



AFRF
AUSTIN FIREFIGHTERS
RETIREMENT FUND

**MINUTES
BOARD OF TRUSTEES MEETING
MONDAY JULY 29, 2024, 9:00AM**

Board Members Present

Mayor Kirk Watson, Chair
John Bass, Vice Chair
Belinda Weaver, Treasurer
Doug Fowler, Trustee
Aaron Woolverton, Trustee

Staff and Consultants Present

Anumeha Kumar, AFRF Executive Director
John Perryman, AFRF CFO
Gina Gleason, AFRF Board & Operations Specialist
Shira Herbert, AFRF Accounting & QC Specialist
Amy Thibaudeau, AFRF Benefits Specialist
Chuck Campbell, Jackson Walker
Alyca Garrison, Jackson Walker
Karissa Leffingwell, Jackson Walker
Elizabeth Wiley, Cheiron
Heath Merlak, Cheiron
Coralie Taylor, Cheiron (virtual)
Sean Bender, Montemayor
Colin Kowalski, Meketa (virtual)

Community Members Present

Donald Lowe
Virtual attendees not listed

Mayor Watson called the meeting to order at 9:00am.

Public Comments:

No public comments.

I. Consent Agenda for the following:

- a. Minutes of the regular meeting of June 21, 2024
- b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Trustee Fowler made a motion to approve both items on the consent agenda. Trustee Woolverton seconded the motion. The motion passed without objection.

II. Discuss and consider adoption of the December 31, 2023 Actuarial Valuation

Elizabeth Wiley introduced herself and Heath Merlak as the Cheiron actuaries and stated that this was the second actuarial valuation that they had performed for the Fund. Ms. Wiley provided an educational overview of the funding portion of the valuation and emphasized that while the Fund is dynamic, the valuation reflected a static date. She explained the information and data Cheiron had collected pertaining to member characteristics, plan provisions, and Fund assets, then described the assumptions and models that were used to project that data into future years to determine the funding health of the plan. Ms. Wiley further detailed certain metrics, such as the Present Value of Future Benefits (PVFB), Normal Cost, Market Value of Assets (MVA) and Actuarial

Value of Assets (AVA). She noted that there had not been many significant changes in the plan membership, provisions, or investments during 2023, but stated that certain actuarial assumption changes recently adopted by the board as part of the Experience Study had been implemented with this valuation. Ms. Wiley next explained the disclosures required under the Actuarial Standards of Practice (ASOP) and highlighted a few changes that had taken affect for all pension systems under ASOP No. 4, such as the Low Default Risk Obligation Measure (LDRM), which required disclosure of an additional liability measure but had no further impact on the valuation. Mr. Merlak next reviewed the demographics and experience that Cheiron had seen on the asset and liability sides. He highlighted an 8.8% increase in total expected payroll due to an increase in active membership and an increase in pay received by active members, and a net liability change of \$20.1 million based on anticipated liability and assumption changes. Ms. Wiley reiterated that assumption changes don't increase the liability of the plan but rather improve the quality of the model used to estimate the actual expenses of the Fund.

Cheiron next provided an overview of the key valuation results. Mr. Merlak informed the board that the funded ratio for 2023 came in at 85.6%, a slight decrease from 2022. Ms. Wiley stated that the amortization period came in at 48.6 years. Cheiron provided some hypothetical scenarios which highlighted the sensitivity of those metrics and noted how easily the amortization period could become infinite. Ms. Wiley explained that the Fund had never triggered the Funding Soundness Restoration Plan (FSRP) requirement of the Pension Review Board (PRB) but would do so under current provisions at the next valuation date, barring an unrealistic investment return achievement of 30%. Ms. Wiley emphasized the importance of understanding the plan's statutory model, which required the board to continually assess and monitor the financial health of the plan and the adequacy of contributions, and to propose and enact changes if necessary. Ms. Wiley next introduced the concept of tread water, which is the contribution dollar amount at which the Normal Cost is met, and the Unfunded Actuarial Liability (UAL) does not increase. Ms. Wiley reviewed the contribution history of the Fund and explained that in the past, the current total contribution rate of 40.75% had either reduced the UAL or achieved the tread water rate, but is now failing to prevent the UAL from growing. She noted that due to compounding interest, it is difficult to regain the tread water rate once it has been surpassed. Trustee Bass commented that the amortization period graph indicated a broader structural issue which led, over time, to the funding issue that the Fund is now addressing. Ms. Wiley explained the funding policy, the benchmark measures and the reasonable actuarially determined contribution (ADC), and concluded that the current contribution rates were inadequate to fulfill the promised benefits. Mr. Merlak next addressed the annual risk assessment, noting that the investment risk was most significant, then addressed the maturity measurement based on net cash flow rate and the gain/loss history of the Fund. He highlighted the impact of COLAs on Fund liability, noting that COLAs not being explicitly valued increased the liability. He next reviewed the DROP balance history and explained that DROP had created some unique risks for the Fund. Mr. Merlak used Cheiron's Projection Scan Model to present some hypothetical investment return scenarios and described their potential impact on the amortization period. Ms. Wiley emphasized that the valuation model for the Fund includes an assumption of zero future COLAs, while the statute states that members are entitled to CPI-linked COLA subject to a financial-stability test. Anumeha Kumar added that COLAs had not been prefunded or included in the actuary's calculation for contribution rates since 2015. Ms. Kumar noted that the PRB Guidelines state that retirement systems who do not participate in Social Security should provide some form of purchasing power protection to their members. She added that the Fund has been unable to provide COLA since 2022 and will likely remain unable to in the near term. Vice Chair Bass made a point about prefunded COLAs being a better option than ad hoc COLAs from a financial stability and proper funding standpoint, explaining that taking from gains without accounting for future losses could become an issue with

an ad hoc system. Ms. Wiley confirmed his point, stating that in good investment years, instead of storing the gains to protect against inevitable bad market cycles, the returns had been converted into COLAs, rendering them unavailable to protect against downturns. Ms. Wiley next addressed the depletion date disclosure required by the Governmental Accounting Standards Board (GASB). She explained that in prior valuations there had been no depletion date, but without any changes enacted to the benefit or contribution structures, the Fund now has a projected depletion date of 2062. Ms. Wiley emphasized that the Fund and the City of Austin have always been proactive in making changes for the financial health of the Fund and that completing an FSRP would nullify that depletion date. Vice Chair Bass thanked Cheiron for the extensive and detailed work they had performed for the Fund. Vice Chair Bass made a motion to approve the 2023 Actuarial Valuation Report as it was presented. Trustee Fowler seconded the motion. The motion passed without objection.

Mayor Watson left the meeting at 10:28am. Quorum of four.

III. Discuss and consider adoption of the 2023 Financial Audit

Sean Bender introduced himself as the Fund's auditor from Montemayor. He presented his clean opinion that the financial statements were presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). Mr. Bender disclosed that the audit offered reasonable, but not absolute, assurance that the financial statements were presented fairly based on a sample of the transactions that occurred in the general ledger during the year. Mr. Bender provided an overview of each section of the audit, noting that only the investment return income did not follow a consistent trend. He stated that it was a clean and routine audit that was consistent with the prior year, and that there had been no new accounting or auditing standards that affected the Fund during the year. Mr. Bender reviewed the accompanying *Communications with Those Charged with Governance* letter, noting that there had been no negative comments or issues to report. Trustee Weaver asked for clarification about the auditor's responsibility pertaining to internal controls, to which Mr. Bender explained that the auditors were required to document and understand the internal controls of the Fund, not to give an opinion, but rather to inform their audit procedures and determine how much assurance test work was needed. Trustee Weaver made a motion to approve the 2023 Financial Audit Report as presented. Trustee Fowler seconded the motion. The motion passed unanimously.

IV. Discuss and consider adoption of the 2023 Annual Financial Report

Anumeha Kumar described the Annual Financial Report as a compilation of the Actuarial Valuation Report and the Audit Report that had been presented to the board, as well as the GASB disclosures, a brief investment overview, and some additional pieces of information regarding Fund consultants and fee disclosures. She explained that the report is required by state law for all public retirement systems in Texas and would be submitted to the Pension Review Board following board adoption. Trustee Fowler made a motion to approve the 2023 Annual Financial Report as presented. Trustee Woolverton seconded the motion. The motion passed unanimously.

V. Update on Pension Review Board (PRB) Report Submissions

Anumeha Kumar explained that in addition to submitting the Annual Financial Report, Texas retirement systems are also required to submit a PRB-1000, which is an investment performance report that tracks gross and net returns over various periods of time. Ms. Kumar recalled that when the reports had last been submitted in July 2023, the board had requested an update on individual

trustee compliance with the PRB Minimum Education Training (MET) requirement. She stated that she would provide an update again this year and noted that all trustees were compliant, barring one exception that the Fund was still working on to ensure full compliance. No motion necessary.

VI. Update on Depository Bank Transition

Anumeha Kumar notified the board that the Treasury Management Services Agreement had been completed, but the Fund was still in the process of fine-tuning some provisions for the Depository Securities and Collateral Agreement with Frost Bank. She stated that staff had been going through the necessary training for the transition, including training for treasury management services, and reported that the transition would likely be completed by the end of August. Trustee Weaver asked if the Sunflower Bank account would remain open for a transitional period, to which John Perryman confirmed that all deposits and outstanding checks would be cleared before moving the remaining Sunflower Bank balance over to Frost Bank. He noted an anticipated transitional time of one month. No motion necessary.

VII. Discuss and consider the 2024 Board of Trustees Election, including establishing an "Election Period"

Anumeha Kumar informed the board that the annual Board of Trustees Election would again place one position up for election and the Fund would remain consistent with the same process and vendor that had been used for the previous two years. She noted that the vendor, Yes Elections, would again provide both paper ballots and an online voting portal. Ms. Kumar explained that the nomination period would take place from September 1-15, as contemplated in statute, and reiterated that it would be the only part of the process that staff would be involved in. She explained that staff would send an informational packet out to members mid-August, including a nomination and election period timeline. Ms. Kumar indicated that the only action needed for this agenda item was for the board to establish the election period, since it was not set in statute, and recommended the same election period from the previous year. Trustee Fowler made a motion to establish the election period for the 2024 Board of Trustees Election as a three-week period beginning on October 17, 2024, and ending on November 6, 2024. Trustee Woolverton seconded the motion. The motion passes unanimously.

VIII. Executive Director Report, including the following (Discussion Only)

a. General comments

No general comments.

b. Update on Summer Newsletter

Anumeha Kumar announced that the summer newsletter, which would contain information associated with the Annual Financial Report, was slated for publication in late August or early September.

c. Final internal financial statements, transactions, and Fund expense reports for month ending May 31, 2024

Anumeha Kumar explained that due to the early May board meeting date, the end-of-month investment numbers from the custodian bank had not been previously available. She reported

that the May statements had since been updated to the final unaudited versions.

- d. Internal financial statements, transactions, and Fund expense reports for month ending June 30, 2024

Anumeha Kumar informed the board that the June financial statements were all in line with the approved budget, barring certain pieces associated with the additional work performed by the Fund's consultants pertaining to the Voluntary Funding Soundness Restoration Plan.

- IX. Roadmap for future meetings

The trustees had no questions or requests regarding the roadmap.

- X. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Vice Chair Bass adjourned the meeting at 11:02am.

Board Members

Mayor Kirk Watson, Chair
John Bass, Vice Chair
Belinda Weaver, Treasurer
Doug Fowler, Trustee
Aaron Woolverton, Trustee