

GFOAT Board:

I attended both the TMRS Board Meeting on May 24 in Austin as well as the Joint Meeting of the TMRS Board and the Advisory Committee on Benefit Design on May 25 in Austin. I will cover each meeting separately.

Takeaways from the **TMRS Board Meeting on May 24:**

Agenda Item #2 – Consider and Act on Revisions to the TMRS Employee Manual

- As Bob reported from the March Meeting, there were a few changes that the Board was not yet prepared to act on. There were 3 modifications that were brought back for discussion at this meeting:
  1. In the event of administrative leave (office closing or inclement weather), employees on vacation leave will need to continue to use vacation hours even if they overlap.
  2. Remove Computer Usage Policy from the body of the EPM to allow for quicker modifications as needed to stay current with technology changes. Staff also recommended that the Executive Director be authorized to make future updates and amendments to the Usage Policy as needed.
  3. Effective date of revisions to be June 1, 2018 assuming approval.
- A motion was made and passed to approve the Revisions to the TMRS Employee Manual.

Agenda Item #3 – Consider and Act on the Compensation Study

- Gallagher Benefit Services' Fox Lawson Group (FLG) was engaged to perform a review of base compensation for the TMRS staff and make recommendations regarding: 1.) Current state of compensation, 2.) Market competitiveness of specific employee benchmarks, 3.) Salary structure adjustments based on market data and internal hierarchy; and 4.) Costs associated with recommendations.
- The last time a comprehensive compensation study was performed was in 2014.
- For the "Non-Investment" TMRS positions, the survey showed that overall, these jobs lead the market by 10.3%. Only recommend adjusting 3 pay grades, increase 1% - 3%.
- For the "Investment" TMRS positions, the survey showed that overall, these jobs significantly lag the market by 34.3%. When market incentive pay is considered, the misalignment between TMRS and the market is even more significant.
- Next Steps:
  1. Review and approve proposed pay structures.
  2. Develop implementation costs following approval of pay structures.
  3. Continue to perform annual and long-term updates/reviews of pay structures to maintain competitiveness with market.
- Additional recommendations will be presented at the June TMRS Meeting.
- A motion was made and passed to move forward with the Non-Investment and Investment pay structure changes only. No monetary increases have been approved at this time. Any potential monetary increases would of course have to be approved and would most likely coincide with the 2019 Budget.

Agenda Item #4 – Consider and Act on New Appointments and/or Reappointments to the Advisory Committee on Benefit Design

- At the February meeting, Paulette Hartman, Assistant City Manager of North Richland Hills, was nominated to replace Greg Vick, former City Manager of Watauga, as the TCMA representative to the TMRS Advisory Committee on Benefit Design (Group Class).
- As a result, this left Paulette's previous alternate Group Class position open.
- Robert Hanna, City Manager of Abilene, was recommended to fill the vacant alternate Group Class position.
- A motion was made and passed naming Robert Hanna as the alternate Group Class position.

Agenda Item #5 – Consider and Act on Agreement for Governmental Relations Consulting Services

- TMRS staff member David Gavia discussed the current contract with Ron Lewis, who provides outside consulting services as it pertains to legislation, capital visits, professional guidance, etc. The current contract is a 2-year contract to coincide with the legislative session. TMRS has contracted the services of Ron Lewis since 2004.
- TMRS Board Member Garza questioned whether or not any effort had been made to solicit outside consulting services from anyone else other than Ron Lewis. As a new Board member, he was just wondering why TMRS had contracted with the same person for so many years. He also stated that he would defer to the Legislative Committee for guidance and recommendation.
- TMRS Board Chair Parrish suggested going to a month-to-month contract extension until the current contract could be more closely examined. He also noted that this sort of examination falls under the current Strategic Plan guidelines.
- TMRS Board Member Philibert supported this recommendation as well and suggested more of a vetting process.
- A motion was made to enter into a month-to-month contract with Ron Lewis to give the Legislative Committee additional time for vetting and review of contract.

Agenda Item #7 – Board Committee Report: Internal Audit

- TMRS Board Member and Internal Audit Committee Chair Jeffers gave a summary report on the latest audit and reported that the internal audit showed no internal inadequacies and that TMRS has a very robust process in place.
- Chair Jeffers also discussed the upcoming search for a professional audit firm. The process will be open to all TMRS Board members to review the top 2 audit firms – as decided by the Internal Audit Committee. The Audit Committee would make the recommendations but other Board members could add comments and participate in the process.
- At the August 23<sup>rd</sup> TMRS Board Meeting, the top 2 audit firms will make presentations to the TMRS Board and this will be part of the regular open meeting. A vote would then be taken at the conclusion of the presentations from the top 2 audit firms.

Agenda Item #8 – Consider and Act on Real Estate Manager Search Recommendation(s)

- Abacus Capital was recommended for investing in multi-family residential housing transactions. Abacus focuses exclusively in this market. Just a note – this is not government subsidized multi-family housing. The focus of Abacus Capital is on relatively affordable housing and bringing sub-par properties up to date thereby increasing rental rates. Approval was recommended up to \$75 million.
- Motion made to accept the Real Estate recommendation. Motion passed.

Agenda Item #9 – Consider and Act on Real Return Manager Search Recommendation(s)

- Orion Resource Partners was recommended for investing in construction completion in the mining of precious, base, and industrial metals and minerals. Approval was recommended up to \$75 million.
- Motion made to accept the Real Return recommendation. Motion passed.

Takeaways from the **Joint Meeting of the TMRS Board and the Advisory Committee on Benefit Design on May 25:**

Agenda Item #1 – Consider and Act on Results of 2017 Actuarial Valuation and Approval of 2019 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates

- Key findings of the Actuarial Valuation Report:
  1. As of December 31, 2017, the overall Funded Ratio was 87.4%. This figure is up from 86.3% and 85.8% in the 2 previous calendar years. The Funded Ratio is expected to increase even more in the upcoming 2 calendar years.
  2. As of December 31, 2017, the Unfunded Actuarial Accrued Liability (UAAL) was \$3,998 (millions). This figure is down from \$4,119 and \$4,031 in the 2 previous calendar years. The UAAL is expected to decrease in the upcoming 2 calendar years.
  3. 25% of participating units in TMRS are fully funded.
- A motion was made and passed to accept the findings of the Actuarial Valuation and also approval of 2019 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates.

Agenda Item #3 – Board Committee Report: Advisory Committee on Benefit Design

- TMRS Board Member and Advisory Committee on Benefit Design Chair Landis gave a summary report from the Advisory on Benefit Design Committee meeting which was held April 26, 2018.
- Part of the Advisory Committee’s task will be to identify the advantages and disadvantage of options for each study topic to determine if any statutory changes should be proposed in the 86<sup>th</sup> Legislative Session.

Agenda Item #4 – Public Pension Trends Presentation

- A presentation on Public Pension Trends was presented. A couple of noteworthy takeaways include:
  1. Pension funding challenges are exacerbated by: a.) Low interest rates, b.) Declining projected returns, c.) Improving mortality, and 4.) Maturing population.
  2. Providing a retirement benefit that aligns with key stakeholder objectives.

Agenda Item #5 – Annual Economic Outlook Presentation

- A presentation on the Economic Outlook was presented. A couple of noteworthy takeaways include:
  1. No economic crisis is predicted in the near future like what happened in 2008.
  2. Relatively slow economic growth is predicted for the next couple of years.
  3. No substantial interest rate increases are predicted for the next couple of years.
  4. No recession is predicted in the near future, however, some “tightening” is anticipated.

Agenda Item #7 – Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates and Other Investment Related News or Matters

- TMRS staff member TJ Carlson reported that they are in the final stages of replacing 2 vacant positions. Both positions are expected to be filled within 3-4 weeks.

Agenda Item #8 – Executive Director Update

- This item was pushed to the June meeting.

Hand-outs and Agenda for the TMRS Board Meeting are available on the following site: <http://www.tmr.com/governance.php>

Please let me know if you have any questions or need clarification on any of the items on the agenda.

Next TMRS Board Meeting: June 28-29, 2018

Casey Srader