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Memorandum

TO: Administration Committee — DATE: February 6, 2008

FR: Executive Director — W.I.: 1161

RE: MTC Resolution No. 3846 – Other Post Employment Benefits (OPEB) Program

Recommendation:

Approve the referral of Resolution No. 3846 to the Commission to authorize the transfer of $10,300,000 from the benefits reserve to the Public Employee Retirement System (PERS) to fund the agency's accrued Other Post Employment Benefits (OPEB) liability.

Discussion:

As with most agencies MTC is committed to funding benefits that continue after an employee retires. Because these retiree payments continue after an active employee retires, they are called "post employment benefits". These benefits, unlike retirements/pension payments that are fully funded when an employee retires, require the employer to cover expenses both for the retired employee and the new employee replacing the retiree.

The primary post-employment benefits are medical premiums. Prior to a change of accounting requirements, most agencies accounted for these post employment benefits on a pay-as-you-go basis. That is, the annual expense was recorded but there was no requirement to evaluate the overall actuarial liability of the future payments. Now, new accounting standards (established in GASB 45) require an agency to evaluate the accrued actuarial liability and record any funded annual liability in order to meet Generally Accepted Accounting Principles (GAAP) standards.

GAAP establishes specific requirements regarding OPEB liabilities. These requirements include:

- Trust Account – MTC has opened an OPEB trust to be administered by the Public Employees Retirement System (PERS).
- Actuarial Study – Completed in July 2007, establishing the annual liability at $1.3 million with an overall actuarial agency liability of $10.3 million.

MTC Resolution No. 3822, approved by the Commission in September 2007, authorized participation in the new PERS/OPEB trust. The PERS trust meets all of the GAAP requirements for independent/irrevocable trust. The initial $1.8 million FY2006-07 trust OPEB expense was transferred to PERS in October 2007.

Our recommended plan now is to fund the entire outstanding OPEB liability by transferring the balance accrued liability to PERS. The accrued OPEB liability breaks down as follows:

MTC	$ 9.4 million
SAFE	.3 million
BATA	.6 million
Total	$10.3 million

Between the 2008 budget and the existing benefit reserve, all three agencies have the resources to satisfy the OPEB obligation. Full funding is achieved by crediting the $1.8 million previously paid to PERS for the FY2006-07 expense and transferring another $1.8 million budgeted for the FY2007-08 year. The $6.7 million balance is in an MTC reserve account restricted for future benefit use. The OPEB funding will have no impact on the agency's undesignated reserve balance of $8.5 million. Once the funds are transferred, PERS will be responsible for benefit payments for the foreseeable future.

There are a number of benefits associated with the PERS program. The benefits include:

- Third party administration by PERS, which would also administer the medical and pension programs.

- Budget certainty – there will be no future demands on MTC budgets as post-employment benefits increase.

- Increased value on the funds placed in trust based on the purchasing power of the PERS system.

Although the overall value of expense controls and professional administration of future benefits will be hard to quantify, by satisfying this OPEB obligation fully and currently. MTC's demonstrated financial stability will not be lost on the agencies that rate debt issued by MTC's sister agencies, BATA and BAIFA.

We recommend that the Committee approve Resolution No. 3846 authorizing the transfer of funds up to the designated OPEB liability of $10.3 million.

/Steve Heminger/
Steve Heminger

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