

**LODI CITY COUNCIL
SHIRTSLEEVE SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, APRIL 9, 2013**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, April 9, 2013, commencing at 7:00 a.m.

Present: Council Member Hansen, Council Member Johnson, Council Member Mounce, Mayor Pro Tempore Katzakian, and Mayor Nakanishi

Absent: None

Also Present: City Manager Bartlam, City Attorney Schwabauer, and City Clerk Johl

B. Topic(s)

B-1 Discuss Other Post Employment Benefits (CM)

Deputy City Manager Jordan Ayers provided a PowerPoint presentation regarding Other Post Employment Benefits (OPEB). Specific topics of discussion included what is OPEB, auditor's finding and recommendation, actuarial valuation, accounting requirements, June 30, 2012 disclosures, OPEB history, current process, and options for consideration.

In response to Mayor Nakanishi, Mr. Ayers stated there are 92 eligible employees for sick leave conversion.

In response to Council Member Mounce, Mr. Ayers stated the Governmental Accounting Standards Board (GASB) under GASB 45 requires that an agency show the unfunded liability but it does not require that the liability be funded.

In response to Council Member Johnson, Mr. Ayers stated the City's auditors understand the City's desire to show the lump sum of the unfunded liability for transparency although they still prefer that the liability be shown separately in each department's budget.

In response to Council Member Hansen and Council Member Mounce, Mr. Ayers confirmed that the mandate requires that the liability be shown regardless of whether it is shown as one lump sum or departmentally.

In response to Mayor Nakanishi, Mr. Ayers stated that health care costs affect the discussion based on the option selected for sick leave conversion and the annual Consumer Price Index adjustment.

In response to Council Member Mounce, Mr. Ayers stated there are 92 current eligible employees, some may terminate service prior to retirement, and currently a pro rata share is allocated to the departments.

In response to Mayor Pro Tempore Katzakian, City Manager Bartlam confirmed that the scenario is similar to having a 30-year mortgage on a home with an adjustable interest rate.

In response to Council Member Hansen, Mr. Ayers stated the actuarial does take into account retirees who pass on.

In response to Mayor Nakanishi, Mr. Ayers stated the entire program consists of 162 retirees that

are currently drawing and 92 current employees that are eligible to draw upon retirement.

In response to Council Member Mounce, Mr. Ayers stated in light of the recent GASB 68 statement he does not anticipate the Board to change its stance on showing the liability versus funding the liability.

In response to Council Member Hansen, Mr. Ayers stated surrounding communities, with the exception of Elk Grove which has been partially funding the liability since its inception, are generally handling the situation in the same manner as Lodi.

In response to Mayor Nakanishi, Mr. Ayers stated that one option for sick leave conversion upon retirement is to receive a \$115 monthly amount payable to CalPers for continued health coverage through CalPers.

In response to Council Member Mounce, Mr. Ayers stated the actuarial is done every two years for approximately \$7,000 to \$8,000 and currently the amounts are known for 2013 and 2014 but not 2015.

In response to Mayor Nakanishi, Mr. Bartlam stated General Fund departments may or may not be able to bear the burden of additional cuts in their operating budgets to fund this liability.

In response to Council Member Mounce, Mr. Bartlam confirmed that the existing reserve funds could be used to cover the OPEB liability in the case of an emergency.

Council Member Hansen and Mr. Bartlam had a brief discussion regarding the accuracy of the unfunded liability amount and determining that amount through the actuarial process.

In response to Council Member Hansen, Mr. Ayers confirmed that GASB would only allow an irrevocable third party trust and not a revocable trust.

In response to Council Member Johnson, Mr. Ayers stated a third party trust would provide more flexibility for investing, including dividend paid stocks, than direct investment of pooled cash.

A brief discussion ensued between Mayor Nakanishi, Council Member Hansen, and Council Member Johnson regarding the benefits and burdens of third party investing versus direct investing, stating any process would include the creation of a carefully reviewed and monitored investment policy.

In response to Mayor Nakanishi, Mr. Bartlam stated the CalPers trust is different from CalPers retirement and he would prefer not to have CalPers investing the City's money for the OPEB liability.

The City Council engaged in a general discussion regarding the effect on General Fund departments of funding the liability, potential of a contingency set aside to fund the liability over an extended period of time, additional CalPers retirement liabilities expected over the next five years, the auditors preference for the liability to be shown departmentally versus a lump sum, and the options for a mutually-agreed upon solution that does not burden the operating budget for services from the departments.

Ed Miller suggested that a hybrid approach with partial third party trust investment at a higher return rate and partial reserve amount set aside may be the solution.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:10 a.m.

ATTEST:

Randi Johl
City Clerk



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Discuss Other Post Employment Benefits

MEETING DATE: April 9, 2013

PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: Discuss Other Post Employment Benefits.

BACKGROUND INFORMATION: During the presentation of the Comprehensive Annual Financial Report (CAFR) for FY 2011/12, it was noted that our auditors made a recommendation that the City develop a plan to charge departments for Other Post Employment Benefits (OPEB) so as to reduce, and eventually eliminate, the deficit net assets position in the Benefits Fund. Staff indicated that the issue would be brought forward each budget cycle for Council consideration.

OPEB costs represent post-employment benefits payable to retirees and their beneficiaries. Costs generally fall into two categories: payment of health care premiums and statutory minimum required payment for all retirees/beneficiaries choosing health care through CalPERS. An actual valuation of the potential liability is performed every two years. This actuarial valuation determines the liability that the City must record and the annual OPEB cost. Historically, the City has recorded the actuarially-calculated liability and charged the departments for the actual cost paid during the year, which is an amount lower than the actuarially-calculated annual OPEB cost. As a result, the fund shows a growing deficit because the charges out to departments are less than the actuarially-calculated annual cost.

At June 30, 2012, the Benefits Fund reported a deficit net assets position of \$3.6 million, all due to OPEB. Staff will provide options for Council consideration to begin reducing this deficit.

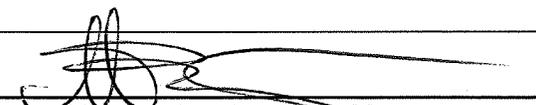
FISCAL IMPACT: Dependant upon Council direction.

FUNDING AVAILABLE: Dependant upon Council direction.


Jordan Ayers
Deputy City Manager

JA/ja

APPROVED:


Konradt Bartlam, City Manager



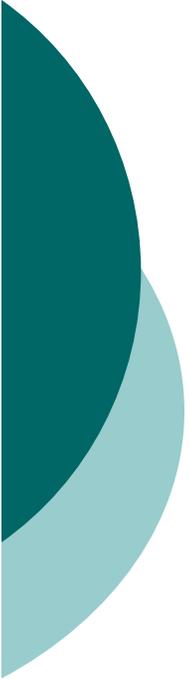
Other Post Employment Benefits (OPEB)

City Council Shirtsleeve
April 9, 2013



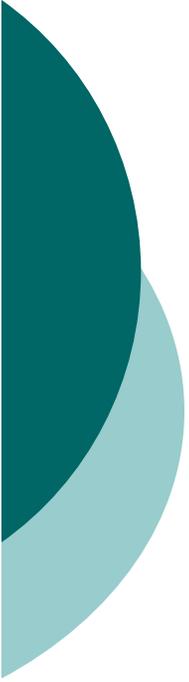
What is OPEB?

- Liability to the City for post-employment benefits payable to retirees and beneficiaries
 - Sick Leave Conversion
 - Limited to employees hired before July 1, 1994 or 1995, depending upon bargaining unit
 - Finite group getting smaller each year
 - City minimum required payment to PERS for each retiree/surviving spouse for medical premiums



Auditor's Finding & Recommendation

- Finding: City isn't recovering expenses of its Benefits Fund
- Recommendation: City should develop a plan to begin charging departments their share of Benefit Fund expenses



Actuarial Valuation

- Every other year
 - Last done as of January 2012
- Multiple Assumptions
 - Discount Rate
 - Payroll Growth
 - Health Care Costs
 - Duration
 - 30-year amortization-closed period



Accounting Requirements

- Book net OPEB liability on face of statements
 - City uses Benefits Fund
- Footnote disclosure
- Required Supplemental Information

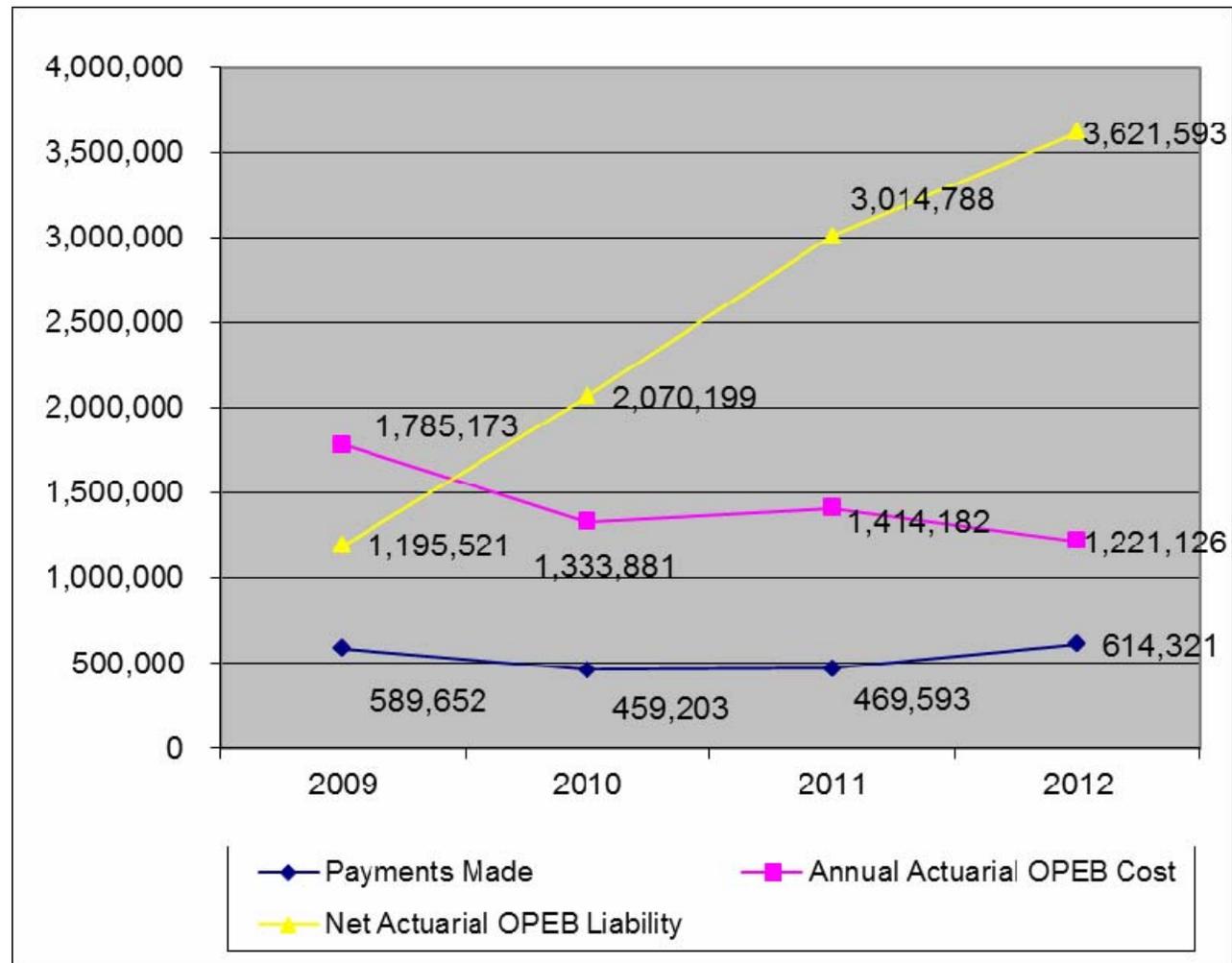
- Note: GASB requires calculation and recording of the liability
 - GASB does not require funding of the liability

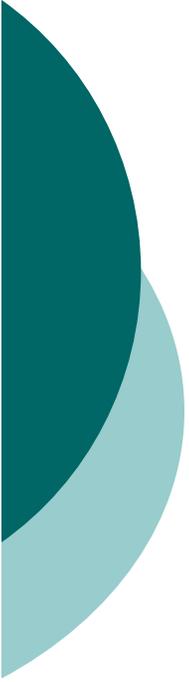


June 30, 2012 Disclosures

- Annual actuarial OPEB cost
 - \$1,221,126
- Payment made
 - \$614,321
 - SLC \$452,611
 - PERS Medical \$161,710
- Net actuarial OPEB Liability
 - \$3,621,593
- Unfunded actuarial accrued liability
 - \$17,011,467
 - SLC \$8,068,819
 - PERS Medical \$8,942,648

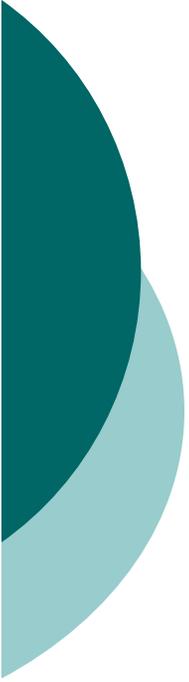
OPEB History





Current Process

- City charges departments for current year cost
 - \$614,321 for FY 2011/12
- Referred to as “Pay-as-you-go”
- Results in an increasing unfunded liability
 - Actual annual cost is covered
 - Liability is highly variable due to underlying actuarial assumptions



Options

- Continue pay-as-you-go processes
 - Advantages
 - Simplicity
 - Covers current year costs
 - Disadvantages
 - Actuarial liability likely to increase



Options

- Increase charges to departments to set aside funds to cover actuarial liability
 - Advantages
 - Reduces actuarial liability
 - Disadvantages
 - Budgetary stresses



Options

- Establish a trust with a third party and fund the actuarial liability
 - Advantages
 - Reduces unfunded actuarial liability
 - Professionally managed funds
 - Disadvantages
 - Budget stresses



Questions?
