



# Managing Your OPEB & Other Benefit Liabilities

Eric O'Leary, PARS  
Debbie Fry, School Services of California  
Teri Burns, CSBA

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# Today's Presenters



**Eric O'Leary**

Senior Vice President, PARS



**Debbie Fry**

Director, Management Consulting  
Services, School Services of California



**Teri Burns**

Legislative Advocate, CSBA



# The Climate & Recent Developments

- OPEB Budget Implications for LEAs
- Local Control Funding Formula
- Legislative Considerations
- GASB 45 & 75



# OPEB Budget Implications for LEAs

Debbie Fry  
Director, Management Consulting Services  
School Services of California

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# LEA Budget Woes Are Cyclical

- Bad times will return – if not now, when?
- Obligations to retirees are a long-term debt owed by the local educational agency (LEA)

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# Most LEAs Are Using Pay-As-You-Go Method of Funding

- LEAs must budget the payments for retiree benefits in each year they are paid
- Current-year funds are being diverted to pay for prior-year(s) obligations

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# Discretionary Funds Are Squeezed

- Full implementation of the Local Control Funding Formula and slower growth in Proposition 98
- Less new funding will be available

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# What About Labor Relations?

- LEAs have tried to reward staff for their loyalty during the recession
- Having funds available for the obligation is not a priority for current staff

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# More on Labor Relations

- Other postemployment benefits (OPEB) and ongoing salary and benefit increases are in direct competition
- Costs associated with OPEB should be included in total costs per unit

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# Additional Concerns

- Implementation of the Affordable Care Act and associated costs
- Penalties have already doubled since implementation
- This is a tax law, unfamiliar for public agencies

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# Additional Concerns

- Increases to pension costs
- New sick leave and school leave costs
- Shortages of qualified staff

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# Local Control Funding Formula

Teri Burns  
Legislative Advocate  
CSBA

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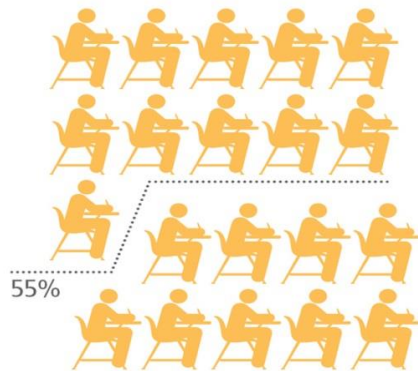
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# Local Control Funding Formula

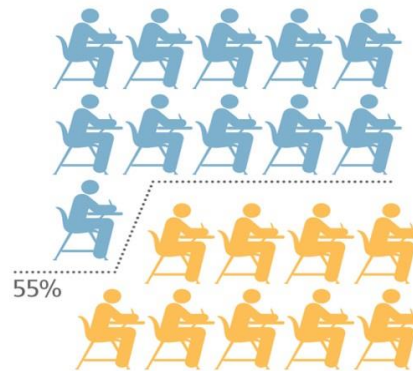
- Base Grant + Supplemental & Concentration Grants
- S/C spent on certain student groups to provide “more or better”
- Spending reported in Local Control and Accountability Plans (LCAP)
- Outcomes reported on LCFF Evaluation Rubrics

# How LCFF Works

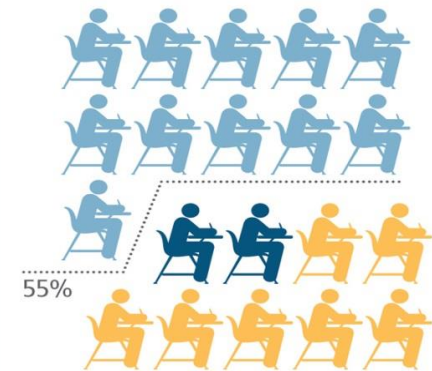
## EL/LI/FY District



## EL/LI/FY < 55%



## EL/LI/FY > 55%

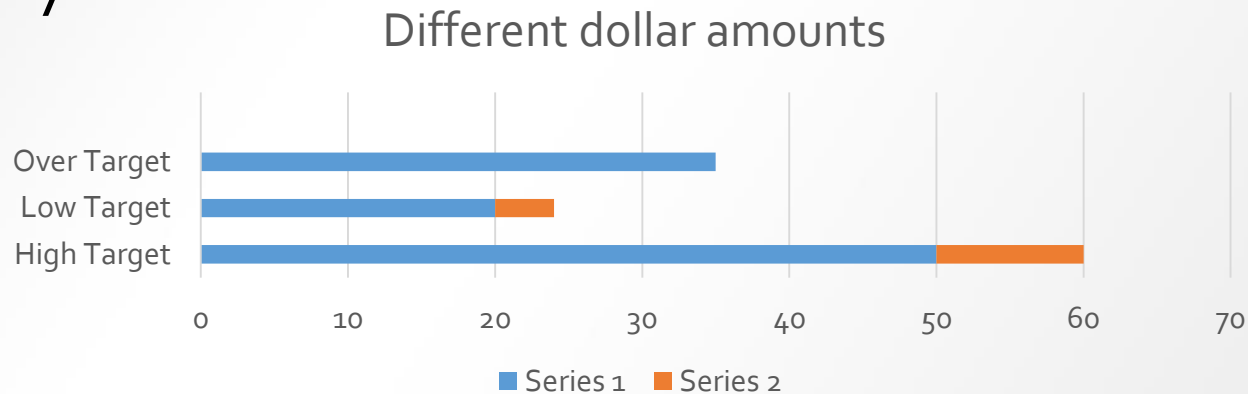


	# of students	Grant amount	Total	# of students	Grant amount	Total	# of students	Grant amount	Total
Concentration Grant	0	—	—	0	—	—	2	\$3,863	\$7,726
Supplemental Grant	0	—	—	11	\$1,545	\$16,995	13	\$1,545	\$20,085
Base Grant	20	\$7,725	\$154,500	20	\$7,725	\$154,500	20	\$7,725	\$154,500
<b>Total Award</b>			<b>\$154,500</b>			<b>\$171,495</b>			<b>\$182,311</b>

EL/LI/FY= English Learner/Low Income/Foster Youth

# Wide Variation In LEA Funding

- Differences in student composition change targets
- Different distances from target at start
- All get same percentage of their remaining target each year





# 2016-17 Budget Highlights

- Prop 98 Guarantee increased by \$3.5 billion
- Per pupil average spending up \$500/ADA
  - BUT far from equally distributed!!!
- LCFF now at 95.7% of full implementation
- 0% COLA (yes, none)

# LAO Budget Projections

- Assumes loss of Prop 30
- Prop 98
- 2016-17 3.5 % growth
- 2017-8 4%
- 2018-19 1.6% COLA expected 2.5%
- 2019-20 2.2% 2.4%

Limits spending power & slows LCFF Gap closure



# Legislative Considerations

Teri Burns  
Legislative Advocate  
CSBA

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# Prop 55

- Restores Income Tax portion of Prop 30
- Projects \$2 to 4 billion additional per year for schools
- Funds go to classrooms, not to administrative costs
- Could keep even with COLA in out years
  - Not adequacy! Not paying the new bills!

# Additional costs pending

- Step & Column
- Raises
- Healthcare costs
- School Facilities
- Minimum wage
- STRS/PERS costs
- New textbook adoptions
- Training for new materials and assessments
- Teacher training and recruitment

# OPEB Legislative Issues

- Governor's January Budget
  - One-time or on-going funding
- Legislation
  - June Budget Conference Report
  - Prefunding contributions
  - Limits on investments



# GASB 45 & 75

Eric O'Leary  
Senior Vice President  
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# GASB 45 & 75

- **GASB 45 & 75 are *required national standards*** for retiree healthcare accounting and financial reporting set by the Governmental Accounting Standards Board (GASB)
- **GASB 75 is replacing GASB 45** effective for fiscal years beginning after June 15, 2017

# Notable Change from GASB 75

- Net OPEB Liability moves to the Balance Sheet (rather than a footnote with GASB 45)
- New Discount Rate for Actuarial Valuations
- Actuarial Valuations must now be made at least every two years (even for smaller districts)



# Latest Trends & Best Practices for Addressing Liabilities

Eric O'Leary  
Senior Vice President  
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# Latest Trends

- Right now Districts have several options for dealing with their unfunded obligations:
  - 1) Pay-As-You-Go
  - 2) Set aside funds in general reserve
  - 3) **Trust Funding (Prefunding)** into a separate trust




# Best Practice: Trust Funding (Prefunding)

- An exciting development in recent years is the option of **prefunding into an IRS-Approved, GASB-Compliant trust** for OPEB and other post-employment benefits.
  - Funds in trust ***count as assets*** that reduce the liability (unlike assets held in the general fund)
  - Funds in trust are ***protected from diversion to other uses***
  - ***Potential for greater return*** – for every 1% increase in return, your ***District's liability can be lowered by 10-12%***
  - ***Fully accessible*** for OPEB at any time
  - May strengthen ***credit rating***
  - ***Prefunding considered best practice*** by GFOA

# Misconceptions About Trust Funding (Prefunding)

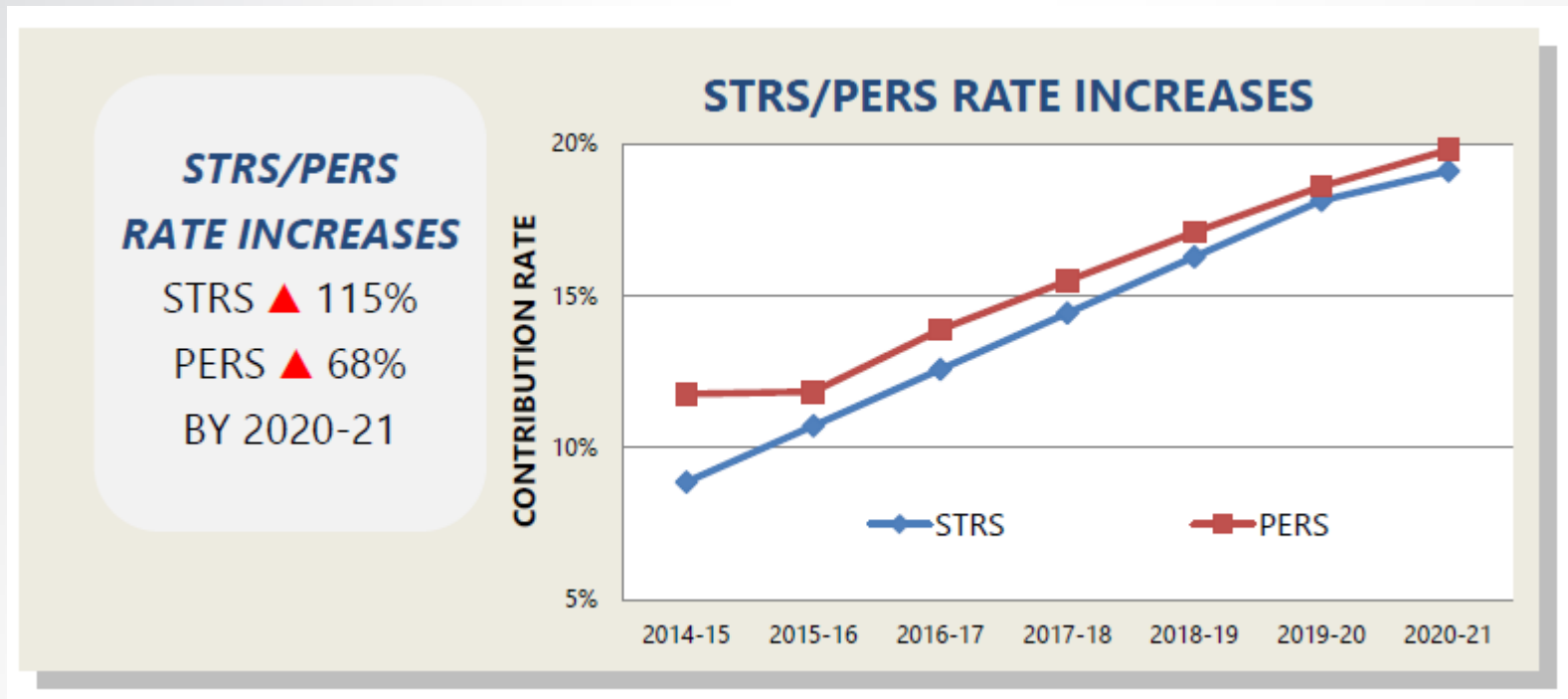
- 1) I can lower my liability by putting money in the general fund
- 2) If I set up a prefunding trust, I am obligated to make regular contributions
- 3) If I set up a prefunding trust, the money will be stuck there even if I eliminate retiree benefits

# Impact of Prefunding OPEB

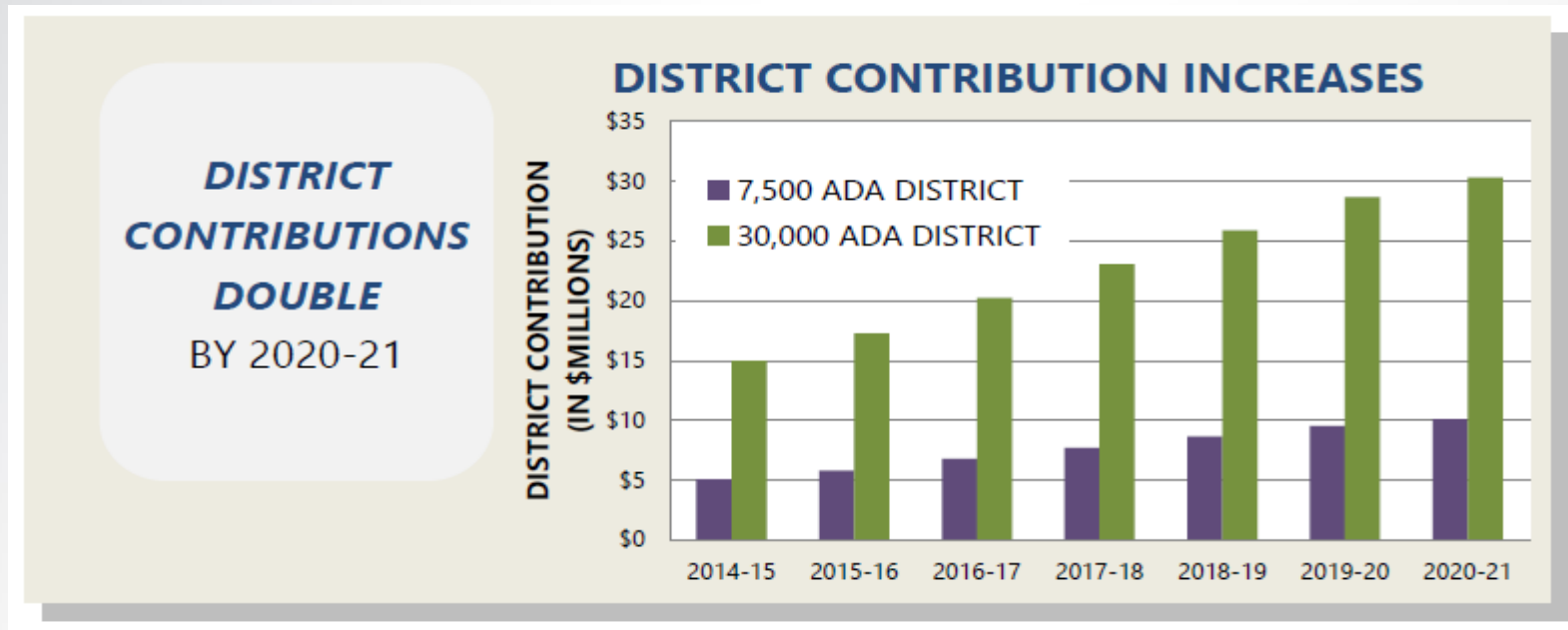
<u>Sample District</u>	Pay-As-You-Go Discount Rate 4.25%		Prefunding Discount Rate 6.50%
Actuarial Accrued Liability (AAL)	\$8,770,000		\$5,720,310
Actuarial Value of Assets	\$0	---	\$1,547,500
Unfunded Accrued Liability (UAL)	\$8,770,000		\$4,172,810
Annual Required Contribution (ARC)	\$690,000		\$425,310



# Other Post-Employment Liabilities: Pension Contributions



# Other Post-Employment Liabilities: Pension Contributions



Districts are establishing trusts to **prefund pension obligations** and mitigate against the contribution increases

# Remember: Benefits of Prefunding!

- Assets can be **accessed at any time** for OPEB or Pension expenses
- **Reduce your liabilities** by creating an asset and potential greater return
- **Save for a rainy day!**



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# Would you like to learn more?

CONTACT:

Eric O'Leary, PARS  
800.540.6369 x. 124 or [eoleary@pars.org](mailto:eoleary@pars.org)

Debbie Fry, School Services of California  
916.446.7517 or [debbief@sscal.com](mailto:debbief@sscal.com)

Teri Burns, CSBA  
916.669.3356 or [tburns@csba.org](mailto:tburns@csba.org)

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