OPEB Trust Fund - Proposed Annual Contribution Policy

November 14, 2022

WAKE COUNTY
NORTH CAROLINA

Agenda

- OPEB Background
- OPEB Liability – Current Status and Peer Comparison
- Justification for Reoccurring Annual Contribution Strategy
- Proposed OPEB Annual Contribution Policy
- Next Steps

OPEB Background

- County provided Other Post-Employment Benefits (“OPEB”) to qualified employees
  - Also known as post-retirement medical benefits coverage
- County eliminated OPEB coverage for employees hired after June 30, 2011
- County funds current year expenses through General Fund Budget
- Currently no reoccurring mechanism in place to fund the future liabilities associated with this long-term benefit

OPEB Liability

- OPEB remains a significant long-term liability of County
  - **$540 million** was County's OPEB liability in FY21
  - Measured annually and reported in ACFR
- County's long-term OPEB liability calculation is comprised of:
  - Current retirees (former employees)
  - Current employees hired prior to June 30, 2011 who will qualify for medical benefits coverage upon retirement
- OPEB liability is regular part of discussion & analysis with Rating Agencies and NC Local Government Commission ("LGC")

OPEB Liability: Peer Comparison as of FY21

($ in Millions)	OPEB Liability	On Deposit in OPEB Trust Fund	Net OPEB Liability
Wake County	$540	$0	$540
Mecklenburg County	$603	$202	$401
Guilford County	$309	$20	$289
Charlotte	$347	$162	$185
Greensboro	$159	$34	$125
Winston-Salem	$72	$84	$12 Surplus

- Wake County ranked highest in Net OPEB Liability

First Step to Address Liability – Establish OPEB Trust

- **FY22** - Board committed $10M funding to establish an OPEB Trust Fund
- **FY23** - OPEB Trust Fund final authorization and initial funding
- **Importance of a strong OPEB Trust Fund**
  - Offsets the County's liability
  - Lowers the discount rate used to calculate County long-term liability
  - Viewed favorably by Rating Agencies & LGC

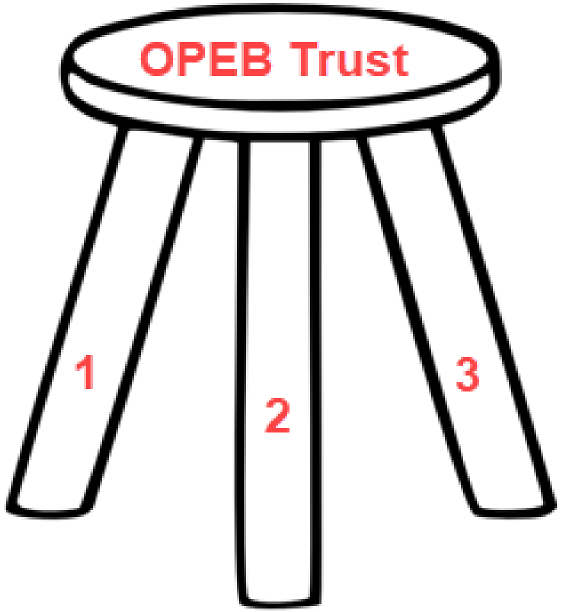
Need for OPEB Annual Contribution Policy

Top 5 Reasons

1. Responsible fiscal approach that helps protect the Triple-A ratings of County
2. Helps ensure County can meet its significant future OPEB obligations
3. Reduces County's liability exposure
4. Provides flexibility – future earnings could be used to offset annual General Fund budgets
5. Taking steps to regularly reduce a significant long-term liability is a strong commitment supported by LGC and other regulatory bodies

Proposed Policy for OPEB Annual Contribution

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



Proposed Policy: Leg 1 – Continual Annual Funding

County will include in the annual budget process for the upcoming Fiscal Year an OPEB Trust Fund Deposit amount (i.e., an expenditure of General Fund) equal to 30% to 50% of County's total out of pocket OPEB expense realized in prior completed Fiscal Year

- <u>Timing of BOC Action</u>: To be authorized as part of each Annual Budget
- <u>Example</u>: If the County spent $10 million on OPEB in FY22, then the FY24 Annual Budget would include a $3 million to $5 million OPEB Trust Fund Deposit
- <u>OPEB Trust Deposit Amount</u>: County Manager to recommend OPEB Trust Fund Deposit amount (i.e., between 30% to 50% range noted in 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 concurrent with Staff's presentation to Board of the prior completed Fiscal Year's Financial Report, and no later than Wrap-Up Ordinance of that year
- 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

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)	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
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

Next Steps

- Today – Receive Board feedback and answer questions
- By January 2023 – Staff uses today's feedback to draft proposed OPEB Annual Contribution Policy
- By February 2023 – Board adopts proposed OPEB Annual Contribution Policy

Questions

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Appendix

GFOA - Unfunded Liability Guidance

Government Finance Review, April 2018 article:
Incrementalism – A Solution for Local Governments' Unfunded Liabilities?

- Incremental funding approach allows local government to take small steps over time to a reach larger goal, where each successive step builds on the last
- Makes funding a deliberate and engrained behavior
- Chips away at funding goal with tangible measurable progress

GFOA – Funding Policy Best Practices

GFOA Best Practices

Core Elements of a Funding Policy

- GFOA recommends that every state and local government that offers defined benefit pensions and/or OPEB formally adopt a funding policy that provides reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner

LGC - OPEB Funding Guidance

LGC Memorandum #2018-08, dated May 4, 2018: *Other Postemployment Benefits Accounting & Reporting Issues*

- OPEB liabilities are expected to be significant for some local governments. It would behoove a local government to consider ways to mitigate these liabilities to make them more manageable in the future.
- Setting funds aside in a Trust allows assets to accumulate untouched until needed for future expenditures.
- Assets in the Trust will be left to grow and will be used to subsidize future benefit payments as costs increase.

Deferred Agricultural, Horticultural, and Forestlands Tax Payments for Agricultural Conservation Easement Program

November 14, 2022

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Purpose/Agenda

The purpose of today's agenda item is to receive support for proposal to commit an existing revenue source to a different purpose – for Agricultural Conservation Easement Program in PGROS CIP.

Agenda:

- Reminder of Deferred Agricultural, Horticultural, and Forestlands Tax Payments (Rollback Tax) Overview from October 11, 2021 Work Session
- Reminder of Agricultural Conservation Easement Program Overview from June 13, 2022 Work Session
- Proposed Funding Identification
- Proposed Project Identification

*PGROS = Parks, Greenways, Recreation & Open Space

Deferred Taxes – Definitions Recap

What exactly are they?

“Deferred” taxes based on the difference between the “present use” value of a property and its market value.

Why are they “deferred”?

Property that is actively farmed or maintained under forestry management can receive different tax treatment based on its “present use” (other thresholds apply).

When does the deferment end?

When the property is no longer meeting requirements of farm/forestry land use, income threshold is not met, or property is sold.

What does the owner pay?

At the end of the deferment, owner must pay a “rollback” of current and three prior years of the deferred taxes plus interest.

Considerations

- County receives ~$2.4 million in “rollback” taxes annually*
  - Equates to .13 of a penny on the tax rate
  - While not budgeted, these revenues support General Fund fund balance
  - Not a guaranteed source of funding
- Planning/Potential Use:
  - Would require policy change/commitment by Board specific to this revenue source
  - Use of these funds could only be planned after the revenue is received

*Excludes amounts for Fire Tax District

Farmland Preservation Ordinance

NEW Agricultural Conservation Easement Program

- **Definition of a Conservation Easement (CE):** A conservation easement is a written and recorded deed agreement between a landowner and a qualified conservation organization in which both parties agree to restrict development. These restrictions are designed to protect the conservation values of the property and the binding agreement stays with the property as it changes ownership.
- **Benefits of a Conservation Easement:**
  - Tax Benefits that may include: tax incentives, federal income tax reduction and estate tax deduction.
  - Protect farming and family heritage
  - Protect property from development pressure
  - Protect local food production and food resilience

Farmland Preservation Ordinance

NEW Agricultural Conservation Easement Program

Purpose: The preservation of the County’s best agricultural land in a manner that directs and accommodates growth and development is a high priority for the residents of the county.

Goals of program:

1. Permanently protect soils in the County best suited for agricultural uses.
2. Identify and harmonize policies of government that may conflict with protection of farmland.
3. To reduce land use conflicts between agricultural and other land uses.
4. Promote agricultural as an integral part of the County’s economy.

Available Funds Identification

- Tax Administration staff will provide the amount of revenue received from this tax and Finance staff to commit with financial year-end activities
- Annual Fiscal Comprehensive Report finalized and presented to Board of Commissioners in December
- The debt model will be updated based on this commitment resulting in a lower fund balance level
- Board appropriates the funds annually through a regular agenda item in January or February to the Parks, Greenways, Open Space capital element in a new Agricultural Conservation Easement division

Project Identification

- The WC Agricultural Advisory Board and Soil and Water staff will adopt an agricultural conservation easement ranking system for eligible projects and the Advisory Board would approve the eligible projects to submit for priority funding
- Parks, Greenways, Recreation Open Space and Soil and Water staff work together to execute agreements and payments as a match to support federal, state and other grant sources to fund eligible agricultural conservation easement projects

Next Steps

Next Steps:

- Seek thumbs up from Board of Commissioners
- Agenda item on November 21, 2022 to establish resolution for Board of Commissioners to commit revenue source on an annual basis
- Initiate policy with FY 2022 revenue