Trustees present via videoconference

Jason Hoffman, Chair
Jason Steliga, Vice-Chair
Dr. Kyle Collins
Scott Hunt
Sharon Kissinger
Beth Knes
Dr Melinda Moss

BUDGET AND AUDIT COMMITTEE MEETING

Comprehensive Annual Financial Report - Prior to the meeting of the Board of Trustees, the Budget and Audit Committee met to review the June 30, 2020 Audit Report. Representatives of Williams-Keepers (WK) presented their audit of the Systems’ Comprehensive Annual Financial Report (CAFR) for last fiscal year. The audit reviews the Systems’ internal controls, contributions received, investment activities, payments to retirees, and member data.

WK issued an unmodified or “clean” opinion on the CAFR. This is the highest opinion available and assures that the CAFR is fairly presented in all material respects in accordance with applicable federal standards. The audit report was approved by the Committee and referred to the Board of Trustees.

GASB 68 Audit - WK is also working with schools and the Systems to perform a GASB 68 audit report. This report can be used by school district employers to specify their proportionate share of their net pension liability within the Systems. This allows schools’ auditors to rely on this report and significantly reduce district audit procedures. The GASB 68 audit report also allows school district employers to have an unqualified audit opinion. WK hopes to have this report complete in January of 2021.

Budget Adjustments - The Committee also approved recommendations for budget adjustments for expenses already approved by the Board. These include $125,000 for the Executive Director search to replace Steve Yoakum, who retired from that position as of December 1, 2020. Also included are $215,000 in investment services expenses, primarily relating to employee pay and benefits.

The Committee also approved $475,000 in building expansion expenses over the next couple of years, including some expense in the current year. This includes $250,000 to replace windows in the existing building and $225,000 for necessary furnishings and furniture for the new facility. These expenses are generally not part of a construction cost budget.

Banking Resolution - Finally, the Committee approved a new banking resolution that removes Steve Yoakum from authorization. The banking resolution authorizes Executive Director Dearld Snider and Chief Investment Officer Craig Hustings. The Committee voted to recommend that Sarah Swoboda also be included as a third authorized signatory, until a new Director of Executive Operations is selected.
SYSTEM OPERATIONS

The Board meeting started at 9:45 a.m. The Board approved a motion to hold the meeting by videoconference. The Board approved the minutes from the October 5, 2020 and October 26, 2020 meetings and established the order of business.

INVESTMENTS

Investment Performance Report - Craig Husting and Margaret Jadallah from Verus Investments reviewed the September 30, 2020 investment update and provided more recent information. The first quarter of FY 2021 showed strong growth of 5.3%. Further growth in November increased the returns for the fiscal year to 11.3% through November 30. U.S. equities have been led by key technology stocks. The Systems have an allocation that seeks to balance value and growth. This type of allocation will tend to lag behind in particularly high growth markets. The Systems continue to earn above average returns compared to peer systems while maintaining below average risk.

Investment Policy Review – The Board reviewed the Systems’ investment policy. The investment policy consists of a general policy, eleven specific activity policies and five implementation manuals. The staff conducted a periodic review and recommended changes to the private equity and private credit implementation manuals. In particular, the Systems will have the opportunity to hold a minority equity share in Dyal Capital Partners, one of the Systems’ long-time investment partners. This equity position will allow the Systems to invest alongside Dyal’s investments with no fees. This investment will be capped at $200 million. The Board approved the staff’s recommended changes to those implementation manuals.

ACCOUNTING

The Board reviewed the FY 2020 Comprehensive Annual Financial Report (CAFR). A CAFR report is required by law, but the Systems’ CAFR goes beyond the minimum requirements. Ultimately, the CAFR serves to document the activity conducted by the Systems and ensure transparency and accountability to members. The Systems’ report again earned a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The financial section includes an unmodified or “clean” independent auditor’s opinion, indicating that the financial statements may be relied upon by all stakeholders.

The FY 2020 Comprehensive Annual Financial Report (CAFR) can be viewed at the following webpage:

https://www.psrs-peers.org/About-Us/Resources/Annual-Report

Williams-Keepers provided the independent auditor’s presentation to the Board. The Board reviewed and approved the June 30, 2020 Audit Report referred by the Budget and Audit Committee.

The Board approved the proposed budget adjustments referred by the Budget and Audit Committee including a total of $340,000 for executive director search and pay plan implementation and a total of $475,000 for building expansion expenses, including window replacement and necessary furnishings.

The Board also approved the changes to the Banking Resolution as recommended by the Budget and Audit Committee.
MANAGEMENT REPORT

Legislative Report – Jim Moody reported on state revenues. State revenues are artificially high this fiscal year, due to shifting last year’s normal April 15 income tax filing date to July 15, 2020. This change carried about $784 million from FY 20 into FY21. The revenue estimate for the current year has been updated $10.20 billion in FY21, up significantly from $8.93 billion for FY 20. The Consensus Revenue Estimate upon which next year’s budget will be based is $9.78 bill, a reduction of $418 million. Meanwhile, the artificial bump in revenues for FY 21 is expected to trigger another round of income tax cuts from SB 509 (2014) and will reduce state revenues another $150 million annually, starting at the beginning of 2022. This means that budgets for the next two fiscal years will be very difficult.

Maria Walden reviewed the Systems’ legislative resolutions and then mentioned several pre-filed bills that would affect the Systems along with other retirement-related bills and issues.

Walden mentioned the Governor’s waiver of the 550 hour limit for retired teachers working after retirement. The actuary estimates that this policy will not be detrimental to the Systems if it is only used on a temporary basis.

Highlighted bills:

HB 29 (Walsh) would require the salaries of public retirement system staff to be on the state’s web portal.

HB 101 (Pollitt) would expand the allowed service in the critical teacher shortage provision from two years to four years and allow superintendents to use this provision after a one-year layoff in most situations.

HB 211 (Gray) would provide a one-time distribution to retirees in the St. Louis City school retirement system.

SB 157 (Eigel) would provide an income tax exemption for retirement income.

HB 93 (Taylor)/SB 260 (O’Laughlin) would cap superintendent salaries.

Walden noted that there may also be legislation filed to create an “emergency substitute pool” for PSRS retirees to work as substitutes and earn up to the Social Security earnings limit, currently $18,240 per year.

The Board adopted a position in support of the critical teacher shortage provisions of HB 101.

Disability Services – Staff presented a review of the Systems’ disability services program. The program seeks to provide adequate protection to members, a sufficient level of financial assistance, eligibility criteria and level of benefits that are comparable to other public pension systems and ensure fairness,
consistency and efficiency while minimizing the risk of fraud. The program is implementing policy enhancements that were recently approved by the Board, including using multiple medical advisors in the disability application approval process and enhancing the annual recertification process for members under age 60 to include income verification. The program has also specified allowable earned income by regulation and removed automatic approval for PEERS disability based on Social Security disability approval.

**CPI update/COLA review** – The Board reviewed CPI-U data. The CPI-U change for FY 2021 through October 31, 2020 was 1.00%. Under the Systems’ policy, if this year’s CPI-U remains above 2.0% at the end of FY 2021, the System will provide a 2.0% COLA adjustment for January 2022. The CPI-U growth is currently on track, if sustained at this level, to reach the 2.0% level by the end of the fiscal year.

**Facility Renovation** - The Board reviewed the progress on implementation of the facility renovation project. The second part is well underway. There is an occupancy permit for the addition, and renovation work will continue on the existing facility. First floor renovation is complete, and remaining portions will be renovated in 2020. Final finishes are expected to the renovation by September 2021.

**Public Comment** – None.

The public meeting adjourned at 10:45.