

**Texas Pension Review Board
Wednesday, December 10, 2008**

Minutes

1. MEETING CALLED TO ORDER (0:00)

The fourth meeting of 2008 of the Texas Pension Review Board (PRB) was called to order by Chair Richard McElreath on Wednesday, December 10, 2008, at 1:32 p.m., in the Capitol Extension Building, Committee Room E1.012, in Austin, Texas. Chair McElreath asked Ms. Sharon Edmonson to call the roll.

2. ROLL CALL OF BOARD MEMBERS (0:07)

Board Members Present:

Chair Richard McElreath
Vice Chair Shari Shivers
Roy J. Casanova, Jr.
J. Robert Massengale
Norman W. Parrish
Frederick E. (Shad) Rowe, Jr.
Representative Vicki Truitt

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

3. APPROVAL OF MINUTES OF SEPTEMBER 18, 2008 MEETING (0:34)

Chair McElreath entertained a motion to suspend the reading of the Minutes of the PRB meeting held September 18, 2008.

Motion made by Mr. Robert Massengale, seconded by Vice Chair Shivers, and carried unanimously that the PRB suspend the reading of the Minutes of its meeting held September 18, 2008.

MOTION CARRIED UNANIMOUSLY

Chair McElreath stated a sheet with corrections to the Board Minutes was included in the Board Packets and would be available to the public upon request. The Minutes of the September 18, 2008, PRB meeting were approved as corrected.

4. WORK OF THE ADMINISTRATIVE AND LEGISLATIVE COMMITTEE – Shari Shivers, Chair (01:26)

Chair McElreath recognized Vice Chair Shivers for an update on the work of the Administrative and Legislative Committee.

A. Rulemaking items related to the agency's Rule Review

1) Adoption of Rule Review, which includes Re-Adoption of Title 40 TAC of Chapters 601 and 603.

Vice Chair Shivers stated the Rule Review of Title 40 Texas Administrative Code, Chapters 601 and 603, was posted in the Texas Register on October 10, 2008. No public comments were received and the Board determined the reasons for which these rules were originally adopted continue to exist.

Motion made by Vice Chair Shivers, seconded by Mr. Casanova, that the Board adopt the Rule Review, which includes the re-adoption of Title 40 Texas Administrative Code, Chapters 601 and 603, in their entirety.

Chair McElreath opened the floor for discussion. There being no discussion, the motion that the Board adopt the Rule Review, which includes the re-adoption of Title 40 Texas Administrative Code, Chapters 601 and 603 in their entirety, carried unanimously.

MOTION CARRIED UNANIMOUSLY

2) Adoption of Amendment to Title 40 TAC Chapter 604, Historically Underutilized Business Program.

Vice Chair Shivers stated the proposed amendment to Title 40 Texas Administrative Code, Chapter 604, Historically Underutilized Business Program, was posted in the Texas Register on October 10, 2008. No public comments were received and the Board determined the amendment should be adopted without changes to the text as published.

Motion made by Vice Chair Shivers, seconded by Mr. Casanova, that the Board adopt the amendment to Title 40 Texas Administrative Code, Chapter 604, Historically Underutilized Business Program.

Chair McElreath opened the floor for discussion. There being no discussion, the motion that the Board adopt the amendment to Title 40 Texas Administrative Code, Chapter 604, Historically Underutilized Business Program, carried unanimously.

MOTION CARRIED UNANIMOUSLY

Chair McElreath thanked Vice Chair Shivers for her work.

5. WORK OF THE ACTUARIAL COMMITTEE – Norman Parrish, Chair (03:53)

Chair McElreath recognized Mr. Parrish, Chair of the Actuarial Committee, for an update on the work of the Actuarial Committee.

Mr. Parrish called on Mr. Chris Hanson, PRB Interim Executive Director, for an update on the City of Lufkin.

A) Lufkin Fireman's Relief and Retirement Fund

1) Update from the City of Lufkin

Mr. Hanson explained due to a scheduling conflict for the Lufkin City Manager, the City of Lufkin was unable to appear before the Board, but the City will appear before the Board at the next scheduled meeting.

2) Update from the Pension Fund

Mr. Parrish thanked Mr. Hanson and recognized Mr. Constantino Villasana, Chairman of the Lufkin Firemen's Relief and Retirement Fund, for an update on the Pension Fund.

Mr. Villasana explained Ms. Russell, the Plan Administrator, had prepared a timeline showing significant plan changes and benefit enhancements for the Board. He reiterated the frustration the firefighters are having with the City matching their contributions to the Fund in order to reduce the amortization period. Mr. Villasana stated a letter was prepared and mailed to the City three months ago and included documents from the Fund's actuary and auditor stating the importance of increasing contribution rates from both sides to reduce the amortization period.

Mr. Villasana reported the firefighters chose to reduce benefits and increase their contributions, and the City responded by increasing contributions closer to the contributions of Texas Municipal Retirement System (TMRS) employees. However, a gap continues to exist between the contribution rates to TMRS and the Fund and that gap needs to close.

Mr. Villasana stated when TMRS showed a deficiency would exist in their plan the City put together an eight-year plan to correct those deficiencies. However, the City has not developed a plan to correct the ongoing funding problems for the Fund, which have existed for the past four years

In concluding his report, Mr. Villasana stated he is willing to do what is needed to resolve the funding problems and asked for assistance from the PRB. He further stated he has been working on the funding issue since May of 1999 and asked whether the Board had any questions.

Mr. Casanova inquired whether the Fund had a working relationship with the City Council.

Mr. Villasana stated they have not had a working relationship with the City Council in the past; however, one of the current City Council members is also a TMRS Board member and is working with the state on the TMRS system. He further stated the City Manager is also involved on the Board and is in the TMRS retirement system. Mr. Villasana stated it is apparent the Fund has the City Council's attention at this time.

Mr. Casanova asked whether there has been any communication from the City Manager in response to the Fund's letter.

Mr. Villasana replied there has been no communication from the City.

Chair McElreath asked when the last time the Fund and the City met to discuss the funding issue.

Mr. Villasana stated the Fund's position is reiterated at every Board meeting and the City Manager has been engaged at least four times with separate proposals for a resolution.

Chair McElreath inquired how long the interested councilmember has been on the City Council.

Mr. Villasana stated this councilmember has been a member for one and a half years and has served on the Lufkin Firemen's Relief and Retirement Fund Board for a year. The previous councilmember had been a member of the Lufkin Firemen's Relief and Retirement Fund Board for over three years, is currently the Mayor of Lufkin, and appointed this particular councilmember to take his place.

Chair McElreath inquired about the number of trustees on the Board for the Fund, and Mr. Villasana stated there are seven members consisting of three firefighters, two citizens, the City Manager, and the Mayor, or his delegate.

Chair McElreath asked whether lay people on the Board have their trustee certification.

Mr. Villasana stated one of the citizens is a certified trustee and the other citizen recently attended the last training seminar and is acquiring his certification.

Mr. Parrish asked for clarification of the phrase "matching disparity."

Mr. Villasana stated the phrase references the amount of money the City spends per employee for their TMRS retirement and social security. The City contributes 20.2 percent for city employees' retirement and 17 percent for firefighters' retirement. In October 1991, the City doubled the TMRS matching contribution from one-to-one to two-to-one, with no increase to the fire department's pension, and this created a seven percent gap between the two funds, which has never been closed.

Mr. Massengale inquired about the length of time required to close the contribution disparity gap.

Mr. Villasana stated he was unsure, but he would like a study done as part of the next actuarial report.

Mr. Massengale asked for clarification of the current contribution rate for the firemen.

Mr. Villasana stated the firefighters currently contribute 12.2 percent and the City contributes 17 percent. He stated the Fund would like the City to contribute 20.2 percent and the firefighters contribute 13.2 percent; this would put the Fund even with that of TMRS employees.

Vice Chair Shivers stated the Board could have a role in encouraging the City to meet with the Fund.

Mr. Parrish pointed out this was the purpose of inviting the Fund and the City to this meeting as well as the next PRB meeting.

There being no further discussion, Chair McElreath thanked Mr. Villasana for attending and representing the Fund. He stated the Board hopes to have both the Fund and the City at the March meeting.

Mr. Villasana made one last statement and requested the Board refer to the spreadsheet which shows the disparity in matching funds. He stated if the City increased their contribution rate and the firefighters increased their contributions, \$2.7 million dollars would be added to the Fund by October 2009.

Mr. Parrish thanked Mr. Villasana for attending the Board meeting.

B. Update on Reporting Compliance Summary (26:15)

Mr. Parrish recognized Ms. Ashley Rendon, PRB staff member, to provide a report on compliance.

Ms. Rendon reported \$190 billion in total assets, representing 70 non-compliant plans, 32 partially compliant, and 285 compliant plans. There are 387 registered plans; 187 defined benefit and 200 defined contribution. She reported 28 of the non-compliant plans have assets of less than \$50,000, and 74 of the non-compliant plans have assets exceeding \$50,000.

Ms. Rendon provided an update on Los Fresnos Housing Authority. In October 2008, a letter was sent to the Los Fresnos Housing Authority advising them of the Board's decision to allow staff to use the Inspection of Records authority to further assist the plan in becoming compliant. The plan's registration form was received on October 15, 2008, and the PRB continues to work with the plan to complete the compliance requirements.

Ms. Rendon stated staff is recommending San Antonio Housing Authority Employee and Pension Trust and the Johnson County MHMR Center Retirement Plan appear before the PRB at its next meeting. Both plans need to submit their audited financial and membership reports for 2006 and 2007.

Ms. Rendon reported there are currently 13 plans with amortization periods exceeding 40 years. The assets of the 13 plans make up 14 percent of the total assets of all plans registered with the PRB.

Upon concluding her report, Ms. Rendon asked if there were any questions. There being none, Mr. Parrish thanked Ms. Rendon for her report.

Motion was made by Mr. Parrish, seconded by Mr. Casanova, to place the recommended plans on the agenda for the next meeting of the PRB and invite the plans to appear before the Board to discuss their non-compliant status.

Chair McElreath clarified the Board invites two plans that have been non-compliant with reporting requirements for some time to appear before the Board to discuss their non-compliance. If the plans selected send in the required reports prior to the next meeting, the Board usually excuses the plans from attending the meeting.

Chair McElreath opened the floor for discussion. There being no discussion, the motion that the Board place the recommended plans on the agenda for the next meeting of the PRB and invite the plans to appear before the Board to discuss their non-compliant status carried unanimously.

MOTION CARRIED UNANIMOUSLY

Chair McElreath thanked Mr. Parrish for his work.

6. WORK OF THE RESEARCH COMMITTEE – Shad Rowe, Chair (31:27)

Chair McElreath called on Mr. Rowe, Chair of the Research Committee, for an update on the work of the Research Committee.

A. PRB Regional Seminars

Mr. Rowe called on Ms. Dunya Bean, PRB staff member, to give an update on the Regional Seminars.

Ms. Bean provided an update on the El Paso Regional Educational Seminar held on October 23, 2008. The seminar had approximately 28 attendees, including members from the El Paso Fire and Police Pension Fund, El Paso City Employee's Fund, Rio Grande Council of Governments and a staff person from Representative "Chente" Quintanilla's office. Speakers included Chris Hanson, who spoke on government finance and public pensions, as well as providing an overview of the PRB; Martin McCauley addressed basic actuarial issues; and Paul Braden spoke on fiduciary issues.

Ms. Bean reported that the PRB was issued an invitation from the Legislative Council to present a program before those members of the council who are attorneys and responsible for drafting relevant pension legislation. Ms. Bean stated this program will serve as a primer for the larger seminar which will be scheduled soon after the legislative session begins in January 2009, and committees have formed.

Ms. Bean informed the PRB that plans are underway for the 2009 annual seminar with topics being discussed as well as consideration of speakers. She stated staff would appreciate ideas from the PRB on topics and speakers. Ms. Bean asked if there were any questions.

Mr. Parrish inquired about the attendance at the El Paso seminar.

Ms. Bean reported there were 28 attendees and staff was pleased with the attendance.

Chair McElreath made a second appeal for comments and suggestions from the plans for speakers or topics of discussion for future seminars.

There being no further questions, Chair McElreath thanked Mr. Rowe and Ms. Bean for their work.

7. RECOGNIZE AND HONOR PAST PRB MEMBER MR. RAFAEL CANTU – Richard McElreath (34:47)

Chair McElreath explained Mr. Cantu was unable to attend today's meeting and recognized him for his past service and dedication to the PRB from May 1999 to June 2008. Chair McElreath read the PRB Resolution and the Senate Proclamation for the record.

8. ELECTION OF VICE CHAIR – Richard McElreath (37:04)

Chair McElreath recognized Vice Chair Shivers for her dedication to the PRB and for serving as Vice Chair of the PRB since 2006. Chair McElreath called on Vice Chair Shivers for nominations for the 2009 Vice Chair.

Vice Chair Shivers nominated Mr. Paul Braden for the position of Vice Chair for 2009.

Chair McElreath opened the floor for additional nominations for Vice Chair. There being no additional nominations for the office of Vice Chair, the nominations were closed, and Mr. Braden was elected by unanimous vote to serve as Vice Chair of the PRB for 2009.

ELECTED UNANIMOUSLY

9. EXECUTIVE DIRECTOR'S REPORT – Chris Hanson (38:07)

Chair McElreath recognized Mr. Hanson for the Executive Director's Report.

A. PRB Biennial Report 2007 – 2008

Mr. Hanson stated the 2007-2008 Biennial Report was completed and delivered to the Governor's and Legislative offices in November. The report covers activities completed over the past two years, staff papers, and a directory of public pension plans, with asset values. He noted copies are available for the public.

B. Upcoming PRB Educational Seminars

Mr. Hanson informed the Board that a Regional Legislative Seminar will be held in Austin with topics on The Overview of the PRB, Actuarial Methods, Guide to Public Retirement Systems, and Impact Statement Process. He also noted that Governor Perry requested state agencies to reduce travel costs and by having the seminar in Austin will allow staff to attend without added travel expenses.

C. PRB Budget

Mr. Hanson reported there were no changes to the PRB Budget.

D. PRB Database

Mr. Hanson reported programmers are currently working to fix the database at what he termed a "basic maintenance level" stating this will not be a long-term fix. If additional funding is granted, a permanent database will be constructed next year.

Mr. Massengale asked whether the database is available online and when the PRB would know about additional funding.

Mr. Hanson stated the database is not available online and staff has to enter data manually. He explained staff would know whether additional funding is available when the budget is released at the end of session.

Mr. Massengale asked whether the database would be fixed before then and whether SQL was the software being used.

Mr. Hanson stated the programmers hope to have a basic functional database that is accurate and efficient, preferably done in Access.

Mr. Massengale asked whether individual membership information would be included in the new database.

Mr. Hanson stated only gross membership information would be available as required under Section 802.

Vice Chair Shivers asked whether this would affect the timely delivery of actuarial impact statements.

Mr. Hanson stated it would not affect the impact statement process.

Chair McElreath thanked Mr. Hanson for the Executive Director's Report.

10. SET DATE AND LOCATION FOR NEXT BOARD MEETING – March 2009 (47:56)

Chair McElreath asked Ms. Edmonson to poll the Board for prospective meeting dates for the year 2009. He encouraged the Board to look at their calendars for the year and convey already scheduled dates to Ms. Edmonson. Chair McElreath also requested the 2009 meeting dates be scheduled around the statewide plan meeting dates.

11. INVITATION FOR AUDIENCE PARTICIPATION (48:50)

Chair McElreath asked whether anyone from the audience would like to make any comments to the Board.

Mr. Robert May, actuary for Rudd and Wisdom, spoke regarding the Lufkin Firemen's Relief and Retirement Fund's discussion regarding governance and whether there is a required level of contributions by employers of pension plans. Mr. May briefly discussed articles in the PRB Biennial Report regarding financial economics and traditional actuarial funding methods.

12. ADJOURNMENT (59:36)

Chair McElreath thanked everyone for attending today's meeting, especially during the current economic storm and for their work which is done for all Texans.

At this time, Representative Truitt inquired about the total assets of active public pension plans and the dates reflecting a value as of December 31, 2008, as opposed to current date or previous totals.

Mr. Hanson replied the dates are reported for the end of the fiscal year for each plan, and staff bases the net asset report on the audited financial statements received for each plan.

Chair McElreath recognized and thanked staff for their work. He thanked Representative Truitt for her attendance and welcomed her as the newest Board member.

Chair McElreath recommended the Board members read a recent *Wall Street Journal* article by Jonathan Macy regarding the important role shareholders, CEOs, and boards maintain and the key aspect of holding everyone accountable, particularly during times of change.

With the business of the Board completed, Chair McElreath adjourned the meeting at 2:35 PM.

IN ATTENDANCE:
STAFF:

Ben Armendariz
Lynda Baker
Dunya Bean
Jolena Close
Sharon Edmonson
Joey Evans
Daniel Gunter
Chris Hanson
Martin McCaulay
Ashley Rendon
Kimberly Rhodes

GUESTS:

Paul Brown, Texas Association of Public Employee Retirement Systems
Wayne Delangle, San Antonio Fire Department
Heather Fleming, Representative McReynolds Office
Natalie Foerster, Governor's Office
Demetrio Hernandez, Legislative Budget Board
Ralph Marsh, Houston Police Pension System
Robert May, Rudd and Wisdom
Lisa Ivie Miller, Fire Fighters Pension Commission
Max Patterson, Texas Association of Public Employee Retirement Systems
Stephen Shaw, Dallas Police and Fire Pension System
Clint Smith, Texas Association of Public Employee Retirement Systems
Eddie Solis, Texas Municipal Retirement System
Randy Stalnaker, Texas Association of Public Employee Retirement Systems
Arlene Truong, Texas Association of Public Employee Retirement Systems
Constantino Villasana, Lufkin Firemen's Relief and Retirement Fund
Lara Wendler, Senator Whitmire's Office
Eyna Canales Zarate, City of Austin Employee's Retirement System


Chair Richard E. McElreath