



CITY OF VACAVILLE



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Vice Mayor, District 2

Michael Silva
Councilmember, District 3

John Carli
Mayor of Vacaville

Sarah Chapman
Councilmember, District 4

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Councilmember, District 5

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Councilmember, District 6

September 11, 2024

Solano County
Civil Grand Jury
Hall of Justice
600 Union Avenue
Fairfield, CA 94533
(and via email to: cdclower@solano.courts.ca.gov)

Re: Response to the letter dated June 26, 2024 "2023-2024 Grand Jury Report Entitled: Is Vacaville Managing its Unfunded Liability Debt?"

To the Civil Grand Jury:

FINDING 1 – *Vacaville's OPEB Unfunded Liability Debt remains the largest in Solano County and threatens the stability of city services to its residents. There are no new ideas or public oversight at this time to resolve the debt issue. An OPEB Unfunded Liability Debt advisory committee no longer exists.*

RECOMMENDATION 1a – *The Vacaville City Council pursue new and creative ideas which include city employees and residents input aimed at decisions that reduce or eliminate the OPEB Unfunded Liability Debt.*

RECOMMENDATION 1b – *Form a committee, through the City Council, with authority to resolve the Unfunded Liability Debt. The committee should be chaired by a Vacaville resident and include residents as well as city staff.*

Response to Finding 1 and Recommendations 1a and 1b:

The City partially disagrees with Finding 1.

The City formed a committee to evaluate the OPEB liability and recommend strategies to the council and staff. The process allowed 4 members of the public to study the subject and direct access to internal and external professionals to gain a better understanding of the topic.

Recommendation 1b to reestablish the OPEB advisory committee will not be implemented as the recommendations of the committee have been addressed as explained below.

In 2019, a Solano County Grand Jury report was issued addressing the City of Vacaville's OPEB obligations. The report recommended the formation of an advisory group which the Council agreed with and approved formation of in late 2019.



The advisory group, made up of 4 members of the public appointed by the Council was chaired by the City Treasurer, then met eight times throughout 2020. The advisory group meetings explored many facets of OPEB and took an in depth and critical look into the topic. Many of the presentations and much of the information received was from outside professional resources brought in to present information to the advisory group while other presentations were from staff. The meetings included:

- 1/16/20: Introduction and overview of City's current OPEB – City staff presentation
- 1/27/20: Milliman actuary presentation by Erik Goodhart, Enrolled Actuary, Member of the American Academy of Actuaries, Associate of the Society of Actuaries
- 2/13/20: Alliant Insurance Services presentation and Q&A
- 3/12/20: PERS Health Program Consultation Services presentation by Shannon McKaughan from PERS Health Account Management Division
- 8/27/20: Review of 5-year budget forecast – City staff presentation
- 8/27/20: Review of Grand Jury report and responses – City staff presentation
- 9/10/20: Keenan and Associates (benefit and insurance broker/consultants) presentation and Q&A
- 9/10/20: EPIC Insurance Brokers & Consultants presentation and Q&A

The group presented their findings and recommendations to council in late 2020. The group's formation and final recommendations were formed shortly after Council had already directed staff to negotiate and implement a new tier of retiree medical. The advisory committee meetings and recommendations explored many of the same resources staff utilized prior to entering negotiations with labor groups ultimately resulting in establishment of the new tier and addressing the group's two recommendations at the time as follows:

Group Recommendation: **Sustainable Fiscal Plan**

The City agrees with communicating the use of General Fund dollars in an *open and honest manner*. As part of the development of the recently adopted fiscal year 2021-2022 budget, the City held two budget study sessions, a special Budget 101 session, and quarterly updates on the status of the General Fund. As part of these updates, staff provides a five-year General Fund forecast using available data at the time to project revenue and expenditure trends and the General Fund reserve to ensure services are available today and in the future. Regarding the City's General Fund reserves, current projections estimate the reserve to be around 50% over the life of the five-year forecast, much higher than the Government Finance Officers Association minimum recommendation of 15% of expenses. As mentioned in the response to Grand Jury Finding 1, staff will explore taking advantage of this strong reserve to establish a pension rate stabilization trust and making additional discretionary payments on the pension unfunded liability to save on interest costs.

Group Recommendation: **Defined Contribution Plan**

The newly established Tier 3 retiree medical structure for all new hires addresses this recommendation. While defined contribution is not usually a term utilized to describe medical benefits, the concept of having a clearly defined maximum benefit, and therefore cost, is realized with the Tier 3 structure.

Since the time the original Grand Jury Report on the City's OPEB was issued over five years ago, the unfunded liability has decreased from over \$124 million to \$74 million as of June 2023. The City fully funds its annual Actuarially Determined Contribution (ADC) amount – which isn't required, annually presents an update on its unfunded liabilities to Council and the public with an external actuary/subject



matter expert welcoming input and discussion on the topic and has implemented a retiree medical structure (Tier 3) that has reduced the amount of new liability growth experienced previously.

FINDING 2 – *Vacaville City Council has not been looking beyond CalPERS recommendations for health coverage, limiting other options that are available.*

RECOMMENDATION 2 – *Vacaville City Council should have staff research and present to the Council other health care choices.*

Response to Finding 2 and Recommendation 2:

The City disagrees with Finding 2 that it has not looked beyond CalPERS for health coverage.

The City of Vacaville has provided health insurance for active and retired employees since 1975. During that 49+ years, health premiums have increased exponentially nationwide. Over 300 cities in California contract with CalPERS for group health insurance. CalPERS health is the largest public employer purchaser of health benefits in California and the second largest employer purchaser in the nation after the federal government. CalPERS provides coverage to over 1.5 million members. CalPERS group health offers numerous plan options for employees and includes coverage for early (non-Medicare) retirees.

City staff has explored options other than CalPERS for health but, due to the aforementioned non-Medicare retirees, receives a “decline to quote” from vendors. CalPERS, being such a large purchaser of health for actives and all retirees does not face adverse selection as the City would trying to obtain health insurance with such a small population (800 vs. the 1.5 million under CalPERS health). The rates the City would receive would have to be high enough for the insurer to make a profit based on our census and therefore would be too costly for the City.

In 2005, recognizing the need for addressing the increasing costs and growing unfunded liability of this benefit, the Council directed staff to work with labor unions to find solutions and work toward a sustainable model and has continued that direction over the last 19 years. The City had paid for 100% of the benefit for actives and retirees to that point. After 30 years of providing that level of benefit the approach to make changes has been incremental but deliberate in assuring the City could still attract and retain the high level of talent the council and citizens expect while working toward a more sustainable benefit model. Between 2005 and 2017 the Council, staff, and all City labor unions accomplished:

- Three separate reductions of the City contribution to active and retiree health
 - 2009 – reduced from 100% to 95%
 - 2010 – reduced from 95% to 92%
 - 2016 – reduced from 92% to current 85%
- Establishment of an OPEB trust fund and implementation of active employee contributions directly into that trust
 - 2009 – \$25/mo employee contribution
 - 2015 – increase to \$50/mo from safety employees
 - 2016 – increase to \$75/mo from safety and \$50/mo from non-safety employees



- 2017 – increase to \$100/mo from safety employees
- As of June 30, 2021, the trust fund balance (including City and employee contributions) was \$61.5 million.
- Implementation of a vesting schedule - 2009
 - Prior to the vesting schedule, someone could come work for the City for 1 day and retire the next with full retiree medical benefits. The vesting schedule required a minimum of 5 years at the City of Vacaville to receive any level of retiree medical.
- Adoption of an OPEB funding policy – 2015
 - The policy established a goal of increasing the funding of the annual Actuarially Determined Contribution (ADC) in each successive year until reaching full funding of the ADC in 2020. The City was able to reach this goal of fully funding the annual contribution amount (ADC) in 2018 and has continued to do so every fiscal year since that time.

In 2018, the council recognized the need for more drastic changes to address OPEB and directed staff to negotiate a new, lower benefit tier for future hires during that year's upcoming round of contract negotiations with labor groups. At the conclusion of those labor negotiations, a new tier of retiree medical was established with a drastically reduced retirement benefit for non-safety employees hired on or after December 1, 2018, and safety employees hired on or after January 1, 2020.

Recommendation 2 will not be implemented as staff has previously presented options outside of PERS to the advisory committee (see response to Finding 1).

FINDING 3 – *The City of Vacaville has a current budget that is balanced and also has a healthy 40% reserve account which could provide funds to decrease the Unfunded Liability Debt.*

RECOMMENDATION 3 – *Vacaville City Council consider using the reserve account to reduce the OPEB Unfunded Liability Debt.*

Response to Finding and Recommendation 3:

The City agrees with the recommendation of considering the use of reserve funds to reduce the unfunded liability and has implemented this liability reducing strategy since 2022. In addition to fully funding its annual OPEB and pension ADCs, the City has also used \$9.8M in reserve funds to make additional payments, also referred to as ADPs, towards its pension unfunded liabilities to save on long-term interest costs. ADPs are voluntary and the City balances the use of them with the budget and other funding priorities. Additionally, the City also takes advantage of its strong cash reserves by prepaying its annual pension unfunded liability contribution at the beginning of the fiscal year rather than throughout the fiscal year; this strategy results in \$800K in interest cost savings each year.

FINDING 4 – *Some Special Pays are calculated into retiree pension funds, which increases the cost to the City.*



RECOMMENDATION 4 – *The City of Vacaville reduce the Unfunded Liability Debt by avoiding the inclusion of special pays when calculating retirement pensions.*

Response to Finding and Recommendation 4:

The City cannot agree with Finding or Recommendation 4. State law (Public Employees Retirement Law or PERL) dictates what compensation is included in calculating retirement pensions. Specifically, Government Code sections, 20630, 20636, 20636.1, 7522.34 and California Code of Regulations sections 571 and 571.1). The City does not make these determinations.

Sincerely,


John Carli, Mayor

Attachment: Request Response Letter from Solano County Grand Jury, dated June 26, 2024