



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**



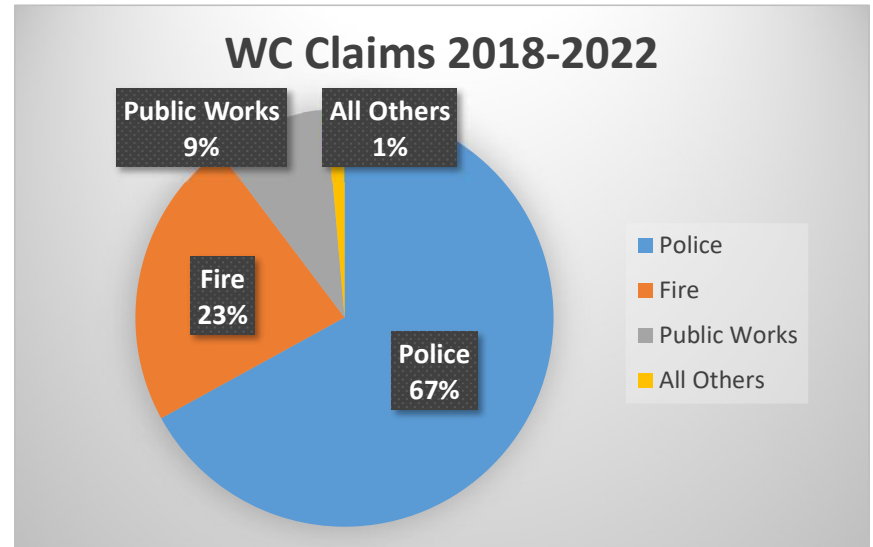
Background & Economy

- 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 and post-traumatic stress

| 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 | Years | Plan Return |
|------------|-----------------------|--------------|---------------|--------------------------|----------|-----------------------------|----------|-------------|
| 6/30/2020 | 68% | \$1,428M | \$973M | \$455M | N/A | 68% | 1 Year | -6.1% |
| 6/30/2021 | 104% | \$1,513M | \$1,558M | -\$46M | \$364M | 83% | 5 Years | 6.7% |
| 6/30/2022* | 90% | \$1,513M | \$1,363M | \$149M | \$352M | 73% | 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

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?

