

**MOORPARK CITY COUNCIL
AGENDA REPORT**

TO: Honorable City Council

FROM: Ron Ahlers, Finance Director 

DATE: September 23, 2015 (City Council Meeting of October 7, 2015)

SUBJECT: Consider Resolution Amending the Fiscal Year 2015/16 Budget to Appropriate Funding for Other Post-Employment Benefits (OPEB) of \$645,000 in Compliance with Governmental Accounting Standards Board (GASB) Statement No. 45

BACKGROUND

In June 2004, the Governmental Accounting Standards Board issued Statement No. 45 (GASB 45), the accounting standards for Other Post-Employment Benefits (OPEB). This statement governs public employer accounting of any benefits, other than pensions, promised by an employer to their employees into retirement. The purpose of GASB 45 is to provide better financial information and to ensure that the costs related to providing employees with Other Post-Employment Benefits are accounted for over the working careers of plan members. Implementation dates for GASB 45 are based on the size of the government as measured by fiscal year 1998/1999 annual revenues. The City of Moorpark is a phase 2 Government with annual revenues of \$10 million to \$100 million. As such, the City was required to implement the new standard as of June 30, 2009; which we did. On September 3, 2008, the City Council decided to establish an irrevocable trust with CalPERS under the California Employer's Retiree Benefit Trust program (CERBT). CalPERS accepted the City of Moorpark's application into CERBT.

DISCUSSION

The City has made deposits totaling \$777,000 into CERBT since 2008. The following table details the deposits made, investment returns and withdrawals:

Fiscal Year	Unfunded Liability Deposit	Normal Cost Deposit	Investment Returns	Withdrawals	Balance
2008 - 09	364,000	31,000	31,995		\$ 426,995
2009 - 10		31,000	66,626		\$ 524,621
2010 - 11	103,000	26,000	135,288		\$ 788,909
2011 - 12		27,000	961		\$ 816,870
2012 - 13		27,000	93,929		\$ 937,799
2013 - 14	168,000		183,236	(13,148)	\$ 1,275,887
2014 - 15			(2,641)	(13,014)	\$ 1,260,232
Total	\$ 635,000	\$ 142,000	\$ 509,394	(\$ 26,162)	

GASB 45 requires public employers to report the cost of providing these other post-employment benefits as well as information on any unfunded liability. GASB 45 requires that the City perform an actuarial study every two years. During fiscal year 2008/09 the City contracted with Bartel & Associates (Bartel), an actuary firm, to calculate the unfunded liability and annual "normal cost" expense under OPEB. The City continued the contract with Bartel and Associates for the 2010, 2013 and 2015 actuarial. The following table summarizes these actuarial reports:

	6/30/2008	6/30/2010	6/30/2013	6/30/2015
Actuarial Liability	364,000	590,000	863,000	1,493,000
Actuarial Value of Assets	0	487,000	877,000	1,217,000
Unfunded Liability	\$ 364,000	\$ 103,000	(\$ 14,000)	\$ 276,000
Present Value of Benefits	618,000	784,000	1,106,000	1,905,000
Market Value of Assets	0	524,621	937,799	1,260,232
Superfund needs	\$ 618,000	\$ 259,379	\$ 168,201	\$ 644,768
Normal Cost	\$ 31,000	\$ 26,000	\$ 33,000	\$ 56,000
Pay as you go cost	6,000	10,000	15,000	38,000

As of June 30, 2008, the City's unfunded liability was \$364,000 and the annual "normal cost" was \$31,000. The City made the contribution for the unfunded liability of \$364,000 in November 2008 to CEBRT. The City paid the "normal cost" of \$31,000 for fiscal year (FY) 2008-09 and earned \$31,995 investment return for a balance as of June 30, 2009 of \$426,995. The City made another deposit for the unfunded liability of \$103,000 during FY 2010-11, along with paying the normal cost for four fiscal years.

The June 30, 2013, actuarial shows the City "overfunded" by \$14,000. During December 2013, the City Council approved "superfunding" the plan by making a contribution of \$168,000; which occurred in January 2014. This allowed the City to cease making annual contributions and to withdraw funds to pay for the mandatory minimum medical premium payments (\$120+) for each retiree. The City has withdrawn \$13,000 in each of the last two fiscal years to pay for the retirees.

The June 30, 2015 actuarial states the City has \$1,217,000 in actuarial assets with \$1,493,000 in actuarial liability for an unfunded liability of \$276,000. The actuarial liability increased by \$630,000 (73%) since 2013. The vast majority, \$542,000, of this increase is due to a change in the calculation to include an "implied subsidy". This "implied subsidy" is the difference between average retiree claims and premiums charged by the insurer, or by CalPERS. In reality, current employees are paying a higher premium and subsidizing the retirees in the medical plan. The retirees are paying less premiums because of the current active employees. The "implied subsidy" is not based on cash flow or present value. In fact, the City and current employees are paying the implied subsidy each month; therefore it is not a future payable. The City and employees have been paying it every month and will continue to pay it every month into the future. CalPERS requires the City and employees to pay cash on a current basis; therefore, the "implied subsidy" liability is not true. If the "implied subsidy" is being paid each month in cash there is simply no liability to record. However, the GASB requirement is to record the liability and so the City complies with this requirement. Please refer to Attachment 1 for a detailed explanation of "implied subsidy".

If the City desires to "superfund" the OPEB liability, then a deposit of \$644,768 is required. Superfunding would allow the City to cease making the normal cost deposit each year, currently \$56,000. It would also allow us to forgo the "pay as you go cost" (\$13,000) plus amortization of the unfunded liability (\$25,000) for a total of \$38,000 annually. Therefore, by making a deposit of \$644,768 the City would save \$94,000 annually from the operating budget for the foreseeable future. This equates to a 15% return on investment, annually. This is contingent upon the following two premises. First, that there are no significant changes to the City's employee demographics. Second, that CalPERS earns the assumed investment return of 7.25% annually.

Future Considerations

CalPERS continues to review their demographic assumptions and investment return projections. The OPEB investment return assumption is 7.25%. If this is reduced further by CalPERS then the City's unfunded liability would increase.

CalPERS offers three investment funds for the CERBT. These funds have different investment options with various returns. The City is currently invested in Option 1 with an investment return of 7.25%. Options 2 and 3 have returns of 6.75% and 6.25%, respectively. The City's CERBT balance is approximately \$1.2 million. Option 3 could be selected in order to reduce the market volatility of the fund. This would increase the unfunded liability but it should reduce the risk of a substantial loss if the market's experience another episode like in 2008 and 2009. At this time staff recommends staying with Option 1 and "superfunding" the OPEB liability.

FISCAL IMPACT

The 2015-16 City budget for OPEB is zero. Therefore, the net increase in the budget is \$644,768. The FY 2015/16 budget appropriation of \$644,768 will fully fund the present value of benefits for OPEB as of June 30, 2015. This would be funded from the General Fund reserve and various other operating funds reserves.

STAFF RECOMMENDATION (Roll Call Vote)

Adopt Resolution No. 2015 - _____ amending the FY 2015/16 budget to appropriate \$644,768 to fully fund the OPEB present value of benefits.

Attachments:

1. Bartel Associates ~ What is an implied subsidy and why does it matter?
2. Resolution

What Is an Implied Subsidy and Why Does It Matter?

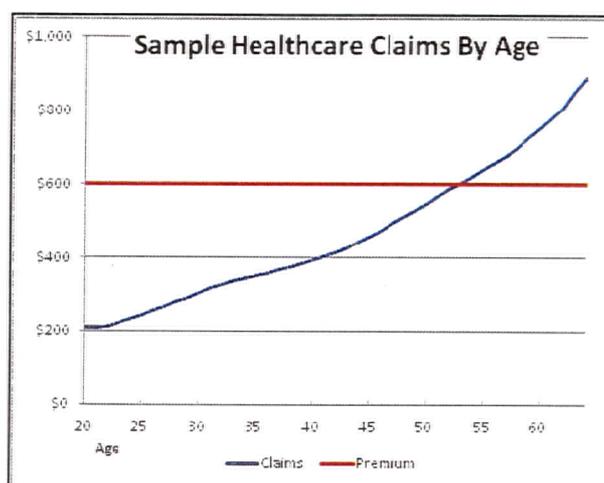
Before GASB 45, medical costs were accounted for as benefits were paid, known as “pay-as-you-go” or “pay-go.” GASB 45 mandated separate accounting for retirees including accruing for future benefits while retirees are still working. Retiree benefits are analyzed on their own for GASB valuations: There are no active benefits to balance retirees’ excess of claims over premiums. Implied Subsidy refers to this excess.

If your agency provides retiree healthcare (OPEB) benefits through CalPERS health plans (PEMHCA), GASB will require recognition of the Implied Subsidy. **It will almost certainly increase your GASB 45 OPEB liability – for some agencies very significantly.**

Blended Premiums Create Implied Subsidy

Studies show that healthcare costs generally increase with age. On average, younger people are relatively healthy, while older people have more and costlier health expenses. The chart’s blue line shows a typical claim curve – the healthcare cost at each age.

CalPERS, in PEMHCA, blends active employees with pre-Medicare retirees and charges them the same medical premium. This is the red line on the chart. The premium is set so that total premiums paid will equal total medical claims. However, younger employees on average are charged a premium higher than their claims – subsidizing older employees who, on average, have higher claims than premiums.



Notice that the Implied Subsidy is the difference between average retiree claims and premiums charged by the insurer or by CalPERS. For PEMHCA, the Implied Subsidy at each age will be the same for everyone in the same plan. It does not depend on the employer-paid cash subsidy; it will be the same amount for an employer phasing into the PEMHCA minimum as for an agency paying the full family premium. But, since the OPEB actuarial accrued liability is much smaller for an agency providing only PEMHCA minimum benefits, the Implied Subsidy will represent a much greater percentage increase.

Why Is GASB Requiring This Change and When Will It Be Effective?

GASB has always deferred to actuarial standards of practice to determine how actuarial accrued liability should be calculated. Until now, those standards have said the implied subsidy need not be taken into account in large “community-rated” plans such as PEMHCA, where each agency is a small part of the total pool whose demographics will not affect premium. Proposed new actuarial standards require Implied Subsidy inclusion in all cases. The standards are not expected to change materially before being finalized in the coming year, when they will become effective for all GASB OPEB valuations.

RESOLUTION NO. 2015 - _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MOORPARK, CALIFORNIA, AMENDING THE FISCAL YEAR 2015/16 BUDGET TO APPROVE CERTAIN APPROPRIATIONS REQUIRED TO FUND OTHER POST-EMPLOYMENT BENEFITS (OPEB) AS DEFINED HEREIN

WHEREAS, on June 17, 2015, the City Council adopted the Budget for fiscal year 2015/16; and

WHEREAS, on October 7, 2015, a staff report has been presented to the City Council summarizing the actuarial study relating to (OPEB) in compliance with Government Accounting Standards Board Statement No. 45 (GASB 45); and

WHEREAS, said staff report has been presented to the City Council providing the cost to increase the assets to the present value of benefits as of June 30, 2015 of \$644,768; and

WHEREAS, the same staff report has been presented to the City Council recommending the pre-funding of the present value of benefits into an irrevocable trust managed by CalPERS under their California Employers' Retiree Benefit Trust (CERBT); and

WHEREAS, on October 7, 2015, a staff report has been presented to the City Council requesting an aggregate appropriation increase of \$644,768 in the General Fund for the pre-funding of the present value of benefits; and

WHEREAS, Exhibit "A", attached hereto and made a part hereof, describes said budget amendments and its resultant impacts to the budget line item(s).

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MOORPARK DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. That a Budget Amendment in the aggregate increase of \$644,768, as more particularly described in Exhibit "A", is hereby approved.

SECTION 2. The City Clerk shall certify to the adoption of this resolution and shall cause a certified resolution to be filed in the book of original resolutions.

PASSED AND ADOPTED this 7th day of October, 2015.

Janice S. Parvin, Mayor

ATTEST:

Maureen Benson, City Clerk

Attachment: Exhibit 'A': Budget Appropriation

**Budget Amendment to
General Fund and other Funds
for Other Post Employment Benefits (OPEB) Payments
FY 2015/16**

A. Fund Allocation

Fund	Account	Amount
1000-General Fund	1000-5500	\$ 372,167
1010-Library Fund	1010-5500	\$ 5,545
2000-Traffic Safety Fund	2000-5500	\$ 13,153
2001-Traffic System Mgt Fund	2001-5500	\$ 2,837
2003-Crossing Guard Fund	2003-5500	\$ 2,063
2200-Community Development Fund	2200-5500	\$ 71,311
2201-City Affordable Housing Fund	2201-5500	\$ 25,468
2300-LLMD	2300-5500	\$ 1,225
2301-LLMD	2301-5500	\$ 193
2302-LLMD	2302-5500	\$ 515
2304-LLMD	2304-5500	\$ 64
2305-LLMD	2305-5500	\$ 644
2307-LLMD	2307-5500	\$ 129
2308-LLMD	2308-5500	\$ 193
2309-LLMD	2309-5500	\$ 64
2310-LLMD	2310-5500	\$ 2,708
2312-LLMD	2312-5500	\$ 1,547
2314-LLMD	2314-5500	\$ 64
2315-LLMD	2315-5500	\$ 1,161
2316-LLMD	2316-5500	\$ 64
2318-LLMD	2318-5500	\$ 64
2320-LLMD	2320-5500	\$ 3,224
2322-LLMD	2322-5500	\$ 7,608
2400-Park Maintenance Fund	2400-5500	\$ 51,517
2603-Local Transportation 8A Fund	2603-5500	\$ 22,502

Fund	Account	Amount
2603-Local Transportation 8A Fund	2603-5500	\$ 22,502
2605-Gas Tax Fund	2605-5500	\$ 19,859
2620-Engineering/PW Fund	2620-5500	\$ 16,828
5000-Local Transit Programs 8C Fund	5000-5500	\$ 13,411
5001-Solid Waste AB939 Fund	5001-5500	\$ 8,640
	TOTAL	\$ 644,768

B. Distribution of Appropriation to Expenditure Accounts

Account Number	Current Budget	Revision	Amended Budget
1000-1100-0000-9030	\$ 0	\$ 4,777	\$ 4,777
1000-2100-0000-9030	\$ 0	\$ 41,459	\$ 41,459
1000-2210-0000-9030	\$ 0	\$ 7,221	\$ 7,221
1000-2411-0000-9030	\$ 0	22,180	\$ 22,180
1000-3100-0000-9030	\$ 0	32,109	\$ 32,109
1000-3110-0000-9030	\$ 0	32,883	\$ 32,883
1000-3120-0000-9030	\$ 0	33,850	\$ 33,850
1000-3160-0000-9030	\$ 0	9,285	\$ 9,285
1000-5110-0000-9030	\$ 0	66,476	\$ 66,476
1000-6100-0000-9030	\$ 0	6,577	\$ 6,577
1000-7100-0000-9030	\$ 0	10,574	\$ 10,574
1000-7210-0000-9030	\$ 0	11,026	\$ 11,026
1000-7210-7210-9030	\$ 0	11,026	\$ 11,026
1000-7610-0000-9030	\$ 0	20,246	\$ 20,246
1000-7620-0000-9030	\$ 0	19,988	\$ 19,988
1000-7630-0000-9030	\$ 0	34,495	\$ 34,495
1000-8100-0000-9030	\$ 0	4,965	\$ 4,965
1000-8320-0000-9030	\$ 0	3,030	\$ 3,030
1010-7640-0000-9030	\$ 0	5,545	\$ 5,545
2000-8210-0000-9030	\$ 0	3,095	\$ 3,095
2000-8310-0000-9030	\$ 0	580	\$ 580
2000-8330-0000-9030	\$ 0	9,478	\$ 9,478
2001-7620-0000-9030	\$ 0	2,837	\$ 2,837
2003-8210-0000-9030	\$ 0	2,063	\$ 2,063
2200-6100-0000-9030	\$ 0	11,799	\$ 11,799
2200-6430-0000-9030	\$ 0	16,506	\$ 16,506
2200-6440-0000-9030	\$ 0	43,006	\$ 43,006
2201-2430-0000-9030	\$ 0	19,923	\$ 19,923

Account Number	Current Budget	Revision	Amended Budget
2201-6430-0000-9030	\$ 0	1,999	\$ 1,999
2201-7620-0000-9030	\$ 0	3,546	\$ 3,546
2300-7900-7901-9030	\$ 0	1,225	\$ 1,225
2301-7900-7901-9030	\$ 0	193	\$ 193
2302-7900-7901-9030	\$ 0	451	\$ 451
2302-8320-8902-9030	\$ 0	64	\$ 64
2304-7900-7901-9030	\$ 0	64	\$ 64
2305-7900-7901-9030	\$ 0	580	\$ 580
2305-8320-8902-9030	\$ 0	64	\$ 64
2307-7900-7901-9030	\$ 0	129	\$ 129
2308-7900-7901-9030	\$ 0	193	\$ 193
2309-7900-7901-9030	\$ 0	64	\$ 64
2310-7900-7901-9030	\$ 0	2,192	\$ 2,192
2310-8320-8902-9030	\$ 0	516	\$ 516
2312-7900-7901-9030	\$ 0	1,547	\$ 1,547
2314-7900-7901-9030	\$ 0	64	\$ 64
2315-7900-7901-9030	\$ 0	1,161	\$ 1,161
2316-7900-7901-9030	\$ 0	64	\$ 64
2318-7900-7901-9030	\$ 0	64	\$ 64
2320-7900-7901-9030	\$ 0	3,224	\$ 3,224
2322-7900-7901-9030	\$ 0	7,608	\$ 7,608
2400-7800-0000-9030	\$ 0	51,517	\$ 51,517
2603-8310-0000-9030	\$ 0	22,502	\$ 22,502
2605-8310-0000-9030	\$ 0	19,859	\$ 19,859
2620-8410-0000-9030	\$ 0	16,828	\$ 16,828
5000-8510-0000-9030	\$ 0	13,411	\$ 13,411
5001-3140-3003-9030	\$ 0	8,640	\$ 8,640
TOTAL	\$ 0	\$ 644,768	\$ 644,768

Finance Approval: *On Akers*