Denver Public Schools
Professional Compensation System for Teachers

ProComp

MEETING MINUTES

ProComp Trust Board of Directors
FY18 Meeting #2

Tuesday, Nov 14th, 2017
5:30 – 7:00 pm
Emily Griffith Campus (EGC)
1860 Lincoln St., Denver, CO 80203
12th Floor – Conf. Room 1235A or
(720) 423-7777 Conf ID: 755349

In Attendance (in person): Scott Murphy, Erik Johnson, Tom Buescher, Lawrence Garcia, Cecilia Miller

In Attendance (via conference call): Don Gilmore, Mark Ferrandino

Others: Chris Kampe (Finance – District / ProComp Trust), Corey Kern (Deputy Exec. Director for Denver UniServe Unit), Michelle Berge (District - Deputy General Counsel), Mark Elmshauser (CliftonLarsonAllen), Rob Gould (DCTA)

Called to Order: 5:38 pm

Action Item: Approve Prior Meeting Minutes

September 13th, 2017 Minutes

Motion to approve minutes as provided in meeting materials.

1st: Murphy

2nd: Garcia

Voice Vote: All Approve - Passes

Action Item: Acceptance of FY17 Audited Financial Statements

Elmshauser: Discusses audit Governance Letter

Buescher: How do you look into the Step/Lane data?

Elmshauser: We use sampling that changes from year to year. We drill into questions that arise.

E. Johnson: When questions come up from the sampling, we look into how steps and lanes were set and verify accuracy of the current record. This is about, when hired, where were employees placed initially.

Elmshauser: Discusses audited financial statements

Our opinion is that the financial statements are fairly represented in accordance with generally accepted accounting principles.

Page 4 – Summary of Net Position. You can see some huge swings. These represent changes in liabilities. A large part of that was due to a duplicate transfer on June 30th, that was corrected right after in early July. The rest of this was administrative fees that had accumulated over the years. These amounts were expensed correctly but did not have the cash reimbursed until later. This year, a lot of cleanup has been done, and this is now done on a monthly basis. We are on track now to clearing that amount on a regular basis. The assets relate to that as well when looking at cash and investments. Overall net position went from $18M to $12M. This represents a smaller decrease than previous years. Interest income is lower in a money market but this is as opposed to some market losses that had been experienced in years past.

E. Johnson: I'd like to clarify that when you say benefits, you are talking about compensation and benefits.

Murphy: You talk about investments in ColoTrust. What were they in before?

E. Johnson: We had a 4 tiered structure. This included a tier for long term high risk including equity that tiered down from there. We employed an investment advisor. We don't anymore since we've used enough fund balance that we are unwilling to take the risk.

Elmshauser: If we determine there is an internal control concern, we show that in different categories of concern. Material weakness would be the worst – representing a reasonable possibility there is a material weakness. A significant deficiency is a step down, representing there is not a material weakness but worth your attention. The issues we discussed before including step/lane meets significant deficiency.

E. Johnson: Is it fair to say that the $1.5M was a timing difference only?

Elmshauser: Yes. The District had provided accurate figures for the July and August invoices, which did not change because of the audit.

Kampe: The amount was from the July and August invoices, which didn't change. This was only a question of if the amounts should be reported on FY17 or FY18 financials.

Elmshauser: The management letter notes the decrease in fund balance that we want to be on record mentioning to you.

Motion to approve audited financial statements as presented

1st: E. Johnson

2nd: Murphy

Voice Vote: All Approve - Passes

Discussion Item: Review Trust Financials

Kampe: Starting on Slide 3, of the provided Forecast Update handout, we are projecting approximately $3M in anticipated savings for base salary paid by the ProComp Trust as compared with what was budgeted last spring. This is mostly driven by the demographic of teachers we have on staff this year being more experienced, which typically cost the Trust less and the District general fund more. We are able to greatly improve the accuracy of our forecast projection after September payroll when we have actual teachers on staff being paid for the new contract year.

E. Johnson: To be clear, this is not referring to the take home pay, this is referring to the cost to the Trust vs. District. Because this is a complicated process, we take a conservative approach to budgeting.

Murphy: So more experienced teachers cost less to the Trust?

Kampe: In general yes. This is based on the value of steps earned on the traditional schedule (paid for by the District) as compared with ProComp Base Builders (paid by ProComp Trust).

Buescher: Is this first year we've seen this?

E. Johnson: We have seen a trend towards this in past years. We're towards the bottom of the trough that has been previously forecast. This is not abnormal; we're hitting more of a peak compared to the budget. Looking at this year over year makes sense, but creates a delta when budgeting is flat.

Kampe: Slide 6 shows how last year's actual expenses compare to the adopted budget for this year as well as our updated forecast for the current year. You can see highlighted in yellow the anticipated cost for Hard to Serve has increased after the Title I expansion was added. The Top Performing / High Growth incentive is anticipated to cost more than was expected when the budget was approved because more schools achieved green or blue ratings on the SPF, which has allowed more teachers to qualify for the incentive. The approximately $3M in anticipated base salary savings for the Trust are also shown to identify budget remaining for the Top Performing / High Growth incentive.

Murphy: Is the criteria for earning the Top Performing / High Growth incentive static?

E. Johnson: Yes it is, but there are cut points that the Transition Team sets. They have not changed, but they have the ability to.

Garcia: When the agreement was signed, there were targets to pay around 50% of FTEs. The Transition Team makes cut points to ensure the budget is solvent.

Berge: The new agreement said we would determine the amount paid per person by taking the overall budget and dividing by eligible FTEs.

Kampe: Slide 7 shows the overall Trust budget including revenue and expense. You can see the amount of approximately $31M from the previous slide for incentive payments shown as a line item on this page. This shows where the fund balance will end assuming the Top Performing / High Growth payment is made within the existing adopted budget. The ~$1.9M difference for beginning fund balance is related to the timing change Mark Elmshauser explained for the audit. This is a timing difference only. Slide 8 shows the details of a model the Transition Team has worked with as they have looked at different options for the Top Performing / High Growth incentive. It shows an amount of $2,083 per person, which is the maximum payment amount to stay within the currently approved budget.

Possible Action Item: Discuss and possibly act upon request from Transition Team

Buescher: Except for Scott and I, who are community members appointed to the Trust Board, all members here are appointed by either the District or DCTA. I want to remind everyone that legally you are required to take that hat off when entering this room and representing the Trust.

A letter was provided to us from the DCTA requesting a higher amount for the Top Performing / High Growth incentive than was budgeted. If that had been all that was received, there would have been no decision for this board since our role is to approve or deny requests coming from the joint Transition Team. I met with Henry and DCTA members and then with the Transition Team to discuss this. We now are operating within our authority as we have received a request from the Transition Team. The Transition Team operates on the basis of consensus. Some people on Transition Team may have been unhappy but not enough to say no. You are going to hear some of the reservations stated by these members.

Kampe: Please refer to the letter from the Transition Team in the handouts. There are two proposals – Proposal A asks to pay $2,238 per 1.0 FTE, which would result in a $523,615 budget overspend. Proposal B asks to pay $2,500 per 1.0 FTE, which would result in a $1,410,703 budget overspend. The letter indicates that if all are approved, Proposal B will be implemented, if B is denied, Proposal A will be implemented, and if both are denied, $2,083 per 1.0 FTE will be paid out to stay within the current approved budget.

Buescher: In the second to last paragraph it explains that this is a one-time expenditure we are being asked to approve. There are negotiations going on for ProComp 3.0. That will relate to the Transition Team request for budgets going forward under a new agreement. In the absence of a new agreement, the Top Performing / High Growth amount would drop to an amount under $1k in FY19 to stay within budget from there.

Miller: It would drop to a grand because of what we're doing today?

Kern: My understanding is it would be $900 in future years either way to eliminate fund balance burn year over year. We would need to get there either way.

Ferrandino: The distinction is how much fund balance burn is leftover.

E. Johnson: All of this is based on a forecast, which will likely change. Do I expect that we'll see another $3M savings? I highly doubt it. That being said, flexibility is limited with lower fund balance.

Garcia: You are also making an assumption that you're under the current ProComp agreement.

E. Johnson: To that point, having flexibility in the fund balance is important. How much flexibility do we want to have when we enter ProComp 3.0?

Ferrandino: When we moved to ProComp 2.0 and when we likely move to 3.0, there will be transition cost when we transition people into the new system. The less we have in the fund balance, the less ability we have to transition them in.

Garcia: Is that based on a DPS proposal?

Ferrandino: No, just in general, whatever we do, there will likely be winners and losers whenever you make changes and we will likely want to grandfather them in and protect that. The less money we have, the less ability we have to do that.

Kampe: Continuing in the slide presentation on slide 9, we can view detail of Proposal A for $2,238 per person, which would cause a $523,615 budget overspend, projected 6/30/2018 fund balance of ~$7.6M instead of ~$8.1M and a $4.2M fund balance burn in FY18 that would need to be eliminated in future years. Slide 10 shows Proposal B for $2,500 per person, which would cause a $1,410,703 budget overspend, projected 6/30/2018 fund balance of ~$6.7M instead of ~$8.1M and a $5.1M fund balance burn in FY18 that would need to be eliminated in future years. Slide 11 shows all three possibilities together and what FY19 would look like in each scenario assuming expenses are reduced to eliminate further fund balance burn.

Buescher: Now, I'd like to have Corey Kern speak for the DCTA and Michelle Berge speak for the District about the proposals.

Kern: We're really glad we were able to come together with this proposal. By going to $2,500 we are still reducing by $1,500 from last year. We think it is a great thing that we have more schools earning the incentive. This shows that the process is working. It sends a bad message to say congrats to all schools that got it last year, but then have new schools get a lower amount. The Transition Team went through every possible option to try to get money into teacher's pockets. We're happy with the two options that came out of this. In the Spring, teachers were not educated on this. They still have not formally been communicated to that this will be dropping. We have a lot of concerns days before we start negotiating ProComp 3.0. We don't want to undermine that process. We want a good system that stays within budget. We want a one-time addition this year only. We also want to communicate to teachers sooner what the blow would be for the next year.

Berge: Likewise, I appreciate the opportunity to be here and speak about this. I think Corey's explanation is dead on in terms of position we're in for the Top Performing / High Growth incentive. This is an incredibly tough position to be in to have to cut compensation paid to teachers. I think we're all cognizant that this is painful and this is real money. We are trying to balance that against the future and finding something that is better. We want to develop a better ProComp, a simpler ProComp. From what I heard from the Transition Team, we know this will hurt this year. We know teachers will be upset whether it's $2,500 or $2,000. This will be hard either way. How do we set ourselves up for success with negotiations? How do we set ourselves up with our reserves so we can make positive change? I think the $2,500 level, although we do support it, I have some reservation and concerns. I'm slightly more comfortable with the Proposal A amount. It decreases the burn we have to do when we do the negotiations. It is hard to negotiate when we have to cut over $4M next year, or over $5M for the higher amount. We trust the judgement in this room. We are here to support all the options on the table.

Gould: What is a comfortable threshold? I do wonder about that. I wish we were having this discussion next month because we'd be in the negotiations and would know what's realistic.

Ferrandino: We traditionally paid this out in November. One of my concerns with the higher number, is what does ProComp 3.0 look like? If we get there this year, then I'm more comfortable but I don't know when we'll get there. Is there an option to decide to pay it later? Could we look at a delayed payment to see what the new model looks like and then make a determination to set this rate?

Buescher: Are you suggesting that this board would simply wait and not approve or disapprove anything and see what happens with ProComp 3.0?

Ferrandino: I think one of the biggest outstanding things is ProComp 3.0. Are people open to that idea? I'm not sure myself because I think teachers are expecting the payment. Rob makes a good point that without ProComp 3.0 we are basing decision on a lot of assumptions that we don't know yet.

Garcia: I'd like to move to adopt Proposal B.

Gilmore: I second.

Garcia: I understand the concern about ProComp 3.0. I think this is outstepping our role as the Trust Board. Our role is to approve or deny based on Transition Team requests. We should not weigh in outside of that role. I don't think there's any danger of this going negative under this agreement. If this is a request from them, I think that's something we should honor. In the past, we have weighed in to see if a request would cause insolvency. In this case, Hard to Staff Title 1 expansion was reached without that discussion. When ProComp 3.0 discussions are over, I certainly hope we look to ensure it falls within the agreement.

E. Johnson: I don't disagree. What I struggle with is what is the right level of risk that we are willing to take? What is the amount of flexibility we want to have? I'm looking at these numbers and looking at numbers from four years ago when we had a reserve of $37M and now I'm looking at amounts between $8M and $6M. This limits our flexibility. I think everyone here wants to find out how to get more money in teacher's pockets at the end of the day.

Garcia: Regarding the fund balance going down from $37M to what it is now, that was always expected. The model at that time showed the balance dipping to around $10M. That is not new. An email from Susana sent earlier to teachers mentioned the incentive would be paid in November. Does that limit what we can do here?

Buescher: Mark – you mentioned impact on costs for ProComp 3.0.

Ferrandino: Impact on compensation costs. Likely when you make changes, you have winners and losers. Likely we would want to hold losers harmless and will need money in reserves to deal with that issue. Not around admin costs to implement, but around how do you transition people so they don't lose out. Also, yes we said the payout would be in November, I was just raising it to know where we would be as we develop ProComp 3.0. We say we will go down to $900 next year; I would not be surprised if next year we end up proposing $1,500 or $2,000. I want to be able to smooth the decline a bit more. Maybe that gives us more time to transition to ProComp 3.0. The $1M extra in fund balance gives us more options next year. I am leaning now on the Proposal A number.

Gilmore: Even with Proposal B, it still does not go insolvent. This will not break the Trust. It is still a good margin to be within.

Miller: Going from $4k and dropping to $2k seems like a huge drop. If a teacher is trying to help with a house down payment or baby expenses, this would be tough. There is no way of knowing until ProComp 3.0 comes out to definitively know, so we have to go with what we have now.

Murphy: I look at these numbers and look at the number of variables in the forecast and make an assumption with the fund balance as ProComp 3.0 is negotiated that either way, the parties will have to deal with the amount. I would lean towards Proposal B.

Buescher: I am also inclined towards Proposal B. I am looking at slides back in 2016 as we went into the plan to reduce expenditures. Some of the original forecasts had projections putting the fund balance at about a quarter of a million dollars. While we didn't like coming that close, we were willing to move forward with that assumption. I look at that and say this is well within the thoughts of this board. I would also like to say that all we do is approve a budget. It is the DCTA and teacher's money. If they are willing to spend it at this amount, that is their call, not ours.

Motion to adopt Proposal B requested by the Transition Team to pay $2,500 per 1.0 FTE for the FY18 Top Performing / High Growth incentive, resulting in a spend roughly $1,410,703 beyond the budget we had approved going into this year.

1st: Garcia

2nd: Gilmore

The motion passed with Garcia, Gilmore, E. Johnson, Murphy, Miller, and Buescher voting in favor, and Ferrandino voting against.

Discussion Item: Future Agenda Items

- Review Future Meeting Placeholders:
    - Wednesday, February 21st, 2018
    - Wednesday, April 25th, 2018

Adjourned: 6:55 pm