

School Board Meeting:

April 25, 2022

Subject:

**Committed Fund Balance for
Severance Benefit Liability**

Presenter:

**Ryan L. Tangen, Director
Finance and Operations**

SUGGESTED SCHOOL BOARD ACTION:

Recommend approval.

DESCRIPTION:

Annually the District reviews Other Post Employment Benefit Obligation (OPEB) and contractual severance benefit liability to determine how much fund balance should be committed for severance. The Committed for Severance fund balance combined with the OPEB trust help ensure financial stability for the District.

Determining the year end liability takes both the projected annual OPEB liability under Government Accounting Standards Board (GASB) 45 and other severance liability under GASB 16 into consideration. Determining the annual liability is complicated, requiring the use of an actuarial firm. The June 30, 2021 OPEB liability was valued at \$9,386,661 representing a \$2,351,603 or 23.03% decrease from the prior year. OPEB liability projections are susceptible to significant fluctuations from year to year being dependent on estimated future cost of health insurance, healthcare cost trends, employee longevity, inflation, and expected investment returns. The latest OPEB valuation was determined using record investment returns and a unique decrease to health insurance premiums. The GASB 16 severance liability for June 30, 2021 was \$1,362,187 or a decrease of \$20,352 or 1.47%.

Fund balance committed for severance is arrived at using a percentage of the next five years projected retiree claims and administrative costs net of any employee paid premiums as well as any health care savings plan contributions determined under GASB 45 and GASB 16. The percentage of claims used to establish the fund balance has changed over the years. When first established for June 30, 2010 it was set at 60%, changed to 65% for June 30, 2014, and then back to 60% for June 30, 2015. It has remained at 60%.

Fluctuations in the actuarial valuation led to a significant decrease in the Committed for Severance fund balance for year end June 30, 2021 and in turn, could easily lead to a significant increase for June 20, 2022. Large swings in the committed fund balance for severance makes long-term planning for use of unassigned fund balance difficult. In addition, severance liability will continue to grow and having a sufficient committed fund balance is critical to financial stability.

To offset some of the risk of valuation fluctuations, the recommendation is to increase the percentage for Committed for Severance fund balance to 65% and include a parameter that the year-end commitment will be the greater of the current year calculation or prior year committed balance.