City of Birmingham
A Walkable Community

MEMORANDUM

Finance Department

DATE: **July 1, 2015**

TO: **Joseph A. Valentine, City Manager**

FROM: **Mark Gerber, Finance Director**

SUBJECT: **Pension and RHC GASB Changes**

Until recently, unfunded pension and retiree health care liabilities were not recorded in the financial statements but were included in the footnotes. New statements issued by the Governmental Accounting Standards Board (GASB) will now require the liability to be included in the City's financial statements. GASB 68 which requires recording the pension liability will be effective for our fiscal year end June 30, 2015. The GASB statement regarding Other Post-Employment Benefits (OPEB), or RHC in our case, has just been released in draft form and when approved by GASB would be effective for our fiscal year ended June 30, 2018.

What Does This Mean For the City?

1. The pension liability will be allocated among the various funds based on their share of the liability (approximately $3.5 million at June 30, 2014).
2. The pension liability for the General Fund, Major Street Fund, Local Street Fund, and Solid Waste Fund will not be recorded on their individual fund statements, but rather as a consolidated Governmental Activities number on the Statement of Net Position (see page 15 of the 2014 CAFR). This means that these individual funds will still be reported the same way as they always have been before and their fund balances will not change as a result of this liability.
3. The liability will be recorded in individual Enterprise Funds (Auto Parking System, Water Fund, Sewer Fund, and Golf Courses) and Internal Service Funds (Information Technology, Auto Equipment and Fire Equipment Funds). This will result in a decrease in the Net Position of these individual funds.
4. This statement does not affect how the annual contributions to the Retirement Fund are determined. They will still be determined through the annual actuary valuation process.
5. It is too early in the process to know how these changes in financial reporting will affect the City's credit rating. The information has always been included as footnotes in the statements before so this really shouldn't be anything new to the rating agencies. Plus the City still has many favorable factors such as a strong downtown, re-investment in the City, operating millage capacity, and a well-funded pension system that all contribute to a high credit rating.
6. The OPEB liability as of June 30, 2014, stands at $37 million. The system is 41% funded. This one will have a significant impact on our financial statements, especially the Enterprise Funds. These funds will have to be carefully monitored to make sure there are sufficient reserves in those funds to absorb this liability in 3 years.

7. Overall, the combined pension and OPEB liability at June 30, 2014, of $40.5 million is less than the combined unrestricted net position of $55.3 of the City as of June 30, 2014. Very few communities are in this position.

I will continue to monitor the City's financial status as it relates to both of these GASB statements as new information becomes available.