ECONOMIC DEVELOPMENT AND FINANCE
STANDING COMMITTEE MINUTES
Monday, September 13, 2021

The meeting of the Economic Development and Finance Standing Committee was held on Monday, September 13, 2021, at 7:33 p.m., remotely via Zoom and on-site. The following members were present: Commissioner Burroughs, Chairman; Commissioners McKiernan, Townsend, Johnson, Walters, and BPU Board Member Jeff Bryant. The following officials were also in attendance: Bridgette Cobbins and Alan Howze, Assistant County Administrators; Jeff Conway, Assistant Counsel; Alley Porter, Commission Liaison; Ashley Hand, Director of Strategic Communication; Katherine Carttar, Director of Economic Development; Kathleen VonAchen, Chief Financial Officer; Renee Ramirez, Director of Human Resources; Bonnie Bloesser, Benefits Administrator; and Carol Godsil, Deputy UG Clerk.

Chairman Burroughs said before I call the meeting to order, I want to announce that due to COVID-19, some committee members, staff, and public are attending remotely via Zoom as well as on-site. All participants joining by phone should mute their phones when they are not speaking to avoid background noise. During the meeting, please make sure that you announce yourself by name and title every time you speak so the public that is observing knows who is speaking. This is critical given the number of remote participants and is a current guidance from the Kansas Attorney General.

The public is allowed to participate by Zoom or submit comments by email prior to the meeting and those comments will be included in the record of this meeting this evening.

Chairman Burroughs called the meeting to order. Roll call was taken, and all members were present as shown above.

Chairman Burroughs said before we get started, I would like to welcome Jeff Bryant, BPU Board, for being with us this evening.

Approval of Standing Committee minutes from June 7, 2021. **On motion of Commissioner Walters, seconded by Commissioner McKiernan, the minutes were approved.** Roll call was taken and there were six "Ayes," Bryant, Walters, Johnson, Townsend, McKiernan, Burroughs.

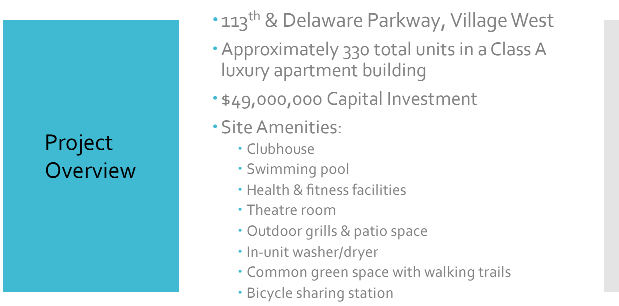
Committee Agenda:

Item No. 1 – 211015…RESOLUTION: FIRST AMENDMENT TO DEVELOPMENT AGREEMENT FOR VILLAGE WEST APARTMENTS III

Synopsis: A resolution adopting the First Amendment to Village West Apartments III Development Agreement, modifying the completion dates and PILOT schedule, submitted by Katherine Carttar, Director of Economic Development.

Katherine Carttar, Director of Economic Development, said this is a project we haven't seen in a while. This is an amendment, it's the first amendment.

This is the NorthPoint project. They previously, as you can see here on the map, they have done two previous apartment projects. This is out in Village West. To the north, you've got Parallel Parkway. This is 110th and Delaware Parkway here, just south of the project. They have since sold both of these first two phases and are interested in doing this third phase. This came through about two years ago and they are still very interested in doing this project. There have been a number of issues, as we all are familiar of course with what happened with COVID and cost of materials. There was also some of the planning process, particularly with what they were wanting to do along Parallel Parkway. All of this took longer than anticipated. So, they are still very much interested in doing this project.



This is a quick reminder. Here are kind of some of the amenities. It's a significant investment. I think at this point its actually going to be over $50M. A very nice, luxury Class A product out near the Legends.

This is an example of another one that they did that would be of similar style to what they're planning, just to give you a sense of just kind of a reminder since it has been so long since you all originally approved this development agreement.

First Amendment to Modify the
Completion Dates & PILOT Schedule

The proposed dates are:

- Completion of public infrastructure (Delaware Pkwy extension) to July 1, 2023 (originally December 31, 2022)
- Completion of entire project to August 1, 2024 (originally December 31, 2022)

What they came to us with was a request to extend the completion date. So, as you know, in our development agreement we don't like them to just be open-ended. We like to actually hold people as much as we can to a schedule. If they cannot meet the schedule, then we like them to come back, talk to staff, and then come to the committee and then the commission for approval of any kind of extension. These seem reasonable under the circumstances.

There is a bit of public infrastructure that is also in this project. Originally, the entire project was required to be done by December 31, 2022. They have come to us. This, again, is NorthPoint who has a very good track record of actually doing almost every project on time or early, so this was a bit of an anomaly. But, they came to us to request the completion of the public infrastructure. We changed that date to July 1, 2023, and then the completion of the entire apartment complex to August 1, 2024.

Now, I will say, just because these states are put out, they purposefully gave themselves an additional buffer so that they do not have to come back again, as we've seen other projects you kind of hear that over, over, and over again. What the folks at NorthPoint have told me is that they fully intend to beat these proposed dates and requested that we consider those.

We determined that yes, while these dates seem reasonable, but there is a significant amount of time that has lapsed between when we first did the original development agreement to today, and then if we're anticipating another, potentially, couple of years before the apartments are done, what does that do to the PILOT schedule? Again, this project came through, received industrial revenue bonds, and so had a PILOT schedule, which is payment in lieu of taxes, put in place that gave them a moderate abatement but really was a way for us to get pretty much the full value of the taxes while using the industrial revenue bonds as kind of a way to have that certainty of what they were going to pay as well as a way to reimburse the public infrastructure.

Revised PILOT (Payment -In-Lieu-Of-Taxes) Schedule

	With L/M/W		Without L/M/W	
Year	Per Unit	Annual PILOT Payment	Per Unit	Annual PILOT Payment
1	$1,150.00	$379,500.00	$1,150.00	$379,500.00
2	$1,160.50	$382,965.00	$1,172.11	$386,796.30
3	$1,192.32	$393,463.95	$1,222.13	$403,302.90
4	$1,225.08	$404,277.87	$1,274.08	$420,446.40
5	$1,258.84	$415,416.20	$1,321.78	$436,187.40
6	$1,293.60	$426,888.69	$1,377.68	$454,634.40
7	$1,329.41	$438,705.35	$1,435.76	$473,800.80
8	$1,366.29	$450,876.51	$1,496.09	$493,709.70
9	$1,404.28	$463,412.81	$1,551.73	$512,070.90
10	$1,443.41	$476,325.19	$1,616.62	$533,484.60
	Total:	$4,231,831.57		$4,493,933.40

Increase by approximately $330,000 to remain aligned with appreciation.

Because there is a time lapse that we're talking about, understandably, there is appreciation in this area so we have increased the PILOT schedule both with the LMW goals, which again, we fully anticipate they will hit all those goals. If for some reason they do not, we also do have another schedule with a penalty included. This is about an increase of about a third of a million to kind of stay in line with appreciation. We, as staff, felt that was important if we were going to have the extension of the completion date.

For Consideration:

- Resolution approving the first amendment to the Development Agreement

With that, I will turn it back over to Chairman Burroughs.

Chairman Burroughs asked, committee, any questions? Clerk, do we have any public comment, anyone speaking that would like to speak in support of the project? **Ms. Godsil** said no public comments were received.

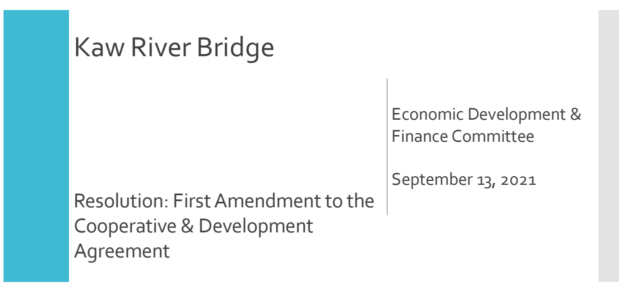
Chairman Burroughs said, Katherine, thank you for that overview. You're absolutely correct; there will be appreciation in the property out there with continued development in that corridor. It is going to raise the value of those properties out there, so I do appreciate us bumping that up a little bit. I think it's good business. It just puts the project basically behind about 18 months.

Chairman Burroughs asked, any questions, committee? Seeing none, I'd entertain a motion.

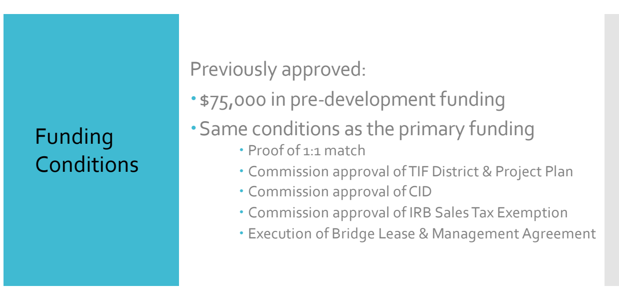
Action: **Commissioner Walters made a motion, seconded by Commissioner McKiernan, to approve.** Roll call was taken and there were six "Ayes," Bryant, Walters, Johnson, Townsend, McKiernan, Burroughs.

ITEM No. 2 – 211016…RESOLUTION: FIRST AMENDMENT TO KAW RIVER BRIDGE COOPERATIVE AND DEVELOPMENT AGREEMENT

Synopsis: A resolution adopting the First Amendment to the Kaw River Bridge Cooperative and Development Agreement, modifying the conditions required to be met for Developer to access Predevelopment Funding, submitted by Katherine Carttar, Director of Economic Development.



Katherine Carttar, Director of Economic Development, said this one you've seen a bit more recently so I'm not going to go into all the kind of reminder of what this project is. I think most everyone is aware of this. This is a very minor change. Ideally, this would be the only amendment you all see.

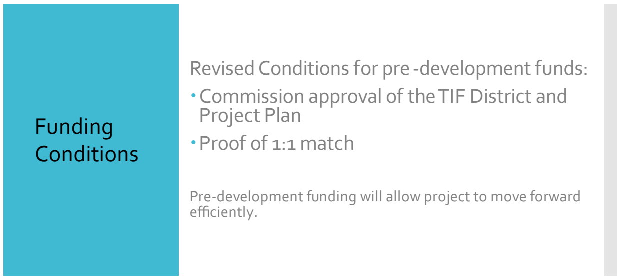


What was previously approved here just a couple of months ago by you all was—there was the larger project, you all remember, the overall was $2M, lots of stipulations, a lot that goes into this. However, there was a—as part of that $2M, we kind of cut out $75K as a predevelopment fund. This was an idea to really get this project moving. They're in the middle of a lot of their fundraising and private fundraising, philanthropic fundraising with the intention of they will have to—to get the $2M—they will have to raise almost $4M to kind of unlock the access to rest of the funding provided by the Unified Government. However, that $75K really was a way to really jump start the design process. There's a significant amount of engineering and we want to really ensure that they're doing all of that correctly and not kind of skimping on any of that.

What we had done was just put conditions in place to receive any funding. As you can see with this list here, there was proof of the one-to-one match. Even the $75K, there was never a thought that we would just give them $75K. They would first have to raise at a minimum of that before they, again, could unlock the funding from the Unified Government, as well as a number of approvals as well as the execution of the bridge lease and management agreement. This all seemed great at the time. Then when you kind of get into practice, you realize sometimes we're maybe a little overzealous in all the stipulations that we had put in place.

For example, the CID. That is one of the ways that the Unified Government will be paid back that $2M. Well, we would like to maximize that to ensure that we get paid back everything and then some. So, it doesn't make sense for the folks on the bridge to have that CID in place when they're not ready to actually start selling things. The way that a CID works, you get sales tax. It's a very finite amount of time so we want them to really maximize all of that time so that we ensure we get paid back. So we don't actually want them to have that CID in place yet.

The same with the bridge and the bridge lease. In particular, there is an agreement in place with the city of Kansas City, MO, who is the current owner of the bridge that we will, as Unified Government, take ownership of the bridge. However, again, it does not make sense as the Unified Government to take on that liability really until the last possible second. So, we want to ensure that they have raised their millions of dollars and are ready to break ground or bend steel. I'm not sure what you would call that on a bridge, but we want to make sure that they are 100% ready to go before we, as the Unified Government, take ownership and thus provide a lease to them.



For that reason, we suggest that those conditions solely for the predevelopment fund, so just for that $75K we changed the conditions to commission approval of the TIF district and the project plan and proof that they have already raised a minimum of $75K.

Now to open up the greater, larger funding, you will still need all of those conditions to be met.

With that, I'll turn it back to you, Chairman Burroughs.

Chairman Burroughs asked, committee, any questions? I don't see any at this time any hands up. Madam Clerk, do we have any—Mr. Bryant has his hand up.

BPU Board Member Bryant said, Katherine, the only question I have is, can you refresh my memory of what the predevelopment funding was going to be specifically used for? **Ms. Carttar** said the predevelopment funding is for the architecture and the engineering needed to make sure that the project is ready to move forward. Specifically, they had a significant amount of architecture work that they wanted to have done that would also assist in their presentations to raise some of that philanthropic and other private funding. **BPU Board Member Bryant** said okay.

Chairman Burroughs asked, Katherine, is there any criteria in there that prevents us from moving forward with additional money if the bridge is not owned by the Unified Government? **Ms. Carttar** said we would not—it would just be the $75K. There would not be any additional funding until the bridge is owned by the Unified Government. **Chairman Burroughs** said thank you. I think that's a point of clarity for the committee and for the public. I appreciate that statement.

Chairman Burroughs asked, Madam Clerk, I'm going to ask if there was anybody in attendance this evening who would like to speak? **Ms. Godsil** said no public comments were received.

Action: **Commissioner McKiernan made a motion, seconded by Commissioner Walters, to approve.** Roll call was taken and there were six "Ayes," Bryant, Walters, Johnson, Townsend, McKiernan, Burroughs.

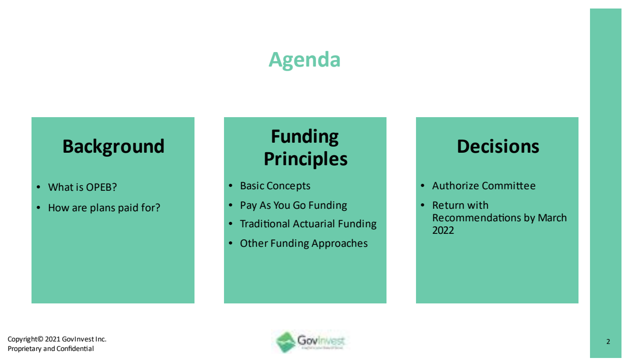
ITEM No. 3 – 21895…REVIEW: OTHER POST-EMPLOYMENT BENEFITS (OPEB) TRUST

Synopsis: Review of the Unified Government's Other Post-Employment Benefits (OPEB) retiree health care benefits liability, its impact on the financial statements, and how formation of an OPEB Trust will reduce the unfunded long-term liability, presented by Kathleen VonAchen, Chief Financial Officer, and Renee Ramirez, Human Resources Director. OPEB material was provided at the August 9, 2021 standing committee meeting.

Kathleen VonAchen, Chief Financial Officer, said just to give you some context. Today's presentation is on the Unified Government's Other Post-Employment Benefits liability. On our balance sheet, we, the government-wide statement, we have to reflect the total liability of our various long-term liabilities. So, we have our outstanding debt for infrastructure improvements and like. We have our pension costs. Then the third one that's the largest, is other post-employment benefits.

This other post-employment benefits liability is the one liability that we can actually make some meaningful reductions to. Tonight's presentation is to talk about that and this project that we've been working on for a number of years. I did want to point out that I am also joined not only by our HR Director Renee Ramirez, but also our consultant for our health benefits fund, Brian Johnston. I also have Ira Summer, from GovInvest, who has joined us. He's an actuary. He's helped us develop the analysis for this funding of OPEB.

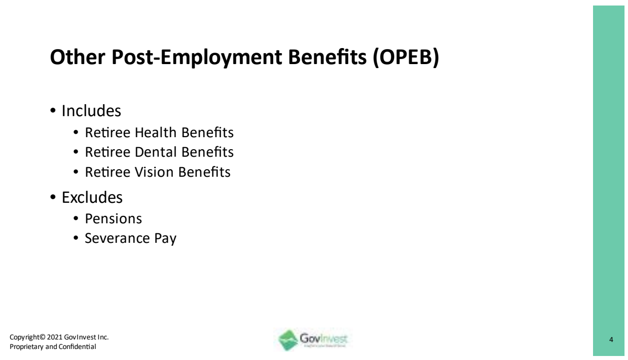
Other post-employment benefits is often referred to as OPEB. We hired a firm. GovInvest has a wonderful piece of software that helps us do the analysis. We're going to share that analysis with you tonight.



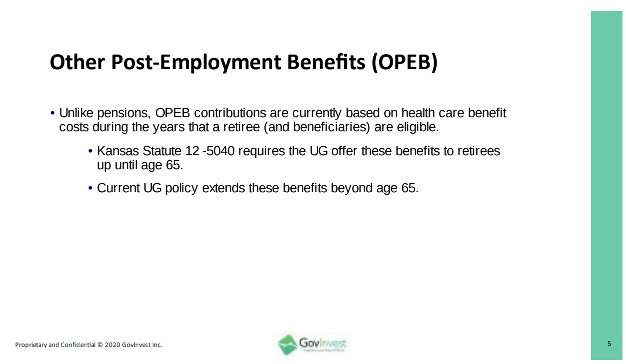
Just right off the bat, I did want to point out that generally we're going to talk about what OPEB is and how the various plans are paid for. Then we're going to talk about some funding principles, as well as basic concepts, the pay-as-you go funding, which is how we're doing it now, traditional actuarial funding, and then just some decisions that are coming down the pike in the future.

What is OPEB? At this point, I'm going to hand it off to Renee Ramirez.

Renee Ramirez, Director of Human Resources, said with us this evening we also have Bonnie Bloesser, who is our Benefits Administrator, as well. As you all know, OPEB, which stands for the other post-employment benefits.



These are retirement benefits other than pensions paid by the Unified Government on behalf of our retirees and their eligible dependents. Some of these benefits include retiree health benefits, the retiree dental benefits, and our vision benefits. These do exclude any pensions like the KPERS and KP&F and any severance pay.

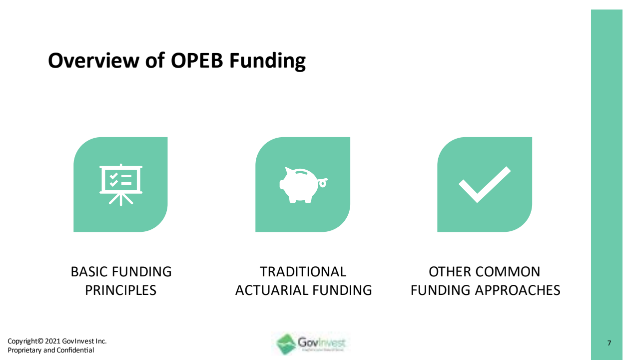


Unlike the pensions, OPEBs are currently based on health care benefit costs during the years that a retiree and their beneficiaries are eligible. Under a Kansas State Statute that's represented here in 12-5040, it does require the Unified Government to offer the same level of benefits to its retirees that is offered to its employees and that is up until the age of 65.

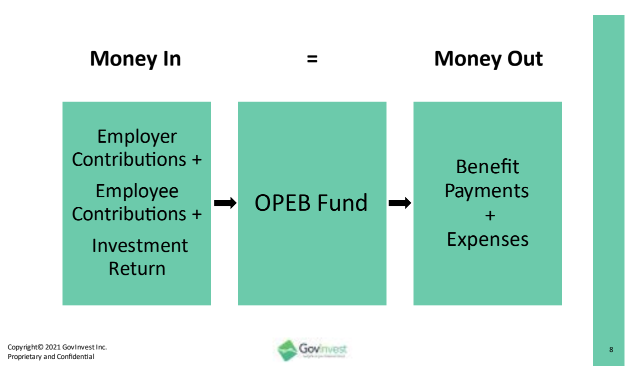
Our current HR policy for the Unified Government does extend these benefits beyond age 65 to our retirees who reach age 65 when they become Medicare eligible. At that point, Medicare becomes their primary insurance and the Unified Government health plan becomes a secondary insurance for these post-65 retiree employees who are still on our benefits.

With that, I'm turning it back over to Kathleen.

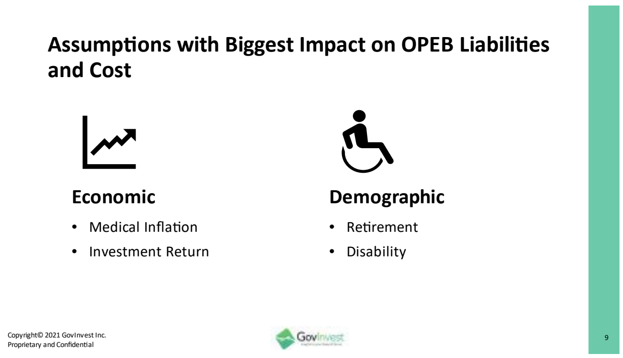
Ms. VonAchen said now we're going to walk through how these benefits are currently funded and then I'm going to pass it on to the actuary, Ira Summer, who will talk more about how the OPEB could be funded.



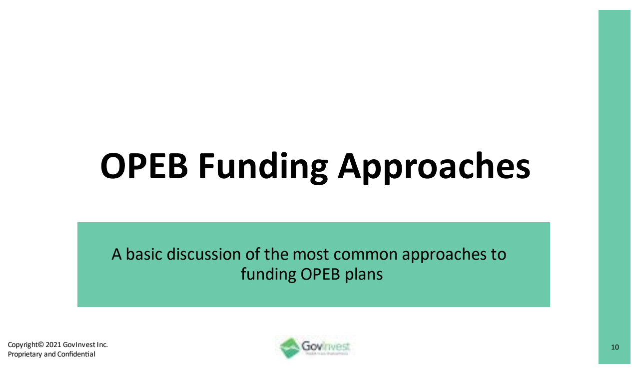
Just in general, the overview of OPEB funding, there's the basic funding principle, there's the traditional actuarial funding amount, and then there's sort of a hybrid amount.



Generally speaking, when you're setting up an OPEB fund, it's just a simple concept of money in equals money out. Money in includes all the employer contributions to the Health Benefits Fund as well as the employee contributions plus any kind of investment return that we get. So, all those funds are deposited into the OPEB Fund and then what comes out are health care claims or payments made to our health care providers and any other expenses.

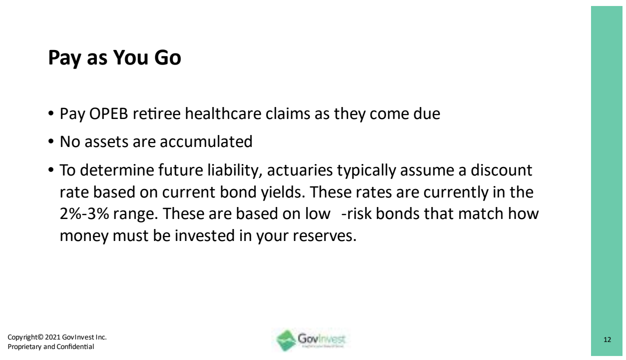


Some of the basic assumptions that drives the costs or the revenue coming in is basic economics. You know the medical inflation rate, the investment return, as well as the demographics of both our active employees and retirees, whether they're retired or disabled.



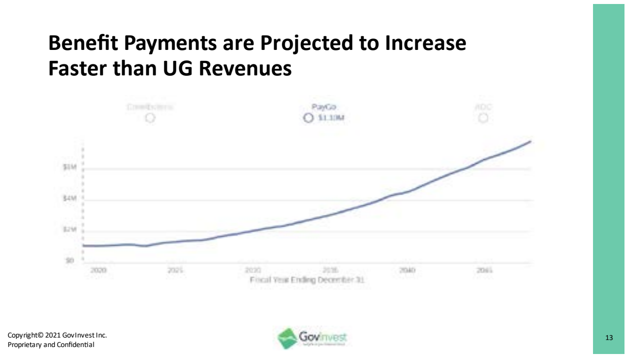
There are various, as I mentioned, various funding approaches. The basic discussion of the most common approaches are found as follows.

The payment approach that we're currently utilizing right now is called pay-as-you-go.



How that works is we pay any kind of retiree health claims as they come due in that given year and we don't collect any additional contributions and build assets that can then be used to generate investment income. We just bring in the contributions and then pay out any kind of health care claim costs.

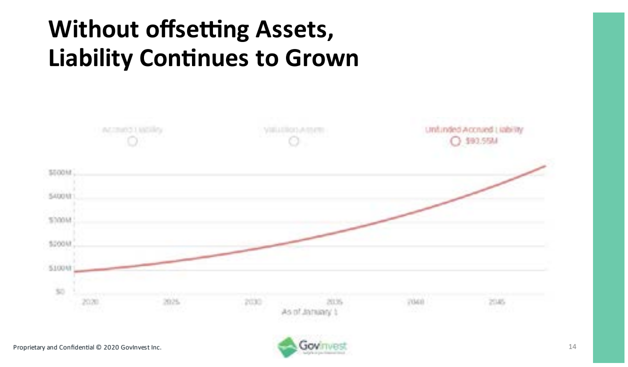
When we're trying to determine what our liability is, given this scenario, the future liability is dependent on using a discount rate, which is basically an assumption of what kind of investment earnings would we receive in the future. Right now, because we are on a pay-as-you-go bases, the accounting standards require that discount rate be very low. Right now, its ranging in the 2-3% range. If we were to actually set up with a trust, which is what we're talking about tonight is to set up a trust; if we were to set up this trust and we contributed more than the cost of our normal claims, then that investment income could grow at a greater rate than the 2-3%. Right now, our investments are limited by the state statute in terms of we can only buy CDs or treasury bonds, very low yielding fixed income. If we set up a trust, then the assets could grow by investing in securities or other types of investments.



I'm going to pass it on now to Ira who's going to talk a little bit more about these charts.

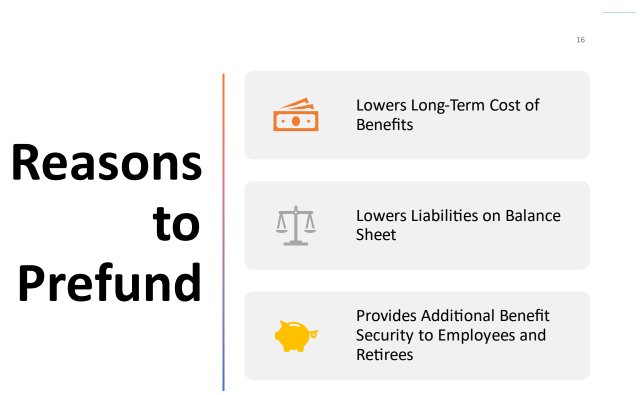
Ira Summer, GovInvest, said what this graph is showing is how much your payments are each year right now under the method you're currently using, pay-as-you-go. What you can see is that the benefit payments that you're paying to your current retirees are expected to increase faster than your revenues. If you think it's eating up a big chunk of your budget now, just look down the road and it's just going to be getting bigger and bigger and bigger. The reasons for this are because medical costs are growing faster than inflation and have been for the last few decades. If you average it over any prolonged period, medical costs are growing at least twice as fast as inflation. Every once in a while we get it under control for a year or two and then the medical industry figures out a new way to charge more money for something. So, the medical costs keep going.

This is what you're expected to have right now. Right now, you're paying about $1M. If we look out a decade, it's going to double. If we look out another decade, it's going to double again and you're projected to be over $6M by 2045.



The thing is, without having an offsetting asset, the liability on your books is big now. It's $100M right now or $93M right now. It's also projected to grow faster than revenues so that it's expected to be over half a billion dollars 25 years from now. I understand maybe half a billion dollars may not seem like much a half a year from now, but unless you're planning on winning Powerball, that's a lot of money coming down the road.

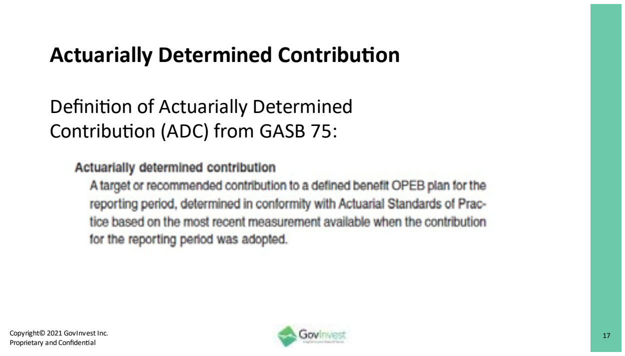
One of the solutions to this is to do what we refer to as traditional actuarial funding, to fund it just like you are funding your pension plan.



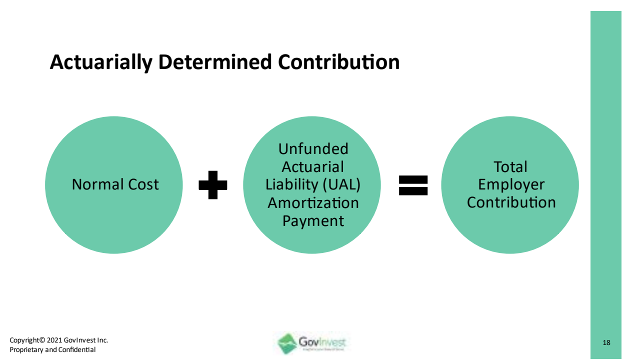
The reasons why you want to prefund, you want to start paying for this early. Reason No. 1 is that it lowers the long-term costs of the benefit. You start putting money away, then over time, just like with your pension, most of the money going out the door is going to come from investment return rather than coming from your contributions. So, that's reason No. 1. Over the long-term, it saves you money.

Reason No. 2 is it lowers the liability on your balance sheet. By lowering the liability on your balance sheet, that means that your credit rating is going to get better which means that if you need to issue debt for any reason, it's going to, again, save you money.

Three, is that it provides additional benefit security to employees and retirees. In general, you made this promise to your current employees and your past employees that you're going to help fund their retiree health benefits. They want to trust you but you look out there at other government agencies when things go bad and sometimes these things don't get paid. So, if you have money set aside in a trust, just like you do with KPERS, like you do with your pension, then they're confident that even if something happens with the economy, that those benefits are going to get paid; provide additional security.

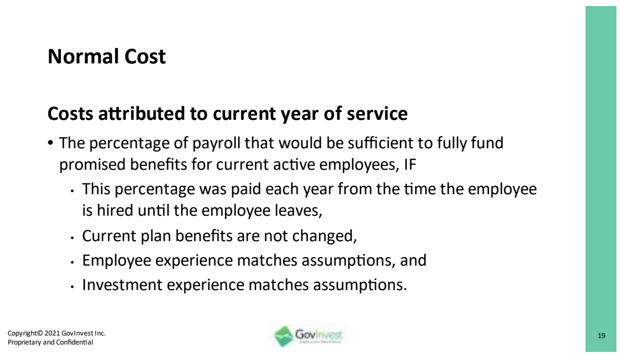


We're going to talk about an actuarily determined contribution, which basically is a way of pre-funding. The accounting standard GASB 75, while it does not—it doesn't require pre-funding so you can continue doing what you're doing because it's just an accounting standard. Accounting standards want you to report what you're doing. It encourages pre-funding in a variety of ways. What the actuarial determined contribution is, is a regular contribution that you're going to make that is going to be composed that meets that actuarial standards of practice. An actuarial standards of practice for pre-funding a retirement type of benefit includes making two pieces of payments.



One is the normal cost. That's the cost for each year of service as it's earned. In that way, by paying the normal cost, you are paying for the benefits earned by current employees so that the current taxpayers are paying for the current service they're receiving from the current employees.

The second piece is an unfunded liability payment. That's to cover past liabilities that have not been funded for whatever reason. In your case because you didn't start prefunding back in time—but even when you do, sometimes these things occur for a variety of reasons. Maybe the cost of health care rises faster than expected so you build up a new liability. Sometimes your money that gets set aside and you're going to assume it earns 5% and we end up with a bad year on investments and it only earns 3. So the reasons why unfunded liability occurs, you spread that out over time and pay it off almost like a mortgage. So, your total contribution is paying for this year plus a catch-up payment for all the past, the unfunded liability payment. Those two combined equal your total employer contribution.



Now, and I already talked about what normal cost is

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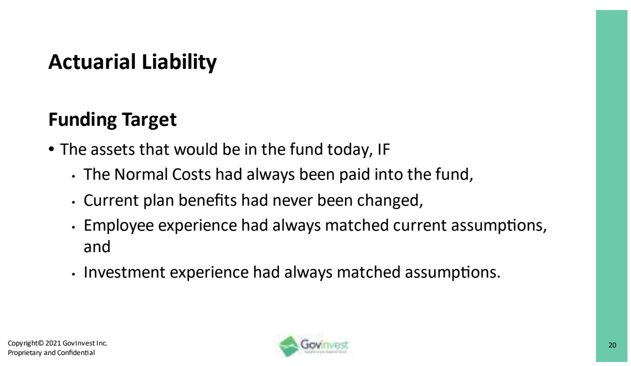

I think the next slide talks about the unfunded liability payment. The actual liability is your target.

Unfunded Actuarial Liability (UAL)

Progress towards Target

- Actuarial liability minus assets
- The Amount that the current assets are behind (or ahead of) the funding target
- Amortization of the UAL is part of the employer's funding policy. The actuary follows applicable ASOP's, consults with the employer and an amortization policy is adopted for purposes of the ADC.

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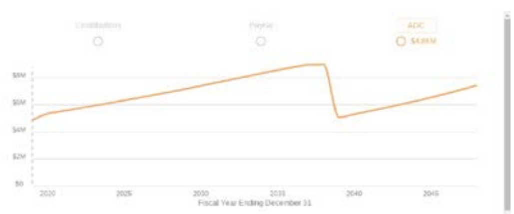
I already did these but I can read them to you, but I don't think you need me to do that after all the meetings you've gone through already today.

Contributions are Initially Higher than Pay As You Go, Until Liability is Paid off



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In order to make this payment work. What it means is you're going to have to make a bigger payment initially than you're making right now. In order to get money into the trust, you need to pay your current payments plus something more and the something more goes into this trust and starts accumulating investment return. So, your costs, your contributions out of your current budget will be higher in the short term until you pay off your past liabilities. Once you've paid off your unfunded liability, your cost will drop down dramatically down to the level of the normal cost just for each year of service as its earned. That will be less than you would have paid if you had continued on a pay-as-you-go basis.

Brian Johnston, Jackson Lewis Consultants for the Health Plan, said, Ira, if I could jump in just really quickly just to add a little bit of context as well. We've been having these conversations for the OPEB liability issue for over a decade. It's always a challenge to try to figure out what's the best solution. I do want to add a little bit of context. I certainly don't disagree with anything that Ira and Kathleen have mentioned thus far.

I do want to mention, though, that the other variable that comes into play is reduction in the cost itself. To that point, with the continued practice of charging retirees for the full cost of health care to maintain coverage under the Unified Government's health plan, as well as the continuation of offering alternative Medicare supplement programs, we have seen a significant drop in the number of post-65 Medicare eligible retirees who are still on the plan. In fact, I think, Renee, you can correct me, but I think we're down to about 65 or so people who are post-65, which is down from over 200 even just a couple of years ago. So, there has been a significant drop in that population.

Now, that's not going to solve the entirety of the OPEB liability issue. I'm certainly not going to submit that suggestion, but I do think it's part of the process to evaluate what the long-term projected cost is—the reduction of those retirees' bodies on the plan as well as if we continue discussions of potential elimination of future retiree coverage for plus 65 individuals or other populations of the organization that could also help mitigate the impact. It's not just a funding issue; there's a cost side as well, I guess, is the point I want to try to make.

Mr. Summer said and I'm talking about how to pay for the benefits you've already promised. Having a discussion as to whether you think you should have smaller benefits is a related but a different issue. Now, that issue gets into both legal questions, is what you're allowed to cut. Human Resource questions as to…

Mr. Johnston said my point that I'm making is not based on the reduction of retirees on the plan. That's not a legal issue, that's just pure attrition. **Mr. Summer** said that moving forward, that's in these projections that people die and the new people are eligible and not eligible. Those are included in the projections we have right here.

What this slide shows is that if you start prefunding on an actuarial basis, deciding you're going to do this, actually putting the money aside and following this pattern of what you're paying, one of the things that happens is that the discount rate—first of all, your expectation of the returns you're going to get on the money are going to depend on how much—the type of investments you have and the trust you put them in. We'll have a discussion of that a little bit later.

Let's assume you're going to be conservative, but not too conservative, so you're getting in the 5-6% range on investments. Your liabilities on your books will begin to drop immediately because you have a funding policy in place that will pay for all the benefits eventually and is being followed. The accounting standards allow you to drop your liability so you get a drop in the liability right away by switching your discount rate from the current 2-3% to the 5-6% range. The more money that's expected to come in the future from investment return means less money that needs to come from you, so higher return assumption, lower liabilities. Your books look better right away. So, there's a double hit—while it's going to affect you by, and we'll show you the amounts—causing money to come out of your budget in the short term, your balance sheet is going to look a lot better in the short term if you make this move. And eventually, as you begin paying this thing off, by about 20 years from now, 15 years from now, based on the assumptions that we put here, just for one example, your liability is going to be down to zero. At which point, again, contributions much lower in the future giving you a lot more budget flexibility for future boards.

Comparing the unfunded liability, the green is what you currently have. You see it going up from $90M something all the way up to half a billion dollars. On the other hand, if you make the switch—if today, and it's not on the agenda today, so next meeting you decide you're going ahead with this and you start putting the money aside and it starts getting the investment return of 6%, your $90M liability gets cut in half to $45M right away and continues to slowing go down to zero over the next 15 years helping your balance sheet.

Impact of Change to Actuarial Funding

	Pay As You Go	Actuarial Funding
Discount Rate	3%	6%
2021/2022 Contribution	$1.1 Million	$5.7 Million
Liability as of 6/30/22	$112 Million	$46 Million

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In the short term, again, in order to make this happen, you need to take cash out of your budget. I'm not here to tell you where that cash is coming from because I have no idea. But that's part of what—basically, what we're hoping to get in terms of guidance is the board to say go ahead, give us a suggestion, help us find the money, start moving ahead in this direction. If we went full actuarial funding, and there are places to go in between this, your contributions would go from $1.1M you're paying now up to $5.7M in this next fiscal year. So, $4M extra, $4.5M needs to come out of the budget. But, your balance sheet number gets cut in half from $112M down to $46M.

Ms. VonAchen said I would like to interject when you're done here, Ira. **Mr. Summer** said go ahead. **Ms. VonAchen** said this difference here roughly $4M or $5M, this is on an annual basis.

This assumes that we were to immediately fully fund our OPEB liability and meet our actuarial determined contribution at the highest rate so that we are fully funded in 15 or 20 years. But, if you set up a trust, you don't have any requirement to start right funding right at this high level. You can phase it in over time.

So, the first year you can start with an extra million and then you bump it up to another million, or whatever is decided. So, what we're talking about today is just providing you with an overview of this project and what we're looking at. Then the next steps will be, we're going to form a committee of administration as well as representatives from our unions and we're going to talk about what's affordable and what's from a financial standpoint. After that, we will come back sometime in the spring with the documentation to establish the trust and some recommendations for this funding level. So, this is just an example of what the actuarial determined contribution would be given certain assumptions.

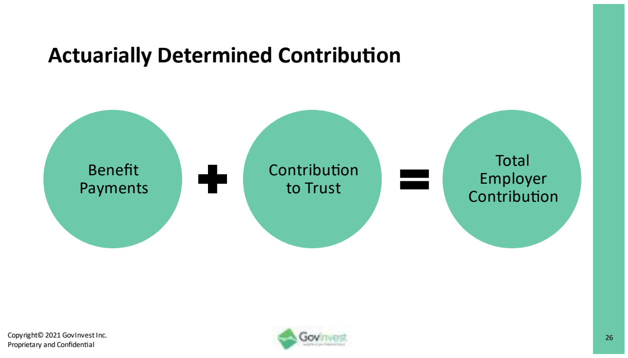
Mr. Summer said and that is sort of a conservative end of let's start funding quickly is the actuarial funding. Pay-as-you-go is, we're doing as little as we possibly can each year. So, those are sort of the range.

Ms. VonAchen said actually, this also ties into what Brian was just mentioning earlier. The experience that we've seen—the actuary uses experience from 2020, but we've noticed, as Brian mentioned, we noticed that there really has been a change in the level of retiree participation once they turn 65. Brian just mentioned that it's really kind of dropping off. So, that will make a very big difference in the total liability, this $112M, which is going to change all of these assumptions.

We have to update the actuary every year and that is based on data from the prior year. The numbers are always changing.

Mr. Johnston said they do and, again, I don't want to suggest that just because the numbers are going down as far as the post-65 retirees it eliminates the issue because it is a real issue. **Ms. VonAchen** said no, no, not at all, but it will diminish the issue somewhat.

Mr. Johnston said I guess I do want to mention and note that this issue has been evaluated over the years. It certainly hasn't been for a lack of interest or desire to try to reduce some funding. The challenge historically that has been before the organization, that's still an issue that has to be dealt with, is in order to do the funding at a level that Ira is suggesting, would obviously take a significant annual commitment. Ideally, yes, you can do it on a discretionary basis.



The point is, whatever you put in there, it goes into a trust. In order for this to be effective, in order for this to get the discount rate that's more attractive and a better bond rating, it has to go into a trust that's an irrevocable trust, that the money can't ever come back once it goes in. So, that's always part of the challenge is once it goes, it goes and that's a pretty big ticket. But, again, there is a future ticket that's also significant as well. It is a balancing act as far as what is the right answer.

Mr. Summer said, also, in terms of—and what Brian just said, absolutely true; very important. The other thing to keep in mind unlike sort of a pension commitment, which is controlled by another entity, while you are—you are setting this policy right now and future councils can change it as you go. So, if you have—you can't take money out of the trust, but if you have a rough year for revenue, something else happens that shuts the world down for whatever reason, you have the ability to say this year, we're not making a contribution. In fact, you can even go further. You can say once you have money in there, you can say this year, we're not making a contribution and we're going to use the money that's in the trust to make our payments for this year and give yourself some budget relief. So, there is some flexibility in this.

115 Trust

- Contributions made to the Trust can only be used to pay OPEB Liabilities
- Assets in Trust can be invested in wider variety of assets than internal UG reserves

 GovInvest 27

You can't get the money back, but you can use it to make payments for the benefits you've already promised. So, in that case, that is some flexibility, not as much flexibility as if you keep it in internal reserves, but by giving up that flexibility as we mentioned before, you get better investment returns which lowers your cost and a much stronger balance sheet, which lowers future costs for other things.

Other Funding Approaches

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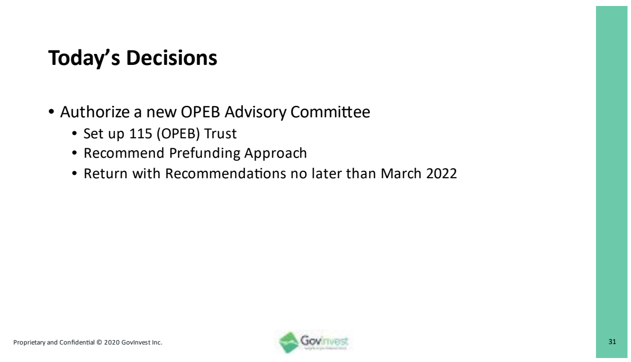
Other Funding Approaches

- Pay as you go + prefunding contribution
  - Additional Dollar Contribution
  - Additional % of Pay

 GovInvest 29

Ms. VonAchen said we mentioned that we don't necessarily have to pay the entire actuarial determined contribution. It's pretty late in the evening so we don't want to get into this too deep, too detailed, but as we mentioned before, the prefunding contribution level can be modified based on different scenarios and so that's what's this slide is about.



Our next steps are—we're asking for any direction or feedback from you. What we want to do is authorize kind of developing an OPEB advisory committee and have this committee start working on reviewing various legal documents for establishing the 115 OPEB Trust and examining or evaluating, doing some analysis on prefunding approaches. Then come back to you, the Economic Development & Finance Committee, in March to share with you what we've learned and potentially ask for your approval of trust documents. So, that's the next step.

That's all we have for you tonight. We're happy to answer any questions you might have.

Commissioner Johnson said I think you all have driven home the benefits of this right from the top. To improve our balance sheet—so the financial implication means moving the impact from the liability section of the balance sheet to the expenditure section of the income & expense statement, just to put it in very simplified form thereby improving our ability to borrow at a much better rate. The notion of improving our credit rating really sticks out to me. The notion of us becoming less leveraged sticks out to me. The control that we have and the ability to fund the amount to fund on an annual basis sticks out to me. That was one of my concerns initially, but as I'm listening to you all, we have the ability to make that determination. Finally, the ability for us to go out into the market and be able to invest at a higher rate of return than what we are allowed to do right now, are all reasons why I would strongly advocate for this.

I would say that relative to the committee, and my final thoughts, if maybe someone from this group may be added as just in an advisory capacity to some degree. I don't know who that would be, but I'm just saying maybe that might be something that would be beneficial. So, with that, I conclude.

Chairman Burroughs asked, are there any other questions? I want to make sure we have opportunity to ask questions. Committee, I will ask a few questions. I think it's imperative that we have this discussion. What wasn't discussed this evening was if we were to eliminate the program three years down the road; give notice to employees through the contract negotiation, as was stated by Kathleen, what that impact would look like moving forward. I think those would be one of the things that we might want to look at and consider also post-65 and give us a more impact. Plus, once you set up a trust, you have an administration cost and I would assume that the trust pays the administration costs so funds for that administration would come out of the trust that would be part of the revenue either we received through investment or through contributions that were paid into the trust.

Also, the upfront costs, what percentage—you gave a dollar amount of $1.some million the first year. Is there an industry standard set on what the contributions have cost us in 2020 as to what recommendation you would make versus just a dollar amount moving forward? I think those are some of the questions that I personally have to make sure that we're on solid footing as we move forward as we consider this option.

Ms. VonAchen said that industry standard you're referring to is what were talking about in the presentation that's called the actuarial determined contribution. That's based on the actuarial analysis. Ira can talk a little bit more about that, but that would be making certain assumptions for investment income and the health care costs. How much would it take for you to, in terms of employer contributions, to be fully funded within the given amortization period?

Mr. Summer said I think part of the work of the task force would be to come up with a suggestion and reasonable options. Without studying it, my suggestion for an agency like yours tends to be to have some level, sort of a lower level, of fixed contributions, additional contributions you're making to pre-fund each year. Then in those years in which you have budget surpluses, to give it a relatively high priority so you can stick a chunk of the budget surplus away as extra money as you go to speed things up.

Again, that's part of what the task force—assuming that you sort of approve a task force and move it forward, in the next few months, the task force is going to try and look at your budget, look at your situation, and come up with a couple of options and a suggestion as to how you would go about the pre-funding. Again, remembering that what you feel works for you in 2021, 2022 isn't necessarily what's going to be working for you in 2024, 2030. So, you'll have the option of reviewing it on a regular basis and anytime something extraordinary comes up, reassessing where you are at that point in time.

Chairman Burroughs said thank you for those comments. I have a number of other questions, but for the point of expediency, we'll have an opportunity to revisit this as we move forward. Committee, I would ask that if you have questions, please reach out to Kathleen with those questions. I would assume, Kathleen, that you'd be the point person on this? **Ms. VonAchen** said yes. **Chairman Burroughs** said so that we will have a chance to discuss those again. Ira, Brian, thank you for sharing the information with us this evening and going over your PowerPoint. Kathleen, this is, again, a very important item as we move forward as we set the basis for the business for our local unit of government and our employees. I do look forward to having an opportunity to have further discussion. I believe there's some opportunity for input that may be of benefit.

With that, if there aren't any other questions, committee. For the public, this is for information only. If there are no further questions, no further comments, that takes us to the end of our agenda this evening. If there's no other business, I'll announce that we are refinished for the evening.

Action: For information only.

Adjourn:

Chairman Burroughs adjourned the meeting at 8:28 p.m. cg