

TO: Honorable Mayor and City Council

FROM: Laura C. Kuhn, City Manager

SUBJECT: RESOLUTION ADOPTING A CITY COUNCIL POLICY FOR FUNDING OTHER POST RETIREMENT BENEFITS (OPEB) RELATED TO RETIREE HEALTHCARE

DISCUSSION:

At the March 10, 2015 City Council meeting, the Council reviewed unfunded liabilities and directed staff to prepare a funding policy to address funding OPEB liabilities related to retiree health care. The policy approach directed by Council focused on applying as many of the four options as presented in the report (see Attachment 1, March 10, 2015 staff report). The proposed policy includes application of three of the four tiers as detailed below.

Tier 1 - The City will begin budgeting a portion of the Annual Required Contribution (ARC) for retiree health care as part of a plan to reach full ARC funding over a 5-year period. Upon approval of the OPEB policy, the costs will be budgeted and included in the City's financial forecast.

Tier 2 - The City will begin allocating a portion of any annual budget surpluses or one-time funds towards catching up the current unfunded liabilities. This would be done each year at the close of the final audit for the prior fiscal year, starting in 2016.

Tier 3 - The City worked with the labor groups to increase the employees' health care contribution from 8% to 15% of the Kaiser Bay Area Medical Rate. Thus far, the City has achieved agreements with all but one labor group.

Tier 4 - The City reviewed the idea of creating a new tier of retirement health care for new hires, to try and reduce the growth rate of the unfunded liability. However, this tier was later determined to be infeasible due to the limitations of the City's current health care contract through CalPERS. Exiting the CalPERS healthcare system was also determined to be infeasible at this time.

It is recommended that the City Council approve the attached resolution which includes the OPEB policy to ensure the City achieves funding for the ARC within five years.

FISCAL IMPACT:

Fiscal impact will vary and grow as policy is implemented. The 2015-16 cost is estimated as follows: Tier 1: \$2.2 million to begin funding the ARC; Tier 2: Unknown; Tier 3: Savings from the 15% health care contribution from employees is estimated to be \$1.65 million per year; and Tier 4: N/A. The precise fiscal impact is dependent upon the annual review of Tier 2 at the close of each fiscal year.

RECOMMENDATION:

By simple motion, adopt the subject resolution.

ATTACHMENTS:

Resolution – Action Item
Attachment 1: March 10, 2015 Staff Report

RESOLUTION NO. 2015-

RESOLUTION ADOPTING A CITY COUNCIL POLICY FOR FUNDING OTHER POST RETIREMENT BENEFITS (OPEB) RELATED TO RETIREE HEALTHCARE

WHEREAS, the City offers OPEB benefits in the form of retiree healthcare; and

WHEREAS, the City Council desires to develop a policy for making its OPEB obligations fiscally sustainable; and

WHEREAS, the City has established a CalPERS Employee Retiree Benefit Trust to reserve funds to finance future retiree healthcare obligations; and

WHEREAS, the City has contracted for and received an actuarial valuation to determine an annual required contribution to move the City towards funding its retiree healthcare obligations; and

WHEREAS, the City Council wishes to adopt a formal policy to achieve funding of the annual required contribution in each fiscal year.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Vacaville does hereby adopt the Other Post Retirement Benefits Funding Policy as outlined in Exhibit A attached hereto.

I HEREBY CERTIFY that the foregoing resolution was introduced and passed at a regular meeting of the City Council of the City of Vacaville, held on the 10th day of November, 2015, by the following vote:

AYES:

NOES:

ABSENT:

ATTEST:

Michelle A. Thornbrugh, City Clerk

EXHIBIT A

Other Post Retirement Benefits Funding Policy

PURPOSE The City offers Other Post Retirement Benefits (OPEB) to its employees in the form of retiree health care. In the past, the City has chosen to pay the cost of the benefit each year as the premiums were due. In 2009, the City created a CalPERS Employee Retiree Benefit Trust (CERBT) to begin setting funds aside to fund future retiree health care costs. In order to ensure financial stability and recognize the benefit cost when it is earned by the employee, the City is changing its funding policy to reflect a goal of funding actuarially determined annual required contributions (ARC) to begin moving the CERBT towards being more fully funded.

FUNDING GOALS

Beginning with the 2015-16 fiscal year, the City will establish a goal of funding a percentage of the ARC in each successive year until full ARC funding is reached. The funding goals will be as follows:

FISCAL YEAR	PERCENTAGE
2015-16	60%
2016-17	70%
2017-18	80%
2018-19	90%
2019-20	100%

HARDSHIP EXEMPTION

If at any time the General Fund Reserve is projected to reach a level below 10%, the ARC funding goal will be suspended and an appropriate contribution amount will be reviewed and recommended by the City Council. Once General Fund Reserve levels meet or exceed the Council's Fund Reserve Policy, the funding percentage will begin again towards reaching the 100% goal.

ONE TIME CERBT CONTRIBUTIONS

Recognizing a goal to get the funded status of the CERBT trust to a level in excess of 70% (as of 7/1/14 it was 11.2%), when a fiscal year is closed out and budgeted revenues have exceeded budget expenditures, the City Council will direct 25% of that excess towards a one-time payment to the CERBT. Such one-time payments will cease at any time the funding level exceeds 70%.