



ProComp

Teacher Compensation Trust Board of Directors

MINUTES

February 27, 2008

MEMBERS IN ATTENDANCE: Andree Hall, chair, Velma Rose, vice chair, Tom Buescher, secretary (by phone), Brett Fuhrman, Jerry Graves, Mark Harmon, Bruce Hoyt (by phone), and Lee White. STAFF IN ATTENDANCE: Kathy Kochis, Pro Comp Director, (by phone) and Tom Boasberg, Chief Operating Officer. PRO COMP TRANSITION TEAM IN ATTENDANCE: Adrienne Army, Ann Christy, Michael Gaither, J. Calvin Hosman, Brad Jupp, and Henry Roman. OTHERS IN ATTENDANCE: Mary Brauer of Reinhart, Trust Board attorney.

I. Review and Approve Agenda

The meeting convened at 4:35 pm. Velma Rose made the motion to approve the agenda. Brett Fuhrman seconded the motion. Motion carried.

II. Approve January 31, 2008 meeting minutes

Velma Rose made the motion to approve the minutes. Brett Fuhrman seconded the motion. Motion carried.

Action Items:

I. Discuss retaining McKinsey to perform a third party evaluation of the fiscal model (Tom Boasberg)

Tom Boasberg stated that shortly after he joined the District he made an effort to understand Pro Comp, the fiscal model and the impacts of various scenarios. The result was that the model's outputs didn't make intuitive sense, thus had Kathy Kochis build an Excel model from scratch to serve as a reference model for the TM1 model, resulting in having Carpe Datum make a number of fixes to the logic in the TM1 model. Mr. Boasberg acknowledged that though the outputs between the two models are closer, the logic is so complicated warranting the need for another tool that would increase the confidence level, not to replace the TM1 model. For this, Mr. Boasberg recommended the McKinsey Group, a consulting firm that he has worked with, that has agreed to perform the work at a deep discount and for which two foundations have agreed to help fund if the Pro Comp Trust also shares in the funding. Mr. Boasberg also remarked that the District administration would like to see the Pro Comp Trust payments increase next year, knowing that such would be subject to negotiation and require the use of a model that everyone has confidence in; thus, in his view, the urgency of the need.

Velma Rose stated that a third-party review of the two models would be good and that she hoped the McKinsey Group model would be more accessible to the DCTA and District bargaining teams, thus, avoiding the cost of additional TM1 model licenses, knowing that Kathy Kochis didn't expect her Excel model to be used for bargaining purposes. Bruce Hoyt reminded everyone that the Trust Board recently sent a letter to the DCTA and the District expressing concern with the model's ability to forecast. Tom Buescher inquired as to whether Carpe Datum had expressed their perspective on TM1, to which Kathy Kochis replied that they acknowledged that the District has not had any

oversight or dedicated sources to review and test the logic in TM1, other than the limited time provided by Ms. Rose's staff.

A. McKinsey presentation (John Garcia, by phone)

John Garcia provided an overview of the McKinsey's Group's clientele and experience, to include involvement with other large urban school districts. Mr. Garcia stated that the financial modeling for the Trust entails very complicated, complex business rules, requiring a lengthy forecast period with numerous variables that interact. McKinsey would not create the demographic assumptions or business rules but rather take the District polices, assumptions and forecasting period and through a model calculate the effects over time of changes in business rules and assumptions. Mr. Garcia said he had spoken to Kathy Kochis regarding the TM1 model. Because of the McKinsey's interest in the District's situation, through the use of virtual office staff that support not-for-profits, they would charge \$125,000 instead of the typical \$375,000 - \$500,000 fee.

Velma Rose inquired as to who McKinsey would need to interact with from the District, to which Mr. Garcia stated they would need Kathy Kochis' time to identify the rules, assumptions and flexibility needs for the model. To Ms. Rose's question regarding the time line for the project, Mr. Garcia stated it would take two and a half to three weeks. As for Ms. Rose's request for a presentation of the model once it's completed to the Trust Board, Mr. Garcia said they would provide the tool to the District via Ms. Kochis. Lee White asked if McKinsey was developing a new Excel-based model or refining the existing model, to which Mr. Garcia replied that it will be a new model, built in Excel with a Visual Basic overlay. To Mr. White's inquiry as to whether it will be a tool that would work for the DCTA and the District, and whether McKinsey understands that the client here is the Trust Board and not the District, Mr. Garcia stated that the tool could be used with minimum training to forecast cash balances by the Trust Board, the District and whomever else. Mr. Garcia responded in the affirmative to Mr. White's statement that the model is to be for the Trust Board and no other client. Mr. White asked why the new model is going to cost so much less than the TM1 model, to which Mr. Garcia stated that the McKinsey Group is not in the business of developing and selling software and that the TM1 model's architecture introduced an order of complexity by using specific individual teacher data, making it too easy to make mistakes, instead of using statistical methods involving matrices of 200-300 cells for different points in time allowing for the modeling of the distribution of teachers over time. Henry Roman asked whether Mr. Garcia analyzed how the TM1 model works. Mr. Garcia stated that he could look at the TM1 model to understand how it works, but that was not his charge; rather, his charge was to build a new model to compare to the TM1 model and Ms. Kochis' model. Mr. Roman stated that the TM1 model is used to prepare the invoices for the Trust and wants to be sure it is reliable, to which Mr. Garcia stated that there wasn't enough dollars and time to dissect TM1. However, the assumptions fed into TM1 would be the same as those input into the new model. As to Mr. Roman's inquiry as to how McKinsey would know that the outputs from their model are correct, Mr. Garcia stated McKinsey would build in a number of checks, such as whether a change in assumptions matches an already calculated result, in addition to the double-checking of coding by skilled staff. Mark Harmon asked whether the model would be applying generally accepted actuarial methodology and standards, to which Mr. Garcia stated that it would be as an actuary would view a statistical distribution of teacher characteristics as of a point in time and over time. Jerry Graves asked if McKinsey had an opportunity to work with TM1 or just got staff comments, to which Mr. Garcia stated he had not worked with TM1 but understands its architecture. At this point, Mr. Garcia was excused from the meeting.

B. Discussion and vote

Mr. White stated that he was upset with the Trust's spending a lot of money on the TM1 model, glad to see that the administration wants to spend more Trust dollars on teachers to which both the DCTA and the District need to understand the impact, knows the McKinsey Group has a great reputation, and, thus, recommends the Trust Board support this project. Mr. Graves expressed his concern with ensuring that the data input to the new model was correct. Andree Hall said that she would support a triangulated validation of the data, by using a combination of the TM1, Ms. Kochis' and the McKinsey Group's model. Mr. Boasberg responded by stating it was his intent to have all three models used, and that McKinsey was not responsible for the

data or the assumptions. Ms. Hall stated that the McKinsey model, just like the TM1 model, is to be owned by the Trust Board and that Ms. Kochis owns her model, to which Mr. Boasberg concurred. Calvin Hosman said that the District needs reliable data that we all agree on and can support. Mr. Buescher asked who was responsible for working with Carpe Datum on the TM1 model, to which Ms. Rose said it was a combination of DoTS staff, and Mr. Roman, Ms. Rose and her staff that provided Carpe Datum the data and explained the workings of the Pro Comp Agreement. Mr. Buescher stated that there needed to be several people looking at the data submitted to McKinsey, to which Ms. Hall said there should be teachers and District staff. Brett Fuhrman, Mr. Boasberg and Mr. Buescher concurred. Mr. Harmon stated that TM1 is a good model based on a proven business structure to which Ms. Rose replied that she felt uncomfortable now with its logic and needs an independent review. Ms. Hall reiterated her support of a triangular solution. Mr. Boasberg stated that the District cannot expect District staff to perform that review when their core knowledge is not in statistics and behavioral science, and that the data is not the issue.

Ms. Rose called for the question. The original motion of approving the McKinsey Group contract to develop the model was requested to be amended by Mr. Buescher, Mr. Graves, Ms. Hall and Ms. Rose to include a two-person committee, a share of one-third of the \$125,000 cost, that ownership resides with the Trust Board, and that the completed product is to be presented to the Trust Board and Transition Team. The following amended motion was moved by Ms. Rose and seconded by Mr. Buescher: Move approval of the Trust Board entering into a contract with The McKinsey Group for the development of an Excel-based forecasting model (1) that would be validated with the TM1 model and Ms. Kochis' model in a triangular manner for the purpose of forecasting Pro Comp Trust Fund cash balances and the impacts of changes in business rules and assumptions, (2) for which the Trust Board's share of the costs would be limited to one-third of the \$125,000, (3) to involve a two-person committee consisting of one District staff representative and one DCTA teacher representative, (4) for which ownership would reside with the Trust Board, and (5) of which the finished product would be presented to the Trust Board and the Transition Team. The motion passed on a vote of 6 to 1, with Mr. Hoyt not being present for the vote and Mr. Harmon dissenting.

II. Discuss by-laws invoices/expenses issue (Velma Rose)

Ms. Hall stated that this would be tabled for action at the next Trust Board meeting.

Information:

I. Discuss aspects of the Trust Board By-Laws (Andree Hall)

- A. Proxy issue (Mary Brauer)
- B. Executive session
- C. Quorum

Ms. Hall stated that these would be tabled for discussion at the next Trust Board meeting.

II. Investment Implementation status: CO/IL state law conflict (Mary Brauer)

Ms. Hall stated that this would be tabled for discussion at the next Trust Board meeting.

III. Future Agenda Items

Ms. Hall adjourned the meeting at 6pm.