

SALT LAKE COUNTY OPEB TRUST

Annual Report for Year-Ended December 31, 2019



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Salt Lake County OPEB Trust
Annual Report
December 31, 2019

This is the Annual Report by the Trustees of the Salt Lake County OPEB Trust (“Trust”) for the period ending December 31, 2019. The Annual Report highlights the administration of the Trust and provides unaudited financial disclosures.

I. Trustees

The following served as Trustees during 2019:

Darrin Casper, Deputy Mayor- Finance and Administration/CFO, Salt Lake County
K. Wayne Cushing, Salt Lake County Treasurer
David Delquadro, Council Fiscal Manager, Salt Lake County
Lori Okino, Mayor’s Office Appointee, Salt Lake County

Collectively (the “Board”)

II. Background

A. Salt Lake County Irrevocable Trust

On April 21, 2015, the Salt Lake County Council adopted a resolution authorizing the creation of an irrevocable Trust for the purpose of funding OPEB liabilities, in line with its intent set during the budget deliberations.

On September 22, 2015, the County Council created the irrevocable Trust. The Trust is attached as Exhibit 1.

The Trust was funded with an initial deposit of \$3.8 million, with funds previously collected and set aside for this purpose. Additional contributions have been funded in each subsequent year.

B. Other Post-Employment Benefits (OPEB) Overview

Salt Lake County (the “County”) offers many employee benefits designed to attract and retain quality employees. Some of these are deferred benefits, such as the state of Utah Retirement System pension plan benefits.

In addition to pension plan benefits, Salt Lake County government offers certain “other post-employment benefits” including life insurance and health insurance benefits to eligible employees who retire from the County and qualify to retire from the systems. These benefits are generically called OPEB-type benefits.

In 2015, accounting regulations required governments to quantify the liability the benefits create to the government entities. The requirements are dictated by the Governmental Accounting Standards Board (“GASB”) statements 74 and 75. In short, GASB implemented a requirement to increase the transparency in reporting of the liability, facilitate consistency with the current reporting requirements for pensions, and provide more useful information about the liability and costs of benefits.

The implementation of the GASB requirements was effective in 2017 for the County. A quantitative analysis and calculation is required to be performed by an actuarial firm every two years. Generally, the most pertinent statistics include the estimated total liability to the County called Total OPEB Liability (“TOL”), Plan Fiduciary Net Position, Deferred Outflows and Inflows of Resources, OPEB Expense, and the Actuarially Determined Contribution (“ADC”). The ADC is the projected annual payment needed to fund the plan benefits over time.

The statistics are used by financial customers of the government, as well as by its policy makers. The OPEB statistics are routinely reviewed by ratings agencies when assigning a credit rating to a government in the event debt is issued. Policy makers use the statistics to understand future possible financial risks or liabilities and to make decisions regarding the nature and form of employee benefits.

On December 31, 2012, the County discontinued OPEB benefits for future employees. Anyone hired after January 1, 2013, would not be eligible for OPEB benefits. The irrevocable Trust finances the OPEB liability for employees hired prior to 2013.

C. Salt Lake County OPEB

Employees hired prior to January 1, 2013 are eligible for lifetime retiree health benefits once they meet the Utah Retirement Systems Public Employees and Public Safety Retirement Systems eligibility requirements for pension benefits. These benefits include the following:

- (Pre 65) Retiree medical insurance at 102% or 140% of employee premiums until Medicare eligible (County contribution based on years of service)
- \$1,000 life insurance policy
- Post 65 Medicare Supplement

To the extent permitted by law, these benefits are subject to change by the County.

III. County OPEB Financial Obligations

For 2019, the County contracted with an actuarial firm, Nyhart, to prepare the OPEB statistics required by GASB. The final report was issued on June 11, 2020. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective.

Nyhart's full report is attached as Exhibit 2. The main statistics developed by Nyhart are published in the 2019 CAFR and summarized below:

- Actuarially Determined Contribution (ADC) \$7.26M
- Total OPEB Expense \$5.92M

- **Total OPEB Liability (TOL) 2019**

TOL at December 31, 2018	\$106.3 M
Service Cost	2.6 M
Interest	5.4 M
Difference between expected and actual experience	(7.0 M)
Changes in assumptions or other inputs	4.0 M
Benefit payments	(3.5 M)
Net Changes	<u>1.5 M</u>
TOL at December 31, 2019	<u>\$107.8 M</u>

- **Plan Fiduciary Net Position 2019**

Plan Fiduciary Net Position at December 31, 2018	\$ 6.5 M
Employer Contributions	6.0 M
Benefit Payments	(3.5 M)
Net investment income	0.8 M
Trust administrative expenses	(0.3 M)
Net Changes	<u>3.0 M</u>
Plan Fiduciary Net Position at December 31, 2019	<u>\$ 9.5 M</u>

- Net OPEB Liability (Total OPEB Liability with Plan Fiduciary Net Position) in the year ending December 31, 2019, dropped \$1.5M; from \$99.8M to \$98.3M.

Although GASB requires disclosure of the above statistics, it does not require a solution. As such, Salt Lake County along with many government entities, previously made the decision to pay for the liabilities as they come due. Typically, this underfunds the liability at least when compared to the ADC. For the County, the contributions made were \$5.96 million in 2019 (which exceeded the pay-as-you-go amount of \$3.70 million) compared with the ADC of \$7.26 million. The goal of the board of trustees of the fund is to continue increasing contributions to the irrevocable trust year over year until such time when the total annual contributions to OPEB equal the ADC.

IV. Summary of Current Year Administration

A. Investment Strategy

The investment returns realized by the Trust fund assets play a major role in determining the amount of contributions necessary to finance future expenditures. Higher realized investment return rates will reduce the amount of the Actuarial Determined Contributions – and vice versa. Historically, in order to achieve higher rates of returns, pension funds adopted diversified investment strategies that include equity investments. The Trustees intend to follow a similar approach, which includes using a private investment firm for portfolio management and recordkeeping.

Salt Lake County Treasurer K. Wayne Cushing analyzed multiple management firms and ultimately recommended contracting with Moreton Asset Management to manage the funds of the Trust. The Trustees approved the selection and agreed that the Treasurer would communicate the Board's strategy to Moreton and control the Trust's investments (timing and size) on behalf of the Board. On July 5, 2017, the Trustees approved an investment strategy that includes equity investments as permitted by the Utah Money Management Act, Utah Code Ann. § 51-7-12.2. The portfolio objective was to reach a balance of 50% investment in equities. This objective was met as of September 30th, 2019. For future years, the board increased the portion of the portfolio that may be invested in equities, inclusive of both common and preferred stocks, from 50% up to 75%.

B. Management of Assets

Salt Lake County Mayor's Finance has established a fiduciary trust fund under the supervision of the Board called the OPEB Trust Fund 995. The financial assets, liabilities, contributions, distributions, and net position of the Trust's financial assets are recorded in this fund.

The OPEB Trust Fund 995 consists primarily of two accounts controlled by the Salt Lake County Treasurer; one cash account held in the Public Treasurer's Investment Fund (PTIF), and one account held with Moreton Asset Management (investment account).

The balance in the PTIF is used to handle the day to day operations of the OPEB revenues and expenditures which are managed through Salt Lake County Mayor's Finance and follow county policy and protocol for disbursement. The second account holds the majority of the fund's assets and is intended to be invested to facilitate growth following the strategy outlined above. Additionally, the Board of Trustees has authorized a strategy to review the net effect of revenues and expenditures to the PTIF account each year, and if a surplus develops beyond an agreed minimum reserve of \$250,000, the excess will be transferred to the investment account. In the event a deficit occurs reducing the PTIF below the minimum reserve, the Board will make an adjustment recommendation to the County Mayor and Council to correct the structural budget deficit. In general, that correction will necessitate increasing revenues (contributions) from county organizations.

Contributions (revenues) to the OPEB Trust Fund 995 are made up of collections of health insurance premiums from eligible retirees and receipts of an OPEB charge made to applicable County organizations. Distributions, or expenses of the fund are paid when incurred and invoiced to the County and consist only of costs related to providing the benefits to employees. During the annual county budget process, estimates for both revenues and expenditures are made, and appropriations are requested.

V. Current Year Audited Financial Results

The revenues and expenditures on a management basis of the Trust are reported in Exhibit 3. The official financial statement for the Trust is included in Exhibit 4.

The market value of the investment account as of 12/31/2019 invested by the Treasurer with Moreton Asset Management, was \$7,344,068. The Board will continue to review the assets of the Trust and make recommendations in line with its long-term goal of asset accumulation. See Exhibit 5 for a complete breakdown of current investments and the market value of the Trust's investments as of 12/31/2019.

In 2019, additions to the trust exceeded deductions by \$3,029,087. For the official financial statements, any payments made by plan participants are excluded from contributions and payments. Retiree contributions collected by the trust for 2019 were \$918,063.

During its May 2020 meeting, the Board recommended the transfer of \$623,178 to the Treasurer for investment in the investment account. This contribution represented a contribution from the Greater Salt Lake Municipal Services District (MSD) for OPEB benefits associated with the planning and development employees transferred to the MSD from the County in 2019.

During its Aug 2020 meeting, the Board approved a transfer to Moreton of \$1,800,000 because of the 2019 operations of the fund. This contribution represents an increase from the contribution of \$1,300,000 made in 2019 because of the 2018 operations of the fund. Accordingly, and in line with the board of trustees' goals for the fund, a recommendation was made to the County policy makers- Mayor and Council, to increase the OPEB charge to County organizations during the June budget re-opening in 2019.

The policy makers agreed with this recommendation and on June 18, 2019, the County Council appropriated increased 2019 revenues to the fund in the amount of \$485,736 per year. This increase along with an overall positive year for claims resulted in the increased transfer. In response to the COVID-19 pandemic, the policymakers in the June 2020 budget discussion agreed to decrease the OPEB contribution by \$970,776.

The expenses of the Trust are those paid to the investment advisor in the form of commissions and the expenditures identified in the OPEB Fund 995 summary. The Trustees are Salt Lake County employees and receive no compensation from the Trust. Salt Lake County overhead costs, apart from Trustee time, are charged to fund 995 using the same allocation method used for all County funds. Overhead costs for 2019 totaled \$84,341.

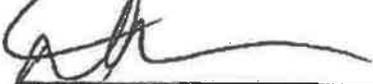
VI. Summary

In November 2014, Salt Lake County took the first step in moving away from a purely pay-as-you-go method of paying for OPEB expenditures. Its goal is to begin reducing the unfunded liability associated with the benefits. To this end, a specific irrevocable OPEB trust fund and related investment account has been established by the County for the purpose of accumulating cash to fund the liability.

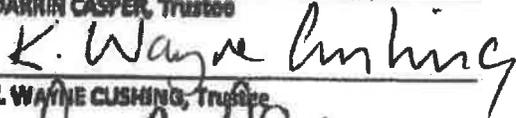
As previously mentioned, the irrevocable trust was established with an initial contribution of \$3.8 million. The first five years of operation resulted in additional contributions from Salt Lake County to the Trust in excess of \$5.0 million.

The Board, which generally meets quarterly, will continue to monitor the operations and finances of the fund, with the goal of capital accumulation in the Trust and the reduction of the Unfunded Actuarial Accrued Liability for OPEB.

Dated this 27th day of October, 2020



DARRIN CASPER, Trustee



K. WAYNE CUSHING, Trustee



DAVID DELQUADRO, Trustee



LORI OKINO, Trustee