SUMMARY STATEMENT

ITEM NO.: DRPA-11-099    SUBJECT: Establishment and Administration of a Section 115 Irrevocable Trust for Other Post-Employment Benefits (OPEB)

COMMITTEE: Finance

COMMITTEE MEETING DATE: November 8, 2011

BOARD ACTION DATE: November 16, 2011

PROPOSAL: That the Board authorizes staff to negotiate a contract with PNC Institutional Investment Group for the establishment and administration of a Section 115 Irrevocable Trust for Other Post-Employment Benefits.

Amount: 30 Basis Points of Investment Balance

Contractor: PNC Institutional Investments
1600 Market Street
31st Floor
Philadelphia, PA 19103

Other Bidders: TD Wealth Management
40 Basis Points of Investment Balance

In addition to posting this RFP on the Authority’s website, eight firms were emailed copies of the RFP. We received four responses of which two were considered non-responsive.

PURPOSE: The Authority has decided to begin funding its OPEB liability in the fiscal year 2011. In order to accomplish this, an OPEB 115 Irrevocable Trust must be created. Funding of the OPEB liability through a trust in accordance with GASB requirements will allow the Authority to use a higher discount rate in calculating its unfunded liability, which will result in a reduction in the amount reported as the OPEB liability in the Authority’s financial statements.

BACKGROUND: GASB Statement 45 was issued to provide more complete, reliable, and decision-useful financial reporting to management, board members, bondholders and other stakeholders regarding the costs and financial obligations that governments incur when they provide post-employment benefits other than pensions as part of its compensation package for employees. Post-employment healthcare benefits, the most common form of OPEB, are a very significant financial commitment for many
governments.

Prior to GASB Statement 45, governments typically followed a “pay-as-you-go” accounting approach, in which the cost of these benefits is not reported (expensed) until after payments are made once employees retire. GASB 45 requires that the Authority now record the estimated cost of the benefits as a non-cash expense each year during the years that employees are providing services to the government (currently on payroll) and its constituents in exchange for those benefits.

GASB 45 also clarifies whether the amount a government has paid or contributed for OPEB during the report year covered its annual OPEB cost. Generally, the more of its annual OPEB cost that a government chooses to defer, the higher will be (a) its unfunded actuarial accrued liability and (b) the cash flow demands on the government and its tax or rate payers in the future. During 2010, the Authority’s unfunded actuarial liability was increased by $9 million to bring its total cumulative actuarial unfunded liability to $39 million.

Another important note is that the net OPEB obligation will increase rapidly over time if, for example, a government’s annual OPEB financial policy is pay-as-you-go, and the amounts paid for current premiums are much less than the annual OPEB costs.

SUMMARY:

<table>
<thead>
<tr>
<th>Amount:</th>
<th>30 Basis Points of Investment Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source of Funds:</td>
<td>N/A</td>
</tr>
<tr>
<td>Capital Project #:</td>
<td>N/A</td>
</tr>
<tr>
<td>Operating Budget:</td>
<td>N/A</td>
</tr>
<tr>
<td>Master Plan Status:</td>
<td>N/A</td>
</tr>
<tr>
<td>Other Fund Sources:</td>
<td>N/A</td>
</tr>
<tr>
<td>Duration of Contract:</td>
<td>5 Years</td>
</tr>
<tr>
<td>Other Parties Involved:</td>
<td>N/A</td>
</tr>
</tbody>
</table>
DRPA-11-099
Finance Committee: November 8, 2011
Board Date: November 16, 2011
Establishment and Administration of a Section 115 Irrevocable Trust for Other Post-Employment Benefits (OPEB)

RESOLUTION

RESOLVED: That the Board of Commissioners of the Delaware River Port Authority authorize staff to negotiate a contract with PNC Institutional Investment Group for the establishment and administration of a Section 115 Irrevocable Trust for Other Post-Employment Benefits in an amount not to exceed an annual fee of 30 basis points on the Investment Trust balance.

RESOLVED: The Chairman, Vice Chairman and the Chief Executive Officer must approve and are hereby authorized to approve and execute all necessary agreements, contracts, or other documents on behalf of the DRPA. If such agreements, contracts, or other documents have been approved by the Chairman, Vice Chairman and Chief Executive Officer and if thereafter either the Chairman or Vice Chairman is absent or unavailable, the remaining Officer may execute the said document(s) on behalf of DRPA along with the Chief Executive Officer. If both the Chairman and Vice Chairman are absent or unavailable, and if it is necessary to execute the said document(s) while they are absent or unavailable, then the Chief Executive Officer shall execute such documents on behalf of DRPA.

SUMMARY:

Amount: 30 Basis Points of Investment Balance
Source of Funds: N/A
Capital Project #: N/A
Operating Budget: N/A
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: 5 Years
Other Parties Involved: N/A