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Napa Superior Court

CITY OF  
AMERICAN  
CANYON



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JUN 11 2014

Clerk of the Napa Superior Court

By: Sienna  
Deputy

June 4, 2014

The Honorable Mark A. Boessenecker  
Superior Court of California  
County of Napa  
825 Brown Street  
Napa, CA 94599

Subject: Response to the Grand Jury 2013-2014 Final Report titled *A Review of Public Employee Retirement Benefits for Each Napa County Jurisdiction: Working together for a Sustainable Future* (dated April 3, 2014)

Dear Judge Boessenecker:

The City of American Canyon has received a copy of the above noted Grand Jury Report. The City Council has reviewed its findings and recommendations and appreciates the time and effort the Grand Jury took in researching and compiling this report. Consistent with PC 933.05, the City of American Canyon provides this response to the report recommendations.

#### Recommendation

The City of American Canyon is required to respond to two recommendations, as follows.

R1. Napa County Board of Supervisors and the incorporated Napa jurisdictions should form a pension/OPEB committee with appropriate financial and human resource management support to establish a communication process and a planning best practices platform to share insights and collaborate on strategies for addressing and managing pension/OPEB funding.

R2. Napa County Board of Supervisors and the incorporated Napa jurisdictions should, through the pension/OPEB committee, issue an annual report that summarizes each entity's pension/OPEB funding status at the end of each fiscal year.

#### Response

R1. The Grand Jury did an excellent job researching and reviewing retirement and post-employment benefit costs for each jurisdiction in Napa County. However, I would like to put this information in a broader, statewide context. Each city in Napa County is a member of the League of California Cities. This statewide



organization provides substantial research and information on topics of interest to cities. In the last several years, the subject of retirement costs has been on the forefront of everyone's minds and the League has created a webpage of information on this topic ([www.cacities.org/Policy-and-Advocacy/Hot-Issues/Pension-Information-Center.aspx](http://www.cacities.org/Policy-and-Advocacy/Hot-Issues/Pension-Information-Center.aspx).) Through this page as well as numerous regional and statewide organizations, the City of American Canyon, and the other cities in Napa County, has gained considerable insight into best practices, legislative constraints, PERS policy, and labor union interests. The County of Napa is a member of the California State Association of Counties, an organization that provides similar support for counties.

Moving to the more local level, each jurisdiction must work with their unique labor unions and comply with our existing labor contracts. Our fiscal situations are different, as our labor contracts, and it would not be possible for all jurisdictions in the county to be consistent in the provision of retirement and OPEB benefits.

The City of American Canyon wholeheartedly agrees that the more information we share with our peers about best practices and issues related to pension and OPEB funding, the more insight we can gain and the better we can plan for the future. However, I believe that this sharing of information is already well-developed and forming a committee locally would be duplicative of other statewide and regional efforts already in place.

R2. Every year, each jurisdiction is required to contract with independent auditors and complete a thorough audit of the agency's financial position. A major component of this audit is an analysis of pension and OPEB liabilities and details of review is found in each jurisdiction's annual audit report. American Canyon's most recent audit, which is available on the City's website, includes several pages of information about our funding status. I have attached a copy for your information. This audit is updated and available to the public every year. We agree that the public should be informed about post-employment funding obligations, but believe the annual report recommended by the Grand Jury is already provided in each jurisdictions annual audit report.

Thank you for the opportunity to review and comment on the Grand Jury report. Please contact our City Manager, Dana Shigley, if you have any questions.

Sincerely,

  
Leon Garcia, Mayor

Attached: pages from American Canyon's 2012/2013 annual audit report

cc: City Clerk



CITY OF AMERICAN CANYON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE I – DEFERRED COMPENSATION PLAN

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them. Distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

NOTE J – PENSION PLAN

Plan Description: The City contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. All permanent and part-time employees working at least 1,000 hours per year are enrolled in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor multiplied by their highest average monthly salary over 12 consecutive months of employment. Benefit provisions and all other requirements are established by State statute. The establishment and amendment of specific benefit provisions of the Plan is authorized by resolution of the City Council. PERS requires plans with less than 100 active participants to participate in risk pools. The City staff in PERS as of December 31, 2012 participate in the Miscellaneous 2% at 55 Risk Pool, the Safety 3% at 50 Risk Pool, and the Safety Second Tier 3% at 55 Risk Pool. New non-safety employees that were not members of PERS as of that date participate in the Miscellaneous 2% at 62 Risk Pool and the 2.7% at 57 Risk Pool. Copies of the PERS annual financial report may be obtained from their Executive Office at 400 P Street, Sacramento, CA 95814.

Contributions: Participants in the Plan are required to contribute 7% to 9% of their annual covered salary. The City is required to contribute to PERS at an actuarially determined rate. The rate for the year ended June 30, 2013 was 14.002%, 33.330%, and 20.999% of the annual covered payroll for the Miscellaneous, Safety, and Safety Second Tier plans, respectively. The contribution requirement of plan members and the City are established and may be amended by PERS. The City's contributions for the years ended June 30, 2013, 2012 and 2011 were \$1,230,084, \$1,203,787, and \$1,031,452, respectively, which was equal to the required contributions.

NOTE K – OTHER POSTEMPLOYMENT BENEFITS

The City and Fire District joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

CITY OF AMERICAN CANYON, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE K – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Retiree Medical Benefits

Eligibility for retiree health benefits is based on an employee's age and number of years of service with all CalPERS agencies at retirement. Retirees must be in receipt of pension payment from CalPERS and meet the following provisions:

- Nondisabled retirement from full-time active status with at least age 50 and five years of service.
- Disabled retirement from active full-time service at any age with at least five years of service.

City employees/retirees receive medical benefits offered through CalPERS. Upon retirement, the City subsidy is limited to 100% of the lowest cost option available in the area (currently the PERS Select plan) for retirees and their covered dependents. Retirees can choose higher cost plan options but they are responsible for any premiums in excess of the applicable lowest cost plan's rate.

Covered dependents of eligible retirees include spouses, domestic partners, and children under age 26 and never married (or any age if handicapped, subject to CalPERS approval). Surviving spouses of deceased retirees are covered for life on the same basis as when the retiree was alive. There are no benefits for surviving spouses or dependent children of actives beyond COBRA continuation.

As of June 30, 2013, there were 20 participants receiving these healthcare benefits.

City of American Canyon's Plan

To qualify for postemployment medical benefits, an employee must be eligible for and retire from the City. At the present time, retirees receive the same level of medical benefits as offered to active employees. Prior to January 1, 2011, the benefit amount was equal to the PERS Select Plan through CalPERS Health. The City does not provide dental benefits to retirees.

Funding Policy and Actuarial Assumptions: The annual required contribution (ARC) was determined as part of a June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.35% investment rate of return, (b) 3.00% projected annual salary increase, and (c) health care cost trend rate of 5% for medical. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The actuarial value of assets is based upon the balance in the CERBT Trust. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis.

CITY OF AMERICAN CANYON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE K – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Concurrent with implementing Statement No. 45, the City Council passed a resolution to prefund the other post-employment benefits by transferring \$900,000 to the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administered by CalPERS, and is managed by an appointed board not under the control of the City Council. This Trust is not considered a component unit by the City and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Funding Progress and Funded Status: Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2013, the City contributed \$17,300 to the Plan, and funded pay-as-you-go premiums of \$163,819. As a result, the City has calculated and recorded the Net OPEB Asset on the Statement of Net Position, representing the difference between the ARC, amortization and contributions, as presented below:

Net OPEB asset at June 30, 2012	\$ 353,525
Annual required contribution (ARC)	495,800
Interest on net OPEB asset	(39,300)
Adjustment to annual required contribution	34,100
Annual OPEB cost	<u>490,600</u>
Contributions:	
Contributions to CERBT	17,300
City's portion of current year premiums paid	163,819
Total Contributions	<u>181,119</u>
Decrease in net OPEB asset	<u>(309,481)</u>
Net OPEB asset at June 30, 2013	<u>\$ 44,044</u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated June 30, 2011, amounted to \$6,357,600. The AAL is partially funded since assets have been transferred into CERBT.

CITY OF AMERICAN CANYON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE K – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below:

Fiscal Year	Annual Required OPEB Cost (AOC)	Annual Contribution	Percentage of APC Contributed	Net OPEB Obligation (Asset)
06/30/11	\$ 469,300	\$ 399,764	85%	\$ (527,502)
06/30/12	464,400	290,423	62%	(355,525)
06/30/13	490,600	181,119	37%	(44,044)

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
6/30/2007		\$ 3,897,000	\$ 3,897,000	0.00%	\$ 4,713,606	82.68%
6/30/2010	\$ 1,323,200	5,429,600	4,106,400	24.37%	5,592,900	73.42%
6/30/2011	1,743,300	6,357,600	4,614,300	27.42%	5,036,100	91.62%

Fire District's Plan

To qualify for postemployment medical and dental benefits, an employee must be eligible and retire from the Fire District and maintain enrollment in one of the District's eligible health plans. In addition there are eligibility rules and contribution requirements defined in the Memorandum of Understanding (MOU) including a healthcare vesting program that was implemented in fiscal year 2009-10 which is required for all new District employees and optional for others. For employees not enrolled in the vesting program, the District pays up to the Kaiser Bay Area medical premium rate.

Funding Policy and Actuarial Assumptions: The annual required contribution (ARC) was determined as part of a July 1, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.35% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health care cost trend rates are 4.5% to 9.0% for medical. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and

CITY OF AMERICAN CANYON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE K – OTHER POSTEMPLOYMENT BENEFITS (Continued)

the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis.

Concurrent with implementing Statement No. 45, the District's Board passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administered by CalPERS, and is managed by an appointed board not under the control of Association Board. This Trust is not considered a component unit by the Association and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Funding Progress and Funded Status: Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2013, the District contributed \$169,000 to the Plan, and funded pay-as-you-go premiums of \$119,108. As a result, the District has calculated and recorded the Net OPEB Liability on the Statement of Net Position, representing the difference between the ARC, amortization and contributions, as presented below:

Net OPEB obligation at June 30, 2012	\$ 179,638
Annual required contribution (ARC)	283,022
Interest on net OPEB asset	13,089
Adjustment to annual required contribution	<u>(11,223)</u>
Annual OPEB cost	284,888
Contributions:	
Contributions to CERBT	169,000
City's portion of current year premiums paid	<u>119,108</u>
Total Contributions	288,108
Decrease in net OPEB obligation	<u>(3,220)</u>
Net OPEB obligation at June 30, 2013	<u>\$ 176,418</u>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2011, amounted to \$2,960,920. The AAL is partially funded since assets have been transferred into CERBT.

CITY OF AMERICAN CANYON, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE K – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below:

Fiscal Year	Annual Required OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
06/30/11	\$ 253,842	\$ 284,161	112%	\$ 200,624
06/30/12	261,750	282,736	108%	179,638
06/30/13	284,888	288,108	101%	176,418

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
6/30/2008		\$2,531,000	\$ 2,531,000	0.00%	\$1,650,824	153.32%
6/30/2010	\$ 197,531	2,636,360	2,438,829	7.49%	1,732,102	140.80%
7/1/2011	443,883	2,960,920	2,517,037	14.99%	1,799,162	139.90%

NOTE L – RISK MANAGEMENT

Coverages

The City is a member of the Association of Bay Area Governments (ABAG), which provides general and auto liability coverage of \$5,000,000 above the City's deductible of \$25,000 per occurrence. ABAG has excess liability coverage for an additional \$5,000,000 for a total coverage of \$10,000,000. ABAG is governed by a board consisting of representatives from member municipalities. The board controls the operations of ABAG, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating. During the fiscal year ended June 30, 2013, the City contributed \$171,355 for current year coverage.

Audited financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604- 2050.