

**FEATHER RIVER AIR QUALITY MANAGEMENT DISTRICT  
MEMORANDUM  
8/7/2023**

**TO:** FRAQMD BOARD OF DIRECTORS

**FROM:** Christopher D. Brown AICP, APCO

**SUBJECT:** Approve initial funding recommendation of the District's PARS Pension Trust and PARS OPEB Trust accounts (\$500,000 total).

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**RECOMMENDATION:**

Approve an initial funding amount of \$300,000 to the PARS OPEB trust account, and an initial funding amount of \$200,000 to the PARS Pension Trust account from the unrestricted general fund.

**ALTERNATIVES:**

Provide alternative direction to staff.

**BACKGROUND:**

In 2012, the Government Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB 68 requires that governmental employers that sponsor Defined Benefit plans (i.e., CalPERS) must recognize a Net Pension Liability on their balance sheet, which is the difference between the District's total pension liability (actuarial accrued liability) and actual plan assets. GASB 68 (which replaces the requirements of GASB 27) became effective for fiscal years starting after June 15, 2014.

In 2015, the Government Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires the District to report costs and obligations for post-employment healthcare and other post-employment benefits (called "OPEBs") much like the current accounting requirement to report pension obligations. Similar to GASB 68, the District must also report its net OPEB liability (difference between the total OPEB liability and assets accumulated in an irrevocable trust) on its Financial Statements. GASB 75 (which replaces the requirements of GASB 45) became effective for fiscal years beginning after June 15, 2017.

In an effort to help public agencies address and manage their GASB 68 and 75 liabilities, PARS has sought and received approval from the IRS in the form of a Private Letter Ruling on its newly developed Post-Employment Benefits Trust Program. PARS has assembled leading professionals to provide the District with the necessary services required under one program to pre-fund both pension and retiree health care liabilities. This is providing the District with an alternative to CalPERS that will allow for greater local control over assets, investment by a professional fund management team selected and monitored by the District, with contributions and distributions from the trust determined at the discretion of the District.

In April of this year, the Board approved establishment of District OPEB and Pension Trust accounts with PARS.

**DISCUSSION:**

To complete the establishment of the District OPEB and Pension Trust accounts with PARS, it is necessary to fund initial contributions to each account.

The unfunded liability of the District OPEB as of June 30, 2021 was \$598,362. By prefunding the liability, we receive a discount rate reducing the liability. For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%. By selecting the moderate risk portfolio, our prefunding discount rate will be roughly 6.2% allowing for a liability reduction of nearly 40%.

We are recommending funding 90% of the discounted liability at \$300,000 as the initial contribution.

The unfunded liability valuation of the District Pension as of June 30, 2021 was \$686,000. Our funded ratio was 87.4%, as we have been contributing annually. We are recommending funding \$200,000 as the initial contribution with a moderately conservative risk portfolio.

**FISCAL IMPACTS:**

A reduction to the general unassigned fund of \$500,000 total, moving the total to the PARS Trust accounts.

This amount is included in the final budget scheduled for adoption at this meeting.