

**Texas Pension Review Board
Thursday, January 28, 2010
Minutes**

1. Meeting called to order (00:00)

The first meeting of 2010 of the Texas Pension Review Board (PRB) was called to order by Chair Richard McElreath on Thursday, January 28, 2010, at 1:04 p.m., in the Capitol Extension Building, Committee Room E1.012, in Austin, Texas.

2. Roll call of Board members (00:09)

Board Members Present:

Chair Richard McElreath
Vice Chair Paul Braden
Andrew W. Cable
J. Robert Massengale
Norman Parrish
Wayne Roberts
Scott Smith
Representative Vicki Truitt (arrived at 1:12 p.m.)
Senator John Whitmire

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

3. Consider Board administrative matters, including the following - Chair McElreath (01:27)

A. Approval of the September 10, 2009 Board meeting minutes

Chair McElreath entertained a motion to suspend the reading of the Minutes of the PRB meeting held September 10, 2009.

Motion made Mr. Scott Smith, seconded by Vice Chair Paul Braden that the PRB suspend the reading of the Minutes of its meeting held September 10, 2009.

Chair McElreath inquired whether there was any discussion from the Board.

There being none, the motion carried unanimously that the PRB suspend the reading of the Minutes of its meeting held September 10, 2009.

MOTION CARRIED UNANIMOUSLY

Chair McElreath asked whether any corrections were to be made to the Minutes of the September 10, 2009, PRB meeting.

Vice Chair Braden stated agenda item number seven regarding the motion to hire Mr. Chris Hanson, as the Executive Director of the PRB, should be corrected to state the motion "passed" rather than the motion carried "unanimously".

Motion made by Mr. J. Robert Massengale, seconded by Mr. Smith, and carried unanimously to approve the minutes as corrected.

MOTION CARRIED UNANIMOUSLY

B. Excusing the absence of Board members from the September 10, 2009 Board meeting (02:44)

Chair McElreath entertained a motion to excuse Mr. Norman Parrish and Representative Vicki Truitt from the September 10, 2009 Board meeting.

Motion made by Vice Chair Braden, seconded by Mr. Massengale, that the PRB excuse Mr. Norman Parrish and Representative Vicki Truitt from the September 10, 2009 Board meeting.

Chair McElreath inquired whether there was any discussion from the Board.

There being none, the motion carried unanimously that the PRB excuse Mr. Norman Parrish and Representative Vicki Truitt from the September 10, 2009 Board meeting.

MOTION CARRIED UNANIMOUSLY

4. Elect a Vice Chair of the Board for 2010 – Chair McElreath (03:24)

Chair McElreath recognizes Vice Chair Braden for his dedication to the PRB and for serving as Vice Chair of the PRB in 2009. Chair McElreath called for nominations for the position of Vice Chair for 2010.

Motion made by Mr. Norman Parrish, seconded by Mr. Andrew Cable, that the PRB elect Mr. Paul Braden for a second term as Vice Chair of the PRB.

Chair McElreath inquired whether there was any discussion from the Board.

There being none, the motion carried unanimously that the PRB elect Mr. Paul Braden for a second term as Vice Chair of the PRB.

MOTION CARRIED UNANIMOUSLY

5. Receive the report from the Actuarial Committee on the following matters – Norman Parrish (04:24)

Chair McElreath called on Mr. Parrish for a report on the Actuarial Committee.

Mr. Parrish called on Ms. Ashley Rendon, PRB Research Specialist, for a report on compliance.

A. Public retirement system reporting and compliance – Ashley Rendon (4:40)

Ms. Rendon informed the Board the layout of the compliance report in the meeting packets had been changed to reflect the numbers from the prior Board meeting, as well as the current numbers.

Ms. Rendon reported approximately \$165 billion in total assets, representing 54 non-compliant plans, 31 partially compliant, and 285 compliant plans. There are 370 registered plans; 189 defined benefit and 181 defined contribution plans.

Ms. Rendon updated the Board on the compliance status of non-compliant plans from previous Board meetings, and noted that San Antonio Housing Authority was compliant. She stated San Angelo Fire, Johnson County MHMR, Northeast Medical Center Hospital, and Dallas County Hospital District Supplemental Retirement Plan were still non-compliant. She noted that each plan was either missing one of the required reports or staff was waiting on a response from the plan regarding their non-compliant status.

Ms. Rendon informed the Board staff would not be recommending any plans to appear before the Board until the rule-making process for non-compliant plans is adopted.

Ms. Rendon asked whether there were any questions from the Board.

Vice Chair Braden inquired about the decrease in the number of registered plans.

Ms. Rendon stated some of the plans in the active plan list should have been exempt plans. These plans, such as 457s, are being removed from the active list once all paperwork is received.

Mr. Chris Hanson, PRB Executive Director, stated there was also one plan classified as "closed paying benefits". He noted when there was no longer a beneficiary for that plan; staff marked the plan as "defunct" and removed it from the active list.

There being no further discussion, Mr. Parrish thanked Ms. Rendon for her report.

Chair McElreath recognized Representative Vicki Truitt as being present. (arrived at 1:12 p.m.)

B. Statewide and major municipal retirement plans update – Chris Hanson (08:37)

Mr. Parrish called on Mr. Hanson for an update on the statewide and major municipal retirement plans.

Mr. Hanson reminded the Board the Attorney General did not rule in favor of a one-time supplemental payment to Employees Retirement System (ERS) and Teacher Retirement System (TRS) retirees. He stated in place of a one-time payment to the retirees, the money would be added to the funds as part of the state contribution to both systems. He noted the impact would require an increase in the state contribution from 6.4% to 6.64% for TRS and 6.45% to 6.95% for ERS.

Mr. Hanson asked whether there were any questions from the Board.

Mr. Parrish inquired about the one-time contribution and whether it would affect the actuarial soundness of either plan.

Mr. Hanson stated the money would be phased-in with the increase in contributions over a period of time. He noted the increase in money should improve the funding situation.

There being no further discussion, Chair McElreath thanked Mr. Parrish for his work, and called on Vice Chair Braden for a report on the work of the Administrative and Legislative Committee.

6. Receive the report from the Administrative and Legislative Committee on the following matters – Paul Braden (11:28)

Vice Chair Braden called on Mr. Hanson for an update on the FY 2010 Budget.

A. PRB FY 2010 Budget update – Chris Hanson (11:42)

Mr. Hanson referred to a letter in the meeting packet from the Governor, Speaker of the House, and Lieutenant Governor regarding the 5% budget reduction. He noted the letter from the Legislative Budget Board and Governor's Office of Budget, Planning and Policy, contained specific instructions for submitting the 5% budget reduction to the Legislative Budget Board. Mr. Hanson stated an amount of \$71,796.80, which represents 5% of PRB's general revenue appropriations for FY 2010 and FY 2011, will need to be cut from the PRB's budget.

Mr. Hanson stated the agency has been given a deadline of February 15, 2010, to submit the proposed reductions to the Legislative Budget Board. He noted staff has begun to look at options, identifying areas where the reduction may be achieved without impacting the goals of the agency.

Vice Chair Braden asked whether there were any questions from the Board.

Motion made by Mr. Wayne Roberts, seconded by Vice Chair Braden, to direct the Executive Director to prepare proposals for the 5% budget reduction and provide those proposals to the members of the Administrative and Legislative committee for consideration.

Chair McElreath inquired whether there was any discussion from the Board.

Mr. Roberts stated, if the motion is approved, the proposals need to be expedited.

Mr. Hanson noted staff has identified areas which could be reduced, and expects to have proposals by the first week in February.

There being no further discussion, the motion carried unanimously to direct the Executive Director to prepare proposals for the 5% budget reduction and provide those proposals to the members of the Administrative and Legislative committee for consideration.

MOTION CARRIED UNANIMOUSLY

Vice Chair Braden asked Mr. Hanson to provide an update on the June 2010 Annual Seminar.

B. June 2010 seminar update – Chris Hanson (15:09)

Mr. Hanson informed the Board staff has signed a contract with the Hyatt on Lady Bird Lake in Austin to hold the Annual Seminar on June 14, 2010. He stated the next phase in planning the seminar is to identify potential speakers and topics to be covered at the seminar. Mr. Hanson noted input from the participants, plans, and Board is welcomed.

Chair McElreath stated to the audience that suggestions regarding topics and recommendations for speakers are welcomed and appreciated in planning the seminars.

Vice Chair Braden called on Mr. Hanson for an update on the Interim Committee Charges for the 81st Legislature.

C. Interim Committee Charges 81ST Legislature – Chris Hanson (17:04)

Mr. Hanson stated the House and Senate have released their Interim Charges, and the charges for the House Committee on Pensions, Investments, and Financial Services, and the Senate Committee on State Affairs are located in the meeting packet.

Representative Truitt stated the House Committee on Pensions, Investments, and Financial Services will not be addressing Interim Charges until later in the Spring.

Vice Chair Braden thanked Mr. Hanson for his work.

7. Receive the report from the Research Committee on the following matters – Chair McElreath (18:58)

Chair McElreath tabled agenda items 7A and 7B. He stated due to the extensive discussion during the morning Work Session regarding the research topics and studies for FY 2010 & 2011, and the consideration of a Pension Plan Rating System, both items would be tabled until a later time to be dependent on the development of new policies, procedures, and bylaws for the agency.

A. Consider the research topics and studies for the PRB in FY 2010 & FY 2011

B. Consider a Pension Plan Rating System

C. PRB database update – Chris Hanson (19:34)

Chair McElreath called on Mr. Hanson for an update on the PRB database.

Mr. Hanson referred to screen shots of the database in the meeting packets. He stated the database is being developed in Access and expects to be finalized by April 1, 2010. He noted the database is being designed to accommodate potential future staff, and has the ability to migrate if needed. Mr. Hanson stated the database will have the ability to easily produce reports to the Board.

Representative Truitt referred to the September 10, 2009, minutes and inquired whether the test and implementation of the database was completed by January 1, 2010.

Mr. Hanson stated staff is currently testing the data, and the framework is outlined. He noted the last step in implementing the database is the development of reports, and expects the database to be completed no later than April 1, 2010.

Vice Chair Braden inquired whether the database will be "up and running" by the April Board meeting.

Mr. Hanson stated the database will be "up and running" before the next Board meeting, however the challenge will be for staff to ensure the integrity of the data. He noted procedures are being developed for the consistent entry of data.

There being no further discussion, Chair McElreath thanked Vice Chair Braden for his work.

8. Consider amending and reorganizing Board Policy Statements – Chair McElreath (24:55)

A. Policy Statements on the following matters:

- i. Election of Officers of the Board**
- ii. Ethics Policy**
- iii. Board Policies**
- iv. Employment Policies**

Chair McElreath stated the current policies and procedures were discussed in the morning Work Session and asked whether there was any further discussion from the Board.

B. Proposal on new Board policies and procedures

There being no further discussion, motion made by Vice Chair Braden, seconded by Mr. Massengale, to direct staff to develop a draft of Board bylaws, with input from appropriate state agencies and commissions, for consideration at the April Board meeting.

Chair McElreath inquired whether there was any discussion from the Board.

There being none, the motion carried unanimously to direct staff to develop a draft of Board bylaws, with input from appropriate state agencies and commissions, for consideration at the April Board meeting.

MOTION CARRIED UNANIMOUSLY

9. Consider amending and reorganizing Board Policy Statements and receive public comment – Chair McElreath (26:33)

A. Regulation of Noncompliant Retirement Systems

Motion made by Vice Chair Braden, seconded by Mr. Smith, to direct staff to draft a rule proposal that incorporates the policy for regulation of non-compliant retirement systems, with input from interested parties, including the plans, for consideration at the April Board meeting.

Chair McElreath inquired whether there was any discussion from the Board.

There being none, the motion carried unanimously to direct staff to draft a rule proposal that incorporates the policy for regulation of non-compliant retirement systems, with input from interested parties, including the plans, for consideration at the April Board meeting.

MOTION CARRIED UNANIMOUSLY

B. Monitoring the Status of Actuarially Unsound Pension Systems

Chair McElreath assigned the task of monitoring the status of actuarially unsound pension systems to the Actuarial Committee, and requested a report be given at the April Board meeting.

Mr. Parrish stated the Actuarial Committee accepts the task and will provide a report at the April Board meeting.

10. Consider PRB Committee Structure – Chair McElreath (29:04)

Chair McElreath stated he will make appointments to the current committees, and after new policies and procedures have been developed and a framework has been created for the agency, the Board will re-evaluate the structure of the committees to determine if changes are warranted.

Chair McElreath made the following committee appointments:

Actuarial Committee – Mr. Parrish (Chair), Mr. Massengale, and Mr. Cable.

Administrative and Legislative Committee – Mr. Roberts (Chair), Senator Whitmire, Representative Truitt, and Mr. Parrish.

Research Committee – Vice Chair Braden (Chair), Mr. Smith, and himself.

11. Consider the reports/updates on Texas Pension Plans the Board receives in PRB meeting packets – Chair McElreath (49:52)

This agenda item was taken out of order.

Chair McElreath asked whether the Board had any comments on the discussion of the morning work session regarding the information contained in the Board meeting packets.

Mr. Parrish inquired whether future reports presented to the Board would come from the new database.

Mr. Hanson stated reports would be developed with the new database, as the Board requests specific information they would like to see presented and discussed at future meetings.

Chair McElreath stated as the goals and objectives for the agency are developed, the types of information and reports that will be of value to the Board will be better determined.

12. Discuss and consider personnel matters, including the following – Chair McElreath (30:49)

This agenda item was taken out of order.

A. The development of procedures for the appointment, employment, evaluation, compensation, performance, duties, or dismissal of the Executive Director

Chair McElreath requested the Administrative and Legislative Committee work with the PRB's Human Resource contact, Ben Armendariz, to formulate an evaluation procedure for the Executive Director position.

B. PRB Actuary and Management Analyst positions update – Chris Hanson

Chair McElreath called on Mr. Hanson for an update on the Actuary and Management Analyst positions.

Mr. Hanson introduced Mr. Daniel Moore as the PRB's Actuary. He thanked Mr. Parrish for his assistance in the interview process for the Actuary position. Mr. Hanson informed the Board an offer was made and accepted for the Management Analyst position, and Ms. Anumeha will join the agency in February.

13. Discuss and consider the process on the following matters – Chris Hanson (53:12)

This agenda item was taken out of order.

Chair McElreath asked the Board whether they had any comments on the discussion of the morning work session regarding the State Auditor or LBB addressing the Board.

A. Request presentation on the purpose and results of the audits and what is expected of the Board from the State Auditor

B. Request presentation on the budget process and what is expected of the Board from the Legislative Budget Board

Mr. Parrish clarified the agency would request a staff member from the State Auditor and the LBB to appear at a future Board meeting for a discussion on their agency's interaction with our staff and Board.

Mr. Hanson asked whether the request would be made to appear before the full Board or to work with the Administrative and Legislative committee members. He noted staff suggests at a minimum to include the Administrative and Legislative committee in the LAR process.

Mr. Massengale and Mr. Roberts commented the staff representatives should appear before the full Board, and noted a representative from the Governor's Office should also be contacted.

Mr. Hanson stated staff would contact a representative from each office and attempt to schedule an appearance at the April Board meeting.

14. Receive the report from the Executive Director on the following matters – Chris Hanson (34:05)

This agenda item was taken out of order.

A. Reporting requirement exemption requests

Mr. Hanson reported the agency has received several reporting requirement exemption requests, specifically requesting information pertaining to whether or not a specific plan was required to report to the agency. He referred to Texas Government Code, Chapter 802.0013, and the exemption programs listed under that chapter. He stated the agency does not have a clear document explaining who is required to report to the agency and who is exempt from reporting to the agency. He noted 403(b) and 457(b) plans are the only plans known to be exempt from reporting requirements. Mr. Hanson stated staff has contacted the PRB's Attorney General's legal counsel for clarity on the scope of the language contained in this chapter. He noted two issues staff is working to get resolved regarding what constitutes a public retirement system under the definition in the statute, and whether a 401 Defined Contribution plan would be required to report to the PRB.

Representative Truitt inquired whether a formal Attorney General's opinion would be indicated.

Mr. Hanson stated an Attorney General's opinion is not warranted at this time, and noted before requesting a formal opinion the issue would need to be brought before the Board.

Mr. Parrish stated new legislation would be required to change the language in the Texas Government Code, and this issue needs to be resolved since 401(k) plans may currently question why 403(b) and 457(b) plans are not required to report to the PRB and the 401(k) plan is required.

Mr. Hanson stated this issue takes time away from staff who constantly have to answer questions revolving around who is required to report and who is exempt. He noted if a clear explanation of who is required to report were developed, it would expedite the process and assist all parties involved.

Mr. Hanson asked whether there were any other comments or questions from the Board.

There being none, Mr. Hanson gave an update on the PRB website.

B. PRB website update (39:02)

Mr. Hanson noted the PRB website was launched on December 1, 2009. He stated positive feedback has been received from the plans and visitors to the website, noting specifically the user-friendly layout of the site. Mr. Hanson noted a new feature for submitting comments to the agency was also added to the website.

There being no discussion on the website, Mr. Hanson gave an update on the Risk Management Review.

C. Risk Management Review November 2009 Update (40:27)

Mr. Hanson stated the agency received its three year Risk Management Review from the State Office of Risk Management (SORM) in November 2009. He referred to the initial recommendations from SORM and the agency response to the recommendations, located in the meeting packet. He noted the agency had to address fire extinguishers and the inspection of the fire extinguishers. He stated the previous inspections were done annually, however SORM recommended staff conduct monthly inspections on all fire

extinguishers, and a certified inspector conduct an annual inspection. Staff has placed monthly inspection stickers on all fire extinguishers, and will continue to conduct the annual certification and inspection of the fire extinguishers. Additionally, SORM recommended the agency conduct an indoor air quality management plan, and staff has begun to develop this plan. He stated SORM recommended the agency develop workplace violence policies and procedures, and add them to the employee manual. In conclusion, Mr. Hanson informed the Board the agency expects to have all recommendations completed by the next Board meeting.

Chair McElreath asked Mr. Hanson to provide an update on the status of the employee manual and the time of the last review.

Mr. Hanson stated the employee manual was last reviewed in 2002-2003. He noted staff has begun to review the manual taking into consideration the recommendations from SORM and is in the process of developing a clear and concise Employee Manual. He expects the manual to be completed no later than April 1, 2010.

Chair McElreath informed the Board that agency staff has taken on the tasks of reviewing the employee manual, restructuring current policies and procedures, and developing draft bylaws, all of which have not been done for several years. This process involves a large quantity of time and effort from staff, and recommended the Board have a routine schedule to review the policies and procedures, so future employees and the Board will have a clear understanding.

Mr. Hanson stated the current policies and procedures do not address a "review period", and staff is adding a review period of one year for all policies and procedures. He noted the policies and procedures would also be reviewed on an ad-hoc basis as necessary.

Chair McElreath inquired whether there were any additional comments or questions from the Board.

There being none, Mr. Hanson provided the date and location for the next Board meeting.

15. Consider date and location for next Board meeting - Chris Hanson (46:20)

Mr. Hanson stated the next PRB meeting will be held on April 29, 2010. He informed the Board and audience the Annual Seminar will be held on June 14, 2010, and the June PRB meeting will be held immediately following the Annual Seminar.

Chair McElreath inquired whether there were any comments concerning the work session or meeting. He specifically asked for the member's opinion on the Board holding future meetings earlier in the day to allow time for committees to meet and discuss agenda items.

Mr. Smith stated he liked the format of today's meeting as it allowed for more open discussion among the Board members, and Mr. Parrish concurred with him.

Chair McElreath stated this would be taken into consideration for the planning of future Board meetings.

16. Invitation for audience participation (56:42)

Chair McElreath asked for public comment.

17. Adjournment (56:57)

There being no comments, Chair McElreath thanked the Board for their participation in the morning work session and meeting, the audience for their attendance, and the staff for their time and effort. With the business of the Board completed, Chair McElreath adjourned the meeting at 2:02 PM.

In Attendance:

Staff:

Madalene Allen
Ben Armendariz
Lynda Baker
Jolena Close
Joey Evans
Daniel Gunter
Chris Hanson
Daniel Moore
Ashley Rendon
Kimberly Rhodes
Sharon Roe

Guests:

Paul Brown, Texas Association of Public Employee Retirement Systems
Carol Chaney, Fire Fighters Pension Commission
Todd E. Clark, Houston Firefighters' Relief and Retirement Fund
Everard Davenport, Dallas Police & Fire Pension System
Steve Edmonds, Austin Employees' Retirement Fund
Mike Ewing, Employees Retirement System of Texas
Leslee Hardy, Texas Municipal Retirement System
Pate Gardner, Locke, Lord, Bissell & Liddell, LLP
John Lawson, Houston Police Officers Pension System
Ralph Marsh, Houston Police Officers Pension System
Robert M. May, Rudd and Wisdom, Inc
Wade McDonald, Legislative Budget Board
James McElvaney, Texas Association of Public Employee Retirement Systems
Lisa Ivie Miller, Fire Fighters Pension Commission
James E. Montero, Houston Police Officers Pension System
William Nails, Employees Retirement System of Texas
Max Patterson, Texas Association of Public Employee Retirement Systems
Larry Reed, San Antonio Fire & Police Pension Fund
Ruth Ryerson, Fort Worth Employees Retirement Fund
Clint Smith, Texas Association of Public Employee Retirement Systems
Ray Spivey, Teacher Retirement System of Texas
Randy Stalnaker, Texas Association of Public Employee Retirement Systems
Yuniedth Midence Steen, Locke, Lord, Bissell & Liddell, LLP
Michael M. Trainer, San Antonio Fire & Police Pension Fund
Arlene Truong, Texas Association of Public Employee Retirement Systems
Lara Wendler, Senator Whitmire's Office



Chair Richard E. McElreath