

**Texas Pension Review Board  
Wednesday, April 1, 2009**

**Minutes**

**1. MEETING CALLED TO ORDER**

The first meeting of 2009 of the Texas Pension Review Board (PRB) was called to order by Chair Richard McElreath on Wednesday, April 1, 2009, at 1:30 p.m., in the 1<sup>st</sup> Floor Auditorium Room of the Employees Retirement System of Texas building, 1801 Brazos, in Austin, Texas. Chair McElreath asked Ms. Sharon Edmonson to call the roll.

**2. ROLL CALL OF BOARD MEMBERS**

**Board Members Present:**

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

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

**3. APPROVAL OF MINUTES OF DECEMBER 10, 2008 MEETING**

Chair McElreath entertained a motion to suspend the reading of the Minutes of the PRB meeting held December 10, 2008.

Motion made by Vice Chair Paul Braden, seconded by Mr. Shad Rowe, and carried unanimously that the PRB suspend the reading of the Minutes of its meeting held December 10, 2008.

**MOTION CARRIED UNANIMOUSLY**

Chair McElreath asked if any corrections were to be made to the minutes of the December 10, 2008, PRB meeting. There being no corrections, the Minutes were approved as circulated.

**4. WORK OF THE ADMINISTRATIVE AND LEGISLATIVE COMMITTEE – Shari Shivers, Chair**

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

Ms. Shivers called on Mr. Chris Hanson, Interim Executive Director, for a report on the 81<sup>st</sup> Legislative Session.

**A. Report and Discussion on 81<sup>st</sup> Legislative Session – Chris Hanson**

**1) Fiscal Year 2010-2011 Budget Hearings**

Mr. Hanson stated the FY 2010-2011 PRB Budget requests \$60,000 for the development of a new database which is crucial to core agency missions. He explained the proposed budget includes approximately \$45,000 for staff salary increases and \$60,000 for the Executive Director's salary increase over the 2010-2011 biennium, which are necessary for the agency to ensure retention of staff.

Mr. Hanson stated he anticipates a decision will be made regarding the PRB Budget before the next PRB meeting in June.

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

There being none, Chair McElreath asked Mr. Hanson to continue with the Legislative agenda items.

Mr. Hanson informed the Board a packet of information was given to the House Pensions, Investments and Financial Services Committee providing an overview of the PRB and functions of the agency. He stated the agency wanted to educate the committee members on the actuarial impact statement process and discuss current economic trends. Mr. Hanson explained the agency discussed the defined contribution plans within the state and noted the agency is working hard to identify areas that may be of concern.

Mr. Hanson asked whether there were any questions from the Board regarding the House Pensions, Investments and Financial Services Committee.

There being none, Mr. Hanson continued his report.

**2) Pension Legislative System (Full Calendar) – Report tracking pension related bills of the 81<sup>st</sup> Legislative Session - (02:11)**

Mr. Hanson explained the Pension Legislative System is a report maintained by the agency during the Legislative Session and is available on the PRB website. This report tracks pension-related bills and includes the sponsor, whether there is a companion bill, the system that will be impacted and a brief description of the bill. In addition, Mr. Hanson stated this report tracks the progress of the bill, including actuarial analyses, actuarial reviews, impact statement requests, and scheduled hearings.

Mr. Hanson reported there has been little movement on bills this session compared to the last session.

Mr. Hanson asked whether there were any questions from the Board regarding current Pension bills.

There being none, Mr. Hanson continued his report.

**3) SB 1548, by Senator Ogden, relating to the (PRB) monitoring and oversight of certain public retirement systems and public investments; providing civil penalties - (04:04)**

Mr. Hanson discussed the significant changes SB 1548 would have on the agency. First and foremost, the bill would change the name of the agency from the State Pension Review Board to the State Pension and Investment Review Board. Mr. Hanson noted other major provisions would be to reduce the number of Board members from nine to five and the number of gubernatorial appointments from seven to three.

He stated Subchapter D would be added to Chapter 801 of the Texas Government Code relating to Board Investment Oversight and would require new Board oversight of the investment of public funds by a public retirement system, the comptroller, the Permanent University Fund and the Permanent School Fund. Mr. Hanson explained Subchapter D would also require the Board to develop policies and procedures for the procurement of investment managers and the review of investment contracts, and provide language on the prohibition of gifts and for the Board or Attorney General to investigate complaints or initiate an investigation under Subchapter D.

Mr. Hanson noted information in the Board packet provides a side-by-side comparison of the current law to the proposed changes of SB 1548.

Mr. Hanson discussed the agency's estimated budget required to fulfill the provisions of SB 1548. He stated a significant increase in staff and space would be required to accommodate the changes in the bill, and the agency would require the hiring of legal counsel as part of the new staff.

In closing, Mr. Hanson stated the agency discussed the major issues and policies of SB 1548 with the Senate Finance Committee and he noted SB 1548 proposes several changes to the agency's duties and Board composition.

Mr. Hanson asked whether there were any questions regarding SB 1548.

Ms. Shivers inquired about the current Legislative status of SB 1548.

Mr. Hanson reported SB 1548 has been referred to the Senate State Affairs Committee, chaired by Senator Duncan, and has not been scheduled for a hearing. He stated the agency has spoken with Senator Odgen's staff and they indicated there would be a Committee Substitute to SB 1548.

**4) Senate nominations and new board member confirmations - (11:38)**

Mr. Hanson stated staff is monitoring the Senate Nominations Committee for Board confirmations and there have been no confirmations of Board members to date.

Chair McElreath thanked Mr. Hanson and Ms. Shivers for their work.

**5. WORK OF THE ACTUARIAL COMMITTEE – Norman Parrish, Chair - (12:48)**

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

**A) Report and Discussion on Lufkin Firemen's Relief and Retirement Fund**

Mr. Parrish called on a representative from the City of Lufkin for an update.

**1) Update from the City of Lufkin – (15:45)**

Mr. Paul Parker, City Manager of the City of Lufkin and member of the Lufkin Firemen's Relief and Retirement Fund (FRRF) Board, introduced Councilman Rufus Duncan, who also serves on the Lufkin FRRF Board, and stated they are both familiar with the dilemma the Fund faces.

Mr. Parker stated the City has attempted to address the issues of the Fund since taking on the responsibility in 2004. Mr. Parker pointed out that over the past five years, the City has increased the contribution rate from 11 percent to 17.52 percent, and the Lufkin firemen have made several concessions in attempt to correct the problems with the Fund.

Mr. Parker reported the Lufkin City Council has adopted the eight-year phase in for Texas Municipal Retirement System (TMRS), which allowed a 0.52 percent increase to both TMRS and the Fund for the first year only. As part of the agreement, if the council decides to go forth with the eight-year phase in for TMRS, then any increases or decreases will hold true for the Fund as well. Currently, the City contribution rate in TMRS is 19.5 percent, which would require an additional 5 percent increase to the Fund to be equitable.

Mr. Parker stated Councilman Duncan and he are recommending a goal to the city council to reverse the current trend of the Fund with more money going out of the Fund than contributed to the Fund. He reported the Fund is spending \$250,000 in expenditures for DROP plans, administrative overhead costs, and retiree benefits above revenue coming into the Fund; and this trend has been in place for several years. Mr. Parker explained as part of the recommendation they are requesting \$250,000 from the general fund balance to be placed in the Firemen's Fund, which will match the revenue to the expenditures for this year.

In closing, Mr. Parker noted his hope is that the city council will help by increasing the City's contribution rate to the Fund to 20.2 percent. He stated this would not immediately fix the Fund's problems, but would allow a portion of the money to go toward the Fund balance and not toward expenditures.

Mr. Parker asked whether there were any questions.

In regard to the funding problem, Mr. Parrish inquired as to whether or not an actuarial report has been performed.

Mr. Parker stated the city council is aware of the current status of the Fund and the actuarial report is due the end of the month. Mr. Parker asked Mr. Constantino Villasana, Chairman of the Lufkin FRRF, to confirm this information.

Mr. Villasana explained at their February 13, 2009 meeting, Mr. McDaniel, Actuary, spoke on the criteria to be used for the next actuarial valuation. Mr. Villasana provided copies of the minutes from the meeting to the PRB members.

Mr. Parrish asked whether the firemen would increase their contributions if the City increased their contributions to 20.2 percent.

Mr. Parker reported the firemen would increase their contributions by one percent, which would match the other city employees' contribution rate.

Mr. Parrish stated this increase would appear to bring the plan closer to being funded on an actuarially sound basis.

Mr. Parker stated the revenue would exceed the expenditures and would fund the plan unless there were unusual changes to the DROP plans. He explained if the DROP situations and refunds were removed, the Fund would have more in revenue than in expenditures and this would be the first year in five years this occurred.

Mr. Parrish asked whether there were any further questions. There being none, he called on a representative from the Fund for an update.

## **2) Update from the Pension Fund – (24:50)**

Mr. Villasana, Chairman of the Lufkin FRRF, stated the 20.2 percent from the City and 13.2 percent from the participants would put the Fund in line with the rest of the City employees' retirement plan. Those percentages are the original percentages discussed with the City in 1999 and would allow the Fund to meet its monthly disbursements without dipping into the principal balance.

Mr. Villasana explained the Fund is also accounting for the DROP plans in monthly statements and recognizing this as a liability, and the actuaries have also identified potential liabilities. Mr. Villasana noted all trustees are required to achieve State Trustee certification and keep current on their education, which allows them to better recognize and track the potential liabilities.

Mr. Villasana stated the Fund will study future plan improvements with two actuarial studies instead of one before a plan improvement is implemented that would negatively impact the plan. He explained this would prevent an improvement being put into place that may prevent funding at a later date.

Mr. Parrish asked whether the actuary has recommended an overall contribution rate.

Mr. Villasana stated the actuary recommended a total contribution rate of 39 percent on the last study. He explained with the proposed increases, the Fund would be five percent short of what the actuary recommended.

Mr. Parrish asked whether the actuarial report incorporated the asset losses during 2008.

Mr. Villasana stated the report did not incorporate the losses as the report was done in 2006. He explained the Fund would need approximately a 57 percent contribution rate in order to correct the issues the Fund is experiencing.

Mr. Parrish clarified that the Fund is still "not out of the woods", and Mr. Villasana agreed. Mr. Parrish pointed out it appears the Fund and the City are working together to resolve the funding issue.

Mr. Villasana replied positively that the Fund and the City are working together. He stated next Tuesday the Fund will make a presentation to the Lufkin City Council before it begins the budget workshops to adopt the 2010 budget.

Mr. Parrish asked whether there were any other questions from the Board.

Mr. Rowe asked Mr. Parker what lesson or information he would pass along to other plans so they may avoid some of the issues and problems the Fund has experienced.

Mr. Parker stated he would prefer to answer the question when the Fund was in better shape. However, he stated the Fund had let the benefits overrun the revenue and the Fund was not watched closely by the Lufkin FRRF Board pertaining to investments and how well they were diversified. The current Lufkin FRRF Board maintains a better understanding of long-term retirement programs through continued education and monitors the Fund more closely. Mr. Parker also stated the assumption rates of the Fund had not been valid in the past, but are monitored better now. He recommended all plans take a valid look at their own assumption rates to avoid many of the problems the Fund is currently experiencing.

Mr. Parker stated it will take the City years to make the Fund actuarially sound due to the length of time the Fund has experienced problems. The City will make sure the Fund is actuarially sound again by continuing to work with the Fund and the firemen in managing the Fund.

Chair McElreath asked Mr. Villasana to clarify the role of Mr. McDaniel and Councilman Duncan.

Mr. Villasana stated Mr. McDaniel performed the 2006 actuarial study and Councilman Duncan is the Mayor designee.

Mr. Parrish asked whether there was anything the Fund would like for the PRB to do to assist in resolving the issues with the Fund.

For clarification purposes, Mr. Rowe asked whether the question of who was managing the Fund was unclear.

Mr. Parker stated he felt it was clear who was managing, but when the City accepted responsibility five years ago it created a shift in the structure of the Fund. He stated that with the oversight of the PRB and the current make-up of the Lufkin FRRF Board, he believes everyone is on the same page and working well together for the benefit of the employees. Mr. Parker reiterated that he believed the Fund was not watched closely for many years prior to the development of the current problems.

Councilman Duncan stated he believed the Fund was watched closely. However, a working relationship did not exist between the City and the Fund prior to Mr. Parker taking office. He also stated the trustees did not have the education they hold now and that Mr. Parker has been instrumental in helping to resolve these issues since he became City Manager.

Mr. Parker clarified he did not mean to imply the Fund was not being watched, but that the biggest difference is in the amount of education the current trustees maintain over the past trustees.

Councilman Duncan stated a significant amount of the problem arises from the performance of the Fund and not maintaining a 60/40 index over the last ten years. Over the past several years, the Fund has missed the index by a couple million dollars before the last downturn in September and much of the downturn is the lack of return over the past ten years.

Mr. Parrish stated the handout reflects that the Fund is down 26 percent which is not too unsound when compared to other underfunded plans.

There being no further questions, Mr. Parrish thanked the Fund and the City for attending and recognized Mr. Chris Hanson for an update on the Conroe Fire Fighter's Retirement Fund (FFRF).

**B. Report and Discussion on Conroe Fire Fighter's Retirement Fund – Chris Hanson – (37:04)**

Mr. Hanson reported since the last PRB meeting, the Conroe FFRF submitted an updated actuarial valuation with an amortization period of 17.35 years. He informed the Board that because the Fund's amortization period was now less than 40 years, the Fund would not need to appear before the Board. Mr. Hanson stated the firemen increased their contributions from 10 to 13.24 percent, and the City increased their contributions from 12 to 12.54 percent, which reflected a lower amortization period for Fund.

Mr. Hanson asked whether there were any questions regarding the Fund.

There being none, Mr. Parrish thanked Mr. Hanson and recognized Ms. Ashley Rendon, PRB staff member, to provide a report on compliance.

**C. Report and Discussion on Reporting Compliance Summary – Ashley Rendon – (39:13)**

Ms. Rendon reported \$150 billion in total assets, representing 72 non-compliant plans, 28 partially compliant, and 298 compliant plans. There are 382 registered plans; 190 defined benefit and 192 defined contribution.

**1) San Antonio Housing Authority Employee's Pension Trust**

Ms. Rendon stated the PRB extended an invitation to San Antonio Housing Authority Employee and Pension Trust to attend the PRB meeting and since that time staff has been in contact with the plan. She noted the PRB previously had incorrect contact information for the plan. She explained the plan's financial statements have been received and they will be sending the required membership report soon.

**2) Johnson County MHMR Center Retirement Plan**

Ms. Rendon reported staff discovered the Johnson County Mental Health and Mental Retardation (MHMR) Center was dissolved in January 2006. Ms. Rendon stated staff is in contact with the new MHMR Center to discover whether the plan itself was closed or it was integrated into the new MHMR Center.

Ms. Rendon stated the agency is recommending Midland Independent School District and Northeast Medical Center Hospital Retirement Center be placed on the agenda for the next PRB meeting to discuss their non-compliant status.

Upon concluding her report, Ms. Rendon asked if there were any questions.

Mr. Parrish clarified the two plans are in non-compliance status for failure to submit their audited financial statements and membership reports.

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 explained 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 (45:02)**

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

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

**A. Report and Discussion on February 12, 2009, Legislative Seminar – Dunya Bean**

Ms. Bean reported the PRB held its latest Regional Educational Seminar on February 12, 2009, at the Robert E. Johnson Central Auditorium in Austin. She recognized the assistance of Susan Alexander, an attorney with the Legislative Council, who was instrumental in securing the location. She stated there were approximately 35 people in attendance and the majority were staff members for representatives and senators. Ms. Bean informed the Board staff called each legislator's office to personally invite them and this proved a good outreach effort in itself. Speakers included Chris Hanson, who spoke on government finance and public pensions, as well as providing an overview of the Impact Statements the PRB provides during session, and Martin McCaulay addressed actuarial issues.

Ms. Bean explained the location and date for the PRB's next regional seminar has not been determined and she noted suggestions are always welcomed.

**B. Report and Discussion on June 8, 2009, Annual Seminar – Dunya Bean**

Ms. Bean stated the PRB's Annual Seminar will be held June 8, 2009, at the Hyatt Regency Hotel in Austin and Comptroller Susan Combs has accepted the PRB's invitation to be the keynote speaker for this event. The topics covered will include the comptroller's overview of the state's economic drivers, as well as governance issues, and a presentation by Bill O'Grady with Confluence Investment Management, who will speak on his views of the economy. She stated speakers for fiduciary matters as well as other issues of interest have been contacted and a completed agenda will be available soon. Ms. Bean noted a memorandum was sent to all the plans informing them of the date for the Annual Seminar and the agency anticipates another successful event.

Ms. Bean asked whether there were any questions regarding the Annual or Regional Seminars.

Mr. Parrish clarified June 8, 2009, the date of the Annual Seminar, is also the date of the next PRB meeting.

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

**7. EXECUTIVE DIRECTOR'S REPORT – Chris Hanson (47:41)**

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

**A. Report and Discussion on PRB Database**

Mr. Hanson stated the agency has had significant improvements to the database since the last PRB meeting and the database has been migrated to the agency's internal server. The database is functioning in a limited capacity but allows staff to enter and extract data. Mr. Hanson stated the agency does not have a Policy and Procedure for entering or managing data and over the past 10 years there have been approximately eight to ten analysts entering data using individual interpretations. He informed the Board the agency has made it a priority to develop adequate Policies and Procedures to ensure the integrity of the data for future generations.

Mr. Hanson asked whether there were any questions regarding the database.

Ms. Shivers asked who would be responsible for developing the Policies and Procedures; whether the agency would develop the Policies and Procedures or rely on the contractors who developed the database.

Mr. Hanson clarified the responsibility of the Policies and Procedures would fall on the agency. He stated the agency will look at other Policies and Procedures developed by similar agencies, but the agency's would be developed internally.

There being no further questions, Mr. Hanson continued with his report.

**B. Report and Discussion on PRB Website**

Mr. Hanson updated the Board on an issue brought to the agency's attention by the Department of Information Resources (DIR). Mr. Hanson stated there is a state-wide policy and DIR guidelines for website accessibility, and the PRB's website does not currently follow these guidelines. He stated the agency is

beginning to study what needs to be done to comply with the policy and meet the guidelines. Mr. Hanson explained as part of the study the agency is looking into various software programs, web design responsibility, as well as developing a policy regarding the content on the agency's website. This information and recommendations will be presented at the next PRB meeting.

**C. Report and Discussion on PRB Fiscal Year 2009 Operating Budget**

Mr. Hanson reported current spending is on track with the FY 2009 operating budget. He stated the agency would need to have a sense of the FY 2010-2011 budget, as well as the current budget going into the summer months in order to determine what software would be purchased and what other options the agency would be able to address.

Chair McElreath inquired whether there is a deadline for meeting the guidelines for accessibility.

Mr. Hanson noted the first deadline for DIR accessibility is June 30<sup>th</sup>. The agency needs to update the accessibility policy, and provide a statement that the agency is aware of the accessibility requirements and is in the process of updating the website by the end of June. The agency plans to update the content of the website in conjunction with the Statewide Accessibility Guidelines. Mr. Hanson explained new software would need to be purchased and some of the agency's current staff has web design experience. However, the agency may need to consult with a contractor to incorporate the redesign of the website with the accessibility options. He stated the agency anticipates completing this project by the end of the summer and before the beginning of the new Fiscal Year.

Chair McElreath asked whether there were any additional questions. There being none, he thanked Mr. Hanson for his report.

**8. DATE AND LOCATION FOR NEXT BOARD MEETING – June 8, 2009 (55:37)**

Chair McElreath stated the next PRB meeting will be held on June 8, 2009, at the Hyatt Regency Hotel in Austin, which is the same day of the PRB's Annual Seminar.

**9. INVITATION FOR AUDIENCE PARTICIPATION (55:47)**

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

No public comments were made.

**10. ADJOURNMENT (57:36)**

Chair McElreath recognized Mr. Roy Casanova for his time and dedication to the PRB.

Chair McElreath recognized agency staff and noted Mr. Hanson and Ms. Lynda Baker are the only two staff members who have worked through a Legislative Session; however, the entire staff is dedicated to their work and in making this a successful Legislative Session.

With the business of the Board completed, Chair McElreath adjourned the meeting at 2:32 PM.

**IN ATTENDANCE:**  
**STAFF:**

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

**GUESTS:**

Carla Brewer, Dallas Employees Retirement Fund  
Kevin Brolan, Houston Firefighters' Relief and Retirement Fund  
Gerald Brown, Dallas Police & Fire Pension System  
Paul Brown, Texas Association of Public Employee Retirement Systems  
Newton Bruce, Dallas Employees Retirement Fund  
Carol Chaney, Fire Fighters Pension Commission  
Rufus Duncan, Jr., Lufkin Firemen's Relief and Retirement Fund  
Steve Edmonds, Austin Employees Retirement Fund  
Mike Ewing, Employees Retirement System  
Scott Glenn, Representative McReynolds Office  
Nancy Goerdel, Texas Municipal Retirement System  
Pat Hite, Rudd and Wisdom, Inc  
Tom Krueger, Texas County & District Retirement System  
Sophia Lecky, Representative Truitt's Office  
Daisy Marchena, Senator Whitmire's Office  
Wade McDonald, Legislative Budget Board  
Jason McEivane, Texas County & District Retirement System  
Jay Meador, Budget Planning and Policy, Governor Rick Perry's Office  
Lisa Ivie Miller, Fire Fighters Pension Commission  
Robert Miller, Locke Lord Bissell & Liddell LLP  
Anthony Mills, Texas Municipal Retirement System  
Randy Moody, Lufkin Firemen's Relief and Retirement Fund  
Paul Parker, Lufkin Firemen's Relief and Retirement Fund  
Max Patterson, Texas Association of Public Employee Retirement Systems  
Jimmy Ragsdale, Lufkin Firemen's Relief and Retirement Fund  
Diana Russell, Lufkin Firemen's Relief and Retirement Fund  
Karla Schmidt, Lubbock Fire Pension Fund  
Stephen Shaw, Dallas Police & Fire Pension System  
Rhonda Smith, Houston Municipal Retirement System  
David Stacy, Midland Firemen's Relief & Retirement Fund  
Randy Stalnaker, Texas Association of Public Employee Retirement Systems  
Richard Tettamant, Dallas Police & Fire Pension System  
Charlotte Villasana, Citizen  
Constantino Villasana, Lufkin Firemen's Relief and Retirement Fund



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Chair Richard E. McElreath