Health Benefits Funding

- To fund benefits, departments are charged $1,875 per month for each active employee

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Active Employee Medical</td>
<td>$1,104</td>
</tr>
<tr>
<td>Retiree Medical (PayGo)</td>
<td>$653</td>
</tr>
<tr>
<td><strong>Total Medical</strong></td>
<td><strong>$1,757</strong></td>
</tr>
<tr>
<td>Active Employee Dental &amp; Vision</td>
<td>$118</td>
</tr>
<tr>
<td><strong>Total Per Employee</strong></td>
<td><strong>$1,875</strong></td>
</tr>
</tbody>
</table>

Health Benefits (Medical only)
Enrollment and Cost

- Active employees as of January 2009
  - Enrollment: 1,619 active employees
  - Monthly cost: $1,314,000
- Retirees as of January 2009
  - Enrollment: 830 retirees
  - Monthly cost: $715,500

In the future, a larger portion of the current budget will be required to pay benefits for people who are no longer providing services to the City.
What is GASB 45?

- Governmental Accounting Standards Board issued statement No. 45 (GASB 45) in June 2004
- Objective: Financial statements should reflect benefit costs as they are earned, not on a pay-as-you-go basis
- Establishes guidelines for calculating the City's annual required contribution (ARC) to fund the OPEB plan
- Required disclosure in the City's financial statements beginning in Fiscal Year 07-08

What is the Impact?

- Annual OPEB cost must be based on actuarially determined amounts, the same as PERS liability is calculated
- Unfunded actuarial liability is required to be amortized over future periods
- Must report OPEB costs in financial statements and disclose required amounts
- GASB 45 has resulted in a substantial increase in the annual expense recognized by the City for post-employment health care benefits
Options Available

- Continue to Pay-As-You-Go
- Undertake a Funding Program
- Establish a Qualified OPEB Trust

Continue to Fund OPEB on a "Pay-As-You-Go" Basis

Advantages
- City's financial resource can be deployed for immediate needs
- Other financial resources may become available in the future or benefits may be modified such that liability is reduced
- Federal insurance programs (i.e., Medicare Part D) may reduce future funding needs
Continue to Fund OPEB on a "Pay-As-You-Go" Basis

**Disadvantages**
- At some point pay-as-you-go contributions will become much more expensive than the annual required contribution (ARC)
- Failure to pre-fund increases risk that future benefits cannot be fully funded (costs are expected to rise exponentially)

Undertake a Funding Program

**Accumulate Moneys in a Special Reserve Fund within Treasury of City**

**Advantages**
- Preserve flexibility – money set aside may later be transferred for other City purposes

**Disadvantages**
- Contributions will not qualify toward the annual required contribution
- Investment limitations are imposed by government code and City Investment Policy
- Investment return will be lower than with an outside trust
Establish a Qualified OPEB Trust

- GASB 45 will only recognize an employer contribution if it is:
  - Irrevocably transferred to a qualifying Trust or equivalent
  - Solely used to provide OPEB benefits
  - Legally protected from creditors

Establish a Qualified OPEB Trust

**Advantages**
- Higher investment return assumption
- Lower unfunded actuarially accrued liability (UAAL)
- Lower annual required contribution
- Potential rating agency benefit
Establish a Qualified OPEB Trust

**Disadvantages**
- Difficulty in funding the annual required contribution
- Once funds are placed in the Trust they are no longer available for other City needs

Unfunded Actuarial Accrued Liability (UAAL)

<table>
<thead>
<tr>
<th>Pay-As-You-Go</th>
<th>Self-funded Plan</th>
<th>Qualified Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.5% Discount Rate</td>
<td>4.5% Discount Rate</td>
<td>7.0% Discount Rate</td>
</tr>
</tbody>
</table>

Unfunded Actuarial Accrued Liability $388.3 M $388.3 M $284.1 M

Source: GASB 45 Actuarial Valuation Report as of June 30, 2007
### Annual Required Contribution (ARC)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Discount Rate</strong></td>
<td>4.5%</td>
<td>4.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Normal Cost</strong></td>
<td>$17.8 M</td>
<td>$17.8 M</td>
<td>$10.6 M</td>
</tr>
<tr>
<td><strong>Catch-up Contribution for previously earned benefits</strong></td>
<td>$16.0 M</td>
<td>$16.0 M</td>
<td>$16.2 M</td>
</tr>
<tr>
<td></td>
<td>$33.8 M</td>
<td>$33.8 M</td>
<td>$26.8 M</td>
</tr>
</tbody>
</table>

Source: GASB 45 Actuarial Valuation Report as of June 30, 2007

### Net OPEB Obligation

<table>
<thead>
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</thead>
<tbody>
<tr>
<td><strong>Discount Rate</strong></td>
<td>4.5%</td>
<td>4.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Net OPEB Obligation</strong></td>
<td>$24.6 M</td>
<td>$24.6 M</td>
<td>$17.6 M</td>
</tr>
</tbody>
</table>

Source: GASB 45 Actuarial Valuation Report as of June 30, 2007
Recommendations

- Set up a plan to increase funding
- Work on negotiating structures that control liability in the future
- Explore establishing a Qualified Trust
Call to Order: 3:00 PM

Roll Call: 3:01 PM
Present:
Councilmember Holman
Vice Chair Miller
Chair Fritchens

Public comment - none

ISSUE(S) TO BE DISCUSSED: 3:01 PM

LINK TO 2009-04-20 Budget Finance Economic Development Committee Agenda PPS (PDF)

1. Department 2009-10 Budget Reviews 3:02 PM

Revitalization Department 3:02 PM

Dave Harzoff, Director of the Revitalization Department

Mr. Harzoff provided a staff report with the aid of a PowerPoint presentation (filed) and answered questions from the Committee.

Items discussed:
-Revitalization - General Fund

-City Manager J. Gordon Palmer, Jr. explained what other services covers.

Speaking to the Housing Grant Funds, Mr. Harzoff pointed out one significant change which was the elimination of 2 programs.
Two major loans were made for a total of $25M dollars from the Community Development Block Grant Program for the Hotel Stockton, the Cineplex, and the Marina.

Vice Chair Miller asked Mr Harzoff to identify what two programs were eliminated.

-Central Parking District
-400 E Main Street
-Redevelopment Agency

The Committee asked Mr. Harzoff if the General Fund monies go into these funds.

LINK TO 2009-04-20 Budget Finance Economic Development Committee Agenda Item 2 PPS - Revitalization Department (PDF)

3. Fee Schedule: Proposed Major Changes 3:12 PM

Gordon Palmer Jr., City Manager

City Manager J. Gordon Palmer, Jr. provided the proposed fee schedule. He explained the following:
-fee review process
-fee adjustments
-fees set by outside agencies
-departmental fee recommendations

City Manager Palmer, Jr. provided fee information for the following departments:

- Community Services
- Community Development
- Municipal Utilities Department
- Police Department
- Revitalization Department
- Other Departments

The following questions were posed relative to the Community Services Department:

-childrens museum birthday parties went up 8%
-possibility of a commissary at 400 E main use for meetings
-how does the City utilize facilities such as Billy Hebert field and does the fees from such activities bring in revenue to the city

The following question was posed relative to the Municipal Utilities Department:

-Stormwater inspections

The following question was posed relative to Special Events:

-what are the fee requirements for rental of a venue if it requires an electrician

LINK TO 2009-04-20 Budget Finance Economic Development Committee Agenda Item 3 PPS - Fee Schedule Proposed Changes (PDF)

Gordon Palmer Jr., City Manager

City Manager J. Gordon Palmer, Jr. summarized suggestions for revenue streams that were received from the staff and public.

LINK TO 2009-04-20 Budget Finance Economic Development Committee Agenda Item 3 PPS - Revenue Streams (PDF)

3. Budget vs. Actual for March 2009 and Expenditure Projection to 2008-09 Fiscal Year End 3:35 PM

Mark Moses, Director of the Administrative Services Department and Chief Financial Officer

Mr. Moses provided a report to the Committee with the aid of a PowerPoint presentation (filed) and answered the following questions from the Committee:

-are we going to see more catching up with the cuts
-towards the end of the year will expenses go up

LINK TO 2009-04-20 Budget Finance Economic Development Committee Agenda Item 1 PPS - Budget vs Actual for March 2009 and Expenditure Projection to 2008-09 Fiscal Year End (PDF)

4. Retiree Medical Benefits: Funding & Accounting 3:41 PM
Mark Moses, Director of the Administrative Services
Department and Chief Financial Officer

Gordon Palmer Jr., City Manager

Vice Chair Miller

Gordon Palmer Jr., City Manager
Chair Fitchen
Vice Chair Miller
Public Comments
Gary Malloy

Adjournment