HOUSE
RESEARCH
ORGANIZATION bill digest   5/21/2019

SB 322 (2nd reading)
Huffman (Murphy), et al.
(CSSB 322 by Wu)

SUBJECT: Expanding reporting requirements for public pension systems

COMMITTEE: Pensions, Investments, and Financial Services — committee substitute
recommended

VOTE: 9 ayes — Murphy, Vo, Capriglione, Flynn, Gervin-Hawkins, Gutierrez,
Lambert, Stephenson, Wu

0 nays

2 absent — Leach, Longoria

SENATE VOTE: On final passage, April 17 — 31-0

WITNESSES: *On House companion bill, HB 1887*:
For — James Quintero, Texas Public Policy Foundation; (*Registered, but
did not testify*: Sally Bakko, City of Galveston; Randy Cain, City of
Dallas; Bill Kelly, City of Houston Mayor's Office)

On — Anumeha Kumar, Pension Review Board; David Stacy (*Registered,
but did not testify*: Jimmy Rodriguez, San Antonio Police Officer's
Association; James Smith, San Antonio Fire and Police Pension Fund)

DIGEST: CSSB 322 would expand reporting requirements for all public pension
systems to include additional information in the annual financial report
and a new investment practices and performance report.

Annual report. The bill would require the annual financial report
published by public retirement systems to include a listing, by asset class,
of all direct and indirect commissions and fees paid by the retirement
system during the system's previous fiscal year for the sale, purchase, or
management of system assets and the names of investment managers
engaged by the retirement system. The bill would authorize the Pension
Review Board (PRB) to adopt rules necessary to implement these new
disclosures.

Investment practices and performance reports. CSSB 322 would require public retirement systems to select an independent firm to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices.

The evaluation would have to include:

- an analysis of any investment policy or strategic investment plan adopted by the retirement system and the retirement system's compliance with that policy or plan;
- a detailed review of the retirement system's investment asset allocation, including certain metrics specified in the bill;
- a review of the appropriateness of investment fees and commissions paid by the retirement system;
- a review of the retirement system's governance processes related to certain investment activities; and
- a review of the retirement system's investment manager selection and monitoring process.

The public retirement system could determine additional evaluation areas or select particular asset classes on which to focus, but the bill would require the first evaluation to be a comprehensive analysis of the retirement system's investment program that covered all asset classes.

In selecting an independent firm to conduct the evaluation, the bill would allow a firm to be selected regardless of whether it had an existing relationship with the retirement system, unless the firm directly or indirectly managed investments of the retirement system.

Retirement systems with at least $100 million in assets under management would be required to conduct an evaluation every three years. Retirement systems with between $30 million and $100 million would have to conduct an evaluation every six years. A public retirement system with less than $30 million in assets under management would not be required

to conduct the evaluation. The bill would require public retirement systems to pay the costs of the evaluations.

A report of the evaluation would be filed with the governing body of the public retirement system by May 1 of each year following the year in which the system was evaluated. The governing body of the retirement system would be required to submit the report to PRB within 31 days after receiving a report of the evaluation.

This report of an evaluation by the Teacher Retirement System (TRS) would satisfy TRS's biennial investment practices evaluation and annual performance report. Certain investment reports described in the bill could be used by the applicable public retirement systems to satisfy the requirement for this investment practices and performance report.

PRB could adopt rules necessary to implement this section.

Pension Review Board. CSSB 322 would require PRB to publish on its website the most recent data from the investment practices and performance report.

The bill would require PRB to submit an investment performance report summarizing the information received in the investment practices and performance reports by PRB during the preceding two fiscal years. The report would be delivered to the governor, the lieutenant governor, the House speaker, and the legislative committees having principal jurisdiction over legislation governing public retirement systems in PRB's biennial report required by statute.

PRB would have to implement a provision of this bill only if the Legislature appropriated money specifically for that purpose. If the Legislature did not appropriate money specifically for that purpose, PRB could, but would not be required to, implement a provision of the bill using other appropriations available for that purpose.

The bill would take immediate effect if finally passed by a two-thirds

record vote of the membership of each house. Otherwise, it would take effect September 1, 2019.

NOTES: According to the Legislative Budget Board, the bill would have a negative impact of about $202,000 to general revenue related funds through fiscal 2020-21.