



Denver Public Schools  
Professional Compensation System for Teachers

# ProComp

## ProComp Trust Board of Directors

**Monday, April 4<sup>th</sup> 2016**

**Emily Griffith Conference Room 935  
1860 Lincoln St, Denver CO 80203**

ATTENDED: Tom Buescher, Erik Johnson, Mark Ferrandino, David Hart, Mike Johnson

VIA CONFERENCE CALL: Don Gilmore, Lawrence Garcia

STAFF IN ATTENDANCE: Chris Kampe

OTHERS: Ryan Cunningham (Arnerich & Messina), Mary Brauer

Called to Order: 5:37 pm

### Introductory Items:

- Approval of January 27, 2016 Meeting Minutes
  1. 1<sup>st</sup> – Buescher 2<sup>nd</sup> – Gilmore
  2. Voice Vote – all: approved

### Information / Discussion Item:

- Investment Update – Arnerich & Messina (via conference call) – Recommendations & Findings for target asset allocations

Cunningham – Look at slide 7 in packet. Expected Return and Volatility 2/3 down the page is most important part. Tier III – we are recommending column listed III-B 25 growth / 75 fixed. Main change is moving small amounts to US large, mid and small cap. Recommending this because of timeframe horizon needs for this tier. Expected return is 4.1% annualized. No large change in expected return, just believe it's a portfolio better positioned for the needs of the ProComp Trust. On right side of page for Tier IV – recommendation here is contained in column IV-B keeping 65/35 mix but modifies structure of underlying growth strategy. Diversified Real Return would allow investment manager to tilt between different assets as valuations in the market adjust. Next steps – if these recommendations are approved, we would update trust investment policy to reflect changes.

Buescher – Tier IV – What is the benefit to us in going over to IV-B with lower expected return. Assuming this all pans out, giving up some money in exchange for flexibility.

Cunningham – Makes the portfolio a bit more conservative. Giving up some return for flexibility. Risk / Return trade-off becomes better. We try to balance the return with volatility.

Hart – Are you recommending A over B or B over C or showing this as a spectrum?

Cunningham – We are recommending B in both cases – Tier III and Tier IV. We feel this is the most appropriate high-level appropriation for both of these tiers. A is a bit more conservative and C is a bit more aggressive for both tiers. If Board would like to be more conservative or aggressive, we recommend one of these options.

Hart – Walk me through how to read the 95% shown at the bottom.

Cunningham – These show almost the worst case scenario. Gives an example to trustees of what portfolio could look like if something like 2008 happened. Shows 95% rather than a full 100% absolute worst case.

Hart – My understanding is B matches with the current, so why wouldn't we want A to be more conservative

Cunningham – B doesn't necessary match the current. These are amounts we would currently recommend. A is shown here to not waste people's time and if trustees believe portfolio should be more conservative, the option is ready. To reiterate, B is our recommendation.

M. Johnson – What is the growth hedge? Hedge to me makes it sound like you're playing the opposite side of something. Can they go short and long?

Cunningham – Yes, they do have investments within those asset classes that could mandate shorting. However, to ensure we have liquidity, we have a little bit of a mismatch. There is no shorting going on currently because we want to make sure we have liquidity in the form of mutual funds.

Hart – As we are thinking about the forecast of balances available, I'm concerned with the volatility. Buck Consultants focused on investment volatility and risk. A vs. B vs. C doesn't change your role, just what is available to you. Some of these examples look like we could reduce return only slightly and achieve much lower volatility. I would be inclined to go with A recommendations to move to a more conservative strategy.

Ferrandino – I don't want to get more aggressive, so C is not an option. My choice would be either A or B, but I don't have strong feelings mainly because as balance goes down, Tier III will move to Tier II, etc. It will get more conservative just because of that.

Cunningham – The volatility goes down from B to A. We could go even further than A. It is about striking a balance between this volatility and expected return.

Hart – Is there a recommendation in writing.

Cunningham – No, the slide doesn't specifically say that but that is how slide 7 is designed. It is our recommendation.

Hart – Should we take a vote? I move to vote.

Ferrandino – Tom, you are leaning towards A?

Buescher – I agree with everything said about the fund going down and needing liquidity. Since these are all just educated guesses, my view is we also need to do something to increase the return. I'm troubled with doing something that would be expected to decrease return. That is my concern. I may be naturally more aggressive and less risk averse on this stuff. I don't think we are being over aggressive in Tier IV to stay with B. On III, I'm fine with the recommendation. Under circumstances, I'm not going to advocate for III. I move that we go to III-B for III and IV we stay with the current target.

E. Johnson – Seconds.

Hart – Anything you concerned with on Tier IV recommendation?

Buescher – I'm concerned with giving up return when we won't have much in that tier anyway.

Voice Vote – All: Passes

Brauer – We can update the current chart at back of Investment Policy Statement.

**Information / Discussion Item:** Investment Advisory Services Proposals:

- Status Update Only – Selection and Approval will take place at next Board meeting in May

Kampe – Selection will be at next meeting. We are currently working with Strategic Sourcing to create the appropriate approval process.

Hart – A rubric of some sort will be helpful to guide the process. Will there be a recommendation? It should not include Hart or any Board members. Should be Mary, Chris, and strategic sourcing.

Kampe – I will email board members well ahead of next meeting with a recommendation, rubric and process for selection at next meeting.

**Action Item:** FY 2016-17 Proposed Budget:

- Current financial position of the Trust
- Explanation of Authority / Responsibility of the Trust (Mary Brauer)
- Approval of Proposed FY 2016-17 ProComp Budget

Kampe – First slide gives brief overview of ProComp, year it began, and tax revenue.

Buescher – How often are tax assessments done?

Ferrandino – Every two years. Next will be 2017.

Hart – Different variables affect this – assessments and CPI growth.

Ferrandino – Will get more money for fewer mills when assessment goes up.

Gilmore – Effect of mill levy?

E. Johnson – This does not include mill levy. In event FTEs are added, it would impact this negatively. Trust Board needs to set dollar amounts to be spent by Transition Team.

Kampe – explains slide 4 and 5

Ferrandino – You can see from FY11 to today how many more ProComp FTEs we have.

Kampe – Explains slide 6 and 7

Ferrandino – We either recommend Transition Team make reductions now or we end up without funds later and need to make drastic cuts.

E. Johnson – The decrease in the bonus cost is almost solely because of change in benefit rate. So it has been flat to going up.

M. Johnson – Would the expectation be that the Transition Team reduce bonus or base salary?

E. Johnson – They could but it's unlikely. We are not recommending any specific change, just showing to be fiscally prudent, here are the allocated dollars.

Ferrandino – Last few years we've been coming back with \$1M or more increase in appropriation per year. When we did that this year, we were raising concerns on where the Trust was. It is a compounding impact each year.

M. Johnson – Traditional salary is based on where we were. What if the District decided we would increase teacher salary (traditional) by x amount?

E. Johnson – That would help the Trust. Difference would be reduced.

M. Johnson – If we did that, we would have more for bonuses.

E. Johnson- Yes, but need to be aware of how we do that.

Buescher – I am admittedly opposed to telling Transition Team, they must do x. From Mike's point, approving this recommendation would take option off the table of them finding funding from general fund (increase school traditional salary.)

Hart – Let's be clear, we shouldn't say the Trust will be "out of money" but rather that we cannot adopt budgets to pay more than Trust has.

E. Johnson – Basically, all that would happen, is once we got to that year, we would only adopt appropriation equal to amount we have.

Hart – This is all based on assumptions and will likely be wrong. I want to be clear that we have shown for some time that FY18/19 would be our lean year.

M. Johnson – This chart doesn't show on a per FTE divisor, you'd see significant reductions.

E. Johnson – Yes, however current forecast based on enrollment expects FTE to decrease, however that assumes we don't subsidize keeping FTE.

Hart – Just to clarify, we've received revenues we've expected to receive. We have as a Trust Board approved for a while budgets where current year expenses are greater than revenues. We intentionally spent down fund balance.

Garcia – The last agreement showed that we would spend down the balance.

Brauer – Trustees have to follow terms of Trust Agreement. If it is in agreement, then it's part of the Board's duties. Can you punt on a budget? The trustees must deny approval of Transition Team budget if projected assets are not sufficient to honor all the projected obligations. That is the Board's duty.

Ferrandino – Given that the Transition Team hasn't submitted a budget, it sounds like we are proposing a budget with a limit. Can we do that?

Brauer – You are striving to find a way to ensure Trust's assets are sufficient over this 30 year period. You are trying to show the Transition Team what they need to do to satisfy the goal. They may need to come back with details of assumptions to meet that goal.

Ferrandino – We should approve this budget now for the Transition Team. They then need to come back to us with assumptions to meet this top line number. We would then approve the actual budget with the assumptions from the Transition Team.

M. Johnson – We are not adopting a budget tonight. We are giving the Transition Team guidance for their meeting next week. We are providing them a recommendation which they potentially could ignore.

Buescher – We should not be working with anything now that looks like a budget. We should say the Board will not approve a budget in excess of \$x.

Hart – If the budget that came back from the Transition Team with budget of \$51M expended (amount of ending fund balance + expected revenue), would we have to approve?

M. Johnson – The Transition Team has the power to do that.

Ferrandino – The Trust Agreement mentions projected expenses, not just current year.

Buescher – Do we have an obligation to have a fund balance?

Brauer – It must be solvent over a 30 year period.

Buescher – On a pay as you go basis.

Brauer – Assumptions have to be reasonable. Need to know how they plan to spend what they say they will spend.

E. Johnson – Message to the Transition Team is this: Trust has to stay solvent. To meet requirements that we have, budget submitted must have a future year understanding of what that means.

Hart – Mary's memo is the way to convey this.

Ferrandino- If we have insufficient fund balance, we have no choice but to deny approval.

Gilmore – I would like a formal letter explaining this discussion from the Board to the Transition Team (prepared by Chris).

Buescher – Provide slide presentation with letter, but not proposed budget.

Garcia – I would like to see more of graph on slide 4. What has changed in model assumptions and actual? We should discuss changing Trust Agreement if it could lead to a year where fund balance runs out.

Ferrandino – We agreed we would meet on an annual basis between Transition Team and Trust Board. I would suggest we start working on this recommendation and meet with them after to adjust. Don't want to overstep our authority and step on what they can and can't do.

Hart – I would suggest that we have the joint meeting when they bring the budget to be adopted. They could explain the underlying assumptions. Trying to stay in line with what Mary has said about our authority. Want to show it as we as Trust board are in a thumbs up or down situation.

Garcia – In letter, it's critical to explain that we have concerns that we would be insolvent in the future.

**Future Agenda Items:**

- Next ProComp Trust Board meeting: May 2016 (Scheduling inquiry to follow)

Adjourned: 7:15 pm