School Board Meeting Date:	July 14, 2009
Subject:	OPEB Bonds
Presenter:	Chuck Klaassen, Director of Finance Tina Burkholder, Controller

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SUGGESTED SCHOOL BOARD ACTION:

Approval of Resolution to Call for Bids for the Sale of Bonds to help fund the district's OPEB obligations.

DESCRIPTION:

GASB No. 45 addresses how school districts account for and report their costs and obligations related to post-employment benefits other than pension benefits (OPEB). Typically the obligation results from contracts where the school district agrees to pay for retiree insurance benefits. The obligation also includes severance payments that are based on years of service and deposited into a health savings plan, such as what we have in our Teachers Master Agreement.

The Actuarial Evaluation for Post-Employment Benefits based on GASB 45 was presented by Brenda Hardy from Van Iwaarden Associates at the February Board Workshop. There are two basic options for dealing with our OPEB obligations. One is to annually budget the current obligation and the other is to bond for a longer term.

According to our Actuarial Study, the District's Actuarial Accrued Liability (AAL) as of July 1, 2008 was $10,694,069. The liability is broken down into two amounts: $8,033,593 for retiree insurance and $2,660,476 for severance payments into a health savings plan.

Severance payments based on unused sick leave fall under GASB No. 16 and are not part of the $10.7 million. School districts will need to continue to budget and account for severance payments based on unused sick leave on a "pay-as-you-go" basis. The liabilities are recognized on the fund statements as they occur. These types of payments are present in some other master agreements we have with other employee groups, but amount to a much smaller total annual required contribution in the neighborhood of $80-85,000.

As you know, we have been funding present and some future obligations on an annual basis. This "pay-as-you-go" basis could be continued, but it does put an annual drain on the general fund. If we bond for the OPEB liabilities, those are dollars that could be re-purposed in the general fund to pay for staff salaries/benefits, supplies and other program costs and/or positioned to the bottom line to help ensure a more stabilized mid-to-long term financial forecast for the district. We have about $2.1 million currently designated for OPEB liabilities, and our annual cost is estimated by our actuarial at just under $700,000. We have the $700,000 budgeted separately for 2009-10. Our annual $700,000 obligation and our total accrued liability of $10,694,069 will also change annually as employees retire, new employees are hired and changes to contracts are made.

We have looked at several different options for OPEB bonds, including $9.77 million over 13 years or $11.28 million over 14 years. The difference in the two plans is basically funding the current and future liabilities with bonds with the larger amount, or funding current obligations with our current designated funds and the smaller amount of bonds for the future liabilities. The estimated tax impact of the two different amounts is illustrated on the Tax Impact attachment.

The Board will also need to decide whether or not to establish a trust for the OPEB funds or continue using a designated fund balance approach. There are pros and cons, but in general, an irrevocable trust is the only method that is recognized by GASB as "funding" our OPEB liabilities. A revocable trust or a designated or internal service fund would recognize our full obligation in our audited financial statement notes but the dollars could still be pulled away and used for other purposes. Rating agencies may not look kindly on this type of "unprotected" fund.

One additional issue the Board should consider is looking at our contract language that allows some of these OPEB obligations to happen, i.e. district-paid retiree insurance benefits and severance payments that are based on years of service. Of course there may be a trade-off, but we need to look at our long term financial stability and this would be one way to help provide a little more clarity toward that goal.

Our recommendation is to approve a resolution calling for the sale of bonds for $11.28 million over 14 years and direct staff to establish an irrevocable trust to hold the proceeds of the bond sale for future payment of OPEB obligations. We would then use the funds currently designated for severance and the annual budgeted payment amount for current GASB 16 obligations, future GASB 45 severance obligations beyond what the bonds would cover, and some re-purposing of funds into general operating dollars.

ATTACHMENTS

OPEB Bonds Tax Impact