



SOLANO COUNTY GRAND JURY
2018-2019

SURVIVAL OF "OPEB"
OTHER POST-EMPLOYMENT BENEFITS
CITY OF VACAVILLE

Survival of “OPEB”
Other Post-Employment Benefits
City of Vacaville

Solano County Grand Jury 2018-2019

I. SUMMARY

The City of Vacaville provides lifetime healthcare to its future retirees (current employees), retired employees, their spouses and children up to the age of 26 as a retirement benefit. This benefit is known as Other Post-Employment Benefit (or OPEB). The current unfunded liability of OPEB for the City of Vacaville is \$124,653,526, according to the fiscal year 2018-2019 budget. Prior to Measure M passing in November 2016, staff reported that without the measure, the General Fund Reserve was expected to be depleted by 2019. The problem of paying down OPEB is exacerbated by competing issues:

- (1) CalPERS rates for employee pensions and healthcare costs continue to rise, such that they continue to consume more of the overall budget; and
- (2) Increasing payroll costs reduce funds available to pay down the OPEB deficit.

This indicates a benefit cost that is not sustainable. Failure to address this problem could result in loss of employees and corresponding loss of services to its citizens.

Although the City did address this problem through negotiations with some represented and unrepresented groups for employees hired on or after December 2018, they did little to address the issue with current retirees and active employees (who will one day be retirees and receiving this benefit).

II. INTRODUCTION

The City of Vacaville (incorporated 1892) has a population of approximately 100,000, as posted on the City’s website (as of June 30, 2018). The City’s operating budget for fiscal year 2018-2019 is \$189,421,759 (excludes Successor Agency) of which \$98,117,081 is the General Fund. The General Fund is the main operating fund of the City.

Responding to a public complaint, the Solano County Grand Jury (Grand Jury) investigated the indebtedness of the City of Vacaville as to unfunded OPEB liability. The current unfunded liability of OPEB for the City of Vacaville is \$124,653,526, according to the fiscal year 2018-2019 budget.

State and local governments use the accounting and financial reporting standards set forth by the Governmental Accounting Standards Board (GASB). GASB is an independent, private-sector organization that promotes transparent financial reporting to provide useful information to taxpayers, public officials, investors and others who use financial reports. This report will reference GASB Statements 45 and 75 (which superseded GASB 45 in 2017), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Due to the technical nature of this report, terms are defined in a glossary and appear in *boldface italics* when first used in the report.

III. METHODOLOGY

- Interviewed City of Vacaville staff
- Interviewed concerned citizens
- Viewed numerous City Council Meetings online relevant to retiree healthcare and OPEB unfunded liability

Reviewed:

- City of Vacaville website at www.ci.vacaville.ca.us
- Various newspaper articles relevant to OPEB
- Relevant City Council Agendas, Staff Reports and Minutes
- City of Vacaville's OPEB Actuarial Valuation for July 1, 2015 and June 30, 2017
- League of California Cities Retiree Health Care Cost Containment How-To Guide, September 2016
- City of Vacaville's Comprehensive Annual Financial Reports (CAFRs) for fiscal years 2008 thru 2018
- Sections of the City of Vacaville's Budgets from fiscal years 2008 to current year
- Governmental Accounting Standards Board (GASB) Statement No. 45 and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
- OPEB Communication Resources www.gasb.org
- City of Vacaville's Municipal Code §2.04.100 Consent Calendar
- California Government Code §22890, et seq.
- Resolution No. 1975-G, Resolution Electing to be Subject to Meyer's Geddes State Employees' Medical and Hospital Care Act and Fixing the Employers' Contribution at an Amount Greater than that Prescribed by Section 22825 of the Government Code, January 14, 1975
- Resolution No. 2008-122, Resolution Approving an Agreement to Pre-Fund Other Post-Employment Benefits Through CalPERS and Approving the Delegation of Authority To Request Disbursement from the Other Post-Employment Benefits Pre-Funding Plan, with Attachment, California Employer's Retiree Benefit Trust Program (CERBT) Agreement and Election of City of Vacaville, both documents signed November 11, 2008
- Resolution No. 2008-123, Resolution Electing To Establish a Health Benefit Vesting Requirement for Future Retirees Under the Public Employees' Medical and Hospital Care Act, November 11, 2008
- Resolution No. 2008-124, Resolution Fixing the Employer's Contribution Under the Public Employees' Medical and Hospital Care Act, November 11, 2008
- Resolution No. 2010-84, Resolution Fixing the Employer's Contribution Under the Public Employees' Medical and Hospital Act, August 24, 2010
- Resolution No. 2010-85, Resolution Electing To Be Subject to the Public Employees' Medical and Hospital Care Act and Fixing the Employer's Contribution at an Amount at

or Greater Than That Prescribed by Section 22892(b)(1) of the Government Code for Newly Formed Vacaville Police Managers Association, August 24, 2010

- Resolution No. 2010-86, Resolution Electing To Establish a Health Benefit Vesting Requirement for Future Retirees Under the Public Employees' Medical and Hospital Care Act for the Newly Formed Vacaville Police Managers Association, August 24, 2010
- Resolutions No. 2015-096 and 2015-097, Electing To Be Subject to the Public Employees' Medical and Hospital Care Act at an Equal Amount for Employees and Annuitants, October 27, 2015
- Resolution No. 2015-106, Resolution Adopting a City Council Policy for Funding Other Post Retirement Benefits (OPEB) Related to Retiree Healthcare, and Exhibit A, Other Post Retirement Benefits Funding Policy, November 10, 2015
- Resolution No. 2015-110, Electing To Be Subject to Section 22893 to Establish Health Vesting Requirements for Future Annuitants Under the Public Employees' Medical and Hospital Care Act with Respect to a Recognized Employee Organization (Fire Manager Group), December 8, 2015
- Resolution No. 2015-111, Electing To Be Subject to Section 22893 To Establish Health Vesting Requirements for Future Annuitants Under the Public Employees' Medical and Hospital Care Act with Respect to the Unrepresented Department Heads, December 8, 2015
- Resolution No. 2016-058, Fixing the Employer Contribution at an Equal Amount for Employees and Annuitants Under the Public Employees' Medical and Hospital Care Act, June 28, 2016
- Resolution No. 2018-093, Resolution of the City Council of the City of Vacaville Implementing a Health Benefit Vesting Schedule in Accordance with Section 22893 of the Public Employees' Medical and Hospital Care Act with Respect to Qualifying Active Employees in the Vacaville City Employees Association (VCEA), The Vacaville Managers Organization (VMO), The International Union of Operating Engineers Stationary Local 39, AFL-CIO (Local 39), The Administrative Managers Group (AMG), Department Heads (Including City Manager and City Attorney), City Councilmembers and Those Qualifying Retired Employees Last Employed Under Said Associations/Organizations/Positions, August 28, 2018
- Resolution No. 2018-094, Resolution of the City Council of the City of Vacaville Implementing a Retired Employee Health Benefit Under the Public Employees' Medical and Hospital Care Act with Respect to Qualifying Active Employees in the Vacaville City Employees Association (VCEA), The Vacaville Managers Organization (VMO), The International Union of Operating Engineers Stationary Local 39, AFL-CIO (Local 39), The Administrative Managers Group (AMG), Department Heads (Including City Manager and City Attorney), City Councilmembers and Those Qualifying Retired Employees Last Employed Under Said Associations/Organizations/Positions, August 28, 2018
- Resolutions No. 2018-086, 2018-087, 2018-088, 2018-089, 2018-090 and 2018-091, Electing to Rescind Health Benefit Vesting Under Section 22893 of the Public Employees' Medical and Hospital Care Act with Respect to a Recognized Employee Organization, August 28, 2018

- Resolution No. 2018-092, Fixing the Employer Contribution at an Equal Amount for Employees and Annuitants Under the Public Employees’ Medical and Hospital Care Act, August 28, 2018
- Schedule of Changes in the Net OPEB Liability and Related Ratios for:
 - City of Vacaville, 2018 CAFR, page 122
 - City of Vallejo, 2018 CAFR, page 121
 - City of Fairfield, 2018 CAFR, page 96
 - City of Rio Vista, 2018 CAFR, page 75
 - City of Dixon, 2018 CAFR, page 81
 - City of Suisun City, 2018 CAFR, page 94
 - Solano County, 2018 CAFR, page 107

IV. STATEMENT OF FACTS

On January 14, 1975, the Vacaville City Council adopted Resolution No. 1975-G Resolution Electing To Be Subject to Meyer’s Geddes State Employees’ Medical & Hospital Care Act and Fixing the Employers’ Contributions at an Amount Greater than that Prescribed by Section 22825 of the Government Code. At that time the cost of the health benefit plan to the City was \$20.58 per month for each employee or retiree and family enrolled in a health benefits plan or plans.

The City provides lifetime healthcare to employees, retirees, their spouses and children up to the age of 26. Currently, there are approximately 519 employees and approximately 449 retirees. This lifetime benefit is provided by Resolutions adopted by the City Council based on results of collective bargaining between represented and unrepresented groups and the City. Each bargaining agreement is negotiated separately for wages, benefits, terms and conditions of employment. At the time of this report the City had *unfunded liabilities* totaling \$327,594,295 related to pensions and retiree healthcare. The portion of the debt obligation related to retiree healthcare, also referred to as OPEB, is \$124,653,526.

Federal law mandates the City to provide health benefits for active employees. The *Affordable Care Act* does not require the City provide health coverage to retirees or their dependents.

The City’s healthcare is administered through California Public Employees’ Retirement System (CalPERS). CalPERS healthcare is regulated by the Public Employees’ Medical and Hospital Care Act (PEMHCA), formerly known as the Meyers-Geddes State Employees’ Medical and Hospital Care Act. The below listed medical groups correlate to bargaining units (Unions), except for Department Heads and Administrative Manager Group, who are not represented by a labor organization.

Medical Group			Number of Employees
001	Vacaville Police Officer Association	VPOA	104
002	Vacaville Firefighter Association	VFA	73
003	Vacaville City Employees Association	VCEA	103
004	Vacaville Managers Organization	VMO	85
005	Administrative Manager Group	AMG	20
006	Vacaville Police Managers Association	VPMA	19
007	International Union of Operating Engineers Stationary Local 39, AFL-CIO	Engineers Local 39	99
009	Fire Manager Group	FMG	5
010	Department Heads (including City Manager and City Attorney)		11

City of Vacaville Elected Officials (Councilmembers) are in Medical Group 008 and are eligible to receive the same City contribution towards their healthcare premium as active employees and retirees, except that their dependents are not eligible for coverage.

The City Council approves changes to the City's contribution to healthcare premiums for employees and retirees based on agreements with represented and unrepresented employee groups by Resolution, usually on the consent calendar rather than an appearance item. According to the Vacaville Municipal Code §2.04.100, items of a routine noncontroversial nature may be placed in the consent calendar portion of the agenda and shall be acted upon as if all such items were one. Any councilmember may have a consent calendar item brought before the council for discussion and a separate vote.

Effective January 1, 2008, the City's contribution per month toward the cost of a health plan was the amount equivalent (100%) to the Kaiser premium based on the Bay Area/Sacramento regional pricing, which was \$470.67 (employee/retiree only), \$941.34 (employee/retiree plus one dependent) and \$1,223.74 (family). At that time, the City had the equivalent of 562 full-time employees and 251 retirees who received the same healthcare premium contribution.

In accordance with GASB Statement No. 45 (GASB 45), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, the City began reporting the funding status of its retiree healthcare in the City's financial statements in fiscal year 2008-2009. GASB 45 addresses accounting and financial reporting by governmental agencies that provide OPEB to their employees. Staff reported that GASB 45 highlights the true cost of retiree healthcare benefits. Long-term cost projections strongly suggest the need to move from the historical pay-as-you-go funding practice to a more prudent and appropriate pre-funding approach.

The City and bargaining units agreed to reopen negotiations with a primary goal to develop a healthcare funding mechanism that would be sustainable in the future and something that would be fair to the City, their employees and retirees. All bargaining units agreed to (1) establish an *irrevocable trust* fund to accumulate money for retiree medical benefits; (2) implement a future

retiree medical vesting program and include an opt-out provision; and (3) decrease City contribution from 100% to 96%. During their meeting of November 11, 2008, following a presentation of this item, the City Council adopted staff-recommended Resolutions No. 2008-122, 2008-123 and 2008-124, which resulted in the following:

(1) In January 2009, the City began participation in the CalPERS Employers' Retiree Benefit Trust Fund (CERBT) to pre-fund OPEB liabilities. The CERBT qualifies as a third-party irrevocable trust fund, allowing the City to apply a higher *discount rate* in the *actuarial valuation* for retiree medical benefits, thereby reducing the overall unfunded liabilities and annual required contribution rates. The CERBT Agreement and Election between CalPERS and the City of Vacaville requires the minimum employer contribution of not less than \$5,000 or equal to Employer's *Annual Required Contribution (ARC)*, whichever is less. The ARC rate is an amount actuarially determined and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities over a period not to exceed thirty years. The City's ARC for the fiscal year ending June 30, 2009, was \$5,506,150 or 9.58% of their total payroll.

(2) The City established a health benefit vesting requirement in accordance with Government Code §22893 for retirees first hired on or after January 1, 2009. These retirees are required to have performed a minimum of five years of their CalPERS service with the City of Vacaville to receive City contribution for lifetime healthcare upon retirement. The percentage of employer contribution to their healthcare plan is based on minimum CalPERS service as follows:

Minimum Credited Years of PERS Service	Percentage of Employer Contribution to Retiree Medical Benefits
<10	0%
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

The City also implemented an opt-out provision whereby employees who have other medical coverage may opt-out of City's CalPERS medical plan in exchange for \$250 monthly City contribution to their *deferred compensation account*.

(3) The City contribution for each employee and retiree medical plan was decreased from a maximum of 100% to 96% of the Kaiser premium, based on the Bay Area/Sacramento regional

pricing. The City contributes up to 100% of the cost for those employees and retirees who select a plan less expensive than the Kaiser plan.

During the November 11, 2008, Council meeting, staff reported that the above changes will result in approximately \$1.5 million annual savings to the City. There was no information provided to explain how that figure was determined.

On August 24, 2010, Council adopted a Resolution that reduced City contribution towards health premiums for each employee and retiree from 96% to 92% of the Kaiser Basic premium based on the Bay Area regional pricing effective January 1, 2011. While this action required employees and retirees to pay a larger portion of their healthcare premium, health plan rates increased resulting in a 6.84% increase to the City contributions.

There was no information on the City Council agendas regarding changes in healthcare premiums for 2012-2015. Upon request by the Grand Jury, the City of Vacaville provided information showing an increase in healthcare premiums for the Kaiser Bay Area plan of approximately 6.79% in 2012, 8.70% in 2013, 9.98% in 2014 and a decrease of approximately 3.96% in 2015. Staff reported that CalPERS has sole responsibility for negotiations involving healthcare plan premiums and notifies the City of the rates each year. The City does not have a role in healthcare premium rates, so they are not brought before the Council and the public.

The City's contribution to employee and retiree healthcare plans is based on a percentage negotiated with represented and unrepresented employee groups and approved by Council. Although CalPERS changes in healthcare premiums do not affect the negotiated percentage the City contributes, it does increase/decrease the cost of the benefit accordingly.

During their March 10, 2015, Council meeting, staff reported the City's OPEB unfunded liability was \$92,932,890 and that the City had not met their ARC (\$9,548,608), falling short \$4.5 million for fiscal year 2013-2014. Staff reported that if no additional financial resources are allocated, each annual budget will need to provide a larger appropriation to fund retiree healthcare, limiting the Council's ability to provide essential services. To facilitate the discussion, staff provided Council with a whitepaper titled: Unfunded Liabilities Challenges and Opportunities. Staff recommended that Council direct staff to draft a policy for adoption to address the OPEB unfunded liability.

On November 10, 2015 (in response to the March 10, 2015, discussion) the Council adopted Resolution No. 2015-106 approving the Other Post Retirement Funding Policy to address funding the OPEB liability related to retiree healthcare. This policy established a funding goal to reach full ARC funding by fiscal year 2019-2020. The policy contains a loophole or hardship provision that allows that, if at any time, the General Fund Reserve is projected to reach a level below 10%, the ARC funding goal be suspended, and an appropriate contribution amount be reviewed and recommended by the City Council. This policy does not state to whom the Council would make its recommendation for approval.

The below information obtained from City financial reports reflects only 43.04% of the ARC was contributed in fiscal year 2015-2016, with 55.35% of the ARC contributed in fiscal year 2016-2017, falling short of the OPEB policy goal of 60% and 70% respectively. Since the Grand Jury began its investigation, the City exceeded their goal of 80% of the ARC for fiscal year 2017-2018 by contributing 116.80%.

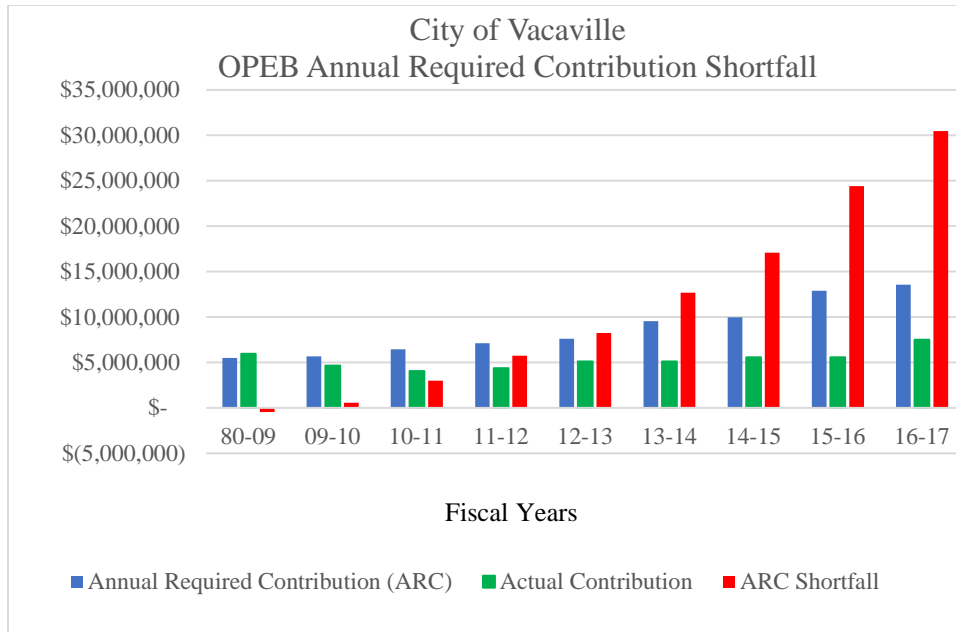
Status of City of Vacaville's OPEB Funding Policy Goal				
Fiscal Year	Percentage per Funding Policy	Annual Required Contribution (ARC)	Actual Contribution	Actual Percentage
2015-2016	60%	\$12,906,529	\$5,554,832	43.04%
2016-2017	70%	\$13,569,227	\$7,510,248	55.35%
2017-2018	80%	\$9,939,505	\$11,618,175	116.88%
2018-2019	90%			
2019-2020	100%			

Since the implementation of the OPEB funding policy, the City's General Fund Reserve has not reached a level below 10%.

The City's Comprehensive Annual Financial Report (CAFR) for the fiscal years ending in 2010, 2011, 2012 and 2013 state: "The City contributes an amount **not** less than the annual required contribution (ARC) of the employer" [emphasis added]. As indicated in the chart below, fiscal year 2008-2009 was the last time the City actually paid the full ARC for retiree healthcare. As of June 30, 2017, the shortfall was over \$30 million.

Fiscal Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage of ARC Contribution	ARC Shortfall
6/30/2009	\$ 5,506,150	\$ 5,949,284	108.05%	\$ (443,134)
6/30/2010	\$ 5,685,100	\$ 4,637,504	81.57%	\$ 570,119
6/30/2011	\$ 6,455,080	\$ 4,039,824	62.58%	\$ 2,985,375
6/30/2012	\$ 7,131,854	\$ 4,375,316	61.35%	\$ 5,741,913
6/30/2013	\$ 7,601,543	\$ 5,092,983	67.00%	\$ 8,250,473
6/30/2014	\$ 9,548,608	\$ 5,115,557	53.57%	\$ 12,683,524
6/30/2015	\$ 9,973,803	\$ 5,580,779	55.95%	\$ 17,076,548
6/30/2016	\$ 12,906,529	\$ 5,554,832	43.04%	\$ 24,428,245
6/30/2017	\$ 13,569,227	\$ 7,510,248	55.35%	\$ 30,487,224

Source: City of Vacaville CAFRs for fiscal years 2009 through 2017



The City continued to contribute a maximum of 92% (adopted in 2010) of the Kaiser Bay Area regional rate towards healthcare premiums for employees (except Engineers Local 39) and retirees until January 1, 2016, when City contribution was decreased to 85%. This change was effective for employees represented by Engineers Local 39 on August 1, 2016. Staff reported the annual cost for employee healthcare will be \$8,358,925, and the annual savings from the employee contributions toward healthcare will be \$1,135,380. Staff did not indicate whether the cost of the Kaiser plan increased.

In 2015, employees began to make contributions to retiree healthcare (OPEB Trust) in the amount of \$25/month for Non-Safety employees and \$50/month for Safety employees. In return, employees' contribution towards their dental insurance was discontinued and paid for by the City. Employee contribution to retiree healthcare was increased by \$25/month in 2016 for all employees and again in 2017 for Safety employees. Currently, Non-Safety employees contribute \$50/month and Safety employees contribute \$100/month. Employees of the City of Vacaville have contributed a total of approximately \$870,650 to the OPEB Trust Fund since fiscal year 2015-2016.

On June 28, 2016, staff recommended to the Council that an ordinance to place a measure on the November 8, 2016, ballot to renew Measure M, a ¼ cent transactions and use tax, increasing the tax by an additional ½ cent from 7.878% to 8.375% for a period of 20 years. Staff reported that without Measure M, the General Fund Reserve will be depleted by 2019 and that there continues to be additional issues that impact the long-term solvency of the City. Listed among the additional issues were: (1) PERS rates for employee pensions and healthcare costs continue to rise, such that they continue to “eat up” more of the overall budget; and (2) The City needs to continue making additional contributions towards the OPEB unfunded liability to ensure the long-term health of the City. Measure M - Vacaville Essential Services Protection Measure was placed on the ballot to protect essential city services such as police programs to fight domestic violence, child/elder abuse, gang activity and neighborhood crime, fire/paramedical services for quick emergency response times; street lighting for safety; and other city services. The voters

approved Measure M. The City of Vacaville projects \$15.3 million revenues for the first full year of the increased Measure M in their fiscal year 2018-2019 budget.

On August 28, 2018, the Council adopted Resolutions No. 2018-086, 2018-087, 2018-088, 2018-089, 2018-090, 2018-091, 2018-092, 2018-093 and 2018-094 on the consent calendar approving a new tier for retiree medical based on Agreements reached between some of the bargaining units and the City. According to the staff report, the new tier will not result in immediate cost savings but will help contain the future OPEB liability and help keep the compensation package sustainable. Therefore, employees hired on or after December 1, 2018, will receive a reduced City contribution toward their medical premium upon retirement. The contribution will be the PEMHCA minimum, which is currently \$133/month. In addition, employees who have 10 or more years of service with the City will receive an additional \$100 - \$200/month.

During the City Council meeting on September 25, 2018, an independent actuary presented the results of the City of Vacaville, June 30, 2017, Actuarial Valuation of Other Post-Employment Benefits. This report showed a reduced unfunded liability from \$142 million to \$106 million. According to the presenter, the \$36 million decrease from the July 1, 2015, Actuarial Valuation report was based on changes in assumptions, actuarial cost method used, favorable plan experience and decrease in employer contribution from 92% to 85% of the Kaiser non-Medicare premium rate. The presenter stressed during his presentation that although the valuation changes worked in the City's favor, this occurrence is rare.

GASB Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaced GASB 45 beginning after June 15, 2017. GASB 75 significantly changed the way government agencies calculate and report the annual costs and long-term obligations associated with OPEB. The requirements are designed to equip government policy makers, citizen and taxpayer groups, municipal bond analysts, and others with information that more comprehensively portrays the governments' promises to provide OPEB.

GASB 75 requires cities to report the total unfunded OPEB liability on their financial statements. Under the previous standards (GASB 45), Vacaville and other cities reported an OPEB-related liability on the face of the financial statements called a net OPEB obligation, which represented the cumulative amount by which a city's contributions to its OPEB plan fell short of the ARC. This measure of the obligation understated the OPEB liability. Vacaville reported a net OPEB obligation of \$30,487,224 for fiscal year ending June 30, 2017.

In GASB 75, the net OPEB liability equals the total OPEB liability (a measure of the total cost of future OPEB payments already earned, stated in current dollars) minus the net position of the OPEB plan administered through a trust (the value of the assets in that OPEB plan that can be used to make benefit payments).

Based on these new standards, the City of Vacaville's 2018 CAFR reports their Net OPEB Liability as of June 30, 2017, to be \$82,797,349.

Total OPEB Liability /a	OPEB Plan Net Position /b	Net OPEB Liability /c
Total cost of future OPEB payments already earned, stated in current dollars	Value of the assets in the OPEB plan (Trust) that can be used to make benefit payments	Represents the unfunded portion of the City's future OPEB commitment
\$106,071,959	\$23,274,610	\$82,797,349

SOURCE: City of Vacaville's 2018 CAFR a – b = c

SCGJ reviewed the supplementary information required by GASB 75 regarding changes in Net OPEB Liability and related ratios of Solano County and cities within the County. GASB 75 requires this data for the last 10 years. Only the 2018 CAFR data is shown, as this is the first year since implementation. The below table only addresses Net OPEB Liability:

Net OPEB Liability			
Local Agency	Total OPEB Liability /a	OPEB Plan Net Position /b	Net OPEB Liability /c
Vacaville	\$106,071,959	\$23,274,610	\$82,797,349
Vallejo	\$44,902,000	\$17,982,000	\$26,920,000
Fairfield**	\$3,153,300		
Benicia	Information not available		
Rio Vista*	\$1,070,410		
Dixon*	\$3,625,000		
Suisun City*	\$2,882,155		
Solano County	\$58,479,842	\$35,590,887	\$22,888,955

Source: Respective Agency's 2018 CAFR

Net OPEB Liability is a - b = c

*Pursuant to GASB75, if an OPEB plan is not administered through a trust that meets specific criteria, the total OPEB liability is recognized.

**City of Fairfield entered CERBT per Resolution No. 2018-32, March 20, 2018.

V. FINDINGS AND RECOMMENDATIONS

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.

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.

RECOMMENDATION 1B – Establish a citizen oversight committee charged with studying OPEB and proposing recommendations to the Council.

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.

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

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

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.

RECOMMENDATION 3A - Correct the Policy title to reflect “Post-Employment” rather than “Post Retirement.”

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.

RECOMMENDATION 3C - Clarify the hardship exemption in the Policy to provide a recipient for 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.

RECOMMENDATION 4 –Present issues pertaining to OPEB and retiree health premiums as separate agenda items.

FINDING 5 – Changes in health plan rates announced by CalPERS were not brought before the City Council and the public.

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.

REQUIRED RESPONSES

City Manager, City of Vacaville (all findings)

COURTESY COPIES

Vacaville City Council

Solano County Board of Supervisors

City Manager, City of Vallejo

City Manager, City of Fairfield
City Manager, City of Benicia
City Manager, City of Rio Vista
City Manager, City of Dixon
City Manager, City of Suisun City
Chief Administrative Officer, Solano County

GLOSSARY (Baron’s Business Guide – Dictionary of Finance and Investment Terms)

Actuary/Actuarial – Mathematician employed by a company to calculate premiums, reserves, dividend, insurance, pension and annuity rates, using risk factors obtained from experience tables. These tables are based on both the company’s history and other industry and general statistical data.

Affordable Care Act (also known as Obamacare) - Signed into law in 2010 by President Barack Obama. Obamacare is designed to broaden the availability and affordability of health insurance to Americans by introducing a series of mandates, subsidies and insurance exchanges. The act also requires all insurance companies to cover all applicants with minimum standards and offer the same rates without discriminating based on pre-existing health conditions or gender.

Annuitant – Individual receiving benefits from an annuity. The individual can choose to annuitize the policy, meaning that he or she begins to receive regular payments from the annuity.

ARC – Annual required contribution (A rate that is actuarially determined and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities over a period not to exceed thirty years.)

Deferred Compensation – Currently earned compensation that, under the terms of a profit-sharing, pension or stock option plan, is not actually paid until a later date and is therefore not taxable until that date.

Discount Rate – Interest rate used in determining the PRESET VALUE of future CASH FLOWS.

Irrevocable Trust - A trust that cannot be changed or terminated by the one who created it without the agreement of the beneficiary.

Liability – Claim on the assets of a company or individual.

Pension Fund – Fund set up by a corporation, labor union, governmental entity, or other organization to pay the pension benefits of retired workers.

Unfunded Liability – Plan that is funded by the employer out of current income as funds are required by retirees or beneficiaries. Also known as pay-as-you-go plan or a plan using the *current disbursement funding approach*.