CITY OF PALO ALTO

FINANCE COMMITTEE
Tuesday, June 7, 2022
Special Meeting
Community Meeting Room & Virtual
5:30 PM
Supplemental Report Added

Pursuant to AB 361 Palo Alto City Council and Committee meetings will be held as "hybrid" meetings with the option to attend by teleconference/video conference or in person. To maximize public safety while still maintaining transparency and public access, members of the public can choose to participate from home or attend in person. Information on how the public may observe and participate in the meeting is located at the end of the agenda.

HOW TO PARTICIPATE

VIRTUAL PARTICIPATION

CLICK HERE TO JOIN (https://cityofpaloalto.zoom.us/j/99227307235)
Meeting ID: 992 2730 7235 Phone:1(669)900-6833

The meeting will be broadcast on Cable TV Channel 26, live on YouTube at https://www.youtube.com/c/cityofpaloalto, and streamed to Midpen Media Center at https://midpenmedia.org.

PUBLIC COMMENTS
Public Comments will be accepted both in person and via Zoom meeting. All requests to speak will be taken until 5 minutes after the staff's presentation. Written public comments can be submitted in advance to city.council@cityofpaloalto.org and will be provided to the Committee and available for inspection on the City's website. Please clearly indicate which agenda item you are referencing in your email subject line.

CALL TO ORDER

ORAL COMMUNICATIONS
Members of the public may speak to any item NOT on the agenda.

ACTION ITEMS

1. Fiscal Year 2022 Third Quarter Financial Status Report

2. Review and Approval of the Fiscal Year 2023 Investment Policy

3. Accept June 30, 2021 Actuarial Valuation of Palo Alto's Retiree Healthcare and Other Post Employment Benefits, Approve Annual

Actuarially Determined Contributions for Fiscal Years 2023 and 2024, and Affirm Additional Payments to Employers' Benefit Trust Fund Supplemental Report Added

FUTURE MEETINGS AND AGENDAS

ADJOURNMENT

PUBLIC COMMENT INSTRUCTIONS

Members of the Public may provide public comments to hybrid meetings via email, in person, teleconference, or by phone.

1. **Written public comments** may be submitted by email to city.council@cityofpaloalto.org.
2. **In person public comments** please complete a speaker request card located on the table at the entrance to the Council Chambers, and deliver it to the City Clerk prior to discussion of the item.
3. **Spoken public comments using a computer or smart phone** will be accepted through the teleconference meeting. To address the Council, click on the link below to access a Zoom-based meeting. Please read the following instructions carefully.
   - You may download the Zoom client or connect to the meeting in- browser. If using your browser, make sure you are using a current, up-to-date browser: Chrome 30+, Firefox 27+, Microsoft Edge 12+, Safari 7+. Certain functionality may be disabled in older browsers including Internet Explorer. Or download the Zoom application onto your phone from the Apple App Store or Google Play Store and enter the Meeting ID below
   - You may be asked to enter an email address and name. We request that you identify yourself by name as this will be visible online and will be used to notify you that it is your turn to speak.
   - When you wish to speak on an Agenda Item, click on "raise hand." The Clerk will activate and unmute speakers in turn. Speakers will be notified shortly before they are called to speak.
   - When called, please limit your remarks to the time limit allotted.
   - A timer will be shown on the computer to help keep track of your comments.
4. **Spoken public comments using a phone** use the telephone number listed below. When you wish to speak on an agenda item hit *9 on your phone so we know that you wish to speak. You will be asked to provide your first and last name before addressing the Council. You will be advised how long you have to speak. When called please limit your remarks to the agenda item and time limit allotted.

Click to Join   **Zoom Meeting ID: 992-2730-7235   Phone: 1(669)900-6833**

AMERICANS WITH DISABILITY ACT (ADA)

Persons with disabilities who require auxiliary aids or services in using City facilities, services or programs or who would like information on the City's compliance with the Americans with Disabilities Act (ADA) of 1990, may contact (650) 329-2550 (Voice) 48 hours or more in advance.

City of Palo Alto (ID # 14106)

Finance Committee Staff Report

Meeting Date: 6/7/2022 **Report Type: Action Items**

Title: Fiscal Year 2022 Third Quarter Financial Status Report

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION
Staff recommends that the Finance Committee review and accept the Third Quarter financial report, and forward it to the City Council.

EXECUTIVE SUMMARY
The purpose of this report is to provide the Finance Committee with information on the financial status of the City's General Fund and Enterprise Funds as of the end of the 3rd Quarter of Fiscal Year (FY) 2022 (July 1, 2021 through March 31, 2022).

Attachment A contains a line by line report of major General Fund revenues and expenditures for 3rd Quarter Year-to-Date (YTD), as well as a comparison to the FY 2022 Adopted Budget and Adjusted Budget as of March 31, 2022. Through the nine months completion of the current fiscal year, the City's general and enterprise funds are performing within FY 2022 budgetary levels. As a result of actions taken in the FY 2022 Midyear Budget Report (CMR 13801), the Budget Stabilization Reserve (BSR) is currently at $40.7 million, which is above the City Council recommended 18.5 percent level of $38.7 million by $2.0 million. As reported in the FY 2023 Proposed Operating Budget, it is estimated that there will be a surplus of approximately $14 million in the General Fund in FY 2022; however, these funds have been programed for use of one-time needs in FY 2023 as well as establishing a reserve for funding a number of service reinvestments for a second year in FY 2024. For more information, see the Budget Balancing Strategy of the Transmittal Letter in the FY 2023 Proposed Operating Book. Staff will return as part of the review of the FY 2022 Annual Comprehensive Financial Report with year-end budget adjustments to recognize these funds and align the budget with the actuals.

DISCUSSION
General Fund
Revenue Highlights for FY 2022 3rd Quarter Year to Date (YTD)
The following is a table which highlights the City's major revenue sources for the 3rd Quarter YTD, compared to the same period of the prior year. Revenue for each period is expressed as a percentage of Adjusted/Final Budget.

Table 1: FY 2022 Third Quarter General Fund Revenue

(000's)

	3rd Quarter Actuals			Adjusted Budget			
	FY 2022	FY 2021	% change	FY 2022	%	FY 2021	%
Property Tax	$34,136	$32,709	4.4%	$53,228	64.1%	$53,173	61.5%
Sales Tax	18,432	16,378	12.5%	28,184	65.4%	25,030	65.4%
Charges for Services	20,755	18,009	15.2%	24,932	83.2%	24,414	73.8%
Transient Occupancy Tax	7,895	2,500	215.8%	8,428	93.7%	4,830	51.8%
Utility User Tax	11,174	10,797	3.5%	14,370	77.8%	14,080	76.7%
Permits and Licenses	4,820	4,384	9.9%	8,273	58.3%	8,366	52.4%
Documentary Transfer Tax	8,802	6,689	31.6%	7,137	123.3%	6,875	97.3%
All Other Revenue Sources	30,083	22,289	35.0%	42,424	70.9%	34,062	65.4%
Total Revenue	**$136,097**	**$113,755**	**19.6%**	**$186,976**	**72.8%**	**$170,830**	**66.6%**

Property Tax. At the close of third quarter, property tax revenue receipt was $34.1 million, 64.1 percent of the adjusted budget, and an increase of 4.4 percent over the same period in the prior year. Property tax is received from the County of Santa Clara during the second, third, and fourth quarters of the calendar year. Unlike revenue streams that were highly dependent on consumer spending or travel, such as sales tax and transient occupancy tax, property tax revenues remained relatively flat during the COVID-19 pandemic. The compound annual growth rate (CAGR) over the 10 years has been approximately 8.2 percent. The FY 2022 secured and unsecured property tax assessed values (AV) growth rates are 4.0 percent and 1.7 percent, respectively, an average of 3.9 percent. The lower than historical growth reflects impacts typical during recessions and/or economic downturns lagging one year after more than more economically sensitive revenues such as sales and transient occupancy tax.

In the FY 2023 Proposed Budget presentation on May 2, 2022, the estimate for FY 2022 was revised upward to $56.8 million, $3.6 million or 6.8 percent higher than the adjusted budget. Included in this forecast is $6 million in expected Excess Educational Revenue Augmentation Fund (ERAF) [1] minus $1.5 million set aside for the at-risk amount due to the lawsuit by the California School Boards of Association and its Education Legal Alliance against the Controller of the State of California for over the calculation methodology of the Excess ERAF. The County of Santa Clara's Finance Agency and Office of the Assessor, the entities responsible for managing the property tax billing, collection, and processing changes (e.g. sales, assessment appeal, etc.) forecasts indicate the upward revised FY 2022 forecast of $56.8 million will be met or exceeded.

FY 2021 actual property tax revenue was $56.6 million which included $5.6 million for ERAF distributions from the County of Santa Clara. Though Excess ERAF receipt has steadily grown the last nine years, excess ERAF is not considered a permanent local revenue source. Lastly, The Governor's Budget Trailer May Revise has a provision that could potentially cap excess ERAF payments at current levels, staff will continue to evaluate this, the impacts, and work with the Council on any opposition to this.

Sales Tax. As of the third quarter, sales tax revenue has seen an increase of $2.1 million or 12.5 percent, from the same period last year. Due to timing of the California Department Tax and Fee Administration (CDTFA) sales tax distribution, third quarter sales tax represents seven months of sales tax activity and does not represent sales tax activity for the full three quarters of the fiscal year. Actual performance for this fiscal year will not be known until August/September. The FY 2023 Proposed Operating Budget presentation revised the FY 2022 forecast estimate to $31.5 million, $3.3 million or 11.7 percent higher than the adjusted budget based on performance to date, recent consumer trends, and the projected outlook by City's sale's tax consultant.

Transient Occupancy Tax (TOT). TOT revenues reached $7.9 million through the end of the third quarter, an increase of 215.8 percent over the prior year. As of the writing of this report and due to the one-month timing delay in receipts, the third quarter results represent 7.5 months of TOT receipts. Though receipts remain below pre-pandemic levels, recovery has been strong over the FY 2021 receipt of $5.2 million. The FY 2023 Proposed Operating Budget presentation revised the FY 2022 forecast estimate to $13.2 million, $4.8 million or 57.1 percent higher than the adjusted budget based on performance to date. If the current trends continue, receipts are likely to exceed this forecast as well.

The two Marriott hotels are fully open with total of 293 rooms, The Westin Hotel and Clement Hotel and two smaller hotels opened in the first and second fiscal year quarters, and performance of the two on-line hoteliers has strengthened. As of February 2022, hotel average daily room and occupancy rates were $181 per day and 57.2 percent, respectively. This represents an increase of 62.7 percent and 57.8 percent over the prior year, respectively. In comparison, the same period of the prior year it was $112 and 36.2 percent. The occupancy percentage ranges from 20 percent to over 90 percent with overall rising room rates; however, a minority of hotels lowered their room rates over the prior year's average.

Documentary Transfer Tax. Cash receipts total $8.8 million, or 123.3 percent of the FY 2022 Adjusted Budget are $2.1 million higher than prior year receipts for the same period. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.

Actual receipts to date have exceeded expectation based on historical averages. Based on an additional month of receipts, actual receipts will exceed this revised forecast as well, by how much is not certain due to the volatility of this revenue source. Driving this performance is an increase in the number of sale transactions by 14.2 percent, a handful of large commercial sales, and many sales between $5 million to $16 million. The FY 2023 Proposed Operating Budget presentation revised the FY 2022 forecast estimate to $9.6 million, $2.5 million or 35.2 percent higher than the adjusted budget.

Charges for Services. Through the first three quarters of FY 2022 is up by $2.7 million, or 15.2 percent of the same period last year mainly due to the following:

- Paramedic service fees increased $0.75 million over the same period from last year due to higher rate and more trips in current year.
- Golf course revenues increased $0.67 million
- Program and classes increased $0.92 million

All Other Revenue Sources. The third quarter revenue has continued to be higher than the same period of last year due the American Rescue Plan Act distribution of $6.85 million received in May 2021 and recognized as revenue in FY 2022. As of the writing of this report, the second half of the ARPA distribution has not yet been received by the City.

In addition, the following other revenue sources showed growth compared to the same period in the prior year for items such as Motor vehicle tax, fines and penalties by $0.1 million, Rental Income by $0.8 million8, and Charges to Other funds with an increase of $1.6M mainly for the cost of providing services to work groups in other City funds.

General Fund Expense Highlights

Table 2 highlights General Fund expenses by department for FY 2022 third quarter, compared to the same period of prior year. Each quarter's expenses are expressed as a percentage of the Adjusted Budget for each year.

Table 2: FY 2022 Third Quarter General Fund Expenses

(000's)

	3rd Quarter Actuals			Adjusted Budget			
	FY 2022	FY 2021	% chg	FY 2022	%	FY 2021	%
Police	$31,975	$30,241	5.7%	$44,346	72.1%	$40,547	74.6%
Fire	28,147	26,178	7.5%	37,731	74.6%	34,735	75.4%
Community Services	19,370	18,929	2.3%	32,958	58.8%	28,786	65.8%
Public Works	12,010	12,656	-5.1%	20,000	60.1%	19,984	63.3%
Planning & Development Services	12,438	11,339	9.7%	21,554	57.7%	19,612	57.8%
Library	6,218	6,250	-0.5%	9,145	68.0%	8,655	72.2%
Administrative Services	6,561	5,578	17.6%	9,614	68.2%	8,338	66.9%
All Other Departments	13,816	14,196	-2.7%	39,100	35.3%	26,320	53.9%
Total Expenses	**$130,535**	**$125,367**	**4.1%**	**$214,448**	**60.9%**	**$186,977**	**67.0%**

Actual expenses through the first three quarters of the fiscal year total $130.5 million, a 4.1 percent increase over prior year expenses, but overall expenses are tracking at 60.9 percent of adjusted budget which is lower than FY 2021 at 67.0 percent through the third quarter. Actual expenditures plus encumbrances are right in line with the adjusted budget at 69.0 percent.

As a service driven organization, the largest expenses are salaries and benefits. Total General Fund salary and benefits expenditures through March 2022 are approximately $97.8 million, or 73.1 percent of the $133.8 million adjusted budget, compared to $93.9 million in the same period in the prior year. While the third quarter salary and benefit trend is consistent with prior year and is on target for quarterly trends, it should be noted that overtime expense, paid leave, and workers compensation expense are trending higher than previous year due to vacancies across all departments, employees separating from the City for various reasons (i.e. retirement or other agencies), and increases in workers compensation cases.

Police and Fire The expense budget for the Police and Fire Departments comprise approximately 46 percent of total General Fund expenditures for the third quarter, which is consistent with prior year trends. The following table highlights Police and Fire salaries and overtime for the third quarter. Net overtime cost analysis for the Police and Fire Departments can be found in Attachment B.

Table 3: Public Safety Salaries and Overtime Expenses

(000's)

	3rd Quarter YTD Actuals			Adjusted Budget			
	FY 2022	FY 2021	% chg	FY 2022	%	FY 2021	%
Police - Salaries	$12,358	$12,862	-3.9%	$18,341	67.4%	$17,713	72.6%
Police - Overtime	1,581	1,028	53.8%	1,244	127.1%	944	108.9%
Total Police	13,939	13,890	0.4%	19,585	71.2%	18,657	74.4%
Fire - Salaries	9,754	10,294	-5.2%	14,102	69.2%	13,529	76.1%
Fire - Overtime	3,585	2,118	69.3%	2,704	132.6%	2,971	71.3%
Total Fire	13,339	12,412	7.5%	16,806	79.4%	16,500	75.2%
Total Public Safety Salaries & Overtime	**$27,278**	**$26,302**	**3.7%**	**$36,391**	**75.0%**	**$35,157**	**74.8%**

Police overtime is 53.8 percent higher than FY 2021 and represents 127.1 percent of the adjusted budget due to backfilling vacancies and adding staffing resources to the 24/7 dispatch center. As of this writing, the Department has 9 vacancies: six police officers (not including five additional "hire-ahead" police officers authorized in February), one dispatcher, two records specialists, and approximately 11 staff members on various categories of leave/light-duty. Although overtime is tracking higher, overall the Department is trending within budget for all salary categories and anticipates doing so through the remainder of FY 2022. The Department's net overtime cost is $0.5 million after deducting the reimbursements and salary savings due to vacancies, analysis is included in Attachment B.

Fire overtime is 69.3 percent higher than FY 2021 and 132.6 percent of the adjusted budget. In order to maintain operational standards (e.g., minimum staffing levels, response times, etc.), the Fire Department is required to backfill vacant positions using overtime with current staff, so vacancies are the primary driver of increased overtime costs. In any given year, there are typically three to five cases of attrition in the Department; however, the Department had up to twelve vacant positions in FY 2022. Additionally, backfill is also required when employees utilize leave (e.g., workers' compensation, family medical leave, Strike Team, sick leave, etc.), and usage of leave balances has increased since the onset of the pandemic.

While overtime actuals can vary year-to-year, the budget generally remains constant, but can be modified as staffing levels change. During the FY 2022 mid-year budget review, funding in the amount of $682,500 was allocated for the backfill of five new fire fighter positions associated with the SAFER grant as well as $90,000 for backfill related to the paramedic certification pilot program. It should be noted that there is a correlation between the amount of overtime and salary/benefit expenditures. Since they are both used together to fund employee costs, increases to one typically results in decreases to the other to offset costs for overall salaries and benefits. For example, the 12 vacant positions generated salary and benefit savings during the vacancy periods, but have been backfilled by other staff using overtime in equivalent positions or staff in an acting role who receive wage differentials.

The Department is actively searching for ways to stay within budget as FY 2022 overtime costs have increased compared to prior years due to higher levels of vacancies and leave. Of the 12 vacancies this year, eight have been filled and the employees are currently in the fire academy. Those positions have been backfilled using overtime, but overall salary/benefits costs are otherwise tracking within budget. The Department anticipates that overtime costs and salary will begin to stabilize once vacancies are filled and staff complete academy training. The Department's net overtime cost is $3.2 million after deducting the reimbursements and salary savings due to vacancies, analysis is included in Attachment B.

Enterprise Funds

The following is a summary of change in net position for each of the Enterprise Funds for the nine months ended March 31, 2022, including a comparison of results from the same period last year.

Table 4: Enterprise Funds Change in Net Position

	3rd Quarter YTD Actuals		Increase	
	FY 2022	FY 2021	(Decrease)	% Change
Water	4,834	8,457	$ (3,623)	-42.84%
Electric	(7,155)	7,125	(14,280)	-200.42%
Fiber Optic	1,035	1,030	5	0.49%
Gas	1,703	4,235	(2,532)	-59.79%
Wastewater collection	86	753	(667)	-88.58%
Wastewater treatment	2,260	2,970	(710)	-23.91%
Refuse	4,866	4,425	441	9.97%
Storm Drainage	2,411	2,611	(200)	-7.66%
Airport	2,759	504	2,255	447.42%
Total Change in Net Position	**$ 12,799**	**$ 32,110**	**$ (19,311)**	-60%

Water Fund decreased $3.6 million, or 42.84 percent, from prior year due to overall decrease in revenues mainly from residential sales as a result of voluntary use reduction caused by drought conditions.

Electric Fund decreased $14.3 million, or 200.42 percent, from prior year due to overall decrease in revenues and increase in expenses. The Sale to Customers decreased $3.0 million due to lower consumption and expenses increased through the 3rdquarter due to increase in electric supply purchases costs as a result of low hydroelectric supply.

Gas Fund decreased $2.5 million, or 59.79 percent, from prior year due to higher gas market prices offset by overall increase of largely from commercial and retail.

Wastewater Collection Fund decreased $0.67 million, or 88.58 percent, from prior year due to overall decrease in revenues primarily from commercial retail and increase in operating expenses such as administrative and general expenses, and depreciation expenses.

Wastewater Treatment Fund decreased $0.71 million, or 23.91 percent from prior year due to the increase in operating expenses which may reimburse by other partners based on year-end true-up calculations.

Refuse Fund increased $0.44 million, or 9.97 percent, from prior year due to decrease in operating expenses resulting from full payment of Sunnyvale Materials Recovery and Transfer Station (SMaRT Station) debt service share and landfill post-closure rent.

Storm Drain Fund increased $0.46 million, or 21.33 percent from prior year due to 2.5 percent rate increase and partially offset by the decrease in operating costs.

Airport Fund increased $2.26 million or 447.2 percent from prior year due to federal grants received from Federal Aviation Administration.

RESOURCE IMPACT
There are no financial impacts recommended in this report. Staff will return to Council as part of the review of the FY 2022 Annual Comprehensive Financial Report with year-end budget adjustments to recommend any adjustments needed to align budgets with actuals.

STAKEHOLDER ENGAGEMENT
This report has been coordinated between the Treasury Division, Accounting Division, and the Office of Management and Budget in the Administrative Services Department, as well as with City departments

ENVIRONMENTAL REVIEW
This is not a project under Section 21065 for purposes of the California Environmental Quality Act (CEQA).

Attachments:
- Attachment A: FY 2022 Third Quarter Financial Report
- Attachment B: FY 2022 Q3 Public Safety Overtime Analysis

ATTACHMENT A
CITY OF PALO ALTO
GENERAL FUND THIRD QUARTER FINANCIAL REPORT
FISCAL YEAR ENDING JUNE 30, 2022
(in thousands)

Categories	BUDGET: Adopted Budget	BUDGET: Adjusted Budget	ACTUALS (as of 3/31/2022): Pre Encumbr	ACTUALS (as of 3/31/2022): Encumbr	ACTUALS (as of 3/31/2022): Actual	ACTUALS (as of 3/31/2022): % of Adj Budget*
Revenues & Other Sources						
Sales Tax	28,184	28,184	-	-	18,432	65%
Property Tax	51,228	53,228	-	-	34,136	64%
Transient Occupancy Tax	8,428	8,428	-	-	7,895	94%
Documentary Transfer Tax	7,137	7,137	-	-	8,802	123%
Utility Users Tax	14,370	14,370	-	-	11,174	78%
Motor Vehicle Tax, Penalties & Fines	1,434	1,434	-	-	727	51%
Charges for Services	24,515	24,932	-	-	20,755	83%
Permits & Licenses	7,761	8,273	-	-	4,820	58%
Return on Investment	852	852	-	-	878	103%
Rental Income	14,403	14,403	-	-	10,300	72%
From Other Agencies	10,277	11,044	-	-	7,045	64%
Charges To Other Funds	14,165	14,165	-	-	10,640	75%
Other Revenues	504	526	-	-	491	93%
Total Revenues	183,259	186,976	-	-	136,097	73%
Operating Transfers-In	23,121	22,802	-	-	17,101	75%
Encumbrances and Reappropriation	150	11,101	-	-	-	-
Contribution from Development Services Reserves	800	1,040	-	-	-	-
Total Sources of Funds	207,329	221,918	-	-	153,198	73%
Expenditures & Other Uses						
City Attorney	3,945	4,363	-	513	2,779	75%
City Auditor	972	1,001	200	587	211	100%
City Clerk	1,327	1,383	42	62	*757*	62%
City Council	433	470	-	25	*209*	50%
City Manager	3,319	3,770	119	75	*2,237*	64%
Administrative Services	8,923	9,614	54	346	6,561	72%
Community Services	31,052	32,958	268	4,884	19,370	74%
Fire	35,677	37,731	175	492	28,147	76%
Human Resources	3,878	4,029	50	19	*2,556*	65%
Library	8,903	9,145	130	212	6,218	72%
Office of Emergency Services	1,237	1,409	-	254	795	74%
Office of Transporation	1,747	1,892	47	55	1,198	69%
Planning and Development Services	17,673	21,554	393	3,564	12,438	76%
Police	43,116	44,346	88	447	31,975	73%
Public Works	18,755	20,000	343	2,708	12,010	75%
Non-Departmental	13,478	20,782	24	205	3,076	16%
Total Expenditures	194,435	214,448	1,934	14,448	130,535	69%
Operating Transfers-Out	4,296	5,498	-	-	4,124	75%
Transfer to Infrastructure	10,406	10,406	-	-	7,804	75%
Total Use of Funds	**209,137**	**230,352**	**1,934**	**14,448**	**142,463**	**69%**
Net Change to BSR	**(1,808)**	**(8,434)**			**10,735**	

Budget Amendments in the General Fund Authorized by Council thru 3/31/2022:		
Prelim Q1 Report Utilities Transfer Litigation Reserve: CMR #13439 (10/25/21)		(4,000)
FY 2022 Mid-Year Amendments in Various Funds: CMR #13801 (2/7/22)		(2,626)
Total Budget Amendments Authorized by Council		(6,626)
BSR Balance	35,962	40,655
BSR % of Adopted Total Use of Funds	17.2%	19.4%

* Adopted BSR reflects FY 2021 Year-End Estimate at the time of the FY 2022 Budget Adoption. Adjusted BSR reflects FY 2021 Year-End Actuals based on the ACFR.

Public Safety Departments
Overtime Analysis for Fiscal Years 2020 through 2022

	2020	2021	Q3 2022
POLICE DEPARTMENT			
Overtime Expense			
Adopted Budget **(A)**	$1,842,231	$944,186	$944,186
Modified Budget **(B)**	1,842,231	944,186	1,244,186
Net Overtime Cost - see below	441,197	366,045	492,181
Variance to Budget	1,401,034	578,141	752,005
Overtime Net Cost			
Actual Expense	$2,566,590	$1,431,959	$1,580,917
Less Reimbursements			
California OES/FEMA (Strike Teams)	-	-	-
Stanford Communications	110,177	64,906	79,470
Utilities Communications Reimbursement	54,086	33,191	41,175
Local Agencies **(C)**	9,329	2,412	3,842
Police Service Fees	205,126	467,167	118,767
Total Reimbursements	378,717	567,676	243,253
Less Department Vacancies **(A)**	1,746,677	498,238	845,483
Net Overtime Cost	$441,197	$366,045	$492,181
Department Vacancies (number of days)	6,192	1,494	2,477
Workers' Compensation Cases	30	14	4
Department Disabilities (number of days)	700	1,007	709
FIRE DEPARTMENT			
Overtime Expense			
Adopted Budget **(D)**	$1,672,872	$1,931,121	$1,931,121
Modified Budget **(E)**	2,086,872	2,971,460	2,703,621
Net Overtime Cost - see below	1,831,059	1,792,228	3,247,965
Variance to Budget	255,813	1,026,424	(544,344)
Overtime Net Cost			
Actual Expense	$2,018,548	$2,840,968	$3,584,536
Less Reimbursements			
California OES/FEMA (Strike Teams)	114,000	887,531	-
Total Reimbursements	114,000	887,531	-
Less Department Vacancies **(D)**	73,489	161,208	336,571
Net Overtime Cost	$1,831,059	$1,792,228	$3,247,965
Department Vacancies (number of days)	173	1,942	891
Workers' Compensation Cases	33	14	27
Department Disabilities (number of days)	227	387	1,048

NOTES:

(A) The FY 2021/22 Police Department budget was reduced by 11.0 Police Officers and $900,000 in overtime.

(B) The FY 2022 Modified Budget includes $300,000 for backfill overtime related to support for the unhoused.

(C) Includes Animal Control Services contract with Los Altos and Los Altos Hills.

(D) The FY 2021/22 Fire Department budget was reduced by the equivalent of 8.0 sworn positions. The overtime budget was increased over the prior year by approximately $250,000 to extend the cross-staffing of Medic-61.

(E) The FY 2022 Modified Budget includes $90,000 for backfill overtime related to the paramedic certification pilot program and $682,500 for backfill overtime related to SAFER grant positions.

City of Palo Alto (ID # 14378)

Finance Committee Staff Report

Meeting Date: 6/7/2022 **Report Type: Action Items**

Title: Review and Approval of the Fiscal Year 2023 Investment Policy

From: City Manager

Lead Department: Administrative Services

Recommendation
Staff recommends that Finance Committee recommend that the City Council approve the City's Investment Policy (Policy) (Attachment A) without any changes.

Discussion
The Investment Policy (Policy) requires that the Policy be reviewed, and any changes proposed by Staff be approved by the City Council during the annual budget process. This year the Policy is being brought to the Finance Committee first. For Fiscal Year 2023, staff is proposing no changes to the Policy.

Resource Impact
There are no budget impacts associated with the approval of the Investment Policy and the City's investment portfolio continues to be managed in-house with existing staff resources.

Policy Implications
This recommendation does not represent any change to City policies.

Environmental Review
The actions requested in this report do not constitute a project for the purposes of the California Environmental Quality Act (CEQA).
Attachments:

- Attachment A: Proposed City of Palo Alto Investment Policy, Fiscal Year 2023

Attachment A

PROPOSED CITY OF PALO ALTO
Investment Policy
Fiscal Year 2022-23

With No Changes

INTRODUCTION

The City of Palo Alto invests its pooled idle cash according to State of California law and the charter of the City of Palo Alto. In particular, the City follows "The Prudent Investor Standard" cited in the State Government Code (Section 53600.3). Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

INVESTMENT PHILOSOPHY

The basic principles underlying Palo Alto's investment philosophy is to ensure the safety of public funds, provide that sufficient money is always available to meet current expenditures, and achieve a reasonable rate of return on its investments.

The City's preferred and chief practice is to buy securities and to hold them to their date of maturity rather than to trade or sell securities prior to maturity. The City may, however, elect to sell a security prior to its maturity should there be a significant financial need. If securities are purchased and held to their maturity date, then any changes in the market value of those securities during their life will have no effect on their principal value. Under a buy and hold philosophy, the City is able to protect its invested principal. The economy, the money markets, and various financial institutions (such as the Federal Reserve System) are monitored carefully to make prudent investments and to assess the condition of the City's portfolio.

INVESTMENT OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

   a) Credit risk is the risk that an obligation will not be paid and a loss will result. The City will seek to minimize this risk by:

      - Limiting investment to the safest types of securities or minimum credit quality rating as listed in the "Authorized Investment" section
      - Diversifying its investments among the types of securities that are authorized under this investment policy

   b) Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investor's portfolio. For example, an investor with large holdings in long-term bonds has assumed significant interest rate risk because the value of the bonds will fall if interest rates rise. The City can minimize this risk by:

      - Buying and holding its securities until maturity
      - Structuring the investment portfolio so that securities mature to meet cash flow requirements

   To further achieve the objective of safety, the amount that can be invested in all investment categories, excluding obligations of the U.S. Government and its agencies, is limited either as a percentage of the portfolio or by a specific dollar amount. These limits are defined under the "Authorized Investments" section.

2. **Liquidity:** Liquidity is the second most important objective of the investment program. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by maintaining a portion of the portfolio in liquid money market mutual funds or local government investment pools. In addition, the City will maintain one month's net cash needs in short term and/or liquid investments and at least $50 million shall be maintained in securities maturing in less than two years. Although the City's practice is to buy and hold securities to maturity, since all possible cash demands cannot be anticipated, the portfolio will consist of securities with active secondary or resale markets should the need to sell a security prior to maturity arises.

3. **Yield:** Yield on the City's portfolio is last in priority among investment objectives. The investment portfolio shall be designed to obtain a market rate of return that reflects the authorized investments, risk constraints, and liquidity needs outlined in the City's investment policy. Compared to similar sized cities, the City of Palo Alto should be able to take advantage of its relatively large reserve balances to achieve higher yields through long-term investments. In addition, the City will strive to maintain the level of investment of idle funds as close to 100 percent as possible.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RESPONSIBILITIES

In addition to and subordinate to the Safety, Liquidity, and Yield investment objectives, investments that support sound environmental, social and governance (ESG) objectives are also considered. While the City's portfolio is not classified as an ESG portfolio, investments in entities that support community well-being through practices that emphasize safe and environmentally sound objectives; fair labor practices; and equality of rights regardless of sex, race, age, disability, or sexual orientation, is encouraged. Direct investments in entities that manufacture tobacco products, firearms, and engage in direct production or drilling of fossil fuels is discouraged.

This section applies to new investments (after November 5, 2018) only and does not require divestment of existing investments. Investments in Certificates of Deposit (CDs) and Negotiable Certificates of Deposit are exempt from the ESG investing objective.

SCOPE

A. This investment policy shall apply to all financial assets of the City of Palo Alto as accounted for in the Annual Comprehensive Financial Report (ACFR), including but not limited to the following funds:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Project Fund
5. Enterprise Funds
6. Internal Service Funds
7. Trust and Agency Funds

B. The policy does not cover funds held by the California Public Employees Retirement System (CalPERS), the California Employers' Retiree Benefit Trust (CERBT), Deferred Compensation programs (e.g. ICMA, Hartford), the Authority for California Cities Excess Liability (ACCEL), and the Public Agency Retirement Services (PARS) Section 115 Irrevocable Trust.

C. Investments of bond proceeds shall be governed by the provisions of the related bond indentures.

GENERAL INVESTMENT GUIDELINES

1. The maximum stated final maturity of individual securities in the portfolio should be ten years.

2. A maximum of 30 percent of the par value of the portfolio shall be invested in securities with maturities beyond five years.

3. The City shall maintain a minimum of one month's net cash needs in short term and/or

liquid investments.

4. At least $50 million shall be maintained in securities maturing in less than two (2) years.

5. Should the ratio of the market value of the portfolio to the book value of the portfolio fall below 95 percent, the Administrative Services Department will report this fact to the City Council within a reasonable time frame and evaluate whether there is any risk of holding any of the securities to maturity.

6. Commitments to purchase securities newly introduced on the market shall be made no more than three (3) working days before pricing.

7. Whenever possible, the City will obtain three or more quotations on the purchase or sale of comparable securities and take the higher yield on purchase or higher price on sale. This rule will not apply to new issues, which are purchased at market no more than three (3) working days before pricing, as well as to LAIF, City of Palo Alto bonds, money market accounts and mutual funds, all of which shall be evaluated separately.

8. Where the Investment Policy specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in the portfolio's assets or values shall not constitute a violation of that restriction. As soon as possible, percentage limitations will be restored as investments mature in each category.

AUTHORIZED INVESTMENTS

The California Government Code (Sections 53600 et seq.) governs investment of City funds. The following investments are authorized:

1. **U.S. Government Securities** (e.g. Treasury notes, bonds and bills**)** Securities that are backed by the full faith and credit of the United States

   a) There is no limit on purchase of these securities.

   b) Securities will not exceed 10 years maturity.

   c) All purchased securities must have an explicit or a de facto backing of the full faith and credit of the U.S. Government.

2. **U.S. Government Agency Securities** – Obligations issued by the Federal Government agencies (e.g. Federal National Mortgage Association, etc.).

   a. There is no limit on purchase of these securities except for:

- Callable and Multi-step-up securities provided that:
  - The potential call dates are known at the time of purchase
  - The interest rates at which they "step-up" are known at the time of purchase
  - The entire face value of the security is redeemed at the call date
  - No more than 25 percent of the par value of the portfolio

b. Securities will not exceed 10 years maturity.

3. **<u>California State, California Local Government Agencies, and other United States State Bonds</u>**

a) Having at time of investment a minimum Double A (AA/Aa2) rating as provided by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).

b) May not exceed 40 percent of the par value of the portfolio.

c) Investments include:

i) Registered state warrants or treasury notes or bonds of the State of California and bonds, notes, warrants, or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency, or authority of the state or local agency.

ii) Registered treasury notes or bond of any of the 49 United States in addition to the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency or authority of any of the other 49 United States, in addition to the State of California.

4. **<u>Certificates of Deposit (CD)</u>** - A debt instrument issued by a bank for a specified period of time at a specified rate of interest. Purchase of CD's are limited to:

a) May not exceed 20 percent of the par value of the portfolio.

b) No more than 10 percent of the par value of the portfolio in collateralized CDs in any institution.

c) Purchase collateralized deposits only from federally insured large banks that are rated by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).

d) For non-rated banks, deposit should be limited to amounts federally insured (FDIC). – See Appendix C

e) Rollovers are not permitted without specific instruction from authorized City staff.

5. **Banker's Acceptance Notes (BA)** – Bills of exchange or time drafts drawn on and accepted by commercial banks. Purchase of banker's acceptances are limited to:

   a) No more than 30 percent of the par value of the portfolio.

   b) Not to exceed 180 days maturity.

   c) No more than $5 million with any one institution.

6. **Commercial Paper** - Short-term unsecured obligations issued by banks, corporations, and other borrowers. Purchases of commercial paper are limited to:

   a) Having highest letter or numerical rating as provided for by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).

   b) No more than 15 percent of the par value of the portfolio.

   c) Not to exceed 270 days maturity.

   d) No more than $3 million or 10 percent of the outstanding commercial paper of any one institution, whichever is lesser.

7. **Local Agency Investment Fund (LAIF)** – A State of California managed investment pool may be used up to the maximum permitted by California State Law.

8. **Short-Term Repurchase Agreements (REPO)** – A contractual agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time. Purchases of REPO's must:

   a) Not to exceed 1 year.

   b) Market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities.

   c) A Master Repurchase agreement must be signed with the bank or dealer.

9. **Money Market Deposit Accounts** – Liquid bank accounts which seek to maintain a net asset value of $1.00.

10. **Mutual Funds** which seek to maintain a net asset value of $1.00 and which are limited essentially to the above investments and further defined in note 9 of Appendix A

    a) No more than 20 percent of the par value of the portfolio.

    b) No more than 10 percent of the par value with any one institution.

11. **Negotiable Certificates of Deposit (NCD)** issued by nationally or state-chartered banks and state or federal savings institutions and further defined in note 11 of Appendix A. Purchases of negotiable certificates of deposit:

    a) May not exceed 20 percent of the par value of the portfolio.

    b) No more than $5 million in any one institution.

12. **Medium-Term Corporate Notes** – Issued by corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating with the United States.

    a) Not to exceed 5 years maturity.

    b) Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard & Poor's).

    c) No more than 10 percent of the par value of the portfolio.

    d) No more than $5 million of the par value may be invested in securities of any single issuer, other than the U.S. Government, its agencies and instrumentality.

    e) If securities owned by the City are downgraded by Moody's, Fitch, or Standard & Poors to a level below AA or Aa2, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

13. **Supranational Organizations Securities** – Supranational organizations refer to International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).

    a. Securities will not exceed 5 years maturity.
    b. No more than 20 percent of the par value of the portfolio.
    c. No more than 10 percent of the par value with any one institution.

d. Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard & Poor's).
e. Limited to United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by IBRD, IFC, and IADB.

Appendix A provides a more detailed description of each investment vehicle and its security and liquidity features. Most of the City's short-term investments will be in securities which pay principal upon maturity, while long-term investments may be in securities that periodically repay principal, as well as interest. Most of the City's investments will be at a fixed rate. However, some of the investments may be at a variable rate, so long as that rate changes on specified dates in pre-determined increments.

PROHIBITED INVESTMENTS:

Includes all investments not specified above, and in particular:

1. Reverse repurchase agreements
2. Derivatives, as defined in Appendix B

Appendix B provides a more detailed description of each investment, which is prohibited, for City investment.

AUTHORIZED INVESTMENT PERSONNEL

Idle cash management and investment transactions are the responsibility of the Administrative Services Department. The Administrative Services Department is under the control of the Director of Administrative Services (Director), as treasurer, who is subject to the direction and supervision of the City Manager.

The Assistant Directors of Administrative Services (Assistant Director), who reports to the Director, are authorized to make all investment transactions allowed by the Statement of Investment Policy. The Assistant Director may authorize the Manager of Treasury, Debt & Investments and/or Senior Management Analyst (Manager and/or Analyst) to enter into investments within clearly specified parameters.

The Investment function is under the supervision of the Assistant Director. The Assistant Director is charged with the responsibility to manage the investment program (portfolio), which includes developing and monitoring the City's cash flow model and developing long-term revenue and financing strategies and forecasts.

The Manager and/or Analyst are subject to the direction and supervision of the Assistant Director. The Manager and/or Analyst assist the Assistant Director, in the purchase and sale of securities. The Manager and/or Analyst also prepare the quarterly report, and record daily all investment transactions as to the type of investment, amount, yield, and maturity. Cash flow projections are prepared as needed.

In all circumstances, approval from the Director of Administrative Services is required before selling securities from the City's portfolio. The Manager and/or Analyst may also transfer no more than a total of $10 million a day from the City's general account to any one financial institution, without the prior approval of the Assistant Director.

No other person has authority to make investment transactions without the written authority of the Director or Assistant Director of Administrative Services.

USE OF BROKERS AND DEALERS

The Administrative Services Department maintains a list of acceptable dealers. A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position. A dealer must have:

a) At least three years experience operating with California municipalities;

b) Maintain an inventory of trading securities of at least $10 million; and

c) Be approved by the Assistant Director before being added to the City's list of approved dealers; including individual traders or agents representing a dealer:

A dealer will be removed from the list should there develop a history of problems to include: failure to deliver securities as promised, failure to honor transactions as quoted, or failure to provide accurate information.

SAFEKEEPING AND CUSTODY

All securities shall be delivered to the City's safekeeping custodian and held in the name of the City of Palo Alto, with the exception of the following investments:

a) Certificates of deposit, which may be held by the City itself.

b) City shares in pooled investment funds, under contract.

c) Mutual funds

d) Local Agency Investment Fund (LAIF)

POLICY REVIEW AND REPORTING ON INVESTMENTS

Monthly, the Administrative Services Department will review performance in relation to Council adopted Policy. Quarterly, the Department will report to Council investment activity, including: the portfolio's performance in comparison to policy, explain any variances from policy, provide any recommendations for policy changes, and discuss overall compliance with the City's Investment Policy. In addition, the Department will provide Council with:

a) A detailed list of all securities, investments and monies held by the City, and
b) Report on the City's ability to meet expenditure requirements over the next six months.

Annually, the Administrative Services Department will present a Proposed Statement of Investment Policy, to include the delegation of investment authority, to the City Council for review during the annual budget process. All proposed changes in policy must be approved by the Council prior to implementation.

Adopted by City Council October 22, 1984	Amended by City Council June 11, 2001
Monthly reporting effective January 1985	Amended by City Council June 17, 2002
Amended and Adopted by City Council June 24, 1985	Amended by City Council June 17, 2003
Amended by City Council December 2, 1985	Amended by City Council June 28, 2004
Amended by City Council June 23, 1986	Amended by City Council June 20, 2005
Amended by City Council June 22, 1987	Amended by City Council June 12, 2006
Amended by City Council August 8, 1988	Amended by City Council June 11, 2007
Amended by City Council November 28, 1988	Amended by City Council June 09, 2008
Amended by City Council June 26, 1989	Amended by City Council June 15, 2009
Amended by City Council May 14, 1990	Amended by City Council June 28, 2010
Amended by City Council June 24, 1991	Amended by City Council June 20, 2011
Amended by City Council June 22, 1992	Amended by City Council June 18, 2012
Amended by City Council June 23, 1993	Amended by City Council June 03, 2013
Amended by City Council June 20, 1994	Amended by City Council June 16, 2014
Amended by City Council June 19, 1995	Amended by City Council June 15, 2015
Amended by City Council June 24, 1996	Amended by City Council June 13, 2016
Amended by City Council June 23, 1997	Amended by City Council June 27, 2017
Amended by City Council January 26, 1998	Amended by City Council November 5, 2018
Amended by City Council June 22, 1998	Amended by City Council June 24, 2019
Amended by City Council June 28, 1999	Adopted by City Council June 22, 2020
Amended by City Council June 19, 2000	Amended by City Council June 21, 2021

APPENDIX A
EXPLANATION OF PERMITTED INVESTMENTS

1. **U.S. Government Securities:** United States Treasury notes, bonds, bills, or certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

2. **U.S. Government Agency Securities:** U.S. Government Agency Obligations include the securities of the Federal National Mortgage Association (FNMA), Federal Land Banks (FLB), Federal Intermediate Credit Banks (FICB), banks for cooperatives, Federal Home Loan Banks (FHLB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Student Loan Marketing Association (SLMA), Small Business Administration (SBA), Federal Farm Credit (FFC), and Federal Agricultural Mortgage Corporation (FAMC or FMAC). Federal Agency securities are debt obligations that essentially result from lending programs of the Government. Federal agency securities differ from other types of securities, as well as among themselves. Their characteristics depend on the issuing agency. It is possible to distinguish three types of issues: (A) participation certificates (pooled securities), (B) Certificates of interest (pooled loans), (C) notes, bonds, and debentures. The securities of a few agencies are explicitly backed by the full faith and credit of the U.S. Government. All other issues purchased by the City have the de facto backing from the federal government, and it is highly unlikely that the government would let any agency default on its obligations.

3. **Certificates of Deposit:** A certificate of deposit (CDs) is a receipt for funds deposited in a bank, savings bank, or savings and loan association for a specified period of time at a specified rate of interest. Denominations are $250,000 and up. The first $250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC), if the deposit is with a bank or savings bank, or the Savings Association Insurance Fund (SAIF), if the deposit is with a savings and loan. CDs with a face value in excess of $250,000 can be collateralized by U.S. Government Agency and Treasury Department securities or first mortgage loans. Government securities must be at least 110 percent of the face value of the CD collateralized in excess of the first $250,000. The value of first mortgages must be at least 150 percent of the face value of the CD balance insured in excess of the first $250,000. Generally, CDs are issued for more than 30 days and the maturity can be selected by the purchaser.

4. **Bankers' Acceptance:** A Banker's Acceptance (BA) is a negotiable time draft or bill of exchange drawn on and accepted by a commercial bank. Acceptance of the draft irrevocably obligates the bank to pay the bearer the face amount of the draft at maturity. BAs are usually created to finance the import and export of goods, the shipment of goods within the United States and storage of readily marketable staple commodities. In over 70 years of usage in the United States, there has been no known instance of principal loss to any investor in BAs. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. Warehouse receipts verify that the pledged commodities exist, and, by definition, these commodities are readily marketable. The sale of the underlying goods generates the

necessary funds to liquidate the indebtedness.

BAs enjoy marketability since the Federal Reserve Bank is authorized to buy and sell prime BAs with maturities of up to nine months. The Federal Reserve Bank enters into repurchase agreements in the normal course of open market operations with BA dealers.

As are sold at a discount from par. An acceptance is tied to a specific loan transaction; therefore, the amount and maturity of the acceptance is fixed.

5. **Commercial Paper:** Commercial paper notes are unsecured promissory notes of industrial corporations, utilities, and bank holding companies. Interest is discounted from par and calculated using actual number of days on a 360-day year. The notes are in bearer form, with maturities up to 270 days selected by the purchaser, and denominations generally start at $100,000. There is a small secondary market for commercial paper notes and an investor may sell a note prior to maturity.

   Commercial paper notes are backed by unused lines of credit from major banks. Some issuer's notes are insured, while some are backed by irrevocable letters of credit from major banks. State law limits a City to investments in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating by a nationally recognized rating service for the issuer's debentures. Cities may not invest more than 25 percent of idle cash in commercial paper.

6. **Local Agency Investment Fund Demand Deposit:** The Local Agency Investment Fund LAIF) was established by the State to enable treasurers to place funds in a pool for investments. The City is limited to an investment of the amount allowed by LAIF (currently $75 million). LAIF has been particularly beneficial to those jurisdictions with small portfolios. Palo Alto uses this fund for short-term investment, liquidity, and yield.

7. **Repurchase Agreements:** A Repurchase Agreement (REPOS) is not a security, but a contractual arrangement between a financial institution or dealer and an investor. The agreement normally can run for one or more days. The investor puts up funds for a certain number of days at a stated yield. In return, the investor takes title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid, plus interest. Usually, amounts are $500,000 or more, but some REPOS can be smaller.

8. **Money Market Deposit Accounts:** Money Market Deposit Accounts are market-sensitive bank accounts, which are available to depositors at any time, without penalty. The interest rate is generally comparable to rates on money market mutual funds, though any individual bank's rate may be higher or lower. These accounts are insured by the Federal Deposit Insurance Corporation or the Savings Association Insurance Fund.

9. **Mutual Funds:** Mutual funds are shares of beneficial interest issued by diversified management companies, as defined by Section 23701 M of the Revenue and Taxation Code. To be eligible for investment, these funds must:

   a) Attain the highest ranking in the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or

   b) Have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations, as authorized by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code, and with assets under management in excess of five hundred million dollars; and

   c) Invest solely in those securities and obligations authorized by Sections 53601 and 53635 of the California Government Code. Where the Investment Policy of the City of Palo Alto may be more restrictive than the State Code, the Policy authorizes investments in mutual funds that shall have minimal investment in securities otherwise restricted by the City's Policy. Minimal investment is defined as less than 5 percent of the mutual fund portfolio; and

   d) The purchase price of shares of beneficial interest purchased shall not include any commission that these companies may charge.

   e) Have a net asset value of $1.00.

10. **Callable Securities and Multi-Step-ups:** Callable securities are defined as fixed interest rate government agency securities that give the issuing agency the option of returning the invested funds at a specific point in time to the purchaser. Multi-step-ups are government agency securities in which the interest rate increases ("steps-up") at preset intervals, and which also have a callable option that allows the issuing agency to return the invested funds at a preset interval. Callable and multi-step-ups are permitted, provided that:

    - the potential call dates are known at the time of purchase;
    - the interest rates at which they "step-up" are known at the time of purchase; and
    - the entire face value of the security is redeemed at the call date.

11. **Negotiable Certificates of Deposit (NCD):** NCDs are large-dollar-amount, short-term certificate of deposit. Such certificates are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and, being negotiable, they enjoy an active secondary market, where they trade in round lots of $5 million. Although they can be issued in any denomination from $100,000 up, the typical amount is $1 million also called a Jumbo Certificate of Deposit.

    State law prohibits the investment of local agency funds in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision making authority in the administrative, manager's, budget, auditor-controller's, or treasurer's offices of the local agency also serves on the board of directors, other credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificate of deposit.

12. **Medium-Term Corporate Notes:** All corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. According to California Government Code Section 53601, "Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchase of medium-term notes shall include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section."

13. **Supranational Securities:** California Government Code Section53601 defines allowable supranational securities as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the International Finance Corporation, and Inter-American Development Bank. Supranationals are well capitalized and in most cases have strong credit support from contingent capital calls from their member countries. Section 53601 was amended effective January 1, 2015 to allow local agencies to invest in the senior debt obligations of these three supranational issuers which are eligible for purchase and resale within the United States. These entities were established with the purpose of ending poverty and raising the standard of living around the world through sustainable economic growth.

    a) The supranationals are international organization owned by member countries. These are:
        - **International Bank for Reconstruction and Development (IBRD or World Bank),** a member of the World Bank Group, provides direct loans and guarantees to sovereigns and government-backed projects
        - **International Finance Corporation (IFC),** a member of the World Bank Group, supports the creation and growth of private companies through direct lending and equity investment, attracting third party capital, and providing advisory services
        - **Inter-American Development Bank (IADB),** a member of the

Inter-American Development Bank Group, provides loans, grants, and guarantees to sovereigns in Latin America and the Caribbean

b) Additional characteristics shared by the IBRD, IFC, and IADB include:
- Headquartered in Washington, D.C. with the United States as the largest shareholder of each organization
- Rated AAA/Aaa by S&P and Moody's

APPENDIX B
EXPLANATION OF PROHIBITED INVESTMENTS

1. **Reverse Repurchase Agreements:** A Reverse Repurchase Agreement (Reverse REPO) is a contractual agreement by the investor (e.g. local agency) to post a security it owns as collateral, and a bank or dealer temporarily exchanges cash for this collateral, for a specific period of time, at an agreed-upon interest rate. During the period of the agreement, the local agency may use this cash for any purpose. At maturity, the securities are repurchased from the bank or dealer, plus interest.

   California law contains a number of restrictions on the use of Reverse REPOS by local agencies.

2. **Derivatives:** A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets or indices. The term "derivative" refers to instruments or features, such as collateralized mortgage obligations, forwards, futures, currency and interest rate swaps, options, caps and floors. Except for those callable and multi-step-up securities as described under Permitted Investments, derivatives are prohibited.

   Certain derivative products have characteristics which could include high price volatility, liquid markets, products that are not market-tested, products that are highly leveraged, products requiring a high degree of sophistication to manage, and products that are difficult to value.

   According to California law, a local agency shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.

APPENDIX C
GLOSSARY OF INVESTMENT TERMS

AGENCIES: Federal agency and instrumentality securities.

ASKED: The price at which securities are offered.

BID: The price offered by a buyer of securities (when one sells securities, one asks for a bid). See *"Offer"*.

BROKER: A person or institution that conducts investment transactions on behalf of the buyer and seller of the investment and earns a commission on the transaction.

COLLATERAL: Securities, evidence of deposit, or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report for the City of Palo Alto. It includes combined financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles and pronouncements set forth by the Governmental Accounting Standards Board (GASB). The ACFR also includes supporting schedules that are necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

COUPON: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value or the certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: (1) delivery versus payment (DVP); and (2) delivery versus receipt (DVR). DVP is delivery of securities with an exchange of money for the securities. DVR is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the acquisition cost of a security and its value at maturity when quoted at lower than face value. A security that sells below original offering price shortly after sale, is also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest-bearing money market instruments that are issued a discount and that are redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities that offer independent returns.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION ("FAMC" or "FMAC"): A federal agency established in 1988 to provide a secondary market for farm mortgage loans. Informally called *Farmer Mac*.

FEDERAL CREDIT AGENCIES: Agencies of the Federal Government that were established to supply credit to various classes of institutions and individuals (e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters).

FEDERAL DEPOSIT INSURANCE CORPORATION ("FDIC"): A federal agency that insures all types of deposits received at an insured bank, including deposits in a checking account, negotiable order of withdrawal (NOW) account, savings account, money market deposit account (MMDA) or time deposit such as a certificate of deposit (CD). FDIC insurance covers depositors' accounts at each insured bank, dollar-for-dollar, including principal and any accrued interest through the date of the insured bank's closing, up to the insurance limit.

The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities or municipal securities, even if these investments are purchased at an insured bank. The FDIC does not insure U.S. Treasury bills, bonds or notes, but these investments are backed by the full faith and credit of the United States government.

The standard maximum deposit insurance amount is described as the "SMDIA" in FDIC regulations. The SMDIA is $250,000 per depositor, per insured bank.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS ("FHLB"): Government-sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions, and insurance companies. The mission of the FHLBs is to liquefy the housing-related assets of its members, who must purchase stock in their District Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION ("FNMA"): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE ("FOMC"): The FOMC consists of seven members of the Federal Reserve Board and five of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market, as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks, and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION ("GNMA" or "Ginnie Mae"): Securities that influence the volume of bank credit that is guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. A security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow, and reasonable amount can be done at those quotes.

LOCAL GOVERNMENT AGENCY: A local government agency is any city, county, city and county, district, or other local governmental body or corporation, including the California State Universities (CSU) and University of California (UC) systems, K-12 schools and community colleges empowered to expend public funds.

LOCAL GOVERNMENT INVESTMENT FUND ("LAIF"): Monies from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer (lender) to liquidate the underlying securities in the event of default by the seller (borrower).

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (e.g., bills, commercial paper, and bankers' acceptances) are issued and traded.

OFFER: The price asked by a seller of securities (when one buys securities, one asks for an offer). See *"Asked"* and *"Bid"*.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank, as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: A collection of securities that an investor holds.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions, and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) -- registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT INVESTOR RULE: An investment standard cited in the California Government Code Section 53600 et seq. Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution that: (1) does not claim exemption from the payment of any sales, compensating use, or ad valorem taxes under the laws of this state; (2) has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability; and (3) has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: An agency created by Congress to administer securities legislation for the purpose of protecting investors in securities transactions.

STRUCTURED NOTES: Notes issued by instrumentalities (e.g., FHLB, FNMA, SLMA) and by corporations, that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) in their debt structure. The market performance of structured notes is affected by fluctuating interest rates; the volatility of imbedded options; and shifts in the yield curve.

SUPRANATIONALS: International institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The California Government Code Section 53601 allows local agencies to purchase the United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB).

TIME CERTIFICATE OF DEPOSIT: A non-negotiable certificate of deposit, which cannot be sold prior to maturity.

TREASURY BILLS: A non-interest-bearing discount security that is issued by the U.S. Treasury to finance the national debt. Most T-bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of two to 10 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

YIELD-TO-CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD-TO-MATURITY: The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity.

ZERO-COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

City of Palo Alto

Finance Committee Staff Report

(ID # 14112)

Meeting Date: 6/7/2022 **Report Type: Action Items**

Title: Accept June 30, 2021 Actuarial Valuation of Palo Alto's Retiree Healthcare and Other Post Employment Benefits, Approve Annual Actuarially Determined Contributions for Fiscal Years 2023 and 2024, and Affirm Additional Payments to Employers' Benefit Trust Fund

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends that the Finance Committee recommend the City Council:

1. Review and accept the June 30, 2021 actuarial valuation of Palo Alto's Retiree Healthcare Plan;
2. Approve full funding of the annual Actuarial Determined Contribution (ADC) for Fiscal Year 2023 and Fiscal Year 2024 using the staff recommended adjusted assumptions; and
3. Affirm the continued the practice of transmitting amounts at a lower 6.25 percent discount rate as an additional discretionary payment to the City's California Employers' Retiree Benefit Trust (CERBT) Fund.

EXECUTIVE SUMMARY

In accordance with the Governmental Accounting Standards Board (GASB), the City Council is required to review and approve the actuarial valuation for retiree healthcare plan on a bi-annual basis for the upcoming two fiscal years and approve funding of the annual Actuarial Determined Contribution (ADC). This current study presents the fund's status as of June 30, 2021 and will be used to inform the FY 2023 and FY 2024 annual operating budgets. This report was finalized after the development of the FY 2023 Proposed Budget. Therefore, funding levels in the FY 2023 Proposed Budget reflect the out years of the prior study completed on June 30, 2019 (CMR 11284). Funding levels recommended by the Finance Committee as part of this discussion will be included as an amendment to the FY 2023 Proposed Budget and included for City Council adoption of the budget on June 20, 2022.

The City continues to selecta Strategy 1 asset allocation, currently projected at a 6.75 percent discount rate for the California Employers' Retirement Benefit Trust (CERBT) Fund, managed by CalPERS. Beginning with the June 30, 2019, valuation (CMR 11284), the City Council directed staff to calculate additional discretionary payments ("prefunding") equivalent to a 6.25 percent discount rate and transmit amounts above payments at a 6.75 percent discount rate to the

CERBT Fund. Through FY 2022, a total of $3.5 million in additional contributions are expected to be made to the CERBT.

The June 30, 2021, valuation includes several changes that have favorably impacted the CERBT fund status, primarily due to healthcare and economic fluctuations resulting from the COVID-19 pandemic and continued proactive funding contributions:

- 2020-21 investment returns of 27.5 percent (6.75 percent target);
- Lower than anticipated healthcare premiums; and
- Accumulated contributions (full ADC payments and prefunding)

These favorable changes are advised to be taken in consideration of an uncertain environment. Current portfolio earning is not expected to meet target return this year (FY 2022) and it is not known whether the recent change in healthcare premiums will be ongoing or an anomaly due to the significant governmental support of healthcare costs over the past two years. Because we do not know whether these favorable changes are the beginning of a trend, or merely a temporary anomaly, this report includes several options to fund Other Post-Employment Benefit (OPEB) obligations for Finance Committee review and discussion beyond the typical recommended "baseline" strategy.

- *Recommended Funding:* consider alternative assumptions that are intended to better align with the current economic outlook and proactive funding of long-term liabilities.
- *Alternative 1 ("baseline")*: reflects the ADC for current City Council approved funding levels and actuary assumptions.

The below table provides a summary of the options and a comparison of costs to the FY 2023 Proposed Budget in all funds. A more detailed discussion of these options is included in this report. All options reflect expected savings when compared to assumptions currently built in the FY 2023 Proposed Budget as reviewed by the Committee in May. Staff recommends that any savings remain unallocated and fall to respective funds fund balance/reserves based on standing policies, unless otherwise directed.

Table 1: Funding for the FY 2023 OPEB Obligations

		FY 2023 OPEB Funding	*$ Change*
	FY 2023 Proposed Budget (based on June 30, 2019 valuation)	$16.9M	-
Recommended Funding Adjusted Assumptions	• Zero percent return 2021-22 • Proactive contribution at lower discount rate of 6.25 in ADC • Shorten Amortization period (from 22 to 15 years) • Additional funding for FY 2023 Proposed staffing	$14.6M	*($2.3M)*
Alternative: Baseline	• Current approved funding levels • Proactive contribution at lower discount rate of 6.25 in ADC	$12.3M	*($4.6M)*

*Approximately 65 percent of costs are allocated to the General Fund.

BACKGROUND

The City of Palo Alto offers its employees and retirees a Retiree Healthcare benefit plan which is managed and administered by the California Public Employees' Retirement System (CalPERS), a State of California Retiree Healthcare Trust program. Bi-annually staff contracts with an actuary firm that provides an actuarial report detailing the latest status of the City of Palo Alto's Retiree Healthcare plans for employees and retirees. The actuarial report is used to calculate the annual ADC to the trust. In addition, updates on the rate of return, funding status, and changes to the trust based on various impacts are detailed in the report. Unlike the pension actuary reports, this actuary details impacts by Fund, Department, Employee Group, and Healthcare Plans selected.

There are four groups of benefits within the CalPERS Retiree Healthcare benefit plans. Table 1 below outlines the different benefits levels by Group. These benefit levels are negotiated and approved as part of the employee contracts. Employees and retirees have an open enrollment window in October each year in which they can make changes to their healthcare plans that take effect in January of the following year.

Table 2: City of Palo Alto Retiree Healthcare Benefit Plans and Tiers

	Miscellaneous	Safety: Fire	Safety: Police
Group 1	Retired before January 1, 2007; eligibility starting at the age 50 and 5 years of service; full premium up to family coverage	Retired before January 1, 2007; eligibility starting at the age of 50 and 5 years of service; full premium up to family coverage	Retired before March 1, 2009; eligibility starting at the age of 50 and 5 years of service; full premium up to family coverage
Group 2	Retired between January 1, 2007 and May 1, 2011; eligibility starting at the age 50 and 5 years of service; same as Group 1, but premium limited to 2nd most expensive medical plan	Retired between January 1, 2007 and December 1, 2011; eligibility starting at the age 50 and 5 years of service; same as Group 1, but premium limited to 2nd most expensive medical plan	Retired between March 1, 2009 and April 1, 2015 (POA), between January 1, 2007 and June 1, 2012 (PMA) ; eligibility starting at the age 50 and 5 years of service; same as Group 1, but premium limited to 2nd most expensive medical plan
Group 3 (Retirees)	Retired after Group 2, did not elect into Group 4, benefit same as active employees		
Group 3 (Active EEs)	Currently active, not in Group 4. Flat Dollar Caps equal to actives	N/A (All active Group 3 IAFF & FCA elected into Group 4)	N/A (All active Group 3 POA & PMA elected into Group 4)
Group 4	Vesting Schedule: 10 years gets 50%, 20 years gets 100%, formula amount	Vesting Schedule: 10 years gets 50%, 20 years gets 100%, formula amount	Vesting Schedule: 10 years gets 50%, 20 years gets 100%, formula amount

CalPERS Projected Contribution Levels

The actuary report has two components to the annual billing of the employer portion of retiree healthcare contributions that comprise the Actuarial Determined Contribution (ADC), 1) the Normal Cost (NC), and 2) the Unfunded Actuarial Accrued Liability (UAAL).

- *NC:* This reflects a rate of contribution for the plan of retirement healthcare benefits provided to current employees based on the current set of assumptions.

- *Employer Amortization of UAAL:* This is an annual payment calculated to pay down an agency's unfunded accrued liability. Assuming every assumption in the actuarial valuation was accurate, an organization would eliminate its unfunded pension liability if it made these payments annually for 30 years. The City Council approved a closed period to amortize the entire net pension liability over a specific timeframe, and 22 years of payments remain as of June 30, 2021. The total liability will vary from one year to the next because of assumption changes and actuarial experience that is different from anticipated, such as actual investment returns that do not meet expectations.

As established by the City Council, the City's CERBT Fund is invested in a Strategy 1 asset allocation at a 6.75 percent discount rate. Beginning with the June 30, 2019, valuation (CMR 11284), consistent with the City's proactive pension funding policy, the City Council approved the calculation of ADC at a lower 6.25 percent discount rate, transmitting the amounts above a 6.75 percent discount rate as an additional discretionary payment ("prefunding") to the CERBT Fund. Other proactive measures to mitigate the increasing costs of healthcare plans for current and future retirees include cost sharing with employees, capping the plans covered, and establishing a flat contribution that can be adjusted with each labor agreement for active employees.

The City's CERBT Fund was established in May 2008 at a level of $33 million and it has grown to $164 million as of March 31, 2022.

DISCUSSION

<u>Summary of Actuarial Report June 30, 2021</u>

Staff contracted with Bartel Associates, LCC (BA) for this retiree healthcare actuarial report (Attachment A) to determine the City's retiree healthcare liability and the ADC for Fiscal Years 2023 and 2024. The actuarial analysis is based on current employees' accrued benefit, and retired employees as of June 30, 2021.

This updated valuation includes several changes that have favorably impacted the CERBT fund status, primarily due to healthcare and economic fluctuations resulting from the COVID-19 pandemic. Most notably, investment returns for 2020-21 reached an unprecedented level of 27.5 percent for the period. This level of return had a significant impact on the overall status of the fund and is not expected to continue in future periods. Healthcare premiums were lower than anticipated likely due to government funding of pandemic-related healthcare costs, deferral of individual healthcare visits during the pandemic due to personal safety decisions and public health orders and use of CalPERS reserves to keep premiums down.

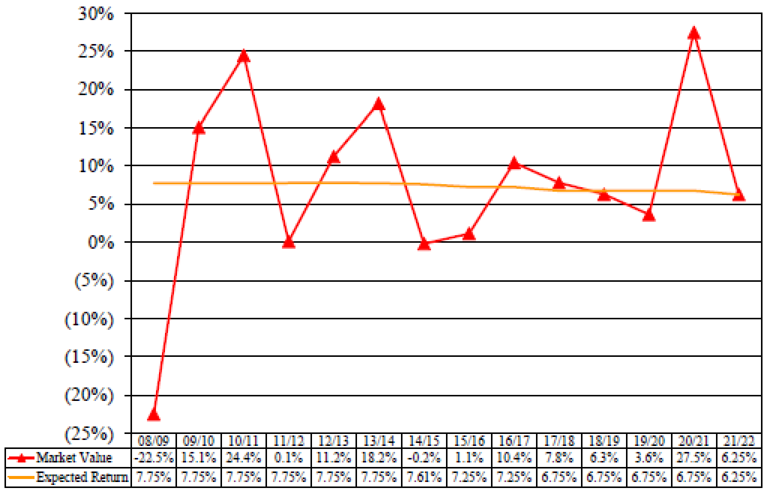
The full impact on healthcare costs resulting from the pandemic is yet to be determined and is expected to be factored into future valuation reports based on actual experience in costs. As an actuarial study, the calculation is based on the information at this time, which reflects this significantly lower cost. Staff and Bartel Associates are skeptical on the longevity of these lower costs, versus the immediate result of the variables noted previously.

Beginning with this valuation, based on the favorable changes, baseline projections reflect accumulated contributions to the CERBT may be used to pay a portion of the annual retiree medical costs. This is a result of asset growth, where returns generated on higher asset levels are sufficient to contribute toward a portion of the annual benefit payments. The ability to use returns for this purpose is a goal of the prefunding strategy and a sign that a good practice is in place. Achieving this status was anticipated to occur as a result of prefunding, however, has occurred sooner than anticipated due to the favorable impacts discussed above.

Discount Rate Assumptions
The City Council has taken great interest to ensure long-term liability assumptions and costs for pension and OPEB are being proactively addressed, including the adoption of a Pension Policy that assumes a 6.2 percent discount rate for pension costs compared to CalPERS rate of 7.0 percent (CMR 11722) and starting in FY 2023 a potential phased-in reduction to 5.3 percent or alternative rate as designated by Council, to better align with market survey results included in the most recent CalPERS Asset Liability Management (ALM) study. Additionally, the City Council has taken actions to invest at an estimated discount rate for OPEB of 6.75 percent and transmit additional contributions to prefund OPEB obligations at the equivalent of a 6.25 percent discount rate. Through FY 2022, a total of $3.5 million in additional contributions are expected to be contributed to the CERBT.

Discussed above, the ADC is impacted when actual experience differs from assumptions. One of the more significant impacts to ADC occurs when actual investment returns do not meet expectations. The following graph presents historical returns, looking back to 2008-09.

Figure 1: Historical Returns of the OPEB Trust
(Market Value of Plan Assets (MVA) and Expected Return)



Projected Unfunded Actuarial Accrued Liability

This actuarial report includes the plan's "Funded Status." As of June 30, 2021, the CERBT Trust is funded at 70 percent, up 1,200 basis points from 58 percent in the June 30, 2019 actuarial valuation.

As of June 30, 2021, the Unfunded Actuarial Accrued Liability (UAAL) was $80.0 million for all funds and $51.5 million for the General Fund. Beginning with the June 30, 2013 valuations, the City aligned its actuarial analysis to align with GASB's rules regarding the "implied subsidy". The calculation of implied subsidy requires an agency to recognize that it pays the same medical premiums for active employees as those that are retired. The implied subsidy identifies and accounts for the agency paying the same blended premium for both active employees and retirees, even though the medical cost for active employees is lower than retirees.

Palo Alto had 874 active employees and 1,009 retirees as of June 30, 2021. The calculation increases the UAAL by $15.1 million or 18.9 percent; without the implied subsidy the UAAL for all funds would be at $64.9 million.

Table 3: Unfunded Actuarial Accrued Liability (UAAL)

	As of June 30, 2019*	As of June 30, 2021	Projected June 30, 2022
Citywide – UAAL	$122,972	$80,027	$76,159
General Fund – UAAL	$82,624	$51,522	$49,032
Funded Ratio)	49.0%	67.2%	70.0%
Citywide UAAL % Change from prior valuation		*-35.0%*	*-38.1%*
* The June 30, 2019 values are based on a 6.75 percent discount rate. Beginning June 30, 2021, the discount rate has been reduced from 6.75 to 6.25 percent			

Sensitivity Analysis: Discount Rate and Amortization Period

CalPERS recognizes the varying assumptions that may impact a plan's unfunded actuarial accrued liability and therefore a retiree healthcare plan's funding status, especially the implications of the discount rate and amortization assumptions. Therefore, in addition to the actuarial assumptions used to develop this annual evaluation, BA includes a sensitivity analysis of the retiree healthcare plan. Table 4 below reflects the impact on UAAL resulting from a reduction in the discount rate. Table 5 reflects the impact on ADC if the UAAL is amortized over different timeframes. It should be noted that the Council has adopted a Pension Funding Policy seeking to reach a 90 percent funded level in what remains to be approximately 14-15 years, a shorter period that the sensitivity scenarios below.

Table 4: Discount Rate Sensitivity

	6.25% (Current)	5.75%	5.25%
Citywide – UAAL	$80,027	$94,571	$110,567
General Fund – UAAL	$51,522	$60,886	$71,184
Funded Ratio	67.2%	63.4%	59.8%

Table 5: Amortization Sensitivity

	22 Years (Current)	20 Years	18 Years
Normal Cost	$6,316	$6,316	$6,316
UAAL Amortization	$5,112	$5,459	$5,887
Total ADC	$11,428	$11,775	$12,203
ADC (% of payroll)	10.3%	10.6%	11.0%
* Includes administrative expenses			

<u>Funding for the FY 2023 Including Actuarial Determined Contribution (ADC)</u>

This section outlines staff's recommended funding level for OPEB obligations beginning in FY 2023 for Finance Committee review and discussion and an alternative. Due to the uncertainties noted previously that are unique to this report and given the limited data on the impacts of COVID-19, staff recommend alternatives assumptions that are rooted in the City's Pension Funding Policy, may be adjusted later in a subsequent fiscal year, and position the City to smooth potential volatility in projected liabilities. A key result of the recovery period as the pandemic moves into an endemic is a need to foster and work towards stability as an organization; this stability helps ensure continued focus on high priority projects, supports recruitment and retention efforts in a competitive labor market, and ensures a readiness and nimbleness to adapt to changes. Acknowledging these lessons, staff recommends the Finance Committee consider an alternative funding approach that adjusts assumptions based on current data and the principles noted above. Staff have also outlined an alternative, or "baseline" scenario for consideration. This funding level may be adjusted annually based on City Council direction, so long as the baseline ADC is met.

<u>Staff Recommended Funding for FY 2023 OPEB Obligations</u>

Staff recommend adjusting funding from the typical baseline calculation to better align with the current economic outlook, the current instability in the assumptions used to calculate the baseline and continue to proactively fund long-term liabilities. Recommended revisions to baseline assumptions include:

- *Assume a zero percent investment return for the current 2021-22 period:* The most recent March 31, 2022 quarterly report from CERBT reported year-to-date investment returns of negative 1.39 percent as compared to a 6.75 percent target. This scenario assumes investment returns of zero percent for the period ending June 30, 2022 to hedge against returns that may not be realized.
- *Exclude proactive contributions at a lower discount rate towards the ADC:* Consistent with the pension proactive funding, this would treat the proactive contributions assuming a lower discount rate of 6.25 as if in a separate "trust" or "saving account." ADC calculations will remain at consistent levels and these proactive contributions remain additive to baseline calculations of liability.
- *Assume a shortened amortization period from 22 to 15 years:* This change in the amortization period will more closely align OPEB with the City's Pension Policy goals to reach a 90 percent funded status over 15 years (by FY 2036). The City Council previously approved a 30-year closed amortization period of which 22 years remain as of June 30, 2021.
- *Assume additional normal costs or "pay-go" costs:* Adjust funding to include costs for the recommended additional staffing as approved or being considered for approval in FY 2023.

This option results in an FY 2023 Proposed ADC of $14.6 million citywide ($9.2 million in the General Fund), a $2.3 million reduction from the $16.9 million ADC in the FY 2023 Proposed Operating Budget.

Baseline

The baseline calculation reflects standard actuarial calculations and existing City Council direction assuming the Strategy 1 asset allocation at a 6.75 percent discount rate, and additional discretionary payment to the CERBT Fund at the equivalent of a 6.25 percent discount rate. Unlike the CalPERS pension plan, additional City contributions do not go into a separate Section 115 trust; instead, they remain in the plan and are included as assets in the CERBT each subsequent year, impacting the calculation of the ADC. This treatment of prefunding contributions included in assets and effectively reduce the ADC each future year.

At the request of staff, BA included an adjusted calculation to exclude the additional 6.25 contributions in ADC calculations to ensure consistent treatment as the Pension 115 Trust Fund. The exclusion of this additional contribution from ADC will ensure that the City maintains prefunding at consistent levels, similar to how contributions are made to the Pension Trust.

Overall, this baseline reflects an FY 2023 Proposed ADC of $12.3 million citywide ($7.7 million in the General Fund), a $4.6 million reduction from the $16.9 million ADC in the FY 2023 Proposed Operating Budget.

FY 2023 Proposed Staffing Additional Normal Cost Contributions

To be factored in all calculations of funding for FY 2023 is the potential addition of nearly 60 full-time staff since the June 30, 2021 valuation date: 20 full-time positions during FY 2022, and nearly 40 full-time positions in the FY 2023 Proposed Budget (mostly in the General Fund). As reported in this valuation, the average salary of active employees is approximately $120,000 and the variable portion of ADC, or normal cost for current employees, is 5.6 percent of payroll. Under these assumptions, the retiree healthcare cost of the additional staffing is approximately $400,000. Staff recommends that this associated retiree health cost be included in the final budget for Council consideration for FY 2023 adoption in alignment with the assumptions in the recommended option above.

Stakeholder Engagement
The transmittal of the actuarial valuation as of June 30, 2021 begins conversations regarding the fiscal outlook for the City's OPEB liabilities and the appropriate contribution for the FY 2023 Actuarial Determined Contribution. Public discussion will be held with the Finance Committee on June 7, 2022, prior to City Council review and adoption of the FY 2023 Budget, currently scheduled for June 20, 2022.

Resource Impact
The FY 2023 Proposed Budget includes an ADC of $16.9 million, an increase of $0.5 million from FY 2022 Adopted levels of $16.4 million. Staff recommendations in this report result in funding levels of $14.6 million, a net savings of $2.3 million from the FY 2023 Proposed Budget in all funds. Funding levels recommended by the Finance Committee will be included as an amendment to the FY 2023 Proposed Budget for City Council adoption of the budget on June 20, 2022. Staff will incorporate this direction on an ongoing basis beginning in FY 2024.

Future funding is subject to City Council approval through the annual budget process. The recent market fluctuations and overall impact of the current pandemic are yet to be fully realized. These reports are calculated bi-annually and reflect market conditions at that point in time. This Trust experienced gains in this most recent report, however, will continue to be closely monitored.

Environmental Review
This report is not considered a project for the purposes of the California Environmental Quality Act (CEQA). Environmental review is not required.
Attachments:

- Attachment A: OPEB June 30, 2021 Actuarial Valuation

CITY OF PALO ALTO
RETIREE HEALTHCARE PLAN

BARTEL ASSOCIATES, LLC

June 30, 2021 Actuarial Valuation
Contributions for 2022/23 & 2023/24

Mary Beth Redding, Vice President & Actuary
Deanna Van Valer, Assistant Vice President & Actuary
Joseph Herm, Actuarial Analyst
Michelle Shen, Actuarial Analyst
Bartel Associates, LLC

June 2, 2022

CONTENTS

Benefit Summary

■ Eligibility	■ Retire directly from the City under CalPERS (age 50[1] and 5 years of CalPERS service or disability)
■ Medical Provider	■ CalPERS health plans (PEMHCA) ■ CalPERS administrative fees paid by City
■ Retiree Medical Benefit for Current Retirees: Hired < 1/1/04 (1/1/05 SEIU, 1/1/06 PAPOA) & Did Not Elect into Group 4	■ <u>GROUP 1 Retirees</u>: Retired < 1/1/07 (3/1/09 for PAPOA) • Benefit = Full premium up to family coverage ■ <u>GROUP 2 Retirees</u>: Retired after GROUP 1 and before 5/1/11 (12/1/11 IAFF/FCA, 6/1/12 PMA, 4/1/15 POA) • Benefit = Same as above but premium limited to 2nd most expensive Basic (non-Medicare) medical plan in the Bay Area Region/Region 1 (PERSCare in 2021, Health Net SmartCare in 2022) ■ <u>GROUP 3 Retirees</u>: Retired after GROUP 2 • Benefit = same amount as active employees, which may change from time to time and in the future as bargaining agreements change (see next section for cap amounts)

[1] Age 52 for Miscellaneous New Hires under PEPRA

Benefit Summary

■ Retiree Medical Benefit for Current Actives: Hired < 1/1/04 (1/1/05 SEIU, 1/1/06 PAPOA) & Did Not Elect into Group 4	■ <u>GROUP 3 Future Retirees</u>: Currently active and did not elect into Group 4 • No active Group 3 POA, PMA, IAFF or FCA • Only remaining Group 3 actives in MGMT, SEIU, UMPAPA (69 active members) • Benefit = up to full premium, but limited to flat dollar caps same as active contribution

	SEIU/Mgmt/UMPAPA* 2021 & 2022	Other Groups 2021 & 2022
Single	$ 871	$ 840
2-Party	1,742	1,680
Family	2,260	2,180

* For UMPAPA only, the 2021 caps are the same as for the "Other Groups"

Benefit Summary

■ Retiree Medical Benefit for those: Hired ≥ 1/1/04 (1/1/05 SEIU, 1/1/06 PAPOA) & Employees Hired Before These Dates Electing into Group 4[2]	■ GROUP 4 Future Retirees: Government Code §22893 "Vesting Schedule" (based on all CalPERS Service)[3]: Years of Service / %: < 10 – 0%; 10 – 50%; 11 – 55%; 12 – 60%; 13 – 65%; 14 – 70%; ↓ – ↓; ≥ 20 – 100% ■ 100% vesting for disability retirements ■ Vesting applies to 100/90 formula amounts, which are the maximum amounts payable by the City (retirees pay any difference between these amounts and actual premiums): Single: 2021 \$ 798; 2022 \$ 816 2-Party: 2021 1,519; 2022 1,548 Family: 2021 1,937; 2022 1,977 ■ If have 20 years City service do not need to retire directly from City

Vesting schedule:

Years of Service	%	Years of Service	%
< 10	0%	13	65%
10	50%	14	70%
11	55%	↓	↓
12	60%	≥ 20	100%

Maximum amounts payable:

	2021	2022
Single	\$ 798	\$ 816
2-Party	1,519	1,548
Family	1,937	1,977

[2] All currently active POA/PMA, IAFF/FCA are Group 4. Some Mgmt/Conf and some SEIU remained in Group 3, and some elected into Group 4.
[3] Minimum 5 years City Service.

Benefit Summary

■ Dental, Vision & Medicare Part B	■ None
■ Surviving Spouse Benefit	■ 100% of retiree benefit continues to surviving spouse if retiree elects CalPERS pension survivor allowance
■ Waived Re-election	■ Waived retirees/beneficiaries may re-elect coverage at a future date
■ Summary of Changes Since the Prior Valuation	■ None

BENEFIT SUMMARY

■ Pay-As-You-Go ($000s)

Fiscal Year	Cash	Implied Subsidy	Total
2020/21	$ 10,631	$ 2,346	$ 12,977
2019/20	10,344	2,384	12,728
2018/19	9,960	2,197	12,157
2017/18	9,660	2,444	12,104
2016/17	9,713	2,203	11,916
2015/16	9,681	1,960	11,641
2014/15	8,995	1,916	10,911
2013/14	7,317	-	7,317
2012/13	8,766	-	8,766
2011/12	8,165	-	8,165
2010/11	6,216	-	6,216
2009/10	5,519	-	5,519

BENEFIT SUMMARY

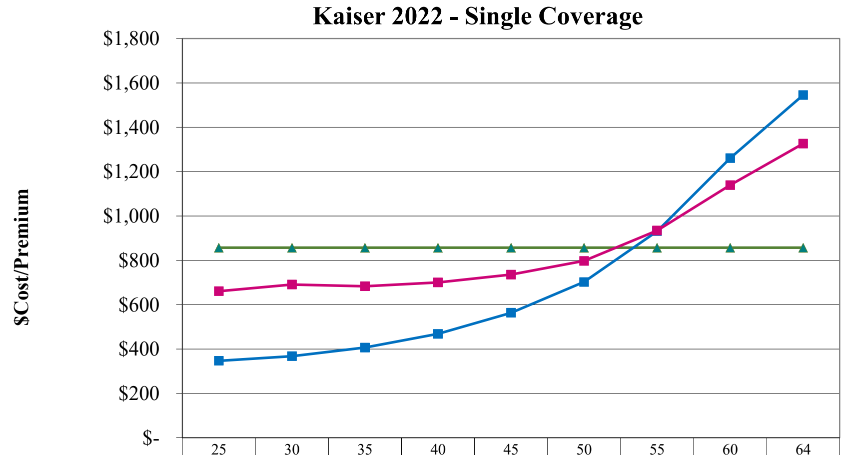
Monthly Benefit Cap Amounts

Group	2021			2022		
	Single	2-Party	Family	Single	2-Party	Family
Group 1[4]	$1,307.86	$2,615.72	$3,400.44	$1,304.00	$2,608.00	$3,390.40
Group 2	1,294.69	2,589.38	3,366.19	1,153.00	2,306.00	2,997.80
Group 3 SEIU/Mgmt	871.00	1,742.00	2,260.00	871.00	1,742.00	2,260.00
Group 3 UMPAPA	840.00	1,680.00	2,180.00	871.00	1,742.00	2,260.00
Group 3 Others[5]	840.00	1,680.00	2,180.00	840.00	1,680.00	2,180.00
Group 4 (100% vest)	798.00	1,519.00	1,937.00	816.00	1,548.00	1,977.00
% Decrease from Group 1 (assumes Group 1 is in most expensive plan)						
Group 2	1%	1%	1%	12%	12%	12%
Group 3 SEIU/Mgmt	33%	33%	34%	33%	33%	33%
Group 3 UMPAPA	36%	36%	36%	33%	33%	33%
Group 3 Others	36%	36%	36%	36%	36%	36%
Group 4	39%	42%	43%	37%	41%	42%

4 No cap for Group 1. Amount shown is most expensive Non-Medicare Region 1 premium.
5 IAFF, FCA, PMA, and PAPOA.

IMPLIED SUBSIDY

- For PEMHCA, employer cost for allowing retirees to participate at active rates.
  - Kaiser 2022 Region 1 plan:



	25	30	35	40	45	50	55	60	64
Premium	857	857	857	857	857	857	857	857	857
Male Cost by Age	347	368	407	469	564	702	932	1,261	1,545
Female Cost by Age	661	691	683	701	736	798	934	1,139	1,326

- The City included the implied subsidy beginning with the June 30, 2013 valuation.

IMPLIED SUBSIDY

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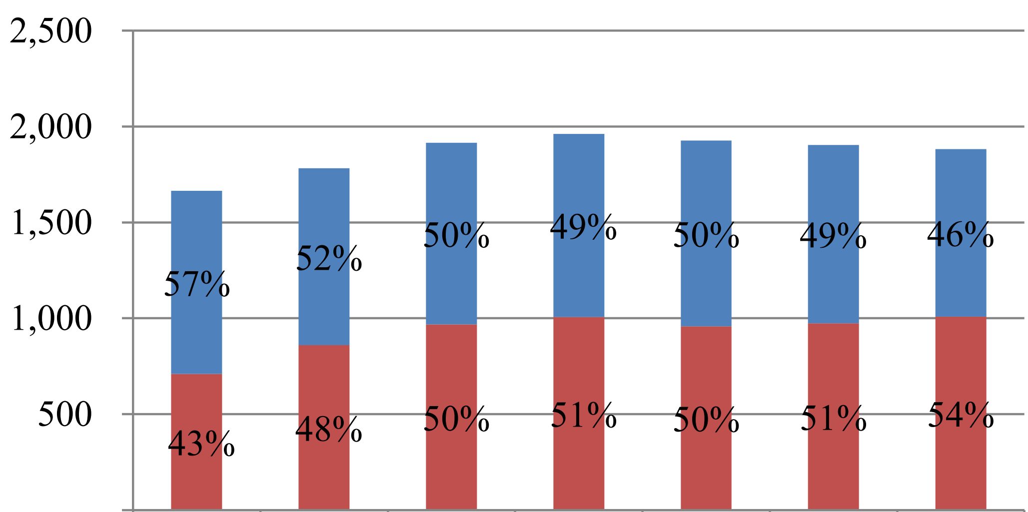
Participant Statistics

	6/30/13	6/30/15	6/30/17	6/30/19	6/30/21
■ Actives					
• Count	948	955	967	930	874
• Average Age	45.2	45.3	45.6	44.8	45.0
• Average City Service	10.8	10.8	10.9	10.8	11.2
• Average PERS Service	11.7	11.9	11.9	11.7	12.1
• Average Salary	$86,271	$91,714	$90,739	$110,969	$120,207
• Total Salary (000's)	$81,785	$87,586	$87,745	$103,201	$105,061
■ Retirees:					
• Count[6]	968	1,007[7]	959[8]	974	1,009
• Average Age	68.2	68.9	68.9	70.0	70.9
• Average Retirement Age					
○ Service	57.8	57.7	57.7	58.0	58.2
○ Disability	45.3	45.6	45.9	46.1	46.3

[6] Excludes all waived retirees, regardless of age, except as noted.
[7] Includes 68 waived retirees over 65.
[8] Excludes all waived retirees over 65; includes 38 waived under 65 retirees.

Historical Active and Retiree Counts[9]



	6/30/09	6/30/11	6/30/13	6/30/15	6/30/17	6/30/19	6/30/21
Active	955	923	948	955	967	930	874
Retired	710	860	968	1,007	959	974	1,009

[9] Retiree count is subscribers: retirees and surviving spouses

Participant Statistics
June 30, 2021

	Group 1	Group 2	Group 3	Group 4	Total
■ Actives					
• Count	n/a	n/a	69	805	874
• Average Age	n/a	n/a	54.1	44.2	45.0
• Average Entry Age	n/a	n/a	31.5	34.0	33.8
• Average City Service	n/a	n/a	22.6	10.2	11.2
• Average PERS Service	n/a	n/a	22.8	11.2	12.1
• Average Salary	n/a	n/a	$114,220	$120,720	$120,207
• Total Salary (000's)[10]	n/a	n/a	7,881	97,180	105,061
■ Benefitting Retirees[11]:					
• Count	429	290	152	138	1,009
• Average Age	77.8	68.8	64.0	61.4	70.9
• Avg Service Ret Age	57.5	57.9	59.1	59.4	58.2
• Avg Disability Ret Age	45.5	46.9	51.2	49.3	46.3

[10] Actual 2020/21 PERSable compensation.
[11] Excludes retirees who have waived coverage, regardless of age.

Participant Statistics
June 30, 2019

	Group 1	Group 2	Group 3	Group 4	Total
■ Actives					
• Count	n/a	n/a	92	838	930
• Average Age	n/a	n/a	54.2	43.8	44.8
• Average Entry Age	n/a	n/a	32.7	35.9	34.5
• Average City Service	n/a	n/a	21.4	9.7	10.8
• Average PERS Service	n/a	n/a	21.9	10.6	11.7
• Average Salary	n/a	n/a	$108,291	$111,263	$110,969
• Total Salary (000's)[12]	n/a	n/a	$9,963	$93,238	$103,201
■ Benefitting Retirees[13]:					
• Count	458	292	128	96	974
• Average Age	76.3	66.7	62.4	60.3	70.0
• Avg Service Ret Age	57.6	57.8	58.8	59.2	58.0
• Avg Disability Ret Age	45.5	47.0	51.2	47.1	46.1

[12] Actual 2018/19 PERSable compensation.
[13] Excludes retirees who have waived coverage, regardless of age.

Data Reconciliation[14]

6/30/2019 to 6/30/2021

	Actives	Retirees	Disabled	Benefic.	Total
■ June 30, 2019	930	754	151	69	1,904
• New Hires/Rehires	101	(1)	-	-	100
• Disabled	(3)	-	3	-	-
• Terminated[15]	(75)	-	-	-	(75)
• Died with Beneficiary[16]	(1)	(9)	(3)	13	-
• Died, no Beneficiary	-	(18)	(6)	(6)	(30)
• Retired/covered	(67)	67	-	-	-
• Retired/waived	(11)	-	-	-	(11)
• Waived Retiree	-	(10)	(3)	(1)	(14)
• Adjustment/Other	-	3	2	4	9
■ June 30, 2021	874	786	144	79	1,883

[14] Excludes retirees who have waived coverage.
[15] All actives in June 30, 2019 valuation and not in June 30, 2021 valuation assumed terminated.
[16] Retirees in the June 30, 2019 valuation not in the June 30, 2021 valuation assumed deceased.

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ACTUARIAL ASSUMPTIONS HIGHLIGHTS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Valuation Date	■ June 30, 2019 ■ ADC[17] for Fiscal Years 2020/21 & 2021/22 (end of year) ■ 1 year lag	■ June 30, 2021 ■ ADC for Fiscal Years 2022/23 & 2023/24 (end of year) ■ 1 year lag
■ Funding Policy	■ Full Pre-funding through CalPERS trust (CERBT) Strategy #1	■ Same ■ City may contribute additional amounts based on lower discount rate
■ Discount Rate	■ 6.75%, net of expenses based on CERBT Strategy #1	■ 6.25%, net of expenses based on CERBT Strategy #1
■ General Inflation	■ 2.75%	■ 2.50%

[17] Actuarially Determined Contribution

ACTUARIAL ASSUMPTIONS HIGHLIGHTS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Payroll Increases	■ Aggregate Increases: 3.00% ■ Merit Increases: CalPERS 1997-2015 Experience Study	■ Aggregate Increases: 2.75% ■ Merit Increases: CalPERS 2000-2019 Experience Study
■ Increase to Group 3 Flat Dollar Caps[18]	■ ½ of Medical Trend, not less than assumed inflation (2.75%)	■ ½ of Medical Trend, not less than assumed inflation (2.50%)
■ Medical Trend	■ Non-Medicare: 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 ■ Medicare: 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076	■ Non-Medicare: 6.50% for 2023, decreasing to an ultimate rate of 3.75% in 2076 ■ Medicare: 5.65% (non-Kaiser) and 4.60% (Kaiser) for 2023, decreasing to an ultimate rate of 3.75% in 2076
■ ACA Excise Tax	■ Remove liability for excise tax due to December 2019 repeal[19]	■ Same

[18] Increase is for purposes of financial projection only and does not imply any obligation to increase the cap in the future.
[19] Note for GASB 75 purpose, the Total OPEB Liability as of Measurement Date (MD) 6/30/19 will include 2% load, as legislation passed after the MD may not be taken into account.

ACTUARIAL ASSUMPTIONS HIGHLIGHTS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Participation at Retirement	■ Group 3: 98% ■ Group 4: if eligible for City contribution: 95%; if not: 0% ■ Based on Plan experience[20]	■ Same
■ Retirement, Mortality, Termination, Disability	■ CalPERS 1997-2015 Experience Study ■ Society of Actuaries mortality improvement scale MP-19	■ CalPERS 2000-2019 Experience Study ■ Society of Actuaries mortality improvement scale MP-21
■ Age-related Claims Costs for Medicare Advantage Plans	■ Included	■ Due to age-risk adjusted federal subsidies, no age-based claims costs were included for Medicare Advantage plans

[20] Actual participation percentage for Group 3 since 6/30/17 is 100% for Miscellaneous (there are no active Safety members in Group 3). Actual participation percentage for Group 4 since 6/30/17 who are eligible for a City contribution is 91%. Group 4 still has limited actual experience. We recommend continued monitoring for Group 4.

ACTUARIAL ASSUMPTIONS HIGHLIGHTS

■ Basis for Assumptions (6/30/21 Valuation)	■ No experience study performed for this Plan ■ CalPERS experience study covering 2000 to 2019 experience was used ■ Mortality improvement is a Society of Actuaries table ■ Inflation based on our estimate for the Plan's long time horizon ■ Capital market assumptions based on 2021 Bartel Associates stochastic analysis, taking into account capital market assumptions of investment advisory firms ■ Age-based claims costs are based on tables published by the Society of Actuaries and tables developed by Axene Health Partners based on demographic data for the CalPERS health plans provided by CalPERS and Axene's proprietary AHP Cost Model ■ Short-term medical trend was developed in consultation with Axene Health Partners' healthcare actuaries. Long term medical trend developed using the Society of Actuaries Getzen Model of Long-Run Medical Cost Trends ■ Medical coverage and participation based in part on Plan experience

CERBT Investment Options

■ **2018 Asset Allocation**

	Strategy 1	Strategy 2	Strategy 3
Global Equity	59%	40%	22%
Fixed Income	25%	43%	49%
TIPS	5%	5%	16%
Commodities	3%	4%	5%
REITs	8%	8%	8%
Total	100%	100%	100%

■ **2022 Asset Allocation** (approved March 14, 2022)

	Strategy 1	Strategy 2	Strategy 3
Global Equity	49%	34%	23%
Long US Fixed Income	23%	41%	51%
TIPS	5%	5%	9%
Commodities	3%	3%	3%
Global REITs	20%	17%	14%
Total	100%	100%	100%
CalPERS' projected 20-year returns[21]	6.0%	5.5%	5.0%

[21] CalPERS assumes 2.25% price inflation.

Discount Rate

■ Future expected returns
- ● Stochastic simulations of geometric average returns over 20 years – 5,000 trials
- ● 2.50% inflation assumption
- ● Projections based on 8 independent Investment Advisors 2021 10-year Capital Market Assumptions and where available, investment advisors long-term trends
- ● Bartel Associates calculation of confidence levels (based on 2022 asset allocations):

	Strategy 1	Strategy 2	Strategy 3
50% Confidence Level	**6.25%**	5.75%	5.25%
55% Confidence Level	6.00%	5.50%	5.00%
60% Confidence Level	5.75%	5.25%	4.75%

- ● Bartel Associates expected returns, 50th percentile:

	Strategy 1	Strategy 2	Strategy 3
Expected Real Rate of Return[22]	3.90%	3.39%	2.92%
Inflation Assumption	2.50%	2.50%	2.50%
Expenses (Admin. & Invest.)	(0.05%)	(0.05%)	(0.05%)
Nominal Rate of Return	6.35%	5.84%	5.37%
Rounded to nearest 0.25%	**6.25%**	5.75%	5.25%

- ● City currently in Strategy 1: Recommend 6.25% discount rate

[22] Includes investment expenses

ACTUARIAL METHODS

Method	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Cost Method	■ Entry Age Normal Level % of Pay	■ Same
■ Unfunded Liability Amortization	■ 24 years closed period ■ Level % of pay (3% annual escalation) ■ Sensitivity analysis: 22 & 20 years	■ 22 years closed period ■ Level % of pay (2.75% annual escalation) ■ Sensitivity analysis: 20 & 18 years
■ Actuarial Asset Value	■ Market Value of Assets[23]	■ Same
■ Future New Entrants	■ Closed group – no new participants	
■ Implied Subsidy	■ Implied subsidy valued	
■ Plan Continuance	■ For purposes of financial projections, the plan and benefits are assumed to continue unchanged. The calculation of this obligation does not imply that there is any legal liability to provide or continue providing the benefits valued.	

[23] Using Market Value of Assets to determine the ADC will result in more volatile future ADCs than if a smoothed Market Value were used. For funding purposes, market value includes accrued contributions made for a previous fiscal year.

ACTUARIAL METHODS

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ASSETS

Market Value of Plan Assets (MVA)

Invested in CERBT Strategy 1 Fund

(Amounts in 000's)

	2017/18	2018/19	2019/20	2020/21	Projected 2021/22[24]
■MVA (Beg. of Year)	$ 91,170	$107,846	$118,497	$126,520	$164,170
• Contributions	9,212	5,723	3,747	2,946[25]	2,177
• Benefit Payments[26]	-	(1,883)	-	-	-
• Admin. Expenses	(50)	(53)	(59)	(71)	(82)
• Investment Return[27]	7,513	6,864	4,335	34,776	10,258
■MVA (End of Year)	107,846	118,497	126,520	164,170	176,523
■Approx. Annual Return	7.8%	6.3%	3.6%	27.5%	6.25%

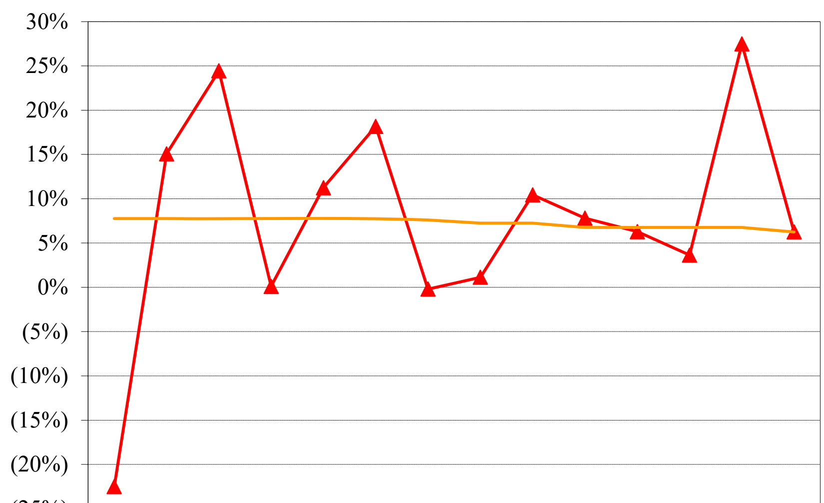
[24] Projected from actual 6/30/2021 CERBT balance using assumed rate of return for fiscal year 2021/22 and expected City contribution for FY22, as provided by the City.

[25] Includes $1,358 paid on 1/10/2022; MVA shown is not the same as market value for financial reporting purposes.

[26] Benefit Payments made outside of trust by City in years other than 2018/19. Refer to Slide 5 for fiscal year amounts.

[27] Net of investment expenses.

Historical Returns[28]



	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Market Value	-22.5%	15.1%	24.4%	0.1%	11.2%	18.2%	-0.2%	1.1%	10.4%	7.8%	6.3%	3.6%	27.5%	6.25%
Expected Return	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%	7.61%	7.25%	7.25%	6.75%	6.75%	6.75%	6.75%	6.25%

[28] Assumed rate of return for 2021/22 fiscal year.

Actuarial Obligations

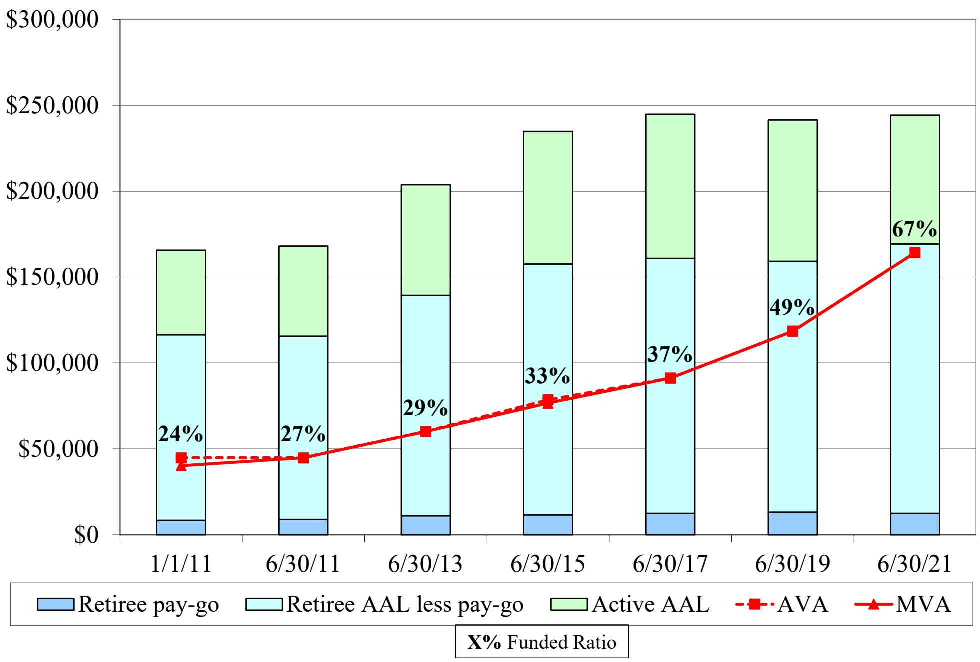
(Amounts in 000's)

	6/30/19 Valuation		6/30/21 Valuation	
	6/30/19	Proj.6/30/20	6/30/21	Proj.6/30/22
■ **Discount Rate**	**6.75%**		**6.25%**	
■ **Present Value of Benefits**				
• Actives (future retirees)	$141,423		$131,926	
• Retirees	159,156		169,243	
• Total	300,579		301,169	
■ **Actuarial Accrued Liability**				
• Actives (future retirees)	82,313		74,954	
• Retirees	159,156		169,243	
• Total	241,469	$251,389	244,197	$252,682
■ **Market Value of Assets**	118,497	134,810	164,170	176,523
■ **Unfunded AAL**	**122,972**	**116,579**	**80,027**	**76,159**
■ **Funded Ratio**	49%	54%	67%	70%
■ **Normal Cost**[29]		6,978		6,316
■ **Pay-As-You-Go Cost (Cash)**		10,859		11,190
■ **Pay-As-You-Go Cost (IS)**		2,346		3,025

[29] Includes Administration fees.

Historical Funded Status

(Amounts in 000's)



Actuarial Gain/Loss

(Amounts in $000's)

	AAL	(Assets)	UAAL
■ **Actual 6/30/19 projected to 6/30/20**	$ 251,389	$ (130,276)	$ 121,113
■ **Expected 6/30/22**	271,645	(148,857)	122,788
■ **Experience (Gains)/Losses**			
• Medicare Advantage plan implied subsidy excluded	(2,011)		(2,011)
• Premiums/Caps lower than expected especially Medicare plans	(19,362)		(19,362)
• Demographic (mainly changing retiree Medicare eligibility)	752	-	752
■ **Assumption Changes increasing/(decreasing) AAL**			
• Medical Plan election percentages changed	(723)		(723)
• Inflation, trend, salary growth & discount rate lowered .25%	645		645
• Kaiser medical trend lowered	(1,769)		(1,769)
• Updated demographic assumptions: CalPERS current Experience Study and current mortality improvement scale	(3,639)		(3,639)
• Discount rate lowered to additional .25% to 6.25%	7,144		7,144
■ **Contribution and Benefit Payment (Gain)**		(2,897)	(2,897)
■ **Investment (Gain)**		(24,769)	(24,769)
■ **Total (Gain)/Loss**	(18,963)	(27,666)	(46,629)
■ **Projected 6/30/22 Unfunded Actuarial Accrued Liability**	252,682	(176,523)	76,159

RESULTS

Actuarially Determined Contribution (ADC)

(Amounts in 000's)

	6/30/19 Valuation		6/30/21 Valuation	
	2020/21	2021/22	2022/23	2023/24
■ **Discount Rate**	6.75%		6.25%	
■ **ADC - $**				
• Normal Cost	$ 6,888	$ 7,099	$ 6,196	$ 6,370
• Administrative Expenses[30]	90	98	120	126
• UAAL Amortization	7,588	7,816	5,112	5,253
• Total	14,566	15,013	11,428	11,749
■ **Projected Payroll**	109,486	112,771	110,919	113,969
■ **ADC – Percent of Pay**				
• Normal Cost	6.3%	6.3%	5.6%	5.6%
• Administrative Expenses	0.1%	0.1%	0.1%	0.1%
• UAAL Amortization	6.9%	6.9%	4.6%	4.6%
• Total	13.3%	13.3%	10.3%	10.3%

[30] Includes PEMHCA and CERBT administration fees.

Actuarially Determined Contribution (ADC) Payment to Trust

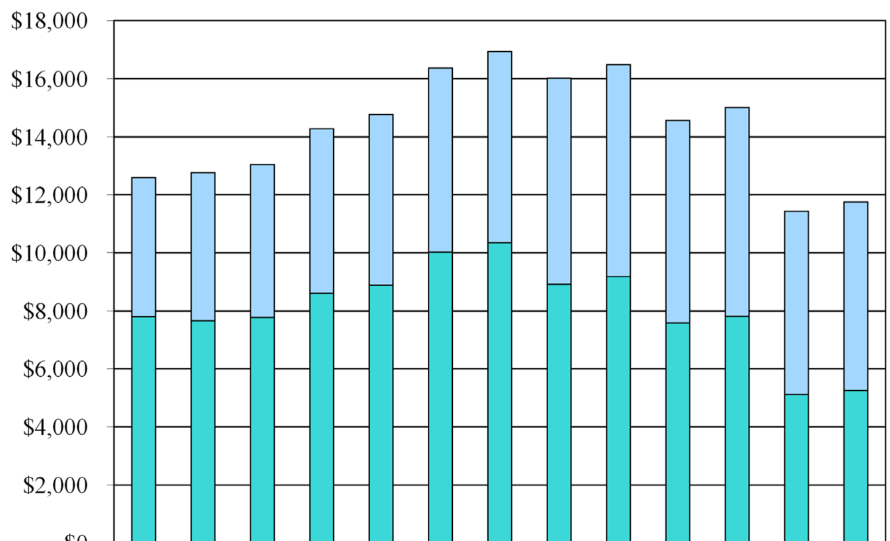
(Amounts in 000's)

	6/30/21 Valuation	
	2022/23	2023/24
■ **Discount Rate**	6.25%	
■ **ADC - $**		
• Normal cost	$ 6,196	$ 6,370
• Administrative expenses[31]	120	126
• UAAL amortization	5,112	5,253
• Total	11,428	11,749
• Less: Implied subsidy benefit payments	3,025	3,073
• Remaining ADC	8,403	8,676
• Less: Estimated cash benefit payments	11,190	11,792
• Total Trust contribution. Negative amount indicates a reimbursement for City out-of-pocket payments may be requested.	(2,787)	(3,116)

[31] Includes PEMHCA and CERBT administration fees.

Historical Recommended Funding Contributions

(Amounts in 000's)



	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Normal Cost + Admin	4,782	5,091	5,256	5,674	5,880	6,340	6,587	7,104	7,299	6,978	7,197	6,316	6,496
Amortization	7,802	7,665	7,779	8,607	8,887	10,025	10,351	8,916	9,183	7,588	7,816	5,112	5,253
ADC	12,584	12,756	13,035	14,282	14,767	16,365	16,938	15,997	16,482	14,566	15,013	11,428	11,749

Amortization Bases & Payments

(Amounts in 000's)

	6/30/19 Valuation		6/30/21 Valuation	
	6/30/20	6/30/21	6/30/22	6/30/23
■ Discount Rate	6.75%		6.25%	
■ Payment Escalator	3.00%		2.75%	
■ UAAL Balance	$ 116,579	$ 116,859	$ 76,159	$ 75,807
■ Amortization Payment	7,588	7,816	5,112	5,253
■ Amortization Period (years)	24	23	22	21

Unfunded Actuarial Accrued Liability (UAAL) – % of Payroll

(Amounts in 000's)

	6/30/13	6/30/15	6/30/17	6/30/19	6/30/21
■ UAAL/Payroll for year beginning on valuation date					
• Miscellaneous	158%	152%	149%	99%	64%
• Safety	228%	276%	269%	171%	105%
• Total	176%	178%	175%	116%	74%

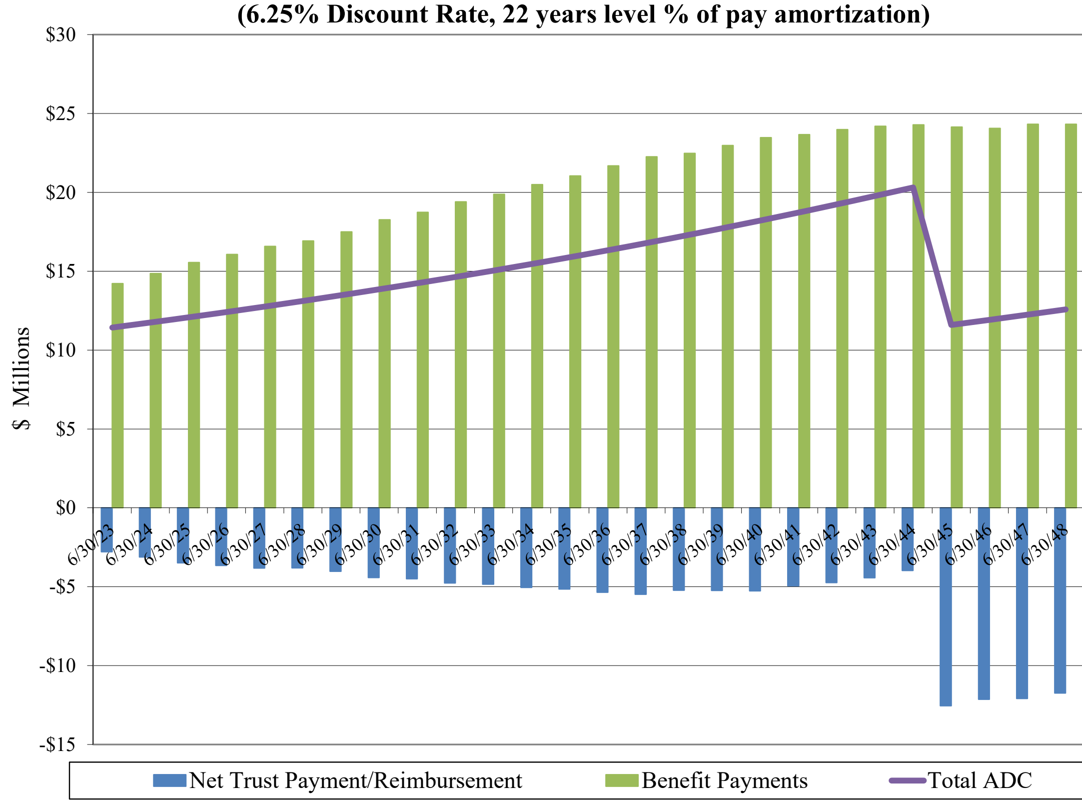
10 Year Contribution Projection

(Amounts in 000's)

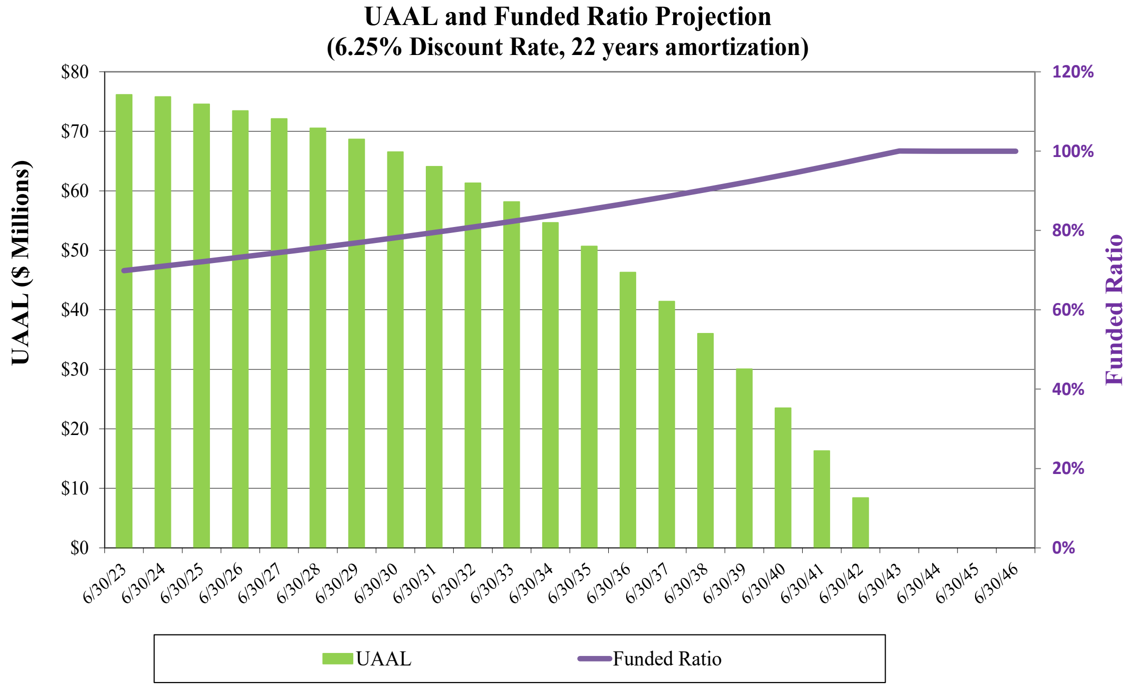
FYE	ADC[32]	Contribution Cash Ben Pymt	Implied Subsidy BP	Trust Pre-Funding	Total	Payroll	ADC % of Pay	UAAL, Beg. Of FY	Fund %
2022[33]	$15,013	$10,852	$2,619	$1,542	$15,013	$107,950	13.9%	$ 80,027	67%
2023	11,428	11,190	3,025	(2,787)	11,428	110,919	10.3%	76,159	70%
2024	11,749	11,792	3,073	(3,116)	11,749	113,969	10.3%	75,807	71%
2025	12,077	12,313	3,254	(3,490)	12,077	117,103	10.3%	74,558	72%
2026	12,414	12,742	3,326	(3,654)	12,414	120,324	10.3%	73,451	73%
2027	12,759	13,163	3,413	(3,817)	12,759	123,632	10.3%	72,114	74%
2028	13,114	13,557	3,365	(3,808)	13,114	127,032	10.3%	70,531	76%
2029	13,479	14,031	3,468	(4,020)	13,479	130,526	10.3%	68,681	77%
2030	13,854	14,586	3,684	(4,416)	13,854	134,115	10.3%	66,545	78%
2031	14,240	15,037	3,700	(4,497)	14,240	137,803	10.3%	64,098	79%
2032	14,636	15,559	3,837	(4,760)	14,636	141,593	10.3%	61,315	81%

32 Actuarially Determined Contribution
33 Cash benefit payments, Trust pre-funding, Payroll, ADC %, UAAL and Funded percentage updated from 6/30/19 valuation with more current estimate or actual.

ADC, Benefit and Trust Payment/Reimbursement Projection
(6.25% Discount Rate, 22 years level % of pay amortization)

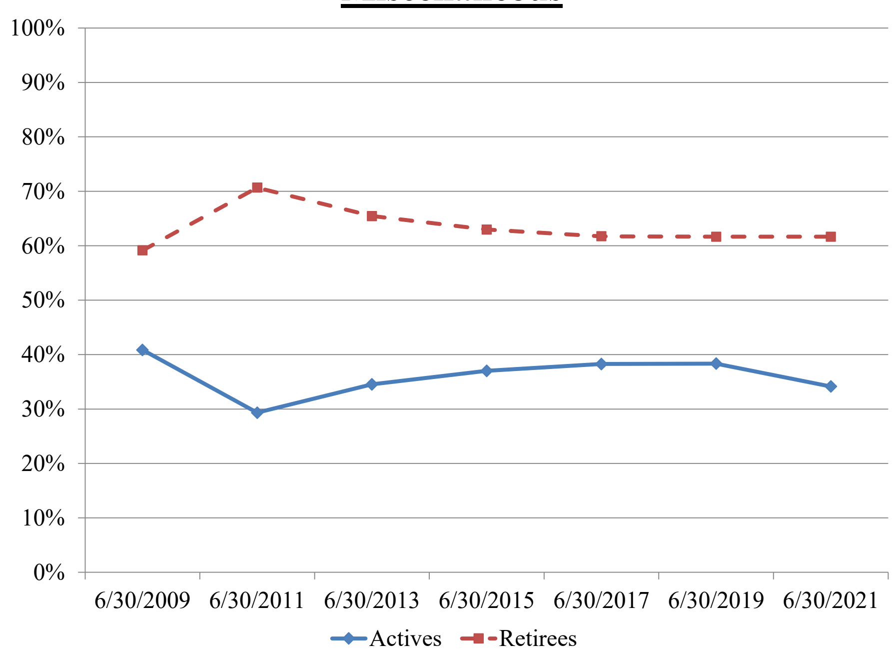


RESULTS



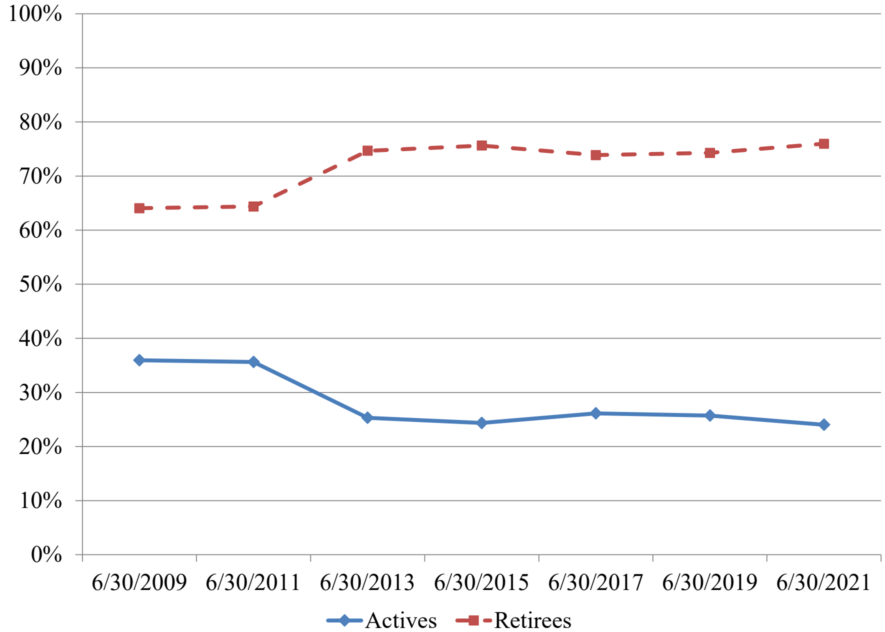
RESULTS

% of Total Actuarial Accrued Liability for Actives and Retirees Miscellaneous



Results

% of Total Actuarial Accrued Liability for Actives and Retirees
Safety



Results

This chart excludes the Implied Subsidy and is provided for informational purposes only

(Amounts in 000's)

	Cash Benefit
■ **Present Value of Benefits**	$ 247,479
■ **Funded Status 6/30/21**	
• Actuarial Accrued Liability	198,084
• Actuarial Value of Assets	164,170
• Unfunded AAL	33,914
■ **Funded Ratio**	82.9%
■ **ADC 2022/23**	
• Normal Cost	5,370
• Administrative Expenses	120
• UAAL Amortization	1,878
• Total	7,368
• ADC % of Payroll	6.6%

Actuarial Obligations

June 30, 2021

(Amounts in 000's)

	Benefits Paid Before Age 65	Benefits Paid On or After Age 65	Total
■ **Present Value of Benefits**			
• Actives (future retirees)	$ 70,063	$ 61,863	$ 131,926
• Retirees	45,570	123,673	169,243
• Total	115,633	185,536	301,169
■ **Actuarial Accrued Liability**			
• Actives (future retirees)	38,191	36,763	74,954
• Retirees	45,570	123,673	169,243
• Total	83,761	160,436	244,197
■ **Normal Cost 2022/23**[34]	3,394	2,922	6,316

[34] Includes Administration fees.

Actuarial Obligations

June 30, 2021

(Amounts in 000's)

	Group 1	Group 2	Group 3	Group 4	Total
■ **Present Value of Benefits**					
• Actives (future retirees)	$ -	$ -	$13,377	$118,549	$131,926
• Retirees	47,988	55,784	33,446	32,024	169,243
• Total	47,988	55,784	46,823	150,573	301,169
■ **Actuarial Accrued Liability**					
• Actives (future retirees)	-	-	11,034	63,920	74,954
• Retirees	47,988	55,784	33,446	32,024	169,243
• Total	47,988	55,784	44,480	95,944	244,197
■ **Normal Cost 2022/23**[35]	n/a	n/a	437	5,879	6,316
■ **NC as % of Payroll**	n/a	n/a	5.7%	5.7%	5.7%
■ **Active Count**	n/a	n/a	69	805	874
■ **Projected Payroll (000's)**	n/a	n/a	7,647	103,272	110,919

[35] Includes Administration fees.

Cash/Implied Subsidy – Actuarial Obligations – June 30, 2021

(Amounts in 000's)

	Cash Subsidy	Implied Subsidy	Total
■ **Present Value of Benefits**			
• Actives (future retirees)	$112,909	$19,017	$131,926
• Retirees	134,570	34,673	169,243
• Total	247,479	53,690	301,169
■ **Actuarial Accrued Liability**			
• Actives (future retirees)	63,514	11,440	74,954
• Retirees	134,570	34,673	169,243
• Total	198,084	46,113	244,197
■ **Market Value of Assets**[36]	133,169	31,001	164,170
■ **Unfunded AAL**	64,915	15,112	80,027
■ **Normal Cost 2022/23**[37]	5,490	827	6,316
■ **Pay-As-You-Go Cost 2022/23**	11,190	3,025	14,215

36 Allocated in proportion to AAL for illustrative purposes.
37 Includes Administration fees.

Cash/Implied Subsidy – Actuarially Determined Contribution – 2022/23 FY

(Amounts in 000's)

	Cash Subsidy	Implied Subsidy	Total
■ **ADC - $**			
• Normal Cost	$ 5,370	$ 827	$ 6,196
• Administrative Expenses	120	-	120
• UAAL Amortization	4,137	975	5,112
• ADC	9,628	1,802	11,428
■ **Projected Payroll**	110,919	110,919	110,919
■ **ADC - % of Payroll**			
• Normal Cost	4.8%	0.7%	5.6%
• Administrative Expenses	0.1%	0.0%	0.1%
• UAAL Amortization	3.8%	0.9%	4.6%
• ADC	8.7%	1.6%	10.3%

Actuarial Obligations

June 30, 2021

(Amounts in 000's)

	Misc.	Safety	Total
■ **Present Value of Benefits**			
• Actives (future retirees)	$ 93,601	$ 38,325	$131,926
• Retirees	105,970	63,273	169,243
• Total	199,571	101,598	301,169
■ **Actuarial Accrued Liability**			
• Actives (future retirees)	54,931	20,022	74,954
• Retirees	105,970	63,273	169,243
• Total	160,901	83,295	244,197
■ **Market Value of Assets**[38]	108,171	55,998	164,170
■ **Unfunded AAL**	52,730	27,297	80,027
■ **Normal Cost 2022/23**[39]	4,397	1,916	6,316
■ **Pay-As-You-Go Cost 2022/23**	9,298	4,917	14,215

38 Allocated in proportion to the Actuarial Accrued Liability.

39 Includes Administration fees.

Actuarially Determined Contribution (ADC)

2022/23 Fiscal Year

(Amounts in 000's)

	Misc	Safety	Total
■ **ADC - $**			
• Normal Cost	$ 4,320	$ 1,876	$ 6,196
• Administrative Expenses	79	41	120
• UAAL Amortization[40]	3,378	1,734	5,112
• ADC	7,777	3,651	11,428
■ **Projected Payroll**	84,095	26,824	110,919
■ **ADC - % of Payroll**			
• Normal Cost	5.1%	7.0%	5.6%
• Administrative Expenses	0.1%	0.1%	0.1%
• UAAL Amortization	4.0%	6.5%	4.6%
• ADC	9.2%	13.6%	10.3%

40 Allocated in proportion to the Actuarial Accrued Liability.

Actuarial Obligations – By Bargaining Unit

June 30, 2021

(Amounts in 000's)

	FCA	IAFF	M/C	PAPOA	PMA	SEIU	UMPAPA	Total
■ **PVB**								
• Actives	$ 1,108	$18,332	$26,116	$16,058	$ 1,601	$60,991	$ 7,720	$131,926
• Retirees	2,030	31,905	48,000	20,418	2,267	58,013	6,609	169,243
• Total	3,138	50,237	74,116	36,476	3,868	119,004	14,329	301,169
■ **AAL**								
• Actives	747	10,040	15,313	7,327	1,156	34,725	5,645	74,954
• Retirees	2,030	31,905	48,000	20,418	2,267	58,013	6,609	169,243
• Total	2,777	41,945	63,313	27,745	3,423	92,738	12,254	244,197
■ **MVA**[41]	1,867	28,199	42,564	18,653	2,301	62,346	8,238	164,170
■ **UAAL**	910	13,746	20,749	9,092	1,122	30,392	4,016	80,027
■ **NC 22/23**	39	810	1,282	883	60	2,854	265	6,196
■ **Pay-Go**	183	2,530	3,917	1,581	156	5,192	655	14,215

41 Allocated in proportion to the Actuarial Accrued Liability.

Actuarially Determined Contribution (ADC) – By Bargaining Unit

2022/23 Fiscal Year

(Amounts in 000's)

	FCA	IAFF	M/C	PAPOA	PMA	SEIU	UMPAPA	Total
■ **ADC - $**								
• Normal Cost	$ 39	$ 810	$1,282	$ 883	$ 60	$2,854	$ 265	$ 6,196
• Admin. Exp.	1	20	31	14	2	46	6	120
• UAAL Amort[42]	57	870	1,315	583	72	1,958	257	5,112
• ADC	98	1,700	2,628	1,480	134	4,858	528	11,428
■ **Proj. Payroll**	885	12,321	27,665	10,980	1,448	49,597	8,023	110,919
■ **ADC - %**								
• Normal Cost	4.4%	6.6%	4.6%	8.0%	4.1%	5.8%	3.3%	5.6%
• Admin. Exp.	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
• UAAL Amort	6.4%	7.1%	4.8%	5.4%	5.0%	3.9%	3.2%	4.6%
• ADC	11.0%	13.8%	9.5%	13.5%	9.2%	9.8%	6.6%	10.3%

42 Allocated in proportion to the Actuarial Accrued Liability.

Actuarially Determined Contribution (ADC) – By Bargaining Unit

2023/24 Fiscal Year

(Amounts in 000's)

	FCA	IAFF	M/C	PAPOA	PMA	SEIU	UMPAPA	Total
■ **ADC - $**								
• Normal Cost	$ 40	$ 833	$ 1,318	$ 908	$ 62	$ 2,937	$ 272	$ 6,370
• Admin. Exp.	1	22	33	14	2	48	6	126
• UAAL Amort[43]	59	894	1,351	599	74	2,012	264	5,253
• ADC	100	1,749	2,702	1,522	137	4,998	542	11,749
■ **Proj. Payroll**	909	12,659	28,426	11,282	1,488	50,961	8,243	113,969
■ **ADC - %**								
• Normal Cost	4.4%	6.6%	4.6%	8.1%	4.1%	5.8%	3.3%	5.6%
• Admin. Exp.	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
• UAAL Amort	6.4%	7.0%	4.8%	5.3%	5.0%	3.9%	3.2%	4.6%
• ADC	11.0%	13.8%	9.5%	13.5%	9.2%	9.8%	6.6%	10.3%

[43] Allocated in proportion to the Actuarial Accrued Liability.

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Discount Rate Sensitivity

(Amounts in 000's)

	CERBT Strategy		
	#1 (Current)	#2	#3
■ **Discount Rate**	**6.25%**	**5.75%**	**5.25%**
■ **Present Value of Benefits**	$ 301,169	$ 325,144	$ 352,410
■ **Funded Status 6/30/21**			
• Actuarial Accrued Liability	244,197	258,741	274,737
• Assets	164,170	164,170	164,170
• Unfunded AAL	80,027	94,571	110,567
■ **Funded Ratio**	67.2%	63.4%	59.8%
■ **ADC 2022/23**			
• Normal Cost	6,196	6,899	7,697
• Administrative Expenses	120	120	120
• UAAL Amortization[44]	5,112	5,875	6,636
• Total	11,428	12,894	14,453
• ADC % of Payroll	10.3%	11.6%	13.0%

[44] UAAL projected using the same "Current" projected assets for all scenarios. UAAL amortized over 22 years for all scenarios.

Amortization Period Sensitivity

Discount Rate – 6.25%, Level % of Pay with 2.75% Payment Escalation

(Amounts in 000's)

■ **Amortization Period**	**Current 22 Years**	**20 Years**	**18 Years**
■ **Funded Status Projected to 6/30/22**			
• Actuarial Accrued Liability	$ 252,682	$ 252,682	$ 252,682
• Assets	176,523	176,523	176,523
• Unfunded AAL	76,159	76,159	76,159
■ **Total Projected Payroll 2022/23**	110,919	110,919	110,919
■ **ADC 2022/23**			
• Normal Cost	6,196	6,196	6,196
• Administrative Expenses	120	120	120
• UAAL Amortization	5,112	5,459	5,887
• Total	11,428	11,775	12,203
• ADC % of Payroll	10.3%	10.6%	11.0%

Amortization Period Sensitivity

Discount Rate – 5.75%, Level % of Pay with 2.75% Payment Escalation

(Amounts in 000's)

■ Amortization Period	Current 22 Years	20 Years	18 Years
■ **Funded Status Projected to 6/30/22**			
• Actuarial Accrued Liability	$ 267,556	$ 267,556	$ 267,556
• Assets	175,703	175,703	175,703
• Unfunded AAL	91,853	91,853	91,853
■ **Total Projected Payroll 2022/23**	110,919	110,919	110,919
■ **ADC 2022/23**			
• Normal Cost	6,899	6,899	6,899
• Administrative Expenses	120	120	120
• UAAL Amortization	5,875	6,297	6,816
• Total	12,894	13,316	13,835
• ADC % of Payroll	11.6%	12.0%	12.5%

Asset Return Sensitivity – Actuarially Determined Contribution (ADC)

(Amounts in 000's)

	6/30/21 Valuation		6/30/21 Valuation	
	2022/23	2023/24	2022/23	2023/24
■ **Assumed Return in FY22**	6.25%		0%	
■ **ADC - $**				
• Normal Cost	$ 6,196	$ 6,370	$ 6,196	$ 6,370
• Administrative Expenses[45]	120	126	115	121
• UAAL Amortization	5,112	5,253	5,801	5,960
• Total	11,428	11,749	12,112	12,452
■ **Projected Payroll**	110,919	113,969	110,919	113,969
■ **ADC - % of Payroll**				
• Normal Cost	5.6%	5.6%	5.6%	5.6%
• Administrative Expenses	0.1%	0.1%	0.1%	0.1%
• UAAL Amortization	4.6%	4.6%	5.2%	5.2%
• Total	10.3%	10.3%	10.9%	10.9%

45 Includes PEMHCA and CERBT administration fees.

Contribution Basis

- No statutory requirement for contributions to OPEB trust
- City is considering contributing to OPEB trust on more conservative basis than the ADC calculated in this funding valuation (i.e. Baseline Valuation Results)
- ADC for FYE 2021 and 2022 was based on 6.75% discount rate. City contributed more than the ADC (actual payment based on 6.25% discount rate).
  - Unlike pension plan, additional contributions do not go into a separate Section 115 trust, instead they remain in the plan, and are included in the assets each year in the calculation of the ADC. This means additional contributions reduce the ADC each future year.
  - City has asked to see what contributions would look like if these additional assets are separated and not included in the traditional asset balance when determining the ADC (show estimated "Additional Assets" separate from plan assets)
- City would also like to see more conservative earnings assumptions
  - Projected fund earnings in 21/22 assumed to be 0% instead of 6.25%
  - All future earnings of fund assumed to be 5.25% or 5.75% instead of 6.25% (same discount rate as if fund were invested in CERBT #3 or CERBT #2, respectively, instead of CERBT #1)
  - Amortize UAL over 14 or 15 years instead of current period of 22 years

Actuarial Obligations as of June 30, 2021 – Contribution Basis

(Amounts in 000's)

	Contribution Basis		
	Baseline	Exclude Additional Contributions	
■ Assumed FY22 Return	6.25%	0%	
■ Discount Rate/Future Earnings	6.25%	6.25%	5.25%
■ Present Value of Benefits	$ 301,169	$ 301,169	$ 352,410
■ Funded Status			
• Actuarial Accrued Liability	244,197	244,197	274,737
• Assets for ADC/alternate contribution calculation	164,170	162,812	162,812
• Unfunded AAL	80,027	81,385	111,925
■ Funded Ratio – "Alternate" Assets	67.2%	66.7%	59.3%
■ Funded Ratio – All Assets	67.2%	67.2%	59.8%
■ Additional Assets[46] balance 6/30/21	$ 1,358	$ 1,358	$ 1,358

[46] Accumulated additional contributions made by the City as of 6/30/2021 (accrued; actual payment made January 2022). Baseline results assume all additional contributions are included in assets used in calculation of ADC.

Contribution Basis – Alternate Contributions

22 Year Amortization

(Amounts in 000's)

	Baseline ADC		Exclude Additional Contributions			
	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24
■ Assumed FY22 Return	6.25%		0%		0%	
■ Discount Rate	6.25%		6.25%		5.25%	
■ Contribution - $						
• Normal Cost	$ 6,196	$ 6,370	$ 6,196	$ 6,370	$7,697	$7,912
• Admin. Expenses[47]	120	126	115	121	115	121
• UAAL Amortization	5,112	5,253	5,991	6,168	7,332	7,544
• Total	11,428	11,749	12,302	12,659	15,144	15,578
■ Projected Payroll	110,919	113,969	110,919	113,969	110,919	113,969
■ Contribution - % of Payroll						
• Normal Cost	5.6%	5.6%	5.6%	5.6%	6.9%	6.9%
• Admin. Expenses	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
• UAAL Amortization	4.6%	4.6%	5.4%	5.4%	6.6%	6.6%
• Total	10.3%	10.3%	11.1%	11.1%	13.7%	13.7%

47 Includes PEMHCA and CERBT administration fees.

10 Year Projection – Exclude Additional Contributions – 6.25%

22 Year Amortization

(Amounts in 000's)

FYE	Calculated Contribution[48]	Contribution: Cash Ben Pmt	Contribution: Implied Subsidy Ben Pmt	Contribution: Trust Pre-Funding	Contribution: Total	Payroll	Contr. % of Pay	Fund % (All Assets)	Add'l Contrib Balance (boy)
2022[49]	$15,013	$10,852	$2,619	$1,542	$15,013	$107,950	13.9%	67%	$1,358
2023	12,302	11,190	3,025	(1,913)	12,302	110,919	11.1%	66%	2,828
2024	12,659	11,792	3,073	(2,206)	12,659	113,969	11.1%	67%	3,004
2025	13,028	12,313	3,254	(2,539)	13,028	117,103	11.1%	68%	3,192
2026	13,408	12,742	3,326	(2,660)	13,408	120,324	11.1%	70%	3,392
2027	13,800	13,163	3,413	(2,776)	13,800	123,632	11.2%	71%	3,604
2028	14,207	13,557	3,365	(2,715)	14,207	127,032	11.2%	73%	3,829
2029	14,628	14,031	3,468	(2,871)	14,628	130,526	11.2%	74%	4,068
2030	15,067	14,586	3,684	(3,203)	15,067	134,115	11.2%	76%	4,322
2031	15,521	15,037	3,700	(3,216)	15,521	137,803	11.3%	78%	4,593
2032	15,996	15,559	3,837	(3,400)	15,996	141,593	11.3%	79%	4,880

48 Alternate contribution calculation: 0% FY22 return, 22-year amortization of UAAL, 6.25% discount rate

49 Cash benefit payments, Trust pre-funding, Payroll, Contribution % of Pay, and Funded percentage updated from 6/30/19 valuation with more current estimate or actual.

10 Year Projection – Exclude Additional Contributions – 5.25%

22 Year Amortization

(Amounts in 000's)

FYE	Calculated Contribution[50]	Contribution: Cash Ben Pmt	Contribution: Implied Subsidy Ben Pmt	Contribution: Trust Pre-Funding	Contribution: Total	Payroll	Contr. % of Pay	Fund % (All Assets)	Add'l Contrib Balance (boy)
2022[51]	$15,013	$10,852	$2,619	$1,542	$15,013	$107,950	13.9%	67%	$1,358
2023	15,144	11,190	3,025	929	15,144	110,919	13.7%	59%	2,817
2024	15,578	11,792	3,073	713	15,578	113,969	13.7%	60%	2,965
2025	16,024	12,313	3,254	457	16,024	117,103	13.7%	62%	3,121
2026	16,484	12,742	3,326	416	16,484	120,324	13.7%	64%	3,285
2027	16,958	13,163	3,413	382	16,958	123,632	13.7%	65%	3,457
2028	17,449	13,557	3,365	527	17,449	127,032	13.7%	67%	3,639
2029	17,955	14,031	3,468	456	17,955	130,526	13.8%	69%	3,830
2030	18,479	14,586	3,684	209	18,479	134,115	13.8%	71%	4,031
2031	19,022	15,037	3,700	285	19,022	137,803	13.8%	73%	4,243
2032	19,585	15,559	3,837	189	19,585	141,593	13.8%	75%	4,465

[50] Alternate contribution calculation: 0% FY22 return, 22-year amortization of UAAL, 5.25% discount rate

[51] Cash benefit payments, Trust pre-funding, Payroll, Contribution % of Pay, and Funded percentage updated from 6/30/19 valuation with more current estimate or actual.

10 Year Projection – Exclude Additional Contributions – 5.75%

22 Year Amortization

(Amounts in 000's)

FYE	Calculated Contribution[52]	Contribution: Cash Ben Pmt	Contribution: Implied Subsidy Ben Pmt	Contribution: Trust Pre-Funding	Contribution: Total	Payroll	Contr. % of Pay	Fund % (All Assets)	Add'l Contrib Balance (boy)
2022[53]	$15,013	$10,852	$2,619	$1,542	$15,013	$107,950	13.9%	67%	$1,358
2023	13,673	11,190	3,025	(542)	13,673	110,919	12.3%	62%	2,823
2024	14,067	11,792	3,073	(798)	14,067	113,969	12.3%	64%	2,985
2025	14,474	12,313	3,254	(1,093)	14,474	117,103	12.4%	65%	3,156
2026	14,892	12,742	3,326	(1,176)	14,892	120,324	12.4%	67%	3,338
2027	15,324	13,163	3,413	(1,252)	15,324	123,632	12.4%	68%	3,530
2028	15,770	13,557	3,365	(1,152)	15,770	127,032	12.4%	70%	3,733
2029	16,232	14,031	3,468	(1,267)	16,232	130,526	12.4%	72%	3,947
2030	16,712	14,586	3,684	(1,558)	16,712	134,115	12.5%	73%	4,174
2031	17,209	15,037	3,700	(1,528)	17,209	137,803	12.5%	75%	4,414
2032	17,725	15,559	3,837	(1,671)	17,725	141,593	12.5%	77%	4,668

[52] Alternate contribution calculation: 0% FY22 return, 22-year amortization of UAAL, 5.75% discount rate

[53] Cash benefit payments, Trust pre-funding, Payroll, Contribution % of Pay, and Funded percentage updated from 6/30/19 valuation with more current estimate or actual.

Contribution Basis – Alternate Contributions

14 Year Amortization

(Amounts in 000's)

	Baseline ADC		Exclude Additional Contributions			
	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24
■ Assumed FY22 Return	6.25%		0%		0%	
■ Discount Rate	6.25%		6.25%		5.75%	
■ Contribution - $						
• Normal Cost	$ 6,196	$ 6,370	$ 6,196	$ 6,370	$6,899	$7,092
• Admin. Expenses[54]	120	126	115	123	115	123
• UAAL	5,112	5,253	8,344	8,600	9,419	9,702
• Total	11,428	11,749	14,655	15,093	16,433	16,917
■ Projected Payroll	110,919	113,969	110,919	113,969	110,919	113,969
■ Contribution - % of Payroll						
• Normal Cost	5.6%	5.6%	5.6%	5.6%	6.2%	6.2%
• Admin. Expenses	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
• UAAL Amortization	4.6%	4.6%	7.5%	7.5%	8.5%	8.5%
• Total	10.3%	10.3%	13.2%	13.2%	14.8%	14.8%

[54] Includes PEMHCA and CERBT administration fees.
[55] Baseline amortized over 22 years, other scenarios over 14 years.

Contribution Basis – Alternate Contributions

15 Year Amortization

(Amounts in 000's)

	Baseline ADC		Exclude Additional Contributions			
	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24
■ Assumed FY22 Return	6.25%		0%		0%	
■ Discount Rate	6.25%		6.25%		5.75%	
■ Contribution - $						
• Normal Cost	$ 6,196	$ 6,370	$ 6,196	$ 6,370	$6,899	$7,092
• Admin. Expenses[56]	120	126	115	122	115	123
• UAAL	5,112	5,253	7,909	8,150	8,909	9,176
• Total	11,428	11,749	14,220	14,642	15,923	16,391
■ Projected Payroll	110,919	113,969	110,919	113,969	110,919	113,969
■ Contribution - % of Payroll						
• Normal Cost	5.6%	5.6%	5.6%	5.6%	6.2%	6.2%
• Admin. Expenses	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
• UAAL Amortization	4.6%	4.6%	7.1%	7.1%	8.1%	8.1%
• Total	10.3%	10.3%	12.8%	12.8%	14.4%	14.4%

[56] Includes PEMHCA and CERBT administration fees.
[57] Baseline amortized over 22 years, other scenarios over 15 years.

10 Year Projection – Exclude Additional Contributions – 5.75%

15 Year Amortization

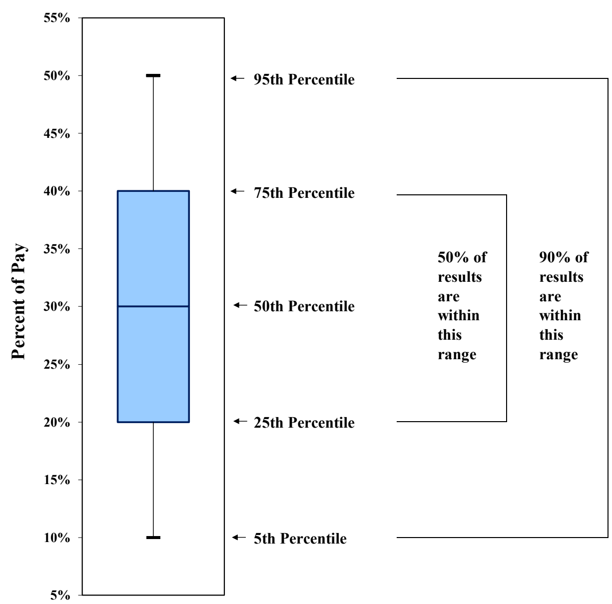
(Amounts in 000's)

FYE	Calculated Contribution[58]	Contribution: Cash Ben Pmt	Contribution: Implied Subsidy Ben Pmt	Contribution: Trust Pre-Funding	Contribution: Total	Payroll	Contr. % of Pay	Fund % (All Assets)	Add'l Contrib Balance (boy)
2022[59]	$15,013	$10,852	$2,619	$1,542	$15,013	$107,950	13.9%	67%	$1,358
2023	15,923	11,190	3,025	1,708	15,923	110,919	14.4%	62%	2,823
2024	16,391	11,792	3,073	1,526	16,391	113,969	14.4%	64%	2,985
2025	16,874	12,313	3,254	1,307	16,874	117,103	14.4%	67%	3,156
2026	17,376	12,742	3,326	1,308	17,376	120,324	14.4%	69%	3,338
2027	17,897	13,163	3,413	1,321	17,897	123,632	14.5%	72%	3,530
2028	18,443	13,557	3,365	1,521	18,443	127,032	14.5%	74%	3,733
2029	19,016	14,031	3,468	1,517	19,016	130,526	14.6%	77%	3,947
2030	19,622	14,586	3,684	1,352	19,622	134,115	14.6%	80%	4,174
2031	20,268	15,037	3,700	1,531	20,268	137,803	14.7%	83%	4,414
2032	20,970	15,559	3,837	1,574	20,970	141,593	14.8%	86%	4,668

58 Alternate contribution calculation: 0% FY22 return, 15-year amortization of UAAL, 5.75% discount rate

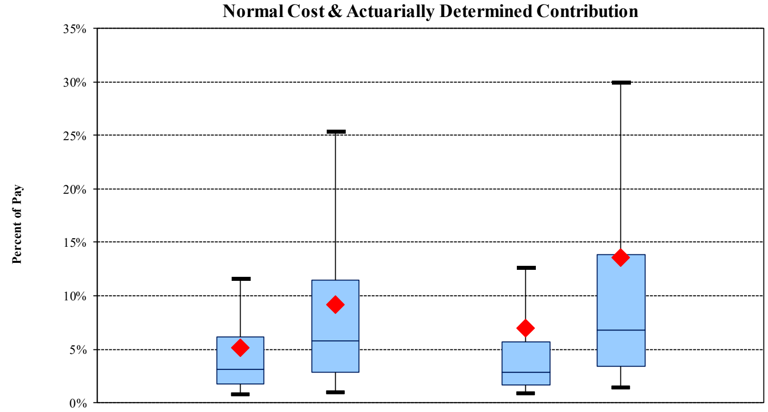
59 Cash benefit payments, Trust pre-funding, Payroll, Contribution % of Pay, and Funded percentage updated from 6/30/19 valuation with more current estimate or actual.

Bartel Associates OPEB Database
Sample Percentile Graph



COMPARISON TO OTHER AGENCIES

Bartel Associates OPEB Database
Normal Cost & Actuarially Determined Contribution

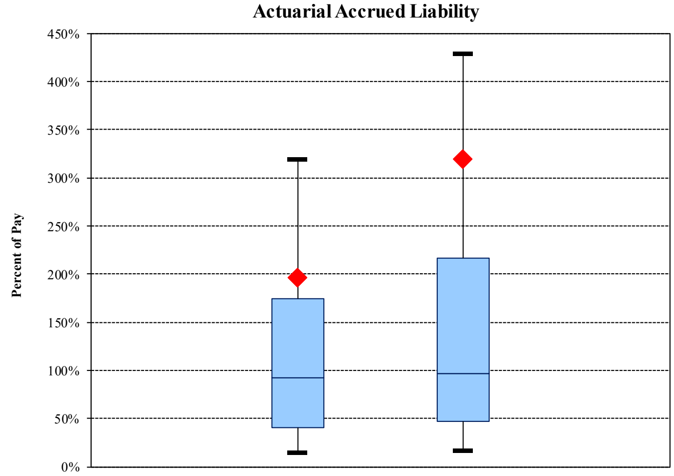


	Miscellaneous		Safety	
	NC	ADC	NC	ADC
95th Percentile	11.6%	25.3%	12.6%	29.9%
75th Percentile	6.1%	11.4%	5.7%	13.8%
50th Percentile	3.2%	5.8%	2.9%	6.8%
25th Percentile	1.8%	2.9%	1.7%	3.4%
5th Percentile	0.8%	0.9%	0.9%	1.4%
Percent of Pay (♦)	**5.1%**	**9.2%**	**7.0%**	**13.6%**
Percentile	**70%**	**70%**	**81%**	**76%**

Discount Rate = 6.25%, Average Amortization Period = 22.0 Years

COMPARISON TO OTHER AGENCIES

Bartel Associates OPEB Database
Actuarial Accrued Liability



	Miscellaneous	Safety
95th Percentile	319%	428%
75th Percentile	174%	217%
50th Percentile	92%	97%
25th Percentile	40%	47%
5th Percentile	14%	16%
Percent of Pay (♦)	**197%**	**319%**
Percentile	**80%**	**90%**

Discount Rate = 6.25%

ACTUARIAL CERTIFICATION

This report presents the City of Palo Alto Retiree Healthcare Plan ("Plan") June 30, 2021 actuarial valuation. The purpose of this valuation is to:

- Determine the June 30, 2021 Benefit Obligations,
- Determine the Plan's June 30, 2021 Funded Status, and
- Calculate the 2022/23 and 2023/24 Actuarially Determined Contributions.

The report provides information intended for funding the City's Plan, but may not be appropriate for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as: plan experience differing from that anticipated by the assumptions; changes in assumptions; changes expected as part of the natural progression of the plan; and changes in plan provisions or applicable law. Actuarial models necessarily rely on the use of estimates and are sensitive to changes. Small variations in estimates may lead to significant changes in actuarial measurements. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of such measurements.

The valuation is based on Plan provisions, participant data, and asset information provided by the City as summarized in this report, which we relied on and did not audit. We reviewed the participant data for reasonableness.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,

Mary Elizabeth Redding
Mary Elizabeth Redding, FSA, MAAA, EA
Vice President
Bartel Associates, LLC
June 2, 2022

Deanna Van Valer
Deanna Van Valer, ASA, MAAA, EA, FCA
Assistant Vice President
Bartel Associates, LLC
June 2, 2022

EXHIBITS

2021 PEMHCA Monthly Premiums

Region 1

Medical Plan	Non-Medicare Eligible			Medicare Eligible		
	Single	2-Party	Family	Single	2-Party	Family
Anthem Select	$925.60	$1,851.20	$2,406.56	$383.37	$766.74	$1,150.11
Anthem Traditional	1,307.86	2,615.72	3,400.44	383.37	766.74	1,150.11
Blue Shield Access+	1,170.08	2,340.16	3,042.21	n/a	n/a	n/a
Blue Shield Trio	880.50	1,761.00	2,289.30	n/a	n/a	n/a
Health Net SmartCare	1,120.21	2,240.42	2,912.55	n/a	n/a	n/a
Kaiser	813.64	1,627.28	2,115.46	324.48	648.96	973.44
UnitedHealthcare Alliance	941.17	1,882.34	2,447.04	n/a	n/a	n/a
UnitedHealthcare Group	n/a	n/a	n/a	311.56	623.12	934.68
UnitedHealthcare Edge	n/a	n/a	n/a	n/a	n/a	n/a
Western Health Advantage	757.02	1,514.04	1,968.25	n/a	n/a	n/a
Anthem EPO Del Norte	935.84	1,871.68	2,433.18	n/a	n/a	n/a
PERSCare/PERS Platinum	1,294.69	2,589.38	3,366.19	381.25	762.50	1,143.75
PERS Choice/PERS Platinum	935.84	1,871.68	2,433.18	349.97	699.94	1,049.91
PERS Select/PERS Gold	566.67	1,133.34	1,473.34	349.97	699.94	1,049.91
PORAC	799.00	1,725.00	2,199.00	513.00	1,022.00	1,635.00

2022 PEMHCA Monthly Premiums

Region 1

Medical Plan	Non-Medicare Eligible			Medicare Eligible		
	Single	2-Party	Family	Single	2-Party	Family
Anthem Select	$1,015.81	$2,031.62	$2,641.11	$ 360.19	$ 720.38	$ 1,080.57
Anthem Traditional	1,304.00	2,608.00	3,390.40	360.19	720.38	1,080.57
Blue Shield Access+	1,116.01	2,232.02	2,901.63	353.11	706.22	1,059.33
Blue Shield Trio	898.54	1,797.08	2,336.20	353.11	706.22	1,059.33
Health Net SmartCare	1,153.00	2,306.00	2,997.80	n/a	n/a	n/a
Kaiser	857.06	1,714.12	2,228.36	302.53	605.06	907.59
UnitedHealthcare Alliance	1,020.28	2,040.56	2,652.73	n/a	n/a	n/a
UnitedHealthcare Group	n/a	n/a	n/a	294.65	589.30	883.95
UnitedHealthcare Edge	n/a	n/a	n/a	347.21	694.42	1,041.63
Western Health Advantage	741.26	1,482.52	1,927.28	314.94	629.88	944.82
Anthem EPO Del Norte	1,057.01	2,114.02	2,748.23	n/a	n/a	n/a
PERSCare/PERS Platinum	1,057.01	2,114.02	2,748.23	381.94	763.88	1,145.82
PERS Choice/PERS Platinum	1,057.01	2,114.02	2,748.23	381.94	763.88	1,145.82
PERS Select/PERS Gold	701.23	1,402.46	1,823.20	377.41	754.82	1,132.23
PORAC	799.00	1,725.00	2,219.00	461.00	919.00	1,471.00

PEMHCA Monthly Premium Increases/(Decreases)

Bay Area/Region 1

Medical Plan	Non-Medicare Eligible		Medicare Eligible	
	2021	2022	2021	2022
Anthem Select	6.5%	9.7%	(1.2%)	(6.0%)
Anthem Traditional	10.4%	(0.3%)	(1.2%)	(6.0%)
Blue Shield Access+	3.8%	(4.6%)	n/a	n/a
Blue Shield Trio	5.7%	2.0%	n/a	n/a
Health Net SmartCare	12.0%	2.9%	n/a	n/a
Kaiser	5.9%	5.3%	(4.4%)	(6.8%)
UnitedHealthcare Alliance	4.6%	8.4%	(4.7%)	n/a
UnitedHealthcare Group	n/a	n/a	n/a	(5.4%)
Western Health Advantage	3.4%	(2.1%)	n/a	n/a
Anthem EPO Del Norte	8.7%	12.9%	n/a	n/a
PERSCare/PERS Platinum	8.7%	(18.4%)	(0.9%)	0.2%
PERS Choice/PERS Platinum	8.9%	12.9%	(0.4%)	9.1%
PERS Select/PERS Gold	14.3%	23.7%	(0.4%)	7.8%
PORAC	3.2%	0.0%	0.0%	(10.1%)

Participant Statistics by Bargaining Unit

June 30, 2021

	FCA	IAFF	M/C	PAPOA	PMA	SEIU	UMPAPA	Total
■ Actives								
• Count	4	80	195	68	6	477	44	874
• Avg Age	42.6	42.5	47.3	39.8	46.9	44.8	49.1	45.0
• Avg City Svc	18.1	12.8	10.6	10.2	22.1	10.6	17.3	11.2
• Avg PERS Svc	18.1	13.3	12.2	11.2	23.1	11.2	18.1	12.1
• Avg Salary	$209,498	$145,878	$134,380	$152,938	$228,619	$98,486	$172,711	$120,207
• Total Salary[60]	$838	$11,670	$26,204	$10,400	$1,372	$46,978	$7,599	$105,061
■ Retirees[61]:								
• Count	6	148	307	89	5	430	24	1,009
• Avg Age	64.7	71.0	72.0	66.9	57.5	71.6	62.2	70.9
• Avg Service Ret Age	56.7	54.6	58.3	52.3	50.4	59.6	58.8	58.2
• Avg Disab Ret Age	50.1	48.8	50.5	42.0	n/a	48.0	n/a	46.3

[60] Amount in 000's. Actual 2020/21 PERSable compensations.
[61] Excludes retirees who have waived coverage.

Participant Statistics by Bargaining Unit

June 30, 2019

	FCA	IAFF	M/C	PAPOA	PMA	SEIU	UMPAPA	Total
■ Actives								
• Count	5	85	207	69	7	508	49	930
• Avg Age	43.9	42.3	47.2	40.2	44.7	44.4	50.4	44.8
• Avg City Svc	17.9	12.4	10.2	9.7	17.8	10.1	18.3	10.8
• Avg PERS Svc	17.9	12.9	11.7	11.0	18.6	10.7	19.2	11.7
• Avg Salary	$176,198	$121,901	$136,149	$143,180	$213,236	$87,088	$166,590	$110,969
• Total Salary[62]	$881	$10,362	$28,183	$9,879	$1,493	$44,241	$8,163	$103,201
■ Retirees[63]:								
• Count	6	143	298	90	6	418	13	974
• Avg Age	63.1	70.6	70.7	66.3	55.0	70.8	60.2	70.0
• Avg Service Ret Age	56.8	54.6	58.2	52.0	50.5	59.5	57.1	58.0
• Avg Disab Ret Age	50.1	48.4	50.5	41.4	n/a	48.2	n/a	46.1

[62] Amount in 000's. Actual 2018/19 PERSable compensations.
[63] Excludes retirees who have waived coverage.

DATA SUMMARY

Participant Statistics by CalPERS Pension Category

June 30, 2021

	Miscellaneous	Police	Fire	Total
■ Actives				
• Count	711	76	87	874
• Average Age	45.7	40.7	42.7	45.0
• Average City Service	11.0	11.0	13.2	11.2
• Average PERS Service	11.9	12.0	13.7	12.1
• Average Salary	$112,031	$161,950	$150,562	$120,207
• Total Salary (000's)[64]	$79,654	$12,308	$13,099	$105,061
■ Retirees[65]:				
• Count	739	105	165	1,009
• Average Age	71.6	66.3	70.7	70.9
• Avg Service Ret Age	59.2	52.0	54.5	58.2
• Avg Disability Ret Age	48.1	42.1	48.9	46.3

[64] Actual 2020/21 PERSable compensations.
[65] Excludes retirees who have waived coverage.

Participant Statistics by CalPERS Pension Category

June 30, 2019

	Miscellaneous	Police	Fire	Total
■ Actives				
• Count	761	76	93	930
• Average Age	45.5	41.2	42.5	44.8
• Average City Service	10.6	10.8	12.8	10.8
• Average PERS Service	11.5	12.1	13.3	11.7
• Average Salary	$104,652	$153,105	$128,224	$110,969
• Total Salary (000's)[66]	$79,640	$11,636	$11,925	$103,201
■ Retirees[67]:				
• Count	707	107	160	974
• Average Age	70.7	65.8	70.1	70.0
• Avg Service Ret Age	59.1	51.8	54.5	58.0
• Avg Disability Ret Age	48.2	41.5	48.5	46.1

[66] Actual 2018/19 PERSable compensations.
[67] Excludes retirees who have waived coverage.

Medical Plan Participation – June 30, 2021

Medical Plan	Actives		All Retirees Under 65		All Retirees 65 or Older		All Retirees Total	
Miscellaneous/Safety	**M**	**S**	**M**	**S**	**M**	**S**	**M**	**S**
Anthem Select	6%	3%	5%	1%	-	-	2%	-
Anthem Traditional	4%	1%	9%	8%	6%	5%	6%	6%
Blue Shield	-	-	3%	7%	-	-	1%	3%
Health Net SmartCare	1%	1%	1%	1%	-	-	-	-
Kaiser	65%	51%	40%	36%	30%	23%	32%	29%
UnitedHealthcare	-	-	1%	2%	18%	13%	14%	8%
Western Health Advantage	-	-	1%	-	-	-	-	-
PERSCare	-	-	4%	9%	25%	37%	20%	25%
PERS Choice	22%	3%	32%	3%	21%	15%	24%	10%
PERS Select	1%	1%	3%	-	-	-	1%	-
PORAC	-	40%	1%	32%	-	8%	-	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Medical Plan Participation – June 30, 2019

Medical Plan	Actives		All Retirees					
			Under 65		65 or Older		Total	
Miscellaneous/Safety	**M**	**S**	**M**	**S**	**M**	**S**	**M**	**S**
Anthem Select	6%	4%	5%	1%	1%	1%	2%	1%
Anthem Traditional	9%	1%	16%	13%	3%	2%	7%	7%
Blue Shield	1%	1%	3%	6%	-	-	1%	3%
Health Net SmartCare	2%	1%	1%	-	-	-	1%	-
Kaiser	62%	50%	33%	20%	29%	25%	30%	23%
UnitedHealthcare	-	-	-	2%	20%	12%	14%	7%
Western Health Advantage	-	1%	-	0%	-	-	0%	-
PERSCare	1%	1%	7%	12%	26%	36%	21%	25%
PERS Choice	17%	2%	31%	5%	19%	15%	23%	11%
PERS Select	2%	-	1%	-	-	-	1%	-
PORAC	-	40%	1%	42%	1%	8%	1%	23%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Medical Plan Participation – June 30, 2021

Medical Plan	Actives		All Retirees					
			Under 65		65 or Older		Total	
Miscellaneous/Safety	**M**	**S**	**M**	**S**	**M**	**S**	**M**	**S**
Anthem Select	6%	1%	5%	1%	-	-	2%	-
Anthem Traditional	4%	-	9%	8%	6%	5%	6%	6%
Blue Shield	-	-	3%	7%	-	-	1%	3%
Health Net SmartCare	1%	-	1%	1%	-	-	-	-
Kaiser	65%	13%	40%	36%	30%	23%	32%	29%
UnitedHealthcare	-	-	1%	2%	18%	13%	14%	8%
Western Health Advantage	-	-	1%	-	-	-	-	-
PERSCare	-	-	4%	9%	25%	37%	20%	25%
PERS Choice	22%	1%	32%	3%	21%	15%	24%	10%
PERS Select	1%	-	3%	-	-	-	1%	-
PORAC	-	10%	1%	32%	-	8%	-	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Active Medical Coverage – Miscellaneous

Medical Plan	Single	2-Party	Family	Waived	Total
Anthem Select	12	10	17	-	39
Anthem Traditional	14	7	5	-	26
Blue Shield	1	-	-	-	1
Health Net SmartCare	2	1	2	-	5
Kaiser	141	98	185	-	424
Western Health Advantage	-	-	1	-	1
PERSCare	-	1	1	-	2
PERS Choice	36	35	71	-	142
PERS Select	4	3	2	-	9
PORAC	-	1	-	-	1
Waived	-	-	-	61	61
Total	210	156	284	61	711
% as of June 30, 2021	30%	22%	40%	9%	100%
% as of June 30, 2019	28%	22%	37%	13%	100%

Active Medical Coverage – Safety

Medical Plan	Single	2-Party	Family	Waived	Total
Anthem Select	1	1	3	-	5
Anthem Traditional	-	1	-	-	1
Blue Shield	-	-	-	-	-
Health Net SmartCare	-	-	2	-	2
Kaiser	20	14	48	-	82
Western Health Advantage	-	-	-	-	-
PERSCare	-	-	-	-	-
PERS Choice	-	1	3	-	4
PERS Select	1	-	-	-	1
PORAC	11	6	47	-	64
Waived	-	-	-	4	4
Total	33	23	103	4	163
% as of June 30, 2021	20%	14%	63%	2%	100%
% as of June 30, 2019	20%	14%	60%	6%	100%

Retiree Medical Coverage[68] - Miscellaneous

Medical Plan	Single		2-Party		Family		Total
	<65	65+	<65	65+	<65	65+	
Anthem Select	3	1	4	1	3	-	12
Anthem Traditional	10	9	6	16	1	6	48
Blue Shield	2	-	3	-	1	-	6
Health Net SmartCare	-	-	-	-	1	-	1
Kaiser	25	90	37	71	12	5	240
UnitedHealthcare	-	69	1	32	-	-	102
Western Health Advantage	-	-	1	-	-	-	1
PERSCare	6	74	2	61	-	2	145
PERS Choice	20	58	32	50	8	6	174
PERS Select	4	-	1	2	1	-	8
PORAC	-	1	-	-	1	-	2
Total	70	302	87	233	28	19	739

% as of June 30, 2021	9%	41%	12%	32%	4%	2%	100%
% as of June 30, 2019	13%	39%	12%	30%	5%	2%	100%

68 Approximately 78% of retirees have coverage in a region 1 plan. The rest are in other state regions or out of state.

Retiree Medical Coverage[69] - Safety

Medical Plan	Single		2-Party		Family		Total
	<65	65+	<65	65+	<65	65+	
Anthem Select	-	-	-	-	1	-	1
Anthem Traditional	2	-	4	5	4	2	17
Blue Shield	1	-	4	-	3	-	8
Health Net SmartCare	-	-	1	-	-	-	1
Kaiser	6	13	18	21	19	1	78
UnitedHealthcare	-	12	1	6	1	1	21
Western Health Advantage	-	-	-	-	-	-	-
PERSCare	5	31	2	23	4	2	67
PERS Choice	2	8	1	15	1	-	27
PERS Select	-	-	-	-	-	-	-
PORAC	7	4	13	8	18	-	50
Total	23	68	44	78	51	6	270

% as of June 30, 2021	9%	25%	16%	29%	19%	2%	100%
% as of June 30, 2019	8%	25%	14%	29%	22%	1%	100%

69 Approximately 74% of retirees have coverage in a Region 1 plan. The rest are in other state regions or out of state.

Retirees Medical Coverage by Age – Miscellaneous

Age	Single	2-Party	Family	Total
Under 50	-	1	1	2
50-54	3	1	3	7
55-59	20	21	15	56
60-64	47	64	9	120
65-69	66	65	13	144
70-74	80	69	3	152
75-79	70	61	3	134
80-84	55	18	-	73
85 & Over	31	20	-	51
Total	372	320	47	739
Average Age	73.3	70.8	63.1	71.6

Retirees Medical Coverage by Age – Police

Age	Single	2-Party	Family	Total
Under 50	1	2	5	8
50-54	1	-	3	4
55-59	4	3	9	16
60-64	6	8	8	22
65-69	7	9	3	19
70-74	6	10	-	16
75-79	4	4	-	8
80-84	5	2	-	7
85 & Over	3	2	-	5
Total	37	40	28	105
Average Age	70.3	68.8	57.6	66.3

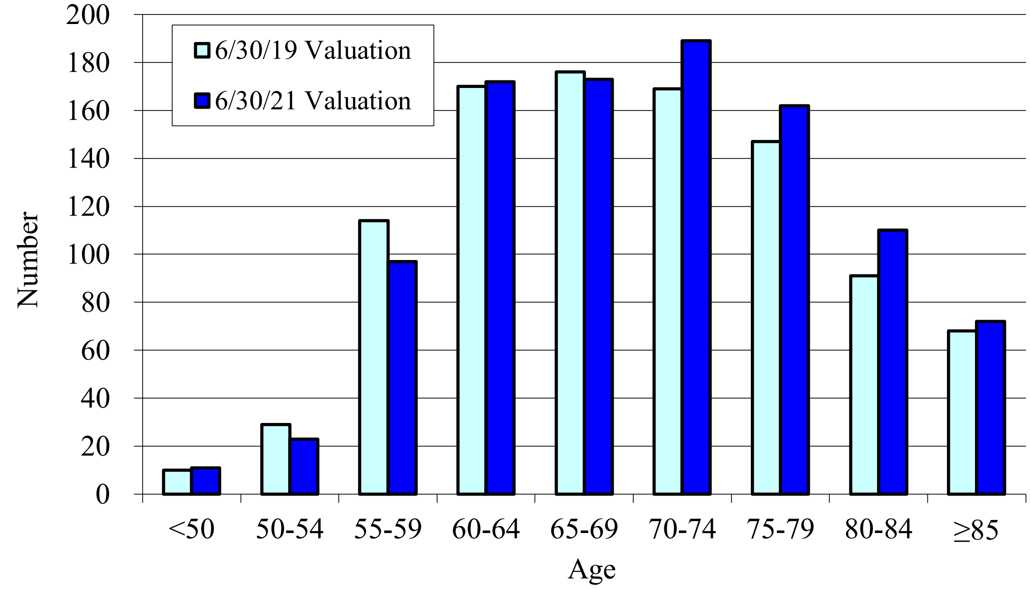
Retirees Medical Coverage by Age – Fire

Age	Single	2-Party	Family	Total
Under 50	-	-	1	1
50-54	4	3	5	12
55-59	2	9	14	25
60-64	5	19	6	30
65-69	2	6	2	10
70-74	6	15	-	21
75-79	10	9	1	20
80-84	18	12	-	30
85 & Over	7	9	-	16
Total	54	82	29	165
Average Age	75.9	71.3	59.0	70.7

Retirees Medical Coverage by Age – Total

Age	Single	2-Party	Family	Total
Under 50	1	3	7	11
50-54	8	4	11	23
55-59	26	33	38	97
60-64	58	91	23	172
65-69	75	80	18	173
70-74	92	94	3	189
75-79	84	74	4	162
80-84	78	32	-	110
85 & Over	41	31	-	72
Total	463	442	104	1,009
Average Age	73.4	70.7	60.5	70.9

Retiree Age Distribution
Total



Actives by Age and Service – Miscellaneous

Age	City Service							
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	Total
< 25	4	2	-	-	-	-	-	6
25-29	9	35	8	-	-	-	-	52
30-34	6	59	30	-	-	-	-	95
35-39	5	23	33	16	2	1	-	80
40-44	4	30	24	27	16	10	-	111
45-49	2	14	20	20	18	18	1	93
50-54	1	8	18	17	16	26	10	96
55-59	3	9	15	21	13	27	16	104
60-64	1	5	10	7	8	12	7	50
≥ 65	-	1	4	4	3	5	7	24
Total	35	186	162	112	76	99	41	711

DATA SUMMARY

Actives by Age and Service – Police

Age	City Service							
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	Total
< 25	-	1	-	-	-	-	-	1
25-29	-	9	2	-	-	-	-	11
30-34	-	3	3	1	-	-	-	7
35-39	-	5	7	4	1	-	-	17
40-44	-	1	4	7	3	1	-	16
45-49	-	-	2	2	3	6	1	14
50-54	-	-	-	1	2	-	1	4
55-59	-	2	-	-	1	1	1	5
60-64	-	-	1	-	-	-	-	1
≥ 65	-	-	-	-	-	-	-	-
Total	-	21	19	15	10	8	3	76

DATA SUMMARY

Actives by Age and Service – Fire

Age	City Service							
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	Total
< 25	-	-	-	-	-	-	-	-
25-29	-	9	-	-	-	-	-	9
30-34	-	5	6	2	-	-	-	13
35-39	-	3	7	4	1	-	-	15
40-44	-	1	2	5	3	1	-	12
45-49	-	-	3	3	3	10	1	20
50-54	-	-	-	-	3	5	1	9
55-59	-	-	-	1	2	4	1	8
60-64	-	-	-	-	-	-	-	-
≥ 65	-	-	-	-	-	-	1	1
Total	-	18	18	15	12	20	4	87

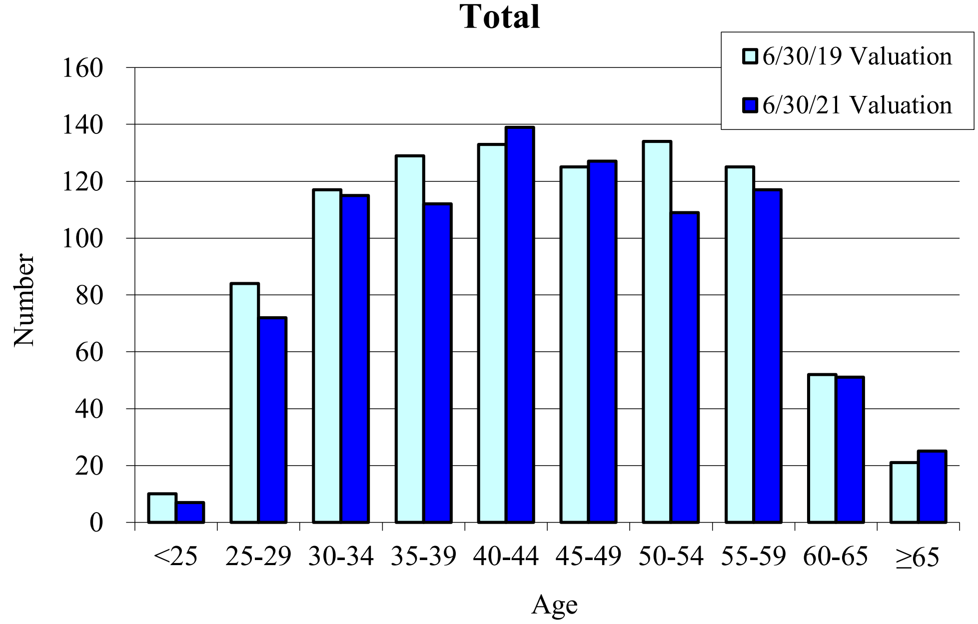
DATA SUMMARY

Actives by Age and Service – Total

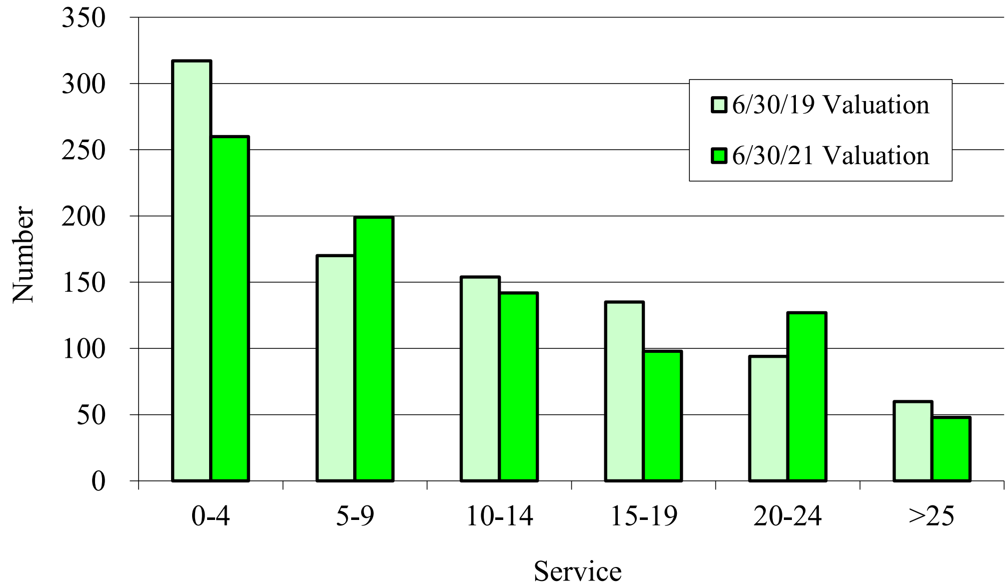
Age	City Service							
	< 1	1-4	5-9	10-14	15-19	20-24	≥ 25	Total
< 25	4	3	-	-	-	-	-	7
25-29	9	53	10	-	-	-	-	72
30-34	6	67	39	3	-	-	-	115
35-39	5	31	47	24	4	1	-	112
40-44	4	32	30	39	22	12	-	139
45-49	2	14	25	25	24	34	3	127
50-54	1	8	18	18	21	31	12	109
55-59	3	11	15	22	16	32	18	117
60-64	1	5	11	7	8	12	7	51
≥ 65	-	1	4	4	3	5	8	25
Total	35	225	199	142	98	127	48	874

DATA SUMMARY

Active Age Distribution
Total



Active Service Distribution
Total



ADDITIONAL ACTUARIAL ASSUMPTIONS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Retirement	■ CalPERS 1997-2015 Experience Study- Expected retirement age for each tier Misc / Fire & Police Tier 1 2.7%@55 3%@50 Exp. RetAge 60.3 56.4 & 55.2 Tier 2 2%@60 3%@55 Exp. RetAge 60.7 57.4 & 56.6 PEPRA 2.5%@67 2.7%@57 Exp. RetAge 62.4 57.3 & 57.0	■ CalPERS 2000-2019 Experience Study - Expected retirement age for each tier Misc / Fire & Police Tier 1 2.7%@55 3%@50 Exp. RetAge 60.7 56.4 & 54.0 Tier 2 2%@60 3%@55 Exp. RetAge 63.0 57.7 & 56.4 PEPRA 2.5%@67 2.7%@57 Exp. RetAge 62.4 57.1 & 56.7
■ Spousal Coverage at Retirement	■ 70% of covered retirees are assumed to cover spouses ■ Based on Plan experience	■ Same
■ Waived Retiree Re-election	■ 0%	■ Same

ADDITIONAL ACTUARIAL ASSUMPTIONS

	June 30, 2019 Valuation			June 30, 2021 Valuation			
■ Medical Trend	Increase from Prior Year			Increase from Prior Year			
	Year	Pre-Medicare	Post-Medicare	Calendar Year	Pre-Medicare	Post-Medicare Kaiser	Post-Medicare Other
	2019-20	Actual Premiums/Claims		2019-20	n/a		
	2021	7.25%	6.30%	2021	Actual 2021 Premiums/Claims		
	2022	7.00%	6.10%	2022	Actual 2022 Premiums/Claims		
	2023	6.75%	5.90%	2023	6.50%	5.65%	4.60%
	2024	6.50%	5.70%	2024	6.25%	5.45%	4.45%
	2025	6.25%	5.50%	2025	6.00%	5.25%	4.60%
	2026	6.00%	5.30%	2026	5.75%	5.05%	4.45%
	2027	5.80%	5.15%	2027	5.55%	4.90%	4.35%
	2028	5.60%	5.00%	2028	5.35%	4.75%	4.25%
	2029	5.40%	4.85%	2029	5.15%	4.60%	4.20%
	2030	5.20%	4.70%	2030	4.95%	4.45%	4.05%
	2031-35	5.05%	4.60%	2031-35	4.80%	4.35%	4.00%
	2036-45	4.90%	4.50%	2036-45	4.65%	4.25%	3.95%
	2046-55	4.75%	4.45%	2046-55	4.50%	4.20%	3.90%
	2056-65	4.60%	4.40%	2056-65	4.35%	4.15%	3.85%
	2066-75	4.30%	4.20%	2066-75	4.05%	3.95%	3.80%
	2076+	4.00%	4.00%	2076+	3.75%	3.75%	3.75%

ADDITIONAL ACTUARIAL ASSUMPTIONS

	June 30, 2019 Valuation			June 30, 2021 Valuation		
■ Medical Plan at Retirement & Retirees Attaining age 65	■ Miscellaneous:	<65	65+	■ Miscellaneous:	<65	65+
	Anthem Tradition	20%	10%	Anthem Tradition	10%	5%
	Blue Shield	0%	0%	Blue Shield	5%	0%
	Kaiser	40%	35%	Kaiser	50%	30%
	PERS Choice	30%	25%	PERS Choice	30%	20%
	PERSCare	10%	15%	PERSCare	5%	25%
	United HC	0%	15%	United HC	0%	20%
	■ Safety:	<65	65+	■ Safety:	<65	65+
	Anthem Tradition	15%	5%	Anthem Tradition	10%	5%
	Blue Shield	5%	0%	Blue Shield	5%	0%
	Kaiser	35%	25%	Kaiser	40%	25%
	PERS Choice	0%	5%	PERS Choice	0%	15%
	PERSCare	0%	45%	PERSCare	10%	35%
	PORAC	45%	15%	PORAC	35%	10%
	United HC	0%	5%	United HC	0%	10%
	■ Based on Plan experience			■ Based on Plan experience		

ADDITIONAL ACTUARIAL ASSUMPTIONS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Family Coverage at Retirement (for future retirees)	■ Misc: 15% until age 65 5% age 65-75 ■ Safety: 50% until age 65 5% age 65-80 ■ Based on Plan experience	■ Same
■ Spouse Age	■ Actives – Males 3 years older than females ■ Retirees – Males 3 years older than females if spouse birth date not available	■ Same
■ Surviving Spouse Participation	■ 100%	■ Same

ADDITIONAL ACTUARIAL ASSUMPTIONS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Medicare Eligibility	■ Actives and retirees hired before 4/1/86: • Miscellaneous – 80% • Safety – 90% ■ Actives and retirees hired on or after 4/1/86: 100% ■ Retirees before 65 with unknown hire date: 90% ■ Everyone eligible for Medicare will elect Part B coverage	■ Same
■ Future New Participants	■ None – Closed Group	■ Same

ADDITIONAL ACTUARIAL ASSUMPTIONS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Retirees Missing Fund	■ Assumed to have the same fund as the prior valuation ■ Assumed to be based on active percentages: 75% GF, 15% Elec, and 10% UTL[70]	■ No retirees missing Fund information.
■ Retirees Missing Department	■ Assumed to have the same department as the prior valuation ■ Liability for retirees assumed to be 75% GF allocated proportionately across all Departments	■ Same

[70] Fewer than 10% retirees have missing Fund or Department. Does not affect results, but does affect internal cost allocations used by the City.

ADDITIONAL ACTUARIAL ASSUMPTIONS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Actuarial Models	■ Our valuation was performed using and relying on ProVal, an actuarial model leased from Wintech. Our use of ProVal is consistent with its intended purpose. We have reviewed and understand ProVal and its operation, sensitivities and dependencies.	
■ Data Quality	■ Our valuation used census data provided by the City and CalPERS OPEB data extract. We reviewed the data for reasonableness and resolved any questions with the City. We believe the resulting data can be relied on for all purposes of this valuation without limitation.	
■ COVID-19	■ No adjustments to the assumptions have been made for COVID-19 since there is not yet enough data to evaluate the future impacts.	

ADDITIONAL ACTUARIAL ASSUMPTIONS

	June 30, 2019 Valuation	June 30, 2021 Valuation
■ Sample Medical Claims Costs 2022	■ Sample estimated monthly claims costs:	

Region 1 – Non-Medicare Eligible

Age	Kaiser (HMO) M	Kaiser (HMO) F	PERS Choice (PPO) M	PERS Choice (PPO) F	PORAC M	PORAC F
55	$932	$934	$1,031	$1,035	$928	$929
60	1,261	1,139	1,420	1,277	1,278	1,147
65	1,615	1,375	1,829	1,547	1,647	1,391
70	1,963	1,631	2,223	1,835	2,002	1,650
75	2,330	1,905	2,639	2,143	2,377	1,926
80	2,705	2,194	3,063	2,469	2,759	2,219
85	3,266	2,640	3,699	2,970	3,331	2,670

Region 1 – Medicare Eligible

Age	Kaiser (HMO) M	Kaiser (HMO) F	PERS Choice (PPO) M	PERS Choice (PPO) F	PORAC M	PORAC F
65	n/a	n/a	$378	$329	$436	$377
70	n/a	n/a	420	364	484	417
75	n/a	n/a	452	393	521	450
80	n/a	n/a	468	410	540	470
85	n/a	n/a	456	405	526	464

RESULTS BY FUND

Actuarial Obligations – June 30, 2021 – 6.25% Discount Rate

(Amounts in 000's)

FUND	AAL	Assets[71]	UAAL
■ Airport	$ 488	$ 328	$ 160
■ CIP	3,897	2,620	1,277
■ Elec[72]	29,257	19,669	9,588
■ Gas[72]	10,800	7,261	3,539
■ GF	157,214	105,692	51,522
■ ISF – Technology	4,587	3,084	1,503
■ ISF – Vehicle	1,704	1,146	558
■ ISF – Printing & Mailing	91	61	30
■ ISF – Workers Comp	97	65	32
■ PARKING	641	431	210
■ Refuse	4,479	3,011	1,468
■ Storm Drain	2,174	1,462	713
■ Water[72]	10,172	6,838	3,333
■ WWC[72]	4,114	2,766	1,348
■ WWT	14,482	9,736	4,746
■ Total	244,197	164,170	80,027

[71] Assets allocated in proportion to AAL.
[72] AAL for UTL employees allocated to Elec, Gas, Water, and WWC in proportion to each Fund's AAL

RESULTS BY FUND

Actuarially Determined Contribution (ADC) – 6.25% Discount Rate

(Amounts in 000's)

FUND	2022/23	2023/24
■ Airport	$ 34	$ 34
■ CIP	335	346
■ Elec[72]	1,227	1,261
■ Gas[72]	529	549
■ GF	7,134	7,332
■ ISF – Technology	308	313
■ ISF – Vehicle	111	115
■ ISF – Printing & Mailing	2	2
■ ISF – Workers Comp	13	13
■ PARKING	69	70
■ Refuse	157	162
■ Storm Drain	108	111
■ Water[72]	478	493
■ WWC[72]	218	224
■ WWT	705	724
■ Total	11,428	11,749

RESULTS BY GF DEPARTMENT

Actuarial Obligations – June 30, 2021 – 6.25% Discount Rate

(Amounts in 000's)

GF Department	AAL	Assets[73]	UAAL
■ ASD	$ 7,191	$ 4,835	$ 2,356
■ ATT	2,587	1,739	848
■ AUD	130	87	43
■ CLK	625	420	205
■ COU	1,176	791	385
■ CSD	14,885	10,007	4,878
■ DSD	4,271	2,871	1,400
■ FIR	47,719	32,082	15,637
■ HRD	2,381	1,600	781
■ LIB	6,001	4,034	1,967
■ MGR	2,429	1,633	796
■ PLA	5,861	3,940	1,921
■ POL	45,862	30,832	15,030
■ PWD	16,096	10,821	5,275
■ Total	157,214	105,692	51,522

[73] Assets allocated in proportion to AAL.

RESULTS BY GF DEPARTMENT

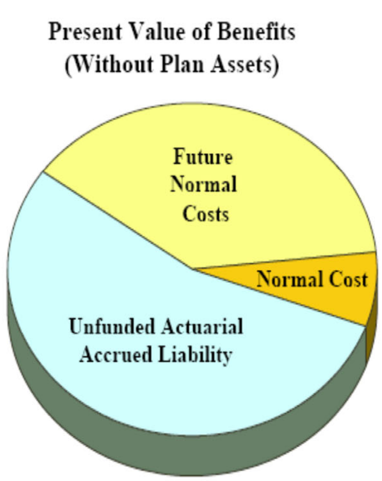
Actuarially Determined Contribution (ADC) – 6.25% Discount Rate

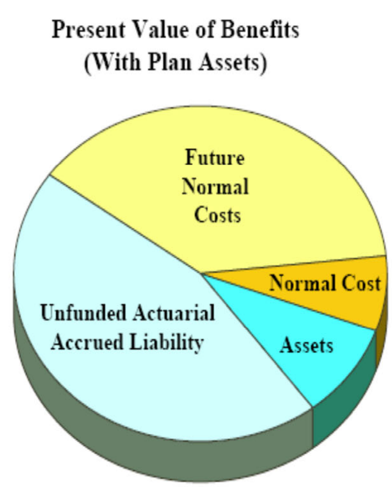
(Amounts in 000's)

GF Department	2022/23	2023/24
■ ASD	$ 336	$ 345
■ ATT	99	102
■ AUD	3	3
■ CLK	39	40
■ COU	62	64
■ CSD	701	721
■ DSD	335	344
■ FIR	1,847	1,901
■ HRD	125	129
■ LIB	367	375
■ MGR	102	105
■ PLA	271	279
■ POL	2,216	2,279
■ PWD	631	645
■ Total	7,134	7,332

DEFINITIONS

Present Value of Benefits





DEFINITIONS

■ Actuarially Determined Contribution (ADC)	■ Contribution for the current period including: • Normal Cost • Administrative expenses • Amortization of: □ Initial Unfunded AAL □ AAL for plan, assumption, and method changes □ Experience gains/losses (difference between expected and actual) □ Contribution gains/losses (difference between ADC and actual)

City of Palo Alto

(ID # 14502)

Finance Committee Staff Report

Meeting Date: 6/7/2022 **Report Type: Action Items**

Title: Supplemental Report - Item #3 Finance Committee 6/7/2022, Accept June 30, 2021 Actuarial Valuation of Palo Alto's Retiree Healthcare and Other Post Employment Benefits, Approve Annual Actuarially Determined Contributions for Fiscal Years 2023 and 2024, and Affirm Additional Payments to Employers' Benefit Trust Fund

From: City Manager

Lead Department: Administrative Services

Subsequent to the issuance of staff report #14112, staff recognized an error throughout the staff report that misstated the discount rate for the City's California Employers' Retirement Benefit Trust (CERBT Fund) at 6.75 percent for a Strategy 1 asset allocation; this is the current strategy selected by the City. CERBT and the City's Actuarial Consultant Bartel and Associates have reduced this discount rate from 6.75 to 6.25 percent since the issuance of the last actuarial report and used for this June 30, 2021 valuation. The calculations in the attachment of the original staff report remains complete and accurate. This report is being reissued to correct for this error and has been redlined to identify areas that have been revised. These changes do not impact actuary results, however, include revisions to the staff recommended funding alternatives. Below is a complete revised recommendation for the Finance Committee's review:

Staff recommends that the Finance Committee recommend the City Council:

1. Review and accept the June 30, 2021 actuarial valuation of Palo Alto's Retiree Healthcare Plan;
2. Approve full funding of the annual Actuarial Determined Contribution (ADC) for Fiscal Year 2023 and Fiscal Year 2024 using the staff recommended adjusted assumptions; and
3. Affirm the continued the practice of transmitting amounts at a lower discount rate, 5.75 percent, as an additional discretionary payment to the City's California Employers' Retiree Benefit Trust (CERBT) Fund.

Overall, the revised Table 1 below provides a summary of the corrected potential funding options, as reflected throughout the redlined report:

Table 1: REVISED Funding for the FY 2023 OPEB Obligations

		FY 2023 OPEB Funding	*$ Change*
FY 2023 Proposed Budget (based on June 30, 2019 valuation)		$16.9M	-
Recommended Funding Adjusted Assumptions	• Zero percent return 2021-22 • Proactive contribution at lower discount rate of 5.75 in ADC • Shorten Amortization period (from 22 to 15 years) • Additional funding for FY 2023 Proposed staffing	$16.3M	*($0.6M)*
Alternative: Baseline	• Current approved funding levels, assuming a 6.25 discount rate • No proactive contribution at lower discount rate • Assumed earnings in 2021-22 at planned levels (6.25)	$11.4M	*($5.5M)*

*Approximately 65 percent of costs are allocated to the General Fund.

Attachments:

- Attachment A: Corrective Redlined Staff Report #14112

City of Palo Alto (ID # 14112)

Finance Committee Staff Report

Meeting Date: 6/7/2022 **Report Type: Action Items**

Title: Accept June 30, 2021 Actuarial Valuation of Palo Alto's Retiree Healthcare and Other Post Employment Benefits, Approve Annual Actuarially Determined Contributions for Fiscal Years 2023 and 2024, and Affirm Additional Payments to Employers' Benefit Trust Fund

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends that the Finance Committee recommend the City Council:

1. Review and accept the June 30, 2021 actuarial valuation of Palo Alto's Retiree Healthcare Plan;
2. Approve full funding of the annual Actuarial Determined Contribution (ADC) for Fiscal Year 2023 and Fiscal Year 2024 using the staff recommended adjusted assumptions; and
3. Affirm the continued the practice of transmitting amounts at a lower 5.75~~6.25~~ percent discount rate as an additional discretionary payment to the City's California Employers' Retiree Benefit Trust (CERBT) Fund.

EXECUTIVE SUMMARY

In accordance with the Governmental Accounting Standards Board (GASB), the City Council is required to review and approve the actuarial valuation for retiree healthcare plan on a bi-annual basis for the upcoming two fiscal years and approve funding of the annual Actuarial Determined Contribution (ADC). This current study presents the fund's status as of June 30, 2021 and will be used to inform the FY 2023 and FY 2024 annual operating budgets. This report was finalized after the development of the FY 2023 Proposed Budget. Therefore, funding levels in the FY 2023 Proposed Budget reflect the out years of the prior study completed on June 30, 2019 (CMR 11284). Funding levels recommended by the Finance Committee as part of this discussion will be included as an amendment to the FY 2023 Proposed Budget and included for City Council adoption of the budget on June 20, 2022.

The City continues to selecta Strategy 1 asset allocation, currently projected at a ~~6.75~~ 6.25 percent discount rate for the California Employers' Retirement Benefit Trust (CERBT) Fund, managed by CalPERS. Beginning with the June 30, 2019, valuation (CMR 11284), the City Council directed staff to calculate additional discretionary payments ("prefunding") equivalent to a 6.25 percent discount rate and transmit amounts above payments at a 6.75 percent discount rate to the CERBT Fund. The CERBT was subsequently reduced from 6.75 percent to 6.25 percent; therefore, this new target beginning with the June 30, 2021 valuation, is in-line with the prefunding assumptions used in the prior valuation. Through FY 2022, a total of $3.5 million in additional contributions are expected to be made to the CERBT.

The June 30, 2021, valuation includes several changes that have favorably impacted the CERBT fund status, primarily due to healthcare and economic fluctuations resulting from the COVID-19 pandemic and continued proactive funding contributions:

- 2020-21 investment returns of 27.5 percent (~~6.75~~ 6.25 percent target);
- Lower than anticipated healthcare premiums; and
- Accumulated contributions (full ADC payments and prefunding)

These favorable changes are advised to be taken in consideration of an uncertain environment. Current portfolio earning is not expected to meet target return this year (FY 2022) and it is not known whether the recent change in healthcare premiums will be ongoing or an anomaly due to the significant governmental support of healthcare costs over the past two years. Because we do not know whether these favorable changes are the beginning of a trend, or merely a temporary anomaly, this report includes several options to fund Other Post-Employment Benefit (OPEB) obligations for Finance Committee review and discussion beyond the typical recommended "baseline" strategy.

- *Recommended Funding:* consider alternative assumptions that are intended to better align with the current economic outlook and proactive funding of long-term liabilities.
- *Alternative 1 ("baseline")*: reflects the ADC for current City Council approved funding levels and actuary assumptions.

The below table provides a summary of the options and a comparison of costs to the FY 2023 Proposed Budget in all funds. A more detailed discussion of these options is included in this report. All options reflect expected savings when compared to assumptions currently built in the FY 2023 Proposed Budget as reviewed by the Committee in May. Staff recommends that any savings remain unallocated and fall to respective funds fund balance/reserves based on standing policies, unless otherwise directed.

Table 1: Funding for the FY 2023 OPEB Obligations

		FY 2023 OPEB Funding	*$ Change*
	FY 2023 Proposed Budget (based on June 30, 2019 valuation)	$16.9M	-
Recommended Funding Adjusted Assumptions	• Zero percent return 2021-22 • Proactive contribution at lower discount rate of ~~6.25~~5.75 in ADC • Shorten Amortization period (from 22 to 15 years) • Additional funding for FY 2023 Proposed staffing	~~$14.6M~~ $16.3M	~~*($2.3M)*~~ *($0.6M)*

Alternative: Baseline	• Current approved funding levels assuming a 6.25 percent discount rate • No p~~P~~roactive contribution at lower discount rate ~~of 6.25 in ADC~~ • Assumed earnings in 2021-22 at planned levels (6.25 percent)	~~$12.3M~~ $11.4M	~~($4.6M)~~ ($5.5M)-

*Approximately 65 percent of costs are allocated to the General Fund.

BACKGROUND

The City of Palo Alto offers its employees and retirees a Retiree Healthcare benefit plan which is managed and administered by the California Public Employees' Retirement System (CalPERS), a State of California Retiree Healthcare Trust program. Bi-annually staff contracts with an actuary firm that provides an actuarial report detailing the latest status of the City of Palo Alto's Retiree Healthcare plans for employees and retirees. The actuarial report is used to calculate the annual ADC to the trust. In addition, updates on the rate of return, funding status, and changes to the trust based on various impacts are detailed in the report. Unlike the pension actuary reports, this actuary details impacts by Fund, Department, Employee Group, and Healthcare Plans selected.

There are four groups of benefits within the CalPERS Retiree Healthcare benefit plans. Table 1 below outlines the different benefits levels by Group. These benefit levels are negotiated and approved as part of the employee contracts. Employees and retirees have an open enrollment window in October each year in which they can make changes to their healthcare plans that take effect in January of the following year.

Table 2: City of Palo Alto Retiree Healthcare Benefit Plans and Tiers

	Miscellaneous	Safety: Fire	Safety: Police
Group 1	Retired before January 1, 2007; eligibility starting at the age 50 and 5 years of service; full premium up to family coverage	Retired before January 1, 2007; eligibility starting at the age of 50 and 5 years of service; full premium up to family coverage	Retired before March 1, 2009; eligibility starting at the age of 50 and 5 years of service; full premium up to family coverage
Group 2	Retired between January 1, 2007 and May 1, 2011; eligibility starting at the age 50 and 5 years of service; same as Group 1, but premium limited to 2nd most expensive medical plan	Retired between January 1, 2007 and December 1, 2011; eligibility starting at the age 50 and 5 years of service; same as Group 1, but premium limited to 2nd most expensive medical plan	Retired between March 1, 2009 and April 1, 2015 (POA), between January 1, 2007 and June 1, 2012 (PMA) ; eligibility starting at the age 50 and 5 years of service; same as Group 1, but premium limited to 2nd most expensive medical plan
Group 3 (Retirees)	Retired after Group 2, did not elect into Group 4, benefit same as active employees		
Group 3 (Active EEs)	Currently active, not in Group 4. Flat Dollar Caps equal to actives	N/A (All active Group 3 IAFF & FCA elected into Group 4)	N/A (All active Group 3 POA & PMA elected into Group 4)
Group 4	Vesting Schedule: 10 years gets 50%, 20 years gets 100%, formula amount	Vesting Schedule: 10 years gets 50%, 20 years gets 100%, formula amount	Vesting Schedule: 10 years gets 50%, 20 years gets 100%, formula amount

CalPERS Projected Contribution Levels
The actuary report has two components to the annual billing of the employer portion of retiree healthcare contributions that comprise the Actuarial Determined Contribution (ADC), 1) the Normal Cost (NC), and 2) the Unfunded Actuarial Accrued Liability (UAAL).

- *NC:* This reflects a rate of contribution for the plan of retirement healthcare benefits provided to current employees based on the current set of assumptions.

- *Employer Amortization of UAAL:* This is an annual payment calculated to pay down an agency's unfunded accrued liability. Assuming every assumption in the actuarial valuation was accurate, an organization would eliminate its unfunded pension liability if it made these payments annually for 30 years. The City Council approved a closed period to amortize the entire net pension liability over a specific timeframe, and 22 years of payments remain as of June 30, 2021. The total liability will vary from one year to the next because of assumption changes and actuarial experience that is different from anticipated, such as actual investment returns that do not meet expectations.

As established by the City Council, the City's CERBT Fund is invested in a Strategy 1 asset allocation at a ~~6.75~~ 6.25 percent discount rate. Beginning with the June 30, 2019, valuation (CMR 11284), consistent with the City's proactive pension funding policy, the City Council approved the calculation of ADC at a lower 6.25 percent discount rate, transmitting the amounts above a 6.75 percent discount rate as an additional discretionary payment ("prefunding") to the CERBT Fund. Other proactive measures to mitigate the increasing costs of healthcare plans for current and future retirees include cost sharing with employees, capping the plans covered, and establishing a flat contribution that can be adjusted with each labor agreement for active employees.

The City's CERBT Fund was established in May 2008 at a level of $33 million and it has grown to $164 million as of March 31, 2022.

DISCUSSION

Summary of Actuarial Report June 30, 2021
Staff contracted with Bartel Associates, LCC (BA) for this retiree healthcare actuarial report (Attachment A) to determine the City's retiree healthcare liability and the ADC for Fiscal Years 2023 and 2024. The actuarial analysis is based on current employees' accrued benefit, and retired employees as of June 30, 2021.

This updated valuation includes several changes that have favorably impacted the CERBT fund status, primarily due to healthcare and economic fluctuations resulting from the COVID-19 pandemic. Most notably, investment returns for 2020-21 reached an unprecedented level of 27.5 percent for the period. This level of return had a significant impact on the overall status of the fund and is not expected to continue in future periods. Healthcare premiums were lower than anticipated likely due to government funding of pandemic-related healthcare costs, deferral of individual healthcare visits during the pandemic due to personal safety decisions and public health orders and use of CalPERS reserves to keep premiums down.

The full impact on healthcare costs resulting from the pandemic is yet to be determined and is expected to be factored into future valuation reports based on actual experience in costs. As an actuarial study, the calculation is based on the information at this time, which reflects this significantly lower cost. Staff and Bartel Associates are skeptical on the longevity of these lower costs, versus the immediate result of the variables noted previously.

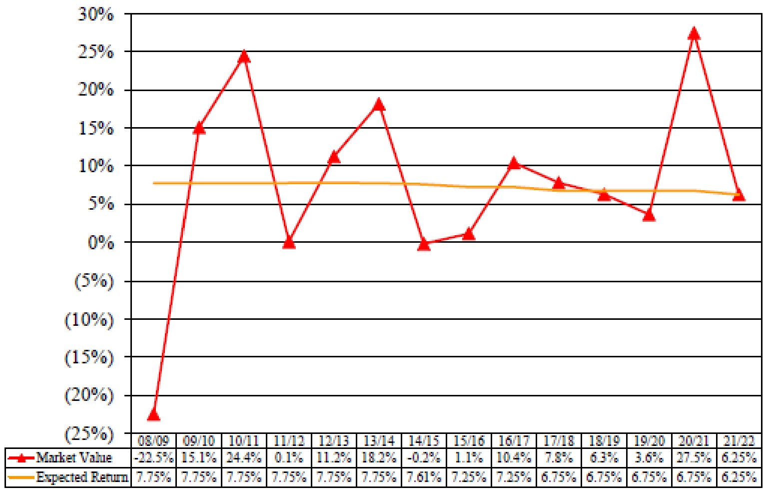
Beginning with this valuation, based on the favorable changes, baseline projections reflect accumulated contributions to the CERBT may be used to pay a portion of the annual retiree medical costs. This is a result of asset growth, where returns generated on higher asset levels are sufficient to contribute toward a portion of the annual benefit payments. The ability to use returns for this purpose is a goal of the prefunding strategy and a sign that a good practice is in place. Achieving this status was anticipated to occur as a result of prefunding, however, has occurred sooner than anticipated due to the favorable impacts discussed above.

Discount Rate Assumptions

The City Council has taken great interest to ensure long-term liability assumptions and costs for pension and OPEB are being proactively addressed, including the adoption of a Pension Policy that assumes a 6.2 percent discount rate for pension costs compared to CalPERS rate of 7.0 percent (CMR 11722) and starting in FY 2023 a potential phased-in reduction to 5.3 percent or alternative rate as designated by Council, to better align with market survey results included in the most recent CalPERS Asset Liability Management (ALM) study. Additionally, the City Council has taken actions to invest at an estimated discount rate for OPEB of 6.75 percent and transmit additional contributions to prefund OPEB obligations at the equivalent of a 6.25 percent discount rate. The CERBT has subsequently reduced the discount rate from 6.75 to 6.25 percent; therefore, no prefunding is necessary to meet this target beginning with the June 30, 2021 valuation. Through FY 2022, a total of $3.5 million in additional contributions are expected to be contributed to the CERBT.

Discussed above, the ADC is impacted when actual experience differs from assumptions. One of the more significant impacts to ADC occurs when actual investment returns do not meet expectations. The following graph presents historical returns, looking back to 2008-09.

Figure 1: Historical Returns of the OPEB Trust
(Market Value of Plan Assets (MVA) and Expected Return)



<u>Projected Unfunded Actuarial Accrued Liability</u>

This actuarial report includes the plan's "Funded Status." As of June 30, 2021, the CERBT Trust is funded at 70 percent, up 1,200 basis points from 58 percent in the June 30, 2019 actuarial valuation.

As of June 30, 2021, the Unfunded Actuarial Accrued Liability (UAAL) was $80.0 million for all funds and $51.5 million for the General Fund. Beginning with the June 30, 2013 valuations, the City aligned its actuarial analysis to align with GASB's rules regarding the "implied subsidy". The calculation of implied subsidy requires an agency to recognize that it pays the same medical premiums for active employees as those that are retired. The implied subsidy identifies and accounts for the agency paying the same blended premium for both active employees and retirees, even though the medical cost for active employees is lower than retirees.

Palo Alto had 874 active employees and 1,009 retirees as of June 30, 2021. The calculation increases the UAAL by $15.1 million or 18.9 percent; without the implied subsidy the UAAL for all funds would be at $64.9 million.

Table 3: Unfunded Actuarial Accrued Liability (UAAL)

	As of June 30, 2019*	As of June 30, 2021	Projected June 30, 2022
Citywide – UAAL	$122,972	$80,027	$76,159
General Fund – UAAL	$82,624	$51,522	$49,032
Funded Ratio)	49.0%	67.2%	70.0%
Citywide UAAL % Change from prior valuation		*-35.0%*	*-38.1%*
* The June 30, 2019 values are based on a 6.75 percent discount rate. Beginning June 30, 2021, the discount rate has been reduced from 6.75 to 6.25 percent			

<u>Sensitivity Analysis: Discount Rate and Amortization Period</u>

CalPERS recognizes the varying assumptions that may impact a plan's unfunded actuarial accrued liability and therefore a retiree healthcare plan's funding status, especially the implications of the discount rate and amortization assumptions. Therefore, in addition to the actuarial assumptions used to develop this annual evaluation, BA includes a sensitivity analysis of the retiree healthcare plan. Table 4 below reflects the impact on UAAL resulting from a reduction in the discount rate. Table 5 reflects the impact on ADC if the UAAL is amortized over different timeframes. It should be noted that the Council has adopted a Pension Funding Policy seeking to reach a 90 percent funded level in what remains to be approximately 14-15 years, a shorter period that the sensitivity scenarios below.

Table 4: Discount Rate Sensitivity

	6.25% (Current)	5.75%	5.25%
Citywide – UAAL	$80,027	$94,571	$110,567
General Fund – UAAL	$51,522	$60,886	$71,184
Funded Ratio	67.2%	63.4%	59.8%

Table 5: Amortization Sensitivity

	22 Years (Current)	20 Years	18 Years
Normal Cost	$6,316	$6,316	$6,316
UAAL Amortization	$5,112	$5,459	$5,887
Total ADC	$11,428	$11,775	$12,203
ADC (% of payroll)	10.3%	10.6%	11.0%
* Includes administrative expenses			

Funding for the FY 2023 Including Actuarial Determined Contribution (ADC)

This section outlines staff's recommended funding level for OPEB obligations beginning in FY 2023 for Finance Committee review and discussion and an alternative. Due to the uncertainties noted previously that are unique to this report and given the limited data on the impacts of COVID-19, staff recommend alternatives assumptions that are rooted in the City's Pension Funding Policy, may be adjusted later in a subsequent fiscal year, and position the City to smooth potential volatility in projected liabilities. A key result of the recovery period as the pandemic moves into an endemic is a need to foster and work towards stability as an organization; this stability helps ensure continued focus on high priority projects, supports recruitment and retention efforts in a competitive labor market, and ensures a readiness and nimbleness to adapt to changes. Acknowledging these lessons, staff recommends the Finance Committee consider an alternative funding approach that adjusts assumptions based on current data and the principles noted above. Staff have also outlined an alternative, or "baseline" scenario for consideration. This funding level may be adjusted annually based on City Council direction, so long as the baseline ADC is met.

Staff Recommended Funding for FY 2023 OPEB Obligations

Staff recommend adjusting funding from the typical baseline calculation to better align with the current economic outlook, the current instability in the assumptions used to calculate the baseline and continue to proactively fund long-term liabilities. Recommended revisions to baseline assumptions include:

- *Assume a zero percent investment return for the current 2021-22 period:* The most recent March 31, 2022 quarterly report from CERBT reported year-to-date investment returns of negative 1.39 percent as compared to a ~~6.75~~ 6.25 percent target. This scenario assumes investment returns of zero percent for the period ending June 30, 2022 to hedge against returns that may not be realized.
- *Exclude proactive contributions at a lower discount rate towards the ADC:* Consistent with the pension proactive funding, this would treat the proactive contributions assuming a lower discount rate of ~~6.25~~ 5.75 as if in a separate “trust” or “saving account.” ADC calculations will remain at consistent levels and these proactive contributions remain additive to baseline calculations of liability.
- *Assume a shortened amortization period from 22 to 15 years:* This change in the amortization period will more closely align OPEB with the City’s Pension Policy goals to reach a 90 percent funded status over 15 years (by FY 2036). The City Council previously approved a 30-year closed amortization period of which 22 years remain as of June 30, 2021.
- *Assume additional normal costs or “pay-go” costs:* Adjust funding to include costs for the recommended additional staffing as approved or being considered for approval in FY 2023.

This option results in an FY 2023 Proposed ADC of ~~$14.6~~ $16.3 million citywide (~~$9.2~~ $9.9 million in the General Fund), a ~~$2.3~~ $0.6 million reduction from the $16.9 million ADC in the FY 2023 Proposed Operating Budget.

Baseline

The baseline calculation reflects standard actuarial calculations and existing City Council direction assuming the Strategy 1 asset allocation at a ~~6.75~~ 6.25 percent discount rate.~~,~~ Since this rate reflects the 6.25 percent discount rate approved by the City Council to assume ~~and~~ for additional discretionary payments to the CERBT Fund ~~at the equivalent of a 6.25 percent discount rate~~, no additional prefunding payments are assumed in the baseline calculation. Unlike the CalPERS pension plan, additional City contributions do not go into a separate Section 115 trust; instead, they remain in the plan and are included as assets in the CERBT each subsequent year, impacting the calculation of the ADC. This treatment of prefunding contributions included in assets and effectively reduce the ADC each future year.

~~At the request of staff, BA included an adjusted calculation to exclude the additional 6.25 contributions in ADC calculations to ensure consistent treatment as the Pension 115 Trust Fund. The exclusion of this additional contribution from ADC will ensure that the City maintains prefunding at consistent levels, similar to how contributions are made to the Pension Trust.~~

Overall, this baseline reflects an FY 2023 Proposed ADC of ~~$12.3~~ $11.4 million citywide (~~$7.7~~ $7.1 million in the General Fund), a ~~$4.6~~ $5.5 million reduction from the $16.9 million ADC in the FY 2023 Proposed Operating Budget.

FY 2023 Proposed Staffing Additional Normal Cost Contributions
To be factored in all calculations of funding for FY 2023 is the potential addition of nearly 60 full-time staff since the June 30, 2021 valuation date: 20 full-time positions during FY 2022, and nearly 40 full-time positions in the FY 2023 Proposed Budget (mostly in the General Fund). As reported in this valuation, the average salary of active employees is approximately $120,000 and the variable portion of ADC, or normal cost for current employees, is 5.6 percent of payroll. Under these assumptions, the retiree healthcare cost of the additional staffing is approximately $400,000. Staff recommends that this associated retiree health cost be included in the final budget for Council consideration for FY 2023 adoption in alignment with the assumptions in the recommended option above.

Stakeholder Engagement
The transmittal of the actuarial valuation as of June 30, 2021 begins conversations regarding the fiscal outlook for the City's OPEB liabilities and the appropriate contribution for the FY 2023 Actuarial Determined Contribution. Public discussion will be held with the Finance Committee on June 7, 2022, prior to City Council review and adoption of the FY 2023 Budget, currently scheduled for June 20, 2022.

Resource Impact
The FY 2023 Proposed Budget includes an ADC of $16.9 million, an increase of $0.5 million from FY 2022 Adopted levels of $16.4 million. Staff recommendations in this report result in funding levels of ~~$14.6~~ $16.3 million, a net savings of ~~$2.3~~ $0.6 million from the FY 2023 Proposed Budget in all funds. Funding levels recommended by the Finance Committee will be included as an amendment to the FY 2023 Proposed Budget for City Council adoption of the budget on June 20, 2022. Staff will incorporate this direction on an ongoing basis beginning in FY 2024.

Future funding is subject to City Council approval through the annual budget process. The recent market fluctuations and overall impact of the current pandemic are yet to be fully realized. These reports are calculated bi-annually and reflect market conditions at that point in time. This Trust experienced gains in this most recent report, however, will continue to be closely monitored.

Environmental Review
This report is not considered a project for the purposes of the California Environmental Quality Act (CEQA). Environmental review is not required.
Attachments: