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ACAA - Finance committee
APPROVED
~~3/23/09~~

Audit committee
ACAA - committee
APPROVED
~~3/1/10~~

Minutes of the Finance Committee and Audit Committee Meeting

of the Albany County Airport Authority

February 23, 2009

Pursuant to notice duly given and posted, the Finance and Administration Committee and Audit Committee meeting of the Albany County Airport Authority was called to order on Monday, February 23, 2009 at 9:38 am in the Administration Building, 2nd Floor Conference Room, located at the Albany International Airport by Finance Committee Chair Daniel M. Sleasman and Audit Committee Chair Elliott A. Shaw with the following present:

FINANCE COMMITTEE MEMBERS PRESENT

Daniel M. Sleasman, Chair Finance Committee
 Richard J. Sherwood
 Elliott A. Shaw

MEMBERS ABSENT

None

AUDIT COMMITTEE MEMBERS PRESENT

Elliott A. Shaw, Chair Audit Committee
 Richard J. Sherwood

MEMBERS ABSENT

Henry E. Dennis, Jr.

STAFF

John A. O'Donnell
 Bill O'Reilly
 Margaret Herrmann
 Peter Stuto
 Doug Myers
 Ginger Olthoff

ATTENDEES

Jim Amell, Marvin & Company

1. Approval of Minutes

1.1 Finance and Administration Committee: November 24, 2008

Chair Sleasman moved to approve the November 24, 2008 minutes. The motion was unanimously adopted.

1.2 Audit Committee: December 10, 2008

Chair Shaw reported that the Audit Committee had met with Marvin and Company and received an update on the 2008 audit. He stated that with this meeting, the Audit Committee had met its requirement to meet two times per year, as required in the Audit Committee Charter.

Mr. Amell noted that he was referred to as Ms. Amell in several locations of the minutes. Chair Shaw stated that the minutes will be amended to correct this.

Mr. Sherwood moved to approve the December 10, 2008 minutes, as amended. The motion was unanimously adopted.

2. Approval of Various Financial/Audit Items

2.1 Review of Plan to Implement GASBS 45

Mr. O'Reilly reviewed the Plan of Implementation for Governmental Accounting Standards Board Statement Number 45 – Other Postemployment Benefits.

Mr. O'Reilly stated that this was a required accounting standard that was issued in July of 2004 with a required implementation date of 2008. The standard requires that the current cost and accrued liability to provide postemployment benefits, other than pensions, (OPEB) be recognized and displayed in the Authority's financial statements issued for the year ended December 31, 2008. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits, i.e., life insurance, when provided separately from a pension plan. The Authority's only OPEB benefit is for the continuing provision of health insurance for vested retirees, as included in the Authority's Personnel Handbook.

He stated that due to the fact that the Authority has only been in existence for 14 years, the impact of implementing this standard was less than other municipalities. However, these costs will grow in the future unless the health insurance benefit is eliminated.

Mr. O'Reilly stated that the Authority is eligible under GASBS 45 to use a simplified method of identifying the annual OPEB costs and accumulated liability defined as the Alternative Measurement Method (AMM). The AMM incorporates actuarial valuation including projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method. The Authority has obtained an AMM liability determination utilizing a calculation tool developed by Milliman, an actuarial and consulting firm. The following results were obtained using the Milliman's calculation tool:

- Annual Required Contribution (ARC) for OPEB for 2008 was \$437,689 which includes \$326,260 for current costs and \$111,429 for amortization of the current unfunded liability over 30 years.
- The total Unfunded Actuarial Accrued Liability (UALL) at December 31, 2008 was \$3,226,067.
- The UALL as a percentage of covered payroll was 171.51%.
- Amounts actually paid for OPEB during 2008 on a pay as you go basis was \$16,648 equal to 3.8% of the annual OPEB cost and resulting in a Net OPEB Obligation of \$421,041.

Mr. Shaw inquired as to whether any money was put aside for this beginning in 2004 when the new standard was announced. Mr. O'Reilly stated that during 2007, \$35,000 was set aside for OPEB; however, these funds were reversed back to the Operating Account. In 2008 an OPEB expense of \$385,000 per year was incorporated into the budget and deposited into a separate bank account at Citizen's Bank.

Mr. O'Reilly stated that the Airline Rates and Charges for 2008 do include the current year costs of the OPEB benefit. Upon discussions with Jacobs Consultancy, it was determined that these expenses could be included in the rates, as the Airline Use and Lease Agreement refers to eligible expenses as those in accordance with GAAP.

Mr. O'Reilly stated that although the OPEB expense of \$385,000 per year has been incorporated into the budget and rates and charges for 2008 and 2009 and deposited into a separate bank account, under GASBS 45 they cannot be counted as a contribution toward the liability for OPEB. To be counted as a contribution toward the OPEB liability, the funds would have to be placed in an OPEB Trust that meets a separate accounting standard, GASBS 43.

Mr. O'Reilly stated that common belief is that a local government in New York cannot establish an OPEB trust without NYS legislation; however, Mr. Stuto has reviewed this and it appears that the Airport Authority does have the authority to set up an OPEB trust. He stated that the NY Power Authority, the City of New York, Orlando Aviation Authority, Massachusetts Port Authority and the Metropolitan Washington Airports Authority all have established OPEB trusts. Mr. O'Reilly stated that he was not asking for a decision on this now; however, he would like to present it for consideration in the future.

Mr. Shaw inquired as to whether the airlines are charged for the OPEB costs. Mr. O'Reilly stated that the costs were included in the budget and are allocated to several cost centers, not all of which are allocated to the airlines.

Mr. O'Donnell stated that the airlines pay approximately 34% of airport costs which are established in the rates and charges. All other expenses and revenues are split 50/50 and, therefore, affect the revenue sharing with the airlines.

Mr. Shaw inquired as to the method that was used to calculate the \$421,041. Mr. O'Reilly stated that the calculation tool was developed by Milliman, an actuarial and consulting firm. The calculation took into account several factors, i.e., health care

inflation of 9%, the future rate of return on the Authority's unrestricted funds deposit of 3.04% equal to the average rate of interest earned on deposits over 5 years, and future payroll inflation of 3%. This liability must be recalculated at least every 3rd year.

Mr. O'Reilly stated that the creation of an OPEB trust would have a favorable effect on the rates and charges. Currently, funds and their earnings are designated in the operating budget to pay for OPEB liabilities but the existence of these funds cannot be included in the calculation of the UAAL because they are not contributed to a qualified OPEB trust, thus no OPEB contribution is recognized under GASBS 45. As a result, the UAAL will continue to grow regardless of the fact that funds have been budgeted and designated to pay for it. Consequently, the annual GAAP OPEB expense and unfunded liability will continue to grow. Also, if the GAAP OPEB expense is included in the operating budget, the expense will continue to be allocated and billed to the airlines each year no matter how much we budget and collect for OPEB expenses as such amounts would never be credited as a contribution toward the liability.

Mr. O'Reilly stated that if the Authority were to create a qualified OPEB trust, funds designated to pay the liability would become restricted for that purpose. This would result in a benefit in the form of a reduced OPEB UAAL and reduced required annual amortization payment. This would allow for a reduction in the amount to be budgeted for the OPEB expense which will leave a favorable effect on the rates and charges.

Mr. O'Reilly stated that the net OPEB obligation of \$421,041 will be amortized over a 30 year period. Mr. Amell stated that Marvin and Company auditors were comfortable with this.

Mr. O'Donnell stated that having a health care benefit such as this at 100% coverage by the Authority did place a burden on the Airport. However, in 2005, steps were taken to reduce the amount of coverage by the Airport; whereby, new employees are required to contribute 10% towards this benefit. He stated that this policy did conform with that of other public employers.

Mr. O'Reilly stated that he would like to revisit creation of an OPEB trust later this year.

Mr. Sherwood inquired if he could see a copy of the Power Authority OPEB trust. Mr. Stuto stated that he did have a copy that he would send to the Authority members.

Mr. Shaw inquired if there were any other unfunded liabilities that the Authority members should be made aware of. Mr. O'Reilly stated that discussion of GASBS 53 was an item on today's agenda.

Mr. Amell stated that there were no other unfunded liabilities.