



Chandler • Arizona

2019 Health Care Benefit Trust Board Minutes

Regular Meetings

March 21, 2019

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August 22, 2019

November 14, 2019

These minutes are fully searchable within this year by using the “Find Feature”.

HEALTH CARE BENEFITS TRUST BOARD

MINUTES OF THE MEETING OF

THURSDAY, MARCH 21, 2019

CALL TO ORDER & ROLL CALL:

Mr. Alex Myer, Chairperson, called the meeting to order at 4:00 p.m. in the City Hall Council Conference Room, Chandler, Arizona. Roll was taken.

BOARD MEMBERS PRESENT:

Mr. Alex Myer, Chairperson; Assistant Fire Chief Val Gale, Vice-Chairperson; Ms. Ayana Allen, Secretary; Ms. Sherry Teslow; and Mr. Mike Bohnert.

BOARD MEMBERS ABSENT:

None

STAFF MEMBERS PRESENT:

Rae Lynn Nielsen, Acting Human Resources Director; Lynna Soller, Benefit Programs Manager; Carol Osterhaus, Benefits Analyst; Kristi Smith, Accounting Manager; Sherry McGlade, Accounting Supervisor; and Julia House, Management Assistant.

INVITED GUESTS:

Amy Girardo, Segal Consulting

APPROVAL OF MINUTES:

Mr. Meyer, Chairperson, asked for a motion. Ms. Teslow made a motion to approve the minutes of November 29, 2018. Ms. Allen seconded the motion. The vote was unanimous to approve.

SCHEDULED / UNSCHEDULED PUBLIC APPEARANCES / CALL TO PUBLIC

(Members of the audience may address any item not on the agenda. State Statute prohibits the Health Care Benefits Trust Board from discussing any item that is not on the agenda, but the Health Care Benefits Trust board does listen to your concerns and has staff follow up on any questions you raise.) (There will be a time limit of the three minutes per speaker.)

None.

Lynna Soller asked the Chairperson for a moment to introduce Kristi Smith, Accounting Manager. Kristi has taken the place of Penny Malia from Management Services. Also attending today is Sherry McGlade, Accounting Supervisor, from Management Services. The City welcomes them to the team. I would also like to announce that City has received the resignation of Sherry Teslow from the Boards whose term is ending and she has decided not to stay another term. The City and the Board thanks Sherry for her service and wishes her all the best in the future.

BRIEFING ITEMS:

A. **Financial Statements and Wellness Report – Management Services**

Statement of Net Position as of December 31, 2018

Sherry McGlade advised the Board that this report is an unaudited version of the report and the City does not have the updated IBNR and the end of year reserves. The Total Assets are \$16,658,436 which is an increase from the prior year of \$924K. The Total Liabilities are at \$3,026,386 which is a decrease from prior year of \$533K. The Total Net Position is \$13,632,050 which is an increase from the prior year of \$1,456K which is detailed in the Statement of Revenues, Expenses and Changes and Net Position as of December 31, 2018. The December 31, 2017, minimum end of year reserve, including IBNR and two months costs as projected by Segal Consulting, is \$5,142,000 and the Net Position is well over that amount.

Statement of Revenues, Expenses and Changes in Net Position as of December 31, 2018

Sherry McGlade advised the Board that the Total Operating Revenues came in at \$22,425,473 which is under the budgeted estimate by \$2,150,627 and reflects position vacancies throughout the City. The Total Operating Expenses came in at \$21,178,966 which is under the budgeted number by \$1,271,694 which reflects the costs of the new 2018 wellness program and costs have come in under what was expected. Also, personnel support was lower due to vacant positions and the Blue Cross Blue Shield \$30K contribution for Communications was received but has not yet been spent. The Total Claims Paid for Employees was \$16,384,643, for Retirees \$1,983,063, and COBRA at \$100,122. This represents a reduction from the budgeted number of \$993K. The Net Operating Income is \$1,246,507. The Non-Operating Revenues is at \$209,934 which brings

the fund to a Total Change in Net Position of \$1,456,441. The Total Net Position at December 31, 2018, is \$13,632,050.

Statement of Cash Flows as of December 31, 2018

The Statement of Cash Flows is in a different format than what has been presented in the past. This format more closely reflects the Auditors format. The investments line was taken out from the top portion and then added at the bottom in the Reconciliation portion. The Cash and Investments are equal to the Statement of Net Position at \$12,797,379.

Wellness Programs Tracking Report through December 31, 2018

Sherry McGlade advised the Board that the remaining wellness programs funds are \$75,720.10.

Questions and Answers from the Financial Statements:

- 1. Asst. Fire Chief Val Gale asked if the two numbers on the Statement of Revenues, Expenses and Changes in Net Position had not increased as much as what was projected.**

Sherry McGlade advised the Board the Asst. Chief Gale was correct that the increases did not meet the projected budget.

- 2. Chairperson Myer asked why the Yoga Program had dropped. What accounts for the drop in Promotional/Advertising Services?**

Lynna Soller advised the Board that there was a decrease in participation for the Yoga program and for this calendar year, the Yoga program was eliminated. The City has added other programs and classes that are being offered free to the employees. As the City has gone through 2018, the City was doing more in-house creation of materials and not paying outside vendors. Some items were replaced with Gift Cards, water bottles, workout towels to exhaust the supply of items we had in the cabinet before new items were purchased.

B. Investment Report – Management Services

The PFM Group Quarterly Investment Report as of December 31, 2018

Sherry McGlade advised the Board that on the Quarterly Market Summary, PFM is expecting rates to fall going forward. PFM also noted the S&P 500 falling by 14% during the quarter. PFM also noted that the U.S. Treasury Yields are falling, even though economists haven't talked about it. PFM wanted the City to be aware that this has historically been an early warning sign of a recession; however, they are not predicting a recession. PFM also is not expecting any rate hikes in the coming year. The unemployment rate is at 3.9% due to increases in workers entering the

job market. The average hourly earnings increased by 3.2% and the initial jobless claims for the quarter were lower than the prior quarter.

The Sector Allocation shows Total Investments of \$12,857,244 with 96.3% in Securities, 1.8% in Money Market Fund, and 1.9% in PFM Funds. The current Yield at Cost is at 2.29%. Allocations have changed slightly; however, the fund remains well diversified. The Maturity Distribution shows a benchmark of 2.52%. The Fund was at 2.63% which outperformed the benchmark. The benchmark duration was 1.63 years.

Questions and Answers from the Investment Report:

None.

C. Medical Trust Actuarial Report – Segal Consultants

Amy Girardo advised the Board that contributions in 2018 were \$22.3M vs. \$21.8M in 2017. Total claims were \$18.4M in 2018, compared to \$17.4M in 2017. Total claims and expenses were \$21.1M in 2018, compared to \$19.9M in 2017. The loss ratio for 2018 was 95% in 2018, and 91% in 2017. There is \$1.1M in surplus. The Per Employee Per Month (PEPM) cost was increased to 2.7% in 2018. The 2.7% is very reasonable and very good in today's market. The fund continues to do very well. There was a concern due to unusual high claims but the fund performed very well.

The pharmacy information will be available from Blue Cross Blue Shield shortly and the data should be available for the next report.

The enrollment demographics show the average number of employees and members are up; however, the ratio of members and employees is consistent at 2.73. The age/gender index also had no change.

For the large claims year-over-year 2018 – 2017, there were 22 in each year and \$4.1M in 2018 versus \$3.9M still accounted for almost 22% of the spend on those 22 individuals.

Inpatient hospital bed days and average length of stay decreased. The in network usage increased in 2018 and the discount from the billed was at 68.4%.

The member cost remains at 85/15 with no changes from last year.

The enrollment remains at 1,700 employees and retirees. The contributions were at \$22.3M for 2018, with a total paid claims and expenses of \$21.1M. There were stop-loss reimbursements of \$265.5K. The total loss ratio was at 94.8% for 2018, compared to 91.5% in 2017.

The enrollment showed a movement of 4% of the population out of the Red Plan, 7% out of the Blue Plan, and an increase of population into the White Plan.

The total of claims paid by all plans showed the Actives of \$901 PEPM, Retirees of \$1,102, and for All Combined of \$919 PEPM.

The actives had a loss ratio of 93% and the retiree's loss ratio is at 133%. There is a smaller group of retirees with higher claims loss. Once blended into the actives the overall loss ratio was at 96%.

There was a surplus of \$77 PEPM for the Actives with a \$307 deficit in the Retirees. Retiree enrollment is 9%, with 7% of the contributions, and 10% of the claim expenses.

The trend was 1.2% through December, 2018, which is very good. Pharmacy was at 7.7% which is also very good as the average trend for pharmacy is 10-12%.

The fund has done very well for 2018.

Questions and Answers from the Medical Trust Actuarial Report

None.

ACTION ITEMS:

None.

DISCUSSION ITEMS:

None.

MEMBER COMMENTS AND ANNOUNCEMENTS:

None

CALENDAR

A. Next Scheduled Meeting:

June 20, 2019 (Combined)

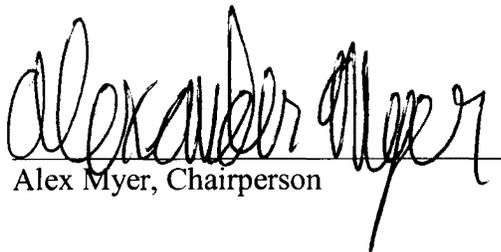
INFORMATIONAL ITEMS

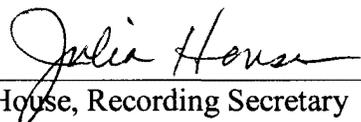
A. Agenda Items for Future Meeting Dates

Financial Audit Report
Financial & Wellness Reports
Investment Report
Segal Report – Medical Trust Actuarial Report
New Members & Elections

ADJOURNMENT:

There being no other business, Mr. Myer, Chairperson, asked for a motion to adjourn. Ms. Teslow made a motion to adjourn and Mr. Bohnert seconded the motion. The vote was unanimous to adjourn and the meeting was adjourned at 4:30 p.m.


Alex Myer, Chairperson


Julia House, Recording Secretary

HEALTH CARE BENEFITS TRUST BOARD

MINUTES OF THE MEETING OF

THURSDAY, JUNE 20, 2019

CALL TO ORDER & ROLL CALL:

Mr. Alex Myer, Chairperson, called the meeting to order at 4:06 p.m. in the City Hall Council Conference Room, Chandler, Arizona. Roll was taken.

BOARD MEMBERS PRESENT:

Mr. Alex Myer, Chairperson; Assistant Fire Chief Val Gale, Vice-Chairperson; Ms. Ayana Allen, Secretary.

BOARD MEMBERS ABSENT:

Mr. Bohnert

STAFF MEMBERS PRESENT:

Lynna Soller, Benefit Programs Manager; Carol Osterhaus, Benefits Analyst; Kristin Maier, Human Resources Manager; Dawn Lang, Management Services Director; Kristi Smith, Accounting Manager; Rowena Laxa, Assistant City Attorney; and Julia House, Management Assistant.

INVITED GUESTS:

Amy Girardo - Segal Consulting
Mike Hoerig- Heinfeld Meech (via telephone)
Paulina Woo, Managing Director - PFM
Luke Schneider, CFA, Director - PFM
Annette Gaston, Sr. Managing Consultant - PFM

APPROVAL OF MINUTES:

Mr. Meyer, Chairperson, asked for a motion. Assistant Fire Chief Gale made a motion to approve the minutes of August 30, 2018, and the minutes March 21, 2019. Ms. Allen seconded the motion. The vote was unanimous to approve.

SCHEDULED / UNSCHEDULED PUBLIC APPEARANCES / CALL TO PUBLIC

(Members of the audience may address any item not on the agenda. State Statute prohibits the Health Care Benefits Trust Board from discussing any item that is not on the agenda, but the Health Care Benefits Trust board does listen to your concerns and has staff follow up on any questions you raise.) (There will be a time limit of three minutes per speaker.)

None.

BRIEFING ITEMS:

A. New Board Member Status

Julia House, Secretary, advised the Board that Human Resources has not been able to find a fifth Board member for the Health Care Benefits Trust Board and the Workers' Comp. Trust Board. If you know of someone who is a Chandler resident, please have them log onto the Chandler website and complete an application for Boards & Commissions.

Lynna Soller asked the Chairperson for a moment to introduce Kristin Maier, Human Resources Manager. Kristin is new to our Human Resources team and will be working with our leave management and workers' compensation side of Human Resources.

B. Annual Financial Audit Report – Heinfeld Meech

Mike Hoerig advised the Board that the two items to review are a government communication letter and the audited financial statements. The Governance letter is dated May 2, 2019, is an executive level summary of the audit and communication to the Board Members. The Qualitative Aspects of Accounting Practices talks about estimates and accounting policies. There were no issues to report in respect to the financials and the estimate of IBNR. There were no difficulties in performing the audit. There were no audit adjustments that were found during the audit. There were no corrections to the financial statements. There were no disagreements with management during the audit. Included in the letter is the responsibility for fraud and internal controls for fraud. We have included the Fraud Prevention Checklist with this letter.

Also included in your report is the Engagement Letter and the Representation Letter in order for the Board to be aware of the agreements that are established at the beginning of the audit process.

Page 1 and 2 of the Financial Statements is the Independent Auditors Report. The opinion was that it was a clean and unmodified audit opinion which means there no material misstatements detected as a result of our audit procedures.

Page 5 of the Financial Analysis shows total assets increasing from \$15.7M to \$16.7M which represents a 6% increase mostly due to the timing of the premiums due from the City. No real driver other than general timing. Total liabilities decreased \$880K or a 25% decrease which is significant primarily due to decrease in claims payable. There were fewer claims outstanding to be paid in December, 2018 over the previous year, probably due to timing. The decrease in total

liabilities is a decrease in IBNR from \$1.5M to \$1.1M. Revenues are increasing by a moderate 3% due to premiums from employer and retirees. There was an increase in expenses due to market looking for better investment opportunities. The total expenses increased about \$350K or 2% is relatively stable. The claims amount were up about \$1M increase from the prior year. Offsetting that is the decrease in the IBNR.

Page 7 compares the IBNR with the ending net position of the Trust and the minimum reserve of \$4.9M compared to the ending Net Position at \$13.9M more than covers the minimum reserve goal. The trust is getting healthier for all the reasons we have discussed.

Pages 11 – 16 includes the Notes to the Financial Statements. There were no changes in accounting policies. There were no changes in investment policies.

Pages 18 – 19 includes the Report on Internal Control and on Compliance with no significant findings of material weaknesses in internal control or errors in financial statements.

No management letter was issued with this audit.

Questions and Answers from the Financial Audit:

- 1. Assistant Fire Chief Val Gale asked to point out on Page 5 the approximate increase of \$1M in claims from 2017 to 2018.**

Mike Hoerig advised the Board that the increase in claims was listed on Page 9 under operating expenses. The first three rows are claims paid and if you add up those three rows for 2018 and the same three rows in the 2017 report, there would be an increase of \$1M. The offset to that is the Claims Incurred but Not Reported which is a decrease in 2018 over 2017.

C. Investment Management Overview and Follow-Up on Investment Questions - PFM

Dawn Lang introduced Paulina Woo, Managing Director of PFM, to the Board in order to give the Board an investment management update. Presenting with Paulina was Luke Schneider, CFA, Director and Annette Gaston, Sr. Managing Consultant.

Paulina advised the Board that PFM has offices in Chandler and PFM also handles the City's funds as well. PFM headquarters is in Harrisburg, PA with over 200 employees in this trading headquarters which runs one of the largest fixed income trading desks in the country with our own dedicated accounting, compliance, trading and trading desk staff.

PFM is a fiduciary and by law we have to do what is in the best interest of the Trust and the City which is an important distinction from a broker or a bank. The culture of PFM is that we understand that the decisions of a public entity including the decisions you may make have to consider public issue, types of considerations for a public entity. PFM tries to build our decisions taking into considerations those types of decisions in order to be accountable to Chandler.

The investment objectives for the Health Trust and the Workers' Compensation Trust are exactly the same, both are based on Chandler's Investment Policy. The standard goals are Safety, Liquidity, and Yield. Safety through public funds to protect the principle, liquidity is for the funds that are needed to fund items, and yield to obtain a market return based on the investment parameters put in place. One of PFM's mantras is that just because it is legal does not mean it is appropriate. The City's investment policy is our guiding investment policy and is limited to fixed income securities such as bonds – no equities. Bonds are very safe and very conservative and the goal is to still maximize the investments. The CDs that are purchased for the Trust is a security with a market value and are negotiable. The investment policy only allows investments up to five years. There are specific issuer and sector limitations within the policy.

The portfolio was started in 2010 and initially the portfolio balance fluctuated due to draws. The portfolio is currently stable and has a growing core balance of around \$12M. The City's investment objectives have been achieved and PFM has maintained a high-quality diversified portfolio, consistently outperformed the benchmark, monitored and managed the portfolio on a daily basis, provided timely economic, legislative, and market information, and PFM has acted as a general financial resource.

As of May 31, 2019, the portfolio is around \$12M with an average of \$6-7M as payments go in/out. There has been around \$602K of combined accrual and money market fund earnings, which is around 1% per year and has been returning that amount through a benchmark return of 0% during the same time period.

The maturity distribution benchmark for the portfolio is the fixed-income 1-3 year U.S. Treasury Index. Every Treasury in the market that matures in 1-3 years is a data set that is run every month of what it would return, in theory. What you want to see on these reports is that the performance is a consistent outperformance to the benchmark. PFM has made the strategic decision to buy in the 1-2 and/or 2-3 year for the Trust as PFM thinks there is more value in these parts of the curve in different assets than treasures that will provide more return than to just match the benchmark. It is based on the shape of the yield curve. The yield curve is a plotting of maturities by 1 month, 2 months, 6 months, etc. Everything to make a decision is based on that maturity and what the benchmark is. The current average duration, or maturity, of this benchmark is around 1.83 years. The portfolio will always be +/- 1.8 years. The portfolio started with a 6 month benchmark due to draws. As it stabilized since then and was moved to 0-3 years with a 1.5 year average maturity. As it really stabilized it moved to 1.8 years. These strategic moves were made over time as the Trust has changed. The Trust is well diversified and the credit quality for the portfolio is AA.

The Total Return Performance is the benchmark for longer term funds and takes into account, at one point in time, what the value of the portfolio is based on the realized and unrealized losses in the portfolio. There are unrealized gains and losses based on where interest rates are. Fixed income, bonds, are essentially loans. Just like with a mortgage, when interest rates are lower, you are refinancing. When rates move higher, you hold the mortgage. That's what fixed income is in terms of asset management. When the market moves and you are holding a bond and it moves it down, that Bond is worth more money because the same bond when the market moves downward is now paying less than when we bought that same bond. Conversely, if rates move up and now that same bond is paying more, your bond has lost market value. The gains and losses are not realized until the security is sold. The reason why total return is used as a benchmark is

because if you just showed yield and if a bond has defaulted you could say that it was worth the value you bought it for but it is really a worthless bond.

At the end of March 2019, the portfolio duration was at the benchmark. This was a strategic decision made because in the fourth quarter the portfolio underperformed. It was purposely done because we thought it was better to be short because we didn't know where the Fed was going and what the interest rate environment would look like coming into the first quarter. The Fed could have continued to raise rates and if you were short and you raised rates, the portfolio would have been in a good position at the end of the fourth quarter because we hadn't locked in a lot of long term bonds and then have them drop in value. We knew that if the Fed held or dropped rates, the portfolio would give up performance; however, we knew that in the first quarter when that became clearer, we could correct or update the strategy and take advantage of that. The portfolio was short in the fourth quarter and then we lengthened the portfolio in the first quarter and that led to an outperformance of 10 basis points. All of the negative fourth quarter performance reversed in the first quarter. The portfolio is consistently outperforming the benchmark.

Luke Schneider advised the Board that any portfolio is always a balance between risk and return and there is a spectrum for risk and for higher risk there is a higher return because the market demands it for that risk. Within the fixed income securities some of the primary risks we see are interest rates risk and if interest rates rise the value of the bonds could go down. The longer the investment, the more sensitive the risk becomes. This portfolio is 70% invested in government securities and the balance is invested in securities that are necessarily guaranteed by the government. PFM is doing careful credit analysis on those investments and making sure they are appropriate investments that offer value and are still safe within the City's risk perimeters. They are a little bit more risky on a stand-alone basis, but within the context of the entire portfolio they can actually provide diversification and can help the performance of the portfolio. Liquidity risk is a large risk and PFM has been focused on this for the trust and extending the duration out for the bonds as are appropriate because we want to make sure there is adequate money to pay the bills. Investing on five years means that the liquidity risk is high because you have to wait five years until those funds mature. We want to keep the portfolio short in line with safety, liquidity, and then return. The bonds are liquid and you can sell at any time; however, it is the risk that you may have to sell one short of the duration and take a loss. You have to diversify and not have the entire portfolio in one risk category. This is the way to protect principle because you are not always going to have everything in the best part of the market and you want to avoid the potholes, peaks, and valleys in the market.

Paulina Woo advised the Board that currently the news is talking about the yield curve and that it is currently inverted. Normally, you would expect that the longer you invest out and take more risk, you should get paid more. With an inverted yield curve there is a short part of the curve that is paying more than the longer part of the curve and, we sometimes hear that an inverted yield curve means a recession is coming. The standard for Arizona is to invest out only five years. PFM looks at the 1-5 year connection when that inverts and we look at historical data. Rates will drop and, historically, for one year you may have had outperformance by the shorter index over the long index and that out performance was probably 10-20 basis points for one year. Three years later when the curve normalized, not only would there be out performance by the longer index there was significant out performance by the longer index by the third year. This is what drives the decisions from PFM and the City for the portfolio. One year ago we were managing

into a rising rate environment which is a different strategy by keeping the portfolio short and to not extend your portfolio because you are not locking in long rates because the rates will rise. There is no penalty for being short in a rising rate environment. There is a penalty for being short in a flat to falling rate environment because you are not locking in value and you will chase yield all the way down. PFM will position the portfolio duration to capture in the falling to flat interest rate environment making sure we are being mindful of where we are in the business cycle and the yield curve going forward.

Dawn Lang advised the Board that the emails that were provided that answered Mike Bohnert's questions were provided in the package. He had asked about the rates the City pays PFM and that is also included in the memo.

Paulina Woo advised the Board that on the Quarterly PFM report dated March 31, 2019, and as we have already talked about the economy as a whole and the fourth quarter had a lot of uncertainty. As we now look at the first quarter data we get more of the same and it's not good or bad but it is volatile with the government shutdown and the polar vortices which basically shut down the entire eastern seaboard which was going to be a net negative impact on growth and commerce. The worry was what all that was going on was going to mean to the GDP. The data came in fairly stable and strong at about 2.5%. Personal consumption remained good in the first quarter. The Feds have two mandates to control prices and interest rates and inflation remained below the 2% target that the Feds has set. That is the reason why there is a question as to what the Fed is going to do with interest rates. Right now the answer is nothing.

Interest rates came up in 2018 and then started dipping in the beginning of 2019 and the reason for that is there was a flight to quality due to the market disruptions. The demand for fixed went up and then the bonds became more expensive and the yields fell.

On Page 8 it shows that about 14% was added to the Treasury allocation which mostly came out of Agencies. The original Money Market Funds and PFM Funds were initiated at the beginning of the account due to liquidity that was needed at that time. This is a small amount and may be invested as it grows.

Page 9 shows that the yield at the end of March was at 2.46%. The effective duration was at 1.80 years. There is a small amount allocated in 3-4 years to take advantage of credit sectors and the values of the longer term investments.

Page 11 shows the sector allocation over the last four quarters showing the changes in allocations.

Page 13 shows the maturity distribution as of March 31, 2019, which also compares to the benchmark. The benchmark yield was at 2.32% and the portfolio was at 2.39%.

Page 14 shows the total return showing that the portfolio has outperformed for most of the year and generally since inception.

1. Mr. Myer asked if the Feds were going to cut rates before the end of 2019.

Paulina Woo advised the Board that PFM is conservative and wants to set up the portfolio correctly and not make wild guesses. At the beginning of the first quarter during the government shutdown we thought that there would be not rate hikes or cuts. But we started hearing about rate cuts toward the end of 2019. There was much volatility in the market and the probability of a rate cut could happen. The rate cuts by the Feds may be as soon as September. There may be up to two rate cuts in 2019.

D. Financial Statements and Wellness Report – Management Services

Statement of Net Position as of March 31, 2019

Kristi Smith advised the Board that the total assets were at \$17.2M which is actually an increase of \$599K. The total liabilities were at \$2.7M which is just up slightly compared to the end of 2018 by \$105K. Which leaving an unrestricted net position of \$14.5M which is up \$500K compared to the end of 2018. The minimum IBNR was updated as of December 31, 2018, as projected by Segal, was updated to \$4,949,000.

Statement of Revenues, Expenses and Changes in Net Position as of March 31, 2019

Kristi Smith advised the Board that the total operating revenues were at \$5.6M which was just slight under budget by \$71K. The total operation expenses were at \$5.2M which was under budget by \$640K due to the amount of claims paid being under budget. The operating income was \$398K and total non-operating revenues of \$95K due to interest income. Leaving a change in net position of just under \$500K. The total net position at the end of March was \$14.5M which ties to the Net Position from the Statement of Net Position.

Statement of Cash Flows as of March 31, 2019

Kristi Smith advised the Board that the cash and investments of \$12,877,036 which ties to the Statement of Net Position.

Wellness Programs Tracking Report through March 31, 2019

Kristi Smith advised the Board that the Wellness tracking report includes the amounts since inception through the last quarter. The fund has received the anticipated revenue from Blue Cross Blue Shield of \$25K. Expenses were at \$3K leaving a balance of \$97.7K which is the accumulated total from inception to the first quarter of 2019.

Questions and Answers from the Financial Statements:

- 1. Assistant Fire Chief Gale asked if the prorated budget was spread based on quarters or just flat across the board. Does it increase over the quarters?**

Kristi Smith advised the Board that for the most part the revenues and expenses are spread out on a quarterly basis throughout. There are some instances where revenues and expenses are incurred up front and then it is shown here at 100%. An example on the expense side would be the health savings & flex spending account contributions which occurs at one time and 100% of the budget was listed on the statement. On the operating revenue side, revenues from Blue Cross were listed at 100%. It does vary line by line but, generally speaking, they do occur evenly throughout the year.

E. Medical Trust Actuarial Report – Segal Consultants

Amy Girardo advised the Board that the Dashboard on Page 1 of the report showing that contributions, medical claims, and pharmacy claims. Total claims were up to \$19M over \$17.6M in the prior claim year. There was some Stop Loss and Administrative Expenses at \$2.7M. The total claims and expenses were \$21.6M. The surplus that is accumulated was at \$581K which was down from the prior year of \$1.8M. Claims are increasing and will eat up some of that difference. The loss ratio is at 97% and we are not yet dipping into the trust funds. However, it is declining as the contributions have not been increased. The Per Employee Per Month (PEPM) costs is at \$1,063.69 which is up 5% year over year. A 5% trend is a really good trend number. National trend is at 7.5 – 8%.

Prescription drug claims are down 5% mostly due to generic drugs. Overall, comparing the pharmacy spend year over year, the change is up 7% which is a very good trend as the national trend for pharmacy is at 10-12%.

Mail order prescriptions usage is down; however, there seems to be more utilization. The generic dispensing rate is at 82.5% which is slightly low for the market and we will continue to monitor that. Brand Plan Paid/Script costs were up 22.4%. The total Plan Paid/Script was up 4.8% which is not a bad result.

The City continues to maintain a nice ratio of members to employees at 2.73. There were 20 large claims accounting for 18% of total claims. Inpatient Hospital was down. The medical in-network utilization is excellent and is at 96.9%. The discount from billed is at 68.7%. The medical and prescription plan is at 15.5% for the members and 84.5% for the plan.

Page 2 shows the information for 2018 and the first quarter for 2019. There were stop loss refunds of almost \$18K from large claims incurred in 2018. There is a \$450K surplus with a total loss ratio of 91.8% which is up from 2018 of 81.7%.

Page 3 shows the enrollment by plan and the plan continues to have more employees move into the white plan as it is currently premium free. The deductibles are higher and employees can put pre-tax dollars in the HSA and save it for expenses. There are currently 57% of employees in the White plan, 40% in the Red plan, and 4% in the Blue plan.

Page 4 shows the claims plan by plan and the total overall of all plans. There were people who moved out of the Red plan and into the White plan. The people who use the Red plan are probably the people with higher medical costs.

Page 5 shows the contributions and paid claims by status and plan. The Red plan is running at 106% total loss ratio, with the Blue plan at 81% and the White plan at 70%.

Page 6 shows the enrollment by tier and it shows people exiting the Red plan toward the White plan. There has been an increase in each of the tiers including families.

Page 8 shows the 2019 contributions and expenses by status and plan. Retiree enrollment is at 9%, retiree contributions are at 8%, and retiree claims and expenses is at 11%.

Page 9 shows the number of large claims in excess of \$100K. There are currently two large claims accounting for 6.5% of the total claims with one on the White plan and one on the Red plan. Neither of these claims has gone over the \$300K threshold for the stop-loss coverage.

Page 10 shows the trend graph. The medical trend is at 5.3% and the prescription trend is at 5.1% which is very reasonable trend and we don't see anything that is concerning at this point in time.

Questions and Answers from the Medical Trust Actuarial Report

None.

ACTION ITEMS:

A. Election of Officers (Chairperson, Vice Chairperson, and Secretary)

Mr. Myer asked for a nomination for Chairperson. Mr. Myer nominated Ms. Allen for Chairperson. Ms. Allen accepted the nomination. Assistant Fire Chief Gale seconded the motion. The vote was unanimous to approve.

Mr. Myer asked for a nomination for Vice Chairperson. Assistant Chief Gale nominated Mr. Myer for Vice Chairperson. Mr. Myer accepted the nomination. Ms. Allen seconded the motion. The vote was unanimous to approve.

Mr. Myer asked for a nomination for Secretary. Ms. Allen nominated Assistant Chief Gale for Secretary. Assistant Chief Gale accepted the nomination. Mr. Myer seconded the nomination. The vote was unanimous to approve.

DISCUSSION ITEMS:

None.

MEMBER COMMENTS AND ANNOUNCEMENTS:

None

CALENDAR

A. Next Scheduled Meeting:

August 22, 2019

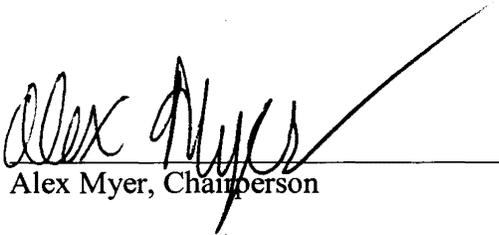
INFORMATIONAL ITEMS

A. Agenda Items for Future Meeting Dates

Financial & Wellness Reports
Investment Report
Medical Trust Actuarial Report - Segal
Review of 2020 Rates / Resolution
Communication of Plan Changes

ADJOURNMENT:

There being no other business, Mr. Myer, Chairperson, asked for a motion to adjourn. Assistant Fire Chief Gale made a motion to adjourn and Ms. Allen seconded the motion. The vote was unanimous to adjourn and the meeting was adjourned at 5:53 p.m.



Alex Myer, Chairperson



Julia House, Recording Secretary

HEALTH CARE BENEFITS TRUST BOARD

MINUTES OF THE MEETING OF

THURSDAY, AUGUST 22, 2019

CALL TO ORDER & ROLL CALL:

Ms. Ayana Allen, Chairperson, called the meeting to order at 4:02 p.m. in the City Hall Council Conference Room, Chandler, Arizona. Roll was taken.

BOARD MEMBERS PRESENT:

Ms. Ayana Allan, Chairperson; Mr. Alex Myer, Vice-Chairperson; and Mr. Mike Bohnert.

BOARD MEMBERS ABSENT:

Assistant Fire Chief, Val Gale.

STAFF MEMBERS PRESENT:

Rae Lynn Nielsen, Human Resources Director; Lynna Soller, Benefit Programs Manager; Kristin Maier, Human Resources Manager; Carol Osterhaus, Benefits Analyst; Dawn Lang; Management Services Director; Kristi Smith, Accounting Manager; Rowena Laxa, Assistant City Attorney; Julia House, Human Resources Management Assistant & Recording Secretary.

INVITED GUESTS:

Aaron Polkoski, Segal Consultants
Amy Girardo, Segal Consultants (via telephone)

APPROVAL OF MINUTES:

Ms. Allen, Chairperson, asked for a motion. Mr. Meyer, Vice-Chairperson, made a motion to approve the minutes of June 20, 2019. Mr. Bohnert seconded the motion. The vote was unanimous to approve.

SCHEDULED / UNSCHEDULED PUBLIC APPERANCES / CALL TO PUBLIC:

(Members of the audience may address any item not on the agenda. State Statute prohibits the Health Care Benefits Trust Board from discussing any item that is not on the agenda, but the Health Care Benefits Trust

Board does listen to your concerns and has staff follow up on any questions you raise.) (There will be a time limit of three minutes per speaker.)

None.

BRIEFING ITEMS:

a. Medical Trust Actuarial Report – Segal Consultants

Aaron Polkoski advised the Board that on page one of the quarterly report through June 30, 2019, which looks at 12 months of data and the overall expenses on a per employee per month (PEPM) basis. There was a slight improvement and the loss ratio moved from 99% to 94% which is a reduction in expenses of about 6.3%. The prescription drugs had an increase in total spend of 3.4%. The generic cost has gone down but there was an increase in brand drugs. The increases in brand drugs are currently trending across the country. There is a slight reduction in specialty, which is unusual. The generic dispensing rate is at 80.8% which is a good number in terms of generic dispensing. Large claims is currently at 26 individual claims that exceeded \$100K in medical vs. 23 claims in the previous period. The dollar amount of the large claims is actually decreasing over the last period. The average length of hospital stays is also down. The medical in-network increased 1.3% and the discount billed is at 2.9%.

Aaron Polkoski reviewed Page two, Medical/Rx Contribution and Expenses. The average loss ratio was at 91.8% compared to the prior year at 94.8%. Page three, 2019 Enrollment by Status and Plan shows there is 57% in the White Plan, with 39% in the Red Plan, 4% in the Blue Plan. Page four 2019 Medical/Rx Paid Claims by Plan and Status shows the overall spend on each plan on a PEPM basis. The overall spend is higher in the Red and Blue Plans. Page five 2019 Contributions and Paid Claims by Status and Plan shows that the loss ratio for actives is 87% and the retiree of 154%. The claims and expenses for retirees is exceeding the contributions. The weighted average for all plans is 92%. Page six, Enrollment by Tier shows the enrollment by Red, Blue, and White Plans by tier with dependents. Page seven shows the 2018 Enrollment by Tier. Page eight, 2019 Contributions and Expenses by Status and Plan; actives are 91% of enrollees and 92% of the contributions. Claims and expenses are 87% active and 13% retirees. Page nine, 2019 Incurred Medical Claims Paid in Excess of \$100K, is 20% of claims with the largest claim to-date is \$220K. None of these claims have reached the stop loss threshold of \$300K. Page 10 shows the plan on a rolling basis. The medical trend is lower and the prescription trend is almost flat.

Questions and Answers from the Medical Trust Actuarial Report:

None

b. Plan Budget Projections for CY 2020 Rates – Segal Consultants

Aaron Polkoski advised the Board that Segal compiled the CY 2020 assumptions for the plan. Segal reviewed 24 months of claims experience on a rolling twelve month basis July 2017 – June 2019. The most current period is weighted at 70% due to current utilization and made some assumptions in trend to project claims at 7.5% for medical and 10% for prescription. There were adjustments made in IBNR and unknown fixed costs.

Page two of the report reviews the plan changes that have happened over the last several years. Page three is the Self-Funded Projection Summary. Segal looks at the total claims for the plan and then computes a weighted average incurred claims costs PEPM. After applying annual trend and six months of assumed trend Segal used an 11% trend on medical and 15% trend on prescriptions. The new PEPM projected number is based on enrollment plus projected administrative costs is \$22,877,377 in projected plan expenses. The current total contributions are \$21,865,961 which is a shortfall of 4.6%.

Page four is the Self-Funded Cost Analysis showing the assumptions of the expenses which includes administrative fees from Blue Cross Blue Shield, credits for prescription rebates, stop-loss, miscellaneous costs, and expected claims.

Page five is the Contribution Modeling Effective 1/1/2020 shows the 4.6% increase if it were to be added to the rates.

Questions and Answers from the Plan Budget Projections for CY 2020 Rates:

None

c. Resolution No. HB-010 for CY 2020 Rates – Human Resources

Rae Lynn Nielsen advised the Board that, although Segal is giving the City a suggested 4.6% increase to the rates, staff recommends no rate increase based on the balance of funds in the Trust for 2020. There was one change made in the stop-loss from \$300K to \$350K on the specific deductible threshold. This one change would cover the 4.6% proposed increase. The Board has questioned the healthy balance of the reserve funds in the past. The Health Care Task Force and City Management have been advised and the City has discussed taking some “risk” even though the Trust is healthy and can absorb any offset.

Lynna Soller advised the Board that the City and Segal have been transparent with the Health Care Task Force and they have reviewed these changes and feel good about the statistics. They are appreciative with the wellness efforts and that the program is making progress throughout the population.

Questions and Answers from Resolution No. HB-010 for CY 2020 Rates:

1. Mr. Bohnert asked where the \$350K stop-loss level came from.

Aaron Polkoski advised the Board that Segal reviews the stop-loss each year with the number of claims and reimbursements compared to the premium to determine a better fit with the deductible. Generally, that means increasing and taking a little more risk over time and the fund will get more savings from the premium from the higher deductibles than the plan will in reimbursements from the carrier. If the fund takes a little more risk the fund could do better over the long term.

Rae Lynn Nielsen advised the Board that the staff and the Health Care Task Force tried to weigh out the reduction in the premium vs. a higher threshold for stop-loss to kick in. Because we have a premium reduction of \$100K and looked at how many claims would it take to make up the premium. The staff felt good about the risk of increasing the stop-loss. With the plan changes made over the last few years, the Health Care Task Force always asked about changes to the stop-loss amount. The change in stop-loss does not make as big of an impact as the Health Care Task Force thought it would, but it does help.

Lynna Soller advised the Board that with inflation and/or trend each year, generally, at around 8-10%, the City has not increased the stop-loss deductible since 2015, when the stop-loss moved up to \$300K. The City thought it was time to take a second look at the stop-loss and, given the fund reserves, the City and the Health Care Task Force felt comfortable in making that change.

Aaron Polkoski advised the Board that from a premium perspective, \$265K in reimbursements last year and the premium is under \$1M. Taking a little bit more risk will benefit the fund based on the experience.

d. Financial Statements including Wellness – Management Services

Statement of Net Position as of June 30, 2019

Kristi Smith advised the Board that the total assets were \$17.5M which is up \$300K over last period. There were fluctuations in the accounts as the cash and investments went up \$4.3M; however, the Due from City Premiums went down \$4M. After taking a look at this, on a quarterly basis, the City will be processing a transfer of funds in order to keep the Due from City at a lower number from now on.

The total liabilities are down \$300K at \$2.4M. Deferred Revenues is a new line item due to timing at the fiscal year adjustments for City-wide financial reporting. This is mostly due to insurance premiums received in June to cover the July premiums from retirees.

The unrestricted net position is \$15M which is up \$600K.

Statement of Revenues, Expenses and Changes in Net Position as of June 30, 2019

Kristi Smith advised the Board that the first column of the report is the 2019 budget in its entirety. The second column is the pro-rated budget to show the variance between the pro-rated budget and the actuals. Some of the budget line items are only six months of the year or 13 payroll cycles. The exceptions are that the City may have already received 100% of the funds already or that the City has already paid 100% of services. The Wellness programs have received 100% of funds and the budget shows that amount. On the Operating Expenses, Audits and Financial services have already been paid at 100%. The Total Operating Revenues are \$11.1M and compared to the pro-rated budget and is under budget just slightly. The Total Operating Expenses are \$10.2M which is also under budget. The total Operating Income is \$929K. The Non-operating Revenues of \$165K show a total change in Net Position of \$1.1M. The Total Net Position is \$15M which agrees with the net position on the Statement of Net Position.

Statement of Cash Flows as of June 30, 2019

Kristi Smith advised the Board that the total Cash and Investments is \$17.2M which agrees to the Cash and Investments on the Statement of Net Position.

Wellness Programs Tracking Report as of June 30, 2019

Kristi Smith advised the Board that the Wellness Programs Tracking from 2011 through June 30, 2019, shows that the total Wellness expenses were \$7,792.12 for the last six months and does agree with the line item in the Statement of Revenues, Expenses and Changes in Net Position. This report shows the balance forward of the funds at \$92,927.98.

Questions and Answers from the Financial Statements including Wellness:

Mr. Myer asked that if the City were to change carriers from Blue Cross Blue Shield, would the City have to repay Blue Cross Blue Shield for the Wellness funds.

Kristi Smith advised the Board that the funds for Wellness from Blue Cross Blue Shield do not have to be repaid or returned.

e. Investment Reports – Management Services

Kristi Smith advised the Board that the yield at cost was at 2.51% which is up slightly from 2.46% last quarter. The U.S. Treasuries are up slightly and the total portfolio is up slightly at \$12.7M compared to \$12.6M at the end of March, 2019. The Sector Allocation shows where the funds were being invested especially on the U.S. Treasuries. The Maturity Distribution Yield at Market is at 1.91% which is slightly above the index. The effective duration is at 1.8.

Questions and Answers from the Investment Reports:

None

f. New Board Member Status – Human Resources

Lynna Soller advised the Board that the City is in the process of interviewing for the replacement of Ms. Teslow's vacated position. Those interviews are to be conducted in the coming week with several candidates that have been brought our way through the City Social Medial advertising. The City should have someone in place for the combined meetings in November.

ACTION ITEMS:

a. Resolution No. HB-010 for Calendar Year 2020 Rates

Ms. Allen, Chairperson, asked for any further questions or discussion. Being there were no further questions or discussion from Briefing Item C above, Ms. Allen asked for a motion to approve Resolution No. HB-010. Mr. Bohnert made the motion to approve. Mr. Myer seconded the motion. The vote was unanimous to approve.

DISCUSSION ITEMS:

None.

MEMBER COMMENTS AND ANNOUNCEMENTS:

None.

CALENDAR:

a. The next scheduled meeting is November 14, 2019.

INFORMATION ITEMS:

a. Agenda Items for Future Meeting Dates

Medical Trust Actuarial Report
Financial Report Including Wellness
Investment Report
Review of 2020 Meeting Dates

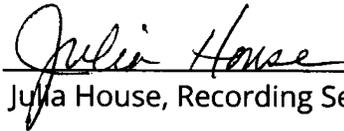
ADJOURNMENT:

The being no other business, Ms. Allen, Chairperson, asked for a motion to adjourn. Mr. Myer made a motion to adjourn and Mr. Bohnert seconded the motion. The vote was unanimous to adjourn and the meeting was adjourned at 4:30 p.m.



Ms. Ayana Allen, Chairperson

ASST. CHIEF, VAL GALE, SECRETARY



Julia House, Recording Secretary

HEALTH CARE BENEFITS TRUST BOARD

MINUTES OF THE MEETING OF

THURSDAY, NOVEMBER 14, 2019

CALL TO ORDER & ROLL CALL:

Asst. Chief Val Gale called the meeting to order at 4:06 p.m. in the Chandler Council Conference Room, Chandler, Arizona. Roll was taken.

BOARD MEMBERS PRESENT:

Asst. Chief Val Gale, Mr. Mike Bohnert, and Ms. Terry Bond

BOARD MEMBERS ABSENT:

Ms. Ayana Allen and Mr. Alex Myer

STAFF MEMBERS PRESENT:

Rae Lynn Nielsen, Human Resources Director; Lynna Soller, Benefit Programs Manager; Kristin Maier, Human Resources Manager; Carol Osterhaus, Benefits Analyst; Dawn Lang; Management Services Director; Kristi Smith, Accounting Manager; Rowena Laxa, Assistant City Attorney; Julia House, Human Resources Management Assistant & Recording Secretary.

INVITED GUESTS:

Amy Girardo, Segal Consultants

APPROVAL OF MINUTES:

Asst. Chief Val Gale asked for a motion. Ms. Terry Bond made a motion to approve the minutes of August 22, 2019. Mr. Mike Bohnert seconded the motion. The vote was unanimous to approve.

SCHEDULED / UNSCHEDULED PUBLIC APPEARANCES / CALL TO PUBLIC:

None.

BRIEFING ITEMS:

a. Medical Trust Actuarial Report - Segal Consultants

Amy Girardo advised the Board that page one of the September 30, 2019, report shows the year-over-year results. The contributions were slightly below this time last year. Net paid claims for medical and pharmacy were \$18.5M vs. \$18.9M from the prior year. The stop-loss and administrative expenses were \$2.8M vs. almost \$2.7M in the prior year. The total claims and expenses were at \$21.3M vs. \$21.6M in the prior year. The surplus for this last year was \$681.5K for the 12 month period and the prior year was at \$585.8K. The loss ratio was at 97% in both 12

month periods. The Per Employee Per Month (PEPM) cost was a 1.5% reduction from the prior year. There was very little change between the 12 month periods.

The generic drug use went down 18.7%. The brand preferred is up 5.6%. The brand non-preferred is up 10.2% and specialty drugs are up 17.9%. Overall, the total cost is only up by 3.5% which is actually a low trend. The retail scripts per member per year are up 2.8%. A small percentage of employees are still using mail order.

The generic dispensing rate has been consistent at 82% for two years. We would like to see that number be closer to the mid-80's rate. The generic plan paid script is down 19.4%. The brand plan paid script rate is up 6.6%. The specialty plan paid script is up 8.6%. Overall the total plan paid script is only up 2.5% which is a very good number in prescription drugs. The demographics haven't changed much and seem to be consistent.

The medical utilization large claims are down 13.0%. Currently there are 20 large claims for this period; however, there are additional larger claims coming through the system that you will see on the next report. These claims currently represent 23% of claims.

The inpatient hospital bed days per/1,000 is down 15.0%. The average length of stay is down 8.2%. This could be due to other therapies or services not provided by the hospital.

The in-network usage allowed percentage is at 96.9% and the discount amount from billed is at 69.1%.

The medical plan member cost share is at 16.4% which is up 6.8%. The plan paid percentage is at 83.6% which is down 1.2%. In part due to the shift to the high deductible plan where members are paying the upfront costs until they reach their deductible amount.

Page 2 shows the month-to-month costs. The loss ratio for 2018 was at a 94.8% which means that almost 95 cents of every dollar was paid out to claims and expenses. For 2019, the current loss ratio is at 95.6%. We predict that this number will deteriorate due to the number of large claims. The Trust is healthy; however, we predict the loss ratio will be rising. Total claims and expenses through September 30, 2019, total \$15,695,836. There is currently a surplus of contributions over expenses of \$723,290. However, large claims will probably create a deficit before the end of the year.

Page 3 shows the 2019 enrollment by status and plan through September, 2019. The high deductible plan shows growth; however, at this point in time there is no contribution for the high deductible plan which is a current draw for families. As of September 30, 2019, there were 660 enrolled in the Red plan; there are 67 enrolled in the Blue plan, and 955 enrolled in the White plan.

Page 4 shows the medical paid claims by plan and status. The actives have moved the PEPM cost for claims from a June 30, 2019, cost of \$817 to a current cost of \$849. The retiree claims moved up from \$1,255 into \$1,639. The all claims category has risen from \$858 to \$924.

Page 5 shows the total loss ratios for each plan. The active loss ratio is at 90%, the retiree loss ratio is at 197%, and the total loss ratio is at 98%. The retiree group is where some of the large claim activity is happening. The overall loss ratio has risen 10% from June 20, 2019.

Page 6 shows the enrollment by tier. There is been an uptick to the White plan as participants leave the Red and Blue plans.

Page 8 shows the active surplus (deficit) by plan and the retiree surplus (deficit) by plan. The actives are running at a \$115 surplus through September 30, 2019. The retirees are running a deficit of \$875 through September 30, 2019. The retirees are 10% of the enrollment, 8% of the contributions, and 16% of the claims and expenses.

Page 9 shows the large claim activity. There are 9 claims in the Red plan, 1 claim in the Blue plan and 5 claims in the White plan. The large claims are 22.8% of the total claims cost of the plan.

Page 10 shows the rolling 13 month snapshot of the trend. The net medical trend is a -2.9% which is really good; however, the plan was at an -10% three months ago. Pharmacy is at a -1.1% and it was at .2% just three months ago. Overall, the plan is not over 100% yet; however, it may go above 100% by the end of the year.

Questions and Answers from the Medical Trust Actuarial Report:

- 1. Val Gal asked if the numbers being quoted for the statistics on page four were from 2018.**

Amy Girardo advised the Board that the number she is quoting is from June 30, 2019.

- 2. Mike Bohnert asked how many people are in the plan. On page 10 it shows over 20K employees.**

Amy Girardo advised the Board that that figure for that calculation is a cumulative number in order to do the math on a per employee per month basis.

b. Financial Statements including Wellness - Management Services

Statement of Net Position as of September 30, 2019

Kristi Smith advised the Board that the total assets were just over \$17.3M which is down slightly from the previous quarter. The total liabilities were just over \$3M which is up \$566K over the previous quarter. The unrestricted net position is at \$14,330,101 which is down around \$750K

from the previous quarter. The December, 31, 2018, minimum end of year projected reserve is \$4.9M. In comparison, the reserves from a net position perspective show that the Trust has reserves to help cover cost increases.

Statement of Revenues, Expenses and Changes in Net Position as of September 30, 2019

Kristi Smith advised the Board that the Operating Revenues are over \$15.7M which is under the prorated budget by \$1.1M. The Operating Expenses are at \$15.7M which is \$1.3M under the prorated budget. The Operating Income is at \$57.3K with additional revenues over expenses. The Nonoperating Revenues and Expenses are at \$288K. The total net change in position is at \$345K. The total net position is at \$14.3M which is same as on the Statement of Net Position.

Statement of Cash Flows as of September 30, 2019

Kristi Smith advised the Board that the total Cash and Investments is \$17.3M which agrees to the Cash and Investments on the Statement of Net Position.

Wellness Programs Tracking Report as of September 30, 2019

Kristi Smith advised the Board that the Wellness Report shows several years' worth of activity with the funds received from Blue Cross & Blue Shield and the yoga program. The report shows the cumulative balance to this fund is at \$83,592.83.

Questions and Answers from the Financial Statements including Wellness:

- 1. Terry Bond asked if there was a concern if the Cash and Cash Equivalents will decrease to the need to cash out some investments.**

Kristi Smith advised the Board that the City follows this very carefully. Invoices are paid by the City and the Statement of Net Position shows a "Due To and/or Due From the City" for those amounts. The City is watching this category very carefully and transfer those funds on a quarterly basis in order to track it closer.

c. Investment Reports - Management Services

Kristi Smith advised the Board that since July 1, 2019, in the quarter there were two rate cuts on July 31, and September, 18, 2019. There was another rate cut on October 30, 2019. The yields are down which is driven by the rate cuts. The market was driving that and there may be one to two more cuts. We have seen three cuts so far.

Page 9 shows the Yield at Cost is at 2.22% which is down from 2.51% as of June 30, 2019.

Page 10 shows the Sector Allocation primarily made up of U.S. Treasuries.

Page 11 shows the Sector Allocation by quarter and you can see that the U.S. Treasury allocation has considerably increased over the past four quarters. This shows a continued effort from PFM and the City to change the investment of funds.

Page 13 shows the Maturity Distribution Yield at Market at 1.74% which is over the benchmark of 1.68%.

Page 14 shows the Effective Duration at 1.85 compared to the index at 1.81 which is favorable to the Trust.

Dawn Lang advised the Board that based on the previous question from Ms. Bond, the Trust does have funds sitting in a Money Market that is very liquid and can transfer them if claims do go over in any one month and we need additional cash. There are always a few investments in a 0-1 year investments. Those cash out every so often. The City looks at the cash needs frequently.

Questions and Answers from the Investment Reports:

1. Mr. Bohnert asked what the yield was on the Money Market account.

Kristi Smith advised the Board that the report does not include that specific amount; however, we can get back to the Board on that amount. The City will have PFM add that number to the next report. PFM was texted and responded to the question during the meeting, stating the Money Market yield was about 2% through the date of the report.

d. Review of 2020 Meeting Dates - Human Resources

Rae Lynn Nielsen advised the Board that the City tries to stay as close to the scheduled for every year. The challenge is to meet all the deadlines for items that have to go to Council. The February meeting for the Workers' Compensation Board will include the report from the Actuary in order to set the rates which have a short turnaround to go to Council.

The Board approved of the dates for 2020. Asst. Chief Gale stated that he would not be available for the August meeting. Ms. Bond stated that she may not be available for the August meeting also.

Rae Lynn Nielsen stated that the City could propose a different August date. The August meeting will be discussing setting the rates for 2021. There would have to be coordination with Staff and production of Financial Statements to move the date. We will report back to you at the March meeting.

ACTION ITEMS:

None.

DISCUSSION ITEMS:

None.

MEMBER COMMENTS AND ANNOUNCEMENTS:

None.

CALENDAR:

- a. The next scheduled meeting is March 5, 2020

INFORMATION ITEMS:

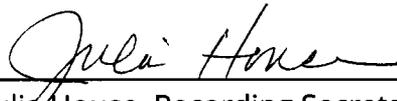
- a. **Agenda Items for Future Meeting Dates**
 - Medical Trust Actuarial Report
 - Financial Report Including Wellness
 - Investment Report

ADJOURNMENT:

The being no other business, Asst. Chief Val Gale, asked for a motion to adjourn. Mr. Mike Bohnert made a motion to adjourn and Ms. Terry Bond seconded the motion. The vote was unanimous to adjourn and the meeting was adjourned at 4:46 p.m.



Ms. Ayana Allen, Chairperson



Julia House, Recording Secretary