

Texas Emergency Services Retirement System

Board Meeting Minutes

December 10, 2019 8:30 a.m.

Hyatt Place Austin Airport, 9532 Spirit of Austin Ln., Austin, TX 78719

Members Present:

Jenny Moore, Chairman
Pilar Rodriguez, Vice-Chairman
Courtney Gibson Bechtol, Secretary
Frank Torres, Trustee
Ed Keenan, Trustee
Dan Key, Trustee
Rod Ryalls, Trustee

Members Present Via Video Conference Call:

Taylor Allen, Trustee

Members Absent:

Stephanie Wagner, Trustee

Staff and Others Present:

Kevin Deiters, Executive Director, TESRS
Shirley Hays, Contract Manager, CTCM, TESRS
Chana Kramer, Staff Services Officer, CTCM, TESRS
Scott Miller, Business Development, TESRS
Jessica O'Brien, Data and Technology Officer, TESRS
Wayne Oberhoff, CPA, TESRS
David Gordon, Assistant Attorney General
Chuck Campbell, Jackson Walker, LLP
Alyca Riley, Jackson Walker, LLP
Jonathan D. Breth, CFP, AndCo Consulting, LLC
Kai Peterson, CFA, AndCo Consulting, LLC
Mark Fenlaw, F.S.A., Rudd and Wisdom, Inc.
Bryan Burnham, Pension Review Board
Matt Snider, Denim Group
Joe Stallings III, Denim Group
Jake LaGrone, Denim Group

Chairman Moore called the meeting to order at 8:35 a.m.

1. Roll Call

Secretary Bechtol called the roll. Seven trustees were present. Trustee Wagner was absent and Chairman Moore advised that Trustee Taylor Allen would join via video conference call when he was available. Chairman Moore announced that a quorum of the Board was present.

2. Invitation for Public Comment

Chairman Moore called for public comment. No public comments were made.

3. Approval of Minutes from September 10, 2019

Trustee Torres made a motion to adopt the minutes of the meeting of September 10, 2019. The motion was seconded by Trustee Ryalls and unanimously passed by the Board.

Chairman Moore moved to Item 17.

17. Executive Director's Report

Kevin Deiters, Executive Director, provided the Board with an overview of his report *Texas Emergency Services Retirement System: Executive Director's Report on System Administration September 10, 2019*. Scott Miller, Business Development, provided an overview about his site visits during the first quarter of FY2020.

No action was taken regarding this agenda item.

Chairman Moore moved to agenda item 18.

18. Board Educational Opportunities – Discussion and Possible Action

Mr. Deiters provided an overview of educational opportunities available to Board members as described in the handout entitled *Certificate Series 2020 Offerings*. Mr. Deiters encouraged the Board members to consider trainings outside of Austin if necessary.

No action was taken regarding this agenda item.

Chairman Moore moved to Item 7.

7. System Funding Policy as Required by Government Code §802.2011-Discussion and Possible Action

Mr. Deiters provided a summary of the proposed *TESRS Written Funding Policy* as required by Government Code §802.2011. He explained to the Board that §802.2011 requires the governing body of a public retirement system to adopt a written funding policy that details the governing body's plan for achieving a funded ratio of the system that is equal to or greater than 100 percent.

Mr. Deiters explained the TESRS funding policy is based upon the TESRS enabling statutes and administrative rules that govern the program and that establish the mechanisms for state funding when the amortization period unfunded actuarial liabilities for the system exceed 30 years. He also described the Board's authority to increase Part 2 contribution rates and/or reduce future benefit accruals.

Mark Fenlaw, F.S.A, Rudd and Wisdom, advised the Board of the various options available fully fund the system.

Vice-Chairman Rodriguez moved that the Board comply with the requirements of Government Code § 802.2011 by adopting the TESRS Written Funding Policy as presented

and that the Board direct the Executive Director to submit a copy of the Funding Policy to the leadership and the State Pension Review Board not later than January 1, 2020. The motion was seconded by Trustee Keenan and passed.

Chairman Moore moved to Item 4.

Chairman Moore advised that Trustee Allen had joined the meeting via teleconference.

4. Asset Liability Study - Discussion and Possible Action

Jonathan D. Breth and Kai Peterson, of AndCo Consulting, LLC, presented their report titled *Texas Emergency Services Retirement System Asset Liability Modeling Report*.

Mr. Peterson, provided the Board with a handout entitled *Asset Liability Modeling Terms* and he reviewed the study findings which developed and evaluated alternative portfolios under various capital market scenarios. For each alternative portfolio, a forecast was done of plan assets, liabilities, funded ratios, contributions, and benefits based on the TESRS benefit provisions, current funding policy, and actuarial assumptions.

No action was taken regarding this agenda item.

Chairman Moore moved to agenda item 5.

5. Evaluation of Investment Practices and Performance Reports as Required by Government Code §802.109 – Discussion and Possible Action

Mr. Deiters presented his memorandum entitled *Government Code §802.109-Investment Practices and Performance Reports*. He explained that Texas Government Code §802.109 requires a public retirement system to select an independent firm with substantial experience in evaluating institutional investment practices to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices.

Mr. Deiters made a recommendation to the Board that it engage its investment consultant, AndCo Consulting, to conduct the evaluation and that it delegate authority over the investment evaluation to the Investment Committee in order to submit the report by May 1, 2020 deadline

Secretary Bechtol moved that the Board comply with the requirements of Government Code §802.109 and that it authorize the Board's investment consultant, AndCo Consulting, to evaluate the appropriateness, adequacy, and effectiveness of TESRS investment practices and performance and that the investment consultant report back to the Board at its March 10, 2020 meeting with recommendations for improving TESRS investment policies, procedures and practices. The motion was seconded by Trustee Keenan and the motion was passed unanimously by the Board.

Chairman Moore reconvened the meeting at 10:45 a.m. after a break and moved to agenda item 6.

6. Investment Consultant Report on Investment Performance, Asset Allocation, and

Investment Policy - Discussion and Possible Action

- A. Investment Performance Report for the Quarter Ending September 30, 2019**
- B. Investment Manager Watch List Report - Discussion and Possible Action**
- C. Written Investment Policy and Asset Allocation - Discussion and Possible Action**

Jonathan D. Breth, CFP, AndCo Consulting, LLC, presented his report entitled *Texas Emergency Services Retirement System Investment Performance – Period Ending September 30, 2019*. He provided an overview of the capital markets, the economy, and TESRS investment performance during the quarter ending September 30, 2019.

Asset Class	Amount	Percent
Domestic Equities	\$52,905,651	45.7%
International Equities	\$22,231,535	19.2%
Fixed Income	\$25,388,523	21.9%
US Core Real Estate	\$5,152,233	4.5%
Master Limited Partnership	\$3,938,418	3.4%
Multi-Asset Investments	\$5,878,806	5.1%
Money Market	\$248,371	0.2%
Total	\$115,743,536	100.0%

See page 12-13 of Texas Emergency Services Retirement System Investment Performance – Period Ending September 30, 2019.

Comparative Performance	Qtr	FYTD	YTD	1 Yr	3 Yr	5 Yr	7 Yr	Inception
Total Retirement System	-0.15%	1.12%	13.39%	2.89%	7.79%	5.59%	7.19%	6.41%
Total Fund Policy	0.20%	1.3%	14.33%	2.83%	7.97%	5.86%	7.58%	7.49%
Difference	-0.35%	-0.18%	-0.94%	0.06%	-0.18%	-0.27%	-0.39%	-1.08%

See page 14 of Texas Emergency Services Retirement System Investment Performance – Period Ending September 30, 2019.

Mr. Breth recommended no changes to the asset allocation or to the investment policy at this time; however, he did recommend that the Board maintain both Invesco International Growth Fund and Richmond Capital on the watch list.

Secretary Bechtol moved to maintain Invesco and Richmond Capital on the watch list and the motion was seconded by Trustee Torres and passed unanimously by the Board.

Chairman Moore moved to Agenda Item 8.

8. Temporary Contribution Increases

Mr. Deiters provided an overview of his handout entitled *Temporary Contribution Increases (One-Time Bumps)* which details the practice of a few departments to make

temporary increases in their contribution rates.

Trustee Torres made a motion to refer the issue of temporary increases to the Rules Committee in order for them to review the rule, and revise if necessary in order to provide direction to the Executive Director. The motion was seconded by Trustee Key and was passed unanimously by the Board.

Chairman Moore moved to agenda item 9.

9. Qualified Domestic Relations Order Distribution Process-Discussion and Possible Action

Mr. Deiters provided an overview of his memorandum entitled *Qualified Domestic Relations Orders Distribution*. He explained that a member subject to a qualified domestic relations order (QDRO) had requested that the Board review its model QDRO and the method used to divide retirement benefits between a member and an alternate payee.

It was the member's belief that the distribution amount should only consider the contributions made during the period covered by the QDRO and not the member's entire career.

Mr. Deiters explained that a change in the Model QDRO would not provide relief to the member because his distribution remains subject to QDRO on file with the agency. The Board would need to change the Model QDRO and the would need to obtain another domestic relations order from the court.

He reported that the Staff reviewed the calculation and that it understood the member's concerns; however, they do not support changes to the model QDRO or the methodology used to divide retirement benefits between a member and an alternate payee.

No action was taken regarding this agenda item 10.

10. Actuarial Audit Services Contract-Discussion and Possible Action

Wayne Oberhoff, Chief Financial Officer, presented his memorandum entitled *Request for Board Approval of Milliman for Actuarial Audit Services*. Mr. Oberhoff made a recommendation to the Board that it contract with Milliman to conduct an audit of the 2018 actuarial valuation. He stated that his recommendation was based upon the firm's demonstrated competence, qualifications, and prior experience with TESRS.

Vice Chairman Rodriguez moved that the Board comply with the requirements of Government Code §802.1012 by conducting actuarial audit of the TESRS 2018 actuarial valuation and that it accept the December 4, 2019 recommendation of the Chief Financial Officer to hire Milliman to conduct the audit in an amount not to exceed \$35,500. The motion was seconded by Trustee Torres and unanimously passed by the Board.

The Board reconvened at 12:47 p.m. after a break for lunch.

Chairman Moore announced that a quorum was still present and moved to agenda item 15.

15. Overview of Government Code §862.001 Participation by Department-Discussion and Possible Action

Chuck Campbell, Jackson Walker LLP, provided the Board with an overview of the provision to Government Code §862.001 (Participation by Department) that authorizes the Board to enact rules allowing a department to revoke participation in the system as long as the revocation does not impact the actuarial soundness of the system.

Mark Fenlaw, FSA, Rudd and Wisdom, LLC, advised the Board that future Board rules need to include a cost to a participating department that revokes its election in order to maintain the actuarial soundness of the pension system.

No action was taken regarding this agenda item.

Chairman Moore moved to agenda item 14.

**14. Adoption of Board Rules as Published in the Texas Register on October 25, 2019-
Discussion and Possible Action**

Chuck Campbell and Alyca Riley, Jackson Walker LLP, provided an overview of the proposed rule changes that were published to the Texas Register on October 25, 2019.

A. Chapter 302 - General Provisions Relating to the Texas Emergency Services Retirement System

- 1) Proposed Amendment of Rule §302.2 Benefit Distributions
- 2) Proposed Amendment of Rule §302.3 Trustee-to-Trustee Transfer
- 3) Proposed Amendment of Rule §302.4 Reduction or Revocation of Benefits
- 4) Proposed Amendment of Rule §302.5 Corrections of Errors and Contributions Past Due
- 5) Proposed Amendment of Rule §302.7 Auxiliary Employee
- 6) Proposed Amendment of Rule §302.9 Certification of Physical Fitness

Trustee Key moved to adopt amendments to Chapter 302, General Provisions Relating to the Texas Emergency Services Retirement System §302.2, §302.3, §302.4, §302.5, §302.7, §302.9 as published in the Texas Register on October 25, 2019. The motion was seconded by Trustee Ryalls and unanimously passed by the Board.

B. Chapter 304 - Membership in the Texas Emergency Services Retirement System

- 1) Proposed Amendment of Rule §304.1 Participation by Department

Trustee Key moved to adopt amendments to Chapter 304, Membership in the Texas Emergency Services Retirement System, §304.1, as published in the Texas Register on October 25, 2019. The motion was seconded by Trustee Keenan and passed unanimously by the Board.

C. Chapter 306 - Creditable Service for Members of the Texas Emergency Services Retirement System

- 1) Proposed Amendment of Rule §306.1 Prior Service Credit for Members of Participating Departments
- 2) Proposed Amendment of Rule §306.2 Merger of Existing Pension Plan into Pension System
- 3) Proposed Amendment of Rule §306.3 Qualified Service Credit for Eligible Active Military Duty Under the Uniformed Services Employment and Re-Employment Rights Act

Trustee Key moved to adopt amendments to Chapter 306, Creditable Service for Members of the Texas Emergency Services Retirement System, §306.1, §306.2, §306.3

as published in the Texas Register on October 25, 2019. The motion was seconded by Trustee Ryalls and passed unanimously by the Board.

D. Chapter 308 - Benefits from the Texas Emergency Services Retirement System

- 1) Proposed Amendment of Rule §308.1 Eligibility for Retirement Annuity
- 2) Proposed Amendment of Rule §308.2 Service Retirement Annuity
- 3) Proposed Amendment of Rule §308.3 Disability Retirement Benefits
- 4) Proposed Amendment of Rule §308.4 Death Benefits

Trustee Key moved to adopt amendments to Chapter 308, Benefits from the Texas Emergency Services Retirement System, §308.1, §308.2, §308.3, and §308.4 as published in the Texas Register on October 25, 2019. The motion was seconded by Trustee Ryalls and passed unanimously by the Board.

E. Chapter 310 - Administration of the Texas Emergency Services Retirement System

- 1) Proposed Amendment of Rule §310.2 Additional Duties of State Board
- 2) Proposed Amendment of Rule §310.4 Standard of Conduct for Financial Advisors and Service Providers
- 3) Proposed Amendment of Rule §310.5 Local Board of Trustees
- 4) Proposed Amendment of Rule §310.6 Local Contributions
- 5) Proposed Amendment of Rule §310.8 Billing
- 6) Proposed Amendment of Rule §310.9 Periodic Reports; Administrative Penalties
- 7) Proposed Amendment of Rule §310.10 Voluntary Payments by Departments
- 8) Proposed Amendment of Rule §310.12 Access to Information about Members, Annuitants, and Beneficiaries

Trustee Key moved to adopt amendments to Chapter 310, Administration of the Texas Emergency Services Retirement System, §310.2, §310.4, §310.5, §310.6, §310.8, §310.9, §310.10, §310.12, as published in the Texas Register on October 25, 2019. The motion was seconded by Trustee Ryalls and passed unanimously by the Board.

Chairman Moore moved to agenda item 11.

11. Chief Financial Officer's Budget Report – Discussion and Possible Action

A. FY2020 Non-Appropriated Fund Budget

Wayne Oberhoff, Chief Financial Officer, provided an overview of the report Texas Emergency Services Retirement System FY2020 Non-Appropriated Fund Budget.

Vice-Chairman Rodriguez moved to amend the Board's Fiscal Year 2020 non-appropriated fund budget by adding a line item in the amount of \$35,500 for the actuarial audit as authorized by the Board during agenda item 10. The motion was seconded by Secretary Bechtol and unanimously passed by the Board.

B. FY 2020 Appropriated Fund Budget

Mr. Oberhoff provided an overview of the report Texas Emergency Services Retirement System FY 2020 Appropriated Fund Budget.

No action was taken regarding this agenda item.

Chairman Moore moved to agenda item 12.

12. FY 2019 Audited Financial Statement –Discussion and Possible Action

Wayne Oberhoff, Chief Financial Officer, provided an overview of the Unaudited Annual Financial Report (AFR) for the fiscal year ending August 31, 2019 that the agency submitted to the Comptroller of Public Accounts (CPA) on November 20, 2019.

Mr. Oberhoff explained that the AFR contains the agency's FY 2019 financial statements and that it was submitted to the CPA for inclusion in the State of Texas Comprehensive Annual Financial Report. He concluded his presentation by notifying the Board that the System's financial auditors, Weaver and Tidwell LLP., would complete their work in December and present their findings to the Board at the March 10, 2020 Board meeting.

No action taken regarding this agenda item.

Chairman Moore moved to agenda item 13.

13. External Audit Contract Request for Qualifications-Discussion and Possible Action

Mr. Oberhoff, summarized his memorandum entitled *Contract Expiration Professional Auditing Services: Request for Board Authority to issue Request for Qualifications*. Mr. Oberhoff requested the Board's authority to issue a request for qualifications for Professional Audit Services.

Vice-Chairman Rodriguez moved that the Board accept the December 3, 2019 recommendation of the Chief Financial Officer that the staff solicit competitive proposals from qualified public accounting firms for an auditing contract with a three-year term effective September 1, 2020. The motion was seconded by Trustee Keenan and was passed unanimously by the Board.

Chairman Moore moved to agenda item 16.

16. Cybersecurity Consultant Security Briefing – Discussion and Possible Action

The Board moved into executive session at 1:27 p.m. under Texas Government Code 551.089 to consult with its cybersecurity consultants regarding security assessments or deployments relating to information resources technology.

The Board returned to open session at 2:10 p.m.

Chairman Moore announced that no action was taken during executive session.

No action was taken regarding this agenda item.

The Board reconvened at 2:20 p.m. after a break and moved to agenda item 19.

19. Executive Director Evaluation and Compensation – Discussion and Possible Action

Chairman Moore announced at 2:20 p.m. that the Board would convene in executive session under Texas Government Code Section 551.074 to consider personnel matters. Chairman Moore advised that no action would be taken in closed session and that the Board would reconvene in open session at the end of executive session.

The Board returned to open session at 2:47 p.m. and Chairman Moore advised that no action was taken during the executive session and that a quorum was present.

Vice-Chairman Rodriguez made a motion in recognition of the market value of Mr. Deiters' position and his outstanding service to increase the Executive Director's salary by twelve (12) percent effective January 1, 2020. The motion was seconded by secretary Bechtol and unanimously passed by the Board.

Chairman Moore moved to agenda item 20.

20. Request for Future Agenda Items and Meeting Dates

Mr. Deiters made a recommendation to the Board to create a committee to look at statutory changes for the next Legislative session. He also notified the Board of the need for a Medical Review Board to review certain temporary disability claims.

Trustee Torres recommended that the Board schedule a retreat in order to complete a strategic planning session.

Chairman Moore announced that the next Board meeting will be March 10, 2020 in Austin.

No action taken regarding this agenda item.


Chairman Moore moved to agenda item 21.

21. Adjourn


Chairman Moore requested a motion to adjourn at 3:01 p.m.

A motion to adjourn was made by Secretary Bechtol and seconded by Trustee Torres and unanimously passed by the Board.

Minutes Approved by:



Courtney Bechtol, Secretary



Date:

