

**Texas Pension Review Board
Minutes
September 28, 2011**

1. Meeting called to order (00:00)

The second meeting of 2011 of the Texas Pension Review Board (PRB) was called to order by Chair Richard McElreath on Wednesday, September 28, 2011 at 10:13 AM, at the Capitol Extension Building, Committee Room E1.012 in Austin, Texas.

2. Roll call of Board members (00:05)

Board Members Present:

Chair Richard McElreath
Vice Chair Paul Braden
Andrew Cable
J. Robert Massengale
Norman Parrish
Wayne Roberts
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 (00:31)

A. Approval of the June 13, 2011 Board meeting minutes

Chair McElreath entertained a motion to suspend the reading of the Minutes of the PRB meeting held June 13, 2011 and to approve the Minutes as circulated.

Motion made by Mr. Cable, seconded by Mr. Parrish that the PRB suspend the reading of the Minutes of its meeting held June 13, 2011 and to approve the Minutes as circulated.

Chair McElreath inquired if there were any comments or discussion from the Board. There being none, the motion carried unanimously to suspend the reading of the Minutes of its meeting held June 13, 2011 and to approve the Minutes as circulated.

MOTION CARRIED UNANIMOUSLY

B. Excusing the absence of Board members from the June 13, 2011 Board meeting (00:58)

Chair McElreath entertained a motion to excuse Senator John Whitmire from the June 13, 2011 Board meeting.

Motion made by Mr. Roberts, seconded by Mr. Massengale to excuse Senator John Whitmire from the June 13, 2011 Board meeting.

Chair McElreath inquired if there was any discussion from the Board. There being none, the motion carried unanimously to excuse Senator John Whitmire from the June 13, 2011 Board meeting.

MOTION CARRIED UNANIMOUSLY

4. Actuarial Committee – Receive update from staff on the following matters - Norman Parrish (02:23)

A. Public retirement system reporting and compliance – Chris Hanson

Mr. Chris Hanson, Executive Director of the Pension Review Board (PRB), stated the value of assets for the public retirement systems has continued to increase. Mr. Hanson stated the staff will continue to monitor the value of assets for the public retirement systems.

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B. Discuss and consider adoption of proposed "Guidelines for Actuarial Soundness" – Chris Hanson

Mr. Hanson stated the staff conducted several surveys and the Actuarial Committee has held several public meetings to solicit comments from the plans and the actuaries in order to develop the "Guidelines".

Chair McElreath asked if there were any questions from the Board.

Mr. Parrish reviewed the changes made to the "Guidelines". Mr. Parrish stated there were minor changes to all of the guidelines. The most significant change was to Guideline 4.

Mr. Parrish inquired if there was any discussion from the Board, there being none, Mr. Parrish asked for public comment.

Mr. Mark Fenlaw, Rudd and Wisdom, thanked the Actuarial Committee and staff for their work on the "Guidelines". Mr. Fenlaw commented the phrase "a material" should be deleted and replaced by the word "an". Mr. Fenlaw stated guidelines for actuarial soundness should be objective rather than subjective elements.

There being no other comments, Mr. Parrish entertained a motion to adopt the "Guidelines for Actuarial Soundness".

Motion made by Mr. Massengale, seconded by Mr. Cable to adopt the "Guidelines for Actuarial Soundness".

Chair McElreath inquired if there was any discussion from the Board. There being none, the motion carried unanimously to adopt the "Guidelines for Actuarial Soundness".

MOTION CARRIED UNANIMOUSLY

C. Discuss and consider adoption of policy for "Determination of System Actuarial Review" – Chris Hanson

Mr. Hanson explained the title of the policy had been changed from "Monitoring the Status of Actuarially Unsound Pension Systems" to "Determination of System Actuarial Review". Mr. Hanson gave an overview of the changes to the policy.

Chair McElreath inquired if there were any comments from the Board or from the audience. There being none, Chair McElreath entertained a motion to adopt the policy for "Determination of System Actuarial Review".

Motion made by Mr. Parrish, seconded by Mr. Massengale to adopt the policy for "Determination of System Actuarial Review".

Chair McElreath asked if there was any discussion from the Board. There being none, the motion carried unanimously to adopt the policy for "Determination of System Actuarial Review".

MOTION CARRIED UNANIMOUSLY

D. Discuss and consider adoption of policy for "Regulation of Noncompliant Retirement Systems" – Chris Hanson

1. Results of PRB compliance survey

Mr. Hanson stated the results of the compliance survey revealed a key issue as to why some plans become noncompliant. The issue is the timing of the audit for certain plans. Some plans were charged higher fees to have their audits conducted during the January to April 15 time period. Several plans postponed their audits until after tax season which in turn delayed getting their reports to the PRB on time.

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2. Proposed Policy

Mr. Hanson stated the comments received on the proposed policy were positive. Mr. Hanson suggested that the Board direct staff to solicit comments from the plans to ensure that all potential problems have been addressed in the policy. At the December PRB meeting, staff would present the policy to the Board for potential adoption.

Chair McElreath inquired if there were any comments from the Board. There being none, Chair McElreath directed the PRB staff to conduct another survey of the plans and other interested parties for more comments in order to finalize the policy for "Regulation of Noncompliant Retirement Systems".

5. Legislative Committee – Receive update from staff on the following matters – Wayne Roberts (20:48)

A. PRB Annual Seminar – Chris Hanson

1. Report on June 13, 2011 Annual Seminar

Mr. Hanson informed the Board that the comments received on the Annual Seminar were satisfactory. Mr. Hanson stated the attendance at the seminar was lower than it has been in the past. Mr. Hanson stated staff had conducted cold-calling of the plans about attending the seminar. The majority of the plans stated the economy played a major role as to why they were not attending.

2. Discussion of 2012 Annual Seminar

Mr. Hanson asked for suggestions from the Board on how the PRB could defray costs for the 2012 Annual Seminar.

Mr. Parrish stated that if you reduce the quality of the seminar you reduce the desire to attend.

Chair McElreath suggested the plans should be encouraged to pre-register for the seminar to help the budgeting process.

Mr. Hanson explained the PRB's policy on sponsorship. If PRB did solicit sponsors from investment services, it could be conceived as a conflict of interest.

Chair McElreath agreed with the policy in regards to sponsorship from investment services. Chair McElreath stated sponsorship from an entity not associated with investment services could be an option.

Vice Chair Braden stated he was open to exploring sponsorship as long as the sponsors were not overly generous and did not cause any undue influence.

Mr. Roberts suggested exploring changes in the venue.

Chair McElreath asked staff to prepare a report analyzing the current situation of the 2012 seminar and have a date for the Annual Seminar and report its findings to the Board at the December 8, 2011 meeting.

B. Rule Review – Title 40, Part 17, Chapter 604, §604.1 – Historically Underutilized Business – (HUB) - Anumeha

Anumeha informed the Board that in accordance with the rule review plan adopted by the Board at the June 13, 2011 meeting, the HUB rule was up for consideration and review by the Board. Anumeha stated that before re-adopting the rule, the Board would have to consider if the reason for initially adopting the rule still exists.

Anumeha stated the agency's HUB rule basically adopts the Comptroller's HUB rule by reference. The PRB staff researched the Comptroller's HUB rule and has determined the agency's HUB rule, by reference, is up-to-date.

Chair McElreath entertained a motion for the PRB staff to file the Notice of Intention to Review Title 40 of the Texas Administrative Code, Part 17, Chapter 604, §604.1 concerning the Historically Underutilized Business Program with the *Texas Register*.

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Motion made by Mr. Roberts, seconded by Vice Chair Braden to file the Notice of Intention to Review Title 40 of the Texas Administrative Code, Part 17, Chapter 604, §604.1 concerning the Historically Underutilized Business Program (HUB).

Chair McElreath inquired if there was any Board discussion or comments. There being none, the motion passed unanimously to file the Notice of Intention to Review Title 40 of the Texas Administrative Code, Part 17, Chapter 604, §604.1 concerning the Historically Underutilized Business Program with the *Texas Register*.

MOTION CARRIED UNANIMOUSLY

C. Sunset Advisory Commission – Chris Hanson

1. Self-Evaluation Report (SER)

Mr. Hanson informed the Board there was a copy of the SER that was filed with the Sunset Advisory Commission in their board packet. The report is available on the Sunset Advisory Commission's website. Mr. Hanson stated the review is scheduled tentatively from March to June 2012.

2. Sunset Advisory Commission process

Mr. Hanson stated the SER is the first step in the review process. The PRB's project manager for the review process is Michelle Downie.

6. Research Committee – Receive update from staff on the following matters – Paul Braden, Chair (43:07)

A. Governmental Accounting Standards Board, Exposure Draft for Statement 25 and 27 – Chris Hanson

Mr. Hanson stated there were significant implications in the Exposure Draft for public retirement systems and the sponsors of public retirement systems. Mr. Hanson explained the Governmental Accounting Standards Board (GASB) is moving away from the concept of funding and moving toward the area of disclosure. Mr. Hanson stated that GASB is trying to get rid of the Actuarially Required Contribution.

Mr. Hanson identified another area that GASB was trying to change. He stated GASB was moving the disclosure of a plans financials from the notes to the balance sheet. Mr. Hanson also noted "net pension liability" will replace "net pension obligation".

Mr. Hanson inquired if there were any questions from the Board.

Vice Chair Braden asked if the PRB had received comments from the plans about the GASB Exposure Draft.

Mr. Hanson stated the PRB has received comments from some actuaries. He indicated there was a draft letter from one of the actuaries included in the Board's meeting packet. Mr. Hanson stated staff would continue communicating with the plans on this issue and information about this issue would be posted on the PRB website.

Robert May, Rudd and Wisdom, commented that it is important for employers to pay close attention to these proposed changes. Mr. May stated GASB extended the comment period for two weeks.

B. Federal Law

1. Securities and Exchange Commission's proposed rule for Registration of Municipal Advisors – Anumeha

Anumeha informed the Board the Securities and Exchange Commission's (SEC) proposed rule sought to implement the Dodd Frank Acts amendment to the Securities Exchange Act of 1934. Anumeha explained the amendment makes it unlawful for municipal advisors to provide advice to or on behalf of municipal entities with regard to financial products without registering with the SEC.

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2. Public Employee Pension Transparency Act – Chris Hanson

Mr. Hanson stated this act was originally filed as HR 6484, now its current status is HR 567. If passed, a sponsor of a plan that becomes noncompliant would lose its tax-exempt bond status during the period of noncompliance.

C. Social Security participation research project – Chris Hanson

Mr. Hanson stated that staff is conducting research on whether or not a plan's members participate in Social Security. If the members are not participating in Social Security and there is a move to place the members in a defined contribution plan, they would only have the defined contribution plan to rely on.

D. Discussion of future research projects – Chris Hanson

Mr. Hanson asked the Board to submit their suggestions of any research projects they would want conducted in the future.

7. Administrative Committee – Receive update from staff on the following matters – Richard McElreath, Chair (1:03:41)

A. Agency budget

1. Year-end expense report for FY 2011

Mr. Hanson stated the PRB was able to cover their expenses. The agency was able to close out the year with some funds remaining.

2. Internal operating budget for FY 2012

Mr. Hanson informed the Board that the current budget does not reflect the costs for the Annual Seminar.

Chair McElreath inquired if there were any questions from the Board, there being none, Chair McElreath entertained a motion to adopt the internal operating budget for FY 2012.

Motion made by Mr. Roberts, seconded by Mr. Cable to adopt the internal operating budget for FY 2012.

Chair McElreath asked if there was any discussion from the Board.

There being none, the motion carried unanimously to adopt the internal operating budget for FY 2012.

MOTION CARRIED UNANIMOUSLY

B. Presentation of Comptroller of Public Accounts routine post-payment audit of purchase, travel and payroll – Chris Hanson

Mr. Hanson indicated that as a result of the audit by the Comptroller's, some changes were incorporated into the PRB's policies and procedures relating to travel. Mr. Hanson pointed out a problem the PRB had as a small agency was oversight of the entry of information. In response to this issue, additional senior staff has been included in the process in order to be in compliance.

Chair McElreath commented the Board members should try to get their travel arrangements done early in order to take advantage of savings for the agency.

8. Discuss and consider the proposed ethics policy – Anumeha (1:09:37)

Anumeha indicated that staff had incorporated the Board's comments and suggestions into the proposed ethics policy. She stated staff had conducted further research on the enforcement section of the policy and amended it to align with the statutes of the Board.

Anumeha stated staff provided a draft copy of the ethics policy to the agency's counsel at the Attorney General's Office and has incorporated her suggestions into the policy.

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Mr. Hanson further stated the Attorney General's Office suggested scaling back on the information contained in the draft policy. Mr. Hanson informed the Board that the policy was not ready for adoption and asked for any suggestions from the Board to finalize the policy.

Vice Chair Braden suggested having the applicable Board committee review the policy before presenting it to the Board for approval.

Chair McElreath directed the Legislative Committee to review the proposed ethics policy before the December meeting.

9. Receive update from the Executive Director on the following matters – Chris Hanson (1:12:41)

A. Introduction of new staff and briefing on current staff vacancies

Mr. Hanson introduced John Perryman, PRB accountant. Mr. Hanson informed the Board that Emily Brandt, Research Specialist would be joining the PRB soon.

Mr. Hanson stated the Investment Analyst position was vacant and the PRB has had several applicants apply for the position. He stated that interviews are being scheduled.

B. State Office of Risk Management – Risk Management Program Review

Mr. Hanson informed the Board that the PRB is due for its biennial review by the State Office of Risk Management. The review is scheduled for December 15, 2011. Mr. Hanson explained the review involves safety in the PRB office.

C. Texas Public Policy Foundation "Policy Primer on Public Employee Compensation"

Mr. Hanson informed the Board of his invitation to be a presenter at the policy primer. Mr. Hanson extended the invitation for the Board members to attend the primer.

Mr. Parrish commented on the importance of the Board monitoring organized efforts to transform the public retirement systems provided by the state and municipalities.

10. EXECUTIVE SESSION – Chair McElreath (1:17:37)

Enter into Executive Session

Chair McElreath announced at 11:29 AM., the PRB would enter into executive session pursuant to Texas Government Code, section 551.074, to deliberate personnel matters, including the legislatively approved salary increase of the executive director, and thereafter might consider appropriate action in open session. Chair McElreath requested all non-Board members leave the room with the exception of John Perryman and Lynda Baker.

Return to Open Session

Chair McElreath announced at 11:49 AM., the PRB meeting was back in open session; no action was taken during the executive session.

Chair McElreath entertained a motion to increase the executive director's salary to \$80,000 effective September 1, 2011.

Motion made by Mr. Roberts, seconded by Mr. Cable to increase the executive director's salary to \$80,000 effective September 1, 2011.

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

There being none, the motion passed unanimously to increase the executive director's salary to \$80,000 effective September 1, 2011.

MOTION PASSED UNANIMOUSLY

Mr. Roberts thanked Mr. Hanson for his work during session. He also thanked Vice Chair Braden for an outstanding job during the budget committee meetings.

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Mr. Roberts went on to thank the Texas Legislature, in particular Senator John Whitmire and Representative Vicki Truitt, for keeping our general revenue support during the upcoming biennium.

Chair McElreath stated Mr. Roberts's comments were echoed by all the members of the Board.

11. Call for future agenda items – Chair McElreath (1:20:11)

Chair McElreath asked for comments.

12. Date of the next Board meeting – Chris Hanson (1:20:20)

Chair McElreath stated the next Board meeting for 2011 would be held on Thursday, December 8.

13. Invitation for audience participation – Chair McElreath (1:20:30)

Chair McElreath asked for public comment.

14. Adjournment (1:20:42)

With the business of the Board completed, Chair McElreath adjourned the meeting at 11:52 AM.

In Attendance:

Staff:

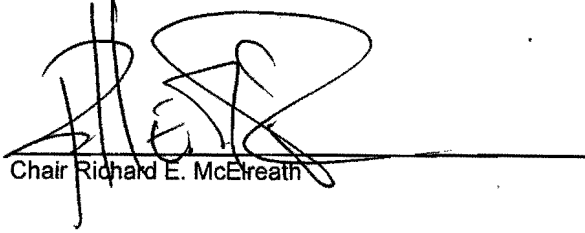
Anumeha
Lynda Baker
Jolena Close
Joey Evans
Chris Hanson
Daniel Moore
Cathy Overton
John Perryman
Ashley Rendon

Guests:

Paul Brown, Texas Association of Public Employee Retirement Systems
Maria Eyna Canales-Zarate, Texas Association of Public Employee Retirement Systems
Todd E. Clark, Houston Firefighters' Relief & Retirement Fund
Michelle Downie, Sunset Advisory Commission
Steve Edmonds, City of Austin Employee Retirement System
George Eure, State Auditor's Office
Mark Fenlaw, Rudd and Wisdom
Leslee Hardy, Texas Municipal Retirement System
Tom Harrison, Texas County & District Retirement System
Demetrio Hernandez, Legislative Budget Board
Mike Higgins, Fire Fighters' Pension Commission
Chris Jones, Combined Law Enforcement Association of Texas
Robert May, Rudd and Wisdom
Jason McElvaney, Texas County & District Retirement System
Lisa Ivie Miller, South Texas Money Management
Bart Moczygemba, San Antonio Fire and Police Pension Fund
Shack Nail, Employee Retirement System of Texas
Warren Schott, San Antonio Fire and Police Pension Fund
James Smith, San Antonio Fire and Police Pension Fund
David Stacy, Midland Firemen's Relief & Retirement Fund
Robert Stanton, El Paso Firemen and Policemen's Pension Fund
Yuniedth Midence Steen, Locke, Lord LLP

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Johnny Villarreal, Houston Fire Fighters Local 341
Sherri Walker, Fire Fighters' Pension Commission
Dan Wattles, Texas Municipal Retirement System
Merita Zoga, Representative Vicki Truitt's Office



Chair Richard E. McEreath