City of Capitola

Request for Proposal
Actuarial Services

Issue Date: October 24, 2019
Proposal Deadline: November 21, 2019

City of Capitola
Finance Department
420 Capitola Ave.
Capitola, CA 95010

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REQUEST FOR PROPOSAL
ACTUARIAL SERVICES

INTRODUCTION

The City of Capitola (City) is seeking proposals from qualified Actuaries (Actuary) to perform professional actuarial services of its retiree healthcare program through CalPERS. The Actuary will need to prepare a bi-annual actuarial valuation for the City's Other Post-Employment Benefits (OPEB) and provide the associated information required to comply with Governmental Accounting Standards Board (GASB) Statement 75.

Valuations must be performed in accordance with generally accepted actuarial standards of practice promulgated by the Actuarial Standards Board and based on the actuarial assumptions and methods prescribed by the California Public Employees' Retirement System (CalPERS) Board. The required services and performance conditions are described in the Scope of Services.

The GASB sets reporting standards for the preparation of financial reports for state and local governments. The City seeks assistance in the calculation of the actuarial accrued liability of its OPEB as defined and adopted within GASB Statement 75. The Actuary will also provide the City with an actuarial valuation and the information needed to present the appropriate assumptions and schedules in its financial statements as required by GASB 75. The valuation will be performed bi-annually, but the supplemental information to comply with GASB 75 will be performed annually.

All proposals must be submitted to the Finance Department at 420 Capitola Ave, Capitola, CA 95010 by 5:00 P.M. on Thursday November 21, 2019. All proposals must be in the format specified, enclosed in a sealed envelope and clearly identified with proposal title, name of proposer, and date of proposal closure. Responding firms shall be solely responsible for any expenses incurred in preparing proposals in response to this request.

The City may select an Actuary based on proposal alone or may narrow the field to the top firms (not to exceed three) based on strength of proposal, and then conduct interviews to finalize a selection. The City will then initiate contract negotiations with the selected Actuary. Pending successful negotiations, the City will have the Actuary execute the City's Standard Professional Services Agreement (Attachment A).

It is the intent of the City to award the contract for an initial five-year period beginning with fiscal year ending June 30, 2020, with the option to renew for additional years at the sole discretion of the City. Proposals will be considered only from parties that are free of all obligation and interests that may conflict with the best interest of the City of Capitola and have the capacity to provide services on a timely basis.

BACKGROUND

The City of Capitola is a small coastal community located in Santa Cruz County that occupies approximately two square miles and serves a population of about 10,150. Located on the northern edge of Monterey Bay, approximately 35 miles north of Monterey and 75 miles south of San Francisco, Capitola enjoys a rich history and offers residents diverse recreational opportunities. Capitola Village is located along a sandy beach with expansive views of Monterey Bay and is home to numerous craft galleries, boutiques, and restaurants.

Capitola is a General Law City, which was incorporated on January 11, 1949. The City is subject to the framework and procedures established by State Law and operates under the Council – City Manager form of government. The Council is comprised of four Council Members and a Mayor, all of whom are directly elected by the citizens. The Council Members serve four-year staggered terms and the Mayor and Vice-Mayor are elected annually by the Council. The City provides police protection, recreation, building, planning, zoning, administrative services, financial services, street, park and facilities maintenance for Capitola. Independent special districts provide fire protection, water, sewer, and limited drainage services.

The City contributes to the California Public Employees' Retirement System (PERS), a multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. In addition, the City contributes to the Other Post-Employment Benefits (OPEB) plan with the CalPERS California Employer's Retirement Benefit Trust (CERBT).

The City has 72 active employees as well as 19 retired employees currently receiving OPEB benefits.

For more information about the City, please visit our website at: www.cityofcapitola.org

The City will administer the proposal process in accordance with the terms and dates outlined in this RFP; however, the City reserves the right to modify the activities, timeline, or any other aspect of the process at any time, as deemed necessary. By requesting proposals, the City is in no way obligated to award a contract or pay the expenses of proposing firms in association with the preparation or submission of a proposal. The award of any contract shall be contingent on the requisite staff and City Council approvals.

SCOPE OF WORK

The City is seeking proposals from qualified Actuaries to provide actuarial services for the agency's Other Post-Employment Benefits (OPEB) as required by GASB 75.

The Actuary must (at a minimum):

A. Ensure compliance with GASB 75.

B. Prepare the next two valuations for

   I. June 30, 2019, that will provide recommended contributions/plan funding for Fiscal Year (FY) 2020/2021 and FY 2021/2022 and GASB 75 roll forward accounting information for the City's audited Comprehensive Annual Financial Report (CAFR) FY 2019/2020 and 2020/2021.

II. June 30, 2021, that will provide recommended contributions/plan funding for FY 2022/2023 and FY 2023/2024 and GASB 75 roll forward accounting information for the City's audited CAFR FY 2021/2022 and FY 2022/2023.

C. Information shall include, but not be limited to:

I. Actuarial present value of total value of total projected benefits
II. Actuarial accrued liability
III. OPEB assets both market value and actuarial value
IV. Unfunded actuarial accrued liability
V. Normal cost
VI. Annual required contributions as a dollar amount and as a percentage of payroll
VII. Annual OPEB costs
VIII. Net OPEB obligation
IX. Implied subsidy
X. Funding projections (ten years)
XI. Summary of data used for the valuation
XII. Summary of actuarial methods and assumptions
XIII. Summary of upcoming OPEB and CalPERS issues
XIV. Detailed participant statistics
XV. Historical valuation results and demographic information
XVI. Historical asset information including returns
XVII. Gain and loss analysis with changes in Actuarial Accrued Liability since the prior valuation
XVIII. Projection of contributions and benefit payments (ten years)
XIX. Additional information needed for the City to prepare the necessary notes to the financial statements to be included in the City's audited financial statements including, but not limited to, notes and required supplementary information.

D. Provide all documents and information (including the actuarial certification, funding policy certification, and Excel valuation information spreadsheet) required by CalPERS for agencies funding with the California Employers' Retiree Benefit Trust (CERBT) along with a certified final valuation results outline.

E. Meet with the City (and its auditors if necessary) to discuss and review the report.

F. Assist in implementing any new GASB statement and other financial pronouncements related to OPEB and provide ongoing professional consultation.

G. The June 30, 2019, actuarial valuation shall be provided by March 31, 2020.

H. The annual reports for information necessary to prepare the City's audited CAFR shall be provided by March 31st each year.

I. A copy of the City's Comprehensive Annual Financial Report can be obtained at: www.cityofcapitola.org/finance/page/comprehensive-annual-financial-reports

J. Working Paper Retention - All working papers and reports must be retained, at the Actuary's expense, for a minimum of seven (7) years after the last year of the contract, unless the Actuary is notified in writing by the City of the need to extend the retention period. The Actuary will be required to make working papers available upon request, including, but not limited to, the City or its designees. The Actuary shall work with city staff and financial auditors as needed to comply with GASB 75 requirements and CAFR preparation and audits.

K. The Actuary shall respond to the reasonable inquiries of successor Actuaries and allow successor Actuaries to review working papers relating to matters of continuing GASB and accounting significance, if needed.

L. The City shall be free to publish the valuations and reports as they see fit without obtaining prior permission from the Actuary as long as they are not used in a potentially misleading manner and no material subsequent event has occurred that might render the valuation and reports potentially misleading.

M. The proposal package shall present all-inclusive actuarial fees for each year of the contract term. Actuarial fees associated with optional extensions exercised by the City will be negotiated at the time of contract extension. The City requires the total costs be stated as a "not to exceed" basis and shall be inclusive of labor, travel, report preparation, printing, and all other expenses incurred by the Actuary.

PROPOSAL REQUIREMENTS

In your proposal please provide the following:

Cover Letter: Provide a cover letter on company letterhead addressing the proposal. The letter shall be signed by an officer of the Actuary firm authorized to bind the firm to all comments made in the proposal, and shall include the name, address, and phone number of the person(s) to contact who will be authorized to represent your firm. In addition, the cover letter must acknowledge receipt of any and all addenda issued in association with this RFP.

Project Understanding: The Actuary shall indicate a clear understanding of the project. This should include a description of how the project tasks will be accomplished, the challenges that are expected to be encountered and how the Actuary will address these challenges.

Scope of Work: Provide sufficient evidence as to the Actuary's qualifications to perform the work. This information shall disclose and include all pertinent facts as may be appropriate and shall include at least a description of past performance on projects of similar type, scope and size; project team members who worked on each project and their roles and percentage commitment of time on the project; and any other pertinent information to demonstrate experience on similar assignments. In addition, please provide a statement regarding Actuary's ability to complete the work in a timely and professional manner.

Personnel: Present the experience of the Actuary and other key personnel to be assigned to prepare the plan, including any sub-consultants. A resume shall be included for the Actuary and other key personnel, including education, employment history and experience relevant to the project, with corresponding dates. Provide a list of projects where the proposed Actuary and key team members have performed similar work. For each, provide the name of project, location, brief description, and name and phone number of a contact person. During the course of the project, substitution of key personnel is subject to the approval of the City.

Project Schedule: Provide a proposed project schedule for preparation of the actuarial valuation and GASB 75 report, including key milestones for deliverables.

Please limit the proposal to no more than ten (10) pages of text, exclusive of cover letter and resumes.

Please provide one electronic copy of the proposal and fee schedule via email to Jim Malberg, jmalberg@ci.capitola.ca.us

EVALUATION OF PROPOSALS AND NEGOTIATIONS

A selection panel will be convened of City staff, which will include Finance and possibly other departments. The evaluation will consider technical approach, including project understanding, scope of work, overall project team, and fee schedule. The evaluation will also include relevant experience, including that of the Actuary, key team members including sub-consultants, and experience of the firm. At the completion of the proposal review, the panel may elect to invite the top scoring firms to make a presentation at no cost to the City. The City may request Best and Final offers. Based on the presentation and the Best and Final offers, if requested, the panel will select the proposal that best fulfills the City's requirements. The City may negotiate with the selected Actuary to determine final pricing and contract form. There will be no public opening and reading of proposals.

CONDITIONS AND STIPULATIONS

The City reserves the right to reject any and all proposals, cancel all or part of this RFP, and waive any non-material irregularities or informalities and to request additional information and clarification regarding any particular service from the proposing Actuaries.

The City reserves the right to reject any proposal for any reason. The proposal should be the best effort possible by the Actuary, since the City reserves the right to award the contract with no further negotiations. Conversely, the City reserves the right to negotiate with the selected proposer any additional terms and conditions not contained in their proposal, which are in the best interest of the City or to otherwise revise the scope of this RFP.

All proposals, whether accepted or rejected, shall become the property of the City of Capitola, therefore becoming public records. The City's decision to award a contract will be based on many factors including, but not limited, service, cost, experience, ability to deliver, and for any other reason deemed by the selection committee to be in the best interest of the City. No single factor, such as cost, will determine the final decision to award a contract. This RFP and the Actuary's responses, including all promises, warranties, commitments, and representations made in the selected proposal, shall become binding contractual obligations, and will be incorporated by reference in the final agreement between the City of Capitola and the selected Actuary. All terms and conditions not specifically identified as exceptions will be considered acceptable to the Actuary.

ESTIMATED TIMELINE (Dates are subject to change)

• Distribution of RFP	October 24, 2019
• Deadline for Questions	November 14, 2019
• Closing Date	November 21, 2019
• Vendor Presentations/Interviews (if necessary)	Week of December 2, 2019
• Contract Award	December 2019

CONTACTS

For questions regarding the scope of proposal or the proposal process, please submit questions through email or fax only to:

Jim Malberg, Finance Director
Fax: (831) 479-8879
Email: jmalberg@ci.capitola.ca.us

SUBMISSION INFORMATION

Proposals must be submitted to:

City of Capitola
Finance Department
Attention: Jim Malberg, Finance Director
420 Capitola Ave
Capitola, CA 95010

All proposals must be delivered no later than **5:00 p.m. on November 21, 2019.** Late submissions or proposals delivered via fax or email will not be accepted.

ATTACHMENTS

Attachment A: Standard City Professional Services Agreement – Insurance and Indemnifications

Attachment B: The current OPEB valuation from Total Compensation Systems, Inc. dated June 2018

Attachment C: The GASB 75 report from Total Compensation Systems, Inc. dated February 2019

Thank you for your interest in working with the City of Capitola for this service. We look forward to receiving your proposal.

Attachment A

CITY OF CAPITOLA
PROFESSIONAL SERVICES AGREEMENT
________________ (insert brief description of contract)
________________ (insert consultant name)

THIS AGREEMENT is entered into on ________________, 20__, by and between the City of Capitola, a Municipal Corporation, hereinafter called "City" and ________________, hereinafter called "Consultant".

WHEREAS, City desires certain services described in Appendix One and Consultant is capable of providing and desires to provide these services;

NOW, THEREFORE, City and Consultant for the consideration and upon the terms and conditions hereinafter specified agree as follows:

SECTION 1
Scope of Services

The services to be performed under this Agreement are for ________________ (insert brief contract description) and further detailed in Appendix One.

SECTION 2
Duties of Consultant

All work performed by Consultant, or under its direction, shall be sufficient to satisfy the City's objectives for entering into this Agreement and shall be rendered in accordance with the generally accepted practices, and to the standards of, Consultant's profession.

Consultant shall not undertake any work beyond the scope of work set forth in Appendix One unless such additional work is approved in advance and in writing by City. The cost of such additional work shall be reimbursed to Consultant by City on the same basis as provided for in Section 4.

If, in the prosecution of the work, it is necessary to conduct field operations, security and safety of the job site will be the Consultant's responsibility excluding, nevertheless, the security and safety of any facility of City within the job site which is not under the Consultant's control.

Consultant shall meet with ________________, called “Director," or other City personnel, or third parties as necessary, on all matters connected with carrying out of Consultant's services described in Appendix One. Such meetings shall be held at the request of either party hereto. Review and City approval of completed work shall be obtained monthly, or at such intervals as may be mutually agreed upon, during the course of this work.

SECTION 3
Duties of the City

City shall make available to Consultant all data and information in the City's possession which City deems necessary to the preparation and execution of the work, and City shall actively aid and assist Consultant in obtaining such information from other agencies and individuals as necessary.

The Director may authorize a staff person to serve as his or her representative for conferring with Consultant relative to Consultant's services. The work in progress hereunder shall be reviewed from time to time by City at the discretion of City or upon the request of Consultant. If the work is satisfactory, it will be approved. If the work is not satisfactory, City will inform Consultant of the changes or revisions necessary to secure approval.

SECTION 4
Fees and Payment

Payment for the Consultant's services shall be made upon a schedule and within the limit, or limits shown, upon Appendix Two. Such payment shall be considered the full compensation for all personnel, materials, supplies, and equipment used by Consultant in carrying out the work. If Consultant is compensated on an hourly basis, Consultant shall track the number of hours Consultant, and each of Consultant’s employees, has worked under this Agreement during each fiscal year (July 1 through June 30) and Consultant shall immediately notify City if the number of hours worked during any fiscal year by any of Consultant’s employees reaches 900 hours. In addition each invoice submitted by Consultant to City shall specify the number of hours to date Consultant, and each of Consultant’s employees, has worked under this Agreement during the current fiscal year.

SECTION 5
Changes in Work

City may order major changes in scope or character of the work, either decreasing or increasing the scope of Consultant's services. No changes in the Scope of Work as described in Appendix One shall be made without the City's written approval. Any change requiring compensation in excess of the sum specified in Appendix Two shall be approved in advance in writing by the City.

SECTION 6
Time of Beginning and Schedule for Completion

This Agreement will become effective when signed by both parties and will terminate on the earlier of:

- The date Consultant completes the services required by this Agreement, as agreed by the City; or
- The date either party terminates the Agreement as provided below.

Work shall begin on or about ______ __, 20__.

In the event that major changes are ordered or Consultant is delayed in performance of its services by circumstances beyond its control, the City will grant Consultant a reasonable adjustment in the schedule for completion provided that to do so would not frustrate the City's objective for entering into this Agreement. Consultant must submit all claims for adjustments to City within thirty calendar days of the time of occurrence of circumstances necessitating the adjustment.

SECTION 7
Termination

City shall have the right to terminate this Agreement at any time upon giving ten days written notice to Consultant. Consultant may terminate this Agreement upon written notice to City should the City fail to fulfill its duties as set forth in this Agreement. In the event of termination, City shall pay the Consultant for all services performed and accepted under this Agreement up to the date of termination.

SECTION 8
Insurance

Consultant shall procure and maintain for the duration of the contract and for ___ years thereafter, insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the Consultant, his agents, representatives, or employees.

Minimum Scope of Insurance

Coverage shall be at least as broad as:

1. Insurance Services Office Commercial General Liability coverage (Occurrence Form CG 0001).

2. Insurance Services office Form Number CA 0001 covering Automobile Liability, Code 1 (any auto).

3. Workers' Compensation insurance as required by the State of California, and Employer's Liability Insurance.

4. Professional (Errors and Omissions) Liability insurance appropriate to the consultant's profession. Architects' and engineers' coverage shall include contractual liability.

Minimum Limits of Insurance

Consultant shall maintain limits no less than:

1.	General Liability: (including operations, products and completed operations)	**$1,000,000** per occurrence and **$2,000,000** in aggregate (including operations, for bodily injury, personal and property damage.
2.	Automobile Liability:	**$1,000,000** per accident for bodily injury and property damage.
3.	Employer's Liability Insurance	**$1,000,000 per accident for bodily injury and property damage.**
4.	Errors and Omissions Liability: Limits	**$1,000,000** per claim and **$2,000,000** in the aggregate.

Other Insurance Provisions

The commercial general liability and automobile liability policies are to contain, or be endorsed to contain, the following provisions:

1. The City of Capitola, its officers, officials, employees and volunteers are to be covered as additional insured's as respects: liability arising out of work or operations performed by or on behalf of the Consultant or automobiles owned, leased, hired or borrowed by the Consultant.
2. For any claims related to this project, the Consultant's insurance coverage shall be primary insurance as respects the City, its officers, officials, employees and volunteers. Any insurance or self-insurance maintained by the City, its officers, officials, employees or volunteers shall be excess of the Consultant's insurance and shall not contribute with it.
3. Each insurance policy required by this clause shall be endorsed to state that coverage shall not be canceled except after prior written notice has been given to the City.

Acceptability of Insurers

Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII, unless otherwise acceptable to the City.

Waiver of Subrogation

Contractor hereby agrees to waive rights of subrogation which any insurer of Contractor may acquire from Contractor by virtue of the payment of any loss. Contractor agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation. **The Workers' Compensation policy shall be endorsed with a waiver of subrogation in favor of the City of Capitola** for all work performed by the Contractor, its employees, agents and subcontractors.

Verification of Coverage

Consultant shall furnish the City with original certificates and amendatory endorsements affecting coverage by this clause. The endorsements should be on forms provided by the City or on other than the City's forms provided those endorsements conform to City requirements. All certificates and endorsements are to be received and approved by the City before work commences. The City reserves the right to require complete, certified copies of all required insurance policies, including endorsements affecting the coverage required by these specifications at any time.

SECTION 9
Indemnification

For General Services: To the fullest extent permitted by law, Consultant agrees to indemnify, defend, and hold harmless the City, its directors, officers, employees from and against any and all claims, demands, actions, liabilities, damages, judgments, or expenses (including attorneys' fees and costs) arising from the acts or omissions of Consultant's employees or agents in any way related to the obligations or in the performance of services under this Agreement, except for design professional services as defined in Civil Code § 2782.8, and except where caused by the sole or active negligence, or willful misconduct of the City.

For Design Professional Services under Civil Code §2782.8: To the fullest extent permitted by law, Consultant agrees to indemnify, defend, and hold harmless the City, its directors, officers, and employees from and against any and all claims, demands, actions, liabilities, damages, or expenses (including attorneys' fees and costs) arising from the negligence, recklessness, or willful misconduct of the Consultant, Consultant's employees, or agents in any way related to the obligations or in the performance of design professional services under this Agreement as defined in Civil Code §2782.8, except where caused by the sole or active negligence, or willful misconduct of the City. The costs to defend charged to the Consultant relating to design professional services shall not exceed the Consultant's proportionate percentage of fault per Civil Code §2782.8.and against all claims, damages, losses, and expenses including attorney fees arising out of the performance of the work described herein, caused in whole or in part by any negligent act or omission of the Consultant, Consultant's employees, agents or subcontractors, except where caused by the active negligence, sole negligence, or willful misconduct of the City.

SECTION 10
Civil Rights Compliance/Equal Opportunity Assurance

Every supplier of materials and services and all consultants doing business with the City of Capitola shall be in compliance with the applicable provisions of the Americans with Disabilities Act of 1990, and shall be an equal opportunity employer as defined by Title VII of the Civil Rights Act of 1964 and including the California Fair Employment and Housing Act of 1980. As such, consultant shall not discriminate against any person on the basis of race, religious creed, color, national origin, ancestry, disability, medical condition, marital status, age or sex with respect to hiring, application for employment, tenure or terms and conditions of employment. Consultant agrees to abide by all of the foregoing statutes and regulations.

SECTION 11
Legal Action/Attorneys' Fees

If any action at law or in equity is brought to enforce or interpret the provisions of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees in addition to any other relief to which he or she may be entitled. The laws of the State of California shall govern all matters relating to the validity, interpretation, and effect of this Agreement and any authorized or alleged changes, the performance of any of its terms, as well as the rights and obligations of Consultant and the City.

SECTION 12
Assignment

This Agreement shall not be assigned without first obtaining the express written consent of the Director after approval of the City Council.

SECTION 13
Amendments

This Agreement may not be amended in any respect except by way of a written instrument which expressly references and identifies this particular Agreement, which expressly states that its purpose is to amend this particular Agreement, and which is duly executed by the City and Consultant. Consultant acknowledges that no such amendment shall be effective until approved and authorized by the City Council, or an officer of the City when the City Council may from time to time empower an officer of the City to approve and authorize such amendments. No representative of the City is authorized to obligate the City to pay the cost or value of services beyond the scope of services set forth in Appendix Two. Such authority is retained solely by the City Council. Unless expressly authorized by the City Council, Consultant's compensation shall be limited to that set forth in Appendix Two.

SECTION 14
Miscellaneous Provisions

1. *Project Manager*. Director reserves the right to approve the project manager assigned by Consultant to said work. No change in assignment may occur without prior written approval of the City.

2. *Consultant Service.* Consultant is employed to render professional services only and any payments made to Consultant are compensation solely for such professional services.

3. *Licensure*. Consultant warrants that he or she has complied with any and all applicable governmental licensing requirements.

4. *Other Agreements*. This Agreement supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the subject matter, and no other agreement, statement or promise related to the subject matter of this Agreement which is not contained in this Agreement shall be valid or binding.

5. *City Property*. Upon payment for the work performed, or portion thereof, all drawings, specifications, records, or other documents generated by Consultant pursuant to this Agreement are, and shall remain, the property of the City whether the project for which they are made is executed or not. The Consultant shall be permitted to retain copies, including reproducible copies, of drawings and specifications for information and reference in connection with the City's use and/or occupancy of the project. The drawings, specifications, records, documents, and Consultant's other work product shall not be used by the Consultant on other projects, except by agreement in writing and with appropriate compensation to the City.

6. *Consultant's Records*. Consultant shall maintain accurate accounting records and other written documentation pertaining to the costs incurred for this project. Such records and documentation shall be kept available at Consultant's office during the period of this Agreement, and after the term of this Agreement for a period of three years from the date of the final City payment for Consultant's services.

7. *Independent Contractor*. In the performance of its work, it is expressly understood that Consultant, including Consultant's agents, servants, employees, and subcontractors, is an independent contractor solely responsible for its acts and omissions, and Consultant shall not be considered an employee of the City for any purpose.

8. *Conflicts of Interest*. Consultant stipulates that corporately or individually, its firm, its employees and subcontractors have no financial interest in either the success or failure of any project which is, or may be, dependent on the results of the Consultant's work product prepared pursuant to this Agreement.

9. *Notices*. All notices herein provided to be given, or which may be given by either party to the other, shall be deemed to have been fully given and fully received when made in writing and deposited in the United States mail, certified and postage prepaid, and addressed to the respective parties as follows:

CITY	CONSULTANT
CITY OF CAPITOLA	Name
420 Capitola Avenue	Address
Capitola, CA 95010	Phone
831-475-7300	

By:__________________________________ By:__________________________________
Benjamin Goldstein, City Manager

Dated:________________________________ Dated:______________________________

Approved as to Form:

____
Samantha Zutler, City Attorney

APPENDIX ONE
Scope of Services

[To be completed for each consultant]

APPENDIX TWO
Fees and Payments

For the services performed, City will pay consultant on a not-to-exceed, lump sum basis upon satisfactory completion of the services and delivery of work products. Payments will be issued monthly as charges accrue, the sum of consultant's salary expenses and non-salary expenses.

Consultant hereby represents and warrants, based upon Consultant's independent determination of the time and labor, including overtime, which will be required to perform said services, that Consultant will provide all said services at a cost which will not exceed the maximum price set forth in this agreement for Consultant's services. Consultant hereby assumes the risk that Consultant will perform said services within this maximum price constraint and Consultant acknowledges that its inability to do so shall not excuse completion of the services and shall not provide a basis for additional compensation.

Salary expenses include the actual direct pay of personnel assigned to the project (except for routine secretarial and account services) plus payroll taxes, insurance, sick leave, holidays, vacation, and other fringe benefits. The percentage of compensation attributable to salary expenses includes all of Consultant's indirect overhead costs and fees. For purposes of this Agreement, Consultant's salary expenses and non-salary expenses will be compensated at the rates set forth in the fee schedule attached to this appendix and in accordance with the terms set forth therein. Non-salary expenses include travel, meals and lodging while traveling, materials other than normal office supplies, reproduction and printing costs, equipment rental, computer services, service of subconsultants or subcontractors, and other identifiable job expenses. The use of Consultant's vehicles for travel shall be paid at the current Internal Revenue Service published mileage rate.

Salary payment for personnel time will be made at the rates set forth in the attached fee schedule for all time charged to the project. Normal payroll rates are for 40 hours per week. Consultant shall not charge the City for personnel overtime salary at rates higher than those set forth in the attached fee schedule without the City's prior written authorization.

In no event shall the total fee charged for the scope of work set forth in Appendix One exceed the total budget of $______ (______ Thousand Dollars and Zero Cents), without specific, written advance authorization from the City.

Payments shall be made monthly by the City, based on itemized invoices from the Consultant which list actual costs and expenses. Such payments shall be for the invoice amount. The monthly statements shall contain the following affidavit signed by a principal of the Consultant's firm:

"I hereby certify as principal of the firm of _______________, that the charge of $________as summarized above and shown in detail on the attachments is fair and reasonable, is in accordance with the terms of the Agreement dated _______ _, __, and has not been previously paid."

City of Capitola

Actuarial Study of
Retiree Health Liabilities Under GASB 74/75
Valuation Date: June 30, 2017
Measurement Date: June 30, 2017

Prepared by:
Total Compensation Systems, Inc.

Date: June 20, 2018

Table of Contents

City of Capitola
Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

City of Capitola engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of June 30, 2017 (the measurement date). The numbers in this report are based on the assumption that they will first be used to determine accounting entries for the fiscal year ending June 30, 2017. If the report will first be used for a different fiscal year, the numbers may need to be adjusted accordingly.

This report does not reflect any cash benefits paid unless the retiree is required to provide proof that the cash benefits are used to reimburse the retiree's cost of health benefits. Costs and liabilities attributable to cash benefits paid to retirees are reportable under applicable Governmental Accounting Standards Board (GASB) Standards.

This actuarial study is intended to serve the following purposes:

- To provide information to enable Capitola to manage the costs and liabilities associated with its retiree health benefits.
- To provide information to enable Capitola to communicate the financial implications of retiree health benefits to internal financial staff, the Council, employee groups and other affected parties.
- To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 74 and 75 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 74 and 75, Capitola should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 74 and 75 compliance.

This actuarial report includes several estimates for Capitola's retiree health program. In addition to the tables included in this report, we also performed cash flow adequacy tests as required under Actuarial Standard of Practice 6 (ASOP 6). Our cash flow adequacy testing covers a twenty-year period. We would be happy to make this cash flow adequacy test available to Capitola in spreadsheet format upon request.

We calculated the following estimates separately for active employees and retirees. As requested, we also separated results by the following employee classifications: Miscellaneous and Safety. We estimated the following:

- the total liability created. (The actuarial present value of total projected benefits or APVTPB)
- ten years of projected benefit payments.
- the "total OPEB liability (TOL)." (The TOL is the portion of the APVTPB attributable to employees' service prior to the measurement date.)
- the "net OPEB liability" (NOL). For plans funded through a trust, this represents the

unfunded portion of the liability.

- the service cost (SC). This is the value of OPEB benefits earned for one year of service.

- deferred inflows and outflows of resources attributable to the OPEB plan.

- “OPEB expense.” This is the amount recognized in accrual basis financial statements as the current period expense. The OPEB expense includes service cost, interest and certain changes in the OPEB liability, adjusted to reflect deferred inflows and outflows. This amount may need to be adjusted to reflect any contributions received after the Measurement Date.

- Amounts to support financial statement Note Disclosures and Required Supplementary Information (RSI) schedules.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Service costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report.

B. General Findings

We estimate the "pay-as-you-go" cost of providing retiree health benefits in the year beginning July 1, 2017 to be $27,697 (see Section IV.A.). The “pay-as-you-go” cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning July 1, 2017 (the service cost) is $27,267. This service cost would increase each year based on covered payroll. Had Capitola begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated to be $817,810. This amount is called the "Total OPEB Liability” (TOL). Capitola has set aside funds to cover retiree health liabilities in a GASB 75 qualifying trust. The Fiduciary Net Position of this trust at June 30, 2017 was $213,373. This leaves a Net OPEB Liability (NOL) Of $604,437.

Based on the information we were provided, the OPEB Expense for the fiscal year ending June 30, 2017 is ***negative*** $18,342. As noted in this report adjustments may be needed – particularly if the reporting date is not the same as the measurement date.

We based all of the above estimates on employees as of April, 2017. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan:

	Miscellaneous	***Sworn***
Benefit types provided	Medical Only	Medical Only
Duration of Benefits	Lifetime	Lifetime
Required Service	CalPERS Retirement	CalPERS Retirement
Minimum Age	CalPERS Retirement	CalPERS Retirement
Dependent Coverage	Surviving Spouse*	Surviving Spouse*
District Contribution %	100% to cap	100% to cap
District Cap	$128 per month**	$128 per month**

*If receiving a joint and survivor annuity
**$133 per month in 2018; subject to indexing to the medical component of the CPI thereafter

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions Capitola should take to manage the liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the City to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of Capitola's practices, it is possible that Capitola is already complying with some or all of our recommendations.

- We recommend that Capitola maintain an inventory all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, Capitola should determine whether the benefit is material and subject to GASB 74 and/or 75.

- We recommend that Capitola conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no <u>less</u> frequently than every two years, as required under GASB 74/75.

- Under GASB 75, it is important to isolate the cost of retiree health benefits. Capitola should have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – ***even on a retiree-pay-all basis*** – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, Capitola should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.

- Capitola should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for City-paid OPEB benefits; employees who exceed the termination age for OPEB benefits, etc.

- Several assumptions were made in estimating costs and liabilities under Capitola's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, Capitola should maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for Capitola to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.

Respectfully submitted,

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PART II: BACKGROUND

A. Summary

Accounting principles provide that the cost of retiree benefits should be "accrued" over employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in June of 2015 Accounting Standards 74 and 75 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees (including early retirees), whether they pay directly or indirectly (via an "implicit rate subsidy"),

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an "actuarial cost method."

The actuarial cost method mandated by GASB 75 is the "entry age actuarial cost method". Under this method, there are two components of actuarial cost – a "service cost" (SC) and the "Total OPEB Liability" (TOL). GASB 75 allows certain changes in the TOL to be deferred (i.e. deferred inflows and outflows of resources).

The service cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. Under the entry age actuarial cost method, the actuary determines the annual amount needing to be expensed from hire until retirement to fully accrue the cost of retiree health benefits. This amount is the service cost. Under GASB 75, the service cost is calculated to be a level percentage of each employee's projected pay.

The service cost is determined using several key assumptions:

- The current ***cost of retiree health benefits*** (often varying by age, Medicare status and/or dependent coverage). The higher the current cost of retiree benefits, the higher the service cost.

- The ***"trend" rate*** at which retiree health benefits are expected to increase over time. A higher trend rate increases the service cost. A "cap" on City contributions can reduce trend to zero once the cap is reached thereby dramatically reducing service costs.

- ***Mortality rates*** varying by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

- ***Employment termination rates*** have the same effect as mortality inasmuch as higher termination rates reduce service costs. Employment termination can vary considerably between public agencies.

- The ***service requirement*** reflects years of service required to earn full or partial retiree benefits. While a longer service requirement reduces costs, cost reductions are not usually substantial unless the service period exceeds 20 years of service.

- ***Retirement rates*** determine what proportion of employees retire at each age (assuming employees reach the requisite length of service). Retirement rates often vary by employee classification and implicitly reflect the minimum retirement age required for eligibility. Retirement rates also depend on the amount of pension benefits available. Higher retirement rates increase service costs but, except for differences in minimum retirement age, retirement rates tend to be consistent between public agencies for each employee type.

- ***Participation rates*** indicate what proportion of retirees are expected to elect retiree health benefits if a significant retiree contribution is required. Higher participation rates increase costs.

- The ***discount rate*** estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets for funded plans. The rate used for a funded plan is the long term inflation assumption. For an unfunded plan, the discount rate is based on an index of 20 year General Obligation municipal bonds. For partially funded plans, the discount rate is a blend of the funded and unfunded rates.

The assumptions listed above are not exhaustive, but are the most common assumptions used in actuarial cost calculations. If all actuarial assumptions are exactly met and an employer expensed the service cost every year for all past and current employees and retirees, a sizeable liability would have accumulated (after adding interest and subtracting retiree benefit costs). The liability that would have accumulated is called the Total OPEB Liability (TOL). The excess of TOL over the value of plan assets is called the Net OPEB Liability (NOL). Under GASB 74 and 75, in order for assets to count toward offsetting the TOL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The total OPEB liability (TOL) can arise in several ways - e.g., as a result of plan changes or changes in actuarial assumptions. TOL can also arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience.

Under GASB 74 and 75, a portion of actuarial gains and losses can be deferred as follows:

- Investment gains and losses can be deferred five years

- Experience gains and losses can be deferred over the expected average remaining service lives (EARSL) of plan participants. In calculating the EARSL, terminated employees (primarily retirees) are considered to have a working lifetime of zero. This often makes the EARSL quite short.

- Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working lifetime

- Liability changes resulting from plan changes, for example, cannot be deferred.

PART III: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

We calculated the actuarial present value of projected benefit payments (APVPBP) separately for each employee. We determined eligibility for retiree benefits based on information supplied by Capitola. We then selected assumptions for the factors discussed in the above Section that, based on plan provisions and our training and experience, represent our best prediction of future plan experience. For each employee, we applied the appropriate factors based on the employee's age, sex, length of service, and employee classification.

We summarized actuarial assumptions used for this study in Appendix C.

B. Liability for Retiree Benefits.

For each employee, we projected future premium costs using an assumed trend rate (see Appendix C). To the extent Capitola uses contribution caps, the influence of the trend factor is further reduced. We multiplied each year's benefit payments by the probability that benefits will be paid; i.e. based on the probability that the employee is living, has not terminated employment, has retired and remains eligible. The probability that benefit will be paid is zero if the employee is not eligible. The employee is not eligible if s/he has not met minimum service, minimum age or, if applicable, maximum age requirements.

The product of each year's benefit payments and the probability the benefit will be paid equals the expected cost for that year. We discounted the expected cost for each year to the measurement date June 30, 2017 at 7% interest. Finally, we multiplied the above discounted expected cost figures by the probability that the retiree would elect coverage. A retiree may not elect to be covered if retiree health coverage is available less expensively from another source (e.g. Medicare risk contract) or the retiree is covered under a spouse's plan.

For any ***current retirees***, the approach used was similar. The major difference is that the probability of payment for current retirees depends only on mortality and age restrictions (i.e. for retired employees the probability of being retired and of not being terminated are always both 1.0000).

We added the APVPBP for all employees to get the actuarial present value of total projected benefits (APVPBP). The APVPBP is the estimated present value of all future retiree health benefits for all **current** employees and retirees. The APVPBP is the amount on June 30, 2017 that, if all actuarial assumptions are exactly right, would be sufficient to expense all promised benefits until the last current employee or retiree dies or reaches the maximum eligibility age.

Actuarial Present Value of Projected Benefit Payments at June 30, 2017

	Total	*Miscellaneous*	*Safety*
Active: Pre-65	$194,253	$76,969	$117,284
Post-65	$465,043	$306,992	$158,051
Subtotal	$659,296	$383,961	$275,335
Retiree: Pre-65	$26,557	$10,646	$15,911
Post-65	$365,517	$177,646	$187,871
Subtotal	$392,074	$188,292	$203,782
Grand Total	$1,051,370	$572,253	$479,117
Subtotal Pre-65	$220,810	$87,615	$133,195
Subtotal Post-65	$830,560	$484,638	$345,922

The APVPBP should be accrued over the working lifetime of employees. At any time much of it has not been “earned” by employees. The APVPBP is used to develop expense and liability figures. To do so, the APVPBP is divided into two parts: the portions attributable to service rendered prior to the measurement date (the past service liability or Total OPEB Liability (TOL) under GASB 74 and 75) and to service after the measurement date but prior to retirement (the future service liability).

The past service and future service liabilities are each accrued in a different way. We will start with the future service liability which is funded by the service cost.

C. Cost to Prefund Retiree Benefits

1. Service Cost

The average hire age for eligible employees is 34. To accrue the liability by retirement, the City would accrue the retiree liability over a period of about 26 years (assuming an average retirement age of 60). We applied an "entry age" actuarial cost method to determine funding rates for active employees. The table below summarizes the calculated service cost.

Service Cost Year Beginning June 30, 2017

	Total	*Miscellaneous*	*Safety*
# of Employees	66	45	21
Per Capita Service Cost			
Pre-65 Benefit	N/A	$75	$230
Post-65 Benefit	N/A	$271	$327
First Year Service Cost			
Pre-65 Benefit	$8,205	$3,375	$4,830
Post-65 Benefit	$19,062	$12,195	$6,867
Total	$27,267	$15,570	$11,697

Accruing retiree health benefit costs using service costs levels out the cost of retiree health benefits over time and more fairly reflects the value of benefits "earned" each year by employees. This service cost would increase each year based on covered payroll.

2. Total OPEB Liability (TOL) and Net OPEB Liability (NOL)

If actuarial assumptions are borne out by experience, the City will fully accrue retiree benefits by expensing an amount each year that equals the service cost. If no accruals had taken place in the past, there would be a shortfall of many years' accruals, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the Total OPEB Liability (TOL). We calculated the TOL as the APVPBP minus the present value of future service costs. To the extent that benefits are funded through a GASB 74 qualifying trust, the trust's Fiduciary Net Position (FNP) is subtracted to get the NOL. The FNP is the value of assets adjusted for any applicable payables and receivables.

Total OPEB Liability (TOL) and Net OPEB Liability (NOL) as of June 30, 2017

	Total	*Miscellaneous*	*Safety*
Active: Pre-65	$118,818	$53,754	$65,064
Active: Post-65	$306,917	$223,109	$83,808
Subtotal	$425,735	$276,863	$148,872
Retiree: Pre-65	$26,557	$10,646	$15,911
Retiree: Post-65	$365,517	$177,646	$187,871
Subtotal	$392,074	$188,292	$203,782
Subtotal: Pre-65	$145,375	$64,400	$80,975
Subtotal: Post-65	$672,434	$400,755	$271,679
Total OPEB Liability (TOL)	$817,810	$465,156	$352,654
Fiduciary Net Position as of June 30, 2017	$213,373		
Net OPEB Liability (NOL)	$604,437		

Because Capitola concluded that it would be too expensive and time-consuming to rerun prior valuations under GASB 75, we invoked Paragraph 244 of GASB 75 for the transition. Consequently, in order to determine the beginning NOL, we used a "roll-back" technique. The following table shows the results of the roll-back. Capitola should restate its June 30, 2016 NOL accordingly.

Changes in Net OPEB Liability as of June 30, 2017

	TOL	*FNP*	*NOL*
Roll back balance at June 30, 2016	$766,166	$143,387	$622,779
Service Cost	$26,537	$0	$26,537
Interest on TOL	$51,739	$0	$51,739
Employer Contributions	$0	$81,540	($81,540)
Employee Contributions	$0	$0	$0
Actual Investment Income	$0	$15,205	($15,205)
Administrative Expense	$0	($127)	$127
Benefit Payments	($26,632)	($26,632)	$0
Other	$0	$0	$0
Net Change during 2016-17	$51,644	$69,986	($18,342)
Balance at June 30, 2017 *	$817,810	$213,373	$604,437

***** May include a slight rounding error.

3. Preliminary OPEB Expense

Under GASB 74 and 75, OPEB expense includes service cost, interest cost, change in TOL due to plan changes; all adjusted for deferred inflows and outflows. Capitola determined that it was not reasonable to rerun prior valuations under GASB 75. Therefore, we used the transition approach provided in GASB 75, Paragraph 244. That means that there are no deferred inflows/outflows in the first year (with the possible exception of contributions after the measurement date).The OPEB expense shown below is considered to be preliminary because there can be employer specific deferred items (e.g., contributions made after the measurement date, and active employee contributions toward the OPEB plan).

Preliminary OPEB Expense Fiscal Year Ending June 30, 2017

	Total
Service Cost	$26,537
Interest on Total OPEB Liability (TOL)	$51,739
Employer Contributions	($81,540)
Employee Contributions	$0
Recognized Actuarial Gains/Losses	$0
Recognized Assumption Changes	$0
Actual Investment Income	($15,205)
Recognized Investment Gains/Losses	$0
Contributions After Measurement Date*	$0
Liability Change Due to Benefit Changes	$0
Administrative Expense	$127
Preliminary OPEB Expense**	($18,342)

***** Should be added by Capitola if reporting date is after the measurement date.
****** May include a slight rounding error.

4. Deferred Inflows and Outflows

Certain types of TOL changes are subject to deferral, as are investment gains/losses. To qualify for deferral, gains and losses must be based on GASB 74/75 compliant valuations. Since the City's prior valuation was performed in accordance with GASB 43/45, it is not possible to calculate compliant gains and losses. (Please see Appendix E, Paragraph 244 for more information.) Therefore, valuation-based deferred items will not begin until the next valuation. However, there could be employer-specific deferred items that need to be reflected, as mentioned earlier.

PART IV: "PAY AS YOU GO" FUNDING OF RETIREE BENEFITS

We used the actuarial assumptions shown in Appendix C to project the City's ten year retiree benefit outlay, including any implicit rate subsidy. Because these cost estimates reflect average assumptions applied to a relatively small number of employees, estimates for individual years are **certain** to be ***in***accurate. However, these estimates show the size of cash outflow.

The following table shows a projection of annual amounts needed to pay the City's share of retiree health costs, including any implicit rate subsidy.

Year Beginning July 1	***Total***	***Miscellaneous***	***Safety***
2017	$27,697	$13,497	$14,200
2018	$29,524	$14,831	$14,693
2019	$32,637	$17,303	$15,334
2020	$35,778	$19,796	$15,982
2021	$39,407	$22,537	$16,870
2022	$42,746	$24,942	$17,804
2023	$46,348	$27,596	$18,752
2024	$50,235	$30,039	$20,196
2025	$54,089	$32,600	$21,489
2026	$58,678	$35,505	$23,173

PART V: RECOMMENDATIONS FOR FUTURE VALUATIONS

To effectively manage benefit costs, an employer must periodically examine the existing liability for retiree benefits as well as future annual expected premium costs. GASB 74/75 require biennial valuations. In addition, a valuation should be conducted whenever plan changes, changes in actuarial assumptions or other employer actions are likely to cause a material change in accrual costs and/or liabilities.

Following are examples of actions that could trigger a new valuation.

- An employer should perform a valuation whenever the employer considers or puts in place an early retirement incentive program.
- An employer should perform a valuation whenever the employer adopts a retiree benefit plan for some or all employees.
- An employer should perform a valuation whenever the employer considers or implements changes to retiree benefit provisions or eligibility requirements.
- An employer should perform a valuation whenever the employer introduces or changes retiree contributions.
- An employer should perform a valuation whenever the employer forms a qualifying trust or changes its investment policy.
- An employer should perform a valuation whenever the employer adds or terminates a group of participants that constitutes a significant part of the covered group.

We recommend Capitola take the following actions to ease future valuations.

- We have used our training, experience and information available to us to establish the actuarial assumptions used in this valuation. We have no information to indicate that any of the assumptions do not reasonably reflect future plan experience. However, the City should review the actuarial assumptions in Appendix C carefully. If the City has any reason to believe that any of these assumptions do not reasonably represent the expected future experience of the retiree health plan, the City should engage in discussions or perform analyses to determine the best estimate of the assumption in question.

PART VI: APPENDICES

APPENDIX A: MATERIALS USED FOR THIS STUDY

We relied on the following materials to complete this study.

- We used paper reports and digital files containing employee demographic data from the City personnel records.
- We used relevant sections of collective bargaining agreements provided by the City.

APPENDIX B: EFFECT OF ASSUMPTIONS USED IN CALCULATIONS

While we believe the estimates in this study are reasonable overall, it was necessary for us to use assumptions which inevitably introduce errors. We believe that the errors caused by our assumptions will not materially affect study results. If the City wants more refined estimates for decision-making, we recommend additional investigation.

APPENDIX C: ACTUARIAL ASSUMPTIONS AND METHODS

Following is a summary of actuarial assumptions and methods used in this study. The City should carefully review these assumptions and methods to make sure they reflect the City's assessment of its underlying experience. It is important for Capitola to understand that the appropriateness of all selected actuarial assumptions and methods are Capitola's responsibility. Unless otherwise disclosed in this report, TCS believes that all methods and assumptions are within a reasonable range based on the provisions of GASB 74 and 75, applicable actuarial standards of practice, Capitola's actual historical experience, and TCS's judgment based on experience and training.

ACTUARIAL METHODS AND ASSUMPTIONS:

ACTUARIAL COST METHOD: GASB 74/75 require use of the entry age actuarial cost method.

Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The APVPBP and present value of future service costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the service cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees). This greatly simplifies administration and accounting; as well as resulting in the correct service cost for new hires.

SUBSTANTIVE PLAN: As required under GASB 74 and 75, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by Capitola regarding practices with respect to employer and employee contributions and other relevant factors.

ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

INFLATION: We assumed 2.75% per year used for pension purposes. Actuarial standards require using the same rate for OPEB that is used for pension.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 7% per year. This is based on assumed long-term return on plan assets assuming 100% funding through CERBT. We used the "Building Block Method" as described in ASOP 27 Paragraph 3.6.2. (See Appendix E, Paragraph 53 for more information).

TREND: We assumed 4% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

PAYROLL INCREASE: We assumed 2.75% per year. Since benefits do not depend on salary (as they do for pensions), using an aggregate payroll assumption for the purpose of calculating the service cost results in a negligible error.

FIDUCIARY NET POSITION (FNP): The following table shows the beginning and ending FNP numbers that were provided by Capitola.

Fiduciary Net Position as of June 30, 2017

	06/30/2016	*06/30/2017*
Cash and Equivalents	$0	$0
Contributions Receivable	$0	$0
Total Investments	$143,387	$213,373
Capital Assets	$0	$0
Total Assets	$143,387	$213,373
Benefits Payable	$0	$0
Fiduciary Net Position	$143,387	$213,373

NON-ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 35 (ASOP 35). See Appendix E, Paragraph 52 for more information.

MORTALITY

Employee Type	***Mortality Tables***
Police	2014 CalPERS Mortality for Active Safety Employees
Miscellaneous	2014 CalPERS Active Mortality for Miscellaneous Employees

RETIREMENT RATES

Employee Type	***Retirement Rate Tables***
Police Officers	Hired < 1/1/13: 2009 CalPERS 3@50 table for Sworn Police Hired > 12/31/12: 2009 CalPERS 3@55 table for Sworn Police
General Employees	Hired < 1/1/13: 2009 CalPERS 2.5@55 table for Miscellaneous employees Hired > 12/31/12: 2009 CalPERS 2@60 table for Miscellaneous employees adjusted to reflect a minimum retirement age of 52

SERVICE REQUIREMENT

Employee Type	***Service Requirement Tables***
Police	100% at 5 Years of Service
Miscellaneous	100% at 5 Years of Service

COSTS FOR RETIREE COVERAGE

Actuarial Standard of Practice 6 (ASOP 6) provides that, as a general rule, retiree costs should be based on actual claim costs or age-adjusted premiums. This is true even for many medical plans that are commonly considered to be "community-rated." However, ASOP 6 contains a provision – specifically section 3.7.7(c) – that allows use of unadjusted premiums in certain circumstances.

Because the section 3.7.7(c) exception is new, there is not a consensus among practicing actuaries regarding the specific circumstances under which a section 3.7.7(c) exception may be invoked. It is my opinion that the section 3.7.7(c)(4) exception allows use of unadjusted premium for PEMHCA agencies if certain conditions are met. Other actuaries have taken the position that ASOP 6 does not explicitly allow use of unadjusted premium for any agencies participating in the CalPERS medical plan.

Prior to the most recent ASOP 6 revision, there was general agreement that ASOP 6 allowed use of unadjusted premium as a retiree cost basis for PEMHCA agencies (under section 3.4.5 of the prior version of ASOP 6). Since there have been no changes to the CalPERS medical plan, use of unadjusted premium must still be viewed as appropriate actuarial practice to the extent that it was under the prior version of ASOP 6. That means that if the current ASOP 6 section 3.7.7(c)(4) exception is not deemed to ***explicitly*** allow use of unadjusted premium as a retiree cost basis for Capitola , then it would be allowable as a "deviation."

While I am confident that ASOP 6 section 3.7.7(c)(4) will ultimately be found to explicitly allow use of unadjusted premium as a retiree cost basis for most PEMHCA agencies, I cannot be certain that this will be the case if and when this issue is fully reviewed. Therefore, I am including disclosure information required for a "deviation" so that the valuation will not need to be revised in the event section 3.7.7(c)(4) should be found not to explicitly allow use of unadjusted premium. Following is the disclosure information that is required should a deviation be necessary.

Use of ***age-adjusted*** premium for the CalPERS medical plan results in an overstatement of Capitola's OPEB Expense and Total OPEB Liability (TOL) to the extent that Capitola continues to participate in the CalPERS medical plan AND that the rate structure of the CalPERS medical plan continues in its current form (i.e. with no rate distinction between active employees and retirees). In addition to the overstatement of OPEB costs and liabilities, Capitola's policy of funding OPEB obligations could lead to an inability of Capitola to recover overfunded assets. It is important to note that, should Capitola leave the CalPERS medical plan, the subsequent plan may not qualify to use unadjusted premium rates. In this event, leaving the CalPERS medical plan would be comparable to a significant change in plan terms and would likely require a new valuation.

Following are the criteria we applied to Capitola to determine that it is reasonable to assume that Capitola's future participation in PEMHCA is likely and that the CalPERS medical program as well as its premium structure are sustainable. (We also have an extensive white paper on this subject that provides a basis for our rationale entirely within the context of ASOP 6. We will make this white paper available upon request.)

The City participates in the CalPERS medical program. We have performed the required evaluation of the CalPERS medical program and we have determined that there is sufficient evidence to apply the 3.7.7(c)(4) exception. Following are details regarding the evaluation based on the criteria we have set:

- **Plan qualifies as a "pooled health plan."** ASOP 6 defines a "pooled health plan" as one in which premiums are based at least in part on the claims experience of groups other than the one being valued." Since CalPERS rates are the same for all employers in each region, rates are clearly based on the experience of many groups.

- **Rates not based to any extent on the agency's claim experience.** As mentioned above, rates are the same for all participating employers regardless of claim experience or size.

- **Rates not based to any extent on the agency's demographics.** As mentioned above, rates are the same for all participating employers regardless of demographics.

- **No refunds or charges based on the agency's claim experience or demographics.** The terms of operation of the CalPERS program are set by statute and there is no provision for any refunds and charges that vary from employer to employer for any reason. The only charges are uniform administrative charges.

- **Plan in existence 20 or more years.** Enabling legislation to allow "contracting agencies" to participate in the CalPERS program was passed in 1967. The CalPERS medical plan has been successfully operating for almost 50 years. As far back as we can obtain records, the rating structure has been consistent, with the only difference having been a move to regional rating which is unrelated to age-adjusted rating.

- **No recent large increases or decreases in the number of participating plans or enrollment.** The CalPERS medical plan has shown remarkably stable enrollment. In the past 10 years, there has been small growth in the number of employers in most years – with the maximum being a little over 2% and a very small decrease in one year. Average year over year growth in the number of employers over the last 10 years has been about 0.75% per year. Groups have been consistently leaving the CalPERS medical plan while other groups have been joining with no disruption to its stability.

- **Agency is not expecting to leave plan in foreseeable future.** The City does not plan to leave CalPERS at present.

- **No indication the plan will be discontinued.** We are unaware of anything that would cause the CalPERS medical plan to cease or to significantly change its operation in a way that would affect this determination.

- **The agency does not represent a large part of the pool.** The City is in the CalPERS Bay Area region. Based on the information we have, the City constitutes no more than 0.1% of the Bay Area pool. In our opinion, this is not enough for the City to have a measurable effect on the rates or viability of the Bay Area pool.

Retiree liabilities are based on actual retiree costs. Liabilities for active participants are based on the first year costs shown below. Subsequent years' costs are based on first year costs adjusted for trend and limited by any City contribution caps.

Employee Type	*Future Retirees Pre-65*	*Future Retirees Post-65*
General Employees	$1,566	$1,566
Police Officers	$1,566	$1,566

PARTICIPATION RATES

Employee Type	*<65 Non-Medicare Participation %*	*65+ Medicare Participation %*
Police	80%	90%
Miscellaneous	50%	60%

TURNOVER

Employee Type	*Turnover Rate Tables*
Police	2009 CalPERS Rates for Sworn Police
Miscellaneous	2009 CalPERS Turnover for Miscellaneous Employees

SPOUSE PREVALENCE

To the extent not provided and when needed to calculate benefit liabilities, 80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

SPOUSE AGES

To the extent spouse dates of birth are not provided and when needed to calculate benefit liabilities, female spouse assumed to be three years younger than male.

APPENDIX D: DISTRIBUTION OF ELIGIBLE PARTICIPANTS BY AGE

ELIGIBLE ACTIVE EMPLOYEES

Age	*Total*	*Miscellaneous*	*Safety*
Under 25	3	0	3
25-29	6	3	3
30-34	6	3	3
35-39	10	8	2
40-44	12	4	8
45-49	5	5	0
50-54	10	8	2
55-59	9	9	0
60-64	5	5	0
65 and older	0	0	0
Total	66	45	21

ELIGIBLE RETIREES

Age	*Total*	*Miscellaneous*	*Safety*
Under 50	0	0	0
50-54	0	0	0
55-59	1	0	1
60-64	4	3	1
65-69	5	1	4
70-74	7	4	3
75-79	0	0	0
80-84	0	0	0
85-89	0	0	0
90 and older	0	0	0
Total	17	8	9

APPENDIX E: GASB 74/75 ACCOUNTING ENTRIES AND DISCLOSURES

This report does not necessarily include the entire accounting values. As mentioned earlier, there are certain deferred items that are employer-specific. The District should consult with its auditor if there are any questions about what, if any, adjustments may be appropriate.

GASB 74/75 include a large number of items that should be included in the Note Disclosures and Required Supplementary Information (RSI) Schedules. Many of these items are outside the scope of the actuarial valuation. However, following is information to assist the District in complying with GASB 74/75 disclosure requirements:

Paragraph 50: **Information about the OPEB Plan**

Most of the information about the OPEB plan should be supplied by Capitola. Following is information to help fulfill Paragraph 50 reporting requirements.

50.c: Following is a table of plan participants

	Number of Participants
Inactive Employees Receiving Benefits	17
Inactive Employees Entitled to But Not Receiving Benefits*	0
Participating Active Employees	66
Total Number of participants	83

*We were not provided with information about any terminated, vested employees

Paragraph 51: **Significant Assumptions and Other Inputs**

shown in Appendix C.

Paragraph 52: **Information Related to Assumptions and Other Inputs**

The following information is intended to assist Capitola in complying with the requirements of Paragraph 52.

52.b: Mortality Assumptions Following are the tables the mortality assumptions are based upon. Inasmuch as these tables are based on appropriate populations, and that these tables are used for pension purposes, we believe these tables to be the most appropriate for the valuation.

Mortality Table	2014 CalPERS Active Mortality for Miscellaneous Employees
Disclosure	The mortality assumptions are based on the 2014 CalPERS Active Mortality for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

Mortality Table	2014 CalPERS Mortality for Retired safety Employees
Disclosure	The mortality assumptions are based on the 2014 CalPERS Mortality for Retired safety Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.
Mortality Table	2014 CalPERS Mortality for Active Safety Employees
Disclosure	The mortality assumptions are based on the 2014 CalPERS Mortality for Active Safety Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.
Mortality Table	2014 CalPERS Retiree Mortality for Miscellaneous Employees
Disclosure	The mortality assumptions are based on the 2014 CalPERS Retiree Mortality for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

52.c: Experience Studies Following are the tables the retirement and turnover assumptions are based upon. Inasmuch as these tables are based on appropriate populations, and that these tables are used for pension purposes, we believe these tables to be the most appropriate for the valuation.

Retirement Tables

Retirement Table	2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees
Disclosure	The retirement assumptions are based on the 2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2009 CalPERS 2.5%@55 Rates for Miscellaneous Employees
Disclosure	The retirement assumptions are based on the 2009 CalPERS 2.5%@55 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2009 CalPERS 3%@55 Rates for Sworn Police
Disclosure	The retirement assumptions are based on the 2009 CalPERS 3%@55 Rates for Sworn Police table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.
Retirement Table	2009 CalPERS 3%@50 Rates for Sworn Police
Disclosure	The retirement assumptions are based on the 2009 CalPERS 3%@50 Rates for Sworn Police table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Tables

Turnover Table	2009 CalPERS Turnover for Miscellaneous Employees
Disclosure	The turnover assumptions are based on the 2009 CalPERS Turnover for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Table	2009 CalPERS Rates for Sworn Police
Disclosure	The turnover assumptions are based on the 2009 CalPERS Rates for Sworn Police table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

For other assumptions, we use actual plan provisions and plan data.

52.d: The alternative measurement method was not used in this valuation.

52.e: NOL Using alternative trend assumptions The following table shows the Net OPEB Liability with a trend 1% higher and 1% lower than assumed in the valuation.

	Trend 1% Lower	Valuation Trend	Trend 1% Higher
Net OPEB Liability	$506,801	$604,437	$718,826

Paragraph 53: **Discount Rate**

The following information is intended to assist Capitola to comply with Paragraph 53 requirements.

53.a: A discount rate of 7% was used in the valuation.

53.b: We assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years.

53.c: We used historic 30 year real rates of return for each asset class along with our assumed long-term inflation assumption to set the discount rate. We offset the expected investment return by investment expenses of 25 basis points.

53.d and 53.e.: TBD

53.f: Following is the assumed asset allocation and assumed rate of return for each.

CERBT - Strategy 1

Asset Class	**Percentage of Portfolio**	**Assumed Gross Return**
US Large Cap	43.0000	7.7950
US Small Cap	23.0000	7.7950
Long-Term Corporate Bonds	12.0000	5.2950
Long-Term Government Bonds	6.0000	4.5000
Treasury Inflation Protected Securities (TIPS)	5.0000	7.7950
US Real Estate	8.0000	7.7950
All Commodities	3.0000	7.7950

We looked at rolling periods of time for all asset classes in combination to appropriately reflect correlation between asset classes. That means that the average returns for any asset class don't necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average. We used geometric means.

53.g The following table shows the Net OPEB liability with a discount rate 1% higher and 1% lower than assumed in the valuation.

	Discount Rate 1% Lower	Valuation Discount Rate	Discount Rate 1% Higher
Net OPEB Liability	$722,056	$604,437	$507,650

Paragraph 55: **Changes in the Net OPEB Liability**

Please see reconciliation on page 11. Please see the notes for Paragraph 244 below for more information.

Paragraph 56: **Additional Net OPEB Liability Information**

The following information is intended to assist Capitola to comply with Paragraph 56 requirements.

56.a: The valuation date is June 30, 2017.
The measurement date is June 30, 2017.
56 b; 56 c; 56.d; 56.e; 56.f: Not applicable
56.g: To be determined by the employer
56.h.(1) through (4): Not applicable
56.h.(5): To be determined by the employer
56.i: Not applicable

Paragraph 57: **Required Supplementary Information**

57.a: Please see reconciliation on page 11. Please see the notes for Paragraph 244 below for more information.
57.b: These items are provided on page 11 for the current valuation, except for covered payroll, which should be determined based on appropriate methods.
57.c: We have not been asked to calculate an actuarially determined contribution amount. We assume the College contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 30 years.
57.d: We are not aware that there are any statutorily or contractually established contribution requirements.

Paragraph 58: **Actuarially Determined Contributions**

We have not been asked to calculate an actuarially determined contribution amount. We assume the College contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 30 years.

Paragraph 244: **Transition Option**

Prior periods were not restated due to the fact that prior valuations were not rerun in accordance with GASB 75. It was determined that the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified.

APPENDIX F: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

Note: The following definitions are intended to help a *non*-actuary understand concepts related to retiree health valuations. Therefore, the definitions may not be actuarially accurate.

Actuarial Cost Method: A mathematical model for allocating OPEB costs by year of service. The only actuarial cost method allowed under GASB 74/75 is the entry age actuarial cost method.

Actuarial Present Value of Projected Benefit Payments: The projected amount of all OPEB benefits to be paid to current and future retirees discounted back to the valuation or measurement date.

Deferred Inflows/Outflows of Resources: A portion of certain items that can be deferred to future periods or that weren't reflected in the valuation. The former includes investment gains/losses, actuarial gains/losses, and gains/losses due to changes in actuarial assumptions or methods. The latter includes contributions made to a trust subsequent to the measurement date but before the statement date.

Discount Rate: Assumed investment return net of all investment expenses. Generally, a higher assumed interest rate leads to lower service costs and actuarial accrued liability.

Fiduciary Net Position: Net assets (liability) of a qualifying OPEB "plan" (i.e. qualifying irrevocable trust or equivalent arrangement).

Implicit Rate Subsidy: The estimated amount by which retiree rates are understated in situations where, for rating purposes, retirees are combined with active employees and the employer is expected, in the long run, to pay the underlying cost of retiree benefits.

Measurement Date: The date at which assets and liabilities are determined in order to estimate TOL and NOL.

Mortality Rate: Assumed proportion of people who die each year. Mortality rates always vary by age and often by sex. A mortality table should always be selected that is based on a similar "population" to the one being studied.

Net OPEB Liability (NOL): The Total OPEB Liability minus the Fiduciary Net Position.

OPEB Benefits: Other Post Employment Benefits. Generally medical, dental, prescription drug, life, long-term care or other postemployment benefits that are not pension benefits.

OPEB Expense: This is the amount employers must recognize as an expense each year. The annual OPEB expense is equal to the Service Cost plus interest on the Total OPEB Liability TOL) plus change in TOL due to plan changes minus projected investment income; all adjusted to reflect deferred inflows and outflows of resources.

Participation Rate:	The proportion of retirees who elect to receive retiree benefits. A lower participation rate results in lower service cost and a TOL. The participation rate often is related to retiree contributions.
Retirement Rate:	The proportion of active employees who retire each year. Retirement rates are usually based on age and/or length of service. (Retirement rates can be used in conjunction with the service requirement to reflect both age and length of service). The more likely employees are to retire early, the higher service costs and actuarial accrued liability will be.
Service Cost:	The annual dollar value of the "earned" portion of retiree health benefits if retiree health benefits are to be fully accrued at retirement.
Service Requirement:	The proportion of retiree benefits payable under the OPEB plan, based on length of service and, sometimes, age. A shorter service requirement increases service costs and TOL.
Total OPEB Liability (TOL):	The amount of the actuarial present value of projected benefit payments attributable to employees' past service based on the actuarial cost method used.
Trend Rate:	The rate at which the employer's share of the cost of retiree benefits is expected to increase over time. The trend rate usually varies by type of benefit (e.g. medical, dental, vision, etc.) and may vary over time. A higher trend rate results in higher service costs and TOL.
Turnover Rate:	The rate at which employees cease employment due to reasons other than death, disability or retirement. Turnover rates usually vary based on length of service and may vary by other factors. Higher turnover rates reduce service costs and TOL.
Valuation Date:	The date as of which the OPEB obligation is determined by means of an actuarial valuation. Under GASB 74 and 75, the valuation date does not have to coincide with the statement date, but can't be more than 30 months prior.

City of Capitola

Actuarial Study of
Retiree Health Liabilities Under GASB 74/75
Roll-forward Valuation
Valuation Date: June 30, 2017
Measurement Date: June 30, 2018

Prepared by:
Total Compensation Systems, Inc.

Date: February 28, 2019

Table of Contents

City of Capitola
Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

City of Capitola engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of June 30, 2018 (the measurement date). This valuation report is based on an earlier GASB 75 valuation as of June 30, 2017 . We used standard actuarial "roll-forward" methodology to estimate the Total OPEB Liability (TOL) as of the measurement date. The Fiduciary Net Position (FNP) is based on the actual FNP at June 30, 2018. The numbers in this report are based on the assumption that they will first be used to determine accounting entries for the fiscal year ending June 30, 2018. If the report will first be used for a different fiscal year, the numbers may need to be adjusted accordingly.

This report does not reflect any cash benefits paid unless the retiree is required to provide proof that the cash benefits are used to reimburse the retiree's cost of health benefits. Costs and liabilities attributable to cash benefits paid to retirees are reportable under applicable Governmental Accounting Standards Board (GASB) Standards.

This actuarial study is intended to serve the following purposes:

- To provide information to enable Capitola to manage the costs and liabilities associated with its retiree health benefits.
- To provide information to enable Capitola to communicate the financial implications of retiree health benefits to internal financial staff, the Council, employee groups and other affected parties.
- To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 74 and 75 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 74 and 75, Capitola should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 74 and 75 compliance.

We calculated the following estimates separately for active employees and retirees. As requested, we also separated results by the following employee classifications: Miscellaneous and Safety. We estimated the following:

- the total liability created. (The actuarial present value of total projected benefit payments or APVPBP)
- ten years of projected benefit payments.
- the "total OPEB liability (TOL)." (The TOL is the portion of the APVPBP attributable to employees' service prior to the measurement date.)
- the "net OPEB liability" (NOL). For plans funded through a trust, this represents the unfunded portion of the liability.
- the service cost (SC). This is the value of OPEB benefits earned for one year of service.

- deferred inflows and outflows of resources attributable to the OPEB plan.

- "OPEB expense." This is the amount recognized in accrual basis financial statements as the current period expense. The OPEB expense includes service cost, interest and certain changes in the OPEB liability, adjusted to reflect deferred inflows and outflows. This amount may need to be adjusted to reflect any contributions received after the Measurement Date.

- Amounts to support financial statement Note Disclosures and Required Supplementary Information (RSI) schedules.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Service costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report.

B. General Findings

We estimate the "pay-as-you-go" cost of providing retiree health benefits in the year beginning July 1, 2018 to be $29,524 (see Section IV.A.). The "pay-as-you-go" cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning July 1, 2018 (the service cost) is $27,267. This service cost would increase each year based on covered payroll. Had Capitola begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated at June 30, 2018 to be $874,612. This amount is called the "Total OPEB Liability" (TOL). Capitola has set aside funds to cover retiree health liabilities in a GASB 75 qualifying trust. The Fiduciary Net Position of this trust at June 30, 2018 was $289,875. This leaves a Net OPEB Liability (NOL) of $584,737.

Based on the information we were provided, the OPEB Expense for the fiscal year ending June 30, 2018 is $67,905. As noted in this report, adjustments may be needed – particularly if the reporting date is not the same as the measurement date.

We based all of the above estimates on employees as of April, 2017. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan:

	Miscellaneous	*Sworn*
Benefit types provided	Medical Only	Medical Only
Duration of Benefits	Lifetime	Lifetime
Required Service	CalPERS Retirement	CalPERS Retirement
Minimum Age	CalPERS Retirement	CalPERS Retirement
Dependent Coverage	Surviving Spouse*	Surviving Spouse*
District Contribution %	100% to cap	100% to cap
District Cap	$128 per month**	$128 per month**

*If receiving a joint and survivor annuity
**$133 per month in 2018; subject to indexing to the medical component of the CPI thereafter

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions Capitola should take to manage the liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the City to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of Capitola's practices, it is possible that Capitola is already complying with some or all of our recommendations.

- We recommend that Capitola maintain an inventory of all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, Capitola should determine whether the benefit is material and subject to GASB 74 and/or 75.

- We recommend that Capitola conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no less frequently than every two years, as required under GASB 74/75.

- Under GASB 75, it is important to isolate the cost of retiree health benefits. Capitola should have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – ***even on a retiree-pay-all basis*** – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, Capitola should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.

- Capitola should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for City-paid OPEB benefits; employees who exceed the termination age for OPEB benefits, etc.

- Several assumptions were made in estimating costs and liabilities under Capitola's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, Capitola should maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for Capitola to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.

E. Certification

The actuarial information in this report is intended solely to assist Capitola in complying with Governmental Accounting Standards Board Accounting Statements 74 and 75 and, unless otherwise stated, fully and fairly discloses actuarial information required for compliance. Nothing in this report should be construed as an accounting opinion, accounting advice or legal advice. TCS recommends that third parties retain their own actuary or other qualified professionals when reviewing this report. TCS's work is prepared solely for the use and benefit of Capitola. Release of this report may be subject to provisions of the Agreement between Capitola and TCS. No third party recipient of this report product should rely on the report for any purpose other than accounting compliance. Any other use of this report is unauthorized without first consulting with TCS.

This report is for fiscal year July 1, 2017 to June 30, 2018, using a measurement date of June 30, 2018. The calculations in this report have been made based on our understanding of plan provisions and actual practice at the time we were provided the required information. We relied on information provided by Capitola. Much or all of this information was unaudited at the time of our evaluation. We reviewed the information provided for reasonableness, but this review should not be viewed as fulfilling any audit requirements. Information we relied on is listed in Appendix A.

All costs, liabilities, and other estimates are based on actuarial assumptions and methods that comply with all applicable Actuarial Standards of Practice (ASOPs). Each assumption is deemed to be reasonable by itself, taking into account plan experience and reasonable future expectations.

This report contains estimates of the Plan's financial condition only as of a single date. It cannot predict the Plan's future condition nor guarantee its future financial soundness. Actuarial valuations do not affect the ultimate cost of Plan benefits, only the timing of Plan contributions. While the valuation is based on individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. Determining results using alternative assumptions (except for the alternate discount and trend rates shown in this report) is outside the scope of our engagement.

Future actuarial measurements may differ significantly from those presented in this report due to factors such as, but not limited to, the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the measurement methodology (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. We were not asked to perform analyses to estimate the potential range of such future measurements.

The signing actuary is independent of Capitola and any plan sponsor. TCS does not intend to benefit from and assumes no duty or liability to other parties who receive this report. TCS is not aware of any relationship that would impair the objectivity of the opinion.

On the basis of the foregoing, I hereby certify that, to the best of my knowledge and belief, this report is complete and has been prepared in accordance with generally accepted actuarial principles and practices and all applicable Actuarial Standards of Practice. I am a member of the American Academy of Actuaries and meet the Qualification Standards to render this actuarial opinion.

Respectfully submitted,

Geoffrey L. Kischuk, FSA, MAAA, FCA
Consultant
Total Compensation Systems, Inc.
(805) 496-1700

PART II: BACKGROUND

A. Summary

Accounting principles provide that the cost of retiree benefits should be "accrued" over employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in June of 2015 Accounting Standards 74 and 75 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees (including early retirees), whether they pay directly or indirectly (via an "implicit rate subsidy"),

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an "actuarial cost method."

The actuarial cost method mandated by GASB 75 is the "entry age actuarial cost method". Under this method, there are two components of actuarial cost – a "service cost" (SC) and the "Total OPEB Liability" (TOL). GASB 75 allows certain changes in the TOL to be deferred (i.e. deferred inflows and outflows of resources).

The service cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. Under the entry age actuarial cost method, the actuary determines the annual amount needing to be expensed from hire until retirement to fully accrue the cost of retiree health benefits. This amount is the service cost. Under GASB 75, the service cost is calculated to be a level percentage of each employee's projected pay.

The service cost is determined using several key assumptions:

- The current ***cost of retiree health benefits*** (often varying by age, Medicare status and/or dependent coverage). The higher the current cost of retiree benefits, the higher the service cost.

- The ***"trend" rate*** at which retiree health benefits are expected to increase over time. A higher trend rate increases the service cost. A "cap" on City contributions can reduce trend to zero once the cap is reached thereby dramatically reducing service costs.

- ***Mortality rates*** varying by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

- ***Employment termination rates*** have the same effect as mortality inasmuch as higher termination rates reduce service costs. Employment termination can vary considerably between public agencies.

- The ***service requirement*** reflects years of service required to earn full or partial retiree benefits. While a longer service requirement reduces costs, cost reductions are not usually substantial unless the service period exceeds 20 years of service.

- ***Retirement rates*** determine what proportion of employees retire at each age (assuming employees reach the requisite length of service). Retirement rates often vary by employee classification and implicitly reflect the minimum retirement age required for eligibility. Retirement rates also depend on the amount of pension benefits available. Higher retirement rates increase service costs but, except for differences in minimum retirement age, retirement rates tend to be consistent between public agencies for each employee type.

- ***Participation rates*** indicate what proportion of retirees are expected to elect retiree health benefits if a significant retiree contribution is required. Higher participation rates increase costs.

- The ***discount rate*** estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets for funded plans. The rate used for a funded plan is the real rate of return expected for plan assets plans plus long term inflation assumption. For an unfunded plan, the discount rate is based on an index of 20 year General Obligation municipal bonds. For partially funded plans, the discount rate is a blend of the funded and unfunded rates.

The assumptions listed above are not exhaustive, but are the most common assumptions used in actuarial cost calculations. If all actuarial assumptions are exactly met and an employer expensed the service cost every year for all past and current employees and retirees, a sizeable liability would have accumulated (after adding interest and subtracting retiree benefit costs). The liability that would have accumulated is called the Total OPEB Liability (TOL). The excess of TOL over the value of plan assets is called the Net OPEB Liability (NOL). Under GASB 74 and 75, in order for assets to count toward offsetting the TOL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The total OPEB liability (TOL) can arise in several ways - e.g., as a result of plan changes or changes in actuarial assumptions. TOL can also arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience.

Under GASB 74 and 75, a portion of actuarial gains and losses can be deferred as follows:

- Investment gains and losses can be deferred five years

- Experience gains and losses can be deferred over the expected average remaining service lives (EARSL) of plan participants. In calculating the EARSL, terminated employees (primarily retirees) are considered to have a working lifetime of zero. This often makes the EARSL quite short.

- Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working lifetime

- Liability changes resulting from plan changes, for example, cannot be deferred.

PART III: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

The liability for OPEB benefits was calculated in the valuation as of June 30, 2017 and the methodology used was described in our GASB 75 valuation report dated June 20, 2018. In Part III, we show the tables included in our June 20, 2018 valuation report and provide details of our roll-forward valuation.

We summarized actuarial assumptions used for this study in Appendix C.

B. Liability for Retiree Benefits.

Below is the actuarial present value of projected benefit payments (APVPBP) table presented in our June 20, 2018 valuation report.

Actuarial Present Value of Projected Benefit Payments at June 30, 2017

	Total	*Miscellaneous*	*Safety*
Active: Pre-65	$194,253	$76,969	$117,284
Post-65	$465,043	$306,992	$158,051
Subtotal	$659,296	$383,961	$275,335
Retiree: Pre-65	$26,557	$10,646	$15,911
Post-65	$365,517	$177,646	$187,871
Subtotal	$392,074	$188,292	$203,782
Grand Total	$1,051,370	$572,253	$479,117
Subtotal Pre-65	$220,810	$87,615	$133,195
Subtotal Post-65	$830,560	$484,638	$345,922

C. Cost to Prefund Retiree Benefits

1. Service Cost

Below is the service cost table included in our June 20, 2018 valuation report. This service cost is used in calculating the OPEB expense.

Service Cost Year Beginning July 1, 2017

	Total	*Miscellaneous*	*Safety*
# of Employees	66	45	21
Per Capita Service Cost			
Pre-65 Benefit	N/A	$75	$230
Post-65 Benefit	N/A	$271	$327
First Year Service Cost			
Pre-65 Benefit	$8,205	$3,375	$4,830
Post-65 Benefit	$19,062	$12,195	$6,867
Total	$27,267	$15,570	$11,697

2. Total OPEB Liability (TOL) and Net OPEB Liability (NOL)

The table below shows the TOL included in the June 20, 2018 valuation report. This TOL is used as the beginning of year TOL to roll forward the TOL to June 30, 2018.

Total OPEB Liability (TOL) and Net OPEB Liability (NOL) as of June 30, 2017

	Total	***Miscellaneous***	***Safety***
Active: Pre-65	$118,818	$53,754	$65,064
Active: Post-65	$306,917	$223,109	$83,808
Subtotal	$425,735	$276,863	$148,872
Retiree: Pre-65	$26,557	$10,646	$15,911
Retiree: Post-65	$365,517	$177,646	$187,871
Subtotal	$392,074	$188,292	$203,782
Subtotal: Pre-65	$145,375	$64,400	$80,975
Subtotal: Post-65	$672,434	$400,755	$271,679
Total OPEB Liability (TOL)	$817,810	$465,156	$352,654
Fiduciary Net Position as of June 30, 2017	$213,373		
Net OPEB Liability (NOL)	$604,437		

In order to determine the June 30, 2018 NOL, we used a "roll-forward" technique for the TOL. The FNP is based on the actual June 30, 2018 FNP. The following table shows the results of the roll-forward.

Changes in Net OPEB Liability as of June 30, 2018

	TOL	***FNP***	***NOL***
Balance at June 30, 2017	$817,810	$213,373	$604,437
Service Cost	$27,267	$0	$27,267
Interest on TOL	$57,232	$0	$57,232
Employer Contributions	$0	$87,697	($87,697)
Employee Contributions	$0	$0	$0
Assumption Changes	$0	$0	$0
Expected Investment Income	$0	$17,022	($17,022)
Investment Gains/Losses	$0	($154)	$154
Administrative Expense	$0	($397)	$397
Expected Benefit Payments	($27,697)	($27,697)	$0
Actual minus Expected Benefit Payments	$0	$0	$0
Other **	$0	$31	($31)
Net Change during 2017-18	$56,802	$76,502	($19,700)
Balance at June 30, 2018 *	$874,612	$289,875	$584,737

***** May include a slight rounding error.

** 06/30/2017 FNP adjustment

3. OPEB Expense

Under GASB 74 and 75, OPEB expense includes service cost, interest cost, change in TOL due to plan changes; all adjusted for deferred inflows and outflows. Following is the OPEB expense for the fiscal year ending June 30, 2018. The OPEB expense shown below is considered to be preliminary because there can be employer specific deferred items (e.g., contributions made after the measurement date, and active employee contributions toward the OPEB plan).

OPEB Expense Fiscal Year Ending June 30, 2018

	Total
Service Cost	$27,267
Interest on Total OPEB Liability (TOL)	$57,232
Employee Contributions	$0
Recognized Experience Gains/Losses	$0
Recognized Assumption Changes	$0
Expected Investment Income	($17,022)
Recognized Investment Gains/Losses	$31
Contributions After Measurement Date*	$0
Liability Change Due to Benefit Changes	$0
Administrative Expense	$397
OPEB Expense**	$67,905

***** Should be added by Capitola if reporting date is after the measurement date.
****** May include a slight rounding error.

The above OPEB expense does not include an estimated $87,697 in employer contributions.

4. Deferred Inflows and Outflows

Certain types of TOL changes are subject to deferral, as are investment gains/losses. Appendix F provides details of any deferred inflows and/or outflows included in the OPEB expense.

PART IV: "PAY AS YOU GO" FUNDING OF RETIREE BENEFITS

We used the actuarial assumptions shown in Appendix C to project the City's ten year retiree benefit outlay, including any implicit rate subsidy. Because these cost estimates reflect average assumptions applied to a relatively small number of employees, estimates for individual years are **certain** to be ***in***accurate. However, these estimates show the size of cash outflow.

The following table shows a projection of annual amounts needed to pay the City's share of retiree health costs, including any implicit rate subsidy, that was included in the June 20, 2018 valuation report.

Year Beginning July 1	*Total*	*Miscellaneous*	*Safety*
2017	$27,697	$13,497	$14,200
2018	$29,524	$14,831	$14,693
2019	$32,637	$17,303	$15,334
2020	$35,778	$19,796	$15,982
2021	$39,407	$22,537	$16,870
2022	$42,746	$24,942	$17,804
2023	$46,348	$27,596	$18,752
2024	$50,235	$30,039	$20,196
2025	$54,089	$32,600	$21,489
2026	$58,678	$35,505	$23,173

PART V: RECOMMENDATIONS FOR FUTURE VALUATIONS

To effectively manage benefit costs, an employer must periodically examine the existing liability for retiree benefits as well as future annual expected premium costs. GASB 74/75 require biennial valuations. In addition, a valuation should be conducted whenever plan changes, changes in actuarial assumptions or other employer actions are likely to cause a material change in accrual costs and/or liabilities.

Following are examples of actions that could trigger a new valuation.

- An employer should perform a valuation whenever the employer considers or puts in place an early retirement incentive program.
- An employer should perform a valuation whenever the employer adopts a retiree benefit plan for some or all employees.
- An employer should perform a valuation whenever the employer considers or implements changes to retiree benefit provisions or eligibility requirements.
- An employer should perform a valuation whenever the employer introduces or changes retiree contributions.
- An employer should perform a valuation whenever the employer forms a qualifying trust or changes its investment policy.
- An employer should perform a valuation whenever the employer adds or terminates a group of participants that constitutes a significant part of the covered group.

We recommend Capitola take the following actions to ease future valuations.

- We have used our training, experience and information available to us to establish the actuarial assumptions used in this valuation. We have no information to indicate that any of the assumptions do not reasonably reflect future plan experience. However, the City should review the actuarial assumptions in Appendix C carefully. If the City has any reason to believe that any of these assumptions do not reasonably represent the expected future experience of the retiree health plan, the City should engage in discussions or perform analyses to determine the best estimate of the assumption in question.

PART VI: APPENDICES

APPENDIX A: MATERIALS USED FOR THIS STUDY

We relied on the following materials to complete this study.

- We used paper reports and digital files containing employee demographic data from the City personnel records.

- We used relevant sections of collective bargaining agreements provided by the City.

APPENDIX B: EFFECT OF ASSUMPTIONS USED IN CALCULATIONS

While we believe the estimates in this study are reasonable overall, it was necessary for us to use assumptions which inevitably introduce errors. We believe that the errors caused by our assumptions will not materially affect study results. If the City wants more refined estimates for decision-making, we recommend additional investigation.

APPENDIX C: ACTUARIAL ASSUMPTIONS AND METHODS

Following is a summary of actuarial assumptions and methods used in this study. The City should carefully review these assumptions and methods to make sure they reflect the City's assessment of its underlying experience. It is important for Capitola to understand that the appropriateness of all selected actuarial assumptions and methods are Capitola's responsibility. Unless otherwise disclosed in this report, TCS believes that all methods and assumptions are within a reasonable range based on the provisions of GASB 74 and 75, applicable actuarial standards of practice, Capitola's actual historical experience, and TCS's judgment based on experience and training.

ACTUARIAL METHODS AND ASSUMPTIONS:

ACTUARIAL COST METHOD: GASB 74/75 require use of the entry age actuarial cost method.

Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The APVPBP and present value of future service costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the service cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees). This greatly simplifies administration and accounting; as well as resulting in the correct service cost for new hires.

SUBSTANTIVE PLAN: As required under GASB 74 and 75, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by Capitola regarding practices with respect to employer and employee contributions and other relevant factors.

ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

INFLATION: We assumed 2.75% per year used for pension purposes. Actuarial standards require using the same rate for OPEB that is used for pension.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 7% per year net of expenses. This is based on assumed long-term return on plan assets assuming 100% funding through CERBT. We used the "Building Block Method". (See Appendix E, Paragraph 53 for more information).

TREND: We assumed 4% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

PAYROLL INCREASE: We assumed 2.75% per year. Since benefits do not depend on salary (as they do for pensions), using an aggregate payroll assumption for the purpose of calculating the service cost results in a negligible error.

FIDUCIARY NET POSITION (FNP): The following table shows the beginning and ending FNP numbers that were provided by Capitola.

Fiduciary Net Position as of June 30, 2018

	06/30/2017	*06/30/2018*
Cash and Equivalents	$0	$0
Contributions Receivable	$0	$0
Total Investments	$213,373	$289,875
Capital Assets	$0	$0
Total Assets	$213,373	$289,875
Benefits Payable	$0	$0
Fiduciary Net Position	$213,373	$289,875

NON-ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 35 (ASOP 35). See Appendix E, Paragraph 52 for more information.

MORTALITY

Participant Type	***Mortality Tables***
Police	2014 CalPERS Mortality for Active Safety Employees
Miscellaneous	2014 CalPERS Active Mortality for Miscellaneous Employees

RETIREMENT RATES

Employee Type	***Retirement Rate Tables***
Police Officers	Hired < 1/1/13: 2009 CalPERS 3@50 table for Sworn Police Hired > 12/31/12: 2009 CalPERS 3@55 table for Sworn Police
General Employees	Hired < 1/1/13: 2009 CalPERS 2.5@55 table for Miscellaneous employees Hired > 12/31/12: 2009 CalPERS 2@60 table for Miscellaneous employees adjusted to reflect a minimum retirement age of 52

SERVICE REQUIREMENT

Employee Type	***Service Requirement Tables***
Police	100% at 5 Years of Service
Miscellaneous	100% at 5 Years of Service

COSTS FOR RETIREE COVERAGE

Actuarial Standard of Practice 6 (ASOP 6) provides that, as a general rule, retiree costs should be based on actual claim costs or age-adjusted premiums. This is true even for many medical plans that are commonly considered to be "community-rated." However, ASOP 6 contains a provision – specifically section 3.7.7(c) – that allows use of unadjusted premiums in certain circumstances.

Because the section 3.7.7(c) exception is new, there is not a consensus among practicing actuaries regarding the specific circumstances under which a section 3.7.7(c) exception may be invoked. It is my opinion that the section 3.7.7(c)(4) exception allows use of unadjusted premium for PEMHCA agencies if certain conditions are met. Other actuaries have taken the position that ASOP 6 does not explicitly allow use of unadjusted premium for any agencies participating in the CalPERS medical plan.

Prior to the most recent ASOP 6 revision, there was general agreement that ASOP 6 allowed use of unadjusted premium as a retiree cost basis for PEMHCA agencies (under section 3.4.5 of the prior version of ASOP 6). Since there have been no changes to the CalPERS medical plan, use of unadjusted premium must still be viewed as appropriate actuarial practice to the extent that it was under the prior version of ASOP 6. That means that if the current ASOP 6 section 3.7.7(c)(4) exception is not deemed to ***explicitly*** allow use of unadjusted premium as a retiree cost basis for Capitola , then it would be allowable as a "deviation."

While I am confident that ASOP 6 section 3.7.7(c)(4) will ultimately be found to explicitly allow use of unadjusted premium as a retiree cost basis for most PEMHCA agencies, I cannot be certain that this will be the case if and when this issue is fully reviewed. Therefore, I am including disclosure information required for a "deviation" so that the valuation will not need to be revised in the event section 3.7.7(c)(4) should be found not to explicitly allow use of unadjusted premium. Following is the disclosure information that is required should a deviation be necessary.

Use of ***age-adjusted*** premium for the CalPERS medical plan results in an overstatement of Capitola's OPEB Expense and Total OPEB Liability (TOL) to the extent that Capitola continues to participate in the CalPERS medical plan AND that the rate structure of the CalPERS medical plan continues in its current form (i.e. with no rate distinction between active employees and retirees). In addition to the overstatement of OPEB costs and liabilities, Capitola's policy of funding OPEB obligations could lead to an inability of Capitola to recover overfunded assets. It is important to note that, should Capitola leave the CalPERS medical plan, the subsequent plan may not qualify to use unadjusted premium rates. In this event, leaving the CalPERS medical plan would be comparable to a significant change in plan terms and would likely require a new valuation.

Following are the criteria we applied to Capitola to determine that it is reasonable to assume that Capitola's future participation in PEMHCA is likely and that the CalPERS medical program as well as its premium structure are sustainable. (We also have an extensive white paper on this subject that provides a basis for our rationale entirely within the context of ASOP 6. We will make this white paper available upon request.)

The City participates in the CalPERS medical program. We have performed the required evaluation of the CalPERS medical program and we have determined that there is sufficient evidence to apply the 3.7.7(c)(4) exception. Following are details regarding the evaluation based on the criteria we have set:

- **Plan qualifies as a "pooled health plan."** ASOP 6 defines a "pooled health plan" as one in which premiums are based at least in part on the claims experience of groups other than the one being valued." Since CalPERS rates are the same for all employers in each region, rates are clearly based on the experience of many groups.

- **Rates not based to any extent on the agency's claim experience.** As mentioned above, rates are the same for all participating employers regardless of claim experience or size.

- **Rates not based to any extent on the agency's demographics.** As mentioned above, rates are the same for all participating employers regardless of demographics.

- **No refunds or charges based on the agency's claim experience or demographics.** The terms of operation of the CalPERS program are set by statute and there is no provision for any refunds and charges that vary from employer to employer for any reason. The only charges are uniform administrative charges.

- **Plan in existence 20 or more years.** Enabling legislation to allow "contracting agencies" to participate in the CalPERS program was passed in 1967. The CalPERS medical plan has been successfully operating for almost 50 years. As far back as we can obtain records, the rating structure has been consistent, with the only difference having been a move to regional rating which is unrelated to age-adjusted rating.

- **No recent large increases or decreases in the number of participating plans or enrollment.** The CalPERS medical plan has shown remarkably stable enrollment. In the past 10 years, there has been small growth in the number of employers in most years – with the maximum being a little over 2% and a very small decrease in one year. Average year over year growth in the number of employers over the last 10 years has been about 0.75% per year. Groups have been consistently leaving the CalPERS medical plan while other groups have been joining with no disruption to its stability.

- **Agency is not expecting to leave plan in foreseeable future.** The City does not plan to leave CalPERS at present.

- **<u>No indication the plan will be discontinued.</u>** We are unaware of anything that would cause the CalPERS medical plan to cease or to significantly change its operation in a way that would affect this determination.

- **<u>The agency does not represent a large part of the pool.</u>** The City is in the CalPERS Bay Area region. Based on the information we have, the City constitutes no more than 0.1% of the Bay Area pool. In our opinion, this is not enough for the City to have a measurable effect on the rates or viability of the Bay Area pool.

Retiree liabilities are based on actual retiree costs. Liabilities for active participants are based on the first year costs shown below. Subsequent years' costs are based on first year costs adjusted for trend and limited by any City contribution caps.

Employee Type	***Future Retirees Pre-65***	***Future Retirees Post-65***
General Employees	$1,566	$1,566
Police Officers	$1,566	$1,566

PARTICIPATION RATES

Employee Type	***<65 Non-Medicare Participation %***	***65+ Medicare Participation %***
Police	80%	90%
Miscellaneous	50%	60%

TURNOVER

Employee Type	***Turnover Rate Tables***
Police	2009 CalPERS Rates for Sworn Police
Miscellaneous	2009 CalPERS Turnover for Miscellaneous Employees

SPOUSE PREVALENCE

To the extent not provided and when needed to calculate benefit liabilities, 80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

SPOUSE AGES

To the extent spouse dates of birth are not provided and when needed to calculate benefit liabilities, female spouse assumed to be three years younger than male.

APPENDIX D: DISTRIBUTION OF ELIGIBLE PARTICIPANTS BY AGE

ELIGIBLE ACTIVE EMPLOYEES

Age	*Total*	*Miscellaneous*	*Safety*
Under 25	3	0	3
25-29	6	3	3
30-34	6	3	3
35-39	10	8	2
40-44	12	4	8
45-49	5	5	0
50-54	10	8	2
55-59	9	9	0
60-64	5	5	0
65 and older	0	0	0
Total	66	45	21

ELIGIBLE RETIREES

Age	*Total*	*Miscellaneous*	*Safety*
Under 50	0	0	0
50-54	0	0	0
55-59	1	0	1
60-64	4	3	1
65-69	5	1	4
70-74	7	4	3
75-79	0	0	0
80-84	0	0	0
85-89	0	0	0
90 and older	0	0	0
Total	17	8	9

APPENDIX E: GASB 74/75 ACCOUNTING ENTRIES AND DISCLOSURES

This report does not necessarily include the entire accounting values. As mentioned earlier, there are certain deferred items that are employer-specific. The City should consult with its auditor if there are any questions about what, if any, adjustments may be appropriate.

GASB 74/75 include a large number of items that should be included in the Note Disclosures and Required Supplementary Information (RSI) Schedules. Many of these items are outside the scope of the actuarial valuation. However, following is information to assist the City in complying with GASB 74/75 disclosure requirements:

Paragraph 50: **Information about the OPEB Plan**

Most of the information about the OPEB plan should be supplied by Capitola. Following is information to help fulfill Paragraph 50 reporting requirements.

50.c: Following is a table of plan participants

	Number of Participants
Inactive Employees Receiving Benefits	17
Inactive Employees Entitled to But Not Receiving Benefits*	0
Participating Active Employees	66
Total Number of participants	83

*We were not provided with information about any terminated, vested employees

Paragraph 51: **Significant Assumptions and Other Inputs**

shown in Appendix C.

Paragraph 52: **Information Related to Assumptions and Other Inputs**

The following information is intended to assist Capitola in complying with the requirements of Paragraph 52.

52.b: Mortality Assumptions Following are the tables the mortality assumptions are based upon. Inasmuch as these tables are based on appropriate populations, and that these tables are used for pension purposes, we believe these tables to be the most appropriate for the valuation.

Mortality Table	2014 CalPERS Active Mortality for Miscellaneous Employees
Disclosure	The mortality assumptions are based on the 2014 CalPERS Active Mortality for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

Mortality Table	2014 CalPERS Mortality for Retired safety Employees
Disclosure	The mortality assumptions are based on the 2014 CalPERS Mortality for Retired safety Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.
Mortality Table	2014 CalPERS Mortality for Active Safety Employees
Disclosure	The mortality assumptions are based on the 2014 CalPERS Mortality for Active Safety Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.
Mortality Table	2014 CalPERS Retiree Mortality for Miscellaneous Employees
Disclosure	The mortality assumptions are based on the 2014 CalPERS Retiree Mortality for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

52.c: Experience Studies Following are the tables the retirement and turnover assumptions are based upon. Inasmuch as these tables are based on appropriate populations, and that these tables are used for pension purposes, we believe these tables to be the most appropriate for the valuation.

Retirement Tables

Retirement Table	2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees
Disclosure	The retirement assumptions are based on the 2009 CalPERS 2.0%@60 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2009 CalPERS 2.5%@55 Rates for Miscellaneous Employees
Disclosure	The retirement assumptions are based on the 2009 CalPERS 2.5%@55 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2009 CalPERS 3%@55 Rates for Sworn Police
Disclosure	The retirement assumptions are based on the 2009 CalPERS 3%@55 Rates for Sworn Police table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2009 CalPERS 3%@50 Rates for Sworn Police
Disclosure	The retirement assumptions are based on the 2009 CalPERS 3%@50 Rates for Sworn Police table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Tables

Turnover Table	2009 CalPERS Turnover for Miscellaneous Employees
Disclosure	The turnover assumptions are based on the 2009 CalPERS Turnover for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Table	2009 CalPERS Rates for Sworn Police
Disclosure	The turnover assumptions are based on the 2009 CalPERS Rates for Sworn Police table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

For other assumptions, we use actual plan provisions and plan data.

52.d: The alternative measurement method was not used in this valuation.

52.e: NOL Using alternative trend assumptions The following table shows the Net OPEB Liability with a health care cost trend rate 1% higher and 1% lower than assumed in the valuation.

	Trend 1% Lower	Valuation Trend	Trend 1% Higher
Net OPEB Liability	$471,699	$584,737	$719,724

Paragraph 53: **Discount Rate**

The following information is intended to assist Capitola to comply with Paragraph 53 requirements.

53.a: A discount rate of 7% was used in the valuation.

53.b: We assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years.

53.c: We used historic 36 year real rates of return for each asset class along with our assumed long-term inflation assumption to set the discount rate. We offset the expected investment return by investment expenses of 25 basis points.

53.d and 53.e.: Not applicable.

53.f: Following is the assumed asset allocation and assumed rate of return for each.
CERBT - Strategy 1

Asset Class	Percentage of Portfolio	Assumed Gross Return
US Large Cap	43.0000	7.7950
US Small Cap	23.0000	7.7950
Long-Term Corporate Bonds	12.0000	5.2950
Long-Term Government Bonds	6.0000	4.5000
Treasury Inflation Protected Securities (TIPS)	5.0000	7.7950
US Real Estate	8.0000	7.7950
All Commodities	3.0000	7.7950

We looked at rolling periods of time for all asset classes in combination to appropriately reflect correlation between asset classes. That means that the average returns for any asset class don't necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average. We used geometric means.

53.g: The following table shows the Net OPEB liability with a discount rate 1% higher and 1% lower than assumed in the valuation.

	Discount Rate 1% Lower	Valuation Discount Rate	Discount Rate 1% Higher
Net OPEB Liability	$710,229	$584,737	$481,653

Paragraph 55: **Changes in the Net OPEB Liability**

Please see reconciliation on page 11. Please see the notes for Paragraph 244 below for more information.

Paragraph 56: **Additional Net OPEB Liability Information**

The following information is intended to assist Capitola to comply with Paragraph 56 requirements.

56.a: The valuation date is June 30, 2017.
The measurement date is June 30, 2018.
56 b; 56 c; 56.d; 56.e; 56.f: Not applicable
56.g: To be determined by the employer
56.h.(1) through (4): Not applicable
56.h.(5): To be determined by the employer
56.i: Not applicable

Paragraph 57: **Required Supplementary Information**

57.a: Please see reconciliation on page 11. Please see the notes for Paragraph 244 below for more information.

57.b: These items are provided on page 11 for the current valuation, except for covered payroll, which should be determined based on appropriate methods.
57.c: We have not been asked to calculate an actuarially determined contribution amount. We assume the City contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 36 years.
57.d: We are not aware that there are any statutorily or contractually established contribution requirements.

Paragraph 58: **Actuarially Determined Contributions**

We have not been asked to calculate an actuarially determined contribution amount. We assume the City contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 36 years.

Paragraph 244: **Transition Option**

Prior periods were not restated due to the fact that prior valuations were not rerun in accordance with GASB 75. It was determined that the time and expense necessary to rerun prior valuations and to restate prior financial statements was not justified.

APPENDIX F: DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

EXPERIENCE GAINS AND LOSSES

Increase (Decrease) in OPEB Expense Arising from the Recognition of Effects of Experience Gains and Losses (Measurement Periods)

Measurement Period	Experience Gain/Loss	Original Recognition Period (Years)	Amounts Recognized in OPEB Expense through 2017	2018	Amounts to be Recognized in OPEB Expense after 2018	2019	2020	2021	2022	2023	Thereafter
2017-18	$0	0	$0	$0	$0						
Net Increase (Decrease) in OPEB Expense			**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

CHANGES OF ASSUMPTIONS

Measurement Period	Changes of Assumptions	Original Recognition Period (Years)	Amounts Recognized in OPEB Expense through 2017	2018	Amounts to be Recognized in OPEB Expense after 2018	2019	2020	2021	2022	2023	Thereafter
			Increase (Decrease) in OPEB Expense Arising from the Recognition of Effects of Changes of Assumptions (Measurement Periods)								
2017-18	$0	0	$0	$0	$0						
Net Increase (Decrease) in OPEB Expense			**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

INVESTMENT GAINS AND LOSSES

Increase (Decrease) in OPEB Expense Arising from the Recognition of Effects of Investment Gains and Losses (Measurement Periods)

Measurement Period	Investment Gain/Loss	Original Recognition Period (Years)	Amounts Recognized in OPEB Expense through 2017	2018	Amounts to be Recognized in OPEB Expense after 2018	2019	2020	2021	2022	2023	Thereafter
2017-18	$154	5	$0	$31	$123	$31	$31	$31	$30		
Net Increase (Decrease) in OPEB Expense			**$0**	**$31**	**$123**	**$31**	**$31**	**$31**	**$30**	**$0**	**$0**

APPENDIX G: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

Note: The following definitions are intended to help a *non*-actuary understand concepts related to retiree health valuations. Therefore, the definitions may not be actuarially accurate.

Actuarial Cost Method: A mathematical model for allocating OPEB costs by year of service. The only actuarial cost method allowed under GASB 74/75 is the entry age actuarial cost method.

Actuarial Present Value of Projected Benefit Payments: The projected amount of all OPEB benefits to be paid to current and future retirees discounted back to the valuation or measurement date.

Deferred Inflows/Outflows of Resources: A portion of certain items that can be deferred to future periods or that weren't reflected in the valuation. The former includes investment gains/losses, actuarial gains/losses, and gains/losses due to changes in actuarial assumptions or methods. The latter includes contributions made to a trust subsequent to the measurement date but before the statement date.

Discount Rate: Assumed investment return net of all investment expenses. Generally, a higher assumed interest rate leads to lower service costs and total OPEB liability.

Fiduciary Net Position: Net assets (liability) of a qualifying OPEB "plan" (i.e. qualifying irrevocable trust or equivalent arrangement).

Implicit Rate Subsidy: The estimated amount by which retiree rates are understated in situations where, for rating purposes, retirees are combined with active employees and the employer is expected, in the long run, to pay the underlying cost of retiree benefits.

Measurement Date: The date at which assets and liabilities are determined in order to estimate TOL and NOL.

Mortality Rate: Assumed proportion of people who die each year. Mortality rates always vary by age and often by sex. A mortality table should always be selected that is based on a similar "population" to the one being studied.

Net OPEB Liability (NOL): The Total OPEB Liability minus the Fiduciary Net Position.

OPEB Benefits: Other Post Employment Benefits. Generally medical, dental, prescription drug, life, long-term care or other postemployment benefits that are not pension benefits.

OPEB Expense: This is the amount employers must recognize as an expense each year. The annual OPEB expense is equal to the Service Cost plus interest on the Total OPEB Liability (TOL) plus change in TOL due to plan changes minus projected investment income; all adjusted to reflect deferred inflows and outflows of resources.

Participation Rate: The proportion of retirees who elect to receive retiree benefits. A lower participation rate results in lower service cost and a TOL. The participation rate often is related to retiree contributions.

Retirement Rate: The proportion of active employees who retire each year. Retirement rates are usually based on age and/or length of service. (Retirement rates can be used in conjunction with the service requirement to reflect both age and length of service). The more likely employees are to retire early, the higher service costs and actuarial accrued liability will be.

Service Cost: The annual dollar value of the “earned” portion of retiree health benefits if retiree health benefits are to be fully accrued at retirement.

Service Requirement: The proportion of retiree benefits payable under the OPEB plan, based on length of service and, sometimes, age. A shorter service requirement increases service costs and TOL.

Total OPEB Liability (TOL): The amount of the actuarial present value of projected benefit payments attributable to employees’ past service based on the actuarial cost method used.

Trend Rate: The rate at which the employer’s share of the cost of retiree benefits is expected to increase over time. The trend rate usually varies by type of benefit (e.g. medical, dental, vision, etc.) and may vary over time. A higher trend rate results in higher service costs and TOL.

Turnover Rate: The rate at which employees cease employment due to reasons other than death, disability or retirement. Turnover rates usually vary based on length of service and may vary by other factors. Higher turnover rates reduce service costs and TOL.

Valuation Date: The date as of which the OPEB obligation is determined by means of an actuarial valuation. Under GASB 74 and 75, the valuation date does not have to coincide with the statement date, but can’t be more than 30 months prior.