

MEETING OF THE TRUSTEES
CITY OF CHATTANOOGA GENERAL PENSION PLAN

May 16, 2024

This regularly scheduled meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on May 16, 2024 at 8:30 a.m. in the J. B. Collins Conference Room, City Council Building. Trustees present were Daisy Madison, Carl Levi, Aon Miller, Katie Reinsmidt and Javaid Majid. Others in attendance at the meeting were Scott Arnwine, CBIZ IAS, Inc.; Jed Cooper, First Horizon Bank; Ed Koebel, Jennifer Johnson, Darby Caraway and Jessica Fain, Cavanaugh Macdonald Consulting, LLC; Valerie Malueg, Office of the City Attorney; Starla Benjamin, Jason Silvers and Cheryl Powell, City Human Resources Department; Alan Syler (driver for Carl Levi).

Definitions in the document: GPP is General Pension Plan, OPEB is Other Post-Employment Benefits

The meeting was called to order by Chair Daisy Madison.
A quorum was present at the beginning of the meeting.

Daisy introduced Javaid Majid to the board and associates present as the newest appointed member for the Mayor.

Approval of Minutes

Carl Levi made a motion to approve the minutes from the November 16, 2023 meeting. Aon Miller seconded the motion. The minutes were approved.

Carl Levi made a motion to approve the minutes from the February 15, 2024 meeting. Aon Miller seconded the motion. The minutes were approved.

Administrative Actions

Cheryl Powell presented the Administrative Actions for both the February 15 and May 16 reports.

- February report: The activity for retirement transactions was heavier than normal during the 4th quarter (February report). Five of the retirees were eligible for a DROP payment and exercised their option. Two of the retirements were vested ex-employees commencing their pension benefit. The employee termination activity was about average but the amount of refunded contributions tended to be low suggesting early duration terminations. There were three retiree deaths with a return of basis. For the General Pension fund, Golden Tree Distressed Fund III distributed a total of \$56,000. For the OPEB fund, the GoldenTree Distressed Co-investment fund distributed \$68,000.00. The 4th quarter CBIZ invoice was received and paid. Cheryl will edit the report to add that item.
- May report: Retirement activity was more typical on this report. Two retirees exercised their option to receive a DROP payment. Termination activity was heavier than normal. There were six vested employees electing to withdraw their contributions. Still payments tended to be relatively small per employee. There were two retiree deaths with a return of basis. For the General Pension fund, Golden Tree Distressed Fund III distributed a total of \$97,525.71. Patten and Patten sent a letter explaining the impact of the change on calculated fees with their newly installed software. Essentially, the software calculates more frequently with the very little change in the result for a quarter compared to the prior method. A withdrawal was made to the Johnson Institutional Core bond fund to pay pension benefits. For the OPEB fund, the GoldenTree Distressed Co-investment fund distributed \$68,000.00.
- Cheryl will forward to the board the letter from Patten and Patten regarding the calculation of fees with new software.

Katie Reinsmidt made a motion to approve administrative actions. Aon Miller seconded the motion. The administrative actions were approved.

General Pension Board Budget for FY2025

Cheryl presented the proposed budget for fiscal year 2025. It contains the normal operating expenses with a proposed budget and an alternative budget that includes annual OPEB valuations.

- The values for the actuarial services are the contractual amounts for the next year. The board will need to approve the change to annual valuations and the Cavanaugh Macdonald contract will need an amendment to the fee schedule if the alternative proposal is accepted.
- An estimated cost for the Actuarial Audit is also included in the budget. A reasonable cost for a full audit is \$40,000. This is not an annually recurring cost.
- The estimated costs for First Horizon services include a slight increase over the actual costs for fiscal 2024 for GPP and OPEB.
- Disability premium costs are expected to be higher for FY2024 due to salary increases that produce higher individual benefits costs.
- The cost of City of Chattanooga services will increase slightly. All other budget items remain flat for the next year.
- Total proposed budget is \$565,876 and the alternative budget is \$577,876.

There was discussion about the need to do annual OPEB valuations. Most important is the need to capture the impact of legislative changes in the employer cost of funding the OPEB Trust. Ed will provide a contract amendment to make the change to the frequency of OPEB valuations and update the fee structure for the remainder of the contract term.

Carl Levi made a motion to approve the board budget for FY25 using the alternative proposal with the noted changes for the actuarial audit. Javaid Majid seconded the motion. The budget was approved.

Actuarial Valuation Presentation for General Pension Plan – Ed Koebel, Jennifer Johnson, and Darby Caraway Cavanaugh Macdonald

Ed Koebel provided a summary of assumptions used in the valuation, based on changes at the last experience study.

Darby Caraway began the presentation with the following observations: active member count increased over the prior year; active payroll increased for 2024 with average annual pay slightly decreasing; the active (contributing) to retiree (receiving payment) ratio increased from 1.06 to 1.08; total number of retired participants increased less than anticipated during the year; annual benefit payments have increased from \$25.7 million to \$26.8 million; and the number of deferred vested participants increased from 154 to 185 participants. Total plan liabilities at 1/1/2024 are \$508.7 million with \$287.0 million, or 56.4%, attributable to retirees. The investment return for the calendar year was 10.39% on a market value basis as of 12/31/2023 and the fund increased by a net \$25 million over the year. The return on the smoothed actuarial value of assets (5 year smoothing) for the fiscal year was 6.37% compared to the assumed rate of return of 6.75%. The fund has sufficient assets to cover the liabilities for the current retirees. However, the plan cash flows, measured as contributions coming in versus benefit payments and expenses going out, were -2.5% of assets, an acceptable level given the overall investment return. Investment earnings provide the offset to the negative plan cash flows.

Jennifer Johnson provided key valuation results. The Unfunded Actuarial Accrued Liability (UAAL) increased from \$69.9 million to \$71.6 million and the Funded Ratio decreased from 83.8% to 84.0%. (For context, the comparable average funded ratio among 160 independently reviewed public sector plans across the nation is 77.0%). The funded ratio on a market value basis is 78.5%.

Jennifer Johnson discussed the City's funding for future benefits. The Actuarially Determined Employer Contribution (ADEC) rate remained steady at 20.94% for the next fiscal year FY25. The rate could have lowered but maintaining the same level allows the City to pay down the unfunded faster. The 20.94% represents the 10.68% employer normal cost rate and the 10.26% unfunded accrued liability rate. This translates to an expected \$17.4 million in contributions to the fund.

The stability of the funded ratio is a result of continued adherence to the funding policy, the conservative lower assumptions that have been placed and the good fortune of market gains over the last three years. The GPP continues to make progress toward the goal of being fully funded. The net experience gains attributed to salary increases, which were less than expected, offset the experience losses due to retirements, withdrawals, and deaths in 2023 and investment returns in 2023 leading to an overall actuarial experience gain. This gain will be amortized beginning fiscal 2025 for the closed 25 year amortization period. Of the \$508.7 million total plan liability, the current fund assets and future anticipated contributions combined provide \$437.1 million of funding leaving a total UAAL of \$71.6 million. This UAAL is amortized to be paid as a level dollar amount into the GPP over a blended closed amortization period.

Ed then presented the results of the 10-year projection assuming a 6.75% discount rate and the change in the active and retiree population based on the assumptions in the plan. Because of the negative investment year and the five-year smoothing, future contribution rates are projected to rise over 3 years and stabilize over the 3 years leading to 2030. The funding ratio will continue to hover around 80-84% over the next 10 years.

Carl Levi made the motion to accept the report and the Annual Required Contribution rate of 20.94% of payroll for FY2025. Katie Reinsmidt seconded the motion. The motion carried.

Actuarial Valuation presentation OPEB – Jessica Fain, Cavanaugh Macdonald

Jessica Fain began her presentation reminding everyone that the OPEB valuation occurs every two years instead of every year. There was a change made in legislation with passage of the Inflation Reduction Act. Drug negotiations for certain Medicare Part D drugs will begin in 2026. The trend assumption was updated for both pre- and post-Medicare related to prescription drug costs, particularly in the catastrophic phase of the drug benefit.

The current discount rate for the OPEB plan is 6.75%. The population for the OPEB valuation includes the General Pension plan members and the sworn Fire and Police members. The resulting assumptions from the experience study for the Fire and Police Pension Plan were incorporated into this OPEB valuation. The valuation includes market assumptions similar to those for the GPP but also includes medical price increases and medical inflation assumptions to determine the OPEB liabilities. The updated assumptions coupled with the healthcare trends generated a \$65.7 million accrued liability for the OPEB Trust.

The market value of assets increased from \$123.7 million to \$127.3 million since the last OPEB valuation. The actuarial value of assets increased from \$111.0 million to \$139.5 million. The return on market value of assets was -2.51% while the return on the actuarial value of assets was 5.26%. The actuarial assumed rate of return is 6.75%. The valuation for OPEB uses a five-year asset smoothing method.

The Funded status for the OPEB Trust has improved substantially from 2022 to 2024 and the funded ratio for the OPEB Trust is presently 68.0%, an increase over the 59.7% from the two years ago. The Actuarially Determined Employer Contribution rate recommendation remains steady at 11.75% FY2025. Factors that contributed to the reduction in the unfunded liability, from \$74.9 million to \$65.7 million, and the steady contribution rate are the following:

- fewer retirees are qualifying for post-employment benefits
- increase in assets and the consistent payment of employer contributions
- legislative changes that reduced future costs
- changes in the demographics of plan participation (deferred retirement)

If the current contribution rate of 11.75% is maintained, the current amortization period can be shortened to approximately 7 years.

Javaid Majid made the motion to accept the report and retain the Annual Required Contribution rate of 11.75% of payroll for FY2025. Carl Levi seconded the motion. The motion carried.

Investment Performance Review 1Q2024 – CBIZ Investment Advisory Services

Scott Arnwine provided a brief overview of plan results for the quarter.

The GPP ended the quarter up 4.8% at \$362.7 million. The trailing 1 year rate is 11.4%. For the first quarter, the equity managers overall out-performed the benchmark were up by 10.3% overall. Three value managers and one small cap manager performed well above their benchmarks. International equity was at the benchmark. The hedge funds were up 3.3% for the quarter. Fixed income and real estate were negative for the quarter.

Real estate has had some difficult years and will continue to be a challenge, especially in commercial real estate. The TerraCap fund V should perform over time as it is not heavily invested in office. Intercontinental is expected to have long term health but short term challenges. They are able to limit the withdrawal requests to a percentage that can be liquidated at a time. Scott indicated it would take approximately 2 years to liquidate our holdings.

For the OPEB Trust, the fund level at the end of 1Q is up 5.5% to \$147.9 million. The results for OPEB is often similar to that of the GPP since OPEB has many of the same investment managers; however OPEB is more heavily weighted in stocks and with a longer horizon it is invested more aggressively. As the fund increases in size, it will be invested in a more diversified manner.

There are some recommendations for allocations in the GPP and OPEB funds.

- For GPP, it is recommended to move \$18.1 million from Vanguard Short Term Treasury Index Fund to Johnson Institutional Core Bond Fund.
- For the OPEB fund, it is recommended to move \$6.4 million from Vanguard Short Term Treasury Index Fund to Johnson Institutional Core Bond Fund

There will be a reallocation study presented in August.

Katie Reinsmidt made the motion to sell \$18.1 million of Vanguard Short Term Treasury in the General Pension Fund and allocate \$18.1 million to Johnson Institutional Core Bond fund. Aon Miller seconded the motion. The motion carried.

Carl Levi made the motion to sell \$6.4 million of Vanguard Short Term Treasury in the OPEB Trust and allocate \$6.4 million to Johnson Institutional Core Bond fund. Katie Reinsmidt seconded the motion. The motion carried.

Report from First Horizon

There was no report from First Horizon.

Report from Counsel

There was no report from Counsel.

Call for a Draft Pension Board Purchasing Policy

The board needs to create its plan for future procurement. This policy will need to be drafted before the next RFP/RFQ process. The board needs staff to provide an outline of a policy for consideration.

Questions and comments raised in the discussion:

- Will purchasing be involved in the procurement process
- Will the board be able to have input into procurement decisions?
- Structure of evaluation committee?
- The board does not want to manage the process, but the Purchasing manual process will need to provide a policy that will accommodate the board.
- Provide the board the option to outsource procurement?

Javaid indicated that there is not a full staff in Purchasing at this time. There is an effort to update the policy but the timing is not certain. Javaid suggested he will address this issue and perhaps bring Debbie for a presentation/discussion to the board at a future meeting. The board will continue this discussion at the next meeting.

There was no other business to discuss.

Carl Levi made a motion to adjourn. Aon Miller seconded the motion.
Daisy Madison adjourned the meeting.

PART II -- ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID	Qtr Ending	PURPOSE
Current quarter	69,609.21	3/31/2023	
Fiscal Year to date	239,647.27		FY2023
<i>Budget</i>	375,410.00		FY2023
Same quarter last year	68,022.19	3/31/2022	
Prior Fiscal Year Actual	306,182.31		FY2022
Cavanaugh Macdonald	9,907.00	3/31/2023	GPP valuation
Cavanaugh Macdonald	-	3/31/2023	GPP GASB 67 & 68
Cavanaugh Macdonald			Experience Study
Cavanaugh Macdonald	2,210.50	3/31/2023	Consulting service
Records Management	-	3/31/2023	Minutes, supplies
Chattanooga Times Free Press	40.14	3/31/2023	Meeting ad
CBIZ IAS	25,000.00	3/31/2023	Investment consulting services
First Horizon Bank	32,451.57	3/31/2023	Administrative expense
City of Chattanooga services	-	3/31/2023	Administrative expense annual
COMPANY TOTAL	69,609.21		

Investment Managers -- Fees Paid

COMPANY	AMOUNT PAID	Qtr Ending	PURPOSE
Current quarter	105,131.79	3/31/2023	
Fiscal Year to date	287,988.48		FY2023
Same quarter last year	94,791.04	3/31/2022	
Prior Fiscal Year	374,739.60		FY2022
Kennedy Capital Mgmt	36,429.00	3/31/2023	Investment management fees
Patten & Patten	18,667.82	3/31/2023	Investment management fees
Kerusso Capital Management	12,094.18	3/31/2023	Investment management fees
Wedge Capital	37,940.79	3/31/2023	Investment management fees
MANAGER TOTAL	105,131.79		

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	FYTD	EFF DATE	REASON
Fiscal Year to date		2,946,264.40	FY2022	
Fiscal Year to date		1,238,591.35	FY2023	
Fiscal Year to date		509,757.56	FY2024	
	Qtr Ending		3/31/2024	
DTC Diversified Partners III	\$0.00			distribution
TerraCap Partners III	\$0.00			distribution
TerraCap V	\$0.00			distribution
GoldenTree Distressed Fund 2014	\$0.00			distribution
GoldenTree Distressed Fund III	\$97,525.71			distribution
GoldenTree Distressed Debt IV	\$0.00			distribution
Medley Opportunity Fund III	\$0.00			distribution
Greenspring Global Partners IV	\$0.00			distribution
Greenspring Opportunity Fund III	\$0.00			distribution
FCA Venture Partners III	\$0.00			distribution - Final

COMPANY TOTAL **97,525.71**

REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	FYTD	EFF DATE	REASON
Fiscal Year to date		(360,000.00)	FY2024	capital call
Fiscal Year to date		0.00	FY2024	all other transactions

sell Johnson Institutional Core Bond fu	-1,000,000			to pay benefits
deposit to cash	1,000,000			to pay benefits

GoldenTree Distressed Debt IV				capital call
-------------------------------	--	--	--	--------------

MISCELLANEOUS TOTAL **0.00** **(360,000.00)**

REPORT OF ACCOUNT(S) PAID

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	MONTH	PURPOSE
Total Prior Fiscal Year		82,173.97		FY2023
<i>Budget</i>		<i>100,000.00</i>		<i>FY2023</i>
Fiscal Year to date		87,037.63		FY2024
Symetra	8,950.69		1/1/2024	Long Term Disability (50%)
Symetra	8,966.13		2/1/2024	Long Term Disability (50%)
Symetra	9,055.27		3/1/2024	Long Term Disability (50%)
Symetra	9,031.11		4/1/2024	Long Term Disability (50%)

TOTAL **36,003.20** **87,037.63**

**CITY OF CHATTANOOGA OPEB TRUST
ADMINISTRATIVE ACTIONS**

PART II -- ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID	Qtr Ending	PURPOSE
Current quarter	17,948.71	3/31/2024	
Fiscal Year to date	51,593.35		FY2024
<i>Budget</i>	76,030.00		FY2024
Same quarter last year	13,344.85	3/31/2023	
Total Prior Fiscal Year Actual	59,744.16		FY2023
Cavanaugh Macdonald	4,437.00	3/31/2024	OPEB valuation
Cavanaugh Macdonald	-	3/31/2024	OPEB GASB 74/75
CBIZ IAS	5,000.00	3/31/2024	Investment consulting services
First Horizon Bank	8,511.71	3/31/2024	Administrative Expense
COMPANY TOTAL	17,948.71		

Investment Managers -- Fees Paid

COMPANY	AMOUNT PAID	Qtr Ending	PURPOSE
Fiscal Year prior			
Fiscal Year to Date	24,516.11	3/31/2024	
Kerusso	24,516.11	3/31/2024	
MANAGER TOTAL	24,516.11		


ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	EFF DATE	REASON
Prior quarter total			
GoldenTree /Distressed Co-Investment Fund	\$68,000.00	3/31/2024	distribution
Greenspring Opportunities Fund VII	\$0.00	3/31/2024	distribution
COMPANY TOTAL			

REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	EFF DATE	REASON
Fiscal year to date	-	FY2024	capital calls
Fiscal year to date		FY2024	all other transactions
			approved transaction
			approved transaction
			approved transaction
			approved transaction
			approved transaction
GoldenTree Distressed Co-Investment Fund III			capital call
StepStone VC Opportunities VII			capital call
MISCELLANEOUS TOTAL	0.00		

APPROVED:



Chairman



Secretary