



SOLANO COUNTY CIVIL GRAND JURY

Is Vacaville Managing its Unfunded Liability Debt?

July 1, 2024

Is Vacaville Managing its Unfunded Liability Debt?

Solano County Civil Grand Jury 2023-2024

I. SUMMARY

The City of Vacaville's Other Post-Employment Benefits (OPEB) / California Public Employees' Retirement System (CalPERS) accounts currently have grown to a combined Unfunded Liability Debt of \$373 million as of 2023. CalPERS was at \$218.5 million in 2022 and has risen to \$298.5 million in 2023. OPEB was \$68.1 million in 2022 and has risen to \$74.4 million in 2023. Overall, the increase is \$86 million. These figures, from the Finance Director, were provided at the February 27, 2024 report to the Vacaville City Council (see Appendix A). Other than the creation of a Tier for new employees, no effective action to reduce these debts has been taken since the last Civil Grand Jury report dated 2020-21. The focus of this report is to remind the City of Vacaville that they must reduce and eliminate these debts.

II. INTRODUCTION

In 2018-19 and 2020-21, the Solano County Civil Grand Jury issued reports investigating the City of Vacaville's Unfunded Liability Debt. Previously, Vacaville had employee Tiers 1 and 2. Responding to a prior Civil Grand Jury report, the City of Vacaville developed a Tier 3 for all new employees. This additional Tier was designed to eventually encompass all existing employees (See Appendix B-Tier descriptions). The number of employees currently belonging to Tier 1 has already been greatly reduced and almost eliminated. However, there are still a significant number of employees who are still in Tier 2. As it now stands, Tier 1 and Tier 2 employee benefits cost the City of Vacaville more than Tier 3 employee benefits. Vacaville residents have voiced concerns that city services and financial stability will be threatened if this situation is not resolved. Resident complaints sent to the 2023-2024 Civil Grand Jury requested the reopening of the investigation into City Council actions pertaining to OPEB/CalPERS.

III. STATEMENT OF FACTS

Vacaville's OPEB Unfunded Liability Debt remains the largest in Solano County at \$74.4 million. Vacaville residents have voiced concerns that city services and financial stability will be threatened if this situation is not resolved. As recommended in previous Civil Grand Jury reports, an Advisory Committee comprised of Vacaville residents was formed with the intent to create and present possible solutions to reduce this debt.

The City Council appointed the City Treasurer as committee chair. Agendas were prepared by city staff, and presentations were primarily given by city staff to the Advisory Committee. Residents say the Advisory Committee was controlled by the City and other Committee members had no real authority. The chairperson was the City Treasurer and he controlled input to the Committee. Members of the Committee as well as observers of the committee meetings stated that they were told "This is how the City has done things, and this is how they will be done in the future." Residents attending the Advisory Committee meetings agreed that there was no apparent intent by the City Council to solve the debt problems. Despite efforts, the Civil Grand Jury was unable to find any record of minutes from the eight meetings. Ten

recommendations to reduce the Unfunded Liability Debts were presented to the City Council by the Advisory Committee, however there was no vote taken by the City Council to approve or disapprove the recommendations.

Vacaville has two categories of employees: Safety and Non-Safety. Safety is comprised of fire and police. Non-Safety comprises the remainder of the employees. In addition to regular pay, there are 70 types of Special Pays available to employees, such as: Class A driver's license, clothing allowance, and shift differentials. Currently, some Special Pays are used by CalPERS as part of the calculation for retiree pensions.

In California overall, there are nearly 200 cities that have chosen sources other than CalPERS. Among the reasons stated by other cities for not using CalPERS are its cost and inability to search for better health care providers. Cities in Solano County have chosen to use CalPERS as their retirement management system and choice of health care provider.

City staff stated Vacaville's current budget is balanced and is carrying a surplus in certain areas. The current General Fund has a reserve of 40%. A 15% General Fund reserve is a recommendation of the National Government Finance Officers Association.

IV. FINDINGS AND RECOMMENDATIONS

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.

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.

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.

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

FINAL – 240701 - Vacaville Unfunded Liability

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

COMMENTS

Staff from every governmental organization in Solano County should read the article “Ranks of high-priced public pensioners explode in state” published in the Daily Republic on June 3, 2024. This article contains facts and figures showing the increase in pension monies that were paid out since 2011. Currently, CalPERS has only 72% of the money that it owes to the workers.

REQUIRED RESPONSES

City of Vacaville Mayor and City Council

COURTESY COPIES

City of Vacaville Human Resources Department Manager
City of Vacaville Finance Department Manager

V. METHODOLOGY

Interviewed

City of Vacaville staff
City of Vacaville residents
Citizens Advisory Committee

Attended

City of Vacaville City Council Meeting

Reviewed

City of Vacaville Operating Budget FY 2022-2023
The Bottom Line: Vacaville City Council elections imperative
www.dailyrepublic.com October 2, 2020
“Ranks of high-priced public pensioners explode in state”
www.dailyrepublic.com June 3, 2024
www.transparentcalifornia.com
Prior Grand Jury Reports 2018-2019 and 2020-2021
Memorandum of Understanding between City of Vacaville and its employees
Listing of Special Pays
FY 23-24 Unfunded Liabilities Update: Pension and OPEB Valuations Update
Presentation to Vacaville City Council February 27, 2024

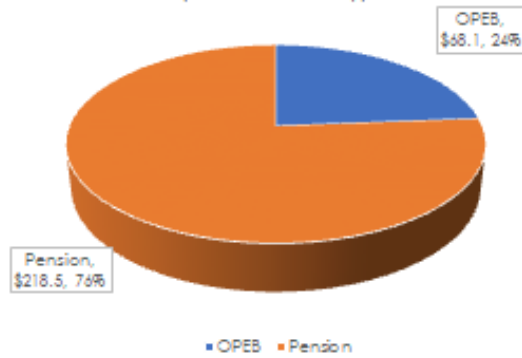
APPENDIX A



Current Unfunded Liability

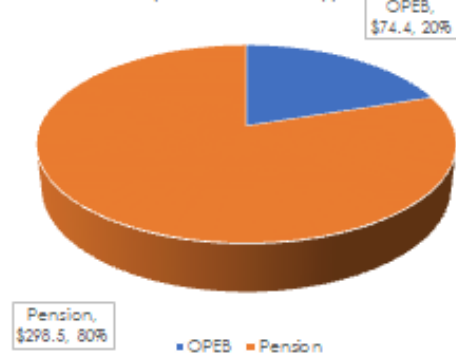
Last Valuation - \$287 million

(In Millions of \$)



Current Valuation - \$373 million

(In Millions of \$)



APPENDIX B

City of Vacaville Other Post-Employment Benefits (OPEB)

Note: All City of Vacaville OPEB are listed-City have no other postemployment benefits

All Information as of 2023

Postemployment Health Benefits (3tiers):

Tier 1:

- Non-safety employees (other than police and fire) that retired prior to January 1, 2009, and non-safety employees hired prior to December 1, 2018, that did not opt into Tier 2, are covered under Resolution No. 2019-094, or;
- Safety employees (police and fire) that retired prior to January 1, 2009, and safety employees hired prior to January 1, 2020, that did not opt into Tier 2, are covered under Resolution No. 2019-118

Benefit = Retirees under this tier receive the same City contribution as similarly situated active employees in same bargaining unit as retired from (example: a retired police officer receives the same benefit as active police officer). This amount is subject to change with any collectively bargained change to the active employee benefit.

Closed plan – no new or re-hired employees will be entered into this tier.

Tier 2:

- Non-safety employees hired prior to January 1, 2009, that opted into tier 2 and non-safety employees hired between January 1, 2009, and November 30, 2018, are covered under Resolution No. 2018-093, or;
- Safety employees hired prior to January 1, 2009, that opted into Tier 2 and safety employees hired between January 1, 2009 and December 31, 2019 are covered under Resolution No. 2019-117

Benefit = Retirees under this tier will be subject to the state of California Public Employees' Medical and Hospital Care Act (PEMHCA, the "Act") vesting schedule as defined in Section 20069 under the Act. Benefit is based on total years of service in PERS with, at least, the last 5 years of service being with the City of Vacaville. The City's contribution amounts are calculated by the State using a weighted average of the three most utilized plans state-wide.

Closed plan – no new or re-hired employees will be entered into this tier.

Tier 3:

- Non-safety employees hired on or after December 1, 2018, or;
- Safety employees hired on or after January 1, 2020

Benefit = Retirees under this tier will receive the minimum monthly employer contribution as required by CalPERS under the Public employees' Medical and Hospital Care Act (PEMHCA) upon CalPERS retirement from the City of Vacaville. In addition, the following amounts will be paid directly to retired employees when they are enrolled in a CalPERS offered plan;

- Completion of year 10 through year 15 = \$100/month
- Completion of year 15 through year 20 = \$150/month
- Completion of 20 years of service or more = \$200/month

In no event shall the PEMHCA minimum plus the additional City paid amount exceed 100% of the single rate premium of the CalPERS plan chosen by the retired employee.

OPEB Trust – Active employee contributions

The City established a Trust for the purpose of funding City-wide retiree health care costs. Each employee will make direct contributions to the trust in the annual amounts described below.

- Tier 1
 - Non-safety employees contribute \$600/year
 - Safety employees contribute \$1,200/year
- Tier 2
 - Non-safety employees contribute \$600/year
 - Safety employees contribute \$1,200/year
- Tier 3
 - No employee contribution