

ADOPTED FY 2016 FINANCIAL POLICIES

Benefit Liabilities Funding Plan & Policies

Unfunded liabilities are defined as identifiable obligations of the City for which the organization does not have 100% of the funding (cash or other assets) set aside to cover the cost should all obligations become immediately and simultaneously due. The City's primary benefit liabilities include:

- California Public Employees' Retirement System (CalPERS)
- Other Post-Employment Benefits (OPEB) – Retiree Medical Benefits
- Workers' Compensation
- Accrued Leave Payouts

Council shall identify appropriate funding levels for each benefit liability considering the associated risk that the unfunded portion of the obligations present to the organization, timing of the liability's ultimate due date and realistic and responsible management of the organization's cash flows. The funding policies for each of these benefit liabilities is as follows:

Overarching Benefit Liability Funding Policy

1. The City Manager will incorporate in each proposed operating budget funding toward the City's benefit liabilities as appropriate and fiscally prudent; and the City Council will review and incorporate some level of this recommended funding in its adopted budget as appropriate and fiscally prudent.
2. All allocations toward funding benefit liabilities shall be attributed to the appropriate City revenue funds (e.g., General Fund, Enterprise Funds, etc.).
3. Upon receipt of any one-time funds – beyond funds needed to maintain the City's desired service levels and supporting operating expenditures – Council should review the City's benefit liabilities and assess whether some or all of the one-time money should be used to pay down one or more of the benefit unfunded actuarial liabilities (UAL) before expending the funds in other areas, with the Retiree Medical UAL having first priority.
4. The City Manager will constantly seek to identify innovative methods of reducing the City's benefit liabilities to achieve long-term fiscal stability – including, but not limited to, the reduction of healthcare costs.

California Public Employee Retirement System (CalPERS)¹

1. Pursuant to the CalPERS rate structure, the City is currently paying its Annual Required Contribution (ARC) – and shall continue to do so.
2. Council will strive to attain an 80% funding level of its CalPERS benefit liabilities.

Retiree Medical (Other Post Employment Benefit - OPEB)

1. Council will strive to attain full funding of the ARC.

¹Although a prepayment to pay down the City's CalPERS liability will reduce the City's unfunded actuarial liability and save money in the long-term, it will have little impact on current costs. Given other competing financial priorities, it may be difficult to justify allocating additional funding toward the CalPERS liability, especially in the absence of any short-term benefit of doing so, but that decision should be made thoughtfully and within the over-arching philosophy of reducing all unfunded liabilities to a financially prudent level.

ADOPTED FY 2016 FINANCIAL POLICIES

2. Council will strive toward attaining an 80% funding level of its OPEB benefit liability.

Workers' Compensation²

Council will strive to attain an 80% funding level of its Workers' Compensation benefit liability.

Accrued Leave

The City Manager will continue actively managing employee's leave balances below established caps to prevent excessive accumulation of leave and increased liabilities.

² The City has implemented a funding plan through the current Workers' Compensation rate structure (rates include element toward UAL) to gradually bring the level of plan funding to 80%.