



Vicenti, Lloyd & Stutzman, CPAs

DATA AND ARTICLES COMPILED FOR
PASADENA AREA COMMUNITY COLLEGE DISTRICT
REGARDING FUNDING FOR
OTHER POST EMPLOYMENT BENEFITS (OPEB)

UNEQUIVOCAL
EXCELLENCE



HIGH ETHICAL
STANDARDS,
RESPECT AND
TRUST



CHANGE,
INNOVATION
AND
CREATIVITY



HIGH
PERFORMANCE
AND
TEAMWORK



LIFE
ENRICHMENT

November 14, 2016

Prepare by Vicenti

**Data and Articles Compiled for Pasadena Area Community College District
Regarding Funding for Other Post Employment Benefits (OPEB)**

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District	Actuarial Assets	Actuarial Accrued Liability	Unfunded Actuarial AL	Funding Ratio	Covered Payroll	UAAL as Percent of Covered Payroll
Allan Hancock	\$ 7,226,001	\$ 7,946,307	\$ 720,306	90.94%	N/A	N/A
Antelope Valley	-	8,143,893	8,143,893	0.00%	25,432,000	32.02%
Barstow	1,815,400	2,248,320	432,920	80.74%	9,707,000	4.46%
Butte	2,392,736	41,198,006	38,805,270	5.81%	33,092,000	117.26%
Cabrillo	-	14,427,987	14,427,987	0.00%	42,822,000	33.69%
Cerritos	-	15,494,306	15,494,306	0.00%	56,858,000	27.25%
Chabot-Las Positas	-	124,965,238	124,965,238	0.00%	50,823,000	245.88%
Chaffey	-	16,839,808	16,839,808	0.00%	N/A	N/A
Citrus	5,579,224	13,971,381	8,392,157	39.93%	31,519,000	26.63%
Coast	57,147,580	95,803,617	38,656,037	59.65%	122,382,000	31.59%
College of the Sequoias	6,056,322	11,342,602	5,286,280	53.39%	36,000,000	14.68%
Compton	167,167	15,366,693	15,199,526	1.09%	N/A	N/A
Contra Costa	69,231,999	221,603,131	152,371,132	31.24%	79,311,000	192.12%
Copper Mountain	-	1,723,580	1,723,580	0.00%	8,695,000	19.82%
Desert	-	5,785,872	5,785,872	0.00%	23,735,000	24.38%
El Camino	17,189,426	22,214,690	5,025,264	77.38%	N/A	N/A
Feather River	-	2,361,355	2,361,355	0.00%	488,000	483.88%
Foothill DeAnza	8,146,391	120,204,435	112,058,044	6.78%	95,420,000	117.44%
Gavilan	5,091,482	7,564,417	2,472,935	67.31%	15,349,000	16.11%
Glendale	-	16,663,213	16,663,213	0.00%	53,701,000	31.03%
Grossmont Cuyamaca	-	16,547,369	16,547,369	0.00%	48,510,000	34.11%
Hartnell	-	4,930,939	4,930,939	0.00%	20,878,000	23.62%
Imperial	-	38,931,924	38,931,924	0.00%	28,564,000	136.30%
Kern	82,494,253	79,171,854	(3,322,399)	104.20%	65,324,000	-5.09%
Lake Tahoe	-	1,500,188	1,500,188	0.00%	6,175,000	24.29%
Lassen	-	780,094	780,094	0.00%	241,000	323.69%
Long Beach	1,602,712	28,344,282	26,741,570	5.65%	56,347,000	47.46%
Los Angeles	51,823,000	478,320,000	426,497,000	10.83%	275,000,000	155.09%
Los Rios	105,171,076	77,820,930	(27,350,146)	135.14%	160,466,000	-17.04%
Marin	2,753,999	3,631,365	877,366	75.84%	1,863,000	47.09%

Data derived from each respective District's most current actuarial report (2013 to 2015)

District	Actuarial Assets	Actuarial Accrued Liability	Unfunded Actuarial AL	Funding Ratio	Covered Payroll	UAAL as Percent of Covered Payroll
Mendocino Lake	-	6,342,577	6,342,577	0.00%	9,992,000	63.48%
Merced	2,077,988	58,241,947	56,163,959	3.57%	26,498,000	211.96%
MiraCosta	17,226,726	20,095,621	2,868,895	85.72%	45,302,000	6.33%
Monterey Peninsula	-	11,281,610	11,281,610	0.00%	N/A	N/A
Mt. San Antonio	72,129,965	107,412,110	35,282,145	67.15%	78,653,000	44.86%
Mt. San Jacinto	2,241,079	3,948,140	1,707,061	56.76%	34,888,000	4.89%
Ohlone	3,311,595	7,381,848	4,070,253	44.86%	26,952,000	15.10%
Palomar	3,950,994	90,841,984	86,890,990	4.35%	55,493,000	156.58%
Palo Verde	-	1,555,904	1,555,904	0.00%	6,899,000	22.55%
Pasadena	-	20,286,529	20,286,529	0.00%	59,070,000	34.34%
Peralta	-	152,429,020	152,429,020	0.00%	91,889,000	165.88%
Napa Valley	1,042,517	28,493,739	27,451,222	3.66%	17,231,000	159.31%
North Orange	-	153,384,773	153,384,773	0.00%	119,706,000	128.13%
Rancho Santiago	-	82,058,965	82,058,965	0.00%	104,223,062	78.73%
Redwoods	-	6,468,065	6,468,065	0.00%	10,800,000	59.89%
Rio Hondo	10,354,619	57,593,638	47,239,019	17.98%	68,562,000	68.90%
Riverside	-	24,161,707	24,161,707	0.00%	N/A	N/A
San Bernardino	3,288,535	7,224,899	3,936,364	45.52%	52,594,000	7.48%
San Diego	18,586,921	22,479,610	3,892,689	82.68%	147,923,507	2.63%
San Francisco	500,000	175,975,011	175,475,011	0.28%	94,097,000	186.48%
San Joaquin	-	87,647,336	87,647,336	0.00%	32,502,000	269.67%
San Jose Evergreen	48,049,215	40,512,573	(7,536,642)	118.60%	30,794,000	-24.47%
San Louis Obispo	-	686,145	686,145	0.00%	34,069,000	2.01%
San Mateo	62,328,025	119,086,798	56,758,773	52.34%	85,569,000	66.33%
Santa Barbara	-	3,891,111	3,891,111	0.00%	45,718,000	8.51%
Santa Clara	-	8,607,997	8,607,997	0.00%	N/A	N/A
Santa Monica	3,917,826	92,553,859	88,636,033	4.23%	71,591,000	123.81%

Data derived from each respective District's most current actuarial report (2013 to 2015)

District	Actuarial Assets	Actuarial Accrued Liability	Unfunded Actuarial AL	Funding Ratio	Covered Payroll	UAAL as Percent of Covered Payroll
Shasta Tehama Trinity	10,818,293	42,931,364	32,113,071	25.20%	22,265,000	144.23%
Sierra Joint	9,570,738	43,316,701	33,745,963	22.09%	5,047,000	668.63%
Siskiyou	718,136	7,238,350	6,520,214	9.92%	1,447,000	450.60%
Solano	1,366,499	13,052,815	11,686,316	10.47%	32,614,000	35.83%
Sonoma	-	21,011,494	21,011,494	0.00%	57,427,000	36.59%
South Orange	73,602,685	89,492,430	15,889,745	82.24%	68,971,000	23.04%
Southwestern	2,156,350	11,884,471	9,728,121	18.14%	45,861,000	21.21%
State Center	12,046,274	27,620,493	15,574,219	43.61%	85,247,000	18.27%
West Hills	6,040,662	10,670,120	4,629,458	56.61%	23,837,000	19.42%
West Kern	3,249,589	19,940,867	16,691,278	16.30%	15,505,000	107.65%
West Valley Mission	33,472,818	92,538,118	59,065,300	36.17%	19,652,000	300.56%
Ventura County	17,052,574	138,323,887	121,271,313	12.33%	90,424,000	134.11%
Victor Valley	10,130,872	9,168,360	(962,512)	110.50%	N/A	N/A
Yosemite	23,977,872	31,467,714	7,489,842	76.20%	52,596,000	14.24%
Yuba	-	57,782,241	57,782,241	0.00%	21,488,000	268.90%

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Allan Hancock	7,226,001	7,946,307	720,306	90.94%	N/A	N/A
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Palo Verde	-	1,555,904	1,555,904	0.00%	6,899,000	22.55%
Pasadena	-	20,286,529	20,286,529	0.00%	59,070,000	34.34%
Peralta	-	152,429,020	152,429,020	0.00%	91,889,000	165.88%
North Orange	-	153,384,773	153,384,773	0.00%	119,706,000	128.13%
Rancho Santiago	-	82,058,965	82,058,965	0.00%	104,223,062	78.73%
Redwoods	-	6,468,065	6,468,065	0.00%	10,800,000	59.89%
Riverside	-	24,161,707	24,161,707	0.00%	N/A	N/A
San Joaquin	-	87,647,336	87,647,336	0.00%	32,502,000	269.67%
San Louis Obispo	-	686,145	686,145	0.00%	34,069,000	2.01%
Santa Barbara	-	3,891,111	3,891,111	0.00%	45,718,000	8.51%
Santa Clara	-	8,607,997	8,607,997	0.00%	N/A	N/A
Sonoma	-	21,011,494	21,011,494	0.00%	57,427,000	36.59%
Yuba	-	57,782,241	57,782,241	0.00%	21,488,000	268.90%

Data derived from each respective District's most current actuarial report (2013 to 2015)

Welcome to PARS

NEWS CENTER

Prefunding OPEB Liabilities – Something IS Better Than NothingCategories: [California Developments](#), [Hot Sheets](#), [OPEB/GASB 45/75](#)

Coming Union Elementary School District is located in a small city about three hours north of Sacramento. Similar to most districts over the decades, Coming UESD had uncapped benefits and followed a pay-as-you-go approach for their other postemployment benefits (OPEB). As health costs rose steadily, so too did the District's OPEB liabilities – reaching an untenable situation in which the County was about to assume oversight over District finances in the early 2000's. New leadership soon was in place and Coming UESD began making important changes towards improving their financial health.

An Early Adopter

In 2004 during a financial strategy meeting, several District leaders who had come from the private sector, thought back to how companies were complying with FASB 106 (the private sector version of GASB 45). Private businesses were prefunding their OPEB benefits by putting money into irrevocable trusts which were diversified in equities, and in turn generated a greater rate of return. Upon an initial search for public sector equivalents, the District discovered that while nothing currently existed, PARS was in the final stages of setting up a program for the California School Boards Association (CSBA). A few months later, Coming UESD became the first member of the CSBA GASB 45 Solutions Program, ahead of GASB 45 implementation.

Small Amounts Make a Difference

With an OPEB trust in place, Coming UESD made their first deposit of \$212,500 into the CSBA trust in 2006– well before most districts in the state. While the contribution only equated to 8% of their total unfunded liability (UAAL), the District planned to pay off their pay-go costs separate from the trust, and allow the money that was contributed to remain untouched and accrue interest. For the next few years, Coming UESD continued this annual process of contributing a small percentage of the UAAL into the trust, and built just under \$1 million in assets. As a result of these methodical contributions, Coming UESD's 2008 actuarial report saw a **drop in total UAAL by 28%, a negative ARC amount**, and the ability for its actuary to use a **6% discount rate** rather than the typical 4.5% or less. Moreover, these benefits came from a conservatively invested account of 80% fixed income and 20% equities.

Life-Saver During Downturn

Fast forward to 2009 and Coming UESD found itself in the midst of the economic downturn and unable to afford any amount toward their OPEB – pay-go or prefunding. Facing potentially severe budget cuts in order to cover even OPEB pay-go amounts, the CSBA Program's flexibility instead allowed the District to use trust money already in the account to pay out benefit premiums. This literally saved the day – District leadership

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acknowledges that the ability to use those trust funds were a tremendous help during the downturn. Not wanting to impede the ultimate goal of fully prefunding OPEB, Coming included a plan/promise to start-up contributions to the trust once the economy recovered, which they did in 2012.

Today, Coming UESD is back to annually contributing additional funds into their OPEB trust, and has moved its investment strategy to a 60/40 fixed income to equities split.

An Answer to Concerns

Coming UESD's OPEB prefunding story provides a great counter-point to two of the most common concerns raised by school districts during an OPEB trust discussion: (1) What good is prefunding if we can only contribute a fraction of our total unfunded liability? and (2) We don't like being unable to access trust assets. With concern number one, contributing something as seemingly small as 0.5% of salary for a few years (which Coming UESD did) proved to be financially life-saving. With concern number two, it is simply a misnomer – Section 115 OPEB trusts allow for funds to be taken out (without penalty) to pay for OPEB-related expenses.... and Coming UESD certainly is glad they had that option available to them.

October (3)
September (2)
August (2)
July (7)
June (7)
May (3)
April (8)
March (7)
February (5)
January (8)
+2014 (41)
+2013 (28)
+2012 (56)
+2011 (43)
+2009 (1)
+2004 (2)

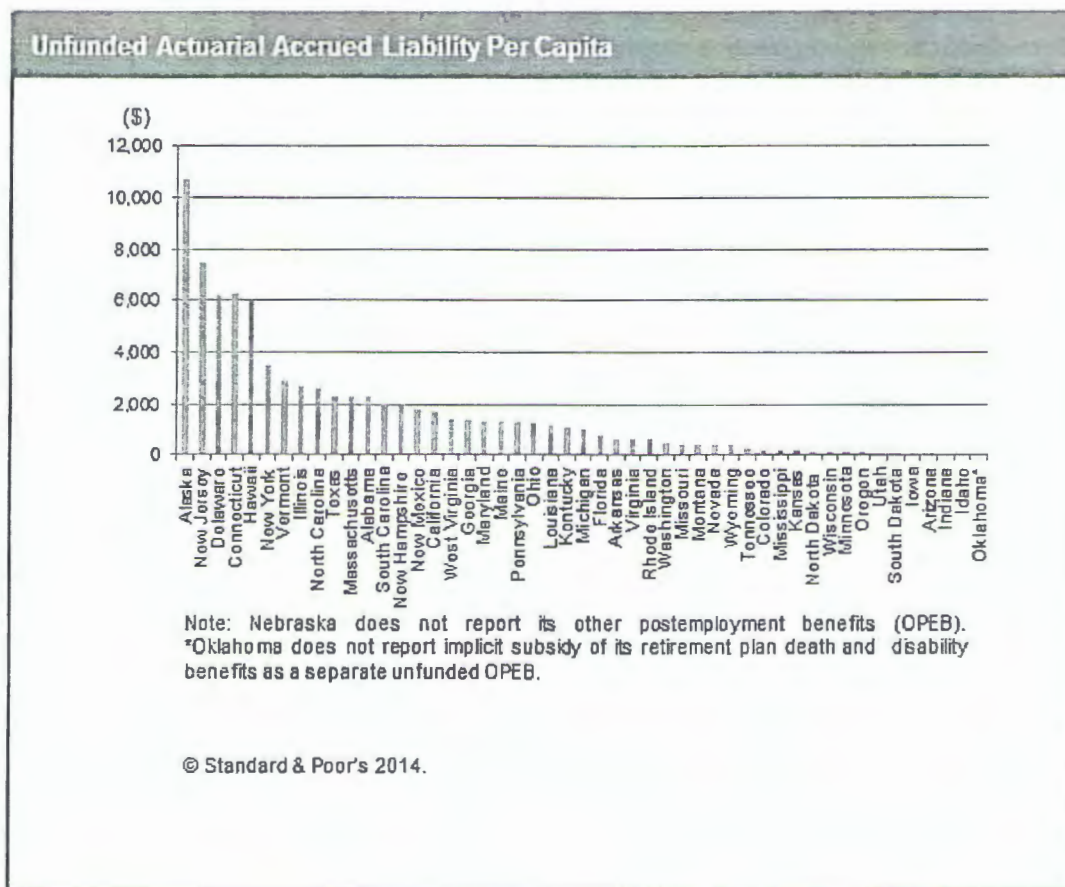
To get answers to additional questions you may have about OPEB trusts, or to request a complimentary proposal, contact PARS at info@pars.org.

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Excluding Oklahoma, which doesn't report a minimal capped subsidy for retirement plan death and disability benefits as a separate unfunded OPEB, Idaho has the lowest OPEB per capita at \$45. Alaska, when including the teachers plan in this year's survey, posts the largest per capita liability at \$10,726, surpassing Hawaii. The median state unfunded OPEB in our survey was \$1,023 per capita and an average of \$1,656 per capita.

Chart 2



Funding Methods Vary, But More States Are Establishing Trusts

Funding ratios for OPEB liabilities are significantly lower than for pension liabilities, and most states fund OPEB on a pay-as-you go basis. Still, more states are beginning to prefund OPEB by setting aside money in an irrevocable OPEB trust fund. We count 32 states with some amount in trust compared with 26 states with trusts as of our September 2011 survey, although these amounts remain very low, with 93% of the total liability for states unfunded. For most states that have been contributing to a trust, funding ratios are growing. Arizona continues to have the highest combined funded ratio across plans of 77.7%, compared with 75.9% as reported in our 2013 survey, and has one of the lowest unfunded OPEB per capita at \$68. Most of the states with the highest funded ratios have relatively low-to-moderate OPEB liabilities per capita. Alaska is an exception in that, although it has the third-highest combined funded level, it still posts the largest unfunded OPEB per capita. (See map for states with the highest OPEB-funded

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■ ADMINISTRATION

Calif. Controller Calls for Prefunding OPEB

February 26, 2013 (PLANSPONSOR.com) – A report shows the unfunded actuarial accrued liability of providing other postemployment benefits (OPEB) for state retirees is projected to be \$63.84 billion over 30 years.

By Rebecca Moore EDITORS@PLANSPONSOR.COM | February 26, 2013

The unfunded obligation as of June 30, 2012, grew \$1.70 billion from the \$62.14 billion obligation identified as of June 30 2011. Based on this unfunded obligation, California should pay \$4.92 billion in 2012-13 to pay for present and future retiree health benefits. According to a statement from California State Controller John Chiang, in the 2012-13 Budget Act, the state provided \$1.81 billion to only cover current retirees' health and dental benefits.

If the state shifted to fully prefunding the costs of future benefits, the unfunded actuarial accrued liability would be cut by more than \$21.75 billion, to \$42.09 billion. Under a full prefunding approach, the state would set aside money in a separate trust solely for future retirement health care benefits. The investment income generated by the trust would be used to reduce the costs to the state, and its employees, of paying for future benefits. To take advantage of the tremendous cost savings resulting from fully prefunding, the state would need to contribute \$3.51 billion in 2012-13, or \$1.70 billion more than the state currently has budgeted.

Controller Chiang noted that even incremental steps toward prefunding the obligation would significantly reduce the state's liability. For example, if the state prefunded just 10% of its obligation, it would only need to pay \$170 million more than its current pay-as-you-go contribution. However, that additional payment would shave \$2.74 billion off of the state's unfunded liability. Prefunding 25% of its obligations would cost the state \$420 million more than the pay-as-you-go contribution but would reduce the total unfunded liability by \$6.63 billion.

"The current pay-as-we-go model of funding retiree health benefits is short-sighted and a recipe for undermining the fiscal health of future generations of Californians," Chiang said. "However, today's challenge won't necessarily become tomorrow's crisis if policymakers can muster the fiscal discipline to invest now so that we can pay tens of billions of dollars less later."

The report is here.

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BETTER, FASTER, CHEAPER

Taming the OPEB Beast

The non-pension benefits that governments owe their retirees threaten to swamp their budgets. The time to fund those benefits is now, not when they come due.

BY CHARLES CHIEPPO | AUGUST 8, 2012

Regular Better, Faster, Cheaper readers are well aware of the challenge that unfunded pension liabilities pose for state and local government budgets. But a new study from California Common Sense reminds us that there is yet another retirement-related tidal wave on the horizon.

In "California's Neglected Promise," author Adam Tatum estimates that the besieged Golden State is facing more than \$62 billion in unfunded liabilities for other post-employment benefits (OPEB), which mostly consist of health-care costs for retired public workers.

California's OPEB burden is just a small part of the picture. In 2004, the Governmental Accounting Standards Board (GASB) announced that beginning in 2008 cities and states would be required to calculate and make public their OPEB liabilities. Now, one estimate puts unfunded state and local OPEB liabilities at more than \$2 trillion, while a survey of 126 state and local pension plans (representing 85 percent of public-pension assets) found unfunded pension liabilities of roughly \$700 billion – and that was two years ago.

While many of us would like to change the way public pensions work, those systems do deduct money from current employee salaries to fund at least a portion of future costs. OPEB expenses, on the other hand, are generally funded on a pay-as-you-go basis from operating budgets.

The combination of through-the-roof health-care costs, people living longer and baby boomers beginning to retire has OPEB liability skyrocketing. In California, OPEB costs have doubled every five years since 1999. At the current rate, within 35 years they would consume the state's entire budget – if other health care costs don't consume it first.

The most efficient way to address the looming OPEB liability is for states and localities to establish and begin to pay into funds similar to pension funds. Instead of paying ever-higher interest costs, pre-funding would use the funds' investment returns to reduce OPEB's burden on future generations.

Of course, finding the money to pay into such a fund is easier said than done in the current fiscal climate. But the difference between paying less now or paying more later is a stark one. In California, one year of potential inaction could cost \$1.7 billion in foregone savings over 15 years. The California Common Sense study suggests that pre-funding could save the state as much as \$21 billion over 30 years. A 2006 Pioneer Institute study of Massachusetts' OPEB liability came to a similar conclusion.

Grappling with massive OPEB liabilities is no fun for public officials already dealing with tight operating budgets, huge infrastructure needs and other daunting fiscal challenges. But the GASB requirement does allow taxpayers to gauge the promises their representatives have made to public employees, and that knowledge should be used to inform collective bargaining and other policy decisions going forward.

The difficulty of finding the money to begin paying down OPEB liabilities pales in comparison with the wall of debt future taxpayers will face if leaders fail to act. Like so many policy issues, it boils down to whether elected officials are willing to incur pain on their watch so that far greater pain can be avoided and benefits realized on somebody else's.



[Charles Chieppo](#) | Contributor

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on: July 27, 2012

Title

Other Postemployment Benefits: Prefunding Policy and Qualified Irrevocable Trusts

Agenda Item Type

Action Required

Rules, Forms, Standards, or Statutes Affected

Statement of Policy for Prefunding Other Postemployment Benefits and Establishing Qualified Irrevocable Trusts in the Trial Courts, adopted October 23, 2009

Effective Date

July 27, 2012

Date of Report

July 05, 2012

Recommended by

Court Staff Retirement Cost and Planning Working Group, Court Executives Advisory Committee
Pat Sweeten, Chair

Contact

Kenneth R. Couch, 415-865-4271
kenneth.couch@jud.ca.gov

Executive Summary

The Court Staff Retirement Cost and Planning Working Group of the Court Executives Advisory Committee (CEAC) recommends that the council adopt a revision to the Judicial Council policy on prefunding other postemployment benefits (OPEB) and establishing irrevocable trusts within the trial courts. The revision would require trial courts to notify the Administrative Office of the Courts of their intent to establish an irrevocable trust and to continue to follow the Judicial Council's Statement of Investment Policy for the Trial Courts, adopted in 2004.

Recommendation

The Court Staff Retirement Cost and Planning Working Group of the Court Executives Advisory Committee recommends that the Judicial Council, effective July 27, 2012, revise the Statement of Investment Policy for the Trial Courts to:

1. Require that the trial courts seeking to establish irrevocable trusts to **only notify the AOC** Human Resources Office, Administrative Services Division; and
2. Require trial courts seeking to fund established trusts to continue following the Judicial Council's *Statement of Investment Policy for the Trial Courts*.

In the event the council does not revise the policy, the working group recommends that the council accept the recommendation of Interim Administrative Director Jody Patel and approve the request of the Shasta County Superior Court to establish an irrevocable trust for the purposes of funding OPEB.

The text of the proposed revision to the policy is attached at page 6.

Previous Council Action

At its meeting on October 23, 2009, the Judicial Council adopted its *Statement of Policy for Prefunding Other Postemployment Benefits and Establishing Qualified Irrevocable Trusts in the Trial Courts* to provide trial courts with guidance and authorization protocols for prefunding other postemployment benefits obligations. The policy included a moratorium through June 30, 2011, on trial courts' establishing qualified irrevocable trusts for the purpose of prefunding OPEB. The moratorium was established in consideration of the ongoing budget difficulties facing the judicial branch. Since the moratorium has expired, two trial courts have inquired about establishing qualified irrevocable trusts.

Rationale for Recommendation

In reviewing the courts' requests, staff from Human Resources, Finance, and the Office of the General Counsel have determined there should be a difference between establishing a qualified irrevocable trust, and the financial implications of funding such a trust. The intent of the proposed revision is to separate the more administrative act of establishing the trusts from the financial decision and implications of financing such trust.

Under the recommended revision, the *Statement of Policy* adopted in October 2009 will address the administrative act of establishing these trusts, while the financial aspects will continue to be governed and addressed by the Judicial Council's *Statement of Investment Policy for the Trial Courts*, adopted in 2004.

Comments, Alternatives Considered, and Policy Implications

Members of the CEAC Court Staff Retirement Cost and Planning Working Group commented, reviewed, and approved the proposed revision.

Implementation Requirements, Costs, and Operational Impacts

The proposed revision to current policy involves no cost to participating courts. The proposed revision will make the administrative act of establishing a qualified irrevocable trust simpler, while maintaining the requirements of existing policy on investments.

Relevant Strategic Plan Goals and Operational Plan Objectives

N/A

Attachments

1. Current policy
2. Proposed revisions to the current policy

elements of private sector benefits. The first is the need to reduce the level of benefits to be more comparable to those found in the private sector, inclusive of extending retirement age. Second, public employees must contribute a greater share towards their Benefits, particularly those employees who receive enhanced Benefits. Such solutions will reduce the burden the unfunded Benefits have placed upon current and future taxpayers.

As to the question of defined benefits versus defined contributions, public Benefits continue to be based on a defined benefit model versus the defined contribution model that private industry has moved toward. The defined contribution model works well in the public sector. It offers a working solution to the public sector as a means of reducing the risk of high-cost defined benefit plans. Benefit plans are heavily subsidized by public sector employers compared to the contributions of private sector employers.

The Grand Jury concludes that until significant modifications are enacted, there is no doubt that the escalating cost of providing Benefits at the current level is interfering with the delivery of essential City services and the ultimate cost to the taxpayers is an unbearable burden. These costs are already impacting delivery of essential services as demonstrated by San Jose reducing police and fire department staffing levels, closing libraries or not opening those newly built, curtailing hours of community centers, and not repairing pot-holed city streets. Other cities in the County are likely to face similar challenges as long as high cost benefit plans face an underfunding liability. Understanding how Cities created this problem through unfunded retroactive benefit enhancements, compounded by poor ROI, helps taxpayers understand that the problem will not go away on its own.



2011-2012 SANTA CLARA COUNTY CIVIL GRAND JURY REPORT

AN ANALYSIS OF PENSION AND OTHER POST EMPLOYMENT BENEFITS

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■ ADMINISTRATION

CA Controller Urges Pre-Funding of OPEB Obligations

March 14, 2011 (PLANSPONSOR.com) – California State Controller John Chiang unveiled a new actuarial report that shows California faces a \$59.9 billion bill to pay for health and dental benefits for state retirees over the next 30 years.

By Rebecca Moore EDITORS@PLANSPONSOR.COM | March 14, 2011



According to the report, if the State shifted to fully pre-funding the costs of future benefits, the actuarial unfunded obligation would be cut by more than \$21 billion to \$38.5 billion. Chiang urged the State to follow the lead of several bargaining units that are starting to pre-fund their obligations.

A press release said the unfunded obligation as of June 30, 2010, grew \$8.1 billion from the \$51.8 billion obligation identified in the prior year. Less than half of the increase was simply due to another year of costs, payments and interest, while the bulk of the increase was due to a change in the California Public Employees' Retirement System's (CalPERS) pension-benefit assumptions based on their latest 10-year study. That study found employees are retiring earlier, retirees are living longer, and actual premiums increased more than previously projected by the actuary.

The latest actuarial report estimates that based on California's current pay-as-you go system, the State has an annual Other Post-Employment Benefit (OPEB) cost of \$4.2 billion for 2010-11 – or the amount the State would need to pay to cover these benefits. In the 2010-11 Budget Act, the State only provided \$1.4 billion for retirees' health and dental benefits.

Under a full pre-funding approach, the State would set aside money in a separate trust solely for future retirement health care benefits, and the investment income generated by that trust would be used to reduce the costs of paying for future benefits. The State would need to contribute \$2.9 billion in 2010-11 to fully fund its obligation for this year.

According to the press release, a separate analysis performed at the request of the Controller shows that even incremental steps toward pre-funding the obligation would significantly reduce the State's liability. For example, if the State pre-funded just 10% of its obligation, it would only need to pay \$130.3 million more than its current pay-as-you-go contribution, but that additional payment would shave \$2.7 billion off of the State's unfunded liability.

Chiang also suggested the State take steps to contain health care costs by promoting prevention and wellness, and innovations in health care delivery. He also recommends switching from the traditional fees-for-services payment model to one that pays providers based on performance and outcomes.

In 2004, the Governmental Accounting Standards Board Statement 45 (GASB 45) required states and local governments to publicly disclose the future costs of paying for post-employment benefits other than pensions for current state retirees and employees.

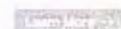
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Supplemental Guidelines for Standard III.D for CALIFORNIA PUBLIC INSTITUTIONS

ACCREDITATION QUESTIONS	EVIDENCE
Has the college received any qualified or adverse opinions in audit reports in the last 3 years from district, state or federal programs?	Audit Report (last 3 years)
Has the college implemented all audit recommendations? Have there been the same recommendations for more than one year? What is the auditor's response to the management actions taken?	Management response to auditor's findings and recommendations (last 3 years) CCFS 311 (last 3 years)
What is the institution's unrestricted fund balance and reserves and how has it changed over the last three years?	CCFS 311Q (Most recent quarter) Fiscal Trend Analysis of 311 Data (Can be accessed online at CCCCCO web site.)
Has the State Chancellor's Office had to intervene regarding fiscal stability or compliance?	Letter of agreement between State Chancellor's Office and District, Chancellor's Office communication document, Fiscal Health Certificate
Does the college have long term debt financing?	Audit Report
Does the institution have an obligation for post retirement health benefits (OPEB), compensated absences, and other employee related obligations? If it does, has it done the actuarial study and identified the liability? Is there a plan for funding them?	Actuarial study for post-retirement health benefits, collective bargaining agreements, board policies, actuarial report, reserve reports. Institutional Plan for funding the liability
Does the institution have limits on accrual of unused vacation time? Compensatory time? Is the institution enforcing its policy on limits?	Leave Accrual Policy in Contractual Agreement and Labor Agreements, Board Policies, Human Resource Records
Is the fiscal entity self insured for health benefits, workers compensation, and unemployment? How are reserve levels set?	District Self Certification
Does this fiscal entity have obligations for future total compensation expenditures driven by collective bargaining agreements or other agreements (corporate-buy outs, management/employee agreements, etc?) If so, what are they? Of what significance are they? What is the plan for funding these future obligations?	Current Bargaining agreements District Funding Plan Executive Officer agreements regarding buy-outs and other conditions of employment



Required Evidentiary Documents for Financial Review
Supplemental Guidelines for Standard III.D for CALIFORNIA PUBLIC INSTITUTIONS

ACCREDITATION QUESTIONS	EVIDENCE
Does the institution and the foundation have an agreement/contract on the role of the foundation? Does it require that the foundation have an independent audit?	Copy of the Agreement Copy of Foundation audited financial statement (last 3 years) Required Continuing Disclosure submittal
Does the college or district have a Prop 39 bond fund?	Copy of minutes from Bond Oversight Committee Copy of audit report from the last 3 years
Does the college have policies and procedures regarding purchasing? Are they being followed?	Self Certification Policies
Will additional buildings be opened in the next 2-3 years? Is there a plan to fund staff, utilities and operating expenses associated with additional facilities coming on-line within the next 2-3 years?	Copy of the most current Facility Master Plan Funding Plan Educational Master Plan Total Cost of Ownership Plan Staffing/Human Resources Plan
Is there evidence that planning integrates fiscal and other resources?	Internal documents
Is there evidence that the institution monitors student financial aid obligations such as student loan default rates and compliance with Federal regulations?	Annual Financial Report, Financial Aid Compliance Reports.

Revision: September 28, 2011



<http://www.rccd.edu/administration/adminfinance/Documents/Information%20Services/DSTP/Other%20Documents/IT%20Audit%20Status%20Report%20-%20DSPC.pdf>

DR1.2 District Technology Plan

<http://www.rccd.edu/administration/adminfinance/Documents/Information%20Services/DSTP/Other%20Documents/District%20Technology%20Plan.pdf>

DR1.3 IT Audit Recommendation Project Status Summary

<http://www.rccd.edu/administration/information/services/Documents/IT%20Audit%20Project%20Summary.pdf>

DR1.4 RCCD Centennial Strategic Plan 2013-2016

<http://www.rccd.edu/administration/educationalservices/ineffectiveness/Documents/RCCD%20Centennial%20Strategic%20Plan%202013-16%20final.pdf>

District Recommendation 2

In order to meet Standards, implement a plan to fund contributions to the District's other post-employment benefits (OPEB) obligation.

The District's medical plan, a single-employer defined benefit healthcare plan, is administered by the District. The plan provides a paid medical insurance benefit to eligible retired academic, classified, confidential, and management employee and one dependent until age 65 (BP/AP 7380). Eligibility is available to all retirees who have a minimum of 10 years of service with the District and who have reached the age of 55.

On July 1, 2014, an actuarial valuation was performed to determine the District's liability for its post-employment benefits. Currently, the District utilizes the pay-as-you-go method to finance its OPEB contributions.

The net OPEB obligations for each of the fiscal years 2010 through 2014, ending June 30, are as follows:

Year	Annual OPEB Cost	Actual Contributions	Percentage Contributed	Net OPEB Obligation
2010	\$1,462,715	\$ 766,350	52%	\$1,653,090
2011	\$2,262,462	\$ 577,224	26%	\$3,338,328
2012	\$2,242,316	\$1,199,115	53%	\$4,381,529
2013	\$2,872,832	\$1,209,729	42%	\$6,044,632
2014	\$2,960,168	\$1,159,902	39%	\$7,844,898

To date, the District has partially allocated resources to support future liabilities related to post-employment benefits, leave time, and other related obligations. Leave balances are paid when used through existing resources, and the District finances its current post-employment benefit obligations annually. The District's annual required contribution is \$3,041,672 and annual OPEB cost is \$2,960,168 based on the FY 2013-14 Annual Audit.

All audits of the institution have been unqualified. The District plans for and, to date, has used a "pay-as-you-go" methodology to allocate appropriate resources for the payment of liabilities and future obligations, including other post-employment benefits (OPEB), compensated absences, and other employee related obligations as disclosed in all annual audits. However, the District has not funded the future cost of the Annual Required Contribution (ARC).

In addressing the Commission's recommendation regarding OPEB liability, the District considered a number of options. These included the formation of an irrevocable trust, the establishment of a restricted fund, the issuance of OPEB bonds, or the initiation of a self-assessment. The District has historically maintained a "pay-as-you-go" methodology and, since the inception of Governmental Accounting Standard Board Statement No. 45—Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions (GASB 45)—has not funded the future cost of the ARC. Annual "pay-as-you-go" costs of the ARC approximate \$1.2 million. The most recent actuarial valuation puts the annual funding of the future cost of the ARC at approximately \$1.2 million. Therefore, to fund the GASB 45 liability completely, additional annual contributions of between \$.80 million and \$1.0 million (the remaining portion would presumably be from investment earnings) would be necessary. To address the recommendation, a funding plan has been developed. The plan consists of the following:

1. Effective July 1, 2015, establish an irrevocable trust to pay current retiree health costs and to accumulate funds for future costs to offset the OPEB liability;
2. Develop a rate to apply to every dollar of payroll, in all Resources that have payroll, to cover the annual current cost ("pay-as-you-go") plus a minimum of \$250,000 annually to begin providing for future retiree health costs, including application of the rate to grant and categorical programs in accordance with the federal government's OMB Circular A-21 and the State Chancellor's Accounting Advisory—GASB 45 Accounting for Other Post-Employment Benefits;
3. Investment earnings over time will contribute to the reduction of the outstanding OPEB liability, so the total amount of funds set aside by the District and accumulated to pay for future retiree health costs will be limited to a maximum of 50% of the outstanding OPEB liability.
4. At least annually, transfer all funds provided by the retiree healthcare rate to the irrevocable trust;
5. Pay all retiree healthcare costs out of the irrevocable trust.

This proposal, discussed with the District Budget Advisory Council (DBAC) on January 23, 2015 and on February 27, 2015, was also vetted through each of the colleges' shared

COMMENDATIONS AND RECOMMENDATIONS FOR THE PERALTA COMMUNITY COLLEGE DISTRICT

District Commendation 1. “The District’s Institutional Research Department is commended for its work in creating a robust data system for a complex multi-college district. By continuously refining its data model, by developing and supporting a multitude of standard reports and dashboard/data mining reporting strategies, and by providing the needed user training, the department makes available a critical toolset that should be used as the foundation of evidence-based practice.”

District Commendation 2. “The team commends the District and the individual Colleges for their efforts to ensure that hiring practices cultivate a workforce that is as diverse as the student population. The District and the Colleges within it, have successfully maintained College personnel that mirror the student demographics, which enrich the College environment and promote equity.”

DISTRICT RECOMMENDATIONS TO RESOLVE DEFICIENCIES

Recommendation 1:

“In order to meet the Standards, the team recommends that the District follow the 2014 audit recommendations and develop an action plan to fund its Other Post-Employment Benefits (OPEB) liabilities, including associated debt service (III.D.1.c, III.D.3.c).”

I. Introduction

Recommendation 1 addresses the need for the District to follow the 2014 audit recommendations and develop an action plan to fund its Other Post-Employment Benefits (OPEB) liabilities, to include its associated debt service.

II. Plan of Action

The 2014 Audit Report finding related to OPEB stated: “The long term planning for the continued financial stability of the District should continue to include attention to obligations that will be coming due in the future, such as the postemployment health care benefits and the annual line of credit repayments, which impact the District both at the operating fund level and the entity-wide financial statement level.” [DR1.1].

Respecting the 2014 Audit Report recommendation, PCCD has developed a long-term plan to fund its Other Post-Employment Benefits (OPEB) liabilities, including its associated debt service (i.e., the principal and interest due on the OPEB bonds). The District has also taken short-term actions to mitigate the impacts of the OPEB debt service on District finances.

A. Short Term Actions

The District has actively managed its OPEB Bond program over the past twenty-four months. In September 2014 the District issued a request for proposal (RFP) to establish an underwriter pool in anticipation of financing the OPEB Bond program and General Obligation Bond program [DR1.2]. The Interim Vice Chancellor for Finance and Administration and the District's Municipal Financial Advisor performed a semi-annual review of the OPEB bond program in anticipation of the automatic conversion of the next series, or tranche, of bonds from "capital appreciation" (where fixed rate bonds' interest is calculated and added to the principal amount every six months but deferred in payment) to the "auction rate" securities (variable interest bonds subject to auction every five weeks) [DR1.3]. The timing of this transaction was critical and was determined by the original structure of the OPEB bond program; the District was required to restructure the B2 tranche of bonds by August 15, 2015 or potentially pay investors a default interest rate of 17%, due to the failure of the auction rate market in 2008.

Recognizing the importance of the August 2015 conversion date for the B2 tranche, and its potential impact on the District's finances, a plan of finance and an associated timeline were developed. This plan included the analysis of various financing options and risks associated with those options [DR1.4].

In January 2015, the District's OPEB Finance Team was formed, consisting of members with expertise in the areas of OPEB, Letters of Credit (LOC), swaps, variable rate bonds, and credit. The Team included the District's Interim Vice Chancellor for Finance and Administration, District Counsel, District Bond Counsel and the District's Municipal Financial Advisor. An RFQ was circulated to the District's underwriter pool with the intent

to select a firm for the August 2015 transaction and Barclay's Bank was added to the Team, given its ability to provide a letter of credit or LOC [DR1.5].

Working diligently over the next several months, the OPEB Finance Team developed a conservative bond structure that provided the District the lowest interest rates possible at the time [DR1.6]. As part of due diligence, the original bond financing documents were reviewed, as were the initial financial assumptions and program goals. The objectives were to verify all data and to insure that indentures and covenants were legal and being practiced. At this point the District engaged a law firm, with expertise in retiree health benefits programs, to provide advice to the Retirement Board of Authority (RBOA), as well as to review and update essential legal documents related to it and the OPEB program (this OPEB Counsel was added to the OPEB Finance Team). This work was arduous, methodical, and necessary to accomplish the B2 tranche remarketing. These initiatives benefitted the District by providing clarity and transparency related to the transaction and its governing structures, i.e. the RBOA and Governing Board [DR1.7].

In August 2015, the District successfully converted \$38,450,000 of Convertible Auction Rate Securities (CARS) to variable rate bonds with a LOC from Barclays Bank [DR1.8]. This action saved the District approximately \$12.5 million in debt service payments over the life of the bonds, assuming a failed auction rate of 17% against a current assumed taxable variable rate of 4.5% [DR1.9]. The bonds carry Barclays' short term rating of A-1 (Moody's Investors Service) and A-2 (Standard & Poor's). The District elected not to terminate the swap associated with this tranche because the termination value of the swaps approximated the expected cash flows for termination over time. The conversion and structure of subsequent tranches, the next one maturing in 2020, may mirror this approach.

B. Long Term Plan

Since August of 2015, the newly-appointed Vice Chancellor for Finance and Administration, the District's Financial Advisors, and District Counsel and OPEB Counsel have focused on OPEB program management, cash flow modeling, and funding options to reduce existing and

C. Cash Flow Planning

In Fall 2015 current and future OPEB cash flows were modeled, reviewed, and refined under the direction of the Vice Chancellor for Finance and Administration who provided more precise fiscal and programmatic assumptions [DR1.14]. The goal was to facilitate a working cash flow of all OPEB-related revenues and expenditures, including interest rate assumptions and future expenditures. Working with the District's OPEB Finance Team, revenues and expenditures are now updated quarterly, based on actual costs and/or returns, and compared against estimates. The Model also enables the District to monitor and reduce program expenses when possible.

The Cash Flow Model's variables include:

- Precise revenue and expense projections through 2025, including swap offsets.
- Five percent of the District's Computational Revenue received from the State annually dedicated to OPEB debt service.
- OPEB charge calibrated to meet required annual coverage.
- Interest rates and structures to determine refunding of future series.
- Integration of eligible trust funding for future debt service.
- Financial options to establish an irrevocable trust to service *post*-2004 retirees.

The Cash Flow Model is predicated on the fact that any surplus funds in the OPEB Trust, i.e., assets over and above the actuarial liability created by the *pre*-2004 retirees, can be utilized to service OPEB Bond principal. This use is provided for in the foundational documents of the OPEB bonds [DR1.15]. The Model also includes the continuation of the OPEB charge against payroll expenditures, as well as the establishment of a new, irrevocable trust [DR1.16]. This Model gives the District the financial flexibility to develop realistic future scenarios and to accurately monitor current cash flows as necessary for debt service management to progress. A summary of this Cash Flow Model was shared with the District's Planning and Budget Council on April 29, 2016 and endorsed by the Board of Trustees at its workshop on July 12, 2016.

While the aforementioned Model will provide guidance for the District in the nearer long-term, the District's longer-term goal is to implement a model that will allow the District to

quantify reasonable approaches to reducing the OPEB program's overall debt service. Starting in Fall 2016, the OPEB Finance Team will commence with an analysis to evaluate possible restructuring options to achieve this long term goal. This is a complicated analysis, but one that will serve as an important roadmap for OPEB program planning throughout the next ten to twenty years. One objective of this new process would be to determine the efficiency of a purchase of some or all of the outstanding bonds from investors. If successful, this restructuring maneuver would reduce the District's overall debt service and reduce the length of the existing program.

Given the number of external variables, it is difficult to set a precise deadline for a completed OPEB analysis (and, of course, interest rates represent a significant factor). To initiate this process, in March 2016, the District issued a Request for Qualifications (RFQ) for investment banking firms with an emphasis on experience and knowledge of complex pension programs. Citi and RBC (Royal Bank of Canada) were identified as key partners in the District's undertaking of this important first step to move forward with the OPEB program and both have been added to the Team.

III. Conclusion

The District has developed a comprehensive long-term plan to fund its OPEB liability and associated debt service. With conservative fiscal assumptions, it has modeled precise cash flow projections through 2025, and general projections through 2050, the final maturity date of the *pre*-2004 program. The *post*-2004 OPEB program, with significantly less liability, has also been addressed. As is evident, all District funds impacted by the OPEB program—Funds 1, 69, and 94—have the capacity to support the plan as developed, including the establishment of a new irrevocable trust fund. In addition, the District continues to look forward and has been actively assessing options to restructure the current OPEB program to reduce both long-term liability and annual costs, in full recognition of the importance and impact of the OPEB program management in years to come. The District's OPEB Finance Team will provide continual assessment of the OPEB program and report to the Planning and Budgeting Council and Board of Trustees periodically.

Articles and extracts included:

Exhibit C

<http://www.pars.org/2015/04/prefunding-opeb-liabilities-something-is-better-than-nothing/>

Exhibit D

<http://www.nasra.org/Files/Topical%20Reports/OPEB/SandP%20State%20OPEB%20report%2011-17-14.pdf>

Exhibit E

<http://www.plansponsor.com/Calif-Controller-Calls-for-Prefunding-OPEB/>

Exhibit F

<http://www.governing.com/blogs/bfc/col-public-pension-other-post-employment-benefits-opeb.html>

Exhibit G

<http://www.courts.ca.gov/documents/jc-20120727-itemC.pdf>

Exhibit H

http://www.scscourt.org/court_divisions/civil/cgj/2012/pension.pdf

Exhibit I

<http://www.plansponsor.com/CA-Controller-Urges-PreFunding-of-OPEB-Obligations/>

Exhibits J

[http://www.accjc.org/wp-content/uploads/2013/03/Required Evidentiary Docs for Financial Review ALL-MEMBER-INSTITUTIONS 3-5-13.pdf](http://www.accjc.org/wp-content/uploads/2013/03/Required-Evidentiary-Docs-for-Financial-Review-ALL-MEMBER-INSTITUTIONS-3-5-13.pdf)

Exhibit K

[http://www.norcocollege.edu/about/president/Accreditation/Documents/Reports%20and%20Letters/Norco%20College-Follow%20Up%20Report Oct2015.pdf](http://www.norcocollege.edu/about/president/Accreditation/Documents/Reports%20and%20Letters/Norco%20College-Follow%20Up%20Report-Oct2015.pdf)

Exhibit L

<http://web.peralta.edu/accreditation/files/2010/03/PCCD-Final-Report-10-1-2016.pdf>

Articles, presentations and documents of interest (not included)

<http://www.plansponsor.com/State-OPEB-Funding-Improved/>

<https://www.avc.edu/sites/default/files/accreditation/recomm4/RBA%20Project%20Tracking%20Report%206.12.14.pdf>

<http://www.treasurer.ca.gov/cdiac/publications/gasb45.pdf>

<http://gfoasc.org/wp-content/uploads/2014/04/Considerations-for-Prefunding-and-OPEB-Liability.pdf>

http://www.wayland.ma.us/Pages/WaylandMA_Selectmen/OPEBPresDec2012.pdf

<http://www.massassociationregionalschools.org/downloads/MASS-MASC%20Presentation%20by%20PARS.pdf>

http://slge.org/wp-content/uploads/2011/12/Prefunding_OPEB.pdf

<http://assoc.cira.state.tx.us/users/0003/docs/San%20Antonio%20OTRAT%20OPEB%20Presentation%20-%20Crumrine.pdf>

<https://www.deltacollege.edu/dept/fiscal/budget/documents/SJDCCDOPEBAnalysisFINAL2.12.13.pdf>

<http://www.plansponsor.com/State-OPEB-Funding-Improved/>

http://www.accca.org/files/public/Top_Ten_Q&A.pdf