolve the situation. He noted that there were some constraints to solutions due to when the City creates its budgets. He stated that the City wanted to keep working towards a solution and recognized this was where legislative changes may be necessary.

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Chair McGee stated he could tell there was openness for governance changes from both the Plan and the City and thought there should be more ownership by the City. He cautioned that a legislative approach could lead to more contention.

Ms. Dush noted that the Plan's investment returns over a ten-year period were mediocre and asked what had been done by the Plan to address the subpar performance.

Mr. Gainer replied that they put out an RFP and changed investment managers about two years ago. He stated that they changed from a passive manager to an active manager that had a better history with market fluctuations. He also noted that the investment committee just met a week or two ago and they have an upcoming board meeting where the investment committee is going to share its recommendations.

Mr. Brainard mentioned that pension reforms work best when all stakeholders are involved and encouraged the City to include the Board and Plan members in the conversation as they work with the legislature to create statutory changes to the Plan.

5. Actuarial Committee – Discuss and consider the following matters – Keith Brainard (01:05:36)

A. Actuarial Valuation Report – Kenny Herbold

Kenny Herbold, Staff Actuary, gave a summary of key statistics from actuarial valuation (AV) reports. One of the major indicators he noted was that the unfunded actuarial accrued liability (UAAL) increased by over \$11 billion. He pointed out that the primary reason for this was that the Teacher Retirement System's (TRS) reduction in assumed rate of return increased the UAAL by \$10.5 billion.

Mr. Herbold then addressed amortization periods and stated that overall, the plans' amortization periods are improving. He also noted that discount rates are lower and stated that there are no longer any plans using a discount rate over 8%.

B. Public retirement system reporting and compliance, including noncompliant retirement systems under Section 801.209 of the Texas Government Code – Bryan Burnham

Bryan Burnham, Financial Analyst, stated that as of January 16th, there were 15 fewer non-compliant plans than at the last PRB meeting. He added that net assets increased by over \$10 million since the last meeting and stated that this was mainly because the PRB recently received TRS' Comprehensive Annual Financial Report. He also noted that there was one more plan with an amortization period over 40 years since the last meeting.

Mr. Burnham provided a status update on the plans on the PRB's 60-day non-compliant list. Northeast Medical Center Hospital Retirement Plan was previously on the list but had been moved off since the October Board Meeting. Plans remaining on the list included Nacogdoches County Hospital District Retirement Plan, San Benito Firemen Relief & Retirement Fund and Midland Firemen's Relief & Retirement Fund.

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C. Update on the retirement systems subject to the Funding Soundness Restoration Plan (FSRP) requirement, including compliance – Reece Freeman

Reece Freeman, Financial Analyst, directed the board's attention to the FSRP report. He stated that the PRB had not received any FSRPs since October, and that the only additional system subject to an FSRP since the last PRB meeting was Irving Firemen's Relief & Retirement Fund.

Mr. Freeman stated that Plainview Firemen's Relief & Retirement Fund (Plainview Fire) was the only addition to the PRB's list of plans at risk of needing an FSRP since the October board meeting. He stated that Plainview Fire submitted a valuation that produced a 44.8-year amortization period, and if the next AV showed an amortization period greater than 40 years, the system would be required to formulate an FSRP.

D. Interim Study on Funding Policies for Fixed-Rate Plans – Mariah Miller and Ashley Rendon

Ashley Rendon, Management Analyst, summarized the PRB's draft of the interim study on funding policies for fixed-rate plans. She explained that the draft study culminated in a recommendation that all public pension plans adopt a funding policy that outlines a path to full funding of promised benefits.

Mr. Brainard mentioned that the biggest surprise to him of anything he has learned while serving on the board was that most public pension plans in the state of Texas did not have a funding policy. He stated that he did not see how a pension plan could effectively operate without a funding policy despite so many plans doing so. He reiterated that the study contained one recommendation: for public pension plans to establish a funding policy with attributes described in the study's recommendation and in the PRB's Pension Funding Guidelines.

Ms. Dush asked for staff to make one minor technical clarification to the study regarding firefighter plans whose sponsors base their contributions to the firefighter plan at the same rate as their municipal employees plan in the Texas Municipal Retirement System.

Actuarial Committee Chair Brainard entertained a motion to adopt the interim study's legislative recommendation, incorporating any technical changes discussed by the Board.

Motion made by Chair McGee and seconded by Ms. Dush.

Motion Approved Unanimously

E. Update on online pension dashboard – Anumeha Kumar

Ms. Kumar gave an update on the Texas Public Pension Data Center utilizing screenshots of the Data Center, which she stated was in the testing phase.

Chair McGee stated that to his understanding, the Data Center would replace the Guide to Public Retirement Systems in Texas and would allow users to get data at a higher

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frequency. He asked Ms. Kumar to walk the Board through the launch plans. Ms. Kumar stated that the goal was to get the test site to systems and allow them time to provide feedback, then take changes back to the database developer. She noted that the Data Center was linked to an internal database. The staff would also incorporate any feedback from the Board. The goal was to have the database fully launched by mid-February.

Chair McGee stated that the next aspect of the project should be looking at pension boards, discussing risk, and scrutinizing asset allocation in order to ensure risk, governance, and asset and fee allocations are appropriate.

6. Education and Research Committee – Discuss and consider the Minimum Educational Training (MET) Program for trustees and system administrators pursuant to Section 801.211 of the Texas Government Code, including the following – Judge Cable (01:40:41)

A. Receive an update on MET compliance reporting – Joey Evans

Michelle Downie Kranes, Deputy Director, spoke on behalf of Joey Evans. She noted that since the previous Board meeting, there were six more non-compliant systems. Ms. Kranes reassured the Board that the PRB staff were working with the systems and reaching out to them. She stated that the PRB has been attempting to contact some plans for a long time and it was not uncommon for some plans to go long periods without responding to the PRB. She noted that typically, delayed responses were a result of staffing changes or other extenuating circumstances.

B. Receive an update on the evaluation of PRB MET courses

Ms. Kranes stated that at the last Board meeting, the Board had asked staff to provide data to gauge the quality of its online courses. Ms. Kranes noted that the survey response rate was only 2%, and while the PRB received some negative comments, those comments did not relate to the quality of education. She stated that the majority of the comments addressed technical problems due to some minor limitations of the software used by the MET courses. The overall satisfaction rate was 84%.

Mr. Brainard asked how many participants took the courses online compared to other board meetings or trainings. Ms. Kranes responded that she was not sure what the exact ratio was, but she did know that the PRB had almost 2,000 course completions over the two-year period that the courses have been out. She told the Board she would get this data to them. Additionally, she stated that one of the statewide systems that was previously an educational sponsor accredited by the PRB decided not to renew because their trustees were using the PRB online courses.

7. Contribution and benefit decision-making for Texas public retirement systems – Anumeha Kumar (01:46:39)

At the last board meeting, Mr. Brainard asked staff to prepare a brief summary on Texas public retirement plan governance pertaining to benefits and financing. Ms. Kumar stated that requirements vary by system, except for TLFRA systems, and that systems that are governed by

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state law have different provisions regarding how decisions are made. She added that none of the statutory systems had a requirement for the plan to maintain a funding policy; however, some systems had funding policy elements in their statute.

Mr. Brainard read a prepared statement and noted that public pension governance went well beyond the board of trustees, and that public pension policy was needlessly complicated. He stated that governance was not consistent across cities, and that most plans and their sponsors did not have any mechanism to ensure the ADC was funded. He added that there was no guidance to reconcile benefit structure.

Chair McGee agreed with Mr. Brainard and stated that there were over 20 laws that applied to Texas public pension plans and governance, which could lead to potential confusion. He noted that this was seen during PRB meetings when there was no agreement between stakeholders on contribution rates or no structured process for aligning benefits with actual contributions. He stated that adopting a funding policy was a good first step and would clean up some of the inconsistencies across the state.

8. Legislative Committee – Discuss and consider the following items –Keith Brainard (01:53:39)

A. 86th Legislature, including the following – Anumeha Kumar

i. House Committee on Pensions, Investments, and Financial Services Interim Report to the 86th Texas Legislature

Ms. Kumar directed the Board to the report from the House Committee on Pensions, Investments, and Financial Services. She stated that one of the recommendations was to bring the FSRP requirement in statute in line with the PRB's Pension Funding Guidelines.

ii. Senate State Affairs Committee Interim Report to the 86th Texas Legislature

Ms. Kumar directed the Board to the report from the Senate Committee on State Affairs. The report stated that each public pension system in coordination with local and state government should have a clear pension funding policy that lays out a plan to fully fund benefits within a reasonable period. This recommendation supported the Board's interim study on funding policies.

iii. PRB 86th Legislature Bill Status Report

Ms. Kumar directed the Board to the bill report that tracked pension and pension-related bills. She stated that when session started moving quicker, staff would post the report on the PRB website 2-3 times a week. Ms. Kumar added that one of the mandates that the Board had was to provide impact statements on pension bills and monitor them very closely. She stated that staff was tracking 20 bills to date.

B. Guide to Public Retirement Systems in Texas for the 86th Legislature – Anumeha Kumar

Ms. Kumar directed the Board to the PRB *Guide to Public Retirement Systems in Texas*. She noted that it was the same structure from last session and that the *Guide* was in the

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finishing stages. She added that staff planned to get the *Guide* out to the systems for their input, which may line up with the Data Center test site mail-out. She stated that she hoped to publish by mid-February, and noted that it could potentially be the last time the PRB published this type of comprehensive report because the Data Center would potentially replace the publication.

9. Review and discuss report from the Executive Director on the following matters – Anumeha Kumar (02:04:10)

A. Updated Fiscal Year 2019 Operating Budget

Ms. Kumar stated that the agency was in line with the funds that had been appropriated to them and that they were on track with their spending.

B. Filing of 2018 personal financial statements

Ms. Kumar reminded the Board that personal financial statements for 2018 would be due in April. She stated that they should hear from the Ethics Commission regarding that filling sometime next month. Ms. Kumar stated she would be happy to walk through any questions.

C. Update on staffing changes

Chair McGee introduced Ben Warden, the agency's new Research Analyst.

10. Annual Committee assignments – Chair McGee (02:07:34)

Chair McGee noted that there were two open slots on the Education and Legislative committees. Stephanie Leibe was named the Chair of the Legislative committee and Rossy Farina-Strauss was named to the Education and Research committee.

Chair McGee announced that as the Board would be moving into closed session for training with the AG Counsel, he would take the next items in the following order: Item 14, 12, 13, 11, 15.

11. Board member training on Open Meetings Act and Legislative Session – Assistant AG Counsel Craig Pritzlaff (02:11:39)

Chair McGee stated at 12:16 p.m. on January 24, 2019, the PRB would go into closed session pursuant to Texas Government Code, Section 551.071 to conduct board member training on the Open Meetings Act and Legislative Session with the Assistant AG Counsel.

Chair McGee stated at 12:34 p.m. on January 24, 2019, the Board was in open session. No action was taken in closed session.

12. Call for future PRB agenda items (02:10:38)

Ms. Dush requested that work on asset allocation be addressed in the future. She would like to have an emphasis on medium and smaller sized plans, looking at active vs. passive management, and a special focus on alternative investments.

13. Date and location of next PRB meeting (02:11:18)

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Chair McGee noted that the next PRB meeting would be in June and that it would most likely be held at the Capitol. The time was still to be decided.

14. Invitation for public comment (02:08:45)

Chair McGee asked anyone who would like to make a comment to identify themselves.

Mr. Tyler Grossman, Executive Director of El Paso Fire and Police Pension Fund, noted that per State statute, the El Paso Fire and Police Pension Fund had a 50% plus one rule regarding voting on plan changes. He stated that the Fund had been able to successfully make changes to their plan five times since 1980.

15. Adjournment (02:11:41)

Chair McGee adjourned the meeting at 12:35 p.m.

In Attendance

PRB Staff

Wes Allen
Eusebio Arizpe
Bryan Burnham
Reece Freeman
Kenny Herbold
Michelle Kranes
Anumeha Kumar
Mariah Miller
Ashley Rendon

Guests

Michael Trainer – San Antonio Police Pensioners Association
Paul Brown – TEXPERS
Eddie Solis – TEXPERS
Katy Fallon-Brown – LBB
James Marts - Odessa Firefighters Relief & Retirement Fund
Adrienne Downey – Office of the Governor
Ross Clary - River and Mercantile
Eloise Raphael – Houston Firefighters' Relief and Retirement Fund
Tyler Grossman – El Paso Fire & Police Pension Fund
David Keller
Joe Gimenez – G3 Public Relations
Rebecca Morris – Rudd and Wisdom
Brian Hebert – Beaumont Fireman's Relief and Retirement Fund
Lena H. Ellis – El Paso Fire and Police Pension Fund
David Etheridge
Rita Ostrander – Combined Law Enforcement Associations of Texas
Charley Wilkison – Combined Law Enforcement Associations of Texas
Mark Harkrider – Austin Police Retirement System

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David Stacy – Midland Firemen’s Relief and Retirement Fund
Derek Oswald – Denton Fire
David Reeder – Denton Fire
Amanda Lopez – Office of the Speaker of the Texas House of Representatives
Kwame Walker – McGuireWoods Consulting
Jason Briggs – Representative Jim Murphy
Chuck Campbell – Jackson Walker
Alyca Riley – Jackson Walker
Chris Bucknall – TCDRS
William Cheshire – Beaumont Fire Pension
Carl Whitehead – Beaumont Fire Pension
Pattie Featherston – Austin Police Retirement System
Sally Velasquez – TEXPERS
Bob May
Lisa Ivie Miller
Lois Emerson – CPS Energy
Shanna Wadsworth – CPS Energy
Chris Paxton – Representative Mayes Middleton
TJ Patterson – City of Fort Worth
Christine Sweeney – TMRS
Leslee Hardy – TMRS
David R. Gavia – TMRS
Ariana Whaley – ERS
Jason McElvaney – FWERF, TCDRS, TMRS
Richard Van Houten – FWERF
Sally Bakko – City of Galveston
Mark Fenalw – Rudd and Wisdom
Geoff Gainer – Galveston Police Retirement Plan
John Lawson – Houston Police Officers Pension System
David Cook – City of Fort Worth
Susan Alanis – City of Fort Worth
Jaime Jasso – Laredo Firefighter Retirement System
Alberto R. Chaps – Laredo Firefighter Retirement System
Daniel Buckley - City of Galveston
Steve Waas – Houston Municipal Employees Pension System
Kelly Gottschalk – Dallas Police and Fire Pension System
Tom Harrison - TCDRS



Chair Stephanie Leibe