

Proposed OPEB Annual Contribution Policy-Update



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OPEB Recap from 11/14/22 Work Session

- County provides OPEB to qualified employees hired prior to 7/1/11
- County funds current year retiree healthcare expenses through General Fund Revenues
- Currently no reoccurring mechanism in place to fund the future liabilities associated with this long-term benefit
- Proposed a recurring funding policy with 3 separate components (legs)

OPEB Liability

- OPEB remains a significant long-term liability of County
 - **\$582 million** was County's OPEB liability to end FY22
 - Liability was \$416M in FY20, 40% increase
- County's long-term OPEB liability calculation is comprised of:
 - Current retirees (retirees)
 - Current eligible employees (actives)
- OPEB Trust Fund offsets liability, important for AAA rating

OPEB Liability: Peer Comparison as of FY22

<i>(\$ in Millions)</i>	<u>OPEB Liability</u>	<u>On Deposit in OPEB Trust Fund</u>	<u>Net OPEB Liability</u>
Wake County	\$582	\$0	\$582
Mecklenburg County	\$640	\$194	\$446
Charlotte	\$463	\$131	\$332
Guilford County	\$254	\$17	\$237
Greensboro	\$149	\$30	\$119
Winston-Salem	\$68	\$67	\$1

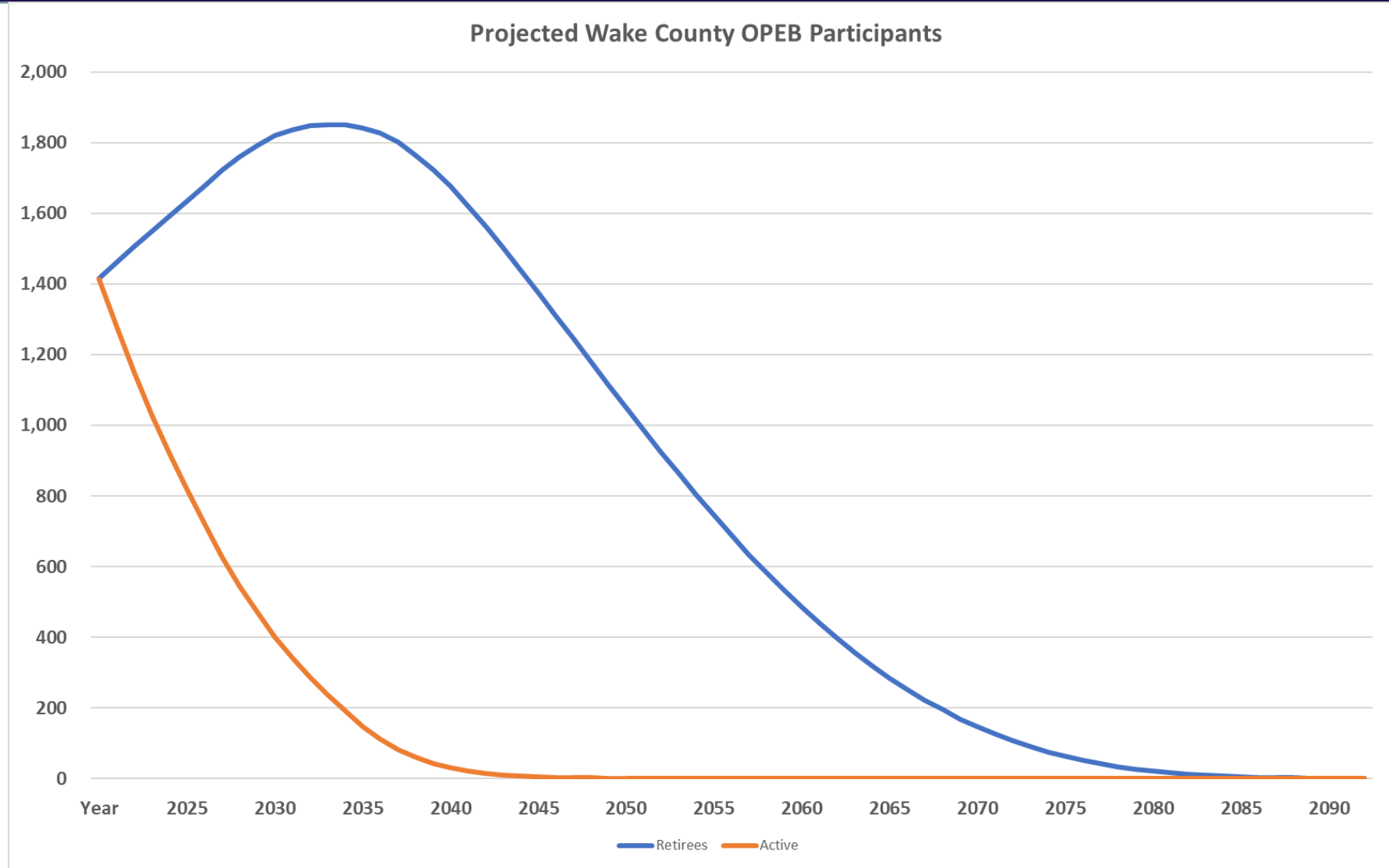
- Wake County ranked highest in Net OPEB Liability

Steps to Address OPEB Liability

- ***FY22** - Board approved \$10M to establish an OPEB Trust Fund
- ***FY23** - OPEB Trust Fund final authorization and initial funding
- **FY23-FY25** - Establish funding policy and begin recurring deposits



Wake County OPEB Participants



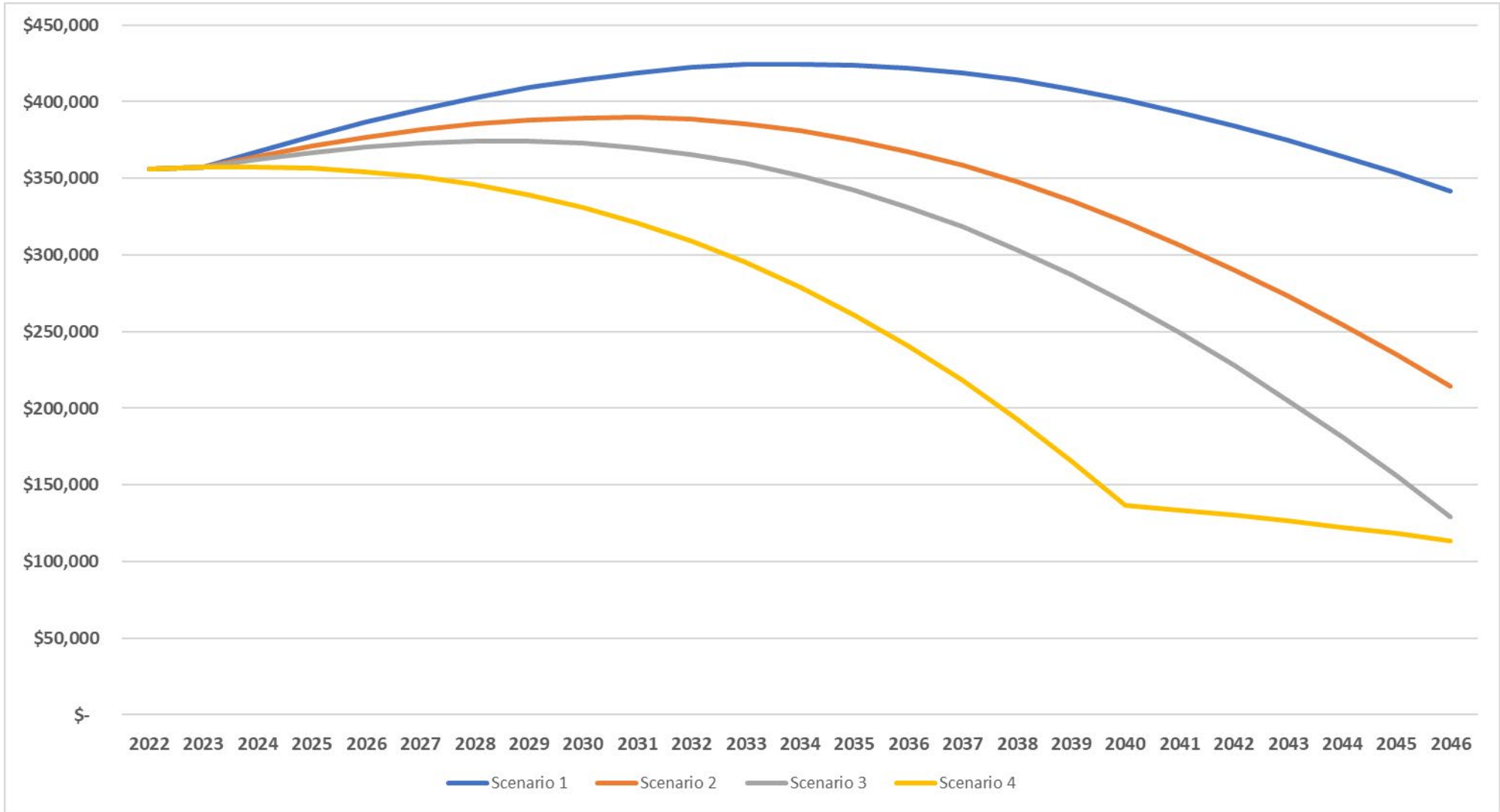
Power of Investing in an OPEB Trust

Scenario Number	Interest Rate	Annual Contribution to OPEB Trust	Year Claims begin payment from Trust	Last year of Annual Contribution to OPEB Trust	Total Projected Contributions (Trust + PayGo)
1	5%	\$0	2068	N/A	\$1,059,748,000
2	5%	\$3,000,000	2053	2064	\$864,662,000
3	5%	\$5,000,000	2048	2064	\$812,688,000
4	5%	\$10,000,000	2040	2059	\$744,310,000

*Per Actuarial Report completed in December 2022

*Includes initial \$10M deposit

Net OPEB Liability



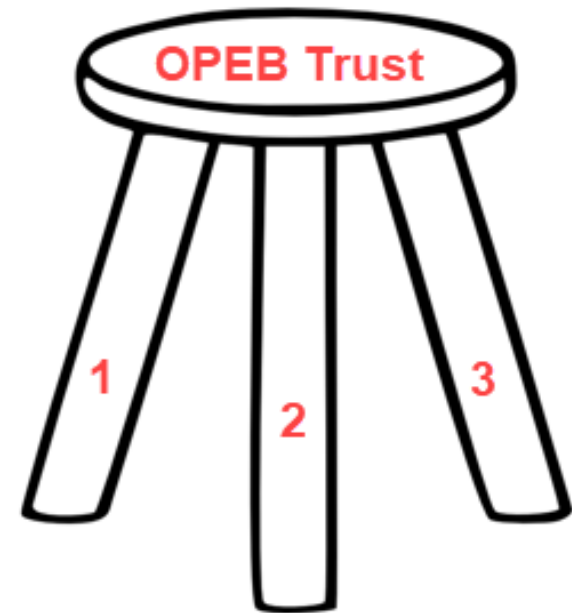
*Per Actuarial Report completed in December 2022

Power of Investing in an OPEB Trust, cont.

Scenario Number	Annual Contribution to OPEB Trust	Peak Year for Trust Value	Value of OPEB Trust \$
1	\$0	2068	\$92.8M
2	\$3,000,000	2053	\$249.0M
3	\$5,000,000	2048	\$279.6M
4	\$10,000,000	2040	\$288.5M

Proposed Policy for OPEB Annual Contribution-Update

- Proposed OPEB Policy is comprised of 3 separate funding components or “legs”
- Each leg acts independent of other legs:
 - Leg 1 - CONTINUAL funding which occurs annually through County budget process
 - Leg 2 - CONDITIONAL funding based on certain measured positive annual financial performance of County
 - Leg 3 - CONDITIONAL funding based on certain County debt refunding issuance



Proposed Policy: Leg 1 – Continual Annual Funding

The County, through the annual budget adoption, will deposit a fixed amount of \$3M to the OPEB Trust Fund.

- Recurring: Line item in annual budget
- Timing: Effective with the FY25 budget, can be deposited after 7/1 of each new fiscal year
- OPEB Trust Deposit Amount: Fixed \$3,000,000 per policy

Proposed Policy: Leg 2 – Conditional Annual Funding

When County's *Net Total Uncommitted Add to Fund Balance* in prior completed Fiscal Year exceeds \$5 million, County will deposit to its OPEB Trust Fund an amount equal to 25% of same *Net Total Uncommitted Add to Fund Balance* (\$10 million maximum deposit)

Net Total Uncommitted Add to Fund Balance is defined as Fund Balance after:

1. Any Committed Fund Balances have been removed (i.e., ABC net revenues; Behavioral Health net revenues; etc.)
2. All Financial Policy metrics of County have been confirmed at desired levels to protect County's triple-A ratings
3. Capital Project totals in current adopted 7-yr CIP have been adjusted as needed for any significant real change in market condition

Proposed Policy: Leg 2 (cont.)

- Timing of BOC Action: To be authorized no earlier than presentation of the prior Fiscal Year's ACFR, and no later than Wrap-Up Ordinance of that year, **effective in current Fiscal Year (FY23)**
- Example: If *Net Total Uncommitted Add to Fund Balance* in FY22 is calculated at \$20 million (thus exceeding the \$5 million minimum threshold), then County will deposit \$5 million (or 25% of \$20 million) to its OPEB Trust Fund in FY23
- OPEB Trust Deposit Amount: The OPEB Trust Fund deposit can range from minimum of \$1.25 million (if \$5 million minimum performance is met) to maximum of \$10 million (flat cap of the policy)

Proposed Policy: Leg 3 – Conditional Periodic Funding

When County Refinances Limited Obligation Bonds (“LOBs”) and achieves an economic savings, County will deposit to its OPEB Trust Fund an amount equal to the debt service savings realized in first fiscal year following retirement of existing LOBs

- Timing of BOC Action: To be authorized in Wrap-Up Ordinance of the first fiscal year following retirement of existing LOBs. **Effective for FY25** based on potential LOB’s refunding in FY24.

Proposed Policy: Leg 3 (cont.)

- Example: If a LOBs Refunding is issued in Spring 2023 to refund existing LOBs for economic savings and resulting debt service savings was:

(\$ in Millions)	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
Original LOBs Debt Service:	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
New LOBs Refunding Debt Service:	\$4.2	\$4.2	\$4.2	\$4.2	\$4.2	\$4.2	\$4.2	\$4.2
Annual Savings Realized	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8



Then \$800,000 is OPEB Trust Fund deposit to be included in Wrap-Up Ordinance of FY24. Practically, the \$800,000 would be transferred from Debt Service Fund to General Fund for further deposit to OPEB Trust Fund.

- OPEB Trust Deposit Amount: Amount would vary due to unknown future economic conditions and exact amortization structure of LOBs Refunding

Effective Dates of Policy Legs

	FY2023	FY2024	FY2025
Leg 1	NA	NA	\$3,000,000
Leg 2	X	X	X
Leg 3	NA	NA	X

X=Deposit based on policy calculation

Next Steps

- Today – Receive feedback and answer questions
- By February/March 2023 – Staff uses feedback to draft proposed OPEB Annual Contribution Policy
- At March 2023 BOC Meeting – Board adopts proposed OPEB Annual Contribution Policy

Questions



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