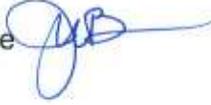


Memorandum

TO: OPEB Trust Retirement Board
Peralta Community College District

FROM: Judith W. Boyette 
Liz Masson

DATE: April 6, 2016

RE: **Retiree Coverage Under Current OPEB Trust**

As you know, we have undertaken a review of the documents associated with the formation and continued operation of the OPEB Trust that was established under the Indenture of Trust between the Peralta Community College District (the "District") and Deutsche Bank National Trust Company, dated December 1, 2005 ("Indenture of Trust"). At that time, \$150M in bond proceeds was deposited in the "Retiree Health Benefit Program Fund" established under the Indenture of Trust, to be held in trust and used to pay or reimburse the District for "Retiree Health Benefit Costs." Currently the funds are held under a trust agreement entered into with Neuberger Berman entitled the Discretionary Trust Agreement (the "Trust Agreement").

Based on our review and analysis of documents provided to us by the District relating to the establishment and operation of the OPEB Trust, and historical information regarding District-paid retiree health benefits in general, it is our opinion that it would be reasonable for the District to take the position in its financial reporting that the scope of the OPEB Trust was intended at formation to cover the District's liabilities only for health benefits for qualified retirees who were hired as employees prior to July 1, 2004 ("pre-2004 hires"), and not for employees hired after July 1, 2004 ("post-2004 hires"). Given that the District has indicated to us that it intends to take this position, the Retirement Board should consider adopting an amendment to the Trust Agreement to clarify the scope of coverage under the OPEB Trust.

We made our determination regarding the reasonableness of taking the position that the OPEB Trust was originally intended to cover only pre-2004 hires based on a review of substantial information provided to us by the District. Historically, the scope and duration of District-paid health benefits provided to retired employees who meet the eligibility requirements under the District's retiree health program have been provided for in successive collective bargaining agreements between the District and each union representing District employees, dating back to the 1980's. An actuarial study performed in 2003 estimated the District's accrued liabilities for retiree coverage of the scope and duration at that time to be approximately \$140M and projected the annual cost to the District of providing retiree benefits to be between \$4M and \$11M for each year through 2035. The District and unions agreed to change the scope and duration of retiree health benefits for post-2004 hires, while maintaining the prior level of benefits for pre-2004 hires. The timing of the formation of the OPEB Trust coincides with the District-wide changes in retiree health benefits for post-2004 hires. It appears that the projected cost for meeting the District's obligation to provide health benefits to pre-2004 hires was a driving force behind the decision to form the OPEB Trust, and to issue the bonds in the amount that funded the OPEB Trust, which were based on an actuarial study reflecting liabilities for the

pre-2004 hires. Documents related to the OPEB Trust's formation, action taken by the District's Board at the time of the implementation of the OPEB Trust, and the related bond issuance, which we reviewed in our analysis of the scope of the coverage likely intended for the OPEB Trust, are consistent with the District's taking the position that the OPEB Trust funds were intended to address only the pre-2004 hires' retiree health liabilities.

Therefore, we believe that the Retirement Board should consider, as part of the amendments currently being considered to better define the Retirement Board's fiduciary duties, making an amendment to clarify that the OPEB Trust funds are intended to be used to address the liabilities related to retiree health obligations for pre-2004 hires. As we have discussed in prior Retirement Board meetings, amendments to the OPEB Trust regarding the intended retiree population to be covered by the Trust funds would modify only the funding mechanism for certain retiree health benefits and would not in any manner affect the underlying obligations the District has for providing retiree health benefits for either pre-2004 or post-2004 hires.

Please let us know if you have any questions regarding these matters.

JWB:EJM