Finance and GASB Update

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Avenues of Communication

- TMRS E-Bulletin for Cities — normally goes out after TMRS Board meetings
- TMRS website — particularly “Eye on GASB” page
- TMRS City Portal — Requires log-in; secure site for providing confidential information (census data and SOC-1 audit report)
Pension Standards Under GASB

Presentations available at www.tmrs.com/ats.php and on the mobile app (Sessions)
Pension Standards

- GASB issued new pension standards (GASB 68) in June 2012

- First TMRS cities to implement were those with fiscal year-ends on or after June 30, 2015

- Most TMRS cities have now reported for the third year under GASB 68

- Recent pension-related pronouncements GASB 78, 82, and 85 either confirmed or did not impact TMRS reporting packages
Other Post-Employment Benefit (OPEB) Standards
OPEB Standards

OPEB = Other Postemployment Benefits

- Statement 74 – the Plan (TMRS)
- Statement 75 – the Employer (cities)

These are very similar to GASB 67 and 68
Applicability of GASB 74 to TMRS

Statement 74 – the Plan

- Effective for TMRS fiscal year ending 12/31/2017
- OPEB = “post”/after employment = retiree death benefits only
- TMRS’ SDB structure (combining actives and retirees in same plan) does not meet GASB’s definition of OPEB (i.e., actives ≠ OPEB)
- As such, there is no “OPEB trust” for TMRS’s GASB reporting
Applicability of GASB 74 to TMRS

- Supplemental Death Benefits (SDB) Plan will continue to be shown in TMRS Financial Statement as a separate fiduciary fund.

<table>
<thead>
<tr>
<th>As of December 31, 2016 and 2015</th>
<th>2016</th>
<th>2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$27,225,142</td>
<td>-</td>
<td>$27,225,142</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$107,373,131</td>
<td>$674,746</td>
<td>$108,047,877</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>$45,489,778</td>
<td>-</td>
<td>$45,489,778</td>
</tr>
<tr>
<td>Securities lending income</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment trades</td>
<td>$129,821,718</td>
<td>-</td>
<td>$129,821,718</td>
</tr>
<tr>
<td>Securities sold on a when-issued basis</td>
<td>$1,020,688,455</td>
<td>-</td>
<td>$1,020,688,455</td>
</tr>
<tr>
<td>Total Receivables</td>
<td>$1,303,373,082</td>
<td>$674,746</td>
<td>$1,304,047,828</td>
</tr>
</tbody>
</table>
Gasb 75 for OPEB

Statement 75 – the Employer (cities)

- Effective for fiscal years beginning after 6/15/2017
  - First cities to implement would be those with fiscal years ending on or after 6/30/2018
    - (December 31, 2017 Measurement Date)

- The portion of each city’s SDB that applies to retirees is considered to be OPEB

- Therefore, cities participating in SDB will have to report an OPEB liability in conformance with GASB 75
The Good News

- GASB 75 is very similar to GASB 68
- TMRS will be doing most of the heavy lifting
  - Record-keeping for census data
  - Performing the Actuarial Valuation
  - Providing a detailed reporting package with step-by-step instructions for reporting the liability
  - Reporting package will be very similar to that already being provided for GASB 68
  - Even though you will be reporting the Total OPEB liability, amounts are likely to be relatively small
The Bad News

- You may be implementing OPEB for multiple plans in the same year (i.e. – retiree health; retiree death)
- The Statement of Net Position may be getting crowded, necessitating combining items including the NOL, Deferred Outflows, and Deferred Inflows
- Thought will also need to be given regarding efficient ways to display the notes
GASB 75 for OPEB

Decisions made by TMRS following consultation with GASB, KPMG (System Auditor) and GRS (Consulting Actuary):

- Contributions determined as pay-as-you-go, and are not intended to prefund $7,500 retiree benefit
  - Therefore, there are no accumulated assets for purposes of OPEB reporting
- Employers will report the Total OPEB liability ("TOL")
  - (Total OPEB = Net OPEB liability, as there are no assets)
- For reporting purposes, assumptions include:
  - Single discount rate used in calculating the total OPEB liability (high-quality municipal bond rate)
  - Benefit payments = contributions
  - Administrative expenses will be paid by the pension trust
How TMRS Provides GASB Information to Cities

Presentations available at www.tmrs.com/ats.php and on the mobile app (Sessions)
For Your City’s Financial Reporting – Changes for future OPEB implementation

- GRS will create Reporting Package containing GASB 75 OPEB reporting items (specific for each individual city) — similar to the GASB 68 pension reporting packages
  - GRS certification letter
  - OPEB liability and changes in the liability (as of 12/31 measurement date)
  - OPEB expense and deferred inflows/outflows
To keep track of changes required by GASB 68 pension accounting standards, TMRS created a web page as a resource for cities and their auditors.
“Eye on GASB”

To get there, click Cities tab, then Eye on GASB link:
These sections open up to give you resources for each topic.

Information for future OPEB implementation will be on this page.
Needed Journal Entries

- Remember just like pensions, OPEB entries are in three categories:
  - Prior Period Adjustments (Year of Implementation)
    - The Beginning TOL will be provided
    - The beginning deferred outflows (contributions made after the measurement date) will be determined based on your FYE
  - There will be no need to reverse off anything from GASB 45 as nothing was recorded
Needed Journal Entries - continued

- Year of Implementation
  - Record SDB OPEB expense and related deferred inflows/outflows from liabilities
  - No deferred inflows or outflows from assets as you are reporting the TOL and individual employers will not be allocated FNP
  - Adjusting beginning deferred outflow for contributions after the measurement date for end of year amounts
  - No need for amortizing previous year’s deferred inflow/outflows as TMRS will elect not to have any in the year of implementation
Needed Journal Entries - continued

- Annual Entries after the first year:
  Just like year of implementation except
  - You will have deferred inflows or outflows from liabilities to amortize
Sample Journal Entries

- City of Generous Benefits has the following facts regarding their SDB participation:
  - They are a September fiscal year end
  - Annual Payroll is $100 million in FY 2017
  - Annual Payroll is $110 million in FY 2018
  - Payroll occurs evenly throughout the year
  - SDB contribution rate (retiree-only portion) is 0.12% for both years
  - CGB’s SDB TOL as of 12/31/16 is $3 million
  - CGB’s SDB TOL as of 12/31/17 is $3.1 million
  - Deferred Inflows related to liability experience are $7,000
  - Average remaining service life is 7 years
Sample Journal Entries - continued

- Prior Period Adjustment

  Net Position $3,000,000
  SDB Total OPEB Liability $3,000,000

- To record beginning SDB TOL

  Deferred Outflow-Contributions $90,000
  Net Position $90,000
Sample Journal Entries - continued

Annual Entry-Year of Implementation

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDB TOL Expense</td>
<td>$229,000</td>
<td></td>
</tr>
<tr>
<td>Deferred Outflow-Contributions</td>
<td></td>
<td>9,000</td>
</tr>
<tr>
<td>SDB TOL</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>SDB Contributions</td>
<td></td>
<td>132,000</td>
</tr>
<tr>
<td>Deferred Inflow-liability experience</td>
<td></td>
<td>6,000</td>
</tr>
</tbody>
</table>

Deferred Inflow of $6,000 will be amortized $1,000 per year for next 6 years.
Financial Reporting Questions for TMRS

- City finance personnel and the city’s external auditor should continue to send GASB-related questions to:
  pensionaccounting@TMRS.com

- Cities that need to get help with the City Portal:
  Email CityPortal@tmrs.com or call TMRS’ toll-free number: 800-924-8677
Dedicated to Transparency

- TMRS communicates constantly with cities, members, and elected officials
- Board materials are publicly posted
- TMRS documents support transparency and sound management—actuarial valuations, experience studies, city rate letters, and the CAFR
Transparency Web Pages for Cities

Texas Municipal Retirement System

City Services

Information and resources for city employers who help administer the TMRS program.

TMRS’ Resource Page for Cities

Carrollton’s Pension Transparency Page

Pension Information

The City’s Pension Plan

The City of Carrollton is a member of Texas Municipal Retirement System (TMRS) a statewide, multiple employer agent plan. In an agent plan, each participating government pension is centrally administered and governed by state statutes but the assets and pension liabilities for each government are accounted for separately and any unfunded liabilities are solely the obligation of that government. Carrollton has chosen from a menu plan options as authorized by the TMRS statute. Carrollton’s plan provides the following benefit level:

- Employee Contributions: 7% of pay
- Employer Match at Retirement: 2x employee account balance
- Updated Service Credits: 7.5% (100% is maximum)
TMRS CAFR – Timing and Compliance

- December 31 financial statements are issued mid-June each year (at TMRS’ June Board meeting)
- TMRS CAFR complies with GFOA Certificate Program pension checklist:
  - Introductory Section
  - Financial Section
  - Investment Section
  - Actuarial Section
  - Statistical Section
TMRS CAFR – Uses for Cities

- Provides an overview and understanding of the system as a whole
- Great benchmarking tool as it contains Plan Provisions for all participating members
- Provides significant information for assessing the sustainability of the plan
  - Investment Section
  - Actuarial Section
Cities may want to review...
Cities may want to review…
Cities may want to review…

### 2016 Investment Results

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>TMRS Total Fund Return</td>
<td>7.42%</td>
<td>4.54%</td>
<td>6.65%</td>
<td>6.09%</td>
</tr>
<tr>
<td>Total Fund Active Weighted Benchmark</td>
<td>6.84%</td>
<td>4.00%</td>
<td>6.19%</td>
<td>5.73%</td>
</tr>
<tr>
<td>TMRS Core Fixed Income Return</td>
<td>2.98%</td>
<td>3.16%</td>
<td>2.47%</td>
<td>4.29%</td>
</tr>
<tr>
<td>Fixed Income Benchmark</td>
<td>2.65%</td>
<td>3.03%</td>
<td>2.23%</td>
<td>4.05%</td>
</tr>
<tr>
<td>TMRS Non-Core Fixed Income Return</td>
<td>7.96%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-Core Fixed Income Benchmark</td>
<td>13.56%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TMRS Real Return</td>
<td>6.95%</td>
<td>1.80%</td>
<td>2.32%</td>
<td>-</td>
</tr>
<tr>
<td>Barclay's World Government Inflation-Linked Bond Index</td>
<td>4.02%</td>
<td>1.05%</td>
<td>0.98%</td>
<td>-</td>
</tr>
<tr>
<td>TMRS Domestic Equity Return</td>
<td>13.33%</td>
<td>8.35%</td>
<td>14.54%</td>
<td>-</td>
</tr>
<tr>
<td>Russell 3000 Index</td>
<td>12.74%</td>
<td>8.43%</td>
<td>14.67%</td>
<td>-</td>
</tr>
<tr>
<td>TMRS International Equity Return</td>
<td>3.72%</td>
<td>-0.95%</td>
<td>5.79%</td>
<td>-</td>
</tr>
<tr>
<td>International Equity Active Weighted Index</td>
<td>4.41%</td>
<td>-1.44%</td>
<td>5.35%</td>
<td>-</td>
</tr>
<tr>
<td>TMRS Absolute Return</td>
<td>2.97%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>HFRI Fund of Funds Diversified Index</td>
<td>0.26%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TMRS Real Estate Return</td>
<td>14.76%</td>
<td>16.76%</td>
<td>13.68%</td>
<td>-</td>
</tr>
<tr>
<td>NCREIF-ODCE 1 Quarter Lag</td>
<td>9.98%</td>
<td>12.44%</td>
<td>12.39%</td>
<td>-</td>
</tr>
<tr>
<td>TMRS Private Equity</td>
<td>1.68%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Russell 3000 +3%</td>
<td>16.08%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Cities may want to review...

[Table]

Summary of Actuarial Liabilities and Funding Progress (Pension Trust Fund)

<table>
<thead>
<tr>
<th>Annual Report Year</th>
<th>Actuarial Value of Assets (1)</th>
<th>Actuarial Accrued Liability (AAL) (2)</th>
<th>Funded Ratio (3)</th>
<th>Unfunded AAL (UAAL) (4)</th>
<th>Covered Payroll (5)</th>
<th>UAAL as a Percentage of Covered Payroll (6)</th>
<th>City Contributions (7)</th>
<th>Average City Rate (7) / (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007**</td>
<td>$ 14,203.3</td>
<td>$ 19,278.8</td>
<td>73.7 %</td>
<td>$ 5,075.5</td>
<td>$ 4,221.3</td>
<td>120.2 %</td>
<td>$ 512.9</td>
<td>12.2 %</td>
</tr>
<tr>
<td>2008</td>
<td>15,149.7</td>
<td>20,360.8</td>
<td>74.4</td>
<td>5,211.1</td>
<td>4,530.0</td>
<td>115.0</td>
<td>567.2</td>
<td>12.5</td>
</tr>
<tr>
<td>2009</td>
<td>16,305.7</td>
<td>21,525.1</td>
<td>75.8</td>
<td>5,219.4</td>
<td>4,769.0</td>
<td>109.4</td>
<td>641.7</td>
<td>13.5</td>
</tr>
<tr>
<td>2010**</td>
<td>16,986.0</td>
<td>20,481.5</td>
<td>82.9</td>
<td>3,495.5</td>
<td>4,797.9</td>
<td>72.9</td>
<td>679.3</td>
<td>14.2</td>
</tr>
<tr>
<td>2011</td>
<td>18,347.0</td>
<td>21,563.3</td>
<td>85.1</td>
<td>3,216.4</td>
<td>4,853.3</td>
<td>66.3</td>
<td>703.8</td>
<td>14.5</td>
</tr>
<tr>
<td>2012</td>
<td>19,784.8</td>
<td>22,683.8</td>
<td>87.2</td>
<td>2,899.0</td>
<td>4,961.7</td>
<td>58.4</td>
<td>664.4</td>
<td>13.4</td>
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<tr>
<td>2013***</td>
<td>21,293.6</td>
<td>25,320.7</td>
<td>84.1</td>
<td>4,027.1</td>
<td>5,142.4</td>
<td>78.3</td>
<td>680.8</td>
<td>13.2</td>
</tr>
<tr>
<td>2014</td>
<td>22,861.0</td>
<td>26,647.5</td>
<td>85.8</td>
<td>3,786.5</td>
<td>5,374.5</td>
<td>70.5</td>
<td>719.2</td>
<td>13.4</td>
</tr>
<tr>
<td>2015****</td>
<td>24,347.7</td>
<td>28,378.9</td>
<td>85.8</td>
<td>4,031.2</td>
<td>5,683.9</td>
<td>70.9</td>
<td>750.8</td>
<td>13.2</td>
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<tr>
<td>2016</td>
<td>25,844.0</td>
<td>29,963.3</td>
<td>86.3</td>
<td>4,119.3</td>
<td>5,884.8</td>
<td>70.0</td>
<td>767.1</td>
<td>13.0</td>
</tr>
</tbody>
</table>
QUESTIONS