

Fort Bend County

Other Post-Employment Benefits (Retiree Healthcare)

2008 - Current

OPEB Activity:

- 2008 – Initial Actuarial calculation with an unfunded liability of \$207m. The annual expense of \$24,163,190 required to be placed on Financials.
- 2010 – Changed years of service requirement for retiree healthcare from 8 to 16 years of consecutive service.
- 2015 - \$5.6m allocated to OPEB fund
- 2017 – Required to book full unfunded liability on Financials totaling \$431m
- 2019 – Changed years of service requirement for retiree healthcare from 16 to 20 years of consecutive service.
- 2020 – Allocated 1 cent of operating tax rate to fund OPEB and continued through 2022.
- 2023 – Allocation of 1 cent of operating tax rate was removed due to revenue cap as well as use of accrual of the levy totaling \$17m. This was necessary to meet the operating needs for 2023.
- 2023 – Bill submitted to the Texas legislature requesting authority to issue Pension/OPEB obligation bonds (like Texas Cities have under LGC 107). The proposed bill is bracketed for FBC and requires voted authorization for any bond issue and requires that the debt service be funded from other revenue rather than ad valorem taxes. As of 4/21/2023 the bill has been reported favorably in the House to the Committee on Local & Consent Calendars.
- OPEB Liability Experience:

Year	Annual Expense	Unfunded Liability
2008	\$ 24,163,790	\$ 207,200,000
2009	24,656,132	240,300,000
2010	26,292,706	261,900,000
2011	26,647,414	284,800,000
2012	28,269,868	308,600,000
2013	28,750,422	332,500,000
2014	30,979,026	356,900,000
2015	31,522,002	382,500,000
2016	35,616,512	350,708,226
2017	36,237,943	430,955,201
2018	37,992,498	422,306,384
2019	52,404,879	590,472,674
2020	57,258,715	597,396,893
2021	59,247,483	634,919,158
2022	38,690,166	495,366,734

Funding Options:

- Proposed legislation for Fort Bend County to issue Pension/OPEB Obligation bonds will allow the County to submit a referendum on the 11/7/2023 ballot for voter authorization. The proposed referendum amount is suggested to be \$500m. If successful, the Court should consider issuing \$225m of this authorization as the first major investment in the OPEB trust.
 - The County operating budget will then commit \$15m/year as debt service from other revenue (Fines/Fees/Court Costs). Of note: the proposed legislation requires the funding of the debt service to be from a source other than ad valorem taxes. The basis of this allocation to debt service is determined from the current annual Retiree healthcare expenditures paid to medical providers. This allocation will fund the debt service for a \$225m bond issue over 20 years. The Trust will then be sufficient to pay the annual retiree healthcare expenses from the earnings in the trust with excess earnings contributing to the reduction of the liability.
- The annual budget process will result in identifying excess M&O tax rate over the Voter Approval Rate. The Court should consider allocating this excess tax rate to the I&S (debt service) rate to assist with additional funding toward the OPEB liability.
 - This is accomplished by issuing Working Capital Notes pursuant to LGC 1431 in the amount of the revenue generated from the levy of the excess rate moved from M&O to I&S.
 - The proceeds of these notes will then be deposited in the General Fund to budget for a portion of a major operating expenditure (like Public Safety payroll). The budget originally allocated toward the portion of this major operating expenditure will then be available to transfer to the OPEB trust.
 - The proceeds in the I&S fund related to the excess M&O rate will be used to pay off the Working Capital Notes within one year.
 - Of note: the County allocated the excess M&O tax rate to I&S for FY2023/TY2022 in the amount of \$0.0167. This generated \$20m in the I&S (debt service) fund for the funding of Working Capital Notes that can assist with the OPEB liability as described in the bullets above.

The attached worksheet demonstrates how an initial deposit to the trust of \$250m (half of the current liability) would fully fund the Benefits paid out to medical providers and generate excess earnings to go toward the liability. Continuing to fund the liability with annual excess M&O tax rate over the voter approval rate would result in achieving a 70% funding level in the Trust within 14 years. The County would still have an outstanding principal debt which would represent a 30% overall funding of the liability on the County's financials. The liability will grow to \$1.3b in 20 years if no funding approach is used. If the County prefunds the liability with the approach shown on the spreadsheet, will allow you to fund \$1b of this liability at a debt service cost over 20 years totaling \$812m. The Trust will also fully fund the Benefit payouts estimated at \$851m over 20 years while still approaching an appropriate funding level. If the County continues to fund Retiree healthcare from the operating budget, the annual expense will grow to \$851m over 20 years. The prefunding of the liability pursuant to the attached schedule would result in a debt service cost totaling \$811m over 20 years. Therefore a savings of \$40m will result from prefunding the OPEB liability.

Fort Bend County

OPEB Prefunding Projections

FY2024 - FY2044

Fiscal Year	Total Benefits Liability Unadjusted	Amount of Trust Funding Each Year	Retiree Premiums	Interest Earned Annually	Benefits Payout Annually	Trust Balance End of Year	% Int Fund Benefits	% Liab Funded	Non-Ad Valorem Debt Svc Annually	Debt Principal Balance
2024	500,000,000					\$ 6,000,000				
2025	525,000,000	\$ 250,000,000	\$ 1,500,000	\$ 17,983,276	\$ 15,000,000	260,483,276	133.21%	50%	\$ 18,750,000	\$ 242,558,724
2026	551,250,000	18,750,000	1,635,000	19,609,932	16,500,000	283,978,208	131.92%	52%	20,156,250	252,936,676
2027	578,812,500	20,156,250	1,782,150	21,351,820	18,150,000	309,118,428	130.45%	53%	21,667,969	263,690,643
2028	607,753,125	21,667,969	1,942,544	23,214,392	19,965,000	335,978,333	128.81%	55%	23,293,066	274,819,458
2029	638,140,781	23,293,066	2,117,372	25,203,005	21,961,500	364,630,276	127.00%	57%	25,040,046	286,341,430
2030	670,047,820	25,040,046	2,307,936	27,322,850	24,157,650	395,143,458	125.05%	59%	26,918,050	298,274,679
2031	703,550,211	26,918,050	2,515,650	29,578,872	26,573,415	427,582,615	122.95%	61%	28,936,904	310,601,880
2032	738,727,722	28,936,904	2,742,059	31,975,671	29,230,757	462,006,492	120.71%	63%	31,107,171	323,339,424
2033	775,664,108	31,107,171	2,988,844	34,517,386	32,153,832	498,466,061	118.35%	64%	33,440,209	336,487,292
2034	814,447,313	33,440,209	3,257,840	37,207,565	35,369,215	537,002,460	115.87%	66%	35,948,225	350,059,650
2035	855,169,679	35,948,225	3,551,046	40,049,009	38,906,137	577,644,602	113.28%	68%	38,644,342	364,055,864
2036	897,928,163	38,644,342	3,548,086	39,445,546	39,230,355	620,052,222	110.55%	69%	41,542,667	378,462,627
2037	942,824,571	41,542,667	4,189,967	45,931,807	46,719,786	664,996,878	108.00%	71%	44,658,367	393,299,875
2038	989,965,800	44,658,367	4,567,064	49,221,445	51,391,765	712,051,990	105.12%	72%	48,007,745	408,554,443
2039	1,039,464,090	48,007,745	4,978,100	52,662,415	56,530,941	761,169,310	102.15%	73%	51,608,326	424,221,864
2040	1,091,437,294	51,608,326	5,426,129	56,250,707	62,184,035	812,270,437	99.11%	74%	55,478,950	440,374,987
2041	1,146,009,159	55,478,950	5,914,481	59,980,048	68,402,439	865,241,478	95.99%	76%	59,639,872	457,102,594
2042	1,203,309,617	59,639,872	6,446,784	63,841,507	75,242,683	919,926,958	92.80%	76%	64,112,862	474,415,802
2043	1,263,475,098	64,112,862	7,026,995	67,823,044	82,766,951	976,122,908	89.55%	77%	68,921,327	492,425,798
2044	1,326,648,853	68,921,327	7,659,424	71,908,992	91,043,646	1,033,569,005	86.24%	78%	74,090,426	511,065,050
Totals		\$ 987,872,349	\$ 76,097,472	\$ 815,079,290	\$ 851,480,106	\$ 1,033,569,005			\$ 811,962,775	

Assumption:

5% - Liability growth rate assuming prefunding projections presented

7.5% - Prefunding increase over cumulative prefunded amount though FY2044

9% - Retiree Premium increase year over year

7% - Interest rate on trust

10% - Increase year over year for Benefit Payments

Column Descriptions

Total Benefits Liability Unadjusted	Total OPEB liability from Actuary
Amount of Trust Funding Each Year	Total OPEB Obligation Bonds deposited into Trust
Retiree Premiums	Amount paid by Retirees for Healthcare Benefits
Interest Earned Annually	Interest earned by Trust compounded monthly
Benefits Payout Annually	Amount paid to Healthcare providers on behalf of Retirees
Trust Balance End of Year	Trust balance at the end of each year after annual inflows and outflows
% Int Fund Benefits	% of Benefit Payouts funded from interest earned by the Trust
% Liab Funded	% of annual actuarily determined liability is pre-funded
Non-Ad Valorem Debt Svc Annually	Annual debt service for OPEB Obligation Bonds funded from revenue other than ad valorem taxes
Debt Principal Balance	OPEB Obligation Bond principal balance at the end of each year