CITY OF WINTERS california Est. 1875

CITY COUNCIL
STAFF REPORT

TO:	Honorable Mayor and Councilmembers
DATE:	June 18, 2019
THROUGH:	John W. Donlevy, Jr., City Manager
FROM:	Shelly A. Gunby, Director of Financial Management
SUBJECT:	Pension and Other Post Employment (OPEB) Benefits Policy

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RECOMMENDATION:
City Council approve Resolution 2019-22 A Resolution of the City Council of the City of Winters Adopting a Pension and OPEB Policy

BACKGROUND:
Pension and OPEB (other post-employment benefits) have become a significant issue for counties throughout the country and the State of California. Pension and OPEB costs are increasing as a result of increased life expectancies and the retirement of the "baby boomer" generation.

Staff generally has brought forward information about the situation with the CalPERS Pension as we talk about the budget and results of operations each year.

The 2017-2018 Yolo County Grand Jury Report included a section on "The Looming Crisis of Yolo County City Pension and Retirement Medical Costs" in the report published on June 30, 2018.

The Grand Jury found:

- That many Yolo County Residents found that there was a lack of, or very poor transparency regarding the funding status of the pension and other OPEB liabilities and had difficulty in accessing the information needed to understand the issues related to the increasing benefit costs.
- Several studies reveal that the retirement benefit system has been compromised by "golden handshake"
- Many City Councils have found it politically unpalatable or fiscally difficult to find

adequate funding resources to make high enough payments to reduce unfunded pension and other post-employment benefits beyond the required payments.
- The four cities approach the transparency, analysis, management and containment of growing retiree costs in different ways

Further, the Grand Jury Report had recommendations as follows:

- By February 1, 2019, city councils and staff should conduct public education campaigns to increase transparency and awareness of the alarming burdensome impact on city service priorities that is being created by retirement pension and medical insurance costs. Examples of public education could be in the form of education forums, explanatory inserts in utility statements, multi-media articles and/or candid conversations at governmental meetings
- By February 1, 2019 city councils and staff should create a simple statistical template and/or graph that shows three year past (actual) and projected look back look forward) pension costs and liabilities and their impact on the city budget General and all fund base.
- By July 1, 2019 Yolo County city councils should investigate and consider alternatives to the existing CalPERS managed pension systems in order to achieve a more sustainable and less burdensome financial impact on city budgets. Any alternative plans considered by city governments should be transparent to the public.
- By September 1, 2018 collaboration among cities in Yolo County should be increased so that best practices in analysis and cost containment of pensions and other retiree benefits can be shared. The best practices and innovative ideas should be transparent to the public.

While most of the deadlines have passed, staff has discussed the state of the CalPERS system with City Council at the Council meeting in August 2018 and again at the time the CAFR (Comprehensive Annual Financial Report) was discussed. We also discussed the information after the release of the Grand Jury Report with specific information regarding each of the City's retirement Plans.

Currently, the City of Winters has 6 CalPERS retirement plans, and with the addition of Captain Baumgart, we will have a 7th retirement plan.

The plans are as follows:
- Miscellaneous Classic Employees.-all non-safety public employees hired prior to January 1,2013
- Miscellaneous PEPRA Employees—all non-safety public employees hired on or after January 1, 2013
- Police Safety Classic Employees-all Police safety employees hired prior to January 1, 2011
- Police Safety Tier 2 Classic Employees –all Police safety employees hired on or after January 1, 2011 and prior to January 1, 2013.
- Police Safety PEPRA Employees –all Police Safety employees hired on or After January 1, 2013
- Fire Safety Classic Employees –all Fire Safety employees hired prior to January 1,2013
- Fire Safety PEPRA Employees - all Fire Safety employees hired on or after January1, 2013

The City of Winters has not offered "golden handshakes" to any employees through the CalPERS system. The City of Winters did offer a package, financed by the City only to encourage retirement age eligible employees to retire in 2009 as we restructured the organization in response to the recession. The cost to the city for this program was $10,000 a year for 5 years for a total of $50,000. This did not impact our CalPERS because only 2 people accepted the package, and both were well above allowed retirement age at the time they accepted the package.

The City of Winters did not engage in the practice of offering the extreme enhanced retirement plans before the recession. We have always maintained that those plans were entirely too expensive to maintain. The City held firm on the practice of maintaining the current Retirement Plans, declined to enter into an "Employer paid employee contribution" agreement as part of our contract, and when we were super funded, we continued to expense the normal cost of the plan to the city in each city budget, and set those funds aside for when rates began rising. When rates began rising, we used those set aside funds to help mitigate the increase in rates for the first few years.

The City of Winters has not recovered from the recession as quickly as surrounding areas. Our Assessed Values within the community have not just now started to catch up to where they were before the recession, and that includes all the development we have been experiencing. Along with the lackluster rebound in the assessed values throughout the city, which is what the property tax is based on, keeping our revenues lower than hoped, we have experienced significant changes in how CalPERS does their business.

CalPERS unfunded liability

CalPERS has done several things that impacted the funding status of the retirement plans of the City of Winters.

1. When PEPRA was implemented they combined all small jurisdictions with less than 100 into one pool based on the plan. For example, the Miscellaneous Classic Plans were all lumped into one pool, and they were all made to have the same benefits. Classic Safety Plans were handled in a similar manner, and therefore, some plans had increased benefits that were not in the individual contracts with CalPERS. The main example of this for the City of Winters was that under the original Classic Police Safety Plan, they did not have in their plan the ability to receive service credit for unused sick leave. Once the plans were combined into one pool, the contract included the ability to receive service credit for unused sick leave. While this seems a minor change, it did impact the actuarial assumptions for the plan and most likely did cause some increase, however minor, in the contribution rate for the plan.
2. CalPERS updated the life expectancy of the membership of CalPERS. When the actuaries calculate the funding required for sustaining the plan of the retirement system, they use things like the age of the workers, the age at which the workers expect to retire, the employee's highest wages and the life expectancy of the retiree. By updating the life expectancy in the calculations of the funding requirement, CalPERS increased the number of year a retiree is expected to draw from the pension plan. Increases in life expectancy means that the funding required will be higher, and therefore the rates required for the agency are increased.
3. CalPERS lowered the discount rate. The discount rate is the rate that CalPERS expects to

receive on their investments. CalPERS received funding for the payment of pensions from 2 main sources. Contributions from employees and employers within the system, and investment income from investing the contributions received. In December 2016 CalPERS lowered the discount rate from 7.5% to 7.0 %. This is being phased in in three years. The discount rate for the 2018-2019 Fiscal year is 7.375%, for 2019-2020 the rate is 7.25% and in 2020-2021 the rate will be 7.0%. The lowering of the discount rates means the actuaries use a lower investment return on their calculations, a lower investment return on investments mean that the agencies in CalPERS are seeing an increase in the rates they must contribute.

While the above items impact the rates agencies must pay for the CalPERS system, the additional impact on all these changes is that the amount of the plan that needs to be funded has increased from year to year. Just as the changes have increased the rate that need to be paid increase, the assumption changes impact the estimated assets to fund the plans retirement needs. Because the amount of rate of return on investment has decreased, the unfunded liability for the plans increase as soon as that lower rate of return is applied to the asset year over year.

Below is a chart of the currently active plans for which we received a valuation report in August 2018:

		Funding Status	Esimated	Estimated	Change from	Funding Status
Miscellaneous Classic		2019	6/30/2019	6/30/2018	6/30/2018	2018
Pepra Safety-Police		78.4%	2,418,196.00	2,489,216.00	(71,020.00)	75.8%
Pepra Miscellaneous		93.5%	33,866.00	24,769.00	9,097.00	89.9%
Fire Classic		96.2%	17,379.00	12,447.00	4,932.00	91.1%
Police Tier 2		83.2%	136,429.00	130,581.00	5,848.00	80.2%
Police Classic		94.8%	17,046.00	12,709.00	4,337.00	89.6%
		73.3%	2,378,696.00	2,447,313.00	(68,617.00)	70.6%
			5,001,612.00	5,117,035.00	(115,423.00)	

The chart above shows that the estimated unfunded liability as of 6-30-19 will be less than that on 6-30-18 and that the funding status of all the plans have improved. While this is good news, it should be expected for a couple of reasons:

1. The City of Winters pays the "unfunded liability payment" in full in July of each year; therefore, we don't have to use investment earnings for the monthly payment plan. This saves the City money and in the long run helps provide additional funding upfront for CalPERS to invest at the beginning of the fiscal year.
2. The City of Winters has paid all funds as due, with no late payments; therefore, all other things being equal, there should be a reduction in the unfunded liability from year to year.

The attached Pension and OPEB Policy addresses the concern of such a large liability for the City of Winters. To address those issues, staff has explored a number of options for reducing the unfunded liability. The policy presents an even plan of additional discretionary payments each year moving forward to address the plans with the highest unfunded liability, the Miscellaneous

Classic Plan and the Police Safety Classic Plan. While there are options through agreement with CalPERS to manage a quicker pay down of the plans, staff feels that putting a policy in place that clearly defines the steps to be taken each year, will keep the issue of the CalPERS pensions transparent, as it will be included and reviewed with each city budget, as well as included in the CAFR from this point forward. Below is a chart that compares the cost of the current amortization schedule with the estimated amortization schedule based on the policy attached. The amounts include only the amount to be included in the budget each year, not the revenues in excess of expenditures, as that will be unknown until year end.

City of Winters
Amoritization Schedule Comparison
Based on June 30, 2017 CALPERS Actuarial Valuation issued August 2018

	Current CalPERS Scheduled Payments				Payments Per Policy Document			
	Police Tier 1	Misc	Total		Police Tier 1	Misc	Total	Difference
6/30/2019	218,673	151,381	370,054	6/30/2019	218,673	219,889	438,562	68,508
6/30/2020	239,325	171,538	410,863	6/30/2020	239,325	226,211	465,536	54,673
6/30/2021	261,376	194,185	455,561	6/30/2021	311,376	244,185	555,561	100,000
6/30/2022	278,584	211,368	489,952	6/30/2022	353,584	286,368	639,952	150,000
6/30/2023	185,818	216,766	402,584	6/30/2023	285,818	316,766	602,584	200,000
6/30/2024	191,161	222,998	414,159	6/30/2024	291,161	322,998	614,159	200,000
6/30/2025	196,657	229,409	426,066	6/30/2025	296,657	329,409	626,066	200,000
6/30/2026	202,310	236,005	438,315	6/30/2026	302,310	336,005	638,315	200,000
6/30/2027	208,127	242,790	450,917	6/30/2027	308,127	342,790	650,917	200,000
6/30/2028	214,111	249,770	463,881	6/30/2028	314,111	349,770	663,881	200,000
6/30/2029	220,266	256,951	477,217	6/30/2029	320,266	356,951	677,217	200,000
6/30/2030	226,599	264,338	490,937	6/30/2030	326,599	364,338	690,937	200,000
6/30/2031	233,114	271,938	505,052	6/30/2031	122,432	371,938	494,370	(10,682)
6/30/2032	227,218	266,720	493,938	6/30/2032	-	43,280	43,280	(450,658)
6/30/2033	220,791	260,978	481,769	6/30/2033	-	-	-	(481,769)
6/30/2034	209,342	249,143	458,485	6/30/2034		-	-	(458,485)
6/30/2035	191,164	229,741	420,905	6/30/2035			-	(420,905)
6/30/2036	171,767	209,016	380,783	6/30/2036			-	(380,783)
6/30/2037	92,060	117,625	209,685	6/30/2037			-	(209,685)
6/30/2038	83,295	107,536	190,831	6/30/2038			-	(190,831)
6/30/2039	79,095	103,155	182,250	6/30/2039			-	(182,250)
6/30/2040	81,369	106,121	187,490	6/30/2040			-	(187,490)
6/30/2041	64,333	84,443	148,776	6/30/2041			-	(148,776)
6/30/2042	63,690	81,446	145,136	6/30/2042			-	(145,136)
6/30/2043	52,233	66,194	118,427	6/30/2043			-	(118,427)
6/30/2044	28,598	34,484	63,082	6/30/2044			-	(63,082)
6/30/2045	10,668	11,020	21,688	6/30/2045			-	(21,688)
6/30/2046	4,894	858	5,752	6/30/2046			-	(5,752)
6/30/2047			-	6/30/2047			-	-
6/30/2048			-	6/30/2048			-	-
	4,456,638	4,847,917	9,304,555		3,690,439	4,110,898	7,801,337	(1,503,218)

As you can see, the savings is significant. The amount would be paid off in about 12 years and save approximately $1,503,218 in interest costs.

It needs to be clear; there will NEVER be an unfunded liability of -0-. Too many factors are involved for the actuaries to get it exact; however, the Policy attached for the CalPERS Pension liability will significantly decrease the cost of pensions in the future, and make budgeting for them much less problematic. Year to year changes, without CalPERS making additional changes outside of our control, should become much more manageable to budget and fund under this policy.

OPEB Unfunded Liability

The only OPEB unfunded liability that the City of Winters has, is the employer share of retiree medical benefits (for this year the amount is $136/month per employee). Currently we have a limited number of individuals that remain on the CalPERS health insurance. However, under GASB 75 we are required to calculate and include in the financial statements the cost of providing future benefits to our current employees upon their retirement. This information was included in the CAFR for 2017-21018 and amount was recorded as $1,348,661. Currently this is funded on a pay as you go basis, meaning that we only pay what we are billed by for CalPERS Health Insurance.

The policy that we are putting forward requires us to set up a trust for OPEB liabilities that we can then put funding in on a yearly basis to begin "pre funding" the liabilities for future payments due. This will allow us to set aside funds now for current employees that will earn investment earnings and we can use those funds in the future to pay for the health insurance premiums we as the employer are required to pay for our retired employees. This policy makes the payment of the benefit happen at the same time the employee is working.

The actuarial for the GASB 75 information provided an estimate of what the amount needed to be with a set interest rate in order for us to fund the amount due over a time period of 20 years. Since we have employees with a ride range of career longevity ahead of them, this seems a reasonable object, and shows the city is managing its finances for not just the present, but, also for the future.