

Date: January 23, 2019

To: Board of Directors

From: Doug Kelsey 

Subject: **RESOLUTION 19-01-04 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING THE STRATEGIC FINANCIAL PLAN GUIDELINE ON PENSION FUNDING**

1. Purpose of Item

This Resolution will amend the Strategic Financial Plan (SFP) Guideline on pension funding to remove the wording related to the Other Post Employment Benefit (OPEB) Trust being 50% funded in fifteen years, and clarifying the intent to continue funding both Pension Trusts at the current level until both are fully funded.

2. Type of Agenda Item

- Initial Contract
- Contract Modification
- Other – Amending the Strategic Financial Plan Guidelines

3. Reason for Board Action

Board approval is necessary to amend the previously adopted Strategic Financial Plan (SFP) Guidelines on pension funding.

4. Type of Action

- Resolution
- Ordinance 1st Reading
- Ordinance 2nd Reading
- Other _____

5. Background

On July 23, 2014, the TriMet Board adopted the Strategic Financial Plan, which provided valuable and important financial planning guidelines for the agency covering the use of funds; rate of service cost growth; financial reserve levels; fare policy; capital assets; debt service levels; and pension and OPEB Trust funding.

The establishment of the SFP and adherence to the established guidelines has been very beneficial to the agency and is viewed favorably by rating agencies as an example of strong financial management, contributing to the current AAA rating on TriMet’s Senior Lien bond issues.

When the pension funding policies were developed and adopted in February 2016, a fifteen-year closed amortization schedule was established and the funding level for the Bargaining Unit pension plan was 59%. It is now 80.2%. A ten-year amortization schedule was

established and the funding level for the Management and Staff pension plan was 72%. It is now 92.9%, and is expected to be fully funded (95%) within the next several years.

Prior to the Bargaining Unit Pension Plan closing to new hires on August 1, 2012, the OPEB Trust was approximately \$949.6 million. The change from a defined benefit (DB) plan to a deferred compensation (DC) plan resulted in a 25% reduction of the OPEB Trust amount, lowering it to approximately \$710.8 million. While the OPEB liability continues to grow annually, the rate of growth was cut in half by the move to the DC plan and the current OPEB liability is approximately \$786.1 million. (Annual OPEB expenses are approximately \$27.8 million, which TriMet pays directly on a pay-as-you-go basis).

The current SFP Guideline on pension and OPEB funding reads as follows:

Within 15 years, the Pension Trust should be fully funded and the Other Post-Employment Benefits (OPEB) liability reduced by 50%. Once the pensions are fully funded, the same level of funding should be dedicated to OPEB funding until the OPEB liability is fully funded.

Staff proposes to amend this SFP Guideline to read:

Within 15 years, the Pension Trusts should be fully funded ~~and the Other Post-Employment Benefits (OPEB) liability reduced by 50%.~~ ~~Once~~ As the pensions become fully funded, the same level of funding should **first be dedicated to funding the remaining pension and then the same amount as previously invested in both pensions annually should be dedicated to OPEB funding** until the OPEB liability is fully funded.

By removing the above statement from the Guideline, this amendment acknowledges that the OPEB liability upon the date the SFP was adopted will not be reduced by 50% at the end of the fifteen year period. The amendment further clarifies that the amount of funds currently allocated to the Management and Staff pension (\$5.5 million) will be used annually to continue to reduce the liability in the TriMet Union pension, in addition to the current annual payment (\$25 million). It confirms that the combined amount now dedicated to reducing the pension liability (\$30.5 million) will be annually paid to reduce the OPEB liability until it is fully funded.

6. Procurement Process

None

7. Diversity

N/A

8. Financial/Budget Impact

No immediate financial impact.

9. Impact if Not Approved

Without clarifying language, the current guideline could be interpreted to require that funds now invested in that plan be redirected to fund the OPEB liability right away.

RESOLUTION 19-01-04

**RESOLUTION OF THE TRI-COUNTY METROPOLITAN
TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING THE
STRATEGIC FINANCIAL PLAN GUIDELINE ON PENSION FUNDING**

WHEREAS, the TriMet Board of Directors adopted the Strategic Financial Plan (SFP) Guidelines on July 1, 2014, with language specific to funding pension plans and reducing the liability on Other Post-Employment Benefits (OPEB) Trust; and

WHEREAS, conditions have changed regarding funding levels and the early potential full funding of the Management and Staff Pension Plan (Plan); and

WHEREAS, additional clarification is needed regarding the direction of dedicated funds once the Plan is considered fully funded;

NOW, THEREFORE, BE IT RESOLVED:

That the amended Strategic Financial Plan (SFP) Guidelines, which is attached hereto as Exhibit A, is hereby adopted and shall continue to be used as Guidelines in future financial decisions of the Board, including approving, adopting and amending budgets.

Dated: January 23, 2019

Presiding Officer

Attest:

Recording Secretary

Approved as to Legal Sufficiency:



Legal Department

Resolution 19-01-04
Exhibit A

TriMet's Strategic Financial Plan

Policy Statement

TriMet's mission is to provide valued transit service that is safe, dependable, and easy to use. Understanding that the demand for transit is expected to grow at least two-fold by 2035, a Strategic Financial Plan sets a course to meet that demand.

By adopting a set of Financial Guidelines that align with industry best practices and are supported by TriMet's financial policies, the TriMet Board can make budget decisions that ensure TriMet is responsive and accountable to the community it serves.

Reporting

- At the start of the annual budget process, staff should report to the Board of Directors for information, discussion, and direction on any action items staff anticipate to be needed in the upcoming budget to maintain compliance with this Strategic Financial Plan. This presentation should include an identification of metrics and analyses that support the recommended actions.
- The submittal of the Proposed Budget to the Board of Directors should include a report or scorecard on how well the Proposed Budget complies with these Guidelines. This report or scorecard should be updated to reflect the Approved and Adopted Budgets.

Financial Guidelines

1. The priority for use of increased revenues from payroll tax resulting from increased regional employment growth and fares resulting from increased ridership should be given to restoring and expanding service.
2. Current service costs should not grow faster than general inflation.
3. TriMet should maintain appropriate financial reserves consistent with TriMet's Fund Balance Policy.
4. Fare Policy should strive to balance growth in ridership and passenger revenue, improve the customer experience and mitigate costs for low-income, transit-dependent riders.
5. Capital assets must be properly maintained and replaced. The use of debt should be minimized and never exceed TriMet's Debt Policy.
6. Within 15 years, the Pension Trusts should be fully funded. As the pensions become fully funded, the same level of funding should first be dedicated to funding the remaining pension and then the same amount of funding as previously invested in both pensions annually should be dedicated to OPEB funding until the OPEB liability is fully funded.