

**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Legislative Stakeholder Group,  
an Ad Hoc Committee of the Board of Trustees**

On August 14, 2008, the Legislative Stakeholder Group created by the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 3:00 p.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

**Legislative Stakeholder Group**

H. Frank Simpson, Chair

April Nixon, Vice Chair

The Honorable Keith Brainard, Member of the Advisory Committee and Councilman of Georgetown

Ron Cox, Member of the Advisory Committee

David Crow, Arlington PFA

Chris Heaton, TMPA

Mike Higgins, TSAFF

Chris Jones, CLEAT

Darlene Lanham, TMPA

The Honorable John Lewis, Member of the Advisory Committee and Councilman of N. Richland Hills

Richard Martinez, SEIU

Joe McLaughlin, SEIU

Randle Meadows, Member of the Advisory Committee

Jim Moore, Member of the Advisory Committee

Jim Parrish, TMHRA

Mike Perez, TCMA

Bob Scott, GFOAT

Jim Starr, Member of the Advisory Committee

Jim Thomas, City of San Antonio

Greg Vick, TCMA

Monty Wynn, TML

Absent from the meeting were:

The Honorable Rufus Duncan, Jr., City of Lufkin

Mayor Debora McCartt, City of Amarillo

The Honorable Lynn McIlhaney, Member of the Advisory Committee and

Councilwoman of College Station

Isaac Valencia, Member of the Advisory Committee

The following Trustees, staff and guests were also in attendance:

**TMRS Trustees**

Roel Rodriguez, Chair of the Board of Trustees

**TMRS Staff**

Ian Allan, Director of Internal Auditing

Rhonda Covarrubias, Director of Finance

Eric Davis, Deputy Executive Director  
David Gavia, General Counsel  
Nancy Goerdel, Director of External Investments  
David Rodriguez, Regional Manager  
Leslee Hardy, Decision Support Actuary - Director  
Eric Henry, Executive Director & CIO  
Bob Klausner, Klausner & Kaufman, PA  
Michelle Mellon-Werch, Associate General Counsel  
Cindy Morse, Executive Assistant  
Debbie Muñoz, Director of Member Services  
Eddie Solis, Director of Government Relations  
Bill Wallace, Director of Communications  
Scott Willrich

Guests: Natalie Foerster, Governor's Office  
Joe Newton, GRS  
Blake Rocap, House Committee on Pensions & Investments

Mr. Simpson called the meeting to order at 3:06 p.m. and Mr. Rodriguez gave the invocation. Mr. Simpson welcomed all of the Committee members and guests.

**Consider and Act on Adoption of Minutes from July 18, 2008 Meeting**

Mr. Simpson stated that the draft minutes for the July 18, 2008 Legislative Stakeholder Committee meeting were sent to all of the members in advance of the meeting and asked if there were any comments or corrections to be made. Mr. Solis noted that the Honorable Lynn McIlhane, member of the Advisory Committee and councilwoman of College Station had been omitted from the list of those absent. Mr. Brainard moved to approve the minutes of the July 18, 2008 meeting with the correction as noted by Mr. Solis. Mr. Perez seconded and the motion passed unanimously.

**Recap of Previous Meetings by Chair and Vice Chair**

Mr. Simpson asked Mr. Henry to review the TMRS Staff Report and recap the Committee's work and progress. Mr. Henry stated that over the past three meetings all of the stakeholders have presented their perspectives and discussed their concerns. And, while each stakeholder group expressed its ideal goals, they have all come to understand the importance of getting some base legislation through this next session to allow the System to diversify. He reviewed the Staff Report distributed at the meeting and stated the three main goals of the legislation: guaranteeing a 5% interest credit to the ESF and setting the discount rate used in the annuity purchase rate at 5%, and allowing the Board to credit/debit unrealized gains and losses to the MAF to allow divestment of our fixed income portfolio. The group discussed several other options, including building reserves; keeping the Legislative Stakeholder Group together to continue to meet, receive reports from the Board and Staff and make recommendations to the Board on legislative issues; and placing a sunset provision on the legislative changes made this session for ten to fifteen years from passage. Mr. Henry expressed the concerns staff has with the sunset proposal. A reversion to realized gains requirement once the fund is diversified with only a small portion of assets in fixed income would decrease the amounts available to be credited to the funds far below actuarially assumed amounts. The effect would be to drive up contribution rates and

decrease funding status of each city's plan. The annuity purchase rate would decrease making retirement financially difficult for persons nearing retirement age. As fiduciaries of the funds, the Trustees could not support legislation that introduced this level of uncertainty to the System. Staff instead suggests that TMRS be required to provide regular reports to the Committee or the legislature on the System's progress towards divestment and a reserve.

Mr. Simpson asked if reporting to the legislature is the role of PRB. Mr. Henry replied that the PRB does report to the legislature and TMRS provides quarterly and annual reports to the PRB. Mr. Rodriguez asked if the sunset provision had been discussed at any of the previous meetings. Mr. Simpson replied that he believed it was mentioned at the end of the last meeting but that it has been discussed by some stakeholders since then with TMRS Trustees and staff.

Mr. Higgins stated that he is not against the proposals set forth in the Staff Report, but he wants some guarantee that they will still be invited into the discussions later on, once the new program is put in place. Mr. Jones stated that he commends the TMRS Trustees and Mr. Solis for their work with employee groups. However, there is no guaranteed representation for ground level employees at TMRS. For a long time, they had no voice at the table. He supports the need to diversify for the benefit of employers and employees. But he is not sure they are willing to support this sweeping legislation without any guarantees that they will continue to have a place at the table in the future. He is surprised that they are being asked to vote on the recommendation today without seeing a draft of the legislation. The sunset provision was proposed as one way to guarantee the people he represents a voice later on, but he is willing to consider other options to guarantee a future voice for his members. Mr. Simpson stated that he believes that the Board's interest is the interest of the members; they are fiduciaries of the members, not the cities.

Mr. Perez asked Mr. Higgins if the 5% credit to the ESF is an issue for labor. Mr. Higgins responded that they are comfortable with that figure for now, but they want a trigger for labor to have a voice when the investment situation at TMRS changes. Mr. Perez responded that it appears the real issue is that labor wants to have a voice in the policies the Board considers. He believes that the sunset provision is very dangerous because of the uncertainty of getting legislation passed in any session. He and several other Committee members suggested that the Board amend its bylaws or pass a rule creating the Committee to give it a more permanent status. Another member suggested legislation to create an advisory committee to the Board. Mr. Gavia stated that the requirements for rulemaking make a rule more difficult to change once it is in place. The members discussed some concerns with legislating a committee given that it is possible that the proposed mix of representatives could change once it becomes politicized. Some of the employee group representatives voiced concern that what the Board creates; it can also remove and reiterated that a sunset provision would force the Board of Trustees to work to gain a consensus again, much as it has worked to do this year. Mr. Heaton stated that he understands the concerns with a sunset provision, but he would like to see triggers associated with the reserves or long term rate of return that trigger an automatic review of the interest credited to the ESF and annuity purchase rate. Several members also mentioned that sunset provisions create uncertainty which will affect the investment practices of the fund managers. The managers, in order to protect the fund will attempt to correct for the uncertainty and accept lower yields for less risk.

Mr. Higgins asked who would be voting on the recommendations the Committee would propose to the Board and how the vote would be conducted. Mr. Simpson read the list of persons and organizations that have a vote on the recommendations from the Committee and stated that the group would vote verbally, unless a roll call vote was necessary. Mr. Higgins asked if the group could agree to the specific language for the legislative proposal. Mr. McLaughlin admitted that while he agrees with the general concepts stated in the Staff proposal, he would like to be involved in the drafting of the proposed legislation. Mr. Perez suggested that a smaller subcommittee be formed to work with TMRS staff to draft the language with equal representation from employer and employee groups. Mr. Solis reminded the Committee that the Trustees formed the Committee to come to a consensus and provide a recommendation to the Trustees for a legislative package that would be acceptable to the stakeholders. Once the Board accepted the group's recommendations and has approved the concepts for a legislative package, staff will work to draft the necessary language to amend the TMRS Act. Mr. Vick expressed his confidence that if there is anything in the draft legislation that the stakeholders find disconcerting, the Board and TMRS staff will work with that group, and clarify the issue or help to come to a consensus. Mr. Rodriguez agreed that the Board of Trustees has made a commitment to communicate with all of the stakeholders. Mr. Higgins moved to postpone approval of the recommendations to allow a subcommittee composed of one representative from TCMA, TML, TMPA, CLEAT, TSAFF, SEIU, GFOAT, Arlington Fire, TMHRA and TMRS as a non-voting member, to draft a bill everyone can support. Mr. Perez moved to amend the motion to approve the concepts presented in the TMRS Staff Report, and to have the subcommittee work with the General Counsel of TMRS to draft the bill. Mr. Higgins would not accept the amendment.

Mr. Heaton said he could agree to the motion as amended if there could be an amendment to the Staff Report that changed the first recommendation to grant "Interest credits to employee accounts and the annuity purchase rate for retirement calculations to be no less than 5%" instead of "set at 5%".

Mr. Solis stated that a regular report from TMRS Staff would provide the communication and accountability that the stakeholders want. Mr. Henry informed the Committee that there are comment cards at every Board Meeting. The Staff Report recommends that the Committee continue on as an advisory committee of the Board.

Mr. Perez stated that he feels everyone is in agreement on the four general findings and recommendations of the Committee as stated in the Staff Report, with the amendment by Mr. Heaton and asked if the motion could be amended to add that recommendation be contingent on details of the legislative proposal to be agreed upon by a subcommittee. Mr. Higgins agreed that he would accept that amendment and restated the motion as amended by Mr. Perez and Mr. Heaton to read as follows:

"That the Legislative Stakeholder Group accept the Staff Report, including its findings and recommendations, except amending the first recommendation to replace the last four words with "to be no less than 5%", contingent upon the appointment of a subcommittee to review the resultant statutory amendment. The subcommittee shall consist of individuals from each of the following groups: TMPA, CLEAT, TSAFF, SEIU, Arlington Fire, TML, TCMA, GFOAT, TMHRA and TMRS (as a non-voting member)."

Mr. Perez seconded the motion. Mr. Brainard stated that he will vote for the motion because it is important to gain the consensus and move forward, but he is upset with the apparent lack of trust in the TMRS Board and Staff. Mr. Jones and Mr. Higgins both disagreed that this is not a lack of trust, but a way for the stakeholders to feel comfortable that the details will be ironed out before session and everyone is in agreement. Mr. Lewis stated that he would vote against the motion because the committee is too large to draft legislation and he feels that City Councils and this Board have to rely on the professionals they hire. TMRS has professional staff that should be trusted to carry out the directives given to them and he is not going to second guess them.

Discussion returned to the idea of adding the Legislative Stakeholder Group to the legislation. The Committee members discussed issues associated with a permanent statutory committee. Mr. Higgins called the question. Mr. Simpson asked Mr. Henry to reread the Motion as seconded. Mr. Henry read the motion and Mr. Simpson called for a roll call vote. Nine members voted Aye, four members voted Nay (Messrs. Lewis, Moore, Crow-Arlington Fire and Scott-GFOAT), one abstained (Martinez-SEIU). The motion passed.

Mr. Cox made a motion that the full Committee meet after the subcommittee has drafted the proposed legislation and before the September Board Meeting to review the legislation. Mr. Higgins seconded the motion. The motion passed unanimously by verbal vote. Mr. Starr asked that the minutes reflect that TMRS staff is not part of the Stakeholder Group and does not vote.

**Any Other Business**

There being no further business to come before the Committee, Mr. Simpson adjourned the meeting at 4:54 p.m.



Eric Henry  
Executive Director  
& Chief Investment Officer



H. Frank Simpson  
Committee Chair