AGENDA ITEM NO. 8.a

LAFCO *of Monterey County*

LOCAL AGENCY FORMATION COMMISSION
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KATE McKENNA, AICP
Executive Officer

DATE: February 22, 2010

TO: Chair and Members of the Formation Commission

FROM: Kate McKenna, AICP, Executive Officer

SUBJECT: RETIREE HEALTHCARE OBLIGATION AND POLICY

SUMMARY OF RECOMMENDATIONS:

The Budget and Finance Committee recommends adoption of a resolution to:

1. Accept the Report on Annual Required Contribution for Retiree Healthcare Obligation and Expense, dated January 6, 2010, calculating a liability of $2,245 for the current fiscal year and each of the next two fiscal years. See Attachment 3.
2. Adopt a Policy on Liability for Post-Employment Benefits (see Attachment 1) to:
   a. Calculate and record the liability and expense;
   b. Establish a Reserved Cash Account for Other Post-Employment Benefits, and
   c. Establish a Commission goal to fund the liability, and
3. Authorize the transfer of $2,245 from funds available in the Benefits line item to the Reserved Cash Account for Other Post-Employment Benefits, with no fiscal impact.

EXECUTIVE OFFICER'S REPORT:

Introduction

LAFCO must calculate and record its liability for any post-retirement benefits. LAFCO has one such liability. The California Public Employee Retirement System (CALPERS) requires employers to contribute a certain amount (currently $100 per month) toward the premiums of any retiree who elects to participate in the CALPERS medical benefits program. LAFCO is not required to fund the liability, but may elect to do so.

On January 20, the LAFCO Budget and Finance Committee met to consider the liability and related policy considerations. Executive Officer McKenna and Stephanie Gonzales of Hayashi and Wayland participated in the discussion with Committee Chair Rubio, Commissioner Perkins, and LAFCO Chair Salinas. This report summarizes the findings of the Committee.

Liability Calculation and Assumptions

Federal accounting rules require LAFCO to fully disclose any liability for unfunded post-retirement benefits, beginning with the audit for the current fiscal year. Using software leased for this purpose, LAFCO staff calculated the cost of this liability at $2,245 for the current fiscal year and each of the next two years.

Assumptions, methodology and results are described in the attached Report on Annual Required Contribution for Retiree Healthcare Obligation and Expense, dated January 6, 2010. The report was reviewed by Mr. Jay Fountain of AFS Associates, Inc. (the software developer), Ms. Stephanie Gonzales, Hayashi & Wayland, and the Budget and Finance Committee.

The liability is a requirement of LAFCO's participation in the CALPERS medical benefits program. The program requires each employer to pay a minimum amount (currently $100 per month) toward the medical premium of any retiree who opts to continue that benefit. The liability ends when the retiree is eligible for Medicare. A retired employee may opt out of or into the program until age 65. (Please note: LAFCO has only one retired employee to date, and that retiree is not currently participating in the program).

The calculation assumes a projected liability for active employees until they retire, and removes them if they decide not to receive the medical benefits covered by the CALPERS health insurance plan. Retirement is assumed at age 60, and the liability stops at age 65. The liability amount is the minimum required (currently $100 per month), with an assumed 6 percent annual inflation factor for medical premiums each year. The calculation does NOT include retired employees who elect to NOT receive the benefit, until such time that they choose to receive the benefit.

The LAFCO Budget and Finance Committee recommends that the liability calculation report be accepted by the Commission.

Policy Considerations

Having identified the cost of the liability, the Committee then discussed policy considerations. Recommended policy language is provided in Attachment 1.

The draft language establishes a procedure to calculate the annual liability every three years (or more often if needed), to record the liability and expense, and to establish and fund a Restricted Cash Account for Other Post-Employment Benefits. There is no obligation to fund the liability, but the amount is relatively small and the practice would be consistent with Commission policy for other liabilities.

The Budget and Finance Committee recommends that the policy be adopted by the Commission.

FISCAL IMPACT:

$1,500 is allocated in the Benefits line item of the current year budget to prefund this liability. That allocation was a cost estimate. Now that the actual cost ($2,245) has been calculated, anticipated savings elsewhere in the Benefits line item can fund the difference ($745).

Therefore, the recommended action is to fund the Restricted Cash Account for this liability with funds that are available within the Benefits line item. This action will have no impact on the budget.

ALTERNATIVE ACTIONS:

The Commission may make changes to the liability calculation (Attachment 3) and/or to the proposed policy (Attachment 1) and/or draft resolution (Attachment 2). One alternative is to reject funding of the liability at this time.

Respectfully Submitted,

Kate McKenna, AICP
Executive Officer

Attachments (3)