



## Contact

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PEBTrust Overview

June 7, 2010

**Collin County, Texas**



## Overview of PEBTrust of Texas

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- This Trust is designed solely for Texas governmental entities.
- All contracts with all providers must be under Texas Law.
- Governance is public, not private. The Trust is a public entity subject to Texas Open Meetings Act
- The Trust maintains total transparency, no hidden fees, no pay-to-play options.
- The Trust is structured to avoid conflicts of interest, and to have dual control of all critical functions.
- FirstSouthwest, by not acting as investment manager, always remains as our client advocate. We remain on the same side, working as a fiduciary to manage the trust, not the money.



## Purposes of the PEBTrust

- Provide an IRS approved vehicle for public entities to prefund toward their OPEB expenses, primarily retiree medical and other insurance benefits
- Reduce accrued liabilities and ARCs (Annual Required Contributions) by using higher discount rates
- Lower the long term cost of funding benefits
- Insulate employers from volatility in benefit costs, and volatility from their own general fund budgets
- Reduce administrative burden versus creating their own trust
- Lower costs for legal, investment, custody, on-going staff time, etc.
- Obtain investment advice from firms familiar with OPEB actuarial, GASB accounting
- Aid in presentations to rating agencies that management is addressing OPEB liabilities.



## PEBTrust of Texas: Approach

- The Trust is simple to join, simple to understand, low maintenance for participants
- Each provider has Texas offices, contracts are governed by Texas law
- Trust is capable of handling a broad variety of circumstances (e.g., size, funding ratio) and preferences (e.g., simplicity or hands-on control, to custom asset allocation)
- The Trust is flexible enough to change with a member's needs over time. Clients may change their level of control, providers, investment policies, or asset allocations over time.
- PEBTrust has focused its design to mitigate conflicts of interest; all fees are clearly disclosed; there are clear separations of duties.
- Accounts are provided real time data on market values, and account values
- Providers are knowledgeable about public sector OPEB
- Custodian (FirstSouthwest) provides insurance protection on client accounts, up to specified limits (Securities Investor Protection Corporation and/or FDIC coverage)
- Close attention to compliance with state and federal laws
- Designed to have dual control on critical functions
- FirstSouthwest is able to provide substantial amounts of related FA work (e.g., funding sources, timing of funding, reducing volatility of general fund, disclosure, presentation to rating agencies)



## PEBTrust Structure

1. IRS private letter ruling obtained; Trust created under Texas law. Launched November 18, 2009.
2. Investment advice & asset management designed to avoid conflicts of interest. Reduces chances of pay-to-play problems.
3. PEBTrust and its operation are designed to reduce chances of compliance problems, and reduce amount of effort required for clients' oversight (outside audit & counsel, oversight by SEC, FINRA, 2 investment advisors, and custodian).
4. Board of Trustees is majority-controlled by public entities with representatives elected to the board serving rolling 3 year terms.
5. Outside audit firm (Weaver) is PCAOB (Public Company Accounting Oversight Board-aka Sarbanes/Oxley certified) and audits municipalities, broker/dealers, mutual funds. They understand GASB, implications of OPEB and potential problems at financial firms. Trust Counsel (Strasburger) has extensive experience with Texas law, Federal tax code and Trust Law.



## Updated PEBTrust (continued)

6. “Pre-screened” providers available for asset allocation and asset management. They have been screened in part for their understanding of public sector OPEB and pension consulting expertise. Members may also choose their own investment advisors, asset managers, or asset allocations. Members may change, add or delete investment providers at their discretion. Board of Trustees may add, remove, or replace any provider (including auditor, counsel, investment counsel, trust administrator, or custodian).
7. For ease, Members may start with commonly used asset allocations and model portfolios, becoming increasingly customized over time, as funds grow or circumstances change. Solutions are as complex or simple as members choose.
8. Providers are regulated by FINRA, SEC, and/or PCAOB (accountants).
9. Accounts are separate (not pooled) and asset information can be accessed in real-time online. This makes PEBTrust extremely flexible for each participant.
10. Performance information provided independently of asset managers/advisors, GIPS consistent reporting.
11. Securities covered by SIPC and excess SIPC insurance (limitations apply see additional documentation) ; cash covered by FDIC up to \$5million.
12. Accounts may be rolled to or from any qualified trust (similar to an IRA)



## PEBTrust of Texas: What is needed to join?

- Required to join:
  - Have Commissioner’s Court approve Trust Agreement and Adoption Agreement
  - Designate Plan Administrator and Primary Contact at employer (can be same person, or different)
  - Review and complete Service Agreement with FirstSouthwest Advisory Services
- Recommended before funding:
  - Decide amount and timing of prefunding

Funds may be invested in short term instruments while the following is finalized.
- Choose investment counsel:
  - Work to determine longer term asset allocation and Investment Policy

- **Creating a new trust likely involves:**

1. Drafting a Trust Document meeting both State and Federal statutes, typically created by outside counsel with specialized knowledge.
2. Requesting an IRS Private Letter Ruling, typically 6 months or more, typically created by outside counsel.
3. Forming a Texas Risk Pool, (if the County does not already have a risk pool for some other purpose.)
  - a) A Texas Risk Pool needs a Board of Trustees
  - b) 16 hours of trustee training in 4 subject areas is required
  - c) Directors and Officers Insurance.
4. Hiring of professionals, such as:
  - a) Counsel
  - b) Investment Advisor/Asset Managers
  - c) Custodian, Auditor
5. Time, effort and expertise to hire professionals:
  - a) Some or all may require RFPs, each of which may take weeks or months before work can start.
  - b) May require contracts with professionals the public entity has not previously retained, and may require negotiation. Staff learning curve may be an issue with certain types of providers for benchmarking services or fee levels.
  - c) Especially when starting a new trust, choices may be limited and rates may be higher. Expenses may be burdensome to small trusts, especially those under +/- \$25 million.
6. Creation of an Investment Policy Statement and target asset allocations.
7. Ongoing Board meetings, supervision of professionals, use of staff time, and on-going accountability.



- FSW Advisory Services, Inc. is an SEC Registered Investment Advisor affiliated with FirstSouthwest, a Registered Broker-Dealer, member FINRA/SIPC.

# FirstSouthwest Team Resumes

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Brian Whitworth

Caroline Austin

David Medanich



### Areas of Focus

- Specializes in OPEB and pensions analysis, and related disclosures.

### Profile

- Joined FirstSouthwest in 2009
- Nationally recognized expert and frequent speaker on OPEB with speaking engagements at: Bond Buyer, IMN, NACO, National Conference of Mayors, CA State Association of Counties, Intl Association of Employee Benefit Plans, Conference of Consulting Actuaries, Massachusetts Retiree Benefits Commission, and the New Mexico Retiree Benefits Commission
- Helped write legislation for several states
- Launching FirstSouthwest's PEBTrust, a group OPEB trust
- Coauthor of two OPEB whitepapers and OPEB Frequently Asked Questions
- Contributed material to the GASB Implementation Guide
- Built extensive simulation models including pension, OPEB cost and general fund revenues
- Has worked on OPEB and/or pension issues for states, counties, cities, utilities, authorities, school districts, and other organizations
- Has built extensive simulation models including pension and OPEB cost and general fund revenues
- Holds four patents on municipal bonds, risk management and related software
- Works frequently with actuaries and legal counsel
- Reviewed approximately 1400 pension and OPEB actuarial reports, often identifying errors, questionable assumptions and methods, potential compliance problems and potential savings opportunities
- Found more than \$12 billion dollars in actuarial errors and opportunities for savings, including plans which had already been reviewed by independent actuaries, auditors, and State commissions

### Education

- Bachelor of Arts in Physics, University of Chicago
- Master of Business Administration in Finance, University of California at Los Angeles

### Past Affiliations

- Global Association of Risk Professionals, regional director

### Licenses Held

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
  - General Securities Representative, Series 7
  - Uniform Securities Agent, Series 63
  - Investment Advisor Representative, Series 66
  - Investment Banking Representative, Series 79

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### Areas of Focus

- Investment Advisory Services and Clearing Services

### Profile

- Joined FirstSouthwest in 2009
- Has been in the securities industry for 30 years
- Served as CEO/COO of four broker-dealer firms, including retail, advisory, specialist, market making and CFTC trading

### Education

- Bachelor of Arts, Lake Erie College
- Coursework for Master of Science in Accounting, University of Texas at Dallas
- Universite de Grenoble, Grenoble, France
- Securities Industry Institute, Wharton School of Business

### Current Affiliations

- FINRA District 6 Business Conduct Committee

### Past Affiliations

- SIFMA Securities Industry Institute at Wharton School of Business, trustee for six years
- National Specialist Association, chair
- SIFMA Small Firms Committee, chair
- SIFMA Federal Regulation Committee, member for seven years
- Bond Club of Chicago, board member

### Licenses Held

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
  - Registered Options Principal, Series 4
  - General Securities Principal, Series 24
  - General Securities Representative, Series 7
  - Financial and Operations Principal, Series 27
  - Municipal Securities Representative, Series 52
  - Municipal Securities Principal, Series 53
  - Uniform Securities Agent, Series 63
  - Registered Investment Adviser, Series 65
  - Government Securities Principal

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### Areas of Focus

- Since 1981, has worked exclusively in FirstSouthwest's municipal finance department providing financial advisory services to numerous cities, school districts, counties, and water districts in the authorization, issuance, sale and delivery of all types of tax-exempt securities

### Profile

- More than 29 years experience in public finance
- Joined FirstSouthwest in 1981
- Manager of FirstSouthwest's Fort Worth office
- President of FirstSouthwest Asset Management since 2007
- Has been actively involved in the development of funding plans for infrastructure and economic development, advance refundings, rating presentations and currently represents more than 60 political subdivisions in Texas
- Began his career in the securities industry by spending two years as a field analyst for the Municipal Advisory Council of Texas

### Education

- Bachelor of Business Administration in Finance, Texas Christian University

### Current Affiliations

- First Southwest Company Board of Directors
- First Southwest Company Public Finance Management Committee
- Texas Christian University M.J. Neeley School of Business Alumni Executive Board
- Texas City Managers Association, cooperating member
- Government Finance Officers Association of Texas
- Texas Water Conservation Association

### Past Affiliations

- Municipal Advisory Council of Texas, former chairman

### Licenses Held

- Registered Representative of the Financial Industry Regulatory Authority (FINRA)
- General Securities Representative, Series 7
- General Securities Principal, Series 24
- Municipal Securities Principal, Series 53
- Uniform Securities Agent, Series 63
- Investment Banking Representative, Series 79



## Definitions

- ARC-Annual Required Contribution
- FA-Financial Advisor-First Southwest frequently works in this role
- FDIC-Federal Deposit Insurance Corporation-A U.S. Government agency which provides certain insured guarantees to deposits held in banks
- FINRA-(Formerly NASD)-Financial Industry Regulatory Authority-the primary regulator of securities broker/dealers
- GASB-Government Accounting Standards Board
- GASB 43/45-Those standards pertaining to “OPEB”-see below
- IRA-Individual Retirement Account
- IRS-Internal Revenue Service
- OPEB-”Other Post Employment Benefits” generally retiree medical and other insurance
- PCAOB-Public Company Accounting Oversight Board- This board certifies that certain auditing firms pass strict audit standards, and is required of any firm auditing public companies and securities broker/dealers.
- RPF-Request for Proposal
- SEC-Securities and Exchange Commission
- SIPC-Securities Investor Protection Corporation-quasi-governmental entity funded by securities firms providing certain insurance coverage to customers in the event of their failure
- Excess SIPC-Private insurance purchased by individual securities firms providing extended insurance to their customers.