CHBOT-LAS POSITAS COMMUNITY COLLEGE DISTRICT

OTHER POST EMPLOYMENT BENEFITS (OPEB)
IMPACT ON DISTRICT'S BUDGET

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OUTLINE OF PRESENTATION

- Background
- How Did We Incur This Liability
- Impact on the District's Budget
- Alternative Solutions to the Problem
- Why OPEB and Why Now
- Strategy for the Future

Background

This presentation is intended to address how OPEB costs will impact the District's budget

Onset of GASB 45 required District and all other governmental agencies to account for the cost of OPEB liabilities beginning in FY 2007-08

GASB 45 did not "cause" these liabilities, but rather has caused agencies to quantify the costs

The District has a significant liability ($82,222,004)

Actuarial study shows district should be setting aside $7,195,292 per year

District is not setting aside the dollars yearly. Instead District is operating on a Pay As You Go basis

District currently pays $2,693,226 on a pay as you go basis

Regardless of GASB 45, the District faces an $82 million liability that will continue to grow as long as the District provides retiree health benefits

The District must develop a funding strategy as well as a labor negotiation strategy

Background

A Look Back ………..
Fiscal Challenges Facing the District

Structural Deficit – Expenses greater than Revenues

Budget Reductions ($2.6 Million in FY 2006-07)

Negotiations – Salary Formula

Rising Medical and Dental Costs

Unfunded Liability ($78 million)

Measure B Cash Flow Needs

Background

We are not alone……

The 72 California Community College districts were surveyed regarding their OPEB “retiree benefits” liabilities.

Does your district have OPEB “retiree benefits” liabilities?

	Number of Districts		Percentage
Yes	71		98.6%
No	1		1 .4%
Totals	72	1	00.0%

What is the date of the last actuarial study of your district’s OPEB liabilities?

An actuarial study has been performed:	Number of districts	Percentage
Within last two years	36	50.0%
Between two to four years ago	12	16.7%
More than four years ago	8	11.1%
Not been performed	15	20.8%
No OPEB, no study required (no OPEB)	1	1.4%
Totals	72	100.0%

What was your district’s unfunded liability at the time of the latest study?

Number of districts with unfunded liabilities In the following dollar ranges:	Number of District	Percentage
Less than or equal to $5M	4	7.3%
Greater than $5M and less than or equal to $10M	9	16.4%
Greater than $10M and less than or equal to $50M	23	41.8%
Greater than $50M and less than or equal to $100M	11	20.0%
Greater than $100 M and less than or equal to $150M	4	7.3%
Greater than $150M and less than or equal to $200M	3	5.5%
Greater than $500M	1	1.8%
Totals	55	100.0%

The total statewide Community College dollar amount of unfunded liability reported as of the latest study is $3,066,146,419.

The lowest district OPEB unfunded liability reported is $640,000 (West Hills) and the highest is $623,000,000 (Los Angeles).

Of the remaining 16 districts, 15 have not had an actuarial study completed as of 5-1-06 and; therefore, their unfunded liability is undetermined.

We are not alone

This issue of ever-increasing liabilities for OPEB is now in the forefront of many state leaders.

Governor's Commission – The Governor issued an executive order in December 2006 creating a commission to address the issue of unfunded liabilities, mainly retiree health benefits.

Estimate for all California Public Agencies ($200 billion)

(To put things into perspective, the entire budget for the State of California for FY 2007-08 is $131 billion)

We are not alone

SB840 (Soto)

This bill grants the CalPERS Board of Administration authority to allow public entities, as specified to contract with CalPERS system in order to pre-fund retiree health care benefits and other post-employment benefits

This bill would allow an employer to voluntarily participate in the pre-funding of health care coverage and OPEBs

CalPERS determines the contribution rate for that employer.

The Bill was recently vetoed

How did we Incur this Liability

Post employment benefits are part of the compensation for services rendered by employees

Benefits are “earned” and obligations accrue during employment, but benefits are not taken until after employment

However, the district chose (or had no choice) not to fund it concurrently

On average, a district employee “earns” an additional $5,623 per year

How did we Incur this Liability

Retiree Benefits is part of Employee Compensation

Salary	Paid within the year
STRS	Paid and sent to STRS (dollars set aside)
Medicare	Paid within the year
Unemployment Insurance	Paid within the year
Retiree Benefits	Earned, but paid at retirement (no dollars set aside)

The Actuarial study shows that on average, the District should set aside $5,623 per year per employee.

Impact on the District's Budget

Historical Retiree Medical Costs:

YEAR	AMOUNT
1997 - 98	790,152
1998 - 99	827,331
1999 - 00	826,559
2000 - 01	1,083,961
2001 - 02	1,199,584
2002 - 03	1,392,620
2003 - 04	1,916,069
2004 - 05	2,300,159
2005 - 06	2,704,563
2006 - 07	2,935,434

Impact on the District’s Budget

The RUMBLE Fund
Every year the District transfers funds from the General Fund into the RUMBL to pay for Retiree Medical Premiums

Year	Amount	Difference from 2006-07
2006-07	$2.7 million	
2016-17	$5.9 million	$3.2 million
3032-33	$8.2 million	$5.5 million

The increases in cost will essentially require budget cuts from the General Fund

Funding Solutions for OPEB Liabilities

A nationwide conference (2nd Annual OPEB Liability Conference) lists the following as alternative solutions

- Pay As You Go
- Amortized Contribution
- Asset Sales
- OPEB Obligation Bonds

Funding Solutions for OPEB Liabilities

Pros and Cons

Pay As You Go

Pros - We are already doing it
- We take the amount necessary "off the top" of the budget

Cons - Amount increases to unmanageable levels
- Will require budget cuts/no funding programs
- Short term solution for a long term problem

Funding Solution for OPEB Liabilities

Pros and Cons

Amortized Contribution

Pros
- Dollars are set aside each year for each employee from time of hire date to retirement date
- Works like pension benefits (STRS and PERS)

Cons
- Cost prohibitive – the cost to prefund retiree benefits plus the unfunded accrued liability totals $7.2 million per year

Funding Solutions for OPEB Liabilities

Asset Sales

Pros and Cons

Pros - Proceeds can be used to fund liability, with certain restrictions
- No debt incurred

Cons - District has no surplus asset to sell

Funding Solutions for OPEB Liabilities

OPEB Obligation Bonds
Why OPEB and Why Now

Pros
- Solution in context of District's macro-financial picture
- Manage the liability, the District will have equal annual payments
- When invested, can earn higher interest, which, in and of itself can reduce the liability
- Long term solution to a long term problem
- Imposes budget discipline
- Spreads the pain – Does not over burden future employees and decision makers

Cons
- Investment earnings may fall below expectations
- Take advantage of low interest rate environment and statutory investment authority
- Provides benefit security for current and future retirees
- Allow prefunding costs to be charged to categorical programs
- Be responsive to credit rating and accreditation guidelines

Why OPEB and Why Now

Financing Team (OPEB) Qualifications

Bond Counsel: David Casnocha (Stradling Yocca Carlson & Rauth)

Financial Advisor: Dale Scott (Dale Scott & Company)

Bond Underwriter: Lori Koh (Lehman Brothers)

Both Dale Scott & Company and Lehman Brothers are recognized nationally as leaders in the subject

The Challenge

The challenge is that there really is only one choice – REDUCE the liabilities: many, but no single panacea

- Eliminate Benefit
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- Reduce the Benefits Offered
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- Reduce the Cost of those Benefits
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- Shift more of the Costs to Employees or to Retirees