

North Los Angeles County Regional Center
Post-Retirement Medical Trust Committee – Via Zoom
Meeting Minutes
April 29, 2020

Present: Elena Burnett, Anna Hamilton, Ruth Janka, Kim Rolfes, and Ana Quiles – Committee Members
Debra Newman – Board Member
Anne Wimmer – HighMark Capital Representative
Tim Banach – U.S. Bank Representative
Sarah Murray, Milliman
David Wright, Musick, Peller, and Garrett
Jennifer Kaiser, Michele Marra, Vini Montague, and Jesse Weller – Staff Members

Absent: All present

I. Call to Order & Introductions

Elena Burnett, chair, called the meeting to order at 5:36 p.m.

II. Public Input – There was no public input.

III. Consent Items

A. Approval of Revised Agenda

M/S/C (A. Hamilton/A. Quiles) To approve the revised agenda as presented.

B. Approval of Minutes of the January 29th Meeting

M/S/C (A. Hamilton/A. Quiles) To approve the minutes as presented.

IV. Committee Business

A. Presentation on NLACRC CalPERS Unfunded Accrued Liability (UAL) Contribution Trust by David Wright of Musick, Peeler, and Garrett, LLP

Kim explained to the committee that in the beginning, the Center's CalPERS pension plan, which provides retirement benefits for the Center's employees, was super funded, which meant the projected market value of the Center's pension plan was greater than the projected cost of retiree benefits. But due to the Center's growth in staff and payroll costs, number of current and projected

retirees, rates of return on investments, and other factors utilized by actuaries to determine the plan's value, as of June 30, 2018 the Center currently has an unfunded retirement liability (deficit/shortfall) of over \$12 million, which is expected to increase due to the size of our workforce and due to less than expected rates of return on investments. As a result of the shortfall, CalPERS requires the Center to pay an additional annual contribution over the next several years to resolve the shortfall. The additional annual contribution is in addition to the employer contribution that NLACRC disburses to CalPERS based on our actual payroll costs. The annual contribution for FY2020-2021 is \$350,514 and each year the annual additional contribution increases and by FY2024-2025, the annual lump-sum payment is projected to be over \$1million. To mitigate the impact that the mandated additional lump sum payments will have on the Centers operations budget, in November 2019 the Board of Trustees authorized the establishment of an irrevocable trust, known as the NLACRC CalPERS Unfunded Liability Contribution Trust ("CalPERS UAL Trust"). Funds placed into the CalPERS UAL Trust may only be directed to reduce NLACRC's obligations to CalPERS for retirement benefits. David Wright presented and reviewed the NLACRC's CalPERS Unfunded Liability Contribution Trust with the committee. David shared that the CalPERS Unfunded Trust is actually the 4th version as many modifications have been made due to extensive negotiations with US Bank, the trustee. Anne Wimmer of Highmark Capital Management will be responsible for managing the new CalPERS UAL Trust, although this committee and the board of trustees has the authority to establish the investment strategy.

B. Advisory Services

1. Board Resolution to enter into Advisory Services Agreement: The Center appointed Highmark Capital Management as the investment advisor for the CalPERS UAL Trust and the board resolution was included the meeting packet. The Advisory Services Agreement is a 1 year contract and renews automatically. However, the Advisory Services Agreement may be terminated at any time with 30 calendar days prior written notice. The fee structure is 0.35% for managed account investment management services and the minimum annual fee is \$10,000. Kim reported the fee structure for the CalPERS UAL Trust is identical to the fee structure for the PRMT,

M/S/C (L. Martinez/A. Quiles) To recommend to the Board of Trustees to approve the board resolution for the advisory services agreement with Highmark as presented.

2. Certification by Secretary of the Authorized Signers and Authorization to enter into Advisory Services Agreement: A Board Resolution was presented to authorize specific Center staff as authorized signers to communicate and provide instructions to Highmark. The authorization would require that any 2 of 5 officers or director acting together (Executive Director, Deputy Director-Chief Financial Officer, Chief Organizational Development Officer, Chief of Program Services, and Director of Finance) would be authorized to communicate and provide direction to Highmark.

M/S/C (A. Hamilton/A. Quiles) To recommend to the Board of Trustees to approve the authorization to establish the authorized signers and Authorization to enter into Advisory Services Agreement, as presented.

3. Investment Strategy for CalPERS UAL Trust: Anne of Highmark presented to the committee the proposed Income & Growth investment strategy for the Cal PERS UAL Trust and discussed the time horizon, anticipated cash flows, investment objective, risk tolerance, unique considerations (of which there were none), investment restrictions, strategic asset allocation, investment authority, security guidelines, investment benchmark, and responsibilities of investment manager.

M/S/C (A. Hamilton/A. Quiles) To recommend to the Board of Trustees to authorize the investment strategy of Income & Growth for the CalPERS UAL Trust.

4. Deposit into CalPERS UAL Trust: Kim reported that the center had encumbered \$3,348,700 of funds which was scheduled to be disbursed into the CalPERS UAL Trust in the next few days. Further Kim reported that the center would be assessing to determine if it had additional funds to disburse into the CalPERS UAL Trust and a recommendation would be provided to the committee.

5. Recommendation for Disbursement to CalPERS from UAL Contribution Trust: Kim reported that due to the COVID-19 crisis, Governor Newsom had scrapped the January Budget planned for FY 2020-21 and our governor has reported that the revised FY 2020-21 budget will be radically different. Currently, the State is anticipating a budget deficit of

\$35 billion during FY 2020-21, which is expected to increase to \$85 billion in the years to come. Although we expect a FY 2020-21 budget by June 15th, pursuant to the State's constitution, it is expected that the State may consider an August 2020 budget revise, since the State will have better information about its projected revenue when the tax returns are submitted in July 2020, which means budgets could be further revised accordingly. For these reasons, Kim reported that the center is expecting budget reductions and cost containment measures when the May 2020 revise is published for FY 2020-21. In order to mitigate the financial impact of the annual additional payment required by CalPERS on our FY 2020-21 operations budget, Kim recommended the committee recommend to the Board of Trustees that we disburse \$350,514 from the CalPERS UAL Trust to CalPERS when that payment becomes due in July 2020.

M/S/C (E. Burnett/A. Hamilton) To recommend to the Board of Trustees to approve the disbursement of \$350,514 from the CalPERS UAL Trust to CalPERS in July 2020

C. Presentation of Actuarial Valuation of Retiree Health Benefits by Sarah Murray of Milliman

Copies of the presentation were provided to the committee and Sarah reviewed it with them page-by-page. The presentation provided an overview of the following points:

1. Reporting requirements under Accounting Standard Codification 715.
2. The center's retiree health plan.
3. How the valuation works.
4. Key definitions and terminology.
5. Valuation results.
6. Note on CalPERS pension liability.

D. HighMark Capital Report: Statement of Current PRMT Trust Value

Anne provided copies of HighMark's quarterly report on the activity of the center's PRMT and reviewed it with them. The report began with a look at the current financial environment, including economic conditions, interest rates/inflation, and outlook. This was followed by the asset allocation summary, holdings report by asset class, selected period performance, and economic data

charts. As of March 31, 2020, the value of the trust assets was \$23,152,871, a decrease of \$3,840,034 since the last quarterly report. The decrease was due to a loss in investments, due to the COVID-19 pandemic. The rate of return for the quarter was -14.32% (net of fees) and for the last 12 months was -6.63% (net of fees). The annualized rate of return since the trust's inception (November 1, 2004) was 5.08% (gross of fees).

E. Quarterly PRMT Market Value History Report

Kim provided copies of the report which reported the trust's market value for each quarter since its inception in September 2004 through March 31, 2020. During this period of time, the center has contributed \$15,548,657 to the trust (including fees), which has gained \$7,603,280 in interest for a total trust value of \$23,151,937. Kim also provided the committee with a report on the dates and amounts of all the contributions the center has made since the inception of the trust.

F. Third Quarter PRMT Fees Report

Kim provided copies of a report which showed the breakdown of the fees paid by the center to oversee the PRMT. During the third quarter of this fiscal year, the center paid \$125 as a flat fee, \$7,536.51 in ongoing fees, and \$19,078.55 in investment management fees, for a total of \$26,740.06. The year to date fees totaled \$87,034.26. Attached to the report was an explanation of the trust fees and how they are calculated.

G. Proposed Changes to PRMT Policies and Procedures

Proposed changes were made to the committee's policies and procedures to include the oversight of the CalPERS unfunded accrued liability trust.

M/S/C (A. Quiles/D. Newman) To present the proposed changes to the PRMT policies and procedures, as presented, to the Board of Trustees for their review and approval.

V. Board Meeting Agenda Items

The following items were identified for the PRMT's section of the May 13th board meeting agenda:

- A. Minutes of the April 29th Meeting
- B. Statement on Current PRMT Trust Value
- C. Presentation of Changes to PRMT Policies and Procedures
- D. Approval of the Advisory Services Agreement with Highmark
- E. Approval of the Authorized Signers and Authorization to enter into Advisory Services Agreement:
- F. Approval of the disbursement of \$350,514 from the CalPERS UAL Trust to CalPERS

VI. Announcements/Information/Public Input

- A. Next Meeting: Wednesday, July 29th, at 5:30 p.m.

VII. Adjournment

Elena adjourned the meeting at 6:55 p.m.

Submitted by,

Jennifer Kaiser

Jennifer Kaiser
Executive Assistant

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