



- Board of Directors
Finance and Insurance Committee

4/9/2013 Board Meeting

8-2

Subject

Approve execution of the agreement with the California Employers' Retiree Benefit Trust Program for administration and investment of pre-funding for Other Post Employment Benefits

Executive Summary

Staff is requesting board approval to contract with the California Employers' Retiree Benefit Trust (CERBT) to administer and invest monies contributed by Metropolitan to pre-fund Other Post Employment Benefits for employees and retirees.

Details

Background

Metropolitan has always paid for its Other Post Employment Benefits (OPEB) costs, which represent medical premium costs for retirees of Metropolitan, on a pay-as-you-go basis, which was a common practice among many public agencies. However, pay-as-you-go funding defers the recognition of these costs until the employee retires instead of recognizing the cost of OPEB as the benefit is earned while the employee is working for Metropolitan. A better fiscal practice would be to recognize the cost of OPEB over the active service life of the employee, which would require annual contribution of the entire Annual Required Contribution (ARC) for OPEB costs. The ARC is defined as the normal cost or the present value of future benefits being earned by current employees, plus the amortization of the unfunded liability that represents benefits earned by current and retired employees not yet funded. The ARC is determined by Metropolitan's outside actuary, Bartel Associates, LLC.

Metropolitan's liability for OPEB is approximately \$545 million based upon the most recent actuarial valuation. The current biennial budget provides for pre-funding OPEB payments of \$5 million in FY 2012/13 and \$10 million in FY 2013/14, and projects increasing the contribution annually by \$5 million in future biennial budgets until the amounts are equal to the ARC. Gradually building up to the ARC and maintaining funding at this level will result in a lower unfunded liability in the future.

Establishing an Irrevocable Section 115 Trust

An irrevocable Section 115 Trust is a government sponsored and controlled trust that provides a tax-exempt base for funding retiree health benefits. Advantages of the trust include more predictable costs, tax exemption for interest earnings, and a higher discount rate in the calculation of the actuarial determined OPEB liability. The sole purpose of the trust will be to fund retiree health benefits.

Metropolitan has evaluated the options of establishing an irrevocable Section 115 Trust by hiring an administrator and investment manager(s), or utilizing an already established external Section 115 Trust, such as the California Employers' Retiree Benefit Trust (CERBT) managed by CalPERS. Staff has concluded that the time and costs associated with Metropolitan establishing its own independent Section 115 Trust would be more costly than utilizing the existing CERBT.

The CERBT is a Section 115 Trust that is available to local agencies within the state of California. Approximately 345 municipal agencies, including six of Metropolitan’s member agencies and the Association of California Water Agencies participate in the CERBT. In addition, the CERBT pools contributions and investments from its local agency members that will provide a significant advantage to participants by providing more stable cash flows which facilitate the management of and may increase earnings by the investment portfolio.

Should the Board approve contracting with CERBT, Metropolitan will contribute \$5 million and \$10 million during FY 2012/13 and 2013/14, respectively. Funding for these contributions have been included in the current biennial budget.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed actions are not defined as a project under CEQA because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and approve contracting with CERBT to administer and invest Metropolitan’s pre-funding of OPEB Benefits.

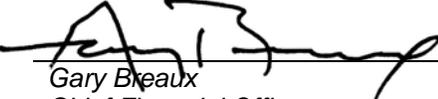
Fiscal Impact: Helps to reduce liability for Other Post Employment Benefits by approximately \$15 million for the current biennial budget. The liability will be reduced further in future years if the Board approves continued funding of these payments and increases the amounts over time up to the ARC.

Option #2

Direct staff to pursue other options for the administration and investment of amounts contributed to pre-funding the OPEB liability.

Staff Recommendation

Option #1

 _____ Gary Breaux Chief Financial Officer	3/27/2013 Date
 _____ Jeffrey Kightlinger General Manager	3/27/2013 Date