

Montana Teachers' Retirement System Board Meeting
Teachers' Retirement Board Room, 1500 East 6th Avenue, Helena, MT
February 15, 2019

BOARD MEMBERS PRESENT

Scott Dubbs, Vice Chair
Janice Muller, Member
Daniel Trost, Member
Jeff Greenfield, Member

BOARD MEMBERS ABSENT

Kari Peiffer, Chairperson
Daniel Chamberlin, Member

STAFF PRESENT

Shawn Graham, Executive Director
Tammy Rau, Deputy Director
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Darla Fitzpatrick, Communication Manager
Johnelle Sedlock, Benefit Officer
Margaux Lilly, Benefit Officer

OTHERS PRESENT

Joe Cullen, Montana Board of Investments
Bill Crane, Montana Shares
Diane Fladmo, Montana Federation of Public Employees

Call to Order

Acting on behalf of Chairperson Kari Peiffer, Vice Chair Scott Dubbs called the meeting to order at 8:35 a.m. in the Teachers' Retirement Board Room at 1500 E 6th Avenue in Helena, Montana.

Adoption of the Agenda

Vice Chair Dubbs requested a motion to adopt the agenda.

Motion/Vote: Member Janice Muller moved to adopt the agenda. Member Daniel Trost seconded the motion and all members in attendance voted in favor.

Adoption of Minutes

Vice Chair Dubbs asked for a motion to approve the meeting minutes from December 14, 2018.

Motion/Vote: Member Jeff Greenfield made a motion to adopt the minutes as written, and Member Muller seconded the motion. It was approved by all members present.

Public Comment on Board Related Items

Vice Chair Dubbs provided an opportunity for members of the public to comment on any public matter not on the agenda and within the jurisdiction of the Board. There were no comments.

Board of Investments Annual Report

Joe Cullen, Chief Investment Officer for the Montana Board of Investments, presented the BOI's annual report on the TRS investment portfolio. He explained the BOI's objective is to achieve the assumptions set by the TRS Board over the long term and he reviewed asset allocations, benchmark returns, and TRS investment performance for calendar year 2018.

Data from RVK show that TRS performed slightly better than comparable pension plans in 2018, partly due to its higher investment in U.S. equities. The annual report reflects a loss of 2.64% driven by a market downturn in the 4th quarter of 2018 but Mr. Cullen noted much of that loss already has been recovered, further illustrating why a focus on short-term growth is less important for plans like TRS that take the long view of investing.

Mr. Cullen reported no major changes are planned to the BOI's investment strategy or asset allocations. Approximately 98% of assets currently are held in the Consolidated Asset Pension Pool (CAPP) and 2% in the Short-Term Investment Pool (STIP) as a liquidity buffer, and the BOI adjusts these percentages as needed. Mr. Cullen answered questions from the Board about the BOI's day-to-day operations and investment management activities. TRS Executive Director Shawn Graham commented that the BOI had been very responsive to the TRS Board's request last year for more detailed monthly reports.

Public Comment

There were no questions or comments.

Administrative Business

2018 Comprehensive Annual Financial Report and Audit Report

Mr. Brilz reported TRS once again had received an unmodified opinion on its CAFR from the Legislative Audit Division (LAD). An unmodified opinion means the numbers in the CAFR can be relied on. The audit report included one instance of noncompliance and one recommendation, and TRS has issued its response to LAD.

The instance of noncompliance was the 31-year amortization period reflected in the July 1, 2018 actuarial valuation. TRS Benefit and Funding Policy provides that if the system will not amortize within 30 years, TRS will recommend to the Governor and the Legislature that funding be increased and/or liabilities decreased *only* if the TRS Board cannot reasonably anticipate the amortization period will decline. The TRS actuary has projected, based on current actuarial assumptions, that the July 1, 2019 valuation will again show an amortization period of 30 years or less. For this reason, TRS did not concur with this finding.

The auditors questioned whether supplemental state contributions enacted in 2007 should include counties and educational cooperatives. In 2009 TRS requested an amendment to clarify that employer contributions are required of counties and cooperatives but did not request a similar clarification in a provision related to supplemental state contributions. TRS partially concurred with the audit finding and agreed with LAD's recommendation to seek legislation to correct the discrepancy. Because the legislative intent was to include counties and educational cooperatives in the state supplemental contributions, language has been added to HB 204, the TRS housekeeping bill, to retroactively correct the discrepancy in the two statutes.

YTD Financial Statements and Budget Reports

Mr. Brilz stated there are no areas of concern in the financial statements other than the recent market declines that affected investment revenue, as mentioned previously by Mr. Cullen. Some surplus is expected in both the operating budget and the M-Trust project budget. There were no questions from members of the Board.

Personnel Committee Report

Vice Chair Dubbs (on behalf of Chairperson Peiffer) and Member Muller met with TRS Executive Director Graham and Jim Kerins of Communication and Management Consultants, LLC prior to this meeting for Mr. Graham's annual performance evaluation. Member Muller remarked that the performance evaluation surveys yielded consistently high ratings for Mr. Graham from Board members and TRS staff alike. Vice Chair Dubbs also praised Mr. Graham's effectiveness as a leader and advocate for TRS and he encouraged the Board to continue using the current performance evaluation process.

Tentative 2019 Meeting Dates

Board members agreed on the next meeting date, set for May 10, 2019.

Out-of-State Travel Requests

Mr. Graham requested approval on travel requests for Chief Legal Counsel Denise Pizzini to attend the NAPPA conference in June; John Noble to attend the PRISM conference in April; and Mr. Graham to attend the NCTR Directors' Conference in June 2019.

Motion/Vote: Member Muller moved to approve all three travel requests. Member Trost seconded the motion and it was approved by all members present.

Public Comment

There was no comment.

Park Avenue Lease Terms

Presentation of Lease Terms

Mr. Graham and Ms. Pizzini have been working with Garrett Bacon, Senior Leasing Officer with the Montana Department of Administration, to finalize lease terms for space on the first floor of the building at 100 N. Park Avenue. Terms for four other leases in the same building were presented for comparison. Although the lease period is 19 years, TRS successfully negotiated a

clause allowing the lease to be broken with two years' notice if TRS determines the space is no longer adequate. TRS had planned to lease space on the third floor of the same building last year, and Mr. Graham believes the first-floor space is even better at a lower price per square foot for the first two years to help offset the costs of moving and minor renovations. Members of the Board reviewed the floor plan and discussed features of the new space such as security measures and the availability of parking.

Mr. Graham provided an update on HB 5, the long-range building appropriations bill, currently making its way through the Legislature. TRS had requested authority to spend \$550,000 to bring the existing TRS building up to current standards. Another state agency has expressed interest in leasing the TRS building once it is renovated and available. Mr. Graham will continue conversations with this agency and try to come to terms on a lease agreement.

Vice Chair Dubbs is pleased that the new office space achieves an objective the Board has been working on for two years. Member Trost said his only concern is that TRS will continue to be responsible for maintenance costs on the existing building. Mr. Graham said that, ideally, the Department of Administration would consider taking ownership of the building at some point in the future.

Public Comment

Diane Fladmo of MFPE voiced her support for the move.

Board Approval of Lease Terms

Member Greenfield moved to proceed with the lease. Member Trost seconded the motion, which was approved by all members present.

Executive Director's Report

Staff Update

Mr. Graham reported no staffing changes had occurred since the last meeting.

2019 Legislative Session Update

Mr. Graham reported that HB 204 (TRS housekeeping bill) is awaiting executive action in committee. He noted an unfavorable amendment had been added on the House floor but has since been removed.

Another TRS bill, HB 337, requests an increase in Montana University System supplemental contributions sufficient to amortize the unfunded liability created when TRS was closed to MUS new hires. Mr. Graham reported this bill is likely to fail again due to its high price tag. TRS is required to recommend a funding increase if the unfunded liability will not amortize by 2033, and the amount needed will continue to increase as 2033 draws closer. Mr. Graham feels that a partial funding measure could gain more support in the next legislative session.

SB 139, introduced by Sen. Mike Lang, would expand the pool of retired members who qualify for reemployment under 19-20-732, MCA, while continuing to draw their full retirement benefit.

This is similar to a bill that Governor Bullock vetoed in 2017. SB 139 defines new restrictions and includes a sunset date, but TRS continues to oppose any expansion of the provision.

No other bills introduced thus far will directly affect TRS.

Public Comment

At Mr. Graham's request, Ms. Fladmo provided an update on one bill affecting other public employees. There was no other public comment.

Legal Counsel's Report

Legal Issues

Chief Legal Counsel Denise Pizzini reported the Zabrocki matter is the only contested case. The decision made by the Board in August 2018 is currently under judicial review and Ms. Pizzini has filed a motion to request a briefing schedule. Mr. Zabrocki filed two preliminary motions, which TRS opposed and which the court has denied.

Applications and Retirement Benefits

Regular, Survivorship, Adjustments, and Corrections

Deputy Director Tammy Rau reported 25 applications for retirement had been processed between December 1, 2018 and January 31, 2019. TRS expects to mail out nearly 300 applications in the spring. Ms. Rau also described the process by which TRS notifies vested members who are no longer employed in TRS-reportable positions of their right to apply for a retirement benefit or to withdraw the contributions they left on account with TRS.

Long Range Planning

2017 – 2019 Strategic Planning Commitment Worksheet

As previously discussed, TRS soon will achieve the goal of obtaining better workspace. Mr. Graham stated that TRS will not undertake the automated workflow project, and the associated business process analyses that must be done, until after M-Trust Phase 3 is complete; however, the online beneficiary designation process implemented last fall was a step in this direction. As for member outreach activities, Communication Manager Darla Fitzpatrick recently presented and recorded a "TRS 101" session for early- and mid-career educators and made the video available to all members on the TRS website. A video of the "Ready-Set-Retire" presentation also is available online, and staff continue to arrange presentations or webinars for school districts as time allows.

Public Comment

No members of the public were present.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

At 11:30 a.m. the meeting was closed to the public for review of applications for disability retirement benefits, since the applicants' right to privacy clearly exceeds the merits of public disclosure. Deputy Director Rau presented three submissions for review, and the meeting was reopened at 11:40 a.m.

Open Meeting

Ms. Pizzini stated that due to Member Muller's personal and employment relationship with K.C., she did not participate in discussion of that member's application and will not vote.

Applications for Disability Retirement Benefits

Vice Chair Dubbs requested a motion on the disability application for N.A.

Motion/Vote: Member Trost moved to approve the application. Member Greenfield seconded the motion, and it was approved by all members present.

Vice Chair Dubbs requested a motion on the disability application for K.C.

Motion/Vote: Member Greenfield made a motion to approve the application, and Member Trost seconded it. It was approved by a quorum of three members, with Member Muller abstaining.

Vice Chair Dubbs requested a motion on the disability application for T.S.

Motion/Vote: Member Muller moved to approve the application. Member Trost seconded the motion and it was approved by all members present.

Public Comment

No members of the public were present.

Board Training

Nondiscrimination in Employment and Provision of Services

Ms. Pizzini explained the purpose of this annual training and reviewed the TRS nondiscrimination policy, which provides even greater protections than the statewide EEO, Nondiscrimination, and Harassment Prevention Policy. Members of the Board had no questions or concerns about the policy or the training. Ms. Pizzini encouraged them to think about human rights issues or other timely topics they may wish to discuss in the future.

Adjournment

With no other business before the Board, Vice Chair Dubbs requested a motion to adjourn.

Motion/Vote: Member Trost moved to adjourn the meeting and Member Muller seconded it. The motion passed and the meeting was adjourned at 12:17 p.m.

Chairperson /s/ Kari Peiffer

Executive Director /s/ Shawn Graham