



**MEMORANDUM**

**TO:** Beverly R. Cameron, City Manager  
**FROM:** Mark Whitley, Assistant City Manager  
**RE:** Establishment of an OPEB Trust – Amending the FY 2016 Budget  
**DATE:** May 2, 2016

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**ISSUE**

Shall City Council amend the FY 2016 budget to join and place funds in a dedicated fund for Other Post-Employment Benefits (“OPEB.”)

**RECOMMENDATION**

Staff recommends approval of the attached resolution on first reading. Second reading, if approved, would be scheduled for the May 24<sup>th</sup> City Council meeting.

**BACKGROUND**

The City Council this spring is considering two key recommendations to assist the long-term financial outlook of the City: establishment of an OPEB Trust and establishment of a Jail Stabilization Reserve.

The City Council is asked to consider elsewhere on this agenda an ordinance that establishes a trust for Other Post-Employment Benefits (“OPEB.”) The attached resolution amends the FY 2016 budget to fund an amount of \$1,000,000 in the OPEB Trust.

Accounting standards passed by the Governmental Accounting Standards Board (the “GASB”) have changed the accounting for these types of benefits. Governments must now account for these benefits on a long-term liability basis, and are encouraged to set aside funds into a long-term trust to pay for the future cost of benefits.

The trust will allow withdraws from the trust solely for the purpose of paying Other Post-Employment Benefits. Setting aside funds in a trust in this fashion will lower the long-term liability for OPEB for the City, which is actuarially determined every two years.

The City will continue to fund the cost of health insurance for current retirees from the current budget. Future City Councils may wish to consider setting aside additional future funds for the OPEB Trust, as resources permit. In the meantime, investment earnings will continue to accrue in the trust to offset the future cost of benefits.

**FISCAL IMPACT**

The attached resolution will use \$1,000,000 of the General Fund Unassigned Fund Balance for the purpose of setting aside these funds in a trust for the payment of future costs for retiree health insurance.

The current City budget, as amended, includes the budgeted use of \$5,796,031 in fund balance in the General Fund. The transfer from the capital commitment is \$3,007,000, and there is an additional \$619,826 of encumbrances. The remaining \$2,169,285 represents a variety of other one-time expenditures.

The attached resolution will add \$1,000,000 of fund balance usage to this total, but sets it aside in trust. The City's net fund balance position will be reduced by the \$1,000,000. This impact is offset by a positive reduction in the City's long-term liabilities on the overall statement of net assets.

cc: Beverly R. Cameron, City Manager  
Clarence A. Robinson, Director of Fiscal Affairs



May 10, 2016  
Regular Meeting  
Resolution No. 16-\_\_

**MOTION:**

**SECOND:**

**RE: AMENDING THE FISCAL YEAR 2016 BUDGET BY APPROPRIATING \$1,000,000 OF FUND BALANCE FOR THE ESTABLISHMENT OF A TRUST FOR OTHER POST-EMPLOYMENT BENEFITS**

**ACTION: APPROVED: Ayes: 0; Nays 0**

**FIRST READ: \_\_\_\_\_ SECOND READ: \_\_\_\_\_**

**WHEREAS**, retirees of the City of Fredericksburg are entitled to certain benefits regarding health insurance upon their retirement, outside of pension benefits; and

**WHEREAS**, the Governmental Accounting Standards Board (“GASB”) has changed accounting standards regarding these benefits, known as “Other Post-employment Benefits” or “OPEB,” to recognize the actuarial value of these benefits as a long-term liability and to encourage governments throughout the country to set aside funding in trust for the future payment of the costs of these benefits; and

**WHEREAS**, the City of Fredericksburg continues to pay the current cost of these benefits in the annual budget on a pay-as-you-go basis, but wishes to supplement this funding by setting up an OPEB trust and providing funds to that trust for the payment of benefits in the future; and

**WHEREAS**, the creation and funding of the OPEB trust will significantly reduce the long-term liability for the City under accounting standards, which in turn improves the net asset position of the City; and

**WHEREAS**, the City Council wishes to provide initial funding for the OPEB Trust in fiscal year 2016;

**NOW, THEREFORE, BE IT RESOLVED** that the following amendments to the FY 2016 budget be made and appropriations be recorded in the General Fund.

**GENERAL FUND**

**Source**

Fund Balance

3-100-061010-0010	Fund Balance (Unassigned)	\$ 1,000,000
Department Total:		\$ 1,000,000

**Total Source: \$ 1,000,000**

<b>Use</b>		
<u>OPEB Benefit Trust</u>		
4-100-093199-2899	OPEB Benefit Trust	\$ 1,000,000
Department Total:		<u>\$ 1,000,000</u>
<b>Total Use:</b>		<b><u>\$ 1,000,000</u></b>

**Votes:**

**Ayes:**

**Nays:**

**Absent from Vote:**

**Absent from Meeting:**

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***Clerk's Certificate***

*I, the undersigned, certify that I am Clerk of Council of the City of Fredericksburg, Virginia, and that the foregoing is a true copy of Resolution No. 16-\_\_ duly adopted at a meeting of the City Council meeting held May 10, 2016 at which a quorum was present and voted.*

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***Tonya B. Lacey, CMC***  
***Clerk of Council***