



ProComp

Teacher Compensation Trust Board of Directors

TO: DPS Bargaining Team
DCTA Bargaining Team

FROM: ProComp Trust Board

Date: April 29, 2009

RE: Financial Stability of the ProComp Trust Fund

The ProComp Trust Board is established by the ProComp Agreement and charged with maintaining the financial stability of the ProComp Trust Fund over time and ensuring the enactment of the ballot language approved by the voters in the mill levy election. Pursuant to that responsibility, the Trust Agreement for the ProComp Trust requires the Board to provide an annual report to the District and DCTA on the financial stability of the Trust Fund over time, in addition to updates related to the financial audit, the collective bargaining agreement and investments.

The Trust Board has received favorable audits from an independent accounting firm from the inception of the Trust Fund through the period ending June 30, 2008. As part of these audits, the firm reviewed the process for computing the amounts due to teachers and the ProComp Trust share of those payments. Based on payments made thus far and projected teacher participation during the year, the Trust Board adopted a budget for the fiscal year ending June 30, 2009.

In August 2008, DCTA and DPS collectively bargained a three-year contract that increased the incentives available under ProComp. Under the new contract, several bonuses for teachers doubled from \$1,000 to \$2,345 a year each and a new incentive was added for teachers in schools ranking in the top 50 percent growth for student achievement known as High Growth Schools. The list below provides greater detail of this settlement:

- The Index increased from \$35,568 to \$36,635.
- Hard-to-Serve and Hard-to-Staff market incentives increased from 3% to 6.4% of the Index.
- The Top Performing Schools incentive increased from 2% to 6.4% of the Index.
- A non-base building incentive for teachers in High Growth Schools was added. The incentive is 6.4% of the Index.
- The CSAP Exceeds Expectations incentive was changed to a non-base building incentive and the amount was increased to 6.4% of the Index.
- Student Loans were added as a reimbursable expense in the Tuition Reimbursement incentive category. The lifetime maximum for Tuition Reimbursement and Student Loan Repayment was increased to \$4,000. The maximum reimbursement in each year is \$1,000.
- Changes were made on payouts for PDUs for teachers beyond 14 years of service.
- CPE base building increases are awarded for 1-14 years of service only.

Due the dramatic changes included in the three-year agreement, a special 4.5 opt-in window was opened to allow teachers to take advantage of the new provisions. An unprecedented number of teachers entered ProComp, 337 opted in to make the total number of ProComp participants 3,050 or 66 percent of all contract teachers.

The Trust Board approved a resolution to uphold the changes to the DCTA and DPS three-year agreement based on the Board's conclusion that the new agreement did not cause any of the following conditions to exist:

1. An inability of the Trust to honor all the projected expenditures and obligations for each of the years in the 30 year rolling time period specified in the collective bargaining agreement.
2. Costs modeled on an assumed rate of return other than the rate provided by the Trust Board.
3. Projected administrative costs in excess of a limit of five percent of the Trust's annual mill levy receipts, and that would materially affect the sufficiency of projected assets.
4. Use of unreasonable assumptions for the fiscal model.
5. Proposed results in projected Trust assets at the end of the 30 year rolling time period that are less than the projected liabilities for the thirtieth year of the 30 year rolling time period.

The Trust has two methods of meeting its obligations, current mill levy tax revenue and unused principal from the ColoTrust account and the ProComp Investment portfolio.

As of June 30, 2008, the ProComp Trust Fund had an ending balance of \$64,684,344. As of March 31, 2009, the Trust Fund has received \$11,224,430 in mill levy tax receipts. The Trust expects to receive an additional \$15,353,525 for a total amount of \$26,577,955 for the FY 2008-2009. The projected teacher compensation payout is forecasted to be \$25,693,944 including benefits for FY 2008-2009. The projected total portfolio ending balance on June 30, 2009, is forecasted to be \$60,085,000.

So far in FY 2009, the ProComp Trust Fund balance has declined due to unfavorable market conditions. As of March 31, 2009, the ProComp Trust investment portfolio has an ending balance of \$40,967,414, which includes an unrealized loss of \$9,567,647. The Trust Board decided to change the asset allocation, which applies to the \$41 Million investment portfolio, to 60 percent fixed funds and 40 percent equities to account for the lower risk tolerance of the Trust Board for the investment portfolio. In addition, the Trust holds highly safe assets, which range from \$5 to \$20 Million depending upon the month, in a ColoTrust account. This "working capital reserve" allows for liquidity to cover monthly obligations as well as stabilizing market exposure.

Based on projected compensation, assumed rate of return, updated expenses, and teacher demographics, a five year monthly cash flow projection showed there is a potential need to utilize a portion of the Trust's investment principal in 2010, 2011 and 2012. After 2012, conservative projections indicate annual ProComp tax revenue will exceed annual expenses. Please refer to the ProComp Trust Long-Term Annual Cash Flow Projection for further detail.

The ProComp Trust Fund is projected to be solvent in perpetuity.

Lee White, Chairperson

Jerry Graves, Vice-Chairperson

Tom Buescher, Secretary

**Denver Public Schools - ProComp Trust
Long-Term Annual Cash Flow Projection**

Fiscal Year	Year 1 FY2009	Year 2 FY2010	Year 3 FY2011	Year 4 FY2012	Year 5 FY2013	Year 6 FY2014	Year 7 FY2015	Year 8 FY2016	Year 9 FY2017	Year 10 FY2018
Ending	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
<i>Total Portfolio Beginning Balance</i>	\$ 49,270,000	\$ 62,925,637	\$ 62,836,909	\$ 62,275,344	\$ 61,736,984	\$ 63,281,173	\$ 66,573,139	\$ 71,520,246	\$ 77,703,316	\$ 84,277,829
ColoPrime										
Beginning Balance	\$ 7,791,353	\$ 21,446,291	\$ 21,530,099	\$ 20,786,926	\$ 21,260,799	\$ 22,512,749	\$ 23,358,609	\$ 25,712,845	\$ 29,147,470	\$ 32,808,633
Income										
Mill Levy Tax Fund	See Total	\$ 28,158,359	\$ 28,946,794	\$ 29,757,304	\$ 30,590,508	\$ 31,447,042	\$ 32,327,560	\$ 33,232,731	\$ 34,163,248	\$ 35,119,819
Uncollectible	See Total	\$ (844,751)	\$ (289,468)	\$ (297,573)	\$ (305,905)	\$ (314,470)	\$ (323,276)	\$ (332,327)	\$ (341,632)	\$ (351,198)
Net Tax Receipts	\$ 26,058,500	\$ 27,313,609	\$ 28,657,326	\$ 29,459,731	\$ 30,284,603	\$ 31,132,572	\$ 32,004,284	\$ 32,900,404	\$ 33,821,615	\$ 34,768,621
ProComp Salary Payments	See Total	\$ 23,447,904	\$ 24,419,363	\$ 24,817,608	\$ 23,715,493	\$ 22,982,064	\$ 22,415,275	\$ 22,222,263	\$ 22,749,209	\$ 22,910,184
ProComp Benefit Payments	See Total	\$ 5,228,883	\$ 5,445,518	\$ 5,534,327	\$ 5,288,555	\$ 5,125,000	\$ 4,998,606	\$ 4,955,565	\$ 5,073,074	\$ 5,108,971
Total Compensation Payments	\$ 11,800,000	\$ 28,676,787	\$ 29,864,881	\$ 30,351,935	\$ 29,004,048	\$ 28,107,064	\$ 27,413,881	\$ 27,177,828	\$ 27,822,283	\$ 28,019,155
ProComp Administrative Expenses	\$ 593,380	\$ 1,166,958	\$ 1,775,144	\$ 2,050,072	\$ 2,107,474	\$ 2,166,484	\$ 2,227,145	\$ 2,289,505	\$ 2,353,611	\$ 2,419,512
ProComp Collection Expenses	\$ 34,239	\$ 70,396	\$ 72,367	\$ 74,393	\$ 76,476	\$ 78,618	\$ 80,819	\$ 83,082	\$ 85,408	\$ 87,800
Total ProComp Expenses	\$ 12,427,619	\$ 29,914,141	\$ 31,712,392	\$ 32,476,400	\$ 31,187,998	\$ 30,352,165	\$ 29,721,845	\$ 29,550,415	\$ 30,261,303	\$ 30,526,467
Transfer From/To Investment Fund	\$ -	\$ 2,622,810	\$ 2,252,620	\$ 3,434,184	\$ 2,095,239	\$ -	\$ -	\$ -	\$ -	\$ (4,808,633)
Return on Investment (ColoPrime Rate)	\$ 24,057	\$ 61,529	\$ 59,274	\$ 56,359	\$ 60,106	\$ 65,453	\$ 71,797	\$ 84,636	\$ 100,850	\$ 97,214
ColoPrime NetCash Flow	\$ 13,654,938	\$ 83,808	\$ (743,173)	\$ 473,873	\$ 1,251,950	\$ 845,860	\$ 2,354,236	\$ 3,434,626	\$ 3,661,163	\$ (469,265)
Ending ColoPrime	\$ 21,446,291	\$ 21,530,099	\$ 20,786,926	\$ 21,260,799	\$ 22,512,749	\$ 23,358,609	\$ 25,712,845	\$ 29,147,470	\$ 32,808,633	\$ 32,339,368
Investment										
Beginning Balance	\$ 41,479,346	\$ 41,479,346	\$ 41,306,810	\$ 41,488,418	\$ 40,476,185	\$ 40,768,424	\$ 43,214,530	\$ 45,807,401	\$ 48,555,845	\$ 51,469,196
ESTIMATED Pro Rata Return on Investment	\$ -	\$ 2,450,274	\$ 2,434,228	\$ 2,421,951	\$ 2,387,478	\$ 2,446,105	\$ 2,592,872	\$ 2,748,444	\$ 2,913,351	\$ 3,351,979
Transfer To/From ColoPrime	\$ -	\$ (2,622,810)	\$ (2,252,620)	\$ (3,434,184)	\$ (2,095,239)	\$ -	\$ -	\$ -	\$ -	\$ 4,808,633
Ending Investment Balance	\$ 41,479,346	\$ 41,306,810	\$ 41,488,418	\$ 40,476,185	\$ 40,768,424	\$ 43,214,530	\$ 45,807,401	\$ 48,555,845	\$ 51,469,196	\$ 59,629,808
Min										
Total Portfolio Ending Balance	\$ 62,925,637	\$ 62,836,909	\$ 62,275,344	\$ 61,736,984	\$ 63,281,173	\$ 66,573,139	\$ 71,520,246	\$ 77,703,316	\$ 84,277,829	\$ 91,969,176
As of	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018

Assumptions:

Rate of Return on Investment portfolio:	6% Annual yield, weighted monthly. Exception: Year 1 projected at 0%.
Uncollectable Tax Receipts:	1% of Mill Levy Tax Receipts. Exception: Year 2 projected at 3% uncollectable.
Rate of Return on ColoPrime Account:	.5% Annual Yield, weighted monthly.
ProComp Salary Payments:	Based on actual teacher bonus payouts from '08/'09 school year and McKinsey model growth rate assumptions
ProComp Benefit Payments:	22.3% of ProComp Salary Payments
Mill Levy Tax Fund Receipts:	2.8% Growth rate yearly based on Year 1 amount of \$27,391,400
Administrative expenses:	Years 1-3: original McKinsey model expenses plus additional Transition Team approved expenditures Years 4-52: original McKinsey model expenses plus Transition Team approved expenditures of 5% of Mill Levy Tax Fund Receipts

**Denver Public Schools - ProComp Trust
Long-Term Annual Cash Flow Projection**

Fiscal Year	Year 11 FY2019	Year 12 FY2020	Year 13 FY2021	Year 14 FY2022	Year 15 FY2023	Year 16 FY2024	Year 17 FY2025	Year 18 FY2026	Year 19 FY2027	Year 20 FY2028
Ending	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028
<i>Total Portfolio Beginning Balance</i>	\$ 91,969,176	\$ 100,616,460	\$ 110,234,369	\$ 121,506,471	\$ 134,456,665	\$ 148,794,558	\$ 164,651,342	\$ 182,233,597	\$ 201,026,095	\$ 220,640,134
ColoPrime										
Beginning Balance	\$ 32,339,368	\$ 32,831,414	\$ 33,285,728	\$ 34,655,183	\$ 35,739,117	\$ 36,414,841	\$ 37,114,000	\$ 37,930,014	\$ 38,134,283	\$ 37,840,531
Income										
Mill Levy Tax Fund	\$ 36,103,174	\$ 37,114,063	\$ 38,153,256	\$ 39,221,547	\$ 40,319,751	\$ 41,448,704	\$ 42,609,268	\$ 43,802,327	\$ 45,028,792	\$ 46,289,598
Uncollectible	\$ (361,032)	\$ (371,141)	\$ (381,533)	\$ (392,215)	\$ (403,198)	\$ (414,487)	\$ (426,093)	\$ (438,023)	\$ (450,288)	\$ (462,896)
Net Tax Receipts	\$ 35,742,142	\$ 36,742,922	\$ 37,771,724	\$ 38,829,332	\$ 39,916,553	\$ 41,034,217	\$ 42,183,175	\$ 43,364,304	\$ 44,578,504	\$ 45,826,702
ProComp Salary Payments	\$ 23,245,987	\$ 23,633,545	\$ 23,267,837	\$ 23,187,155	\$ 23,461,732	\$ 23,739,415	\$ 23,945,434	\$ 24,675,701	\$ 25,836,534	\$ 26,096,007
ProComp Benefit Payments	\$ 5,183,855	\$ 5,270,280	\$ 5,188,728	\$ 5,170,736	\$ 5,231,966	\$ 5,293,890	\$ 5,339,832	\$ 5,502,681	\$ 5,761,547	\$ 5,819,410
Total Compensation Payments	\$ 28,429,842	\$ 28,903,825	\$ 28,456,565	\$ 28,357,891	\$ 28,693,699	\$ 29,033,305	\$ 29,285,266	\$ 30,178,383	\$ 31,598,081	\$ 31,915,417
ProComp Administrative Expenses	\$ 2,487,259	\$ 2,556,902	\$ 2,628,495	\$ 2,702,093	\$ 2,777,752	\$ 2,855,529	\$ 2,935,484	\$ 3,017,677	\$ 3,102,172	\$ 3,189,033
ProComp Collection Expenses	\$ 90,258	\$ 92,785	\$ 95,383	\$ 98,054	\$ 100,799	\$ 103,622	\$ 106,523	\$ 109,506	\$ 112,572	\$ 115,724
Total ProComp Expenses	\$ 31,007,359	\$ 31,553,513	\$ 31,180,444	\$ 31,158,038	\$ 31,572,250	\$ 31,992,455	\$ 32,327,272	\$ 33,305,566	\$ 34,812,825	\$ 35,220,174
Transfer From/To Investment Fund	\$ (4,339,368)	\$ (4,831,414)	\$ (5,285,728)	\$ (6,655,183)	\$ (7,739,117)	\$ (8,414,841)	\$ (9,114,000)	\$ (9,930,014)	\$ (10,134,283)	\$ (9,840,531)
Return on Investment (ColoPrime Rate)	\$ 96,631	\$ 96,319	\$ 63,903	\$ 67,823	\$ 70,537	\$ 72,239	\$ 74,112	\$ 75,545	\$ 74,852	\$ 74,206
ColoPrime NetCash Flow	\$ 492,046	\$ 454,314	\$ 1,369,455	\$ 1,083,934	\$ 675,724	\$ 699,160	\$ 816,014	\$ 204,269	\$ (293,752)	\$ 840,204
Ending ColoPrime	\$ 32,831,414	\$ 33,285,728	\$ 34,655,183	\$ 35,739,117	\$ 36,414,841	\$ 37,114,000	\$ 37,930,014	\$ 38,134,283	\$ 37,840,531	\$ 38,680,735
Investment										
Beginning Balance	\$ 59,629,808	\$ 67,785,046	\$ 76,948,641	\$ 86,851,287	\$ 98,717,548	\$ 112,379,718	\$ 127,537,341	\$ 144,303,582	\$ 162,891,811	\$ 182,799,603
ESTIMATED Pro Rata Return on Investment	\$ 3,815,870	\$ 4,332,180	\$ 4,616,918	\$ 5,211,077	\$ 5,923,053	\$ 6,742,783	\$ 7,652,240	\$ 8,658,215	\$ 9,773,509	\$ 10,967,976
Transfer To/From ColoPrime	\$ 4,339,368	\$ 4,831,414	\$ 5,285,728	\$ 6,655,183	\$ 7,739,117	\$ 8,414,841	\$ 9,114,000	\$ 9,930,014	\$ 10,134,283	\$ 9,840,531
Ending Investment Balance	\$ 67,785,046	\$ 76,948,641	\$ 86,851,287	\$ 98,717,548	\$ 112,379,718	\$ 127,537,341	\$ 144,303,582	\$ 162,891,811	\$ 182,799,603	\$ 203,608,110
Min										
Total Portfolio Ending Balance	\$ 100,616,460	\$ 110,234,369	\$ 121,506,471	\$ 134,456,665	\$ 148,794,558	\$ 164,651,342	\$ 182,233,597	\$ 201,026,095	\$ 220,640,134	\$ 242,288,845
As of	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028

Assumptions:

Rate of Return on Investment portfolio:
Uncollectable Tax Receipts:
Rate of Return on ColoPrime Account:
ProComp Salary Payments:
ProComp Benefit Payments:
Mill Levy Tax Fund Receipts:
Administrative expenses:

**Denver Public Schools - ProComp Trust
Long-Term Annual Cash Flow Projection**

Fiscal Year	Year 21 FY2029	Year 22 FY2030	Year 23 FY2031	Year 24 FY2032	Year 25 FY2033	Year 26 FY2034	Year 27 FY2035	Year 28 FY2036	Year 29 FY2037	Year 30 FY2038
Ending	6/30/2029	6/30/2030	6/30/2031	6/30/2032	6/30/2033	6/30/2034	6/30/2035	6/30/2036	6/30/2037	6/30/2038
<i>Total Portfolio Beginning Balance</i>	\$ 242,288,845	\$ 266,014,849	\$ 291,896,122	\$ 320,007,750	\$ 350,451,288	\$ 383,497,621	\$ 419,515,456	\$ 458,674,691	\$ 500,977,184	\$ 546,481,331
ColoPrime										
Beginning Balance	\$ 38,680,735	\$ 39,509,517	\$ 40,290,953	\$ 41,015,318	\$ 41,703,993	\$ 42,521,495	\$ 43,559,267	\$ 44,601,863	\$ 45,458,124	\$ 46,173,004
Income										
Mill Levy Tax Fund	\$ 47,585,707	\$ 48,918,107	\$ 50,287,814	\$ 51,695,873	\$ 53,143,357	\$ 54,631,371	\$ 56,161,050	\$ 57,733,559	\$ 59,350,099	\$ 61,011,901
Uncollectible	\$ (475,857)	\$ (489,181)	\$ (502,878)	\$ (516,959)	\$ (531,434)	\$ (546,314)	\$ (561,610)	\$ (577,336)	\$ (593,501)	\$ (610,119)
Net Tax Receipts	\$ 47,109,850	\$ 48,428,926	\$ 49,784,936	\$ 51,178,914	\$ 52,611,924	\$ 54,085,057	\$ 55,599,439	\$ 57,156,223	\$ 58,756,598	\$ 60,401,782
ProComp Salary Payments	\$ 26,393,617	\$ 26,757,109	\$ 27,195,116	\$ 27,690,940	\$ 28,111,066	\$ 28,381,975	\$ 28,680,665	\$ 29,163,694	\$ 29,794,857	\$ 30,541,647
ProComp Benefit Payments	\$ 5,885,777	\$ 5,966,835	\$ 6,064,511	\$ 6,175,080	\$ 6,268,768	\$ 6,329,181	\$ 6,395,788	\$ 6,503,504	\$ 6,644,253	\$ 6,810,787
Total Compensation Payments	\$ 32,279,394	\$ 32,723,944	\$ 33,259,627	\$ 33,866,020	\$ 34,379,833	\$ 34,711,156	\$ 35,076,454	\$ 35,667,198	\$ 36,439,110	\$ 37,352,435
ProComp Administrative Expenses	\$ 3,278,326	\$ 3,370,119	\$ 3,464,482	\$ 3,561,488	\$ 3,661,210	\$ 3,763,723	\$ 3,869,108	\$ 3,977,443	\$ 4,088,811	\$ 4,203,298
ProComp Collection Expenses	\$ 118,964	\$ 122,295	\$ 125,720	\$ 129,240	\$ 132,858	\$ 136,578	\$ 140,403	\$ 144,334	\$ 148,375	\$ 152,530
Total ProComp Expenses	\$ 35,676,684	\$ 36,216,359	\$ 36,849,829	\$ 37,556,747	\$ 38,173,901	\$ 38,611,458	\$ 39,085,964	\$ 39,788,975	\$ 40,676,296	\$ 41,708,262
Transfer From/To Investment Fund	\$ (10,680,735)	\$ (11,509,517)	\$ (12,290,953)	\$ (13,015,318)	\$ (13,703,993)	\$ (14,521,495)	\$ (15,559,267)	\$ (16,601,863)	\$ (17,458,124)	\$ (18,173,004)
Return on Investment (ColoPrime Rate)	\$ 76,351	\$ 78,386	\$ 80,211	\$ 81,826	\$ 83,473	\$ 85,668	\$ 88,388	\$ 90,875	\$ 92,702	\$ 94,029
ColoPrime NetCash Flow	\$ 828,782	\$ 781,437	\$ 724,364	\$ 688,675	\$ 617,503	\$ 503,772	\$ 404,267	\$ 316,660	\$ 241,880	\$ 174,545
Ending ColoPrime	\$ 39,509,517	\$ 40,290,953	\$ 41,015,318	\$ 41,703,993	\$ 42,521,495	\$ 43,559,267	\$ 44,601,863	\$ 45,458,124	\$ 46,173,004	\$ 46,787,549
Investment										
Beginning Balance	\$ 203,608,110	\$ 226,505,332	\$ 251,605,169	\$ 278,992,432	\$ 308,747,296	\$ 340,976,126	\$ 375,956,189	\$ 414,072,828	\$ 455,519,060	\$ 500,308,328
ESTIMATED Pro Rata Return on Investment	\$ 12,216,487	\$ 13,590,320	\$ 15,096,310	\$ 16,739,546	\$ 18,524,838	\$ 20,458,568	\$ 22,557,371	\$ 24,844,370	\$ 27,331,144	\$ 30,018,500
Transfer To/From ColoPrime	\$ 10,680,735	\$ 11,509,517	\$ 12,290,953	\$ 13,015,318	\$ 13,703,993	\$ 14,521,495	\$ 15,559,267	\$ 16,601,863	\$ 17,458,124	\$ 18,173,004
Ending Investment Balance	\$ 226,505,332	\$ 251,605,169	\$ 278,992,432	\$ 308,747,296	\$ 340,976,126	\$ 375,956,189	\$ 414,072,828	\$ 455,519,060	\$ 500,308,328	\$ 548,499,831
Min										
Total Portfolio Ending Balance	\$ 266,014,849	\$ 291,896,122	\$ 320,007,750	\$ 350,451,288	\$ 383,497,621	\$ 419,515,456	\$ 458,674,691	\$ 500,977,184	\$ 546,481,331	\$ 595,287,380
As of	6/30/2029	6/30/2030	6/30/2031	6/30/2032	6/30/2033	6/30/2034	6/30/2035	6/30/2036	6/30/2037	6/30/2038

Assumptions:

Rate of Return on Investment portfolio:
Uncollectable Tax Receipts:
Rate of Return on ColoPrime Account:
ProComp Salary Payments:
ProComp Benefit Payments:
Mill Levy Tax Fund Receipts:
Administrative expenses: