



Creative Methods for Addressing OPEBs and other Liabilities

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Today's Presenters



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May Budget Revision

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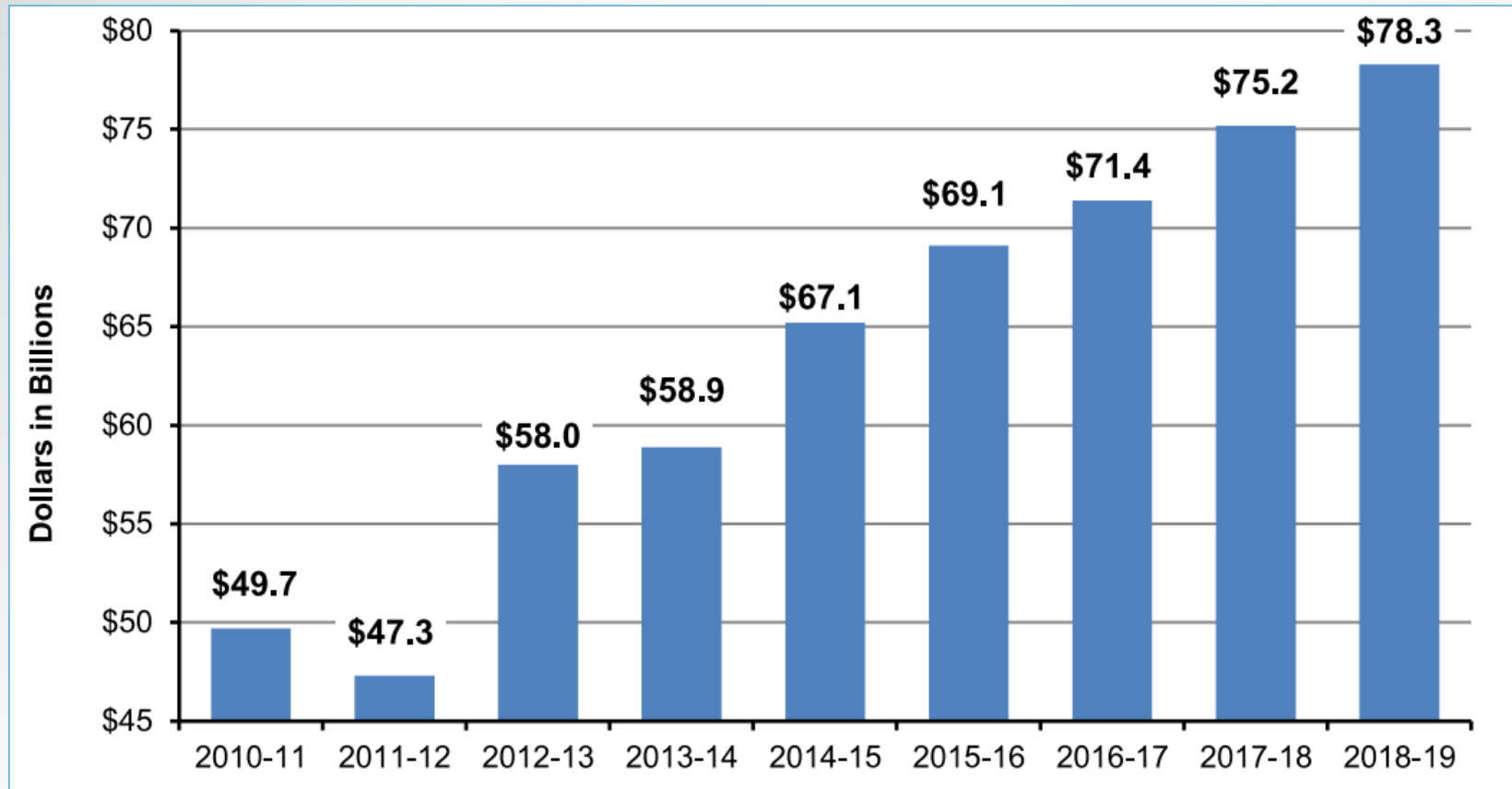
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Prop 98 Funding (2010-11 to 2018-19)



Prop 98 Guarantee

May Revision (underlined)

- Prop 98 = \$78.3 billion K-14 (\$78.4 billion)
- \$3.8 billion increase over current year (\$3.9 billion)
- January/May = 3-year look (prior, current, next)
 - Prior - 2016-17 no change (+\$252 million)
 - Current - 2017-18 up \$700 million (+\$1.1 billion)
 - Next - 2018-19 up \$3.1 over adjusted 2017-18 (+\$3.2 billion)

Proposed Expenditures

May Revision (underlined)

- \$3 billion for LCFF (gets to 100% of targeted implementation – 2 years early) (+\$3.2 billion from higher COLA)
- \$1.8 billion one-time discretionary (\$300 per ADA) (\$2.1b = per \$350/ADA)
- \$212 million Strong Workforce Program (via K-12 selection committee)
- \$133.5 million (\$144.1 million) for non-LCFF COLA (special education, nutrition, Foster Youth, Adult Ed Block Grant, Indian Ed)
- \$167.2 million one-time Early Ed Expansion Program
- \$55.2 million for county offices of education to assist districts/charters with LCFF & LCAP

Proposed Expenditures

- **\$50 million** one-time for Teacher Residency Grant Program for Special Education teachers
- **\$50 million** one-time for Local Solutions Grant Program for Special Education teachers
- **\$10 million** for SELPAs/county offices to provide technical assistance to school districts
- **\$6.5 million** to CCEE to provide technical assistance to school districts
- **\$4 million** for 8 county offices to resource other counties

LCFF Entitlements

Entitlement = Base Grant + Grade Span Adjustments (GSA) + Supplemental Grant + Concentration Grant + Add-ons

- Base Grant (2.51% COLA) (2.71% COLA)
 - K-3 \$7382 (+\$194) 7-8 \$7716 (+\$203)
 - 4-6 \$7492 (+\$197) 9-12 \$8940 (+\$235)
- GSA
 - K-3 \$768 (10.4% of Base Grant / up \$20)
 - 9-12 \$232 (2.6% of Base Grant / up \$6)
- Add-ons constant – no increase (Transportation / TIIG)

Issues

- Re-benching Proposal
- School-based Medi-Cal Administrative Action (SMAA)
- General Fund and Prop 98 growth:
 - What are the real numbers?
 - What is on-going vs one-time?
- Prop 51 – getting the bond money out the door
- Pension costs
- LCFF Targets
 - AB 2808 (Muratsuchi)/ \$1.2 billion Senate proposal
- Overall funding levels – Full and Fair Funding
 - CSBA Sample Resolution



Latest Trends & Best Practices for Addressing Liabilities

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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

- 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)

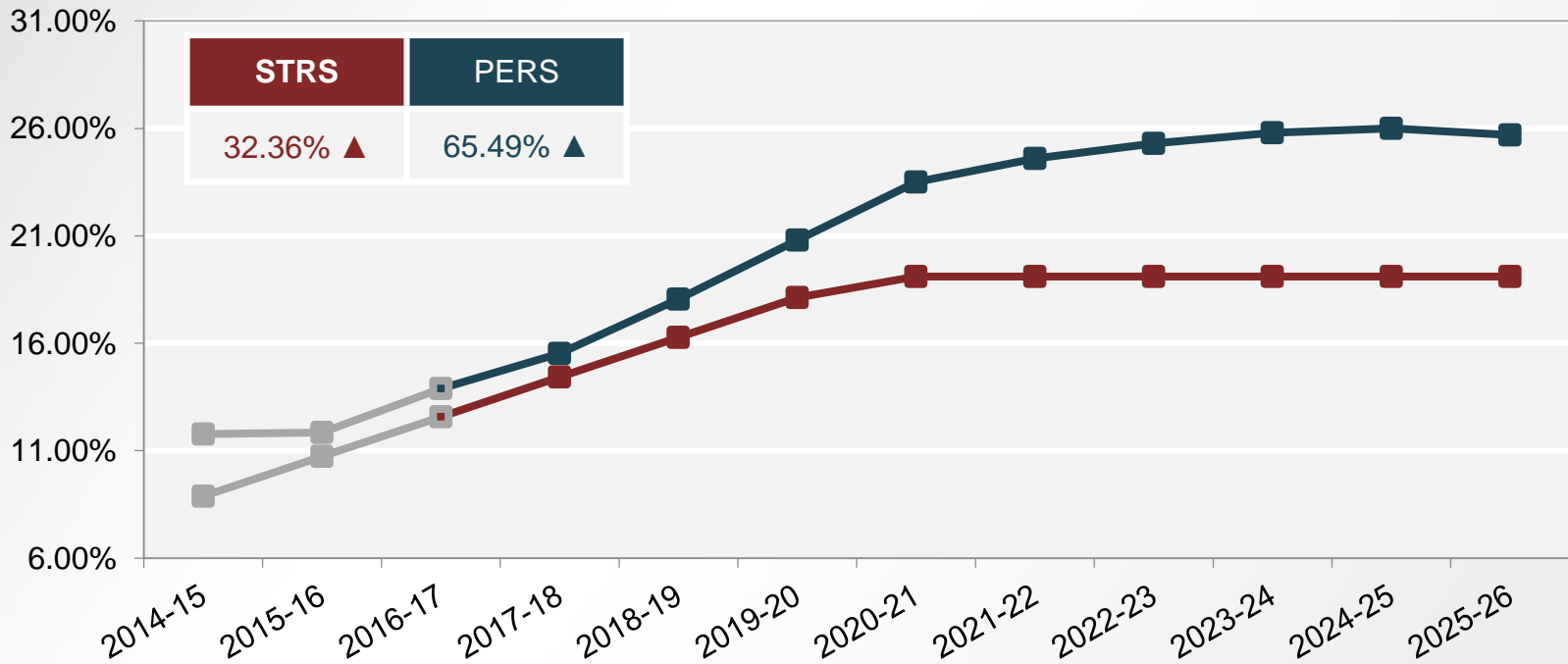
- 1) I can lower my liability by putting money in the general fund
- 2) If I set up a prefunding trust, I am obligated to make regular contributions
- 3) If I set up a prefunding trust, the money will be stuck there even if I eliminate retiree benefits

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

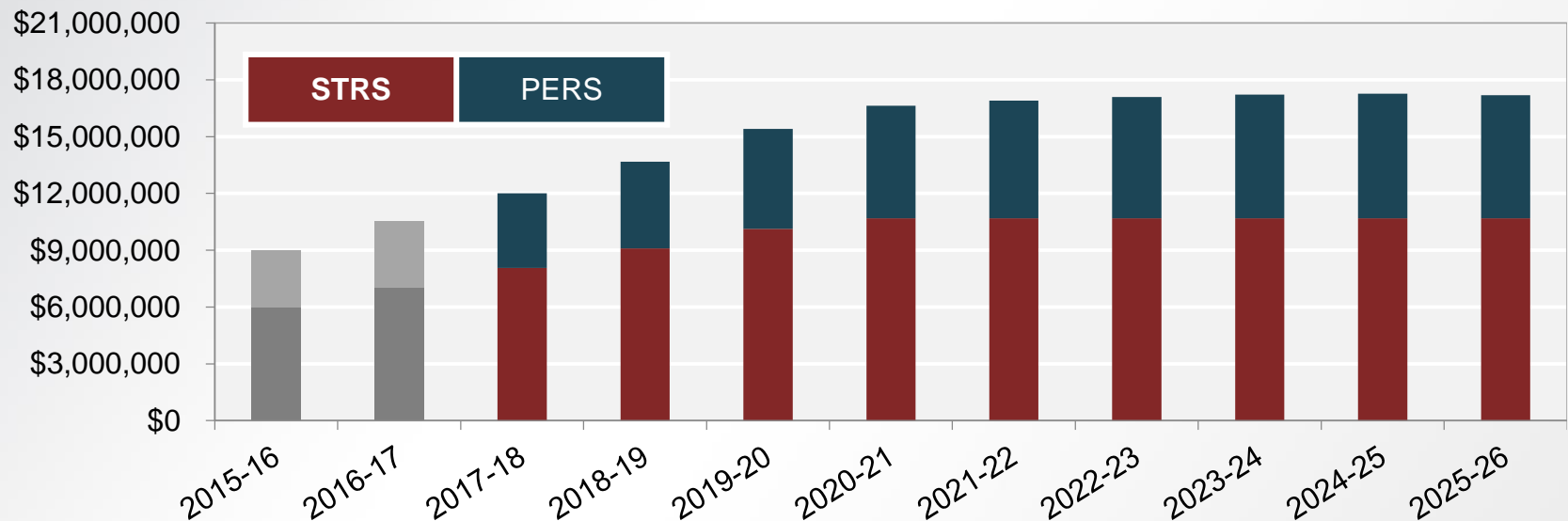
Other Post-Employment Liabilities: District Pension Contribution Rates

STRS/PERS rate increases through 2025-26:



Other Post-Employment Liabilities: Future Pension Contributions

STRS/PERS contributions increases



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?

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