

## Response to Questions on the FY 2012 Budget

**Request By:** Supervisor Foust

**Question:** For the OPEB Trust Fund (Fund 603), in FY 2011 actual revenues (through May 2011) were \$3.1 million (20.4%) over the FY 2011 estimate. FY 2011 actual expenditures were \$10.9 million (61.8%) less than the *FY 2011 Revised Budget Plan*. What explains the differences between the actual and budgeted figures? What was the total employer contribution to the trust fund in FY 2010 and FY 2011 and budgeted for FY 2012?

**Response:** Differences between actual and budgeted figures in Fund 603, OPEB (Other Post-Employment Benefits) Trust Fund, for both FY 2011 revenues and expenditures are primarily due to the timing of the calculation of the County's implicit subsidy. As premiums for the County's self-insured health plans are set using the blended experience of active employees and retirees, retiree premiums are lower than if they were set solely using the experience of the retiree group. Governmental Accounting Standards Board (GASB) Statement No. 45 requires that the County treat the difference between the retiree premium and the blended premium as an implicit subsidy. The implicit subsidy is calculated after the close of each fiscal year as part of the actuarial valuation of the fund and will be shown as offsetting revenue and expenditure audit adjustments for FY 2011 in the FY 2013 Advertised Budget Plan and in the *FY 2012 Third Quarter Review*.

FY 2011 actual expenditures in Fund 603, OPEB Trust Fund, decreased \$10.9 million from the *FY 2011 Revised Budget Plan*. However, once the implicit subsidy expense is calculated and included in the fund statement, actual expenditures will align more closely with budgeted expenditures. Excluding the budgeted \$10,858,000 for the implicit subsidy, actual expenditures decreased \$75,338, or 1.1 percent, from the *FY 2011 Revised Budget Plan* due to savings in benefits paid and administrative expenses.

FY 2011 actual revenues increased \$3.1 million over the *FY 2011 Revised Budget Plan*. Excluding the budgeted \$10,858,000 for the implicit subsidy, FY 2011 actual revenues were \$13.9 million higher than the estimate, primarily due to higher than anticipated returns in the County's portfolio in the Virginia Pooled OPEB Trust.

Actual employer contributions to the OPEB Trust Fund in FY 2010 totaled \$9,900,000, which was provided through a transfer from the General Fund. For FY 2011, actual employer contributions included a General Fund transfer of \$13,900,000 as well as \$2,882,138 in contributions from other funds, for a total contribution of \$16,782,138. The FY 2012 Adopted Budget Plan includes a General Fund transfer of \$20,000,000 as well as \$3,959,562 in contributions from other funds, for a total contribution of \$23,959,562.

Employer contributions for OPEB are based on the County's Annual Required Contribution (ARC) as calculated as part of an annual actuarial valuation. The ARC can be satisfied each year through a combination of the contribution credited for the implicit subsidy, employer contributions from the General Fund and other funds, and the carryover of any net OPEB asset from the prior year. A net OPEB asset exists when the County funds OPEB contributions beyond ARC requirements; conversely, if the ARC is

not adequately funded, a net OPEB obligation may be shown on the County's financial statements. It is the County's policy to maintain a net OPEB asset, which demonstrates that the County has met its obligations to adequately fund the ARC each year. To prepare for the implementation of GASB 45 in FY 2008, a reserve was created as part of the *FY 2005 Carryover Review* and increased over the next several years to establish an initial net OPEB asset. This initial asset allowed the County to meet required funding obligations to the trust fund while gradually building recurring employer contributions into the baseline. In FY 2011, it is anticipated that a substantial portion of the remaining net OPEB asset will be utilized to meet ARC requirements. (The final FY 2011 net OPEB asset cannot be determined until the implicit subsidy calculation is completed in fall 2011.) In recognition of the impending depletion of the County's net OPEB asset, the General Fund transfer to Fund 603 was increased in both FY 2011 and FY 2012, and other funds contributions were required beginning in FY 2011, in order to meet ARC funding obligations.