School Board Meeting/<u>Workshop</u> Date: March 9, 2009

Subject: OPEB Bonds

Presenter: Chuck Klaassen, Director of Finance
Tina Burkholder, Controller

SUGGESTED SCHOOL BOARD ACTION:

Report only, for discussion.

DESCRIPTION:

The new Actuarial Evaluation for Post-Employment Benefits was presented by Brenda Hardy from Van Iwaarden Associates at the February Board Workshop. Gary Olson, our financial advisor from Ehlers also shared information with the Board that evening regarding funding options for the OPEB obligations.

There really 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. The bond option is not subject to voter-approval.

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. We have about $1.5 million currently designated for OPEB liabilities, and our annual cost is estimated by our actuarial at just under $700,000. Our total accrued liability is estimated at $10,694,069, but that number will change annually as employees retire, new employees are hired and changes to contracts are made.

The chart shows the estimated debt service levy impact of bonding for OPEB. You can see two different options: $9 million over 13 years or $11 million over 14 years. The $11 million issue is structured so that there isn't much difference in annual cost; most of it is in the 14th year. The difference in the two plans is basically funding the current and future liabilities with bonds, or funding current obligations with our designated funds and bonds for the future liabilities. The estimated tax impact of the two different amounts is illustrated on the Tax Impact attachment.

The big question the Board needs to weigh is what would be the impact/fallout of imposing a new non-voter approved levy on the taxpayers. Would it anger enough of them to the point where it could possibly jeopardize the successful renewal of our $110 and/or $379 operating referendums that are coming up for renewal? The $110 levy is set to expire in two years and the $379 levy has four more years. Is it worth the savings to the general fund to issue bonds and add to the annual required debt service level if it raises the risk level with the voters?

If we decide to continue our current practice and to not issue bonds, then the Board will need to decide is 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, a 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 aspect the Board should consider is possibly changing our contract language that allows some of these OPEB obligations to happen, i.e. district-paid retiree insurance benefits. Of course there would have to 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.

ATTACHMENTS

Debt Service Levy with OPEB Bonds
OPEB Bonds Tax Impact