

# Peralta Community College District

Office of Finance and Administration

## SUMMARY OF OPEB FUNDING PLAN

The District has developed a long term plan to fund its Other Post-Employment Benefits (OPEB) liabilities, including its associated debt service. With conservative fiscal assumptions, PCCD has modeled precise cash flow projections through 2025, and general projections through 2050, the final maturity date of the program. All district funds impacted by the OPEB program—Funds 1, 69 and 94— have the capacity to support the plan as presented.

### Long Term Plan

Since August 2015, the Vice Chancellor for Finance and Administration, the District's municipal finance advisors and PCCD counsel have focused on OPEB program management, cash flow modelling, and funding options to reduce existing and future debt service over the long view. In Fall 2015, the District received two legal opinions that impacted OPEB planning:

1. Bond Counsel opined that the extant OPEB Trust, Fund 94, cannot be converted into an irrevocable trust.
2. OPEB Counsel opined that the District's intent with respect to the extant OPEB Trust was to service its *pre-2004* hires/retirees only.

After receiving opinion #2, the District commissioned its actuary to (re-)calculate the OPEB liability associated with each of the two groups, *pre-(July 1)2004* hires and *post-(July 1)2004* hires. Subsequently, the revised liability as of November 2014 for *pre-2004* retirees was actuarially determined to be \$150,325,680, down from \$152,429,020. OPEB liability for *post-2004* retirees as on November 2014 was actuarially determined to be \$4,166,272. The District will commission its next actuary study in November 2016 as required by GASB 43/45.

Predicated on the two recent legal opinions the following objectives have been identified for a Long Term OPEB action plan:

1. Develop a ten-year cash flow analysis, across all District funds, with respect to servicing OPEB bond debt and meeting obligations to District *pre-2004* hires
2. Create an Irrevocable Trust in order to mitigate OPEB liability on District's financial statements and to service the District's *post-2004* hires

3. Commit 6% of general fund revenues – specifically, of the State Apportionment Computational Revenues-- to OPEB bond debt service and the establishment and sustenance of an Irrevocable Trust
4. Strategically re-fund OPEB bonds and/or SWAPS as required, e.g. – subsequent tranches
5. Reduce the District’s overall OPEB liability
6. Update the District’s Substantive Plan as required on an ongoing basis

### Cash Flow Planning

In Fall 2015 current and future OPEB cash flows were modeled, reviewed, and refined under the direction of the Vice Chancellor of Finance and Administration who provided more precise fiscal and programmatic assumptions.

The model was developed to provide a working cash flow of all OPEB-related revenues and expenditures including interest rate assumptions and future expenses. Working with the District’s external finance team, revenues and expenditures are updated quarterly, based on actual costs and/or returns, and compared against estimates. The model also enables the District to monitor and reduce program expenses when possible.

The model’s variables include (see attached):

- Precise revenue and expense projections through 2025 including swap offsets
- Six percent(6%) [approx.] of the District’s Computational Revenue received from the state annually dedicated to OPEB service
- OPEB charge calibrated to meet required annual coverage
- Interest rates and structure to determine refunding of future series
- Integration of eligible trust funding for future debt service
- Financial options to establish an irrevocable trust to service *post-2004* hires

The cash flow model is predicated on the fact that any surplus funds in the OPEB Trust, i.e.- assets over and above the actuarial liability created by the pre-2004 retirees, can be utilized to diminish debt service, i.e.- principal, on the OPEB bonds. This use is provided for in the foundational documents of the OPEB bonds. The model also includes the continuation of the OPEB charge against payroll expenditures as well as the establishment of a new, irrevocable trust. This model gives the District the financial flexibility to develop realistic future scenarios and accurately monitor current cash flows as necessary for debt service management going forward.

- April 29, 2016