

**STAFF REPORT**



THE CITY OF  
NOVATO  
CALIFORNIA

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MEETING  
DATE: April 4, 2017  
  
TO: City Council  
  
FROM: Brian Cochran, Finance Manager

SUBJECT: **AMEND THE 2016/17 BUDGET BASED ON THE CITY’S LATEST ACTUARIAL VALUATION FOR “OTHER POST-EMPLOYMENT BENEFITS” TO FULLY FUND THE ACTUARIALLY REQUIRED CONTRIBUTION IN 2016/17**

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**REQUEST**

Consider adopting a resolution amending the current fiscal year 2016/17 budget by \$57,000 to fully fund the City’s actuarially required contribution (“ARC”) for other post-employment benefits (“OPEB”) based on the City’s newest actuarial valuation.

**DISCUSSION**

The City is required to get an actuarial valuation done every 2 years for its non-pension post-employment retirement benefits (also known as retiree health, or “OPEB”). The valuation calculates the City’s total unfunded OPEB liability and provides the actuarially determined contribution required of the City in order to properly fund the benefit into the future. The City of Novato provides only the legally required minimum benefit for retirees (sometimes referred to as the “PEMHCA minimum”), which is a small monthly stipend toward health premiums that currently is \$125 per retiree per month. As a result, the City of Novato OPEB liability is quite low when compared with many other local agencies who provide much more generous benefits.

Overall, Novato’s actuarial liability for OPEB benefits is \$4.3 million. Due to the Council’s strategy to fully fund our OPEB obligation over the past 4 fiscal years (and ongoing), we have accumulated more than \$700k in assets in our OPEB trust that helps to offset the benefit liability. Thus Novato’s unfunded liability sits at approximately \$3.6 million. The annual contribution is calculated to be \$273,000 for the basic benefit, which effectively matches the current budgeted amount for such contributions of \$269,000.

However, actuarial standards recently changed with respect to calculating the unfunded liability and the ARC by requiring that actuaries factor in any “implied subsidy” that is built into the OPEB benefit. While this is a fairly complicated and esoteric actuarial topic, it impacts Novato because under the CalPERS health plans in which Novato participates, both active employees and retirees pay the same health plan rates. Since active employees are assumed to be healthier and younger than retirees, that means retirees are receiving a subsidized rate for their retiree health plans. In

calculating the City's OPEB unfunded liability, the actuary must factor in the value of this "implied subsidy" and add it to the liability.

Adding in this implied subsidy amount increases the City's ARC to \$452,000 in 2016/17, significantly higher than the \$273,000 mentioned earlier. However, since the current year's subsidy is effectively already paid by the City's existing payments for CalPERS health plan costs for active employees, the City is able to "take credit" for a portion of its regular health care payments, which the actuary has calculated to be \$126,000. Therefore, the total City contribution needed for the retiree OPEB ARC is \$326,000. Based on the current budget of \$269,000, staff is recommending amending the current year budget by \$57,000 to maintain a fully funded ARC for 2016/17.

It should be noted that there is no technical requirement to fully fund the City's ARC, but this has been the Council's policy over the past 5 fiscal years and is generally recommended as a financial best practice. The alternative would be to ignore the implied subsidy amount and only fund the basic benefit ARC of \$273,000. The downside of this option is that failing to fully fund the ARC will have actuarial implications down the road in future valuations regarding what discount rate we can utilize for our OPEB liability. Additionally, the new Governmental Accounting Standards Board ("GASB") pronouncement #75 may result in reporting a higher OPEB liability for agencies who do not fully fund their ARC. For these reasons, staff recommends amending the budget and continuing the Council's policy of full ARC funding for 2016/17 and future fiscal years.

### **FISCAL IMPACT**

The recommended budget amendment will increase General Fund expenditures by \$57,000. These additional funds will move into the City's OPEB trust where they will be invested; therefore, they remain City assets but are reported as an expenditure out of the General Fund.

### **RECOMMENDATION**

Approve the resolution amending the current fiscal year 2016/17 budget by \$57,000 to fully fund the City's ARC for OPEB based on the City's newest actuarial valuation.

### **ALTERNATIVES**

1. Do not amend the budget and do not fully fund the ARC for 2016/17.

### **ATTACHMENTS**

1. Budget amendment resolution

CITY COUNCIL OF THE CITY OF NOVATO

RESOLUTION NO \_\_\_\_\_

RESOLUTION TO AMEND BUDGET RESOLUTION NO. 39-16 TO INCREASE OPEB TRUST CONTRIBUTIONS BY \$57,000 FROM THE GENERAL FUND

WHEREAS, the City Council of the City of Novato has adopted a final budget for Fiscal Year 2016-17; and

WHEREAS, to keep the budget current it becomes necessary to amend the budget on a periodic basis as events necessitate; and

WHEREAS, based on the City’s newest actuarial valuation report the total contribution for “other post-employment benefits” (“OPEB”) should be increased by \$57,000 to fully fund the actuarially required contribution (“ARC”) for 2016/17; and

WHEREAS, the City Council has maintained a policy over the past five years to fully fund the ARC for its OPEB liability and staff recommends continuing this policy as a matter of financial best practice; and

WHEREAS, the funds will be contributed to the City’s dedicated OPEB trust.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Novato hereby approves the amendment to Resolution No. 39-16, providing for an increase of \$57,000 in the 2016/17 appropriations budget for the General Fund.

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I HEREBY CERTIFY that the foregoing resolution was duly and regularly adopted by the City Council of the City of Novato, Marin County, California, at a meeting thereof, held on the 4th day of April, 2017, by the following vote, to wit:

- AYES: Councilmembers
- NOES: Councilmembers
- ABSTAIN: Councilmembers
- ABSENT: Councilmembers

\_\_\_\_\_  
City Clerk of the City of Novato

Approved as to form:

\_\_\_\_\_  
City Attorney of the City of Novato