



Minutes from the GASB 45 Citizens Taskforce May 14, 2008

The second meeting of the GASB 45 Citizens Taskforce was convened May 14, 2008 at 6:10pm.

Attendance:

Members of the Task Force: Jerry Marinich (Legislature), Vince Pasquale (Binghamton University), Donna Ryder (Community Member), Mark Whalen (Legislature), Alan Hertel (NYSEG) John Fitzsimmons (Mang Insurance).

Internal Members of Task Force: Michael Klein (Personnel Dept.), Aaron Marcus (Law Dept.), Eric Denk (Legislature), Mike Hanbury (Legislature), Jerome Knebel (Finance Dept.), Bob Murphy (Risk & Insurance), Jennifer Royer (Legislature) John Elliott (Personnel), Alex McLaughlin (Broome County Comptroller – Audit & Control) Nathaalie Maxwell (Budget Director).

Press & Media: Nancy Dooling (Press & Sun Bulletin).

Legislators: Timothy Cleary (2nd District Legislator).

Others Present: Gary Leighton (Town of Union), Cindy Kennerup (Deputy Treasurer – Johnson City), Jennifer Kakusian (Johnson City Clerk/Treasurer), Grant Newton (BCC), Bob Moppert (BCC Trustees Chair)

Opening:

Chairman Whalen - The reason for these meetings began with the Governmental Accounting Standards Board new rule 45, which requires all governments and municipalities who participate in bonding, to account for the cost of post-employment benefits which they provide. The purpose of this taskforce is to look at GASB Statement 45, review Broome County's Health Insurance program, analyze our accumulated unfunded liability for retiree health insurance, and find potential solutions that are fair to

retirees, reduces the \$340 million unfunded liability, and identify funding streams and strategies. The current practice among most governments is to fund OPEB on a pay-as-you-go basis. In this process, OPEB is not reflected in a government's financial statement until those benefits are paid. Broome County has the biggest budget in this community, so we are tackling this issue first in order to provide guidance and education to the other municipalities and school districts that will also be facing this issue. There is no looking to assign blame. This is how it has been budgeted for years, but now the implications have changed. The cost of healthcare has risen and so has life expectancy. This creates a very large future cost that grows by about \$18 million a year, and must be paid with future tax increases.

Chairman Whalen - Chris Marion and Mike Hanbury put all of this research together to learn the ins and outs of GASB Statement No. 45. We will also be looking at case studies to see what other counties and states are doing. We will then craft a comprehensive plan that can hopefully be used over the next 30-40 years.

Assembly Bill A. 9393-A & Senate Bill S. 6457-A “...Establishes a task force on retiree health insurance protection.”

Chairman Whalen – I was caught off guard this weekend with reports of Assemblywoman Lupardo's cosponsored bill. It would prevent us from doing anything for the next year in reference to retirees and will not help us address the unfunded liability.

Chairman Whalen - The issue with this unfunded liability is that it will be used as a strong indicator of how much we will have to raise taxes down the road to pay for retiree health insurance. Companies who may be locating here will be able to look at these numbers on the financial sheet/annual report and see our aggregated liability. They will be able to look at the County's, the Municipality's, and the school district's numbers and will add it up to determine how much taxes will rise in the next 30 years. This will be used to site new facilities. If our numbers are high, companies and jobs will go elsewhere and so will our educated and productive young adults. We don't want to have the highest liability, so it is important that we deal with this and find a resolution.

Aaron Marcus was asked about the bill/moratorium and whether it covered people not covered by a CBA. It was stated that it was similar to what was done 14 years ago with School Districts that kept them from changing benefits and that bill has been re-passed every year since.

Jennifer Kakusian - asked about their decision to change the over-65 retiree prescription co-pay and whether that will be affected by this bill. The New York State bill will be retroactive to May 1 and prescription coverage is generally lumped in with medical benefits.

Nathaalie Maxwell and Mike Hanbury – Believe that Johnson City will not be allowed to make changes to its prescription drug plan if the proposed state legislation is enacted.

Jerry Marinich- The main concern is the justification. People aren't going to abuse the right to change benefits and take away everything. And interesting section of this bill is Section 3 which states that a taskforce will be made to report in June of 2009.

Chairman Whalen - My objection to this bill comes mainly from the fact that through this bill the state is essentially saying municipalities are not competent or objective enough to resolve this issue on our own. Therefore Albany is going to tell us how to do it.

Vince Pasquale - Pointed out that the proposed NYS Legislation states that retiree's health benefits can not be changed if active employee's health benefits are not changed.

Nathaalie Maxwell – The proposed NYS Legislation will let us make changes with active employees up to retirees. It just prevents the change to start at retirees and ripple to active employees.

Chairman Whalen -I have written a resolution that will be voted on at the May 15 meeting of the Broome County Legislature that states our opposition to the bill. Another problem with the bill is that no one from local governments is going to be appointed to this statewide taskforce. Instead, membership on this taskforce is heavily weighted towards the public employee unions.

Jerry Marinich - Asked whether people who have been in CBA will be paying the same amount after they retire that they paid while they were in their last year of service (the amount their bargaining unit was paying under that retirees final contract).

Nathaalie Maxwell - That is only an issue as of 2007. Pre-2007 is different.

It was pointed out that it's a different world in the private sector. There is an extreme rise in the cost of health benefits when he becomes a retiree. Bills like this keep people from finding solutions. Retirees need to be protected, but the more options on the table the better the solution that can be created.

Chairman Whalen - We need to educate ourselves. We need to find a solution or we'll have a huge unfunded liability. Businesses won't stay. It's important that we who are entrusted to make decisions and pay the bills, need to find a solution. The State doesn't have to pay our bills. It will be hashed out at the legislative meeting tomorrow. He encouraged everyone who was present at the GASB 45 Taskforce to contact their assemblyperson, senator and the governor in opposition to the proposed NYS Legislation.

Chairman Whalen - The bill passed unanimously in the Senate and was then pulled back for amendments. It looks like it will be passed overwhelmingly in the Assembly. The Governor isn't showing his hand on the issue yet.

Nathaalie Maxwell - An issue with TIAA-CREF model for BCC. The employee contribution was 3% but now that is getting phased out (2%, 1% and then none) The

State was supposed to provide funding, but haven't. The State schools were able to opt out of this plan, but not Community Colleges. There is a problem with these unfunded mandates; they are dangerous and that is why we need to be against them.

Vince Pasquale - There is also the potential of tuition diversion to the State for a fund. That will be an interesting legal issue.

Donna Ryder - Taxes are going up and we're suffering and losing our benefits.

Someone asked how the bill could be passed overwhelmingly when it seems obviously illogical?

Chairman Whalen - stated that it's most likely because it is an election year and they like to see what goodies they can hand out. It's a perfect example of how politics and the prime directive (to get re-elected) overwhelm logic and fiscal rectitude.

Chairman Whalen - right now if we were meeting the full Annual Required Contribution by setting aside 23 million dollars a year – there would have to be a 34% tax increase to fund the \$18 million unfunded Actuarial Accrued Liability. That abstracts from the increase by municipalities and school districts. I don't think anyone is ready for that big of an increase.

The meeting then turned back to Johnson City's question about retiree prescription co-pays.

Nathaalie Maxwell - stated that there is not often a distinction between major medical and prescription coverage. Her personal opinion is that Johnson City can not make this change if the bill is passed.

Video Introduction

Mike Hanbury Introduced the next video which will explain the bond rating perspective.

The two main issues with the bond rating and OPEB liabilities are:

1. If the bond rating score goes down, interest rates on projects go up.
2. Companies look at the bond rating score also, so that could also keep businesses from building facilities in the Broome County area.

After the video, there was a break.

Chairman Whalen - The current unfunded liability is a soft liability. It can jump \$5-10 million in a year overall without changes to a plan.

\$209,246,836 is the Actuarial Accrued Liability (AAL) Total cost of Post-Employment Benefits for employees who have already retired. Additional obligation attributed to future services is \$130,005,618. Additional obligation for future service is the projected

cost for current Broome County employees when they eventually retire. The Net Present Value is \$339,252,454, which is the total of the AAL and the additional obligation for future service.

\$23,559,590 is the Annual Required Contribution (ARC) which was calculated by adding the active employee's annual cost towards OPEB \$10,758,907 and the cost of OPEB for retired employees in a given year \$12,800,687, otherwise known as the Unfunded Actuarial Accrued Liability. The Net OPEB Obligation is \$17,893,683 which was calculated by subtracting the expected employer contribution \$5,667,907 from the ARC \$23,559,590.

If nothing is done the total of \$339 million (present value to total OPEB liability) grows by \$17.9 million plus interest.

Potential Options

Chairman Whalen - The State Comptroller is pushing legislation to allow bonds to be put in an irrevocable trust. That could save us a fair amount of money. We need to look at dedicated funding streams. Any money from natural gas found on county land could be dedicated to this fund. This would have the additional benefit of keeping politicians from masking the cost of providing services with that windfall money.

Chairman Whalen - We could also change structure of how we fund benefits for people who haven't come to work yet. We could move from a defined benefit plan, to a defined contribution pan, but we are not sure if the state allows that.

Mike Hanbury - It is unclear whether an OPEB trust is legal. Until the State says so – it can be considered something we can not do. There is an outline of the current breakdown of OPEB legislation – NYSAC is working on it to make sure it's something counties and municipalities will find viable.

The legislation that the State Comptroller is working on is moving slowly. It does not have a sponsor yet.

A member noted that they are nervous that Broome County will do something that will be rendered moot after a State decision.

Vince Pasquale - Nothing would keep local governments from creating a trust fund. State allows us to do that.

Mike Hanbury - Most trust funds do not meet the requirements of GASB Statement No. 45 because they are revocable.

Vince Pasquale - You could fundamentally do this with out the State allowing it. Any envelope could work.

Alex McLaughlin - We can't make a trust that follows GASB Statement No. 45 requirements with current existing tools.

Donna Ryder- Asked whether there was a law disallowing a certain amount of government surplus?

Alex McLaughlin - There used to be but not anymore.

Donna Ryder- We just need a vehicle/container to put the money in.

Alex McLaughlin - NYC is making a dedicated fund to put the money in, in the spirit of meeting GASB Statement No. 45 recommendations.

Mike Hanbury - There is no present requirement that we have to fund this liability at all. The problem is with the bond agencies. Rating agencies will now begin to focus on how governments manage their OPEB liability.

Chairman Whalen - I have spoken with the Comptroller to let him know how important this is. He hopes that the Assembly and Senate will pick it up and run with it.

Someone asked about negative bond ratings for creating a trust that is not in compliance with GASB Statement No. 45.

Mike Hanbury - We can create a temporary trust until the State passes OPEB Trust Legislation.

Eric Denk – Another idea is a vehicle to the state's Employee Retirement System model. In this scenario, not only could employers contribute during the time services are rendered but employees can also contribute to their own post employment benefits while they are working.

Chairman Whalen - We are currently limited in investment options due to our local government status.

They then handed out the NY Post editorial which talks about the current legislation that precludes local governments from doing anything with current retiree's benefits.

Chairman Whalen - I am preparing a guest viewpoint for the Press & Sun on this issue to discuss it. He again stated that anyone who can, write to the Senate and Assembly members about their concerns. We don't know if we will be considered but if we do not try, then we won't be.

Mike Hanbury - There was some parts of today's agenda that this meeting did not get to cover. The Chautauqua County Case Study is interesting because they have fully funded their ARC and have taken steps to deal with this issue.

Mike Hanbury - We will also be asking our actuaries where we stack up in comparison with other counties.

The next meeting will be on May 28 at the County Public Library in the Exhibit Room at 6pm. The actuary consultants from Harbridge will be in attendance to give a summary of how they calculated Broome County's OPEB liability.

The meeting was adjourned at 7:55 pm.