



REPORT TO COUNCIL
City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

PUBLIC HEARING
May 30, 2006

Honorable Mayor and
Members of the City Council

Subject: FY2006/07 Budget Special Presentation: Other Post-Employment Benefits
(OPEB)

Location/Council District: Citywide (All)

Recommendation:

For information only. Receive and file.

Contact: Leyne Milstein, 808-8491, Dennis Kauffman, 808-5843

Presenters: Russell Fehr, Finance Director

Department: Finance

Division: Administration

Organization No: 1110

Description/Analysis:

Issue: The Governmental Accounting Standards Board (GASB), which establishes accounting standards for state and local governments, has issued a series of rules regarding governmental liabilities related to retiree benefits. Specifically, GASB recently released Statement No. 45 (GASB 45) which addresses health and other non-pension benefits for retired public employees. These benefits are collectively known as other post-employment benefits, or OPEB.

OPEB is part of the total compensation that employers offer for services received from employees. Health, dental and prescription drugs are the primary benefits, but OPEB can also include other benefit plans provided to retirees, other than pensions; such as vision, life, long-term care, etc. As a result of GASB 45, the rules that governments follow to account for retiree health benefits are changing beginning in FY2008 as GASB 45 requires the City to recognize the cost (liability) of the OPEB benefits over the working career of employees, based on an

actuarial study. The City's unfunded OPEB liability is projected to be in the range of \$200 - \$400 million, and the actuarial study will be completed in this fall. This completed study will provide the information necessary for staff to outline the Council's options related to this issue.

It is important to note that GASB 45 does not require the City to fund the OPEB liability, however, an unfunded OPEB liability in the City's Comprehensive Annual Financial Report (CAFR) may have impact on the City's financial condition and future cost of borrowing.

Policy Considerations: None at this time.

Environmental Considerations: None.

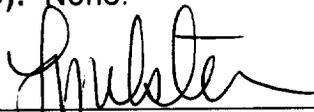
Rationale for Recommendation: Upon receipt of the completed actuarial study, staff will develop recommendations to address this issue and return to Council during FY2007.

Financial Considerations: The City of Sacramento currently funds its OPEB on a pay-as-you-go basis, budgeting each year for the cost of benefits for current retirees. The City paid approximately \$5.8 million in FY2005 for post-employment health and dental benefits to retirees. Government accounting standards prior to GASB 45 allowed accounting for OPEB on the pay-as-you-go basis.

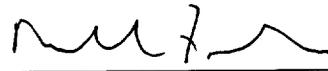
If the City were to continue to fund its OPEB on the pay-as-you-go basis, an unfunded liability would be established in FY2008 and would increase each year thereafter. The new accounting standard allows the City to amortize the unfunded liability over 30 years. Although this new accounting standard may not immediately affect the City's budget, the City should consider the policy options relating to funding this liability.

Emerging Small Business Development (ESBD): None.

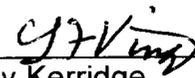
Respectfully Submitted by:


for Dennis Kauffman, Accounting Manager

Approved by:


Russell Fehr, Finance Director

Recommendation Approved:


for Ray Kerridge
City Manager