



AFRF
AUSTIN FIREFIGHTERS
RETIREMENT FUND

**MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY OCTOBER 25, 2024, 8:30AM**

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
Debbie Hammond, AFRF Benefits Manager
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
Anais Stevens, Jackson Walker

Community Members Present

Rene Vallejo
Ed Van Eenoo, City of Austin
Kate Alexander, City of Austin
Virtual attendees not listed

Mayor Watson called the meeting to order at 8:37am.

Public Comments:

No public comments.

I. Consent Agenda for the following:

- a. Minutes of the regular meeting of September 30, 2024
- b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Trustee Fowler made a motion to adopt the minutes. Trustee Woolverton seconded the motion. The motion passed without objection. Mayor Watson noted that there had been no new benefits to approve.

II. Initiatives for 2025 Legislative Session, including the following:

- a. AFRF Working Group pension reform proposal for a Voluntary Funding Soundness Restoration Plan (FSRP)

Anumeha Kumar informed the board that while there had been no change to the proposal since the September board meeting, the Working Group had engaged in further discussion with the City of Austin, who maintained the same concerns regarding the increase to the unfunded liability tied to the proposed modified COLA structure for current retirees. She stated that the Working Group would continue to work with the City within the constraints of the legislative timeline. Vice Chair Bass provided a high-level recap of the proposal, stating that it addressed the structural problems of the plan from a long-term perspective, dramatically lowered the cost of the plan, and recognized the notion that repeated increases to contributions during periods

of market volatility would eventually become untenable. He stated that a 1% deferred automatic COLA would be a good solution to providing inflation protection to retirees that is both predictable and funded. He emphasized that the proposed COLA structure would not add an additional cost to the plan but would recognize the existing cost of the current ad hoc COLA structure and would lower that existing cost over the long term. Ms. Kumar provided some additional context, stating that COLAs had been prefunded through the 1990s, but since the 2000s, there had been more than a decade in which no COLA could be granted due to funding challenges. Ms. Kumar described a legislative change that had been made in 2013, which added and tied an ad hoc COLA to a feasibility test which resulted in COLAs being granted from 2015 until 2021. She further explained that the main issue with the current ad hoc COLA structure was that it functioned like a gain-sharing COLA, which eliminated \$70 million in investment gain cushioning since implementation that could have prevented the Fund from reaching its current “at-risk” status.

Mayor Watson expressed his appreciation for the responsible and proactive approach that the board had taken, stating that it was imperative to act voluntarily rather than to wait for the situation to deteriorate in complication and expense. Mayor Watson voiced his support for providing a predictable COLA but questioned the proposal’s \$71 million increase to the unfunded liability, which would translate to \$89 million in 2026. Ms. Kumar confirmed that the current unfunded liability on a market value basis would increase from \$297 million to \$369 million due to the proposed COLA and explained how it would be paid down over the 30-year amortization period. Mayor Watson expressed further concern regarding the expense of adding a COLA benefit, to which Ms. Kumar stated that the Fund has granted a 2% annual COLA on average over the past forty years. If that average annual COLA had been valued, she continued, the current unfunded liability would have exceeded \$500 million. Ms. Kumar concluded that the short-term cost of \$71 million would fix a long-term structural issue and that failing to address the issue would only push the cost down the line. Mayor Watson stated that funding soundness and retiree purchasing power protection were two different issues and expressed his concern about bringing a proposal to the legislature that would appear to make funding soundness worse. He concluded that he was not prepared to move to approve the proposal until there was a clear plan to address the payment of the proposed COLA provision within the context of the FSRP.

Trustee Fowler recounted that the Working Group had recently presented to the Pension Review Board, who received the proposal well, but the City of Austin representative, Diana Thomas, concluded that the proposed COLA provision would be unfair to the other systems. Trustee Fowler countered her opinion by stating that firefighters have historically had higher contribution rates than Austin Police Retirement System (APRS) and City of Austin Employees Retirement System (COAERS), firefighters do not participate in social security like APRS and COAERS, and firefighters gave up pay raises in 1997 and 2010 to restore AFRF’s funding status. He added that the City’s contributions were currently the second lowest in the state compared to other large cities and that AFRF’s unfunded liability is significantly lower than that of both APRS and COAERS. He concluded that the discrepancy between COLA enhancements and inflation since 2002 has resulted in a 40% loss of buying power for retirees, which was problematic to him as a trustee representing the firefighters. Mayor Watson reiterated that there were two issues that needed to be addressed, and voiced his opinion that the proposal did not sufficiently blend the two issues. Trustee Fowler further explained that the Working Group endeavored to be cognizant of new hires and the concerns of the Fire Chief regarding maintaining an attractive pension benefit from a recruitment standpoint. He stated that the Fund appeared to be at an impasse with the City of Austin and questioned the next steps to

move forward. Ms. Kumar expressed her hope that they would continue to work with the City to reach agreement before bringing the proposal, including the COLA provision, to the board to consider for adoption at the November board meeting, scheduled for November 18, 2024, then move forward with the legislative process. Mayor Watson repeated that there were two issues that needed to be addressed and stated that he would need to better understand why the City's proposal was not adequate in blending those two issues before he would be willing to vote for the Working Group's proposal. Vice Chair Bass explained that their shared desire to provide a form of inflation protection would have to come at a cost, and that the existing ad hoc COLA structure had already been a cost to the Fund even though it had never been fully accounted for. He stated that recognizing the cost of a COLA would be the first step toward funding it appropriately on a moving-forward basis to avoid similar funding distress in the future. Mayor Watson agreed but reiterated his concerns about entering a legislative session with pension reform proposal that adds a cost. Ms. Kumar noted that the new tier included in the proposal was very close to the City's proposal, which would bring the City's long term contribution cost down to under 7%, still without social security contributions, resulting in a significantly lower cost for the City within 15-20 years. Mayor Watson restated his opinion that the proposal was not good enough to vote for due to the increased unfunded liability. At the invitation of Mayor Watson and Ms. Kumar, Ed Van Eenoo shared his opinion that the increase in the unfunded liability was the primary issue keeping the City and the Working Group from achieving a mutually agreed upon proposal. He stated that a lower benefit tier and increased contributions were the most important pieces for restoring the funding status, then questioned how the unfunded liability would be negotiated and equitably shared between the City and the Fund if it were to increase.

Trustee Weaver expressed her hope that the Fund and the City would come together with a joint proposal and asked for clarification on the legislative timeline. Ms. Kumar stated that the goal was for the board to consider the proposal at its November board meeting, and if approved, start the process of moving the bill through the Texas Legislative Council. She informed the board that early bill filing would start on November 11 and the legislative session would begin in January. She added that it would be a challenging legislative process to navigate. Mayor Watson noted that pre-filing the bill would not impact the outcome, since the bill would be specific to the Fund and the City of Austin. Vice Chair Bass revisited the terminology used in the COLA discussion and emphasized that recognizing a cost is synonymous with revealing a cost, not with adding a cost. He stated that it was an important distinction to remember as the Fund and the City continued negotiations. Mayor Watson thanked the board for engaging in the discussion. No motion necessary.

- b. Consider granting authorization to Executive Director with respect to legislative initiatives

Mayor Watson stated that the board was not ready to grant authorization to the Executive Director with respect to legislative initiatives. No motion necessary.

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

- a. General comments

No general comments.

- b. Pension Administration System (PAS) implementation update

Anumeha Kumar informed the board that deliverable two was currently in progress and would likely be completed by the end of the year. She stated that the PAS implementation remained on track and within budget. Trustee Weaver requested a reminder about what the second deliverable phase entailed, to which Ms. Kumar provided a brief overview of each of the three design phases.

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

Anumeha Kumar stated that there were no noteworthy items on the financial statements aside from the increased actuarial services expense attributed to legislative work.

- IV. Roadmap for future meetings

The trustees had no questions or requests regarding the roadmap.

- V. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Mayor Watson adjourned the meeting at 9:18am.

Board Members

Mayor Kirk Watson, Chair

John Bass, Vice Chair

Belinda Weaver, Treasurer

Doug Fowler, Trustee

Aaron Woolverton, Trustee