

ATTACHMENT #4

City and Borough of Juneau ASSEMBLY FINANCE COMMITTEE Unfunded Pension Liability October 21, 2015

Issue:

Effective for the fiscal year ended June 30, 2015, the Governmental Accounting Standards Board (GASB) requires a change in the financial reporting for “unfunded” pension liability. GASB Statement No. 68 requires governments to include the net pension liability in their financial statements and to include the change in this liability as a current expense. This information has only been included in the Notes to the Financial Statements in the past. The significant issue is that CBJ must decide whether to record the entire liability related to CBJ employees or only a specific portion.

The objective of this paper is to provide a very simple high level overview of the unfunded liability issue. Thus a lot of technical terms and analysis detail has been left out.

Background:

Employees from the city, BRH and the school district participate in retirement systems authorized and administered by the State of Alaska: Public Employees Retirement System (PERS) and Teachers Retirement System (TRS). These systems provide a pension & healthcare for retired employees enrolled prior to July 1, 2006.

For various reasons the past contributions were not sufficient to fund all the actuarially determined future costs. An unfunded liability has accrued and this must now be recorded in our financial statements. The amount of this liability has been communicated to CBJ by State Division of Retirement and Benefits (DRB). Based on a state law adopted in 2008 the total liability is separated into 2 categories: one determined based on direct contributions made by CBJ to the pension fund and a second category based contributions made by the State of Alaska (SOA) “on-behalf” of CBJ.

Current Status:

DRB has provided unaudited liability numbers for CBJ. Final numbers will be available the first of November and should not change significantly.

Category	CBJ	JSD	BRH	Total
PERS – Employer	40,007,262	12,686,636	32,527,474	85,521,372
PERS – On-behalf	33,586,246	11,364,099	28,566,766	73,517,111
TRS – Employer		16,980,356		16,980,356
TRS – On-behalf		92,454,172		92,454,172
Total by entity	\$ 73,593,580	\$ 133,485,263	\$ 61,394,240	\$ 268,473,011
Total Employer	40,007,262	29,666,992	32,827,474	\$ 102,501,728
Total On-behalf	33,586,246	103,818,271	28,566,766	\$ 165,971,283

In determining how much of the liability should be recorded we consulted: GASB Implementation Guide, CBJ Auditor, staff research (including BRH and JSD), SOA resources and other local governments. One piece of information not yet received is guidance, if any, on the from the DRB financial statement auditor.

ATTACHMENT #4

Since 2009 the annual funding of the pension liability has come from two sources – direct contributions made by CBJ and on-behalf contributions made by the State. This funding arrangement is the result of legislation adopted in 2008. One objective of the legislation was to assure that the combined employer and on-behalf annual contributions equal the full actuarial contribution called for by the retirement fund board.

Based on this review and analysis, so far, our initial determination is to record only the employer portion of the liability. We will continue to research and analyze the situation and our position. A final decision will need to be made prior to completing our FY15 financial statements in November. Based on the numbers in the table above CBJ would record a pension liability, allocated across all government and enterprise funds, of \$102 million. It is anticipated that this liability would be paid off over the next 24 years.

There is some concern being expressed by several communities that a provision in the updated pension liability legislation that passed in 2014 could have the effect of transferring a larger portion of the unfunded liability to local governments over the next several years. Additional research will be done on this issue.

There are arguments that can be made contrary to this position. The SOA Attorney General's (AG) Office issued an opinion August 3, 2015 taking the position that a special funding situation does not exist. The AG guidance is that the SOA will not record on their financial statements the liability related to the on-behalf" funding. At this time CBJ disagrees with their analysis and position.

Financial Implications:

What is the financial ramification from recording the current year expense and liability in our financial statements?

On an overall consolidated basis it does not appear that CBJ will be in a negative net financial position. There is a considerable amount of allocation and analysis yet to be completed. There could be some funds or enterprise funds that end up in a net negative position. The recording of the liability will not result in any change on our annual cash flow.

Guidance provided by the national credit rating agencies indicate that just recording the additional pension liability will not directly affect CBJ's credit rating. The pension liability will be viewed within the context of the communities overall financial management, financial reserves (restricted and unrestricted), local economy and total debt burden. From the broader perspective CBJ is in a strong position. It is a positive that the SOA and local governments have implemented a long term pension funding strategy.

What is the financial ramification on our operating budget moving forward?

CBJ's required annual contribution to the retirement system, for both current costs and the unfunded liability, are already included in our adopted budget numbers. The required contribution is 22% of wages and it has been at this level since 2009. The required contribution amount does not change based on the recording of the liability.