Tucson Unified School District No. 1  
Employee Benefits Trust Meeting  
Grey Room, Morrow Education Center  
1010 East Tenth Street  
Tucson, Arizona 85719

May 20, 2013  
5:30 p.m.

MINUTES

Committee Members Present:
Dr. Neil West
Dr. Stegeman
Yousef Awwad
Mark Mansfield
Robert Harbour

Others Present:
Janet Underwood – Recordkeeper (phone)
Pam Palmo – Interim Executive Director, Human Resources
Louis Montoya – Buck Consultants
Debbie Hainke – AmeriBen

Not Present:
Cliff Wadhams - Accountant

MEETING CALLED TO ORDER
Meeting called to order at 5:40 p.m.

CALL TO THE AUDIENCE
No one requested to speak.

QUORUM - A quorum is present.

INFORMATION / ACTION ITEMS

Review Minutes
A motion was made by Mark Mansfield to approve the 3/25/13 minutes and seconded by Mark Stegeman; passed 4-0.

Review Financials
The April Financial update was provided by Cliff in writing:
1. There were no unusual expenditures for the month.
2. After Expenditures for the month we had $418,560.92 excess revenue.
3. We received an RX Rebate of $254,687.66 in April
4. Interest Revenue for March received in April of $19,932.58 from the County.
5. Beginning Cash Balance 04.01.13 $24,915,647.17 + Excess Revenue of $418,560.92 = Ending Cash Balance as of 04.30.13 of
$25,334,208.09. After allowance for IBNR Cash Available is $20,505,867.56.

6. In comparison to previous year at this same time - we are $2,616,125.08 positive in our cash position.

Dr. West noted that rebates were about $700k YTD.
Bob Harbour noted that for April there was a surplus of $514k; the Reserve Policy will be reviewed at a future meeting. Mark Mansfield stated that the Financials should show a line item showing the subsidy monies committed for 2013-2014, however, this may not fit with accounting standards; this will be reviewed internally with the Sr. Accounting Manager as to how to present. Put on the next agenda and determine how to hold reserves for employees/employees claims but will discuss at next meeting.

Buck will calculate the IBNR; we have $26m in claims and we are at the top end of the claims already and will provide a recommendation.

Appeals or Subrogation Cases
Debbie Hainke reported that there were no appeals or subrogation to report. We will add the subrogation process to a future agenda.

Old Business

Update on Plan Design
The main points were approved by the Governing Board at the April meeting.

Wells Fargo Presentation – Tom Hedges
Mr. Hedges reported that he works with accounts like ours using the guidelines in Arizona, has products to fit the Trust’s needs, and is an industry leader. On the municipal side, he has partnered with Pima on their recent bond.

- Tom reviewed the products offered that the Trust may be interested in and can assist with building an investment policy; the customer is the most important piece (puzzle p 7). While the products are important, Wells Fargo uses their services and people to service the account.
- The Title 5 was reviewed – obligations, commercial paper, bonds, and certificates of deposit.
- Money management is a key factor and using the investment policy to produce yield; he can provide an investment policy using the Title 5 statute as a guide if that is what is wanted. Mark Mansfield outlined a sample of percentages per product chosen.
- The Fair Market Sector Curve was reviewed. Mr. Hedges would need to understand liquidity needs for certain time periods, keeping in mind replenishment. Tom would need to also know what our projections are.
- CDs are FDIC insured under $250k. Wells Fargo is a large core bank that uses its own credit review process for CD’s. There is a CDARS system that does not take steps as Wells Fargo does.
- As banks get acquired, CD’s can change hands. If a CD fails, it may take up to 45 days (worst case) to a couple of days, to convert to cash.
- CD’s are paid on the maturity date within a couple days maximum. Dr. Stegeman outlined a possible draw-down off the reserves over future
costs in the benefits plan, but Dr. West would like to see the laddering, and Bob offered that there is an opportunity cost that could be lost.

- Tom discussed how Japan is trying to crush the Yen… the SEC making everyone aware of NAV. If QE programs start backing off, and governors “hawks and doves” and WF believes the Feds will be backing off on that mid next year. When they do they believe they will do so on the mortgage backside. Biggest thing is what will happen with the prime funds and how do commercial paper issuers fit in; and a big push on short Treasury rates. Last week Treasury was negative last week and right now they are zero.

- Louie said you’d need an opinion on whether public funds (he believes is) and the limit is a 5 years. Every ladder he has seen are the big rungs for years 1-3; the Trust must consider years 6-8, and the basis points effect (most of Buck’s public entities just can’t see themselves that long).

- Dr. West provided some scenarios - How much would be in short term paper and what percentage (say 25%0 and 45% and then 15% in 4-5 year; is that a plausible mix ). BettyAnn stated that bank has that liquidity of 25 basis points; then can calc X% liquid, and then would need to decide the laddering term after that to take advantage of those rates. Pat offered that at the very least should invest in the savings account initially.

- Mark Mansfield believes there are three legs to look at; asked if Buck could give us a multi-year projection on rates; Buck agreed and can provide this. Then the Trust can develop a subsidy strategy to draw down, backstopped by a renewed investment and reserve policy, and how we invest. Dr. West stated the liquidity piece could be 20-25%. Bob would like to understand the process, have we talked to any of the competition and what their rates are; Mark Mansfield reminded the Trust that the RFP process that was done in which Wells Fargo was chosen. BettyAnn added that n the RFP, the array of banking services were a factor. Bob wondered what Chase would offer in this case. Tom is on the broker side; they also have money managers; what has happened in the industry for Title 35, is all fixed income product (5 years); may be able to do ten. The yield curve, with a money manager, charges a fee which can be greater than the return. On product itself, he uses Bloomberg and CDs do have commissions made off of them. Bob is just wondering what our rate of return is compared to other offereors. Wells Fargo said their fees are fully disclosed as awarded the RFP. Louie added that if the Trust wants to look at the investment side, then we may have to do another RFP.

Additional discussion was held regarding understanding the management process, using modeling as a useful start with an assumption of drawing down $2.5m per year making a conservative assumption on the healthcare cost side, and determining compatible ladders.

Buck has a trust flow stress analysis with rebalancing and quarterly reporting. Can be a little more liquid to ensure claims dollars are there. Dr. West believes the Trust can move some funds to Wells Fargo; a bigger issue for him is that the $2.5m that will be used for subsidy, and for 7 months the balance shows us it won’t actually draw down, but if healthcare costs jump dramatically there will be an inflation issue. Bob’s concern frankly is the fund is overfunded and should not be that high over some period of time; look out over time to project cash flow over next five years and then determine what cash can be invested. Wells Fargo said their bank side of 25 basis points is
collateralized with mortgage backed securities above the $250k FDIC insured; they have a whole public fund who manages the 103% collateralization. Wells Fargo said the Trust would be fully insured; Bob Harbour disagreed. Betty Ann can provide the exact products.

Mark Mansfield offered that even if the Trust invests longer, it's not cast in stone and can still access the money; use an Investment policy to dictate how the funds are invested and rebalanced. Tom can get a canned investment policy for us, following Title 35.

The Trust needs to be provided the interest rate earned now at the County, and what the investments are. The Trust Board also wants to know how to find out what other banks are paying. Can we find out (Chase, JP Morgan, Discover?). Wells Fargo can provide the same with no paperwork for the District to handle itself.

**New Business**

**Bob Harbour re: NTB**
Discussed as part of overall Wells Fargo and investment points.

**AmeriBen Conference in September (25-27th)**
Mark Mansfield can attend if no one else can fit into their schedule.

**Pharmacy Review (drill down)**
Caremark has changed their platform so there is a delay accessing that system’s reporting module; will be on a future agenda.

The next meeting is June 24, 2013, at 5:30pm.

Mark Stegeman made a motion to adjourn the meeting; and Bob seconded the motion; passed 4-0. Meeting adjourned at 8:15pm.

Approved this 24th day of June, 2013.

TUSD EMPLOYEE BENEFITS TRUST BOARD

By ____________________________

Dr. Neil R. West, EBT Board Chair