

CONSIDERATION OF POSSIBLE DEFERRED RETIREMENT OPTION PLAN (DROP) ACCOUNT DISTRIBUTIONS IN ACCORDANCE WITH DROP POLICY ADDENDUM

March 9, 2017

AGENDA

- Update on Distributions and DROP related activity since January 12, 2017
- Minimum Annual Distributions
- Board Action Required by the Policy
- Additional Considerations
- Net Asset Value, Liquid Assets and Reserve Amounts
- Staff Recommendation

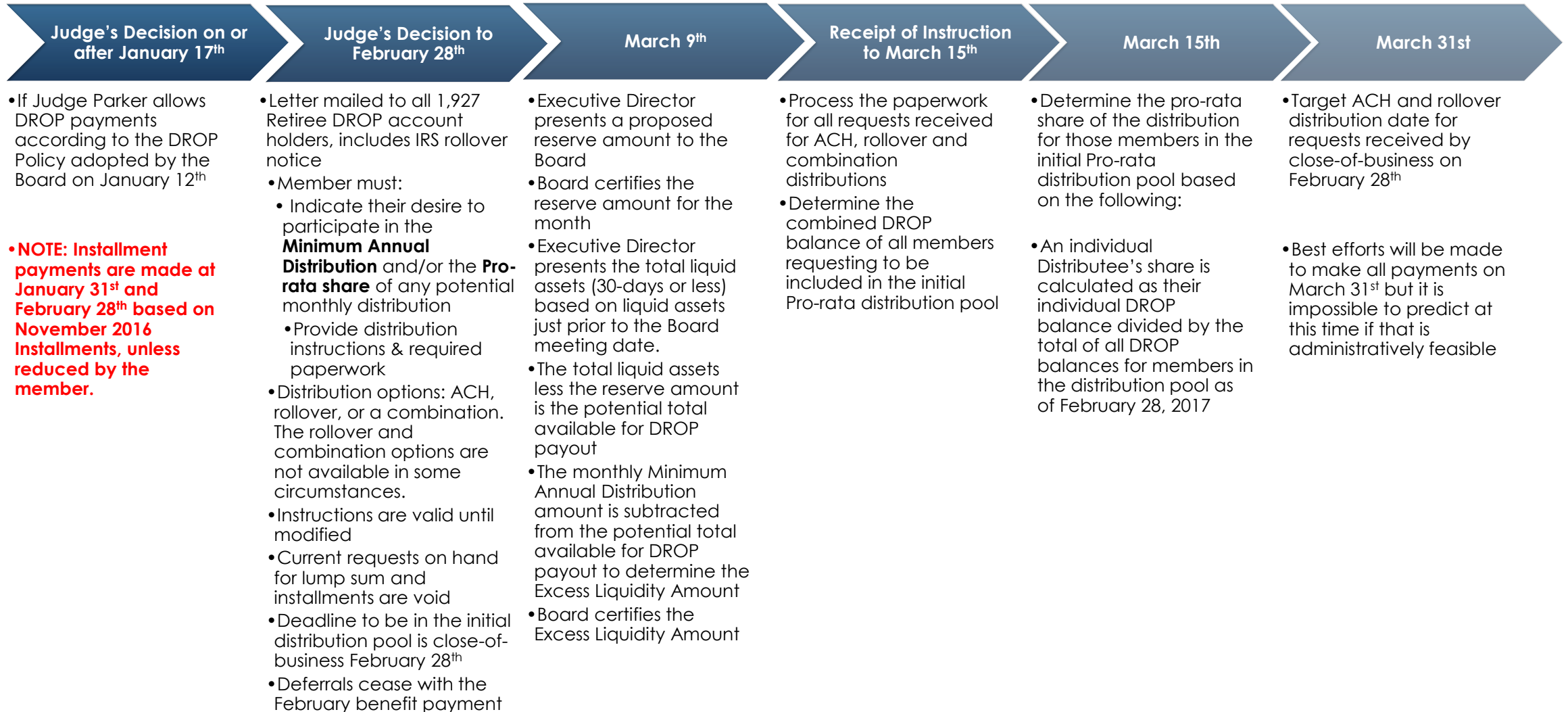
UPDATE ON DISTRIBUTIONS AND DROP RELATED ACTIVITY

- Normal monthly retirement payments continue to be paid
- Refunds processed according to the Plan
- Installment payments were paid at the end of January and February
- Required Minimum Distributions for 2017 were paid in January
- Pro-rata distribution of \$6.6 million to members with outstanding DROP lump sum requests was paid in February
- Retiree deferrals into DROP have stopped as of March 1st
- A process for evaluating unforeseen emergency requests was developed per the DROP Policy Addendum
 - 10 requests submitted
 - 3 approved, 6 recommended for denial, 1 received on 3-7-17 and is being evaluated.

UPDATE ON DISTRIBUTIONS AND DROP RELATED ACTIVITY

- A written communication was mailed to all members with a DROP account on January 23rd discussing the DROP Policy Addendum.
- In this mailing, Retirees and Distributees with a DROP account were provided with a DROP Distribution Election form in which the election for the minimum annual distribution and/or the potential pro-rata distributions was included.
- Meetings with individuals and groups of members have been and continue to be held to answer questions and assist in completing the DROP Distribution Election form.
- Deadline reminder emails and social media postings were used to remind members of the initial 2-28-17 deadline for March payment eligibility.

Today



DROP DISTRIBUTION TIMELINE FOR THE **INITIAL** DISTRIBUTION

MINIMUM ANNUAL DISTRIBUTION

A Distributee may elect to receive a Minimum Annual Distribution from his or her DROP account. The Minimum Annual Distributions work as follows:

- \$30,000 is the maximum to be distributed per Distributee as a Minimum Annual Distribution in 2017.
- The distributee will receive either \$3,000 per month (March – December) as an ACH, or if a rollover is selected the money will be distributed semi-annually with \$12,000 distributed on June 30th and \$18,000 distributed on December 29th.
- To be eligible for the maximum in 2017, a completed request form must have been received by DPFP by close-of-business February 28, 2017.

BOARD ACTION REQUIRED BASED ON THE POLICY

- a. Certification of reserve amount
- b. Certification of excess liquidity amount
- c. Determination of distribution amount

RESERVE AMOUNT

The “Reserve Amount” will mean the amount the Board determines is necessary to satisfy the following obligations that are essential to DPFP’s efficient administration:

- No less than 12 months of monthly annuity benefit payments, less monthly contributions for the same period;

- No less than 12 months of anticipated operating expenses;

- No less than 12 months of minimum annual distributions pursuant to Section 7 of the Addendum;

- All anticipated required minimum distributions for the coming year;

- All outstanding indebtedness; and

- All outstanding capital commitments for existing private market investments as well as no less than 12 months of other anticipated investment-related expenditures.

The Reserve Amount is not a fixed sum and will vary as the needs associated with the obligations comprising the Reserve Amount change over time, including the amounts necessary to ensure that DPFP can satisfy the cash requirements for the above items in an efficient and prudent manner.

EXCESS LIQUIDITY AMOUNT

Withdrawals from DROP accounts under the pro-rata monthly distribution option will be permitted only if for a given month the total liquid assets held by DPFP exceed the Reserve Amount as of the date that the Board certifies the Reserve Amount and the amount of minimum annual distributions anticipated to be paid for such month (the “Excess Liquidity Amount”)

The Board will certify the Excess Liquidity Amount, if any, at its regular monthly meeting, beginning March 2017

PRO-RATA DISTRIBUTION

Board certifies the Excess Liquidity Amount

If the Board determines that a pro-rata monthly distribution will be made for the current month:

- The total amount available will be divided on a pro-rata basis between each Distributee with a timely submitted DROP withdrawal request on file with DPFP as of the last day of the prior month
- Each Distributee's share will be determined by multiplying the certified Excess Liquidity Amount for such month by a fraction, the numerator of which is the amount of such Distributee's DROP account, and the denominator of which is the total aggregate amount of all Distributees' DROP accounts that will participate in the distribution

IMPORTANT NOTE

All members should understand that we are in extraordinary times. The DROP Policy Addendum represents the Board's best attempt to follow the terms of the Plan in the discharge of its fiduciary duties with the current information at its disposal. **There can be no assurance when distributions will be made and in what amounts.** Furthermore, the Board may change the terms of the Policy if it determines after seeing how facts unfold that such changes are necessary to continue to properly fulfill its fiduciary duties. This may include changing the way distributions are made, changing, or dispensing with, the minimum annual distribution, **changing the reserve amount** or any other changes the Board may deem necessary.

It is the desire of the Board that the Addendum will eventually be abandoned if a plan can be put into place to assure DPFP's solvency. Until such time, members will need to carefully pay attention to announcements from DPFP as such announcements may well affect your ability to receive funds from your DROP accounts.

ADDITIONAL CONSIDERATIONS SINCE THE DROP POLICY ADDENDUM WAS ADOPTED ON JANUARY 12, 2017

- DPFP has a capital commitment obligation to repay \$171.4 m of company level debt of RED consolidated Holdings, which matures in May 2017, but could be called if DPFP net plan assets drop below \$2 billion.
- It was hoped that the commitment would be renegotiated to extend the term and reduce the \$2 billion trigger but the Council Trustee lawsuit which includes the receivership concept and statements questioning the validity of debt related obligations make it unlikely to have relief from the lender on the \$2 billion level trigger prior to the May 2017 maturity date.
- According to AEW, who manages the asset, if the \$2 billion level is breached it will harm the value of DPFP's investment in RED Consolidated Holdings. This investment accounts for approximately 10% of net plan assets.

Reserve Analysis - \$2bn Net Asset Value Threshold as of 3/7/17

DPFP has a capital commitment obligation to repay \$171.4m of RCH company level debt, which matures on May 23, 2017, but could be called if DPFP net plan assets drop below \$2 billion.

DPFP Investment Assets	
Gross Asset Value	\$ 2,248,372,066
Less: DPFP Debt	130,000,000
Net Assets	2,118,372,066
RCH Debt Covenant Reserve Calculation	
\$2 Billion NAV covenant	2,000,000,000
3 months of Monthly Benefit Outflow (3*a)	22,800,000
3 months of Minimum Annual Dists. (b/4)	17,379,000
3 months of Operating & Investment Expenses	5,000,000
5% Allowance for market & valuation volatility	112,105,000
Net Asset Reserve	2,157,284,000
Excess/(Shortage) of NAV Based on \$2b Covenant	(38,911,934)

Benefit Activity	
Monthly Benefit Payments	18,600,000
Less: Monthly Contributions	11,000,000
Monthly Net Benefit Outflow (a)	7,600,000
Minimum Annual Distributions (b)	69,516,000
2018 Required Min. Distributions (RMDs)	6,900,000

Current Snapshot – Plan Assets and DROP as of 3/7/17

DPFP Investment Assets

Gross Asset Value	\$ 2,248,372,066
Less: DPFP Debt	130,000,000
Net Assets	2,118,372,066

DROP Assets and Obligations

Retiree DROP	721,036,481
Active DROP	343,042,624
Total DROP Assets	1,064,079,105

Benefit Activity

Monthly Benefit Payments	18,600,000
Less: Monthly Contributions	11,000,000
Monthly Net Benefit Outflow (a)	7,600,000
Minimum Annual Distributions (b)	69,516,000
2018 Required Min. Distributions (RMDs) (c)	6,900,000

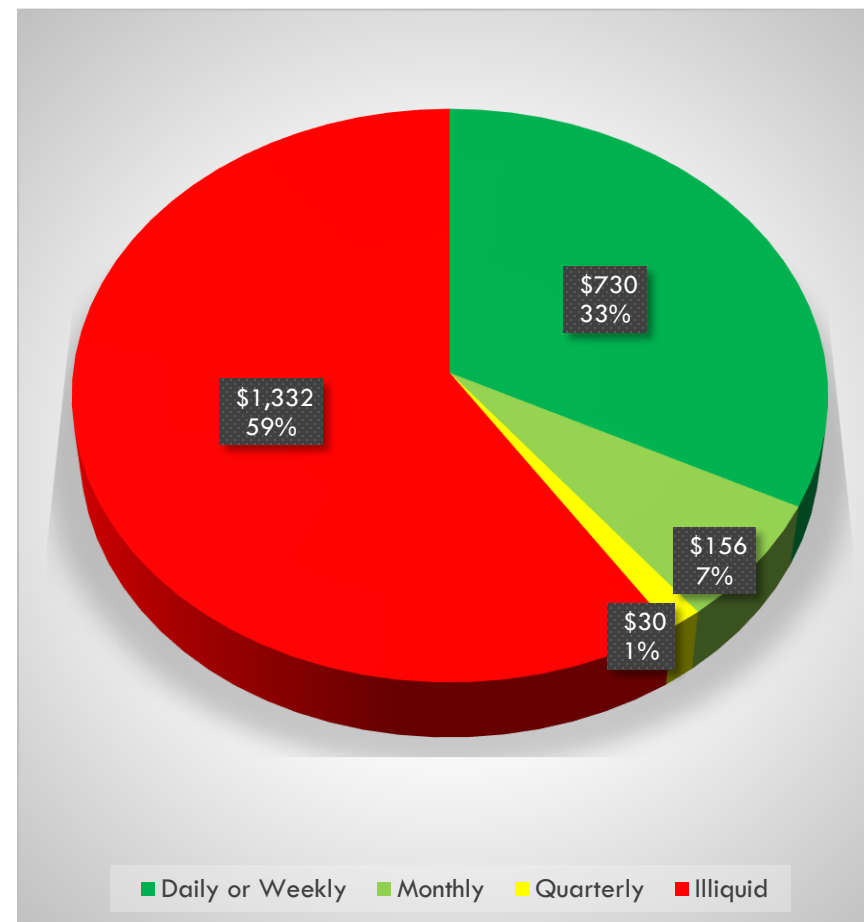
Liquid Assets

Total Liquid Assets (30 day liquidity or less)	885,962,471
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Total Reserve

12-mos Total Benefit Activity ((a*12)+b+c)	167,616,000
Commitment to Repay RCH Debt*	171,400,000
DPFP Debt	130,000,000
Unfunded Capital Commitments	115,120,345
12-mos Operating & Investment Expenses	20,000,000
Potential Liquidity Needs	604,136,345
RCH Debt \$2 Billion Covenant	281,826,125
Total Reserve	885,962,471

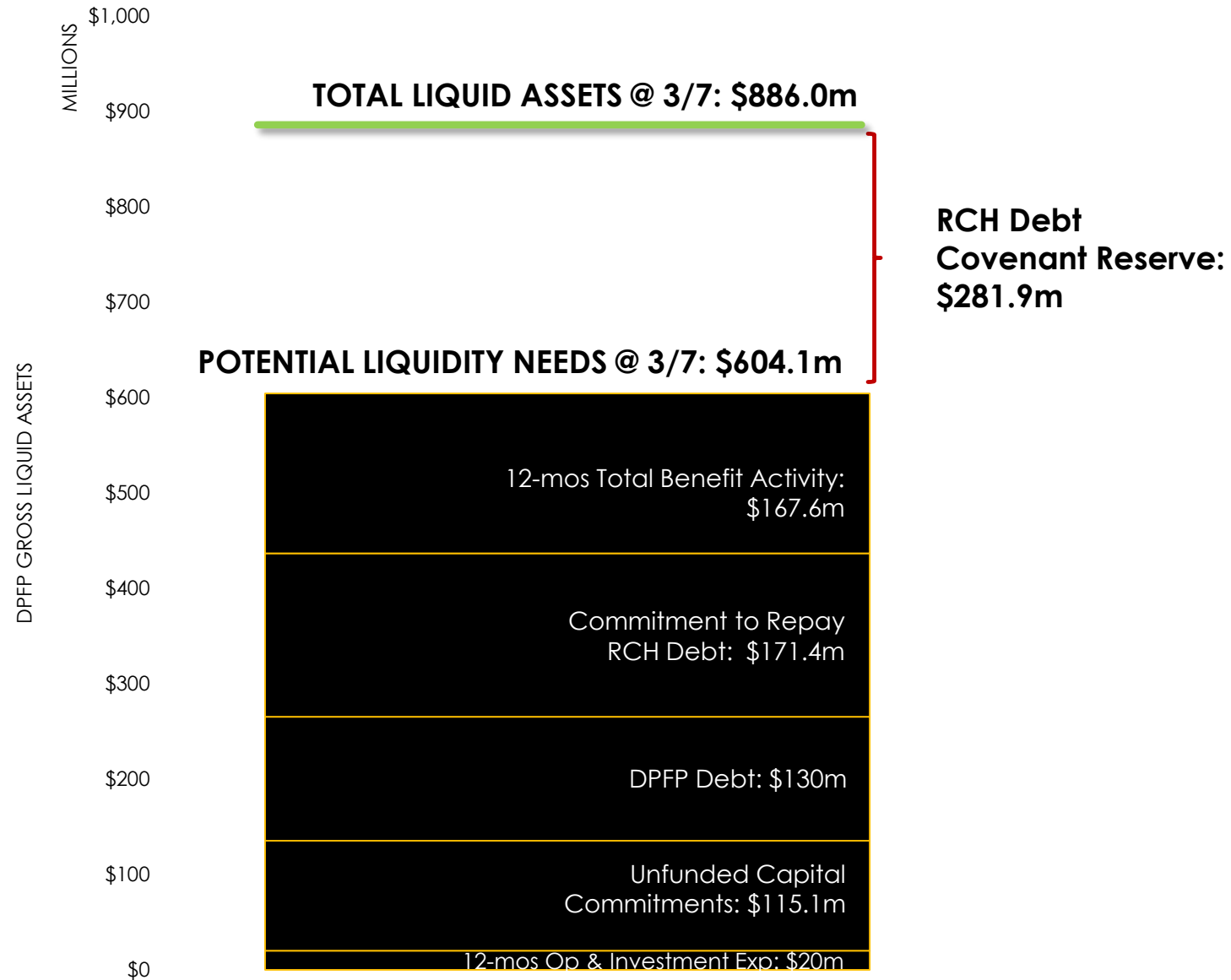
LIQUIDITY OF DPFP GROSS INVESTMENT ASSETS



* - DPFP has a capital commitment obligation to repay \$171.4m of RCH company level debt, which matures in May 2017, but could be called if DPFP net plan assets drop below \$2 billion.

DROP Policy Liquidity Analysis as of 3/7/17

DROP PRO RATA PAYMENT WOULD REDUCE TOTAL NET ASSETS TO \$1.836 BILLION



STAFF RECOMMENDATION

Recommendation: Adopt the Resolution

The Result of the Resolution is the following:

- No amounts are available for pro-rata distribution under Section 5 of the Addendum for the month of March
- Proceed with the minimum annual distributions as defined in the DROP Addendum