

# **Other Post Employment Benefits (OPEB) and Best Financial Policies**

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# Outline

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## OPEB

- What is it?
- History of OPEB in Richmond
- Why do we have to fund OPEB?
- Next Steps

## Resolution 2021-R023

- Best Financial Policies
- Why are these important?



# OPEB

## What are Other Post Employment Benefits?

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- Health and Dental\* Benefits provided post employment
- Eligible employees include:
  - Sworn Police and Fire;
  - Constitutionals;
  - Executives;
  - General Employees hired prior to 7/1/2006
- Employees Must be:
  - vested in Defined Benefit or Enhanced Defined Benefit Plan
  - employed at the City for 15 years (or 10 years with 5 years of continuous healthcare coverage insurance)
  - under age 65 to participate (benefits end at age 65)

\*Dental is 100% paid by retiree if elected and also stops at age 65



# OPEB

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## History:

- Last significant changes to benefits eliminated access for General employees hired after 7/1/2006
- Financial Reporting rules changed from a pay-as-you-go methodology to requiring disclosure of the financial obligation and requiring contributions (ARC) to cover costs
- Localities realized they could not afford the benefit liability



# OPEB

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## City Audit findings/recommendations - 2021-04

### **Audit found:**

- OPEB has grown and will continue to grow **unless adequately funded or benefit changes are implemented**
- Other localities have controlled OPEB cost by eliminating or capping subsidies

### **Audit recommended:**

- Fully funding the OPEB the ARC and setting aside additional funding for the OPEB Trust
- Creating a team to present alternatives to reduce the OPEB liability in future years



# OPEB

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## **Internal Work Group Reviewing Current OPEB:**

- A cross functional team has been formed
- Reviewing benefits of peer localities
- Working with City benefit consultant on alternatives
- Recommendations forthcoming



# OPEB

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## Why do we need to fund the ARC?

- City **obligation** – Promised benefit for existing staff
- Current liability is approximately \$116M
- Best financial practice to fund obligations
- Funds are invested and grow to pay future liability



# OPEB

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## Next Steps:

- Ramp up of funding in the adopted FY2022 budget to reach ARC
  - *\$1.4M funded in Non Departmental. Represents an increase of \$1.15M from FY21*
- Current OPEB ARC is \$15M need (each year)
- Goal is to fully fund ARC in three fiscal years
- Recommend benefit changes to align with peer communities





# Resolution 2021-R23

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# Resolution 2021-R23

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## Financial Policies of Well-Managed Governments – **Richmond HAS** ✓

### OPERATING BUDGET:

- Revenue Diversification = ✓
- Annual Review of Fees = ✓
- Adequacy & Limited Use of Fund Balance = ✓
- Restricted Revenue Uses = ✓
- \*Structurally Balanced Budget (One time \$ for One time Purpose) = ✓



# Resolution 2021-R23

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## Financial Policies of Well-Managed Governments – **Richmond HAS** ✓

### OPERATING BUDGET (cont.):

- Long Range Revenue and Expenditure Projections = ✓
- Budget Performance Monitoring = ✓
- Fund Balance and Revenue Stabilization Reserve Requirements = ✓



# Resolution 2021-R23

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## Financial Policies of Well-Managed Governments – **Richmond HAS** ✓

### CAPITAL & DEBT BUDGETING:

- Long Range Capital Plan Projections = ✓
- Debt Limit as a % to Assessed Value = ✓
- Debt Limit as a % to General Government Expense = ✓
- Debt Structure Limitations = ✓
- Debt Pay-out Ratio Requirements = ✓



# Resolution 2021-R23

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## Financial Policies of Well-Managed Governments – **Richmond NEEDS**

### OPERATING:

- ***Strong Revenue Collection Rate*** – Strive for collection rate of 100%
- ***One time Revenue and Savings limited to One Time Expenses***
- Structurally Balance the Budget.....
  - Balance recurring revenues to recurring expenditures ***to include annual requirements of capital maintenance & REQUIRED contributions to Pensions and OPEB to meet funded goal thresholds (70%)***



# Resolution 2021-R23

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## Financial Policies of Well-Managed Governments – **Richmond NEEDS**

### OPERATING:

- *Funds for maintenance of capital assets*
- *Funds for maintenance of human capital* - Compensation and benefits adjustment to minimize costly turnover and fairly compensate to support service needs
- *Self-insurance rate stabilization reserve - address spikes (20% of anticipated claims)*



# Resolution 2021-R23

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## Financial Policies of Well-Managed Governments – **Richmond NEEDS**

### CAPITAL:

- ***Pay-As-You-Go CIP Cash Funding*** - Annual 3% of recurring revenues to defray debt financing and fund capital maintenance & small projects

### POLICY REPORTING:

- ***Policy compliance reported & monitored annually***



# Resolution 2021-R23

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**FY22 Budget incorporated a multi-year path to best financial and budgeting practices**

- Prioritized limited funding to address critical **needs and obligations** of the City:
  1. **OPEB of \$1.4M** to achieve full ARC of \$10M in 3 years by FY24
  2. **Risk Management Claims Reserve of \$250k** to reach \$1.2M in 5 years
  3. **Cash/Pay-go of \$1.4M for CIP maintenance & City Hall project** - Goal to reach 3% of general fund tax revenues (\$18.5M) within 5 years





# Resolution 2021-R23

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## Next Steps:

- Resolution to obtain City Council's commitment to support multi-year plans to achieve several critical best practices



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# QUESTIONS

