District Recommendation #2
OPEB Obligation

In order to meet the standard, implement a plan to fund contributions to the District's other post-employment benefits (OPEB) obligation. (Standard III.D.3.c)

Response

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 employees 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.[vi]

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.[vii]

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 the annual OPEB cost is $2,960,168 based on the FY 2013-14 Annual Audit. (III.D.3.c, III.D.3)[viii]

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,

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[vi] BP/AP 7380, Retiree Health Benefits.
[vii] Review district 2014 Actuarial Study.
[viii] See Audit Reports 2010-2014.

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 district recommendation, the district considered a number of options to address the OPEB liability. 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 to respond to the accreditation recommendation. 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 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[ix], was also vetted through each of the college's shared governance processes and has been reviewed by both the District Strategic Planning Committee (January 30, 2015 and March 13, 2015) and the Chancellor's cabinet (March 30, 2015).[x] The final proposal was presented and discussed at the April 7, 2015 Resource Committee meeting. The Board approved the proposal at its April 21, 2015 meeting.[xi]

[ix] See DBAC minutes for January and February 2015.
[x] See DSPC minutes for January and March 2015.
[xi] See Board of Trustees committee and regular meeting minutes for April 2015.