**Peralta Community College District**
**Retirement Board Meeting Minutes**
**July 27, 2023**

Present Board Members: William (Bill) Withrow (Chair), Meredith Brown, William (Bill) Riley, Nathaniel Jones III,
Absent Board Members: Ronald McKinley
Absent Advisory Members: Michael Mills, Adil Ahmed
Present Advisory Members: Tim Hackett, Michael Wirth, Jerry Herman,

Present Board Advisors: Christine Williams, Cheryl Cannistra, Ed Berman, Sultan Khan, Dave Vigo, PCCD Budget Director

| Agenda Item | Discussion | Follow-up Action |
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| **I. Call to order** | Meeting called to order at 4:01 p.m. by Chair Withrow. | |
| **II. – VI.** | Board Members, Advisory Members, Advisors present and absent – listed above. | |
| **VII. Approval of Agenda** | Motion to approve the July 27, 2023, meeting agenda.<br>**Approved.**<br>AYES: 4<br>NOES: 0<br>ABSTAIN: 0<br>ABSENT: 1 | |
| **VIII. Approval of Meeting Minutes** | Motion to approve the May 25, 2023, minutes.<br>**Approved.**<br>AYES: 3<br>NOES: 0<br>ABSTAIN: 1<br>ABSENT: 1 | |
| **IX. Report from Closed Session** | **Chair Withrow** acknowledged the roll call and called the meeting to order at 4:01pm. | |

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| **X. Guest Speakers Presentation** | There was no report from Closed Session. **Chair Withrow** asked Ms. Williams to present the Executive Administrator's report on past OPEB recommendations (FCMAT) as requested by **Board Member Brown**. Board Member Brown requested the Retirement Board to revisit the 2017 FCMAT recommendations to the District for the OPEB Bonds.<br><br>**Ms. Williams** started the report by providing an overview of PCCD'S FCMAT 2017-18 Health Risk Analysis reported June 28, 2019. A comprehensive review of the Peralta Community College District using FCMAT's Fiscal Health Risk Analysis identified serious concerns about the district's fiscal condition. Without fundamental changes, these concerns could result in risk causing the district to become insolvent or in need of emergency appropriations from the state. At that time, the district was searching for a permanent chancellor, and several of the vice chancellor positions. Interim appointments filled those positions. Ms. Williams provided the information sited from the District's FCMAT financial review report page 66 and 67 as follows: In 2013, the California legislature recognized the financial risks posed by CABs to local governments and restricted their use with passage of AB 182. This statutory change put the district in a position of holding bonds with a high financial risk that was outlawed by the state. These CABs convert at different future dates into ARSs. This poses an even greater financial risk since the auction rate bond market went out of business in 2008 when the financial markets crashed, causing much more difficulty to find buyers for the CABs. For these reasons and because of the highly complex nature of the district's OPEB bond program, FCMAT agrees with the recommendation of the district's financial advisor, KNN, to continue to closely monitor the program and take steps to terminate and restructure the remaining outstanding CABs held in the district's portfolio, as appropriate. The bonds, with all their modifications and amendments over the past 14 years, are multifaceted financial instruments and the district should rely on expertise to help understand and navigate these complex bond-financing mechanisms. An addendum should be developed to KNN's 2011 OPEB report that would include an update of actions taken by the district so that the full history is documented.<br><br>The district's 2018 actuarial study shows a $50 million increase in its liability for pre-2004 employees compared to 2016, increasing from $139 million to $189 million. The main reason for the increase is a GASB 75 rule change that required the actuary to use a lower estimated investment return than in prior studies, with the rate decreasing from 6.7% to | |



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| | 3.8%. Prior to GASB 74 (for irrevocable trusts) and GASB 75 (for revocable trusts), GASB 44 and 45 allowed the actuary to use the estimated rate expected on the investment regardless of whether the trust was revocable or irrevocable. Under the new GASB 74 and 75 rules, actuaries cannot use the estimated return on the trust fund unless the trust is irrevocable. Since Peralta's trust is revocable, the actuary is required to use a return rate assumed on "long-term return on employee assets," which usually equates to a similar return rate in a county holding account and offers a substantially lower rate of return. Because of this change in reporting, the district's actuarial reflects a smaller return on its investment in the trust fund, increasing the liability. The district will actually receive a higher return from the funds whether or not the trust is revo-cable, so the higher liability included in the actuarial report is driven by a GASB rule change. For better forecasting of the true liability, the district should request the actuary to perform a separate funding valuation at the estimated rate rather than the long-term return on employee assets, so it has a more realistic liability numbers for planning. The OPEB recommendations included the following information:<br><br>1. Audit annual enrollment eligibility in the OPEB program.<br><br>2. Conduct an annual OPEB actuarial study.<br><br>3. Ensure that the governing board approves the annual OPEB actuarial study.<br><br>4. Request the actuarial to perform a separate OPEB funding valuation at the estimated rate rather than the long-term return on employee assets, so it has a more realistic liability number for the pre-2004 amount.<br><br>5. Reconsider the current goal of fully funding the OPEB liability.<br><br>6. Consider eliminating annual general fund payments to the OPEB trust funds since they are fully funded currently.<br><br>7. Consider renegotiating (i.e. ending) retiree health benefits for new employees. | |

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| | 8. Terminate and restructure some of the more volatile bonds.<br><br>9. Contract for an addendum to KNN's 2011 report that would include an update of actions taken by the district to date related to its OPEB bond program since the 2011 report was published.<br><br>The District conducted several workshops during the FCMAT review to promote understanding and transparency of their fiscal health through budget and analysis workshops.<br><br>• Governance Workshop - January 30, 3018 Board Retreat<br>• Governance Training – Provided March 13, and 27th 2018 at the regular meetings of the Board of Trustees<br>• Board Handbook – Presented and adopted at the March 27th, 2018, regular meeting of the Board of Trustees<br>• November 17, 2017, CCLC Presentation by VC Williams, Luther Aaberge and Trustee Meredith Brown – Key Concepts, Guidelines and Best Practices Regarding Fiscal Stewardship for Trustees subsequently presented by VC Williams at Peralta Board Retreat on November 28, 2017<br>• Board Workshop - Accreditation & Leadership and Governance December 9, 2014 Board Retreat<br><br>Ms. Williams shared the Retirement Board’s effort to help promote transparency by inviting guest speakers who could offer greater insight through professional experience with OPEB ratings and their impact on a District’s stability. **Nick Waugh** (President) Madrone Community Development Foundation, Former Director, and Public Finance Ratings, S&P Global Rating presented to the Retirement Board at the May 25, 2023 Retirement Board meeting. Mr. Waugh’s presentation was on the fundamentals of public finance bonds. He explained how different ratings translated into actual district costs. His presentation focused on information that ratings agencies use to determine the impact on | |



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bond ratings based on OPEB funding levels. **Dave Olson** shared that the District is currently in a rating review with Moody's. The District's consistent improvement with fund balance levels has helped improve and maintain a good credit rating. Mr. Olson commented on the different ratings from different agencies based on different types of bonds. He confirmed that the AA- rating was the most recent rating that the District received on the General Obligation Bond sale. Both S&P and Finch have applied the current rating of AA-. Moody's had a much lower rate of BBB in which the District is working to correct.

**Board Member Jones** provided a District response to the Retirement Board's inquiry regarding replenishing Trust I if the Trust were to fall below liability funding levels. Dr. Jones presented the information on behalf of Chancellor Jannett Jackson as follows:

Recently, Peralta Community College District ("District") was notified by Backstrom McCarley Berry & Co.that a principal payment on the OPEB Bonds (defined below) of $16.5 million is due by August 5, 2023. Pursuant to the Indenture of Trust ("Indenture of Trust") relating to the Peralta Community College District Taxable 2005 Limited Obligation OPEB (Other Post-Employment Benefit) Bonds ("OPEB Bonds"), amounts on deposit in the Retiree Health Benefit Program Fund (known by the Retirement Board as the "OPEB Trust" shall be applied as described in Section 3.04 of the Indenture of Trust, which include payment of the principal, accreted value, and interest on the [OPEB] Bonds. The Indenture of Trust also stipulates that the failure to timely make the payment would result in an Event of Default as defined in the Indenture of Trust. Section 8.03 of the Indenture of Trust provides that, upon the occurrence of an Event of Default, all amounts held in the OPEB Trust shall be applied to payment of the entire amount owing and unpaid on the OPEB Bonds for interest and principal.
Pursuant to Section 3.04 of the Indenture of Trust, the District may request a transfer from the OPEB Trust to the Debt Service Fund to be applied to redeem or defease (which includes the payment of principal of) outstanding OPEB Bonds in whole or in part, upon a determination that the amount of the transfer is and will not be required for payment of current or future retiree health benefit costs for participants covered by the OPEB Trust. Section 3.04 further provides that the amounts held in the OPEB Trust shall be applied solely for purposes of paying bond debt as described in the foregoing or in the Event of

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| | Default, or for payment of or reimbursement to the District for retiree health benefit costs, so long as any of the OPEB Bonds remain outstanding.<br>The District's external legal counsel who advises on financial issues and its Bond Counsel, as well as the Retirement Board's Legal Counsel, have reviewed the Indenture of Trust and concur that it permits the proposed transfer, if the conditions described in Section 3.04 are met, and that a failure to timely make the OPEB Bond payment would result in an *Event of Default*, upon which all amounts held in the OPEB Trust would be applied to pay the owing and unpaid OPEB Bond principal and interest. We have been advised by the District's Bond Counsel that the Indenture of Trust prohibits the use of amounts held in the OPEB Trust for repayment of any loan made the District, or to reimburse amounts withdrawn from the District's General Fund or other revenue sources, other than amounts paid for retiree health benefit costs.<br>Based on the information provided to the District by Backstrom McCarley Berry & Co. on or about April 11, 2022, the market value of the OPEB Trust assets as of June 30, 2022, is $187,370,483. According to the District's June 30, 2022, audited financial statements, the District's OPEB liability for participants covered by the OPEB trust is $143 million, resulting in a current funded ration of approximately 131%, reflecting an overfunding at this time of approximately $44 million.<br>This information supports the District's determination that the amount of the transfer ($9.8 million) is and will not be, required for payment of current or future retiree health benefits costs for participants covered by the OPEB Trust. In addition, based on the current review of the District finances and ongoing budget concerns, the Finance Department has not identified any other viable source for this bond payment. Dr. Jones clarified that the District had insufficient funding for the additional contribution of 1.2 to 2 million for the debt service payment. He concluded that the District would continue to determine how to meet obligations consistent with the terms of the bond and the health and welfare of the District. | |
| **XI. Meketa Investment Performance Review** | **Ms. Williams** presented the investment updates for the PCCD Trust II Investment performance review as of June 30, 2023, provided by Tim Filla, Meketa Investment Group. Prior quarter market value: 1,222,160 Current market value: 1,258,267. | |

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| | Asset returns were positive in June with US and Non-US equities posting gains, while most fixed income sectors sold-off on expectations for further interest rate hikes later this year. Except for commodities, most public market asset classes remain up for the year. Although the Fed skipped a rate-hike in June, Fed comments signaled further rate hikes in the 2H 2023; the US economy appears to be resilient supporting domestic demand and low unemployment. US equity markets (Russell 3000) rose in June (+6.8%) adding to YTD gains (+16.2%). Some of the largest technology names drove positive results. Growth stocks continued to outpace value stocks, particularly in the large cap space. Non-US developed equity markets rose in June (MSCI EAFE 4.6%) falling behind US equities in 2023 (+16.2% versus +11.7%). A strengthening US dollar weighed on returns. Emerging market equities rose in June (+3.8%) supported by positive returns in China (+4.0%). They significantly trail developed market equities YTD returning +4.9%, due partly to higher US-China tensions.<br>Rates generally rose in June leading to bond markets declining, with the broad US bond market (Bloomberg Aggregate) falling 0.4% for the month. It remains positive (+2.1%) year-to-date, though, on declining inflation and expectations for the Fed to end their rate hikes soon. This year, the paths of inflation and monetary policy, slowing global growth and the war in Ukraine will be key. The impacts of still relatively high inflation will remain key, with bond market volatility likely to stay high. Recent issues related to the banking sector seem to have subsided for now but are a reminder that there is a delicate balance for central banks to continue to fight inflation but also to try to maintain financial stability. Global monetary policies could diverge in 2023. The risk of policy errors remains elevated as central banks try to reduce persistent inflation while not tipping their economies into recession. Growth is expected to slow globally this year, with many economies forecast to tip into recession. Inflation, monetary policy, and the war will all be key. In the US, consumers could feel pressure as certain components of inflation remain high (e.g., shelter), borrowing cost are elevated, and the job market may weaken.<br>The key for US equities going forward will be whether earnings can remain resilient if growth continues to slow. Equity valuations remain lower in both emerging and developed markets, but risks remain, including potential continued strength in the US dollar, higher inflation weighing particularly on Europe, and China's sluggish economic reopening and on-going weakness in the real estate sector. | |

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| | **Benchmark History Total Fund Investments** 3/1/2019 Present 53% MSCI ACWI IMI Net USD / 5% 50% BBg US High Yield TR/50% Credit Suisse Leveraged Loans / 7% Inflation Hedges Custom Index / 35% Bloomberg US Aggregate TR<br>**Inflation Hedges 3/1/2019 Present** 23% MSCI US REIT / 46% Bloomberg US TIPS TR / 8% MSCI ACWI Energy NR USD / 8% MSCI US IMI Materials NR USD / 15% FTSE Gold Mines PR USD<br><br>**Ms. Williams** asked if there were any more questions and hearing none concluded. | |
| **XII. Neuberger Berman Investment Performance Review** | **Mr. Sultan Khan** provided an update on Trust I's performance with a current market value of $184,905,053. **Mr. Khan** continued by highlighting that market's upside and discussed the performance of risk assets in the first half of the year. He highlighted growth-oriented stocks like Apple, Googe, Nvidia, Tesla and Facebook outperformed the rest of the market. They highlighted positive results from outside the US, such as a 12% increase in equities and 5% rise in fixed income. The Fed's recent interest rate rise has led to positive results but also highlights the need for the Feds to step in to stabilize the economy. Mr. Khan explained that 100% of returns from the 10 names within the S&P 500 index came from the top ten names and that the performance was very concentrated due to concerns about the financial system. Rates are up currently and have been over the last 13 months. The short-term rates are around 5.4 As investors became more confident about the economy and inflation, the market started to trend in the same direction. You can see the rest of the market as well in terms of outside the US posting strong positive results. Growth and tech-oriented May rally boosted YTD returns, while US Small Cap and international markets lagged. Most of the S&P 500's gains YTD came from the 10 largest stocks in the index, representing ~30% of the benchmark. Increase in yields has created value opportunities across various parts of fixed income. As central banks appear likely closer to the end of the tightening cycle, security selection will be key driver of return, which could lend support to active management. Emerging Markets Debt has become more attractive given China's re-opening and expectations for a weaker dollar – a historical tailwind for this asset class. Estimated S&P 500 earnings growth for 2023 has fallen from +10% to +1%, however tougher lending standards suggest there's more room to fall. In a baseline scenario for AI, the compounded annual growth rate for S&P 500 earnings is predicted to increase from 4.9% to 5.4% in the next 20 years. **Investment Policy Benchmark From** 12/31/2021 to current consists of 3% ICE US Treasury 3- | |

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| | Month Bill, 26% Bloomberg U.S. Aggregate, 8% Bloomberg U.S. Corporate High Yield, 8% EMD Blended, 16% S&P 500, 8% Russell 2000, 8% MSCI EAFE, 4% MSCI Emerging Markets, 4% MSCI All Country World, 3% Bloomberg Commodity, 4% HFRX Global Hedge Fund, and 8% Cambridge Associates PE Index. From 6/30/2021 to 12/31/2021 consists of 3% ICE US Treasury 3-Month Bill, 26% Bloomberg U.S. Aggregate, 8% Bloomberg U.S. Corporate High Yield, 8% EMD Blended, 16% S&P 500, 8% Russell 2000, 8% MSCI EAFE, 4% MSCI Emerging Markets, 4% MSCI All Country World, 3% S&P GSCI Commodity, 4% HFRX Global Hedge Fund, and 8% Cambridge Associates PE Index. From 10/31/2013 to 6/30/2021 consists of 30% Bloomberg U.S. Aggregate, 5% Bloomberg U.S. Corporate High Yield, 3% Bloomberg Global Aggregate Ex-USD, 21% Russell 1000, 7% Russell 2500, 10% MSCI EAFE, 5% MSCI Emerging Markets, 4% NAREIT Equity, 3% Bloomberg Commodity, 6% HFRI FoF Composite, and 6% Cambridge Associates U.S. PE Index. From 5/31/2012 to 10/31/2013 consists of 35% Bloomberg U.S. Aggregate, 5% Bloomberg U.S. Corporate High Yield, 23% Russell 1000, 8% Russell 2500, 15% MSCI EAFE, 7% MSCI Emerging Markets, 4% NAREIT Equity, and 3.0% Bloomberg Commodity Index. From 1/31/2006 to 5/31/2012 consists of 35% Bloomberg U.S. Aggregate, 30% S&P 500, 10% Russell 2000, 20% MSCI EAFE, and 5% NAREIT Equity Index. | |
| **Schedule Future Board Meetings** | The next Retirement Board meeting is scheduled for September 28, 2023, from 3 p.m. to 6 p.m. via Zoom. | |
| **XIII. Adjournment** | After determination that all Retirement Board business had concluded Chair Withrow adjourned the meeting at 5:45pm<br>The meeting adjourned at 5:30 p.m. | |

Minutes taken: Christine Williams
Meeting Materials are posted on the Retirement Board website: https://www.peralta.edu/retirement-board
Agenda Posted: 333 E. 8th Street, Oakland, CA 94606