



Year-End Budget Adjustments for City's Unfunded Liabilities

City Council Meeting
October 18, 2022

Presentation Overview

- **Background & Economy**
- **Workers' Compensation**
- **General Liability**
- **Retiree Medical**
- **Retirement Supplemental**
- **Section 115 Trust**



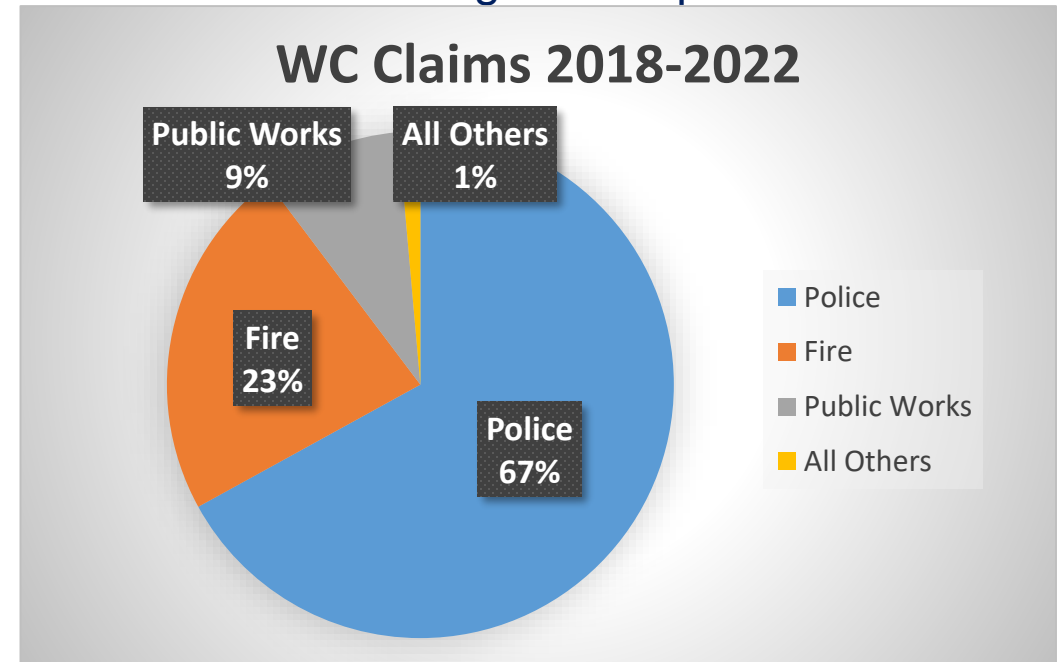
Background & Economy

- Finance Department is working on the year-end closing process
 - ✓ Preliminary year-end numbers will be presented to City Council on November 15th
- Year-End Budget Adjustment for FY2021/22 required to close FY 2021/22
- US economy faced significant challenges in the first half of 2022
 - ✓ Rising interest rates – Feds raised rates 5X in 2022 to 3%-3.5%
 - ✓ Inflation – 9.1% in June 2022
 - ✓ GDP: 1Q2022 -1.6% and 2Q2022 -0.6%
- City's retirement plan assets declined in value due to unfavorable market conditions
- Estimated Surplus FY2021/22 \$17M primarily due to Sales Tax and Transient Occupancy Tax revenues better than anticipated
- Opportunity to fund the City's unfunded liabilities – aligning with the City Council's Strategic goal of Fiscal Sustainability

Workers' Compensation

- California Workers' Compensation law provides state mandated benefits to employees for work-related illness or injury
- City is self-insured up to \$1 million per claim for a maximum of \$30 million
- \$7.6 million increase in WC liability primarily due to 38 claims that had increases of at least \$100K in FY2021/22
- Factors include rising medical costs and an expanded list of injuries that are presumed to be work related under California law, including cancer, post-traumatic stress and long-term impacts of COVID

Description	Amount / Percentage
Total WC Liability 6/30/2022	\$40.7M
Increase in Liability FY 2021/22	\$7.6M
Funded Status Without Transfer	35%
Funded Status With Transfer	42%
Recommended Transfer	\$3M



General Liability

- City is self-insured up to \$1 million per claim for a maximum of \$30 million
- \$1.5 million increase in General Liability primarily due to 3 large claims incurred in FY 2021/22
- \$2.1 million total legal claims expense in FY21/22

Description	Amount / Percentage
Total General Liability 6/30/2022	\$13.7M
Increase in Liability FY 2021/22	\$1.5M
Funded Status Without Transfer	89%
Funded Status With Transfer	100%
Recommended Transfer	\$1.5M



Retiree Medical

- The City administers 2 retiree medical or other post-employment benefit (OPEB) plans
 - ✓ Safety employees – Contributions to CalPERS Health Plan for retirement
 - ✓ Non-safety employees hired prior to 10/1/2014 – Retiree Medical Subsidy based on years of service
- The City utilizes CalPERS' California Employers' Retiree Benefit Trust (CERBT) to manage the plan
- CERBT discount rate: 5.5%
- Recommended Transfer: \$1M – minimum required to avoid drawing funds from Trust during market low

Date	Funded Status	OPEB Liab*	OPEB Asset	Net OPEB Liab (Asset)
6/30/2021	107%	\$33.9M	\$36.3M	-\$2.4M
6/30/2022 w/o Trsf	94%	\$33.9M	\$31.7M	\$2.1M
6/30/2022 w/Trsf	97%	\$33.9M	\$32.8M	\$1.1M

* OPEB Liability is estimated due to CalPERS latest report is for 6/30/2020

Years	Plan Return	Benchmark Rate
1 Year	-12.54%	-12.66%
5 Years	4.66%	4.43%
ITD^ (Oct 2011)	6.29%	6.02%

^ Inception to date

Retirement Supplemental

- The City administers a supplemental single-employer defined benefit retirement plan for employees hired prior to 1997
- The plan pays a supplemental retirement benefit in addition to benefits from CalPERS
- Investment held separately in the Supplemental Retirement Trust (SRT) and is managed by the City's Investment Custodian and subject to Investment Policy set by the SRT board.
- Supplemental Retirement discount rate: 5.5%
- Recommended Transfer: \$4.6M – minimum required to avoid drawing funds from Trust during market low

Date	Funded Status	SRT Liab*	SRT Asset	Net SRT Liab (Asset)
6/30/2021	92%	\$76.8M	\$70.4M	\$6.4M
6/30/2022 w/o Trsf	77%	\$76.8M	\$59.0M	\$17.8M
6/30/2022 w/Trsf	83%	\$76.8M	\$63.6M	\$13.2M

* SRT Liability is estimated due to latest actuary report is for 6/30/2020

Years	Plan Return	Benchmark Rate
1 Year	-15.98%	-12.44%
5 Years	4.84%	4.51%
ITD^ (Oct 2009)	6.20%	6.64%

^ Inception to date

Section 115 Trust

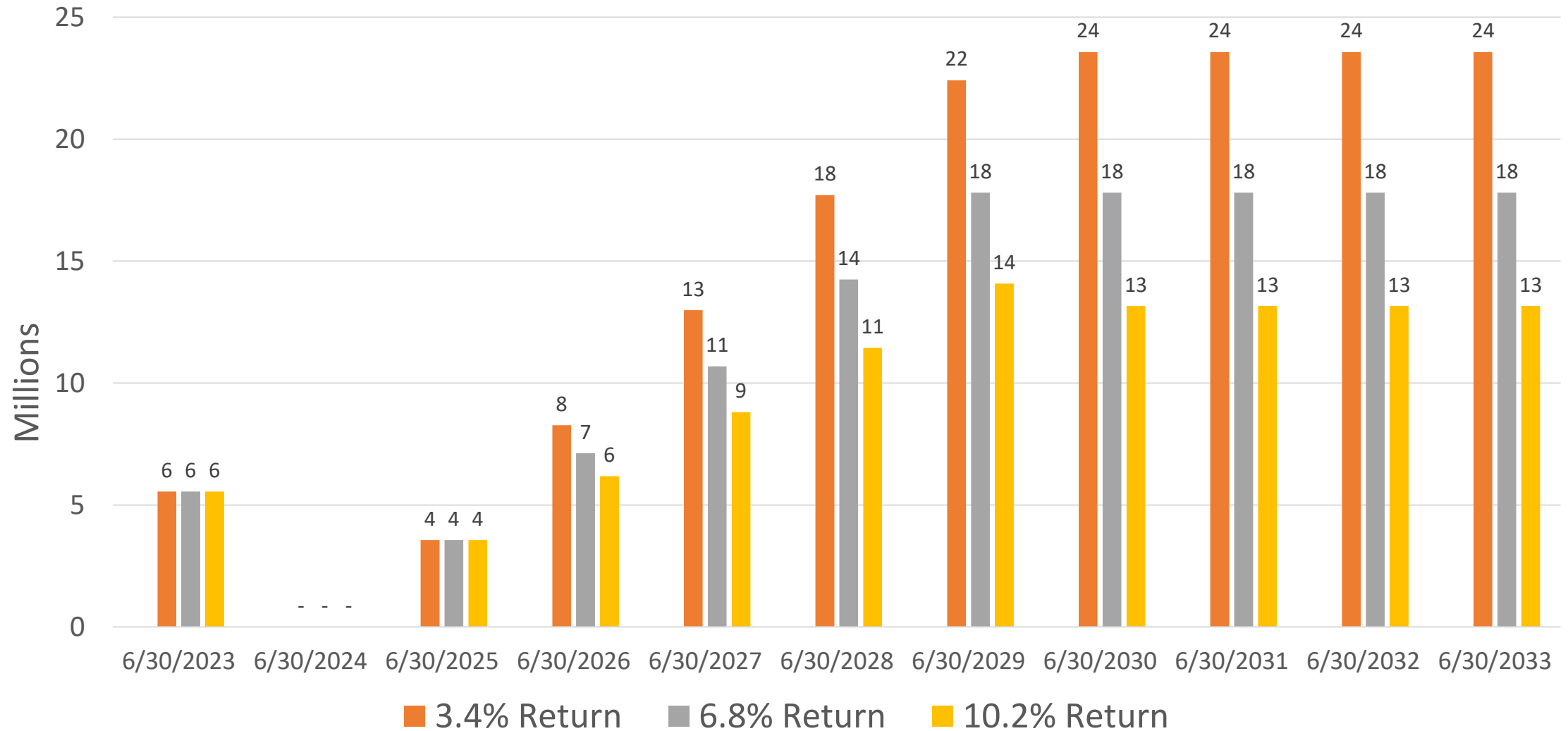
- On December 21, 2015, City Council authorized the creation of the Section 115 Trust to help address the City’s unfunded pension liabilities.
- March 2021, City Council adopted an Unfunded Accrued Liability Pension Funding Policy requiring annual Section 115 Trust funding to protect the City from market volatility and unexpected pension rate increases.
- Section 115 Trust balance as of June 30, 2022: \$12.4M
- CalPERS return FY2021/22: -6.1% (discount rate of 6.8%)
 - ✓ Due to unfavorable return, UAL payments will increase by \$3.4M each year from \$0 in FY23/24 to \$17.7M in FY28/29 (assuming CalPERS hits their 6.8% target return going forward)
 - ✓ CalPERS returns > 6.8% will reduce future UAL payments and lower returns will increase UAL payments
- Recommended Transfer: \$3M (in addition to \$1.8M required in FY21/22 per UAL Policy)

Date	CalPERS Funded Status	CalPERS Liab	CalPERS Asset	Net CalPERS Liab (Asset)	POB Liab	CalPERS w/POB Funded Status
6/30/2020	68%	\$1,428M	\$973M	\$455M	N/A	68%
6/30/2021	104%	\$1,513M	\$1,558M	-\$46M	\$364M	83%
6/30/2022*	90%	\$1,513M	\$1,363M	\$149M	\$352M	73%

Years	Plan Return
1 Year	-6.1%
5 Years	6.7%
10 Years	7.7%
20 Years	6.9%
30 Years	7.7%

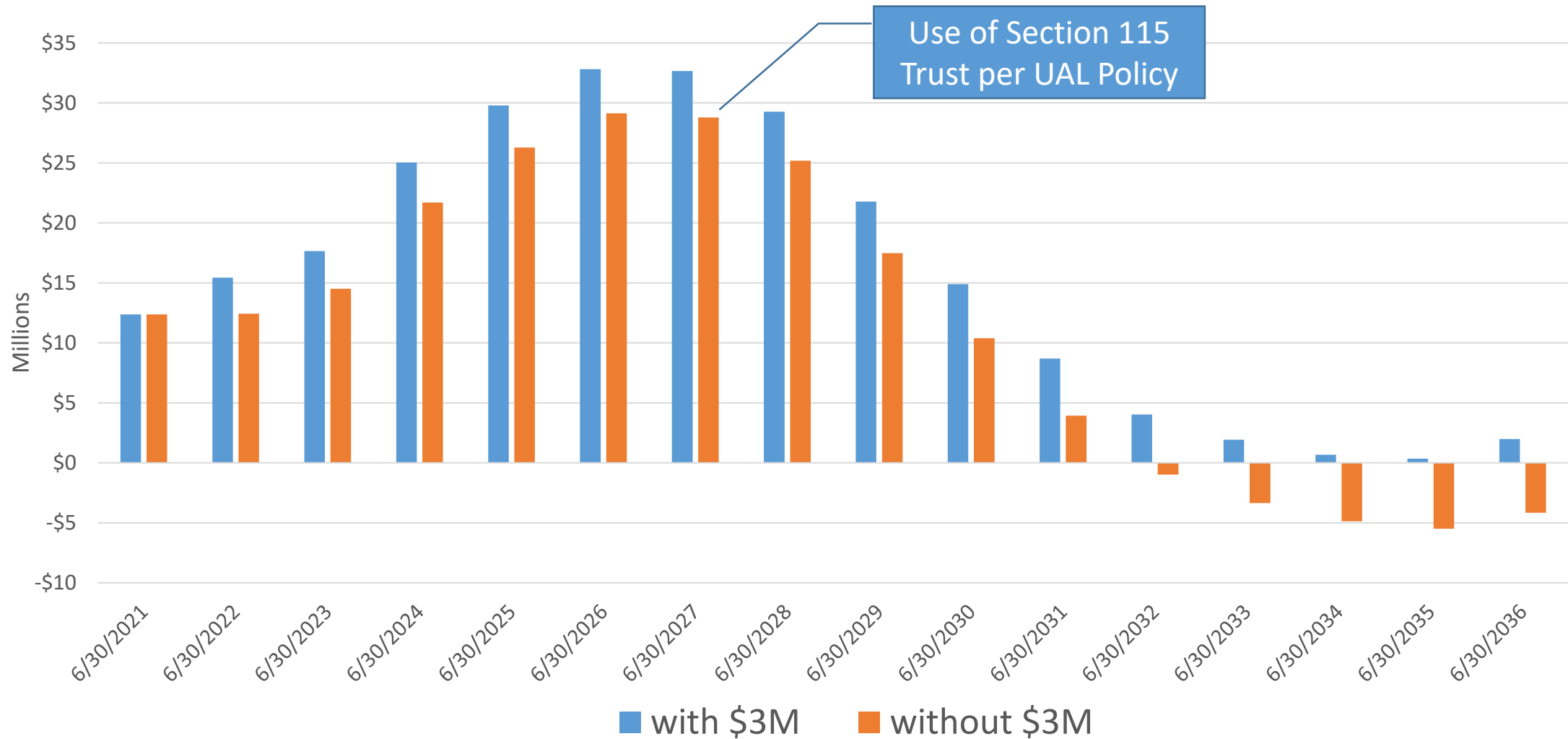
* CalPERS values as of 6/30/2022 are estimated due to latest actuary report is for 6/30/2021

CalPERS UAL Payment Projection



CalPERS UAL Payments based on projected FY22/23 CalPERS Returns scenarios

Section 115 Trust Projected Balance



Note: Assumes CalPERS hits their 6.8% target return going forward

Recommended Action

- Approve the appropriation and transfer of \$13.1 million from the General Fund in FY2021/22 to fund the City’s unfunded liabilities (as listed below) – aligning with the City Council’s Strategic goal of Fiscal Sustainability
- Estimated FY21/22 surplus after appropriation \$3.9 million (subject to change)

Fund	Amount
Workers’ Compensation	\$3,000,000
General Liability	1,488,467
Retiree Medical	1,037,740
Retirement Supplemental	4,576,489
Section 115 Trust	3,000,000
Total	\$13,102,696



Questions?

