



Denver Public Schools
Professional Compensation System for Teachers

ProComp

ProComp Trust Board of Directors

September 16, 2015 5:30 p.m.
Emily Griffith Conference Room 1135
1860 Lincoln St, Denver CO 80203

ATTENDED: Don Gilmore, Cecilia Miller, Kate Kotaska, Mark Ferrandino, Michael Johnson, David Hart
VIA CONFERENCE CALL: none

NOT: Tom Buescher, Lawrence Garcia

STAFF IN ATTENDANCE: Chris Kampe, Erik Johnson

OTHERS: Mary Brauer, Ryan Cunningham, Jake O'Shaughnessy, Stuart Payment

Called to order – Gilmore at 5:34 pm

Action Items:

I. Approval of Agenda

- 1st Johnson 2nd Kotaska
- Voice Vote: All, Passes

II. Approval of July 08, 2015 meeting minutes

- 1st Ferrandino 2nd M. Johnson
- Voice Vote: All, Passes

III. Buck Consultants

- Brauer – Buck is placing a limit on potential liability at \$150k. The concern is if an error in a calculation provided by Buck causes significant underfunding, there could be liability. Do trustees think \$150k liability limit is sufficient?
- M. Johnson – Is it common for actuary consultants to include this?
- Brauer – Yes
- O'Shaughnessy – Arnerich's role is much more ongoing with the Trust. The actuary provides a more static exercise.
- Brauer – Yes, but the actuary can make significant errors.
- O'Shaughnessy – Buck has been privy to the direction of the trust, which might have led them to want to protect themselves.
- M. Johnson - \$150k is about double their fee.
- Hart – What are our other options? Start over? Buck came recommended by Arnerich. They are known and have a strong reputation. This is not a pension. We have the ability to immediately control liabilities. The errors do not have a compounding effect the way they would with a pension. Our liability is somewhat constrained to funds we have in hand.
- Miller – Do we have the industry standards?

- Brauer – I remember talking about this 15 years ago. It's hard to say what the industry standard is.
- Hart – We'd have a burden of proof to show they made an error in our model.
- M. Johnson – We are not spending money we don't have.
- Motion to approve the Buck contract with \$150k liability
 - A. 1st: Ferrandino 2nd: Hart
 - B. Voice Vote: All, Passes

IV. FY15 Report – Updated Draft

- E. Johnson – Fund balance is down by about \$5 million from our previous projections for a few reasons. Unrealized gains on investments are the primary driver causing balance on June 30, 2015 to be about \$3M lower than expected. These are fluctuations on unsold assets that may go back up. The remainder of the expense difference was caused by an entry processed going the wrong direction for ProComp incentives. We are forecasting a lower fund balance around fiscal year 19/20 than we had expected previously. The primary drivers of this change are a slightly lower fund balance and the impact of additional teachers hired through the Differentiated Roles program. Differentiated Roles will allow opportunity for teachers to take on leadership roles while staying in the classroom. It will result in more teachers being hired and therefore more ProComp incentives paid out.
- Hart – The financials are unaudited as of June 30, 2015. The FY14 ending balance is a final, audited amount. Doesn't seem like there should be much variance in the ending amount.
- E. Johnson – This is partially a result of assuming a different rate of return than we achieved.
- Gilmore – Current assumptions were built on 2.7%, but are now 2.8%?
- Hart – There is a lag period.
- E. Johnson – The budget for FY15 was 2.7% but actual is 2.8% for that period.
- M. Johnson – Will the teacher leader program increase incentives paid?
- E. Johnson – Absolutely.
- Hart – What happened with the \$2.3M unrealized loss?
- E. Johnson – We projected a rate of return for a gain and ended up flat for the year.
- Ferrandino – As the trust has less money, the rate of return is an overly ambitious assumption. I'm thinking 3% or something that is a mix that project based on cash in each tier – a weighted average return.
- O'Shaughnessy – Yes, 6% is aggressive.
- Hart – We were originally assuming 7.5% and came down to 6%. I agree with Mark that we need a weighted average by tier.
- O'Shaughnessy – How does DPS accounting separate unrealized and recognized gains/losses?
- E. Johnson – I believe it's based on what was sold, but can check with accounting.
- O'Shaughnessy – I agree that the return over the last year was effectively zero. Markets go up and down. There is not much return in the fixed asset arena. Last five years have achieved 6%. We should be more conservative going forward. Keeping the trust solvent is the main concern.
- Hart – DPS Staff and Arnerich should work together to get some context between now and next meeting. Have ability to weight return and results of whether we will be positive or

negative by FY19/20. We need to keep in mind small changes will have large effects. I'm concerned with new mill levies providing new funding sources to hire more teachers and then add ProComp expense that has not been forecast. Please look at revenue / expense in FY15/16 and update for next meeting.

- Ferrandino – We are getting close to a level that has concern. Remember we manage through a dip and then will come out with an increase. We need to make sure we don't dip below zero. The nice thing is it's several years out and we can make changes now.
- E. Johnson – It is amazing how sensitive the model is. Small changes have large impact. We should have tighter collaboration with the Transition Team in the near future, so they can be aware of small changes that will have large impacts.
- Hart / Gilmore – We agree.
- E. Johnson – We will work with Adam Barnett to make collaborative meeting happen.

V. Absence Policy

- Brauer – The absence policy has been rewritten to include requests from Tom.
- Hart – This issue is important to Tom. Has anyone discussed it with Tom?
- Brauer – Yes, I have discussed the new draft with him.
- Motion to approve new absence policy.
 - A. 1st: M. Johnson 2nd: Kotaska
 - B. Voice Vote: All, Passes
- Kampe – I will facilitate the attendance policy.
- Hart – Chris Kampe should send out the policy to everyone so it's in their inbox and they can abide by it.

Information/Discussion Items:

I. Report from Arnerich & Massena – 2nd Quarter 2015

- Cunningham – 2nd quarter was relatively benign. Reemergence of volatility in the market resulted in corrections. Still experiencing return of 2% ahead of index. The funds are performing generally in line with expectations.
- O'Shaughnessy – We started in 2007 at one of the worst times to being investing a large amount of money. Volatility needs to be minimized for the trust because the annual cycle of cash flow. Looking at August numbers, Tier IV is pleasing. We have built the structure to have not much downside risk because it can be dramatic for the trust. Building this tier structure is unique and we will work with Chris Kampe for cash flow planning moving forward.
- Cunningham – August numbers show large transfer from Tiers III / IV to Tier II.
- Hart – We are considering an RFP process for financial advisor. Does Arnerich want an opportunity to give a pitch?
- O'Shaughnessy – This has been an amazing opportunity, but the most difficult of my career. Former chair was more risk averse than current board. The tier structure is unique. The future appears to be a very different investment exercise with narrowing cash flow surplus. We would be honored to continue. This would be a difficult engagement for someone unfamiliar to pick up. We have created a team staffed with experts in needed areas.
- Hart – How has new discretion role been going?
- O'Shaughnessy – Well, there have been no issues.

- Miller – How often will we look at investment statements?
- Kampe – I have access to the online system with Arnerich and can provide as much as needed – monthly, quarterly, etc.
- M. Johnson – I don't want to be looking at reports monthly.
- Hart – Board retains fiduciary responsibility. No matter frequency, we need to determine what is required to fulfill that responsibility. Should we return to having some subset that is less than a quorum at looks closer at financial matters?
- Brauer – Be careful delegating authority to a group. Next meeting I will lead a refresher on the investment policy.
- Arnerich leaves meeting – 7:08 pm

II. Investment Advisor - RFP Update

- Kampe – explains where we left off and draft provided by DPS Strategic Sourcing.
- Hart – This draft may not be good use of board's time. Need to put together a more final draft using examples / advice from Arnerich and Mary Brauer. Send more final draft to board as soon as comfortable for discussion at next board meeting. Are we committed to doing an RFP or just asked the question?
- Brauer – With change to discretionary, it was necessary to revisit. We should at minimum RFP out.
- Hart – Is the nature of the engagement changed as a virtue of discretion? In my opinion, no.
- Ferrandino – The fee structure changed and we haven't RFP'd since discretion started.
- Hart – Kampe will get closer to a final draft including calendar of activities, RFP, how does evaluation occur, etc.

Future Agenda Items:

- I. Next ProComp Trust Board meeting: 10/21/15, 12/9/15, 02/17/16, 04/06/16, 06/01/16.
- II. Audit Acceptance

Adjourned - Hart at 7:20 pm