Joint Transition Team/Trust Board Meeting

February 19, 2008

MINUTES

Transition Team Members Present: Ann Christy, Michael Gaither, Rob Gould, Adrienne Army, Henry Roman, Margaret Bobb, Brett Fuhrman, Anna Marcuerquiaga-Hughes, Jeff Buck, Brad Jupp, Kathy Kochis

Trust Board Members Present: Velma Rose, Brett Fuhrman, Andree Hall, Mark Harmon, Jerry Graves

Also present: Chris Courim, Ed Freeman, Mary Brauer (by phone), Bria Cunneen

I. Review agenda (Kathy Kochis)

II. High-level walk through of the fiscal model logic (Kathy Kochis)
To give the group a frame of reference going into Chris Courim’s presentation, Kathy walked through the logic that is applied to both fiscal models. She explained the process for calculating the cash balance and the complex process for determining the incremental ProComp compensation piece. She pointed out where the Transition Team’s assumptions are used in the calculations and highlighted the most difficult step: determining traditional compensation for ProComp employees.

III. Walk through of the TM1 Fiscal Model (Chris Courim)
Chris reviewed the basics of the TM1 model with the group, which included an explanation of the multidimensional database’s functionality. He also reviewed the difference between the 2-year salary budget by employee (that Caley uses for invoicing the Trust) and the 50-year salary projection by cohort (that produces the Trust’s projected cash balance). Data entry issues (Lawson, specifically) were discussed as well as recent changes to the model that aligned the cash balance more with Kathy’s excel model (fixing the average salary calculation for new hires and setting a reasonable retirement age). Numerous issues still need to be addressed: adjusting the opt-in percentage, revisiting the retirement age, and including longevity and ELA payments.
IV. **Walk through of the Excel Fiscal Model (Kathy Kochis)**

In order to gain visibility into the fiscal condition of ProComp, Kathy built an Excel model while the TM1 model was being developed. She then used the logic applied in the model to work with Chris Courim on revising the application of the logic in the TM1 model. They have arrived at similar cash balances as of 50 years but she still points out that an independent third party evaluation would be beneficial in order to properly vet the models.

Kathy reviewed the excel model and pointed out the cash flow and the scenario variables worksheets. The variables sheet is used in much the same way as TM1 to analyze “what if” scenarios. The excel variables sheet is less detailed than TM1 but uses the same logic.

V. **Third Party Fiscal Model Evaluation (Kathy Kochis)**

The group discussed the purpose of retaining a third party evaluation: to obtain an independent evaluation of the ProComp program’s fiscal viability. As a joint Transition Team and Trust Board, they reviewed the previous discussion by the Transition Team, from their February 13, 2008 meeting:

Due to the criticality of the information provided in the fiscal models, the district would like to use a third party to evaluate and validate both models. Funding has been secured from the Broad and Rose Foundations to pay for a portion of the work. Based on the Foundations’ requirement for a nationally recognized firm to complete the work, the District has been in discussions with McKinsey and has a tentative agreement to have the work completed at a significantly reduced rate. This is based upon availability of resources at this time and would be dependent upon the Trust Board making a decision quickly.

By moving forward with this work, the Trust Board, District and DCTA would have an independent assessment of the program’s fiscal viability. This would then allow for the Transition Team to have a solid basis for making recommendations on any changes necessary to the program.

This evaluation would allow all groups (DCTA, DPS, the Transition Team and the Trust Board) to have confidence in the models’ assumptions, logic, application of the logic and resulting cash balance.

VI. **Discussion on the proposal for McKinsey to perform the third party evaluation**

The group expressed confidence in the current models and their accuracy; a number of the members present also stated that they find it unnecessary to have McKinsey look at validating the models. However, other members urged the group to stay open to the opportunity. As such, the Trust Board decided to add an information item at their next meeting addressing the evaluation and McKinsey as well as an item regarding funding an employee to focus on running TM1. An action item to vote on McKinsey funding will also be added.
VII. **Confirmation of the roles and responsibilities of each group (Mary Brauer, Kathy Kochis)**

Via conference call, Mary Brauer reviewed a document that she prepared for the meeting outlining the relationship of the Transition Team and the Trust Board. Her preliminary conclusions are that the ProComp Agreement requires the Transition Team to provide information to the Trust Board on the phase-in of ProComp and on the internal and external evaluation of the program. However, the Trust Board is not empowered to redesign ProComp in response to this information. This information is presented to the Trust Board to help the Board with its duty to “ensure the financial over time of the funds of the trust,” as stated in section 4.1.1 of the ProComp Agreement.

Mary also answered questions from the committee members regarding the termination of the trust, the “owners” of the assumptions and the development of the model and the obligation to perform both external and internal evaluations. It was noted that Mary unfortunately did not have the current version of the ProComp Collective Bargaining Agreement (recently ratified by the teachers); the agreement will be emailed to all members and posted online.