BUDGET COMMITTEE MEETING
November 6, 2019
Board Room
2:00-3:30 p.m.
MINUTES

CALL TO ORDER: The meeting was called to order at 2:04 p.m. by Committee Chair, Morris Rodrigue.

ROLL CALL:

x	Jill Ault	x	Sue Loring	x	Tom Masulis		Student Rep.
	Andy Fields	x	Crystal Mair	x	Morris Rodrigue		
	Katie Littlepage		Tom Martin	x	Heidi Dias		

APPROVAL OF MINUTES: 10/2/2019 – Tabled until next meeting.

PUBLIC COMMENTS: None

ANNOUNCEMENTS: Introduction and welcome for new committee member Heidi Dias, Classified Representative. Heidi is an Administrative Assistant in the BAITS Division.

REPORTS:

A) Retiree Health Benefits Actuarial Report *(handout)*

Morris reviewed the Actuarial Report with the committee, explaining that some of the same numbers from the last report will show up in several of places on the report again. Pg. 9 shows the net OPEB liability as of June 30, 2019 was approximately $38.2M.
Sue asked if the fund net amount is the amount in the trust currently. Morris said yes.

Morris presented an overview of the retiree health benefits, stating that the actuary report looks at the projected liability, and costs, and how much has been set aside to pay down that liability. Classified and faculty contracts dictate the amounts that need to be paid. Retiree health benefits are negotiated with each union, and there were times in the past when there was a more robust health benefit for retirees. That has changed over the years, and the benefit is not as large now, mainly due to the increased cost of health benefits. The benefit at retirement depends on when an employee was hired, and what was negotiated under their union contract. Currently, most new employees just get a small dollar benefit between the time they retire and Medicare age. This has helped reduce the District liability, and also over time the liability reduces.. When health benefits escalated it drove the need for Districts to develop a plan for paying their retiree health benefits.

Morris said that theoretically we should have put the dollars aside when it was promised, but that didn't happen, so now the current and future employees have to fund the liability until we are caught up.

There was a time when the benefits weren't escalating so much. Then when the cost of health benefits escalated it what drove schools to develop a plan to fully fund their retiree health benefits.

Morris handed out a graph that demonstrated the retiree health benefit trends from 2019 through 2029. This is data pulled out of the current Actuarial Report. Morris said he looked at June 2019, and then assumed if we have $19.5M in the OPEB Trust, and we increased the amount each year, the lines would cross. When we hit that crossing point, we will be using the interest off the trust and some of the principle, and then the number will begin to drop down.

The plan would be to watch this closely and prior to the point of crossing, start drawing out of the trust. We can draw out up to the equivalent of the cost of retiree benefits each year, which is around $3M each year. This could allow us to free up cash if needed. Right now we are spending 6% of the general fund on retiree health benefits. Sue said it seems like we are spending more than 6%. Morris said 6% is specifically what the cost is. Morris explained that our investment advisor has said that if we hold steady and hold the course until we get to about 75% of being fully funded, then he suggests we go to a more conservative investment policy, which would push the liability out further.

Casey asked what the money is invested in. Jill said the JPA calls it a balanced fund, 50% low risk investments and 50% higher risk investments. Morris said we can pick other categories to invest in, but we are a part of the JPA (Joint Powers of Attorney) and they hire the investment advisor, and they invest according to the policy we give them. In turn, they give us a selection of options, none are what Morris said he would call super risky. Each year we meet with the JPA and take a recommendation of investments to the Board, and we usually stay in the balanced fund. Jill added that the 75% recommendation is a common plan because the older you are the less time there is to recover if an investment goes bad. Morris said the District's philosophy has been that when there is an opportunity to put additional dollars into the OPEB Trust we do, which will ultimately get it paid down earlier.

Casey asked about the where the monies come from that are put into the OPEB Trust each year. Morris said sometimes we budget for it, sometimes we don't, sometimes we have one-time dollars and sometimes there is excess in the budget at the end of the year that is used. Casey asked if some of the money comes from the general fund. Morris said yes, and last year is a good example because we budgeted income for $44.5M (Total TCR). This number was based on what the state projected. By the time we go to the end of the year the state was projecting $45.2M, so our income was higher than expected, and we came in under budget in other categories so there were excess dollars to put into the trust. Morris explained that the graph demonstrates his estimate if interest rates hold in the 6% range, and it assumes no additional deposits. Jill said every dollar in the trust is earning 6%, which is much higher than the 1% in the county treasury.

<u>OPEB Investment History (handout)</u> *(OPEB (Other Post-Employment Benefits)*

Morris said this document is not exact, but it gives an idea of what the deposits have been. The early interest gains are a large part of the reason we are where we are today. The average deposit has been around $600,000 per year. Sue asked why they are deducting the $3.8M. Morris said Joe Wyse prepared this document, and thinks he is pulling out the one-time funds that came in 2010-11.

Casey asked if the District was reimbursed for the Learning Resource Center (LRC). Morris said yes, but rather than put that reimbursement in the general fund, they put it in the OPEB Trust. Morris said the document also reflects the $6.5M we've earned in interest, which has been very valuable to us.
Morris said the committee will have conversations about having excess dollars again at the end of the year, so keep this information in mind. Paying down the liability benefits not only the securing of the retiree health benefits, it also takes the burden off new employees that don't have the benefit, and we can negotiate raises because we will have freed up dollars.

It is always good for the accreditors to see that we are making progress or have a plan on paying down the liability, and it helps our credit rating on the bond funds. There will always be a required amount set aside as long as there is some retiree benefit.
PERS is currently 19%
STRS is currently 17%.

B) State Budget Update
Not much change since the last item. In Dec we should find out the TCR for 2018-19, then we will actually know. On the SCFF, on February P1do a rebenching of the formula, which will give us a better idea and then for the July P2 when they will do a final re-benching. I think they will get relatively close in Feb.
Heidi, did we know in the past? Yes when it was based on FTES, and when the COLA was applied to all categories, so we could get pretty accurate with our estimates. Now because it's all new, we can't calculate it. I'm hopeful the future changes will be better. We grumble because of the unknown, but it hasn't hurt us with this new SCFF. In December we should know what our final recalculation is for 2018-19.

DISCUSSION/ACTION: None

OTHER/ANNOUNCEMENTS: None

ADJOURNMENT: 2:55 p.m.

NEXT MEETING:

Recorded by:

Sherry Nicholas
Executive Assistant
Administrative Services

11/6 B.C.

OPEB Investment History

	Beg of Year Balance	Deposit	End of Year	Estimated Investment Change	% Investment Income	# Retirees covered	Actuarial Accrued Liability	% funded
18/19	$15,660,396	$1,750,000	$18,907,281	$1,496,885	9.6%	--	$37,720,123	50.13%
17/18	$14,281,308	$368,900	$15,660,396	$1,010,187	7.1%	268	$38,252,976	40.94%
16/17	$13,122,366	$1,936,264	$14,281,308	($777,322)	-5.9%	268	$38,699,945	36.90%
15/16	$10,818,293	$300,000	$13,122,366	$2,004,073	18.5%	269	$42,931,364	30.57%
14/15	$9,653,946	$1,256,359	$10,818,293	($92,012)	-1.0%	258	$42,931,364	25.20%
13/14	$8,124,667	$457,764	$9,653,946	$1,071,515	13.2%	247	$40,133,078	24.05%
12/13	$7,395,204	$100,000	$8,124,667	$629,463	8.5%	239	$39,430,443	20.61%
11/12	$6,741,748	$303,992	$7,395,204	$349,464	5.2%	239	$39,430,443	18.76%
10/11	$2,182,132	$4,011,365	$6,741,748	$548,251	25.1%	233	$35,597,240	18.94%
09/10	$1,465,611	$250,000	$2,182,132	$466,521	31.8%	212	$35,597,240	6.13%
08/09	$1,088,814	$424,958	$1,465,611	($48,161)	-4.4%	210	$40,385,462	3.63%
07/08	$908,883	$287,984	$1,088,814	($108,053)	-11.9%	204	$40,385,462	2.70%
06/07	$100,000	$808,883	$908,883	$0	0.0%	196	--	
05/06	$0	$100,000	$100,000	$0	--	191	--	
	Total deposits	$12,356,468						
	Est. total Investment Effect	$6,550,813						
	Deposits less $3.8 million	$8,556,468						
	Ave. deposit 05/06 to 18/19	$611,176						

8.0% <-- ave. annual return 07/08 to 18/19

NOTES

1. The deposit of $808,883 in 2007-08 did not come from general fund in a single year, but from prior year set asides in the county treasury. Therefore, no estimated investment proceeds are inlcuded in the first two years.
2. In 2005-06, an initial deposit of $100,000 was made into the JPA trust to start off, then the next year $ from the prior years were deposited
3. In 2010-11, $3.8 million of the deposit did not come from general fund, but from state reimbursements for the LRC.
4. In 2016-17, the state provided ~$4 million in one-time income and we put approximately 50% of it into the OBEB trust and much of the rest was used for two 2% one-time payments to all employee groups.
5. The timing of this deposit was after the year closed, so some of it is reflected in the higher rate of return on the 2015/16 investment year.
6. As the above shows, we have collected over $6.5 million in investment income by good stewardship of depositing funds into the trust.
7. The deposits include $ collected on behalf of employees from fund 12 (grants and categorials) and fund 34. Not all comes from fund 11.