Finance Committees Meeting

WCF Admin Office
707 Mendham Blvd., Suite 250
Orlando, FL 32825
Wednesday, April 23, 2013
9:00 a.m.

MINUTES

MEMBERS PRESENT:	Bill Merck, Melanie Cornell (via phone), Catherine Hanson, Joe Sarnovsky and Mark Wylie
MEMBERS ABSENT:	None
STAFF PRESENT:	Pam Nabors, Leo Alvarez, Nilda Blanco and Kaz Kasal
GUESTS PRESENT:	Jason Johnson / UBS Financial Services

WELCOME & CHAIRS' REMARKS

Introductions
Mr. Merck called the meeting to order at 9:00am, welcomed those in attendance and introductions were made.

Roll Call/Establishment of Quorum
Ms. Kasal reported there was a quorum present.

Public Comment
None offered.

APPROVAL OF MINUTES FROM PREVIOUS MEETING

After review of the minutes from the 2/12/13 Finance Committee Meeting, Ms, Hanson made a motion to approve the minutes. Mr. Sarnovsky seconded, motion passed.

INFORMATION AND DISCUSSION ITEMS

Budget Variance Report thru March 31
Mr. Alvarez reviewed the "WCF Budget Versus Actual Report – As of March 2013" - $11M in funds were carried over from FY 11-12 and $31.4 in new award funding was received for FY 12-13. This totals $42M in funds; however, 50% of the 2-year WIA funding was reserved for FY 13-14, so total available funds for FY 12-13 is $31.8M. WCF has spent 63% of budget, which is 12% short of where the budget should be at this point. This is mostly due to work experience and the youth program. There will be a big push in the fourth quarter which includes a larger work experience track and an initiative in the youth program. Mr. Alvarez went over the following highlights on expenditures through 3/31/13:

- Salaries/Benefits: $11.8M – 7% higher
  - Salaries – 2% higher than budgeted on projects requiring temporary staffing
  - Benefits – under-budgeted benefits and taxes for staff
- Direct Client Services (work experience, training, scholarships): $15.6M spent - close to 50% of budget
  - Kick-off of Re-Employment Connection track (work experience) started in the second quarter
  - $1.8M spent in training with $700,000 in outstanding training obligations
  - Youth program – spent $1.5M of the $2.3M on Summer Youth program last year. Launched "Project CoNEXTion" youth program last month to spend remaining funds by end of this FY
- Professional Fees – 70% spent through third quarter – on track
- Other Program Costs Services – underspent. $75,000 allocated for re-branding as DEO indicated that all RWBs would be rebranded to uniform name by December 2012; however this has not happened – so will probably rollover funds to next year.
- IT/Communications – 90% spent. WCF acquired software - this was based on $75,000 settlement agreement with C.G. Commercial.

Mr. Sarnovsky asked if all of the 50% in WIA funds will be spent this FY. Mr. Alvarez replied there will be an increase in carry-in money and more than 50% of the 2-year WIA funding will be spent next year, but it will be spent.

Mr. Sarnovksy asked if IT will go over their budget this year. Mr. Alvarez replied no, they are now only expecting some smaller items to pay for in IT until end of this FY.

<u>Preliminary FY 2013-14 Budget Projections</u>
Mr. Alvarez referred to the "Source of Funds FY 2013/214 with Comparison" document and reviewed the following:

Carry Forward Funds: $9.8M was carried in from FY 11-12 to FY 12-13 and $15M will be carried in to FY 13-14.

New Allocation for FY 2012/2013 – received preliminary numbers for WIA and WP, the rest of the projections are still in discussion with DEO. The smaller funds – Veterans, FSET - there will be a 5% cut from prior year. The biggest cut will be with WT, which will be a 22% decrease.

Ms. Nabors stated that legislators are proposing to cut $15M out of welfare allocation – this would equate to 22% locally cut in WT, and is determined by the local size of the TANF caseload. Mr. Alvarez added they are projecting 3% cut in Adult/DW and 5% cut in Youth for next year. Ms. Nabors indicated they are assessing the infrastructure/assets to ensure a sustenance system.

Mr. Alvarez stated that per DEO's guidance, RWBs should spend/obligate 80% of 2-year WIA funds. If not obligating all funds, then they will be de-obligated and redistributed back to other RWBs. Mr. Alvarez summarized that overall for next year, they are expecting an 8% decrease - from $30M to $27.5M, but a larger carry-in – so should have $40.4M for next year (taking out planned carry-over of $3.4M).

Mr. Alvarez referred to the "Preliminary – WCF Budget FY 2013-14" document, which shows current budget vs. prior year budget, the difference between the two budgets as well as % change. Current preliminary budget projected to be $40.4 vs. prior year $31.9. Projected expenditures: 48.4% increase to direct client services; 5.9% increase in salaries/benefits – annual reviews and increase in benefits; .2% increase in professional fees – on track; 2.3% decrease for facility and related costs – consolidating facilities in Seminole County and closing the East Orange SPO office; and 27.1% increase for IT/Communications – need additional money to create/outfit multi-purpose rooms for more efficient use of space for customers which will result in the purchasing of extra computers. Overall, an additional $8M will go towards client base and training for year round youth. Ms. Nabors added that staff will now start the preliminary process by having the Program Review Committee review the preliminary budget to determine program priorities. Then Mr. Neal and Mr. Alvarez will work in conjunction with the Finance Committee to attach to budget line items for draft budget in readiness for board and consortium approval in June 2013.

Mr. Sarnovsky asked why the year-to-date salaries/benefits expenditure were off/high. Mr. Alvarez replied that there was temporary staff that needed to stay longer than originally projected. With regard to the benefits side, they just took the number from the previous year and did not account for the increase in benefit costs. With regard to taxes, there was an increase in payroll tax, due to the Affordable Care Act.

Mr. Wylie asked about the Youth Program. Mr. Alvarez replied that $2.3M was allocated for Summer Youth program which occurred last summer. Not all of the funds were spent due to some youth dropping out of program so no work hours were paid. A Youth Committee was established last November 2012, and with their direction and approval, a youth initiative entitled “Project CoNEXTion” started in March 2013 to provide additional youth services – so remaining youth dollars should be spent by program year end. Also the Youth Committee approved the RFP for year-round youth services - $2M has been allocated for year-round youth services.

Mr. Wylie asked what the federal law dictates that can be used for administrative funding. Mr. Alvarez replied that the there is a 10% cap that can be used for administrative funds and this organization is currently at 7%, which is on track.

Mr. Wylie asked how WCF handles communication/outreach out to businesses and how many staff are involved in this effort. Ms. Nabors replied that they have re-established the Business Services Team (about 5 business service reps) and they have been deployed geographically at the one-stops, and also deployed by demand/sectors. The big sectors in this region are: health care, hospitality and emerging industries. As the communication strategy builds, there will be even more outreach to the business community. Ms. Nabors stated that the state is on a parallel track to re-brand – there are currently 6 potential brands that are being tested and marketed. Once a decision is made on the brand for the workforce system, then they will need funds to rollout the new brand

<u>403(b) Fiduciary Responsibility</u>
Mr. Merck asked Mr. Johnson, with UBS Financial Services, WCF’s advisor of the plan, to provide his presentation.

Mr. Johnson greeted the committee and referred to the 3 documents in today’s meeting packet. He stated that in today’s meeting he will review the fees, explain their original Request For Proposal process, and review changes in comparison from now to then.

Mr. Johnson referred to the UBS document entitled “403(b) Request for Proposal (RFP) Vendor Analysis” which covers the RFP methodology and analysis that was used during the evaluation of the vendors' proposals. Each vendor was asked to provide information pertaining to their offering for investments, services and fees based on specific-assumptions: $2.2M in plan assets, 200 active participants with balances, 1 enrollment/education meeting per location per year, plan assets divided equally across 10 investment options, 80% or 160 participants have an average account balances under $25,000, 10% or 20 participants will have a distribution from the plan assets during the, 10% or 20 participants will administer a loan from their account averaging $5,000 per loan. The RFP analysis measures each vendor on three primary categories: investments, services and fees. Each primary category (except Fees) is broken into multiple subcategories where each vendor can receive ranking points. For each subcategory the Vendors are ranked from 1 to 4 with 1 being the best performing and 4 being the worst performing. While the quantitative rankings may clearly highlight the best Vendor, the selected vendor should be chosen as a "best-fit" for the participants and their beneficiaries. Mr. Johnson stated that there were four qualified responders that were evaluated: AXA, Hartford, One-America and Principal. He referred to the page entitled "Vendor Fee Overview" and indicated that the asset levels today are the similar to the original bid. Fees as a percentage of assets were as follows: AXA: 2.7%; Hartford: 1.8%; One-America: 1.24%; and Principal: $1.83%.

Mr. Johnson referred to page which shows chart entitled: "Vendor Fund Analysis (Rankings)" which ranks each vendor on how well each of their funds performed – this was scored looking at multiple areas (performance and fees). Overall, vendors ranked as follows: One-America: 1.69; Hartford: 2.04; Principal: 2.76; and AXA: 2.93.

Mr. Johnson referred to the page entitled: "Vendor Service Matrix Overview" where all components of their services are ranked, and ranking results are depicted on the chart by service category. Overall, vendors ranked as follows: Harford: 1.54; One-America: 1.69; Principal: 1.83 and AXA: 2.52.

Mr. Johnson referred to page entitled: "Vendor RFP Results" which consists of chart ranking each vendor by primary category. Overall, vendors ranked as follows: One-America: 1.46; Hartford: 1.86; Principal: 2.53; and AXA: 3.15.

Mr. Johnson referred to One-America document entitled" "Services Agreement and Fee Disclosure." On page 10 and 11 shows the fee schedule which shows the fee type, amount and description. With regard to the asset charge, this organization is currently at $2M asset level, which there is a .05% add-on charge. If asset level falls below this, then there will be a .45% add-on charge. If the organization reaches an asset level of $3M or higher then there is no add-on charge.

Mr. Merck stated that the evaluation and analysis process UBS used was detailed and seems to be reasonable as well as used defendable best practices.

Mr. Johnson stated that One-America does a great job with education – a lot of providers charge for education meetings, but education was included in their bid.

Mr. Johnson referred to the One-America document entitled "Plan Review" and referred to the following pages:

Page 7 – "Rate of Return by Investment" – shows how much money in each investment option and rate of return for period 4/1/12 to 3/31/13. Mr. Johnson stated that participants should be happy with the plan level rate of return of 9.35% with $2.2M in assets.

Page 18 – “Number of Investments” – show number of participants in each investment option both active and terminated.

Page 24 – “Contributions by source” - $546,607 for all sources.

Page 26-30 – current fee disclosures – 1.15% is weighted average of total fund management and asset charge expense percentage. This is only 4 basis points difference from when the analysis was done 2 years ago.

Page 33 – “Loans” – there are 40% of participants have outstanding loans. This is very high – the average is 23%. Ms. Nabors asked how old the loans are. Mr. Johnson indicated they can provide a report on this. Mr. Wylie asked if participant is able to contact the plan administrator directly for a loan. Mr. Johnson affirmed and explained that loan fees are disclosed to the participant and they have to acknowledge the fee disclosure on phone or online when a loan is initiated. Participants can take up to 50% on loan. Mr. Wylie commented that participants should be educated on why it is advisable not to take loans out from their retirement plan.

Based on the information provided by Mr. Johnson and further discussion, the Finance Committee concurred that current plan should remain in place and will revisit in two years. This will be reported to the full board as an information item.

Mr. Johnson stated that UBS takes on the responsibility of co-fiduciary /oversight and it is important to them that the plan performs well. Every quarter he will forward to Mr. Alvarez the fund analysis, and discuss/spend time understanding the report. He will also notify of any funds that need to go on watch.

Mr. Wylie asked if staff have talked with other RWBs about their plans and what percentage of their participants have loans. Ms. Nabors replied that an analysis was done two years ago and reviewed by FWDA and CFO group. Ms. Nabors indicated they could research/compare the loan ratio with the other RWBs. Mr. Johnson suggested that a comparison be done of all 24 RWBs and compare all features – the CFO group could discuss this. UBS could help in this process. Ms. Nabors explained this would be hard to do as some RWBs are connected to the county and some are private.

Mr. Merck advised that staff should keep monitoring the plan on a regular basis and provide an annual report to the Finance Committee and Board on recommendations and actions to be made. The Finance Committee concurred and also agreed that they are responsible to set overall policy, make sure in compliance, and that staff are monitoring the plan on a regular basis and bringing forward anything that needs the Finance Committee’s attention, as well as the annual report to the committee.

Ms. Nabors added that there will be more educational sessions provided to the employees on 403(b) plan – this will be done on an ongoing basis.

Ms. Nabors announced that they received a letter from DEO accepting resolution for reimbursement of disallowed costs. It is anticipated that DEO/Governor will lift high risk designation after DEO’s financial monitoring occurs in May 2013.

CHAIRS' CLOSING REMARKS

Mr. Merck thanked all those who attended and for Mr. Johnson's presentation at today's meeting.

There being no other business, the meeting was adjourned at 10:52 a.m.

UPCOMING MEETINGS

- Finance Committee Meeting: 6/3/13 - WCF Admin Office. Ms. Kasal will forward to the Finance Committee the meeting notice on this.

Respectfully submitted,

____

Kaz Kasal
Sr. Administrative Assistant