SUBJECT: Five-Year Funding Schedule for County Agencies’ Annual Required Contribution for Other Post Employment Benefits (OPEB)

Background

1. The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to Other Post Employment Benefits (OPEB).

2. County agencies (the County Government, Montgomery County Public Schools, Montgomery College, the Washington Suburban Sanitary Commission [WSSC], and the Maryland-National Capital Park and Planning Commission [M-NCPPC]) are required to disclose their OPEB liabilities in their financial statements, starting with the fiscal year beginning July 1, 2007 (FY 2008).

3. In November 2006 the County obtained actuarial valuation information addressing the extent of the County’s liability to its retirees for Other Post Employment Benefits as of July 1, 2006. Other County agencies have also obtained, or are in the process of obtaining, similar actuarial valuations. The OPEB reports are subject to a number of actuarial and economic assumptions; these assumptions were generally similar to the assumptions used in evaluating the County agencies’ pension fund liabilities.

4. Based on the assumptions and qualifications stated therein, the OPEB reports concluded that, assuming full prefunding, the FY 2008 annual required contribution (ARC) for the County, its tax supported agencies, and the Montgomery County portion of the M-NCPPC is $240.0 million, and the related actuarial accrued liability (AAL) is $2.6 billion. The most recent ARC for WSSC is $19.1 million, and the related AAL is $200 million.

5. The County has determined that a five-year phase in of the difference between the current pay-as-you-go amount and the ARC would be a responsible approach to pre-funding, and believes that such an approach is acceptable to the rating agencies, which will be evaluating the County’s response to the GASB disclosure requirements and its approach to any obligations to current and future retirees for post-employment health and other non-pension benefits.

6. Should the County establish a separate OPEB trust, and should the County adopt a written policy of its intent to phase-in full funding of the difference between the pay-as-you-go contributions and the ARC on an amortized even basis over a five-year period, it would be appropriate for the County agencies to use, in their actuarial valuations, a discount rate higher than their operating investment rate for accounting and budgeting purposes. Absent such a policy, County agencies would be required to record OPEB liabilities in their financial statement of almost twice as much as liabilities required with such a policy.
Action

The County Council for Montgomery County, Maryland approves the following resolution:

1. The Council is committed to the responsible fiscal management of the County agencies’ Other Post Employment Benefit obligations and acknowledges that County agencies intend to establish one or more Trusts, on or before July 1, 2007 if possible, for such purposes.

2. It is the Council’s policy intent to fund the difference between the OPEB pay-as-you-go contributions and the annual required contribution, for the tax supported agencies, on an amortized even basis over a five-year period beginning with Fiscal Year 2008.

3. For WSSC and M-NCPSC, it is the Council’s policy intent to support WSSC’s and M-NCPSC’s plans to implement a five-year phase in of the difference between the OPEB pay-as-you-go contributions and the ARC beginning with Fiscal Year 2008, in coordination with the Prince George’s County Council.

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council