Trustees present

Jason Steliga, Chair
Dr. Kyle Collins
Sharon Kissinger
Beth Knes, Vice-Chair
Dr. Melinda Moss
Dr. D. Eric Park

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, 2021, 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.

Budget Adjustments - The Committee also approved recommendations for budget adjustments for $700,000 in expenses to cover the costs of providing identity protection services for members potentially affected by the data breach earlier this year when an unknown cyber-attacker gained access to an employee email account and potentially to identifying information for many members of the Systems.

SYSTEM OPERATIONS

The Board meeting started at 9:30 a.m. The Board approved the minutes from the October 25, 2021, meeting and established the order of business.

INVESTMENTS

Investment Performance Report - Craig Husting and Margaret Jadallah from Verus Investments reviewed the September 30, 2021, investment update and provided more recent information. The first quarter of FY 2022 showed modest growth of 1.34%. Updated figures showed 4.3% growth through October 31, 2021. This is not a surprise following particularly strong growth during the last year. The Systems still have experienced overall growth of 23.80% over the 12-month period ending on September 30, 2021, including excess returns of 6.79% over passive policy benchmarks.

Generally, the Systems’ staff noted several positive market factors: fiscal spending seems strong and suggests economic strength in 2022, corporate earnings remain positive and interest rates remain low. Negative factors include inflation, high asset prices, fear of rising interest rates, U.S.-China relations and COVID.

ACCOUNTING

The Board reviewed the FY 2021 Annual Comprehensive Financial Report (ACFR). An ACFR report is required by law, but the Systems’ ACFR goes beyond the minimum requirements. Ultimately, the ACFR 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 2021 Annual Comprehensive Financial Report (ACFR) 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, 2021, Audit Report referred by the Budget and Audit Committee.

The Board also approved the proposed budget adjustments referred by the Budget and Audit Committee including $700,000 in expenses to cover the costs of providing identity protection services for members potentially affected by the data breach earlier this year.

MANAGEMENT REPORT

Legislative Update – Jim Moody gave a report on state fiscal news. State revenues continue to be surprisingly strong and are supplemented by unprecedented amounts of federal stimulus funding, including the ARP ESSER III funds that will provide $1.9 billion to school districts.

Cash balances are enormous with the state holding about $10.5 billion. Moody expects this to lead to an unparalleled spending spree. In addition to the federal funding, revenue collections (especially sales tax) have been extraordinarily high. Because of the temporary shift in the income tax collection window during 2020 that increased prior year (2020-21) revenues, the state expected a $783 million drop to the current fiscal year (2021-22) collections, but that decline is currently only $31 million. Thanks to the direct federal investments, there was essentially no recession.

With all the good revenue news, there is a sense of caution about inflation. Through the 1970s and 1980s, the US saw yearly inflation rates between 6% and 14%. Since 2010, inflation rates have generally been 3% or less. This year, the US faces inflation rates of at least 6.8%.
While the revenue outlook is good for now, the legislature is likely to try to enact more cuts to individual income tax, with the next portion of SB 509 cuts already taking effect in Jan of 2022.

Maria Walden gave the legislative report. The Board reviewed its policy resolutions on defined benefit plans, benefit increases, Board control of investment decisions, and COLA policy. The Board reviewed additional information regarding policies on Working After Retirement. Relatively few bills pertaining to school retirement were filed in the first round of bills filed by December 1, 2021. Maria Walden mentioned several topics from last session that are expected to return, including alternative teacher certification, 2.55% benefit factor for 32 years or more of service, pop up provision for same sex relationships prior to June 2015 and various Working After Retirement changes including critical shortage and PSRS retirees returning to non-certificated positions.

**Current CPI-U Update** – The Board reviewed CPI-U data. The current fiscal year CPI-U is 0.9621% through September 30, 2021, and 1.8009% through October 31, 2021. Under current policy, when the final CPI-U for a fiscal year is between 2.0% and 5.0%, the Board will make a COLA for eligible retirees of 2.0%. When the CPI-U is between 0.0% and 2.0%, the Board will make a COLA for eligible retirees of 2.0% when the cumulative CPI-U growth reaches or exceeds 2.0%.

**Public Comment** – No public comment was offered.

The public meeting adjourned, and the Board went into closed session.