MINUTES OF THE GOVERNING BOARD
OF THE MOJAVE DESERT AIR QUALITY MANAGEMENT DISTRICT
VICTORVILLE, CALIFORNIA

AGENDA ITEM 11

DATE: November 23, 2009

RECOMMENDATION: Adopt a Resolution to approve participation in the Public Agency Retirement Services (PARS) Public Agencies Post-Retirement Health Care Plan Trust and appoint the Executive Director as Plan Administrator, authorize funding the Trust with $100,000, adopt an investment strategy, and authorize conforming staff actions.

SUMMARY: The actions in this item will establish an irrevocable trust with PARS, adopt an investment strategy, authorize contributions to the trust, and authorize the Executive Director to execute necessary documents and transfer funds into the trust.

CONFLICT OF INTEREST: Public Agencies Retirement Services (PARS), its Directors and Officers; Governing Board members and officers of the MDAQMD.

BACKGROUND: The District is subject to the Government Accounting Standards Board (GASB). The adopted standard 45 (GASB 45) requires public agencies to report costs and obligations for post-employment health care and other post-employment benefits ("OPEB"). Specifically, the requirements of GASB 45 includes: 1) obtaining a certified actuarial study, 2) determining the financial obligation, and 3) establish a process to ensure the sustainability of the benefits.

What is the basis for the contribution amount? The District obtained an actuarial study (Exhibit "A"). The amount of actuarial liability for current and future retirees as of June 30, 2009 is $2,825,503. This represents the present value of all health care benefits expected to be paid by the District of its current and future retirees. **The valuation also determined that the District's annual required contribution (ARC) would be $152,878** (based on an investment account returning a 7% rate of interest, or better). This is the amount needed each year to pay for current benefit obligations and to eliminate the current unfunded actuarial liability over a 30 year amortization period.

What are the (other) Post-Employment Benefits provided by the District? Under the Public Employees' Medical and Hospital Care Act (PEMCHA), the District is required to pay a certain portion of each employee's medical premium. On January 1, 2010, the payment required will be $105 (up from $101) per employee enrolled which adjusts annually according to inflation. As CalPERS members, employees may continue health coverage into retirement and the District continues to be liable for the PEMCHA payment for the life of the retired employee and surviving dependents.

In addition, for retiring employees with at least ten years of service with the District and twenty years or more public service, the District subsidizes the retiree health benefit based on the years of service for up to five years, or until medicare eligible, whichever occurs first. The OPEB liability estimates the District's future obligations for the PEMCHA requirement and the District's retiree health benefit.

What are the options for funding the liability? Employers generally consider three mechanisms for addressing the obligation: an irrevocable trust, pay-as-you-go, or a revocable trust. Funds deposited in an irrevocable trust transfers the liability of the obligation off of the District's financial statements and preserves the ability to fund the benefits in the future. Pay-as-you-go includes the current liability in each year's budget. A revocable trust designates District funds and are usually contained within the agency's financial system.

This action recommends establishing an irrevocable trust to hold District contributions for future obligations. Contributions are not required, however, this method preserves the funds for their intended purpose and removes the obligation from the District's financial statements. Future contributions will be determined and incorporated into the annual budgetary process.

What documents are required to establish and maintain an irrevocable trust?

Exhibit A: A Resolution of the Governing Board approving participation in the PARS Public Health Plan Trust.
Exhibit B: The Actuarial Valuation determines the District's liability and obligations.
Exhibit C: A Trust Agreement establishes the Trust.
Exhibit D: The Adoption Agreement adopts the Master Plan and Trust Agreement.
Exhibit E: The Master Plan Document will be the District's Post-Retirement Health Care Plan.
Exhibit F: The Agreement for Administrative Services contracts with PARS for administrative services for the Trust.
Exhibit G: Investment Services Exhibit: OPEB Trusts describes the investment options
Exhibit H: The Discretionary Trustee Fee Schedule confirms the rates to be charged for services.
Exhibit I: The Investment Strategy Selection and Disclosure Form selects the investment strategy.
Exhibit J: Investment Guidelines Document describes the investment guidelines for managing the assets of the trust.

These forms have been reviewed by special counsel for the Governing Board.

Why choose PARS? PARS is an endorsed affiliate of the California Special Districts Association. They are an experienced trust administrator and not a broker. PARS is a direct trust administrative provider and has established security plans. They have several asset allocation strategies and allow complete tailoring of the investment approach. There are no restrictions for leaving the trust or program and a trust to trust transfer is allowed. Finally, PARS is partnered with Union Bank of California to provide the trust administration and trustee and investment management services for the program.

What are the annual administrative costs? The minimum administrative fee charged by PARS is $400 per month. In the early years of the trust, this fee should be paid directly from District general funds by invoice. We anticipate that this fee can eventually be paid from the trust earnings.

What investment strategy is best for the District? The Budget committee has met and determined that the Balanced/Moderately Aggressive strategy would be an appropriate approach for an initial period of time. This strategy anticipates a 7% rate of return. The mix of investments is approximately Equity (50-70%), Fixed Income (30-50%), and Cash (0-20%).

What is the source of funds to deposit into the Trust? In the action taken earlier in this meeting, the Board authorized the use of $100,000 previously designated for the Compensated Absences Reserves. These reserves were established for anticipated payouts of accruals accumulated by long term employees who have now retired. Staff recommends using these funds to fund the Trust account.

REASON FOR RECOMMENDATION: The Governing Board action is required to adopt the Resolution, authorize establishing this trust, and transfer of funds to the irrevocable trust.

REVIEW BY OTHERS: This item was reviewed by Karen Nowak, District Counsel as to legal form and Eldon Heaston, Executive Director on or before November 6, 2009. The Budget Committee met and reviewed this matter on October 8, 2009.

FINANCIAL DATA: This item will authorize the deposit of $100,000 into an irrevocable trust.

PRESENTER: Jean Bracy, Director of Administrative Services