Moody's Perspective on OPEB Liabilities and Disclosure

"Revealing OPEBs in Your Financials"

CDIAC PreConference

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OPEB and Ratings: Thoughts to Remember

- Don’t panic if your actuary gives you a large number for an UAAL.
- You don’t have to fund the UAAL to maintain your rating.
- Issuance of OPEB funding bonds is not, by itself, a credit negative.

OPEB UAAL and Your Rating

- The typical government provides fairly generous OPEB benefits and has not prefunded.
- These commitments result in a large number when expressed on a present value basis.
- "Typical" OPEB exposure is already built into your rating.
- Even if converted into debt tomorrow, the typical UAAL can still be manageable.
- Government's response to OPEB information is more important than the number itself.

Hypothetical OPEB Bonds: Impact on Two Key Credit Factors

Issuer	UAAL ($m.)	UAAL ARC ($m.)	Direct Debt Burden (%)		G.F. Debt Service (%)	
			Before	After	Before	After
Bay Area County	70	4.5	0.4	0.5	0.0	0.6
So. Cal. County	423	27.1	0.0	0.2	0.0	0.9
Central Valley County	84	4.8	0.1	0.7	0.8	4.9
Bay Area City #1	10	0.6	0.2	0.4	0.0	2.1
Bay Area City #2	22	1.2	0.4	0.6	0.7	2.6
So. Cal. City # 1	826	45.1	1.0	1.3	3.6	4.7
So. Cal. City # 2	978	69.0	0.6	1.4	7.2	15.8
Central Valley City	400	25.6	0.8	3.5	2.2	16.6
So. Cal SD #1	18	1.2	0.6	0.8	0.6	1.9
Bay Area SD #1	2	0.09	1.9	2.0	2.2	2.7
So. Cal SD #2	10,000	640	1.7	4.7	0.8	9.3
Central Valley SD	1,200	77	1.8	10.0	0.0	12.3

Likely Focus of Moody's Analysis

- Size of the UAAL normalized to measures such as payroll, budget and taxbase, relative to peers.
- OPEB costs as a percent of budget now and over the next 10, 20, 30 years, assuming no change in current benefits and funding strategy.
- Assumptions underlying estimates/projections.
- Actions taken to control the growth in OPEB costs relative to budget.
  - Changes in benefit levels, eligibility, and vesting.
  - Partial or full prefunding (with or without the use of OPEB funding bonds).

Long Term, OPEB May Lead to Rating Changes

Factors that COULD result in a downgrade:

- **An OPEB liability which, when normalized, is significantly larger than that of peers.**
- **Unusually optimistic assumptions underlying estimates.**
- **Absence of a credible plan to keep OPEB costs manageable within budget.**
- **Inability or unwillingness to change benefits.**

Rating Considerations for Funding Bonds

- When a government has decided, for sound reasons, to prefund all or part its liability, funding bonds can be appropriate part of the funding plan.
- Expected savings should be weighed against loss in flexibility and tolerance for investment risk.