



ESTABLISHED 1850

CITY OF VACAVILLE

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August 6, 2019

Honorable John B. Ellis, Presiding Judge
Solano County Superior Court, Dept. 23
Hall of Justice
600 Union Avenue, Room 306
Fairfield, CA 94533

Re: City of Vacaville Response to 2018-2019 Grand Jury Report "Survival of 'OPEB' Other Post-Employment Benefits"

Dear Judge Ellis:

The following is the City of Vacaville's response to the Grand Jury Report entitled *Survival of OPEB Other Post-Employment Benefits*.

Finding 1: *While the City of Vacaville made minor adjustments to the OPEB debt (with the most significant change affecting employees hired on or after December 2018), the cost for current employees and retirees still represents a significant financial threat to the City, which has not been sufficiently addressed.*

Response to Finding 1: The City of Vacaville disagrees partially with this finding, primarily the statement that only *minor adjustments* have been made to the OPEB debt. Since 2008, the City and employees have taken multiple steps to address the OPEB unfunded liability including:

- Reducing the City paid portion of health premiums from 100% to 85% of the Kaiser Bay Area health rate for current active employees and retirees.
- Establishing an irrevocable trust fund with CalPERS to prefund OPEB in 2009. The trust had an asset balance of over \$38 million as of the end of June 2019.
- Requiring employee contributions – currently \$50/month for non-safety employees and \$100/month for safety employees - to the OPEB trust fund.
- Adopting an OPEB funding policy with the goal of fully funding the annual actuarially determined contribution (ADC/formerly known as the ARC) by fiscal year 2020.
- Negotiating a greatly reduced retiree medical benefit – a majority of the benefit is a fixed dollar amount - for new hires.

The City's unfunded actuarial liability (UAL) as calculated by an independent actuary as of the end of June 2017 was \$82.8 million, an amount less than the City's UAL as of the end of June 2013 (\$92.9 million.)

Recommendation 1A: *Identify potential solutions to lower OPEB costs through updated policies and labor relations strategies. For example, negotiate and implement a fixed City contribution toward retiree healthcare rather than based on a percentage of the Kaiser Bay Area pricing.*

Response to Recommendation 1A: The City agrees with the recommendation of identifying potential solutions to lower OPEB costs through updated policies and labor relations strategies and has already implemented it. As stated in the response to Finding 1, the City and labor groups have continuously worked together to reduce the retiree medical benefit and increase the contribution towards the OPEB trust fund since 2008. The City adopted the OPEB funding policy in 2015 and has contributed an amount greater than the full ADC in fiscal years 2017-2018 and 2018-2019.

Recommendation 1B: *Establish a citizen oversight committee charged with studying OPEB and proposing recommendations to the Council.*

Response to Recommendation 1B: The implementation of a citizen advisory committee has not yet been implemented, but will be implemented in the future. Discussion of the structure and responsibilities/goals of the committee will be placed as an agenda item at a future council meeting within the next several months.

Finding 2: *Materials provided to the City Council by staff failed to adequately address the long-term financial impact on OPEB. The complexity of OPEB hinders the understanding by the decision-makers and stakeholders who may not be subject matter experts.*

Response to Finding 2: The City disagrees partially with this finding. While the City agrees with OPEB being a complex topic to understand, it does not agree that materials provided to the City Council by staff failed to adequately address the long-term financial impact on OPEB. A whitepaper on the impacts of the unfunded liabilities was presented to council in 2015, which resulted in the adoption of the OPEB funding policy later that year and the direction to create a new retiree medical tier for new hires, which was the focus of the most recent round of negotiations. In September 2018, the City's independent actuary, Milliman, presented the results of the most recent actuarial valuation.

Recommendation 2A: *Direct staff to include fiscal impact of changes and methodology used in determining the financial impact in simpler language.*

Response to Recommendation 2A: The recommendation has not yet been implemented, but will be implemented in future council presentations. Similar to the presentation of the 2017 OPEB actuarial valuation, the City will make a presentation to discuss the results of the 2019 OPEB actuarial valuation when it is presented to the City Council for receipt and acceptance later this fiscal year. The presentation will include an update on the City's UAL as of June 30, 2019, the reasons for the change in liability, and the impact the newly calculated ADC would have on the City's financial picture.

Recommendation 2B: *Prepare future communications for decision-makers and stakeholders in simpler language to better explain the magnitude of OPEB debt and potential impacts.*

Response to Recommendation 2B: See response to Recommendation 2A.

Finding 3: *The City of Vacaville has not followed the Other Post Retirement Funding Policy, which contains incorrect information. The City has not made adequate ARC contributions as specified in the Policy. The hardship provision does not adequately specify the recipient of the Council's recommendation.*

Response to Finding 3: The City partially disagrees with this finding. The City did not meet the ADC funding percentage goals as specified in the OPEB funding policy for fiscal years 2016 and 2017. In April 2015, prior to the adoption of the OPEB funding policy, the City had Milliman perform an analysis of achieving full ADC funding under five scenarios, ranging from three years to ten years. The City used the ADC figures from this analysis under the five-year scenario when funding the ADC for fiscal years 2016 and 2017. These amounts ended up being lower than the calculated ADC from the actuarial valuation which resulted in the City not meeting its ADC funding goals in these years. The City exceeded the ADC funding percentage goals for fiscal years 2018 and 2019. The City agrees with the finding related to the hardship provision.

Recommendation 3A: *Correct the Policy title to reflect "Post-Employment" rather than "Post Retirement."*

Response to Recommendation 3A: The recommendation has not yet been implemented, but will be implemented within the next several months.

Recommendation 3B: *Comply with the Other Post Retirement Funding Policy as to the percentage of ARC to be paid as set forth in the Policy.*

Response to Recommendation 3B: The recommendation has been implemented. Per the OPEB funding policy, the City should have contributed 80% of the ADC and 90% of the ADC in fiscal years 2018 and 2019 respectively. The City surpassed these funding goals by contributing over a 100% of the ADC in both years.

Recommendation 3C: *Clarify the hardship exemption in the Policy to provide a recipient for the City Council's recommendation.*

Response to Recommendation 3C: The recommendation has not yet been implemented, but will be implemented within the next several months to specify a recipient of the City Council's recommendation.

Finding 4: *Placing OPEB issues (such as healthcare premium rate changes) on the Consent Calendar hinders public awareness of and input to City Council decisions.*

Response to Finding 4: The City partially disagrees with this finding. Although there are items such as labor Memorandum of Understanding (MOU) that may affect OPEB which are placed on the Consent Calendar, OPEB is also discussed and presented outside of the Consent Calendar. The unfunded liabilities whitepaper, adoption of the OPEB funding policy, presentation of the last actuarial valuation, and fiscal year 2017-2018 budget update where an excess CERBT contribution was discussed are examples.

Recommendation 4: *Present issues pertaining to OPEB and retiree health premiums as separate agenda items.*

Response to Recommendation 4: The recommendation has not yet been implemented, but will be implemented in future council presentations. Specifically, new labor MOUs will no longer be placed on the Consent Calendar, but instead presented as a separate agenda item.

Finding 5: *Changes in health plan rates announced by CalPERS were not brought before the City Council and the public.*

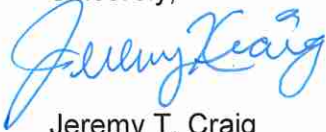
Response to Finding 5: The City agrees with this finding.

Recommendation 5: *Place changes in the City's contribution towards retiree healthcare and/or impact on OPEB liability on the agenda to be reviewed by the City Council in a public forum.*

Response to Recommendation 5: Changes to the City's contribution percentage towards active and retiree healthcare premiums are included on the agenda as part of the resolution approving a new labor MOU. As stated in the Grand Jury Report, the City contracts with CalPERS to obtain and administer healthcare for the City. The City has no involvement in negotiations of the health plan rates announced by CalPERS (i.e. the total healthcare premium) and these CalPERS rate changes are not required to be on the agenda, nor does the City have any authority to change the rates.

Please let me know if you have any further questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeremy T. Craig", is written over the typed name.

Jeremy T. Craig
City Manager