CITY COUNCIL MEETING
September 4, 2008, 8:30 a.m.

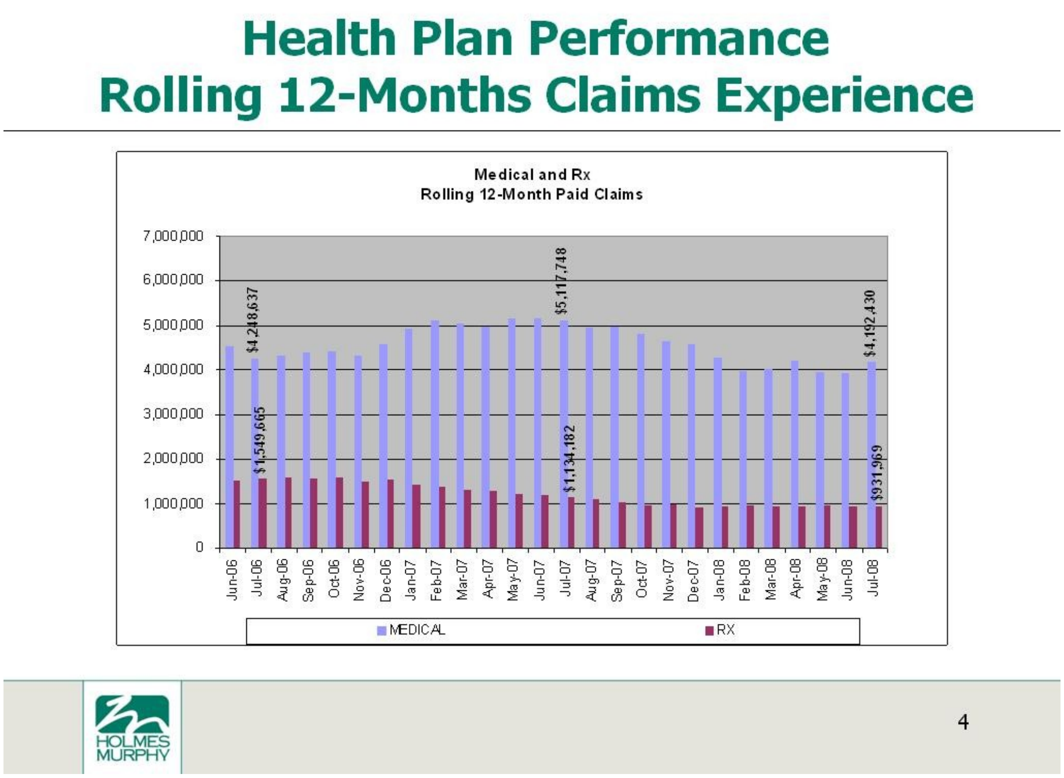
CITY COUNCIL OF THE CITY OF ABILENE, TEXAS
COUNCIL CHAMBERS, CITY HALL

The City Council of the City of Abilene, Texas, met in Special Session on September 4, 2008, at 8:30 a.m. in the Council Chambers at 555 Walnut Street. Mayor Archibald was present and presiding with Councilmen Sam Chase, Stormy Higgins, Joe Spano, Robert Briley (came in later), and Councilwoman Laura Moore. Absent, Councilman Anthony Williams. Also present were City Manager Larry Gilley, City Attorney Dan Santee, City Secretary Danette Dunlap, and various members of the City staff.

Mayor Archibald gave the invocation.

Mayor Archibald led the Pledge of Allegiance to the Flags of the United States of America and the State of Texas.

City Manager Larry Gilley explained the importance in understanding these two items so that we can better prepare for the future in regards to the Self-Insurance Fund and TMRS (Texas Municipal Retirement System). Ronnie Kidd Managing Director for Administration, briefed the council on the ongoing work with Holmes Murphy and the positive trends that have occurred and the continued effects from increase in Health Care cost. Mr. Kidd introduced Holmes Murphy and Associates representative Jarrad Wills, who presented the six month Health Plan Performance report which included the following:



Health Plan Performance
[Plan Year: January 1, 2008 – December 31, 2008]

[Claims Paid: May 1, 2007 – July 31, 2008]

Monthly Claims Experience

Although the City's Health plan has run more favorable in current months, the cumulative deficit to date is still approximately ($600,000).

	Last 12 Mos.	Most Recent 9 Mos. Annualized
Total Eligibility	11,985	12,117
Total Premiums	$6,813,156	$6,880,831
Total Expense	$5,148,249	$5,016,802
Total Administration	$ 701,580	$ 714,261
Total Plan Expense	$5,849,829	$5,731,064
Monthly Profit/ (Loss) - $	$ 963,328	$1,149,767
Monthly Profit/ (Loss) - %	14.1%	16.7%

ACTIVES

Eligibility	10,947	11,125
Premiums	$6,222,898	$6,312,878
Expense	$4,880,904	$4,714,139
Monthly Profit/ (Loss) - $	$1,341,994	$1,598,739
Monthly Profit/ (Loss) - %	21.6%	25.3%

COBRA

Eligibility	126	128
Premiums	$61,336	$62,310
Expense	$75,898	$53,229
Monthly Profit/ (Loss) - $	$-14,562	$9,081
Monthly Profit/ (Loss) - %	-23.7%	14.6%

RETIREES <65

Eligibility	628	623
Premiums	$420,165	$415,390
Expense	$720,003	$800,875
Monthly Profit/ (Loss) - $	$-299,837	$-385,485
Monthly Profit/ (Loss) - %	-71.4%	-92.8%

RETIREES 65+

Eligibility	284	241
Premiums	$108,757	$90,253
Expense	$173,024	$162,821
Monthly Profit/ (Loss) - $	$-64,267	$-72,567

Monthly Profit/ (Loss) - %	-59.1%	-80.4%

FY 08-09 COST PROJECTIONS
ACTIVES ONLY

1. Cost (Per Employee per Month)

	FY 07-08 BUDGET	BEFORE CHG
City Contribution	$312.99	$312.99
Employee Contribution	$121.32	$121.32
Total Income	$434.31	$434.31
Gross Cost	$465.43	$511.19
Reserve	(31.12)	($76.89)
City Contribution	$4,188,000	$4,263,000
Employee Contribution	$1,361,000	$1,361,000
Total Income	$5,549,000	$5,624,000
Gross Cost	$5,222,000	$5,736,000
Reserve	$327,000	$(112,000)
Margin		

Discussion included: 1) rates are trending higher; 2) from 2005 data the city was running a deficit; 3) cost is out pacing income, small window of time to make some changes; 4) GASB and how it relates to accounting for insurance for retirees; 5) how are other cities handling insurance for their retirees?; 6) GASB - governs the booking of the amounts for retirees and they can reflects on the City's Bond ratings; 7) Historically council does not set rates – management sets rates; and 8) strategy on how the city is going to deal with the insurance rates and how that is communicated to the retirees and the employees.

Item 5. Ronnie Kidd Managing Director of Administration introduced David Rodriquez with TMRS. Mr. Rodriquez then presented the changes effecting the City's participation in the Texas Municipal Retirement System.

What has Changed?

- TMRS is diversifying its investments
- TMRS has changed its Actuarial Cost Method and Amortization Period and adopted new actuarial assumptions

Investments

- Historically: TMRS has invested primarily in bonds
- 2008: TMRS will begin to diversify into stocks
- 2009 and beyond: Diversification will continue if legislation passes

Why Change Investment Policy?

- Potential returns from bond-based, income return strategy doesn't match current markets or outlook for future
- Without higher investment earnings, interest credits and annuity discount rates are likely to fall below 5% in a few years
- Annuities for future retirees will be reduced

Plan for Change - Investments

New Resources

- Investment Consultant: R.V. Kuhns & Associates
- Passive Equity Manager: Northern Trust
- Fixed Income Advisor: Hillswick Asset Management

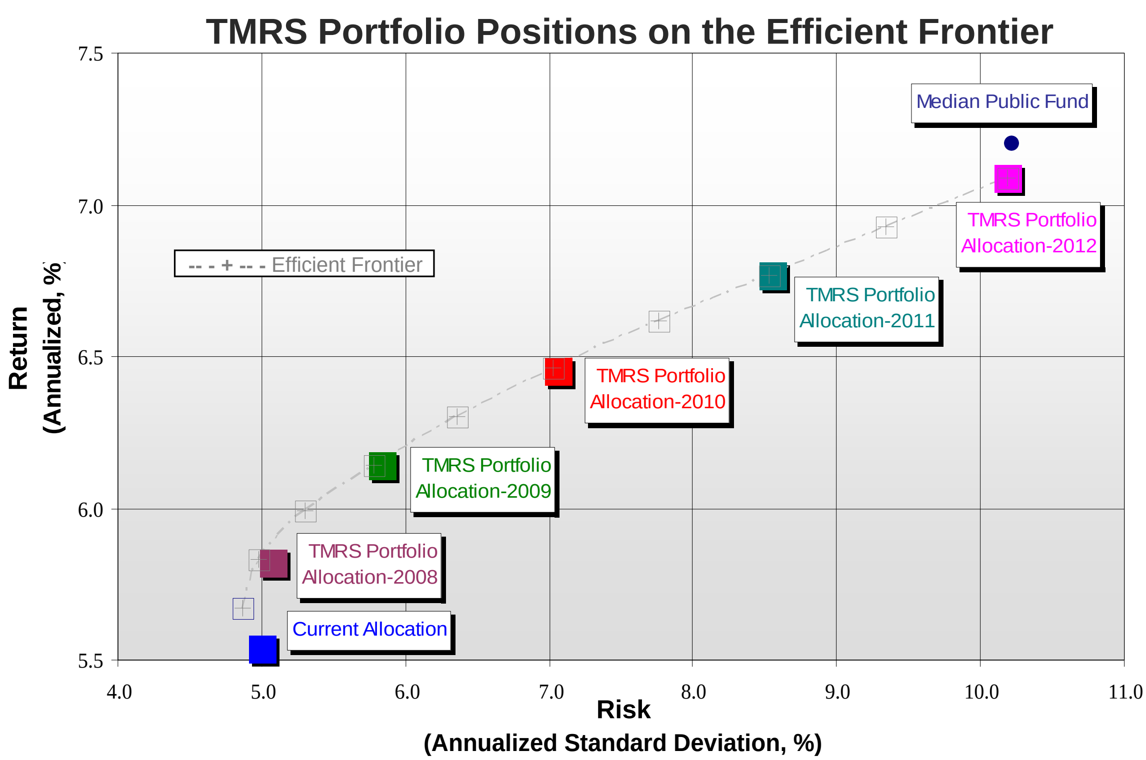
Target for 2008 - Investments

- 12% in indexed equities by year-end
- 6% domestic – Russell 3000 index
- 6% foreign – MSCI-EAFE index
- Approximately 1% moved to equities per month

Immediate Gains from Diversification

- Supports 7% investment return assumption
- Reduces risk of bond portfolio declining in value due to rising interest rates
- Higher funded ratios and lower employer contribution rates
- Lower overall portfolio risk

Long-term, stocks historically out-perform bonds



Actuarial Changes

Actuarial Cost Method

Definition: A technique that assigns the present value of expected pension benefits and expenses to past and future time periods.

- Historically: TMRS has used the Traditional Unit Credit actuarial cost method
- Effective for 2009 contribution rates: TMRS begins using Projected Unit Credit (PUC) actuarial cost method.

Why Change?

- Under PUC, contribution rates will remain level as a percent of payroll and will produce annual increases in the funded ratio
- PUC projects benefits (including future Updated Service Credit and COLAs) to be paid at retirement and assigns an equal portion to each year of an employee's expected working lifetime.

Cities with repeating benefits will see significant increases in contributions

Actuarial Changes

- Amortization Period –

Definition: The time period for fully funding any unfunded actuarial accrued liabilities.

- Historically: TMRS has used a 25-year open period
- Beginning in 2009: Most cities will have a 30-year closed period unless they choose to remain at 25

Implementation

- For cities with a contribution increase greater than 0.5% — 8-year phase-in
- Approximately 12.5% of the increase required each year
- The longer a city defers payment of the full Actuarially Required Rate, the higher the rate will be

City Options

- Phase-in contributions
- Adjust plan design
- Turn off repeating benefits and grant COLAs or USC as ad hoc benefits

Higher investment returns will mitigate employer contribution rate increases.

Should Cities Turn off Annually Repeating Benefits?

- Not a TMRS recommendation – cities make the choice.
- If repeating benefits are turned off, they can still be adopted ad hoc.
- Ultimate cost is the same if ad hoc's are granted each year, but payment schedule differs.
- Ad hoc benefits will be funded one year at a time. Cities will see continued increases in contribution rates and declining funded ratios.
- In the future, TMRS may require shorter amortization period for ad hoc benefits.

Important Note about COLAs

- TMRS COLAs are calculated on the change in CPI over the entire time a member is retired.

- One effect of this is that, if a city has been granting 70% of CPI annually repeating COLAs and changes to a lower COLA percentage, retirees will not see any benefit increase for several years.

Plan Change Timing

City plan changes made from now through December 2008 will be reflected in 2009 employer contribution rates

GASB Liability Figures

- All liability recognized as of 12/31/07 valuation
  - Lower funded ratios for cities with repeating benefits
- TMRS provides data, footnote, and suggested language for city letters

Voluntary Contributions

- Cities may choose to pay above the 2008 actuarially required rate to lower liabilities
- Cities with a Phase-in Rate should consider paying more than the Phase-in Rate Legislation
- TMRS Legislation (2009)
- Key issues:
  1. Credit unrealized gains to member accounts
  2. Guarantee member interest rate and annuity purchase rate
  3. Excess earnings mitigate employer contribution rate increases

Discussion included: 1) interest rates; 2) all investment information is being posted on the TMRS website; 3) diversification from all Bonds to a 60/40 split estimate that it could take around 5 years to get to the 60/40 split; 4) TMRS board will review each year; 5) a new methodology from 2004 that will allow flexibility.

Mayor Archibald opened up the meeting for questions from the audience and the following addressed the council:

- Thad Carey – Abilene Police Department retiree. Mr. Carey voiced his concerns with the Health insurance for the under 65 retirees and he also addressed his concern with the retirement system in regards to the long term effect of turning off reoccurring Cost of Living Adjustments.

- Becker Bryan – Fireman. Mr. Bryan stated the Firemen are not apart of the TMRS System but have their own retirement, that is very sound. They would like to be looked at.

There being no further business the meeting was adjourned at 10:59 a.m.

Danette Dunlap	Norm Archibald
City Secretary	Mayor