



February 20, 2015

The Honorable Dan Flynn
Chairman, House Committee on Pensions
Texas House of Representatives
P.O. Box 2910
Austin, Texas 78768-2910

Dear Chairman Flynn,

On behalf of Julie Oakley, Chair of the Texas Municipal Retirement System Board of Trustees, I am responding to your February 16, 2015 letter with the information you requested. This information supplements what will be presented at the House Committee on Pensions hearing scheduled for Monday, February 23, 2015.

The Texas Municipal Retirement System (TMRS) is a voluntary, statewide agent multi-employer public retirement system for Texas cities that provides retirement, disability and death benefits for municipal employees. TMRS was established in 1947 by the Texas Legislature and is administered in accordance with the Texas Municipal Retirement System Act (Texas Government Code, Title 8, Subtitle G). TMRS is a qualified retirement plan under Section 401(a) of the Internal Revenue Code, and is considered a “hybrid” cash-balance plan.

Participating cities are allowed to design a plan to suit their particular needs and budget, within the general framework of the TMRS Act. Plan provisions will vary from city to city, depending upon the options selected by each city. TMRS is governed by a six-member Board of Trustees who are appointed by the Governor and approved by the Texas Senate. Member terms are for a staggered six-year period.

TRMS as an organization, maintains trust accounts for each of the participating cities and their employees, centrally and professionally invests the system assets, and pays benefits to retirees and their beneficiaries. In response to specific items in your letter regarding TMRS:

- TMRS Headquarters is located at 1200 N. Interstate 35, Austin, Texas 78701
- The System is budgeted for 101 full time Employees in 2015 and currently has 90 full-time employees. (Note that TMRS is on a calendar year for fiscal purposes)
- See Exhibit A for an organizational chart of TMRS.

- See Exhibit B for a list of executive salaries and contact information. TMRS does not have incentive compensation or a bonus program.
- TMRS had assets of \$23.71 billion as of December 31, 2014
- TMRS had 104,200 contributing members and 47,500 annuitants who received benefits as of December 31, 2014. Members and annuitants are municipal employees, which includes public safety personnel.
- TMRS contracts for external investment management and a variety of professional services, such as audit, actuarial, and legal services. For calendar year 2013 (our most recent audited figures), TMRS spent \$16,305,590 on contracted services, of which \$13.59 million was for external investment management. See Exhibit C. Major professional service contracts, investment consultant contracts, and investment manager contracts are competitively bid, approved by the Board of Trustees, reviewed by legal counsel, and monitored for contract compliance by TMRS staff. Extensive staff due diligence is conducted before contracts are recommended for approval, including a thorough review for conflicts of interest. All major contracts are signed by the Executive Director.
- See Exhibit D for travel outside of Texas by our Board of Trustees and Executive Staff for 2014.
- See Exhibit E for TMRS' 2015 budget.
- TMRS does not receive any state funds and therefore is not required to submit a legislative appropriation request to the Texas Legislature. TMRS's budget is funded from investment earnings derived from member and participating city contributions.

Regarding system solvency and commitments over the next 3, 5, 10 and 20-year periods, TMRS is funded by employee and employer contributions and the earnings of the trust fund. In addition, TMRS funding policy mandates that any Unfunded Actuarial Accrued Liability (UAAL) be amortized over a closed period, not to exceed 30 years, with full payment of the actuarially determined employer contribution (normal cost plus amortization of the UAAL) required annually. Consequently, the trust fund is projected to be solvent over all time periods and indefinitely into the future.

Regarding your question about our TMRS' main concerns and other issues, the Texas Legislature passed two significant pieces of legislation in the 81st (2009) and 82nd (2011) regular sessions at the request of the TMRS Board of Trustees. These bills were supported by virtually all of TMRS' stakeholder groups. Passage of this legislation placed TMRS on a fiscally sound and sustainable path. In addition, the TMRS Board of Trustees, as fiduciaries of the system, has made a series of decisions that have also contributed to system stability. We have included information on these changes in our

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presentation to the Committee and look forward to discussing our progress at the Committee hearing.

Sincerely,

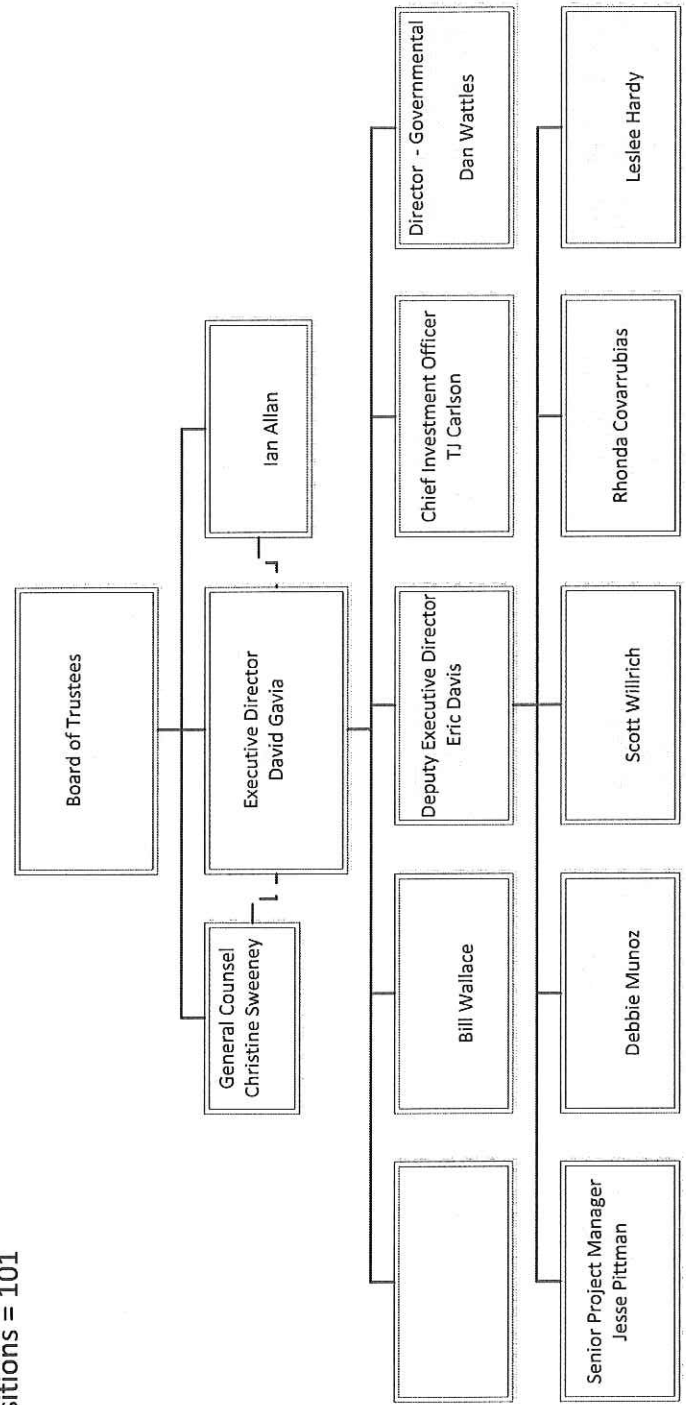
A handwritten signature in black ink that reads "David Gavia". The signature is written in a cursive style with a prominent loop at the end of the name.

David Gavia
Executive Director

Exhibits

Texas Municipal Retirement System (TMRS) Organizational Chart

Total Number of Positions = 101
Current FTEs = 90



Legend:
(#) represents number of direct reports

EXHIBIT B

TEXAS MUNICIPAL RETIREMENT SYSTEM

Physical Location:

1200 North Interstate 35

Austin, Texas 78701

Executive Salaries and Contact Information:

| <u>Name</u> | <u>Title</u> | <u>Annual Salary</u> | <u>Contact Information</u> |
|--------------|---------------------------|----------------------|------------------------------------------------------------------------------------------|
| David Gavia | Executive Director | \$252,420.48 | Phone: (512) 225-3701 Email: dgavia@tmrs.com |
| Eric Davis | Deputy Executive Director | \$215,693.50 | Phone: (512) 225-3718 Email: edavis@tmrs.com |
| T.J. Carlson | Chief Investment Officer | \$251,290.00 | Phone: (512) 225-3787 Email: tcarlson@tmrs.com |

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**Texas Municipal Retirement System
Contracted Services**

EXHIBIT C

| | 2013 CAFR | | Unaudited / unclosed 2014 | |
|--------------------------------|-------------------|----------------------|------------------------------|----------------------|
| Data Processing | \$ 511,013 | | \$ 385,519 | |
| Building/Ground Maintenance | 131,515 | | 157,527 | |
| Building Security | <u>118,737</u> | | <u>116,386</u> | |
| | | 761,265 | | 659,432 |
| Professional Services | <u>1,312,192</u> | | <u>1,556,470</u> | |
| | | 1,312,192 | | 1,556,470 |
| Electronic Investment Services | 641,162 | | 784,836 | |
| Investment Expenses | <u>13,590,971</u> | | <u>14,075,543</u> | |
| | | 14,232,133 | | 14,860,379 |
| | | <u>\$ 16,305,590</u> | | <u>\$ 17,076,281</u> |

Prepared on February 20, 2015

EXHIBIT D

TEXAS MUNICIPAL RETIREMENT SYSTEM
 2014 TRAVEL OUTSIDE OF TEXAS
 TRUSTEES AND EXECUTIVE STAFF

| Account Description | Reference | Traveler | Description | Amount |
|----------------------------------|---------------------------|---------------|--------------------------------------|--------------------|
| BusinessTravel - Executive/Admin | GFOA Annual Conference | Davis, Eric | 5/17 - 5/21 Minneapolis, MN | \$1,216.94 |
| BusinessTravel - Executive/Admin | NASRA Conference | Davis, Eric | 8/1 - 8/6 Ashville, NC | \$2,332.24 |
| BusinessTravel - Executive/Admin | NCPERS Conference | Gavia, David | 1/26 - 1/28 -Washington DC | \$435.03 |
| BusinessTravel - Executive/Admin | GFOA Annual Conference | Gavia, David | 5/17 - 5/21 Minneapolis, MN | \$1,924.86 |
| BusinessTravel - Executive/Admin | NAPPA Conference | Gavia, David | 6/24 - 6/28 Nashville, TN | \$1,441.01 |
| BusinessTravel - Executive/Admin | NASRA Conference | Gavia, David | 8/1 - 8/6 Ashville, NC | \$2,236.24 |
| BusinessTravel - Executive/Admin | P2F2 Annual Conference | Gavia, David | 10/26 -10/29 Nashville, TN | \$1,418.29 |
| BusinessTravel - Investments | PIMCO Investor Forum Conf | Carlson, TJ | 3/11/14 Newport Beach, CA | \$1,199.64 |
| BusinessTravel - Investments | III Forum Conference | Carlson, TJ | 4/22-4/25 - Los Angeles, CA | \$744.00 |
| BusinessTravel - Investments | HF Dir Search | Carlson, TJ | 5/23 Lexington | \$259.50 |
| BusinessTravel - Investments | NASIO conf | Carlson, TJ | 9/28 - 10/5 Orlando | \$413.12 |
| Due Diligence travel - CIO | ARS Mgr Site Visit | Carlson, TJ | 1/15-1/17/14 NY | \$1,654.09 |
| Due Diligence travel - CIO | ORG & PIMCO OnSite | Carlson, TJ | 3/10 - 3/16 Newport Beach, CA / Clev | \$1,232.94 |
| Due Diligence travel - CIO | RMBS/CMBS DD Site Vst | Carlson, TJ | 4/22 - 4/24 NJ/NY/CT/GA | \$2,086.76 |
| Due Diligence travel - CIO | Managers Meeting | Carlson, TJ | 9/27 - 9/28 Chicago | \$257.65 |
| Due Diligence travel - CIO | AR & RR consultant search | Carlson, TJ | 10/6 - 10/7 -SanFrancisco, CA | \$1,157.01 |
| Due Diligence travel - CIO | PIMCO visit | Carlson, TJ | airfare 12/17-12/18 San FranCA | \$630.20 |
| Board Exp - Board Travel | Leadership Summit | Oakley, Julie | 8/7 - 8/9 Chicago | \$1,377.93 |
| | | | | <u>\$22,017.45</u> |

TEXAS MUNICIPAL RETIREMENT SYSTEM

APPROVED BUDGET SUMMARY - 2015 Operating and Capital Expenditures

| | | |
|----------------------------------|-----------------------------|------|
| Personnel Services: | | |
| Staff Salaries | \$ 9,356,114 | |
| Payroll Taxes & Unemployment | 648,343 | |
| Retirement Contributions | 1,606,952 | |
| Employee Insurance | 1,163,867 | |
| Total Personnel Services | 12,775,276 | 53% |
| Professional Services: | | |
| Consulting Services | 3,026,389 | |
| Actuarial | 833,800 | |
| Banking Services | 511,000 | |
| Legal Services | 1,068,350 | |
| Medical Services | 40,000 | |
| Audit | 357,000 | |
| Total Professional Services | 5,836,539 | 24% |
| Communication: | | |
| Printing | 18,000 | |
| Postage | 132,765 | |
| Travel | 500,151 | |
| Telephone | 98,600 | |
| Member Education & Mailings | 539,670 | |
| Total Communication | 1,289,186 | 6% |
| Rentals / Equipment Maintenance: | | |
| Data Processing | 1,165,502 | |
| Equipment Service/Repair/Install | 12,500 | |
| Office Equipment | 88,900 | |
| Offsite Record Storage | 238,500 | |
| Total Rentals / Equip. Maint | 1,505,402 | 6% |
| Miscellaneous: | | |
| Dues (Memberships) | 44,819 | |
| Subscriptions/Publications | 134,200 | |
| Investment data services | 1,158,302 | |
| Training | 235,565 | |
| Utilities | 184,300 | |
| Supplies | 160,090 | |
| Bldg / Grounds Maintenance | 154,430 | |
| Building Security | 121,550 | |
| Bonds and Insurance | 73,030 | |
| Advisory Committee Expense | 30,540 | |
| Board Expense | 101,500 | |
| Other Admin. Expenses | 168,045 | |
| Total Miscellaneous | 2,566,371 | 11% |
| TOTAL OPERATING | <u>\$ 23,972,774</u> | 100% |
| Capital expenditures | <u>\$ 3,908,300</u> | |
| GRAND TOTAL | <u>\$ 27,881,074</u> | |