

## Response to Questions on the FY 2009 Advertised Budget Plan

**Request By:** Chairman Connolly

**Question:** Summarize the current GASB 45 liability for the County and actions to address the liabilities.

**Response:** The actuarial valuation as of July 1, 2007 under GASB 45 calculated the County's actuarial accrued liability (AAL), excluding the Schools portion, at \$379.9 million. This liability will be recalculated at the next valuation and will include adjustments due to benefit experience, medical trend experience, and normal growth assumptions.

In addition to the liability, the actuarial valuation also includes the calculation of an annual required contribution (ARC). The ARC is the amount required in order to fully fund the liability over the 30-year amortization period. The ARC is calculated at each valuation and may change as a result of fluctuations in the liability. The difference in the ARC and amounts actually contributed to the fund each year are accumulated and reported on the County's financial statements as a net OPEB asset (if the contributions exceed the ARCs) or a net OPEB obligation (if the ARCs are not fully funded).

In order to begin preparing for the implementation of GASB 45, a reserve was established in Fund 506, Health Benefits Trust Fund, as part of the *FY 2005 Carryover Review* to begin to address the unfunded liability, and an amount of \$10.0 million was set aside in this reserve from excess revenues received from employer contributions. In FY 2007, the County allocated an additional \$8.2 million as a transfer from the General Fund for this reserve as part of the FY 2007 Adopted Budget Plan, as well as an additional \$21.8 million as part of the *FY 2006 Carryover Review*. The FY 2008 Adopted Budget Plan maintained the \$8.2 million General Fund Transfer to the reserve in Fund 506, bringing the balance to \$48.2 million. The County created Fund 603, OPEB Trust Fund, as part of the FY 2008 Adopted Budget Plan and transferred the reserve to the new fund at the *FY 2007 Carryover Review*. This \$48.2 million in initial funding will reduce the unfunded liability and, consequently, reduce the annual required contribution to Fund 603.

Although the County took steps to prepare for GASB 45 years earlier, FY 2008 marks the first year that the County is required to report the GASB 45 liability as part of its financial statements. The FY 2008 ARC as calculated by the actuary at the July 1, 2007 valuation was approximately \$31.6 million. However, due primarily to the \$48.2 million set aside in the GASB 45 liability reserve in Fund 506, as well as annual contributions in FY 2008 towards the retiree health benefit subsidy in Fund 500, Retiree Health Benefits, and the implicit subsidy in the General Fund, it is anticipated that the County will surpass the annual required contribution in FY 2008 and will show a net OPEB asset in the County's financial statements.

In FY 2009, the County's contribution towards the ARC will be made through a transfer of \$10.9 million from the Health Benefits Trust Fund as a result of excess revenues received from employer contributions, including approximately \$6.8 million previously funded by the General Fund for the explicit and implicit subsidies and an additional \$4.1

million contribution (reduced by \$4.1 million from \$8.2 million proposed in the FY 2009 Advertised Budget Plan) to address the unfunded liability. This \$10.9 million transfer will be used towards the FY 2009 ARC which, although it will not be calculated until the next valuation, is projected to be equal to, if not greater than, the FY 2008 ARC of \$31.6 million. Therefore, depending on the actual FY 2009 ARC and the final net OPEB asset carried forward from FY 2008, it is possible that a net OPEB obligation will be reported on the County's FY 2009 financial statements as it is unlikely that the ARC will be fully funded in FY 2009. In addition, any future balances identified in Fund 506 as a result of excess revenues received from employer contributions will also be considered for possible transfer to Fund 603 to assist in addressing the County's unfunded OPEB liability.

It should be noted that after exploring numerous alternatives as to how to prudently invest and accumulate resources for OPEB, County staff recommended and the Board of Supervisors approved County utilization of the Virginia Pooled OPEB Trust Fund in cooperation with the Virginia Municipal League (VML)/Virginia Association of Counties (VACo) Finance Program and other jurisdictions in the Commonwealth of Virginia. The County will be represented on the Board of Trustees for the pooled trust and will actively participate in decision-making to prudently invest accumulated resources for OPEB. (The Virginia Pooled OPEB Trust Fund would be used for investment purposes only; funds accumulated for OPEB would still be accounted for in Fund 603.)