



INVESTING LTHB FUNDS



LTHB Fund Overview

- Funds set aside to address PCHS Other Post-Employment Benefits (OPEB) liability
 - *Pays for lifetime health benefits for eligible employees (currently retired & future retirees)*
- Currently operating on a “pay-as-you go basis”
 - *Paying the minimum amount owed each year in order to fund current retiree benefits. This approach does not reduce the overall liability and is not sustainable.*
- \$5.3+ Million of funds sitting in the County Treasury Office, earning 1.5% interest
 - *There is a portion of this fund that has been loaned to the Pool/Track. See appendix for details.*
- Opportunity to invest these funds in order to achieve a much higher rate of return (5% target)
 - *PCHS would still contribute to the fund annually*
 - *Actuarial report & investment advisor can help determine the funding rate*
 - *Government Finance Officers Association (GFOA) recommends a best practice of pre-funding OPEB liability through a separate trust/investment fund. This is a common practice among other schools.*

Pre-funding the OPEB liability vs “pay as you go”

- The following page outlines a comparison of prefunding/investing vs paying as you go
- The “pay as you go” method will result in PCHS paying over \$31 Million between now and 2070
- The prefunding/investment method fully funds the benefit in 20 years, totaling \$15.7 Million
- The funding schedules are projections based on a variety of assumptions. Actual amounts may vary but the reason for showing this is to highlight the importance of pre-funding this obligation.

*Assumptions:

Projection is based on a “closed group” – no new members

Investment projection is based on \$6.3 Million initial pre-funding with a 4% rate of return over a 20-year period

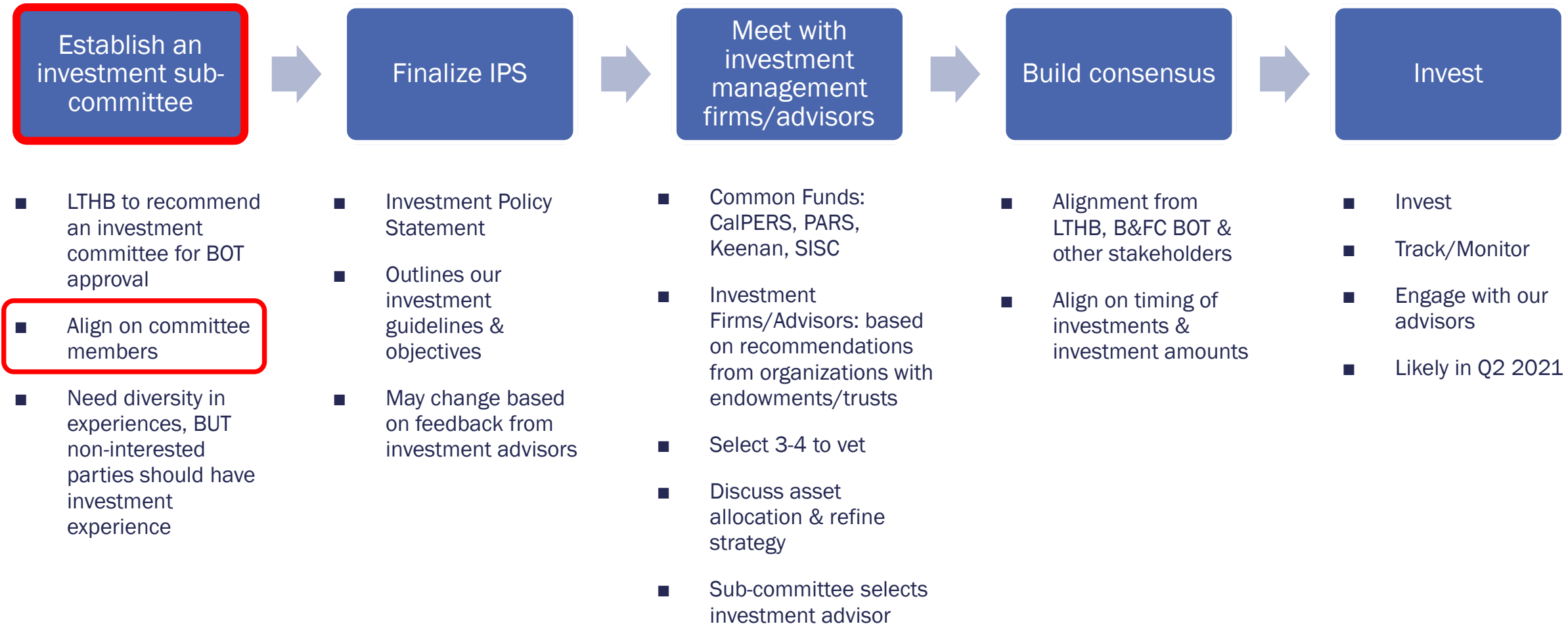
Funding Schedule (continued)

Sample Funding Schedules (Closed Group)
Starting Asset Value of \$6,383,360 as of June 30, 2020

Fiscal Year Beginning	Pay-as-you-go	Level Contribution for 20 years	Level % of Unfunded Liability	Constant Percentage Increase
2020	\$302,954	\$789,346	\$986,790	\$610,506
2021	344,954	789,346	947,954	628,821
2022	379,477	789,346	909,543	647,686
2023	429,702	789,346	871,745	667,116
2024	464,943	789,346	834,577	687,130
2025	491,236	789,346	798,055	707,744
2026	537,407	789,346	762,185	728,976
2027	599,189	789,346	726,980	750,845
2028	643,175	789,346	692,466	773,371
2029	695,266	789,346	658,669	796,572
2030	744,763	789,346	625,612	820,469
2031	802,700	789,346	593,320	845,083
2032	839,369	789,346	561,821	870,436
2033	890,293	789,346	531,140	896,549
2034	948,701	789,346	501,298	923,445
2035	984,925	789,346	472,326	951,148
2036	1,016,260	789,346	444,250	979,683
2037	1,045,086	789,346	417,084	1,009,073
2038	1,081,359	789,346	390,843	1,039,346
2039	1,099,510	789,346	365,541	1,070,526
2040	1,133,536	0	341,191	0
2041	1,150,623	0	317,804	0
2042	1,161,099	0	295,393	0
2043	1,159,882	0	273,961	0
2044	1,168,533	0	253,503	0
2045	1,166,492	0	234,016	0
2046	1,163,368	0	215,497	0
2047	1,166,722	0	197,937	0
2048	1,164,653	0	181,332	0
2049	1,148,266	0	165,677	0
2050	1,104,506	0	150,961	0
2051	1,082,760	0	137,156	0
2052	1,054,176	0	124,233	0
2055	970,067	0	90,510	0
2060	773,274	0	49,557	0
2065	556,259	0	24,266	0
2070	348,530	0	10,361	0

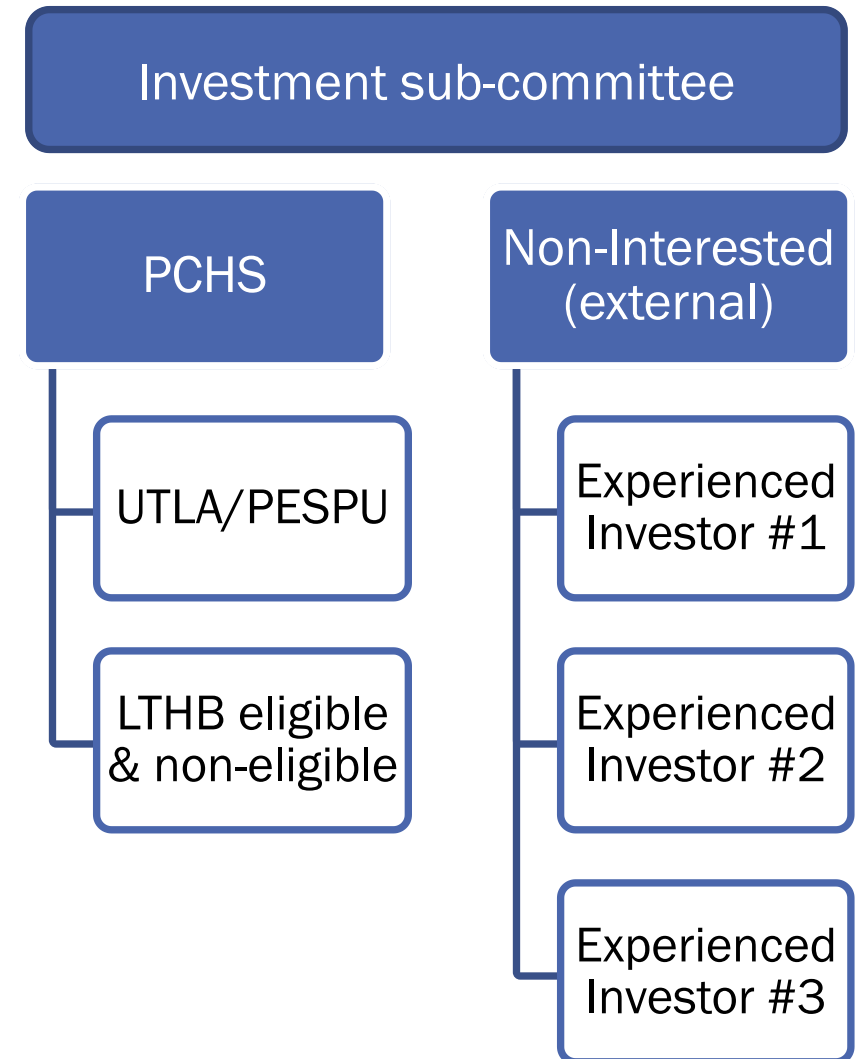
Note to auditor: when calculating the employer OPEB contribution for the year ending on the statement date, we recommend multiplying the actual PCHS-paid premiums on behalf of retirees by a factor of 1.1363 to adjust for the implicit subsidy.

Process for Investing LTHB Funds



In November, we proposed an investment sub-committee ranging from 3 - 9 individuals from various stakeholder groups

- Recommendation was to have representation from stakeholder groups
- Need at least 3 non-interested parties with investment experience*
- Juan Pablo Herrera and Michael Rawson would also contribute
- Objectives of the committee:
 - 1) *Review and finalize the Investment Policy Statement*
 - 2) *Vet/meet with investment advisors/partners*
 - 3) *Select/Recommend an investment advisor/partner*
 - 4) *If recommendation is approved by LTHB & BOT, then meet quarterly with investment advisor to review status of investments and performance*



* Investment management, wealth management, financial advisor, etc.

Although we are eager to move forward, we have a few challenges regarding Charter compliance

- Upon closer review of our Charter, it was determined that the lifetime health benefits committee is an ad-hoc committee
- It is not advisable for an ad-hoc committee to have a sub-committee
- The proposed sub-committee also has a significant impact on the school's financial health, and we are unclear on how this impacts interested parties ability to serve/vote on the committee
- **Rather than creating a formal sub-committee, the Board of Trustees could take ownership of the investment oversight process**
 - *Potentially an ad-hoc committee made up of non-interested board members*
 - *Doing so would minimize risk and ensure charter compliance*
 - *It would also expedite the process to finalize the IPS (investment policy statement) and explore investment opportunities.*



DISCUSSION / VOTE



APPENDIX

Funds Borrowed from LTHB

- Total of \$1.7 Million borrowed from LTHB fund
 - Pool loan amount: \$835k. Will be fully repaid by April 2021
 - Track loan(s) amount: \$872k: Will be fully repaid by June 2023
- Was loaned at an interest rate of 4.5%

