**CITY OF ALAMEDA**
Memorandum

To: Honorable Mayor and Members of the City Council

From: John A. Russo, City Manager

Date: July 23, 2013

Re: Receive a Report on the City's Other Post-Employment Benefits (OPEB) Liabilities, Direct Staff to Begin Informal Discussions with Bargaining Unit Representatives to Address the Problem, and Return with Agreed Upon Solutions

## BACKGROUND

The inadequate funding of OPEB is the largest threat to the long term fiscal stability of the City of Alameda.

OPEB was a rarely discussed and even more rarely understood matter until 2004, which is when the Governmental Accounting Standards Board[1] (GASB) released Statement 45 (GASB 45) concerning health and other non-pension benefits. This regulation required cities to account for and disclose on their financial statements their liability for non-pension related benefits paid to retirees by Fiscal Year 2008/09[2]. The goal was to create greater financial statement accuracy and transparency. These benefits and associated liabilities had existed for many years; they just had not been openly reported.

At the time the City was coming into compliance with GASB 45, the City Council received several reports from both staff and the Fiscal Sustainability Committee, which included the City Treasurer and Auditor and several members of the public, stressing the importance of addressing the growing OPEB liability. Several options were discussed including setting up an Irrevocable Trust Fund, issuing OPEB Bonds, and pre-funding the liability using recurring revenue streams such as interest owed the General Fund from loans given to Alameda Municipal Power (AMP) and the Alameda Reuse and Redevelopment Authority (ARRA) (neither of which is available today). The general consensus was that a mere "pay-as-you-go" approach was an unwise long-term approach and that some pre-funding was necessary (Exhibit 1 and 2).

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[1] GASB is an independent organization that is the source of generally accepted accounting principles (GAAP) used by local governments. Its mission is to establish and improve standards of governmental accounting and financial reporting.
[2] The Financial Accounting Standards Board (FASB) required the same of the private sector in 1993.

DISCUSSION

OPEB benefits, which are considered part of the compensation negotiated between the employer and its employees, but not received until retirement, can include medical, dental, vision, hearing, life insurance or long term care insurance. Table 1 below outlines the benefits the City of Alameda offers to its retirees:

**Table 1**
**Current Medical Benefits Offered to an Individual Retiree**

| | Medical | Dental |
|---|---|---|
| Miscellaneous Employees | $115/month | N/A |
| Public Safety* (Hired and Retired Prior to June 7, 2011) | $2,166/month | $62/month |
| Public Safety* (Hired Prior to June 7, 2011 and Retired after this date) | $1,569.26/month | $136.52/month |
| Public Safety (Hired and Retired after June 7, 2011) | $784.63/month | $136.52/month |

* Includes two-party coverage

A miscellaneous employee that retires at age 50 with 5 years of service with the City receives $115/month toward retiree medical insurance. The total cost for miscellaneous retiree health in FY 12-13 was $222,000 (Table 2). Public safety employees have different thresholds for eligibility determined by date of hire and retirement. However, if a public safety employee meets the appropriate thresholds during their years of service they can receive up to full lifetime medical and dental coverage for themselves and their spouse. In 2011, that threshold was changed through collective bargaining concessions; now public safety employees hired after June 7, 2011 can only receive single coverage (the spouse is no longer covered). The total cost for Public Safety retiree health in FY 12-13 was $2,550,000. The total cost for all OPEB benefits in FY 12-13 was $2,772,000.

**Table 2**
**Estimated Annual Total (OPEB) Health Care Costs for Current Retirees Paid for by the City (Pay-As-You-Go Amount)**

| | FY 11-12 | FY 12-13 | FY 13-14* | FY 14-15* | FY 15-16* |
|---|---|---|---|---|---|
| Miscellaneous Retirees | $195,422 | $222,000 | $254,000 | $290,000 | $325,000 |
| Public Safety Retirees | $2,247,363 | $2,550,000 | $2,917,000 | $3,341,000 | $3,742,000 |
| TOTAL | $2,442,785 | $2,772,000 | $3,171,000 | $3,631,000 | $4,067,000 |

*Estimates

The benefits described above are paid for on a 'pay-as-you-go' approach, whereby the City budgets and pays for one-hundred percent of the actual yearly cost for these benefits. As Council is aware, the annual cost of these benefits is a significant expense which has increased sharply over the past decade as the number of employees/retirees (plan participants) change and the costs of insurance, in particular medical insurance, skyrockets.

Under GASB 45, the City is required to report, and should plan for, not only the current cost of providing health care to retirees, but for the liability of future benefits for both current and retired employees. In order to estimate these costs, the City contracts with the actuarial firm, Bartel and Associates, which uses a variety of factors to calculate the liability, including mortality rates, rates of investment earnings, health care costs and inflation, etc. If the City has set aside enough money to pay all earned benefits, then the liability is fully funded. If not, then there is an "Unfunded Actuarial Accrued Liability (UAAL). In Alameda's case, the UAAL is $86.4 million (as of the last actuarial valuation done January 1, 2011.)

Annually, the City identifies how much should be set aside to meet these already earned and future obligations. This is called the Annual Required Contribution or "ARC" (Table 3). The ARC has two components. The first is the normal cost for the benefits accruing to current active employees. The second is an additional dollar amount which makes up for less-than full contributions of the past, funding the present value over a 30 year period. For Alameda the ARC for FY 11-12 was $7.6 million. The City was only able to contribute $2.4 million.

**Table 3**
**Gap in Funding OPEB Liability**

| | FY 08-09 | FY 09-10 | FY 10-11 | FY 11-12 |
|---|---|---|---|---|
| ARC | 6,247,000 | 5,824,000 | 6,013,000 | 7,571,000 |
| Amount Funded | 1,954,602 | 1,995,112 | 2,255,039 | $2,442,785 |
| GAP | (4,281,398) | ($3,828,888) | ($3,757,961) | (5,128,215) |

As the table above illustrates, the City has been significantly underfunding its OPEB liability; consequently, the liability grows and threatens the City's financial health. In the transmittal letter from Standard and Poor's (S&P) Rating Agency in February 2013, the City's credit rating of AA was reaffirmed; however, S&P noted the City's rating would have been better (AAA) had it not been for the unfunded OPEB obligations.

## OPEB TASK FORCE

Last year, in order to address this problem, the City Manager appointed a Task Force to review the City's pension obligations as well as Other Post-Employment Benefits (OPEB). The Task Force included individuals with a wide range of publicly held positions including the City Treasurer and Auditor, several community members, both the Police and Fire Chiefs, the Presidents of the Police and Fire Unions, the Human Resources Director and the Assistant City Manager. On October 30, 2012, after many Task Force meetings, the following recommendations were submitted to the Council for consideration (page 6 of Exhibit 3 and 4). Some these strategies had wide backing from the Task Force; however, not one had unanimous support.

- Modify vesting and eligibility rules for new hires beyond those changes made in mid-2011 (eligibility for spouses eliminated and number of years to vest standardized to ten years for all new public safety employees);

- Establish a plan such as the 401(a)(h) in which employees make contributions now for their future health care. (requires agreement from everyone in a given bargaining group);

- "Buy out" the benefit by establishing a program like that in Beverly Hills in which employees are given an option of receiving money (either cash or tax advantaged account) in exchange for their defined benefit; and

- Work with employee bargaining groups to negotiate down the liability.

The Task Force acknowledged that the City and its Safety employees have already taken steps to address OPEB costs including increasing the vesting requirement for benefits, and significantly reducing the benefits for new hires after June 2011. At the conclusion of the October 30, 2012 Council meeting, direction was given to staff to come back to Council and have a more focused discussion on how to move forward.

## OTHER POTENTIAL SOLUTIONS

After further research and discussions with Bartels and Associates, staff recommends that the City consider the additional/expanded options discussed below. As with any complex issue, there is no one solution. Instead, staff believes that it will take a combination of several of these recommendations to address the issue, and even then may not solve the problem entirely. In addition to the recommendations below, it cannot be stressed enough that any solution must be developed in partnership with the City's labor groups, particularly sworn Public Safety employees.

1. **Create a Trust Fund** – The very first recommendation of the Governor's Commission on Funding Pensions and Retiree Health Care (published in January 2008) was to pre-fund OPEB benefits. This is often done through a Trust Fund which allows an agency to accumulate funds for payment of the City's future OPEB liability. These types of Trust Funds are protected and can only be used for OPEB payments. Additionally, as money is accumulated, the investment returns help fund the benefits. Both the City and the employee could contribute to the Fund.

2. **Create a tiered-benefit program** – As discussed above, the vesting and eligibility rules for new hires was modified in mid-2011 which, among other

things, standardized the number of years to vest the benefit to ten years for all new public safety employees. In addition to these steps, the City could make contributions to retiree health care proportionate to the number of years of employment, as well as lengthen the period before they become fully eligible for this benefit. This would mean that that longer an employee works the more benefits they would earn. This is consistent with the PERS pension benefit design and would encourage employees to work longer. For example, an employee could be eligible for 50% of the benefit after 10 years of work experience with the City, and up to 100% of the benefit after 20 years of work experience with the City. For those employees that do not meet the number of years for eligibility, they could still participate in the City's contracted health plans at their own cost but at a potentially reduced group rate.

3. **"Cap" the City's medical contribution rate**. In the last round of negotiations, employees agreed to pay a portion of the increases in medical coverage up to 50% over the next several years. However, with medical costs outstripping general inflation three-four times each year, this amount could be raised. Alternatively, any future increases paid for by either the City or the employee could be deposited in a separate Voluntary Employees' Beneficiary Association (VEBA) Trust Fund or contributed to a benefits cafeteria plan for payments toward health insurance.

4. **Move to Defined Contributions** – The City could consider converting its defined benefit OPEB plan (i.e. paying the cost of a medical plan) to a defined contribution OPEB plan (i.e. making a flat contribution regardless of the cost of the medical plan) for <u>future</u> sworn safety employees.

5. **Buy-Out the Benefits** – As outlined last October, the City could implement a buyout plan similar to that implemented by the City of Beverly Hills. That City's first step was to set up a defined contribution OPEB plan for new employees. Then the City sold bonds to fund a voluntary exchange program in which current employees could cash out the actuarial value of their previously earned OPEB benefits and receive an employee health savings account plus a package of cash and deferred compensation. More than half of the eligible employees made this election and many who didn't take it are now requesting the City offer the package again (Exhibit 5).

6. **Budget More with Existing Funds** – The City could increase the amount budgeted for its annual contribution toward its OPEB in the City's budget. Any amount in excess of what is needed for payments for the current year could be contributed to the Trust Fund such as the one described above.

7. **Employee Contribution to OPEB** – In exchange for the City making contributions toward pre-funding OPEB, the City could negotiate for the employees to contribute toward the cost of OPEB.

8. **Limit Spousal Benefits** – The spouses of employees that were hired prior June 2011 currently receive city-paid lifetime medical benefit. The City could modify this benefit and convert to a defined contribution plan versus defined benefit.

9. **PEMHCA Minimum** – The City could consider changing the OPEB benefit for future sworn safety employees to be the minimum required under the CalPERS law ($115/month in 2013), similar to what is paid for miscellaneous employees. This minimum retiree healthcare benefits applies to all employees since the City contracts with CalPERS for healthcare benefits, and represents a minimum City payment under any of the previous options.

As discussed above, any approach to solving the OPEB program will be multi-faceted and would have to be closely coordinated with the City's bargaining units. Staff recommends that the Council direct staff to open informal discussions with bargaining unit representatives to address the problem and return with agreed upon solutions. Staff also needs Council guidance on which of the aforementioned strategies should be prioritized.

## FINANCIAL IMPACT

There is no financial impact from receiving this report. The financial impacts of the various OPEB solutions cannot be quantified without more analysis. However, each of the options should have some positive impact on reducing the City's $86 million and growing liability.

## MUNICIPAL CODE/POLICY DOCUMENT CROSS REFERENCE

There is no impact to the Alameda Municipal Code.

## ENVIRONMENTAL REVIEW

Receipt of this report will not result in a significant effect on the environment and is exempt from CEQA under Guidelines section 15061(b)(3).

## RECOMMENDATION

Receive a report on the City's OPEB Liabilities, direct staff to begin discussions with bargaining unit representatives to address the problem, and return with agreed upon solutions.

Respectfully submitted,

Elizabeth D. Warmerdam
Assistant City Manager

Financial Impact section reviewed,

Fred Marsh
Finance Director

Exhibits:

1. City Council Staff Report October 21, 2008
2. Minutes of the October 21, 2008 City Council Meeting
3. City Council Staff Report October 30, 2012
4. Minutes of the October 30, 2013 City Council Meeting
5. City of Beverley Hills Alternative Retiree Medical Program Presentation

**CITY OF ALAMEDA**
Memorandum

To: Honorable Mayor and
Members of the City Council

From: Debra Kurita
City Manager

Date: October 21, 2008

Re: Provide Policy Direction on Funding Options for Implementation of Governmental Accounting Standards Board Statement No. 45 on Other Post Employment Benefits (OPEB)

## BACKGROUND

In 2004, the Governmental Accounting Standards Board (GASB) adopted Regulation 45, regarding non-pension related benefits paid by public employers to retirees. These benefits, which are part of the compensation negotiated between the employer and its employees, but not received until retirement, may include medical, dental, vision, hearing, life insurance or long term care insurance. Currently, the City of Alameda applies a 'pay-as-you-go' approach to funding these benefits, budgeting the actual cost of these benefits annually.

Regulation 45 encourages, but does not legally require, current funding of these future benefits. However, the liability for post-employment benefits is substantial. The annual cost of these benefits is a significant budgeted expense, which increases each year as the number of employees/retirees (plan participants) change, creating a potentially greater demand on future funds. Although the purpose of GASB 45 was to better measure these post-employment liabilities by recognizing the cost of the benefits in the time period in which the service is received, providing information within the annual audit of a governmental entity on the actuarial liabilities for future benefits in a transparent manner was also the goal. Such financial reporting provides a clear understanding of the potential demands on future cash flows to meet these OPEB liabilities.

In FY08-09, the City's annual cost for OPEB is budgeted at approximately $2.1 million. Of this amount, $914,000 is for Police retirees and spouses; $1,021,000 is for Fire retirees and spouses; $194,000 is for non-public safety retirees and no spouses. In FY09-10, this aggregate amount totals $2.4 million, and increases annually thereafter by approximately $300,000, assuming no major increase to the number of plan participants. Approximately 94% of the annual cost is public safety related, and would be a General Fund liability. The remaining 6% is non-public safety related and would be

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Exhibit 1 to
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funded primarily by the General Fund, with nominal portions funded by other special revenue/enterprise operating funds, as appropriate.

To comply with the pending GASB 45 reporting requirement, the City of Alameda secured the services of Bartel Associates, LLC, which prepared the first actuarial valuation of this OPEB liability. The report was presented to the City Council in May 2005. The study was updated in January 2007 for fiscal year 2007/2008. An Executive Summary of the valuation study, including pertinent detail documents, is provided as Attachment A to this report.

Completing this actuarial analysis is the first step in GASB 45 compliance – specifically, measuring and reporting the OPEB liability. The actuarial study is based on the current demographics of the participants, benefits included within the plan, and assumptions on the future costs of those benefits. Further, the study also identified the dollar amount of the present value (PV) of the liability for these future benefits, which has already been earned by the workforce. This much-discussed dollar liability is more accurately defined as the actuarial accrued liability (AAL).

The Bartel analysis includes two scenarios for calculating this unfunded AAL, both of which require an annual contribution of additional dollars beyond that which is budgeted/paid annually for the actual cost of the benefits that year. The sum of these two is defined as the annual required contribution (ARC), which includes the actual annual cost for the present benefits due retirees, as well as an additional amount which would be required during a 30 year period to fund the present value of the AAL, given certain interest earning assumptions. Assuming a 4.5% average investment rate of return on investments (ROI), the City's present ROI, the ARC for FY08-09 would be approximately $6.1 million, inclusive of $2.1 million annual payment and the present value of this liability $75.4 million. Assuming an ROI of 7.75%, the PERS investment return, the ARC for FY08-09 would be $4.4 million, inclusive of the $21. million annual payment and the present value decreased to $47.3 million.

The second step in GASB 45 compliance is disclosure of the actuarial results, and reporting this information in the Comprehensive Annual Financial Report (CAFR). This reporting requirement must be implemented in the FY08-09 annual financial statements, which will be submitted for City Council approval in December 2009. The disclosure, including actuarial assumptions and OPEB liability calculations, will be included in the CAFR for that fiscal year and each year thereafter. Actuarial assumptions will require update every two years, per GASB regulation, in order to be considered timely and accurate for financial reporting. Thus, in order for the City to comply with GASB 45, an actuarial update would be required in January 2009.

DISCUSSION

Having completed the actuarial analysis and complied with its reporting responsibilities, the City Council now faces policy discussion and subsequent direction to staff with respect to various funding alternatives to mitigate the annual accrued OPEB liability. The following funding options are provided to facilitate this discussion and analysis.

***Alternative A: Pay-As-You-Go Approach.*** Simply stated, this alternative is essentially that which cities, including the City of Alameda, have taken in past years, prior to implementation of any GASB rulings. Under this approach, the City of Alameda has budgeted the annual payments each fiscal year, and made such payments from revenues available (cash). The City has consistently met its annual obligations under this funding approach, and would continue to do so in the future. Attachment B details these annual contributions for the 30 year period under study. The cumulative annual cash payments for this benefit in this 30 year period total $214,160,000.

> *Advantages:* A pay-as-you-go approach is budgeted annually, and fulfills the City's obligations in meeting its commitments to retirees contractually. Increased costs are included as part of the annual process, similar to fixed price increases. Revenues are increased and/or expenditures in other areas decreased in order to fulfill the obligation within a balanced fiscal year budget. Budgeting annually, without additional deposits to the ARC, avoids major expenditure reductions and/or the need for new revenues to reduce the AAL.
>
> *Disadvantages:* This approach does not contribute in any way to reducing the accumulating, unfunded cash OPEB liability of $214 million through interest earnings. In addition, annual cash outlay for these benefits on a pay-as-you-go basis accelerates as a percentage of the City's General Fund budget. It is unknown as to what, if any, impact the AAL liability could have on the City's ability to issue General Fund debt in the future, if no attempt to pre-fund the plan were implemented.

***Alternative B: Pre-Funding Approach at 100%.*** This approach is based on the creation of a 'special fiduciary account' whereby both the annual cost payment and a differential to meet the amount of the ARC previously defined, are deposited into an account which earns interest, thereby reducing the City's AAL through interest earnings. Payments to retirees are made directly from this special fiduciary account annually, allowing interest to compound and thereby contribute to a major reduction in the PV of the AAL in time. The actuarial study was prepared utilizing two 'pre-funding' scenarios, previously referenced.

> *Advantages:* Full pre-funding, depositing the annual required contribution into an interest bearing instrument, significantly reduces the AAL for this OPEB liability. The prior analysis, prepared by the City's actuarial consultant, included two interest earning rate scenarios – one at the PERS rate of investment return of 7.75%, and the second at the City's rate of investment return of 4.5%. In addition to the annual cash payment, the City would deposit an additional amount into this account to meet the

ARC, reducing the AAL to $47.3 million and $75.4 million respectively. To achieve an AAL of $75.4 million, the City would be required to deposit an additional $3.9 million annually; to achieve a $47.3 million AAL, the City would be required to deposit an additional $2.2 million. (Note pg. 12 of Attachment A, for further details on this calculation.) Pre-funding significantly reduces the City's cash liability for this benefit compared to the $214.1 million pay-as-you-go cash outlay. Depending upon the ROI used, the City's actual cash out payments would be reduced from $214 million to $183 million with cash savings of $31 million at a 4-5% ROI; and from $214 million to $123 million with a cash savings of $91 million at a 7.75% ROI. Further, annual reporting of the AAL in the City's CAFR would demonstrate significant reductions in this liability as a result of pre-funding.

*Disadvantages:* Irrespective of the ROI applied, pre-funding would require an additional contribution/deposit into the special fiduciary account of $2.2 to $3.9 million annually, in addition to the present budgeted amount of $2.3 million. Funds for this differential would be derived from 1) increased revenues; 2) existing annual revenues/taxes, thereby reducing other operating programs commensurately; 3) fund balance. Reducing other operating programs in the General Fund to meet this contribution could be difficult, requiring significant personnel reductions, and/or elimination of some programs/services completely. Utilizing the City's General Fund (available cash) fund balance projected at approximately $8.5 million, and/or equipment/vehicle replacement reserves of $2.9 million, would consume these balances in 36-48 months. Replenishing the fund balance and equipment reserve, after that point, would be quite difficult, as the City has no excess revenues over expenditures annually. Operating without a fund balance is fiscally imprudent, particularly given the present, long-term economic volatility of the financial markets and the State budget deficit.

***Alternative C: Pre-Funding Ramp-up Approach*** This funding approach would continue the annual 'pay-as-you-go' budget cash payment, but would establish an additional allocation to be deposited annually into an interest bearing account more than the annual contribution, but less than the full ARC amounts referenced in Alternative B. The actuarial report (pg. 4) proposes a five year ramp up to achieve full ARC funding, based upon a formula calculated as: pay-as-you-go plus a percentage times the difference between the ARC and that year's pay-as-you-go amount. This ramp up assumes that within five fiscal years, the full ARC would be achieved and every year thereafter. Applying this formula, the five year ramp up, assuming a 4.5% ROI, would require the following cash outlay: $2.9 million in FY08-09; $3.8 million in FY09-10; $4.7 million in FY10-11; $5.3 million in FY11-12; and 6.0 million in FY12-13. An ROI of 7.75% would, of course, reduce the annual ramp up payments, as a result of higher interest earnings. This ramp up approach would affect the AAL, increasing it compared to the full pre-funding approach.

*Advantages:* The ramp-up-to-pre-funding approach would afford the City time to transition to full ARC payments, particularly during what could be a five year slow-growth recovery for government. Full funding of the ARC would be required in year five, and would be proportionately higher than the $6.0 million or $4.3 million ARCs, calculated in the actuarial report and based upon immediate pre-funding.

*Disadvantages:* Although the ramp-up-to-pre-funding approach mitigates the impact of the ARC in the first five years, the annual cash reduced in these years, must be recovered in subsequent years to achieve full pre-funding within the 30 year amortization period. Thus, ARC costs in years six to 30 would impact General Fund appropriations more than that which would be required under the basic pre-funding approach, Alternative B. Impacts to other programs and services, as a result of the significant amount of these ARC payments, require consideration under this alternative.

***Alternative D: Pre-Funding Partial-Financing Approach*** This partial pre-funding approach would be derived from a combination of the annual budgeted cash outlay annually, plus an additional amount derived from cost savings resulting form the financing of the City's 1079 and 1082 Pension Plans. Prior to conversion to the CalPERS retirement system in 1990, the City provided pension benefits through two separate plan options. These terminated retirement plans have a fixed dollar amount liability, which can be financed as a taxable issue. Payments of principal and interest on this obligation are less than the present annual cash payments on these plans during the first ten years of issuance. These annual cash savings are funds which can be directly deposited into the fiduciary account. Interest on these funds would be used to fund the incremental growth on the pay-as-you-go approach from year 10-30. (Attachment C)

*Advantages:* The pre-funding partial financing approach generates immediate annual cash savings during the first ten years of issuance, eliminating the need for major operating expenditure reductions in order to fund the ARC amounts required under Alternate B for pre-funding. Actual cash savings during the first ten years of bond issuance is approximately $7.5 million at a 7.75% ROI, and $4.2 million at a 4.5% ROI. As a variation, these cash savings could also be used for one-time deposits into fiduciary accounts as seed capital earning interest, until such time as the City can pre-fund, thereby deferring any revenue increase or expenditure decrease needed to fund the ARC.

*Disadvantages:* The pre-funding partial-financing alternative does generate savings during the first ten years of issuance. In approximately 2016, the City would be required to make debt service payments that no longer generate cost savings which can be placed in a fiduciary, interest bearing account or used to offset the ARC each year. Future General Fund revenue may not have increased sufficiently in future years to allow both full ARC pre-funding payments and the debt service obligation, similar to that which is required in Alternative B.

***Alternative E: Partial Pre-Funding Recurrent-Revenue Stream Approach*** This funding scenario retains the annual, pay-as-you-go alternative, in addition to: a) one-time, start-up seed capital amounts to be deposited into the fiduciary account in order to demonstrate a good-faith effort toward GASB 45 compliance in FY08-09; and b) a recurrent revenue stream generated by expenditure savings. These funds would be derived specifically from the following:

1) The Alameda Redevelopment and Reuse Authority's (ARRA) $2.4 million obligation, repaid in a term to be determined, including principal and interest, at a rate of 6%.

2) The Alameda Power and Telecommunication's obligation to the City of $2.2 million, to be repaid at a time and term to be determined, at an interest rate of 6%.

3) An amount equal to Plans 1079 and 1082 incremental plan savings, achieved between 2009 and 2037, as a result of declining actuarial payments; and, an annual payment in the amount of $2.8 million (FY08-09) once these plans have been fully retired.

4) An amount equal to excess available cash (fund balance) beyond the approved 25% goal established by the City Council.

5) A combination of any or all of these sources.

*Advantage*: The partial pre-funding recurrent revenue stream approach provides an alternative by which certain, future and anticipated revenues to be received by the City's General Fund, would be applied to the ARC in addition to the amount required under the pay-as-you-go Alternative. Each of these potential recurrent revenue streams would require a re-calculation of AAL, based upon the ROI, the amount of one or more revenue streams contributed each year, and the length of time in which these revenue streams are available. Under this alternative, similar to that in Alternatives A and D, the immediate demand on the City's available cash for full ARC funding would be deferred until such time as the General Fund had the capacity to meet the full cash outlay required for full pre-funding. Depending upon the ROI applied and the principal amount generated by this approach, full pre-funding could be achieved under this approach within a ten-year time frame.

*Disadvantage:* This alternative does not reduce the AAL at the same rate as Alternative B. Assuming a 30 year study period, annual contributions beyond those contributed by the recurrent revenue stream would be required in addition to the ARC minimum, in order to offset those years in which the revenue stream did not meet the ARC.

## FISCAL SUSTAINABILITY COMMITTEE MEMORANDUM

The City Council, at its meeting of July 1, 2008, established a Fiscal Sustainability Committee (FSC), comprised of community representatives from business, industry and the professions. The City's elected Auditor and Treasurer co-chair this committee. The FSC was chartered with the responsibility to provide policy recommendations to the City Council with respect to methods by which the City could become fiscally stable and sustainable in the mid to long term. In particular, the FSC was requested to evaluate the impacts of GASB 45 and provide recommendations with respect to funding this OPEB liability.

The FSC has prepared its report, Attachment D, in response to the City Council directive. At this point, the FSC recommended, as a matter of policy, adoption of full pre-funding for reducing this liability. The FSC recommends that the City fund the first year liability of $4.4 million, but would require additional time, as a committee, to evaluate the impacts of this continued approach in future budget years.

## BUDGET CONSIDERATION/FINANCIAL IMPACT

Each of the alternatives presented in this report have a significant impact upon the City's General Fund budget, the specifics of which have been presented within the analysis of each alternative. Pre-funding of the actual accrued liability, identified in the actuarial study, either fully or partially, will require new revenues or reduced expenditures to meet the annual required contribution. Variations of pre-funding alternatives were identified which mitigate this impact in the short term.

## RECOMMENDATION

Approve Alternative E as the preferred funding option, and direct staff to develop an implementation plan for City Council approval.

Respectfully submitted,

Ann Marie Gallant,
Interim Chief Financial Officer

AMG:dl

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|---|---|---|
| Attachments: | Attachment A | Bartel Associates Retiree Healthcare Plan January 1, 2007 Actuarial Valuation Executive Summary |
| | Attachment B | Actuarial Valuation – Open Group Benefit Payment Projections |
| | Attachment C | Debt Payments vs. Benefit Payments: Study by Gardner, Underwood and Bacon |
| | Attachment D | Memorandum from Fiscal Sustainability Committee |

**CITY OF ALAMEDA**
Memorandum

To: Debra Kurita,
City Manager

From: Kevin Kennedy, Chair
Fiscal Sustainability Committee

Date: September 23, 2008

Re: Recommendation to Contribute to an Irrevocable Trust for Other Post Employment Benefits

## BACKGROUND

The City Council considered adopting an ordinance establishing an irrevocable trust fund for Other Post Employment Benefits (OPEB). The City Council requested the Fiscal Sustainability Committee recommend a minimum trust fund contribution level for inclusion in an ordinance.

## DISCUSSION

In preparing this recommendation, the Fiscal Sustainability Committee considered the January 2007 Governmental Accounting Standards Board Statement 45 (GASB 45) Actuarial Valuation Report. It also considered related information presented by staff.

The Governor's Commission on Public Employee Post-Employment Benefits, in their comprehensive report titled "Funding Pensions and Retiree Healthcare for Public Employees", states as their first recommendation the following: *"Public agencies providing OPEB benefits should adopt prefunding as their policy. As a policy, prefunding OPEB benefits is just as important as prefunding pensions. The ultimate goal of a prefunding policy should be to achieve full funding"* (Section 1, Page 5).

The GASB 45 Actuarial Valuation Report performed for the City of Alameda, in January 2007, indicates an actuarial accrued liability of over $75 million assuming no prefunding, as has been past practice regarding OPEB benefits. The City's current method of "pay-as-you-go" requires expenditures of $2.129 million in the current fiscal year. While GASB 45 does not mandate funding the accrued liability, good financial practices indicate the necessity to do so. The Report presented various plans for how to reduce this liability over time, including a 30-year amortized schedule with relatively constant annual contributions, and a "ramp-up" plan that begins at a lower funding level and increases annually to achieve full funding. Prefunding this liability has several advantages to the "pay-as-you-go" approach including, but not limited to, improved credit ratings for the City, the mitigation of a continually growing payment requirement, and possible savings over time as invested balances earn returns in excess of inflation rates.

**City Council**
**Attachment D to**
**Agenda Item #6-A**
**10-21-08**

It is important to note that the fixed 30-year amortized payment to achieve full funding of these accrued liabilities amounts to over $2.4 million in additional contributions in the current fiscal year over the present $2.1 million being funded for a total of $4.5 million. If the objective of reaching full prefunding, as recommended by the Governor's Commission, is adopted by the City Council, OPEB funding would need to be increased by an average of $2.0 million annually.

The "phase-in" approach, as presented in the Actuarial Report, lays out a course for the City to achieve full funding over 30 years, but with a five-year "phase-in" period where payments begin at a lower level and ramp up to a level slightly higher than the flat 30-year amortized payment. This approach would require increased OPEB funding in the current fiscal year of approximately $979,000.

With this information, but without completing the assignment of forecasting general budget trends as the basis for fiscal policies and resource allocation decisions by the City Council, and within the time allowed by the City Council, the Committee is recommending an amount of $2,373,000 as the amount to contribute in calendar year 2008 to the irrevocable trust for Other Post Employment Benefits. This number is derived from the full Annual Required Contribution amount (pages 47 and 49 of the report), $4,502,000, less the estimated actual payments during Fiscal Year 2008-2009 of $2,129,000. This amount should be contributed from cash with no new debt.

The recommendation is for the first year contribution. A new actuarial report is required as of January 2009, which will provide a revised liability amount. Additionally, any changes to the benefit structure will also alter the amount of the total liability, a step the City Council may need to consider.

## BUDGET CONSIDERATION/FINANCIAL IMPACT

The Committee has not, as yet, had time to complete its comprehensive review. The impact on the General Fund of this recommended $2.4 million contribution may be to further reduce the fund balance to the extent that Fiscal Year 2008-2009 actual revenues and expenditures are meeting budget.

## RECOMMENDATION

The Fiscal Sustainability Committee recommends contributing $2,373,000 to the irrevocable trust for Other Post Employment Benefits in calendar year 2008.

Respectfully submitted,

Kevin Kennedy, Chair
Fiscal Sustainability Committee

MINUTES OF THE REGULAR CITY COUNCIL MEETING
TUESDAY- -OCTOBER 21, 2008- -7:30 P.M.

Mayor Johnson convened the Regular Meeting at 8:54 p.m.

ROLL CALL - Present: Councilmembers deHaan, Gilmore, Matarrese, Tam, and Mayor Johnson - 5.

Absent: None.

AGENDA CHANGES

None.

PROCLAMATIONS, SPECIAL ORDERS OF THE DAY AND ANNOUNCEMENTS

(08-440) Proclamation declaring October 2008 as Breast Cancer Awareness Month.

Mayor Johnson read and presented the proclamation to Susan Bunker.

Ms. Bunker thanked Council for the proclamation.

(08-441) Proclamation recognizing the benefits of public power and honoring Alameda Power and Telecom for its contributions to the community.

Mayor Johnson read and presented the proclamation to the Alameda Power and Telecom General Manager.

The Alameda Power and Telecom General Manager thanked Council for the proclamation.

CONSENT CALENDAR

Councilmember deHaan moved approval of the Consent Calendar.

Councilmember Matarrese seconded the motion, which carried by unanimous voice vote - 5. [Items so enacted or adopted are indicated by an asterisk preceding the paragraph number.]

(*08-442) Minutes of the Special City Council Meeting held on October 1, 2008; Special City Council Meeting held on October 2, 2008; Special and Regular City Council Meetings held on October 7, 2008. Approved.

(*08- 443) Ratified bills in the amount of $2,722,309.26.



City Council
Exhibit 2 to
Agenda Item #6-C
7/23/13

(*08-444) Recommendation to accept the Annual Report for the Managed Investment Portfolio for Fiscal Year 2007-2008. Accepted.

(*08-445) Recommendation to adopt Plans and Specifications and authorize Call for Bids for Signal Coordination on Eighth Street, Otis Drive, and Park Street/San Jose Avenue, No. P.W. 01-08-03. Accepted.

(*08-446) Resolution No. 14277, "Authorizing the City Manager to Execute the Grant Contract Between the State of California Department of Boating and Waterways and the Alameda Police Department." Adopted.

(*08-447) Resolution No. 14278, "Approving an Agreement with Ameresco Butte County LLC for the Purchase of Power from Landfill Gas Generation for a 20-Year Term." Adopted.

(*08-448) Resolution No. 14279, "Recommending Opposition to Proposition 7." Adopted.

CITY MANAGER COMMUNICATIONS

(08-449) Discuss the principles and framework for the potential cuts to balance the City's Fiscal Year 2009-10 budget.

The City Manager gave a Power Point presentation.

Mayor Johnson opened the public portion of the meeting.

Tony Santare, Mastick Senior Center Advisory Board (submitted comments); Ewart A. Wetheral, Mastick Senior Center (submitted comments); Barry Christensen, Mastick Senior Center; Jim Thomas, Mastick Senior Center; Virginia Fierro, Mastick Senior Center; Arlene Talbot, Alameda; Patricia Meier, Alameda; Olga Crowe, Alameda; Domenick Weaver, Alameda Firefighters (submitted study); Albert J. Hahane, Residents for Cardinal Point; Ken Gutletsen, Alameda; Robbie Dileo, Alameda Museum; Chuck Millar, Alameda Museum.

There being no further speakers, Mayor Johnson closed the public portion of the meeting.

Councilmember Matarrese stated decisions will not be made on potential cuts tonight; that he would like Council to give direction on policy standards to provide measurement and flattening and restructure the organization, which have been addressed at prior budget hearings; cuts should be made farthest away from the point of service delivery; the City has a structural problem that needs to be fixed; consolidating departments should be reviewed.

Councilmember deHaan stated more impacts can be anticipated due to the current financial crisis; concurred with Councilmember Matarrese; stated funding was strong from 1995 to 2000; that he would like to compare current staffing with levels ten years ago; he is appalled that Mastick Senior Center closure is being considered as a potential cut.

Councilmember Matarrese stated the City Manager and Department Heads are responsible for determining how to deliver service; that he wants to outline what services need to be protected; public safety staffing needs to be maintained at a level to ensure adequate response time; that he is pleased that the Police Chief is urging Council not to consider a Special Duty Unit reduction which would result in the loss of a parolee, a probationer, sex registrant monitoring, special operations capabilities, and surveillance and investigative functions; the City is kept safe because of parolee surveillance, speed limit enforcement, and property crime investigation; the City has three missions: 1) keeping the City safe; 2) protecting individual citizens; and 3) protecting infrastructure; the City cannot eliminate sidewalk and tree pruning maintenance.

Mayor Johnson stated the Fire and Police Departments' Sustainability Reports should have included economic analysis and been a financial planning tool for the next five or ten years; reports should include the retirement medical cost issue.

Councilmember Gilmore stated follow up should be given to the possibility of contracting out certain Finance Department functions, such as payroll, parking citations, business licenses, etc., as well as combining Risk Management and Human Resources into one administrative department; consolidating Boards and Commissions should be reviewed because City time is used to staff the Boards and Commissions; contracting out engineering services should be reviewed; that she is not sure about contracting out Fire services to the County; that she does not see how public safety services will not be touched given the fact public safety accounts for 66% of the General Fund.

Councilmember Matarrese stated that he would like the City Manager to explore the possibility of contracting in; Alameda Unified School District could contract with the City for field maintenance and payroll services; part-time versus full-time employment should be reviewed for professional services.

Mayor Johnson stated issues should be reviewed with more of an open mind; Council has been clear on minimizing public service cuts as much as possible; many cities utilize retirees to supplement public safety forces; the Fire Dispatch Center was contracted out years ago; the Police Chief provided a brief analysis on the matter, but numbers were not provided.

The City Manager stated that the issue was noted as something to consider in the future because more analysis is needed.

Mayor Johnson stated the issue should be reviewed if there is a possibility to save money and provide the same service; every issue should have an associated dollar amount.

The City Manager stated that staff is working to ensure that costs are identified in future studies; structural changes can be reviewed; the amount needed to balance the [2009-2010] budget is substantial.

Mayor Johnson stated Council needs to know the exact amount of money that would be saved by eliminating positions, including retirement benefit costs.

Vice Mayor Tam stated the City does so much with so little; the City's public utility is doing very well; fifty percent of the Assistant City Manager's time is charged to Alameda Point; Mastick Senior Center is a model for the region; the Police and Fire Departments are incredible; it is important to see whether structural changes would have an impact on the General Fund; that she is not sure whether all Public Works' programs are charged to the General Fund; questioned whether funding is received for tree trimming and sidewalk repair; stated clear assessments need to be made regarding contracting out public safety services to Alameda County; the City is not facing easy choices.

Councilmember Gilmore stated Council is discussing 2009-2010 budget cuts now; economic advisers do not see the financial situation getting better for a few years; she does not want the City to become another Vallejo.

Councilmember Matarrese stated people do not want to put a price tag on public safety services or the Mastick Senior Center, but the services cost money; the City's core missions and need to be reviewed.

Councilmember deHaan stated the City's financial situation developed over several years; corrections need to be made now to avoid further impacts.

Mayor Johnson stated the City cut $4 million [from the budget] this year; millions of dollars were cut the year before; structural reform is needed.

The City Manager stated expenditures and revenues will continue to be monitored; the community will be impacted.

Mayor Johnson stated Council voted to place Measure P on the ballot to increase revenue; people need to be given a choice between increasing revenue or making cuts; a public safety parcel tax polled very poorly.

Councilmember Matarrese stated some departments night need to be consolidated; the City cannot support the current structure; sharing services with the School District should be reviewed; the City cannot afford not to develop the North of Lincoln Avenue and Alameda Landing projects.

The City Manager stated the Revenue Enhancement Team looked at a variety of revenue raising opportunities; discussions involved using Marina fees to help support public safety services in the area.

Mayor Johnson stated Council needs more information on Marina fees.

Councilmember Gilmore stated tonight's report is very clear and helpful; requested that the report be posted more predominately on the City's website.

Councilmember Matarrese stated an analysis would be needed following the outcome of Measure P; quarterly reports will be provided in November; mid-year reports will be provided in February; the budget will be reviewed in May.

Councilmember deHaan stated most municipalities are going through the same exercise and are making drastic cuts.

Mayor Johnson stated Measure P would lessen cuts, but cuts would still need to be made.

REGULAR AGENDA ITEMS

(08-450) Recommendation to receive the Fiscal Sustainability Committee report on Other Post Employment Benefits.

The Interim Finance Director gave a presentation.

Mayor Johnson inquired what happens when a retiree reaches an age to qualify for Medicare, to which the City Manager responded that information would be provided.

Mayor Johnson inquired whether a significant number of increased participates need to be assumed.

The Interim Finance Director responded actuarial assumptions are based on certain revenue and cost growth estimates; stated actuarial assumptions need to be updated every twenty-four months.

Mayor Johnson stated that projecting the number of retirees in the next ten years is important.

The Interim Finance Director stated that employee census growth is addressed [in actuarials].

Mayor Johnson requested clarification on national health care in ten years.

The Interim Finance Director stated Bartel Associates' theory is that national health care costs would be the base line; the amount would be subtracted from the City's liability.

Mayor Johnson stated that she does not agree with said assumption; assumptions need to have a rational basis; reducing the health care rate of inflation to 4.2% is irresponsible.

Councilmember Matarrese stated the assumption should not be made.

The Interim Finance Director continued the presentation.

Kevin Kennedy, Fiscal Sustainability Chair and City Treasurer, gave a brief presentation.

***

(08-451) Vice Mayor Tam moved approval of continuing the meeting past midnight.

Councilmember deHaan seconded the motion, which carried by unanimous voice vote - 5.

***

Vice Mayor Tam stated that the $6 million cash payment assumes a 4.5% and 7.75% fixed rate of return.

Mr. Kennedy stated the higher rate of return is being used; the money set aside to deal with the liability can be invested like a pension fund investment; the City's General Fund can only have highly rated securities with very limited maturity; the Public Employee Retirement System (PERS) has a program that cities can use to set up irrevocable trusts to fund OPEB benefits.

Vice Mayor Tam inquired whether the City would need to contribute more if the return is not 7.75%.

Mr. Kennedy responded figures should not deviate very much unless staff levels significantly change or there is an unusual employee turnover.

Mayor Johnson inquired what is the Fiscal Sustainability Committee's recommendation, to which Mr. Kennedy responded a straight thirty-year amortized schedule.

Councilmember Matarrese inquired whether outstanding loans from Alameda Power and Telecom (AP&T) and Alameda Reuse and Redevelopment Authority (ARRA) are returning approximately 6% interest each.

The Development Services Manager responded ARRA is paying interest only to the General Fund; stated the principle would not retire; AP&T is not paying anything on its obligation.

Councilmember Matarrese inquired whether lease revenues are pumped into the General Fund as an interest only payment.

The Development Services Manager responded a payment of $130,000 is made, which is 6% in interest.

Councilmember Matarrese stated the interest comes from lease payments; lease revenue is to go into infrastructure and maintenance at the former Base, but is going into the General Fund.

Mayor Johnson stated Council needs to decide whether revenue should come to the General Fund or go into crumbling infrastructure that the City does not own.

Vice Mayor Tam inquired whether redevelopment funds would be protected from State raiding if revenues were put into the General Fund.

The Development Services Director responded lease revenue funding does not have anything to do with tax increment received from the State; stated the law states that a city's General Fund can make the payment; ARRA is scheduled to make principle payments this fiscal year.

Councilmember Matarrese stated the question is whether principle payments should be made; decisions need to be made on the best place for cash flow.

Mr. Kenney stated the City is trying to work another $2.5 million into a budget that is already strained to ensure that obligations are met; the City may get to a point where the retiree budget will engulf the entire budget for current services.

Mayor Johnson questioned how the City would provide needed levels of public safety when payments are required for retiree health benefits.

Mr. Kennedy stated that a lot of cities are looking at the issue; the current economy is exposing a lot of weaknesses that were hidden by a strong economy.

Vice Mayor Tam inquired whether the Committee's recommendation is Alternative B, which requires raising an additional $2.3 million on top of $1.2 million; stated Alternative B would increase the shortfall of approximately $4 million next year to $6.3 million; questioned whether the Committee is suggesting that the City not tap into the fund balance for said amount.

Mr. Kenney responded in the affirmative; stated the General Fund balance could be spent down to zero if significant changes are not made to free up revenue going forward; stated the City has a $75 million liability; staff presented a variety of payment options; there is a lot to be said for pre-funding as much as possible.

Mayor Johnson inquired how many retirees are assumed on Attachment B and what are the premiums.

Mr. Kennedy responded the current population was considered and assumptions were made regarding turnover and change in demographics.

Councilmember Matarrese stated no one is supporting the pay-as-you-go approach; the question is how much the City will pay over and beyond the annual premium; the money needs to be squeezed out of an already tight budget; that he appreciates the work of the Fiscal Sustainability Committee; he prefers a fixed figure even if adjustment would be needed; the obligation is real and contracted; that he likes the idea of taking the from an ARRA loan to help fund the obligation.

Mayor Johnson concurred with Councilmember Matarrese; stated a fixed number has to be set; funding was not provided for the 1079 and 1082 Plans; Council is dealing with the consequences.

Mayor Johnson opened the public portion of the hearing.

Michael D'Orazi, IAFF 689, stated the Police and Fire Associations did not get off to a good start when the City was approached for transferring the 1082 Plan to PERS; the ball was set in motion through a meeting with Former Mayor Chuck Corica; actuarial assumptions were obtained from PERS which showed that the City would save 13% on employer costs for pensions and there would be $3 million left over after the conclusion of transfer of funds; public retiree healthcare benefit discussions were limited because everyone felt that life expectancy for public safety employees was shorter; discussions continued for adding spouses to the benefit; the 13% could have been used to help pre-fund pension costs; pre-funding is an important option to consider; urged Council to be cautious; stated only two people are left in the 1082 Plan; the 1079 Plan unfunded liability will decrease substantially over the next few years.

There being no further speakers, Mayor Johnson closed the public portion of the hearing.

The Interim Finance Director noted that the City would have more than an additional $700,000 shortfall if the ARRA obligation repayment was not included in the current budget and 2009-2010 budget.

Councilmember Gilmore thanked the Interim Finance Director and Fiscal Sustainability Committee for the report; stated that she knew there was an OPEB liability, but she did not know what target the City needed to shoot for to start paying for the obligation.

Mr. Kennedy stated that the Fiscal Sustainability Committee would not provide a final report in January.

Councilmember Matarrese thanked the Fiscal Sustainability Committee for input and the Interim Finance Director for a clear presentation; stated that no one anticipated the rise in healthcare costs; the 1079 and 1082 Plans are in sunset and provide an opportunity for some ramping up; that he would like staff to come back with a hybrid approach which would include pre-funding ramp up and Alternative E.

In response to Mayor Johnson's comments regarding mandatory payment, Mr. Kennedy stated one way to make payment mandatory could be pre-funding with a bond; if a $50 million pension bond were issued, a 5% interest rate would equal $2.5 million in interest payments; earning 6%-8% would result in additional revenue; the interest payment would be non-negotiable.

Councilmember deHaan stated that Peralta Community College District had an approximate 2% delta between what was borrowed on a bond and what was earned.

Mayor Johnson stated that a number needs to be set and consequences need to be known; requiring non-discretionary payments could be established through an ordinance or could be part of the Charter.

Mr. Kenney stated that he would have an issue with issuing a bond on the entire obligation; a number of cities have partially pre-funded the obligation.

The Interim Finance Director stated pension obligation bonds are taxable; borrowing $75.4 million of taxable municipal debt at today's rate would result in a $3.2 million payment; the bond would be a serial bond and would never stop.

Mr. Kenney stated bond counsel could provide more information on the matter.

The Interim Finance Director stated that paying the $75.4 million over thirty years would result in paying three times the amount; a bond would be good for pre-funding the obligation and controlling the difference of the delta every year.

Mr. Kenney stated the pay-as-you-go approach is irresponsible; commended Council for facing the issue; stated more information is needed on how a pension bond would work.

Mayor Johnson stated information is needed on paying the obligation over thirty years, the 1079 and 1082 Plans, and using [1079 and 1082 Plan] decreases to pay for the current [OPEB] plan.

Councilmember Matarrese stated consensus is: not to select the pay-as-you-go approach; to shoot for the $4.4 million; to review the pension bond alternative; and to see how $2.8 million from the 1079 and 1082 Plans figure into payment; further stated a resolution or ordinance could be considered as a vehicle for locking in the payment commitment.

Councilmember Gilmore stated that she wants information on General Fund repercussions.

Vice Mayor Tam requested clarification on the $3 million that was to go into the OPEB [when the 1079 and 1082 Plans ended] and where the 13% savings went that the City incurred as a result of the conversion from the 1079 and 1082 Plans; stated that she wants to avoid repeating past mistakes.

Mayor Johnson stated actuarial numbers need to be reviewed in order to ensure that payments are adequate.

Councilmember Matarrese stated dramatically increased healthcare costs and participant fluctuation need to be considered.

Councilmember deHaan stated today has to be the worst of all times to pay but might be the best in terms of securing a bond.

Mr. Kennedy stated markets have been frozen; IBM borrowed money at 250 basis points over Treasury, which is ridiculous.

The Interim Finance Director stated that the last quarter statistics indicated that the Municipal Bond market was 25% less than demand; timing is the issue; updated actuarial assumptions are needed; real numbers are needed.

Councilmember Matarrese stated accurate information is needed, but he does not want the matter pushed aside.

(08-452) Report on the impact of the Chuck Corica Golf Complex Fee Increases.

The Interim Golf Manager gave a brief presentation.

Councilmember deHaan stated rounds have increased, but cart rentals have decreased.

The Interim Golf Manager stated golfers are making careful spending decisions.

Mayor Johnson stated one month's data is not enough to track impacts.

Jim Strehlow, Alameda, stated fewer people will play golf because of the current economic conditions; Council should not rely on short-term impacts.

Jane Sullwold, Alameda Golf Commission, stated September 2008 only had four weekends and did not include Labor Day weekend, which was included in September 2007 statistics; revenue increased by approximately $24,000; the first month was a very positive experience under the new rate structure; the Interim Finance Director has been extremely helpful in providing information to the

Golf Commission.

In response to Councilmember deHaan's inquiry regarding figures, Ms. Sullwold stated the Par 3 Course continues to increase in play and decrease in revenue.

Mayor Johnson inquired whether increased rates would decrease play.

Ms. Sullwold responded higher rates decreased play in the past; stated the Par 3 Course if price sensitive.

(08-453) Recommendation to authorize the City Manager to negotiate a Master Siting Agreement with AT&T to upgrade their distribution system in order to provide Lightspeed Services in Alameda and to execute all necessary documents to implement the project.

The Public Works Coordinator gave a brief presentation.

Mayor Johnson inquired whether every site would require a permit.

The Public Works Coordinator responded in the affirmative; stated notification would be provided to property owners within 300 feet of a site.

Mayor Johnson inquired whether Council has the ability to say no to the Agreement.

The Public Works Coordinator responded in the negative; stated the City would have the right to control the way equipment would be installed within the public right-of-way.

Mayor Johnson inquired whether the franchising roll has been taken over by the State, to which the Public Works Coordinator responded in the affirmative.

Councilmember Matarrese stated the staff report indicates that the City would receive a 5% franchise fee; inquired how much the 5% is in dollars.

The Public Works Coordinator responded 5% of gross revenue for video services; stated the actual dollar amount would depend on sales.

Councilmember Matarrese inquired whether the 5% [franchise fee] is in the budget.

The Public Works Coordinator responded in the negative; stated constructing the system would take approximately eighteen months.

Mayor Johnson inquired why the City cannot charge franchise fees on satellite dishes.

The Public Works Coordinator stated franchise fees are for occupation of right-of-ways.

Councilmember deHaan inquired whether all cabinets would be on public property, to which the Public Works Coordinator responded all cabinets would be within the public right-of-way.

Councilmember deHaan inquired whether any cabinets would be placed on private property at any point.

The Public Works Coordinator responded there are no plans to place the cabinets on private property.

Councilmember deHaan inquired whether locations would be new.

The Public Works Coordinator responded in the affirmative; stated AT&T estimates that seventy-seven boxes will be installed; the quantity depends depend on cable length; the new cabinets would be within 150 feet of the existing Serving Area Interface (SAI) cabinets.

Councilmember deHaan inquired whether electrical underground boxes were placed on public or private right-of-ways, to which the Public Works Coordinator responded public right-of-way.

Mayor Johnson stated placing some of the cabinets on private property would be beneficial; placing cabinets in landscape areas would be better.

Councilmember deHaan inquired whether AT&T would be willing to subsidize staff's efforts.

The Public Works Coordinator responded AT&T would be pay for permits.

Councilmember deHaan inquired whether permit fees would be adequate, to which the Public Works Coordinator responded in the affirmative.

Vice Mayor Tam stated the Agreement has a lot of protections for the City.

Councilmember Gilmore moved approval of the staff recommendation.

Vice Mayor Tam seconded the motion, which carried by unanimous voice vote - 5.

(08-454) Resolution No. 14280, "Approving the Amended and Restated Northern California Power Agency Power Pooling Agreement." Adopted.

The Utility Planning Supervisor provided a brief presentation.

The City Manager stated that the Agreement was unanimously approved at the Public Utilities Board meeting last night.

Mayor Johnson inquired whether all Northern California Power Agency members are changing the Agreement, to which the Utility Planning Supervisor responded in the affirmative.

Councilmember Matarrese inquired whether the Agreement would have any affect on the source of power generated.

The Utility Planning Supervisor responded there should be no impact; stated the City has been operating under revised procedures for a number of years.

Vice Mayor Tam moved adoption of the resolution.

Councilmember Matarrese seconded the motion, which carried by unanimous voice vote - 5.

ORAL COMMUNICATIONS, NON-AGENDA

08-455) Griff Neal, Alameda, submitted handout; stated undergrounding costs were estimated to cost homeowners between $1,500 and $2,000; that his estimate is $10,000; electric services can be reimbursed but cable and phone service costs are divided by the number of services; hook up costs are not reimbursed if a house requires a non-standard service hook up.

Mayor Johnson requested that information be provided to Council on how charges work and the reimbursement process.

Councilmember Matarrese requested that the matter be placed on an agenda so that Council can take action.

Mr. Neal suggested selling AP&T to balance the budget.

COUNCIL REFERRALS

None.

COUNCIL COMMUNICATIONS

(08-456) Consideration of Mayor's nomination for appointment to the Social Services Human Relations Board.

Mayor Johnson nominated Douglas Biggs.

(08-457) Councilmember deHaan stated that gas prices are down; ferry fees were raised; inquired whether the increase should be revisited.

The City Manager responded that she would check with the Public Works Department.

Mayor Johnson stated that fees could possibly be reduced.

(08-458) Councilmember Matarrese stated that he attended the AC Transit Interagency Liaison Committee Meeting; he requested that Council receive a report on the meeting because discussions included casual carpooling and line 63; the line 63 route changes only saved two minutes.

Mayor Johnson inquired what were the thoughts on casual carpooling.

Councilmember Matarrese responded points of discussion included: 1) casual carpooling is bad for the bus system; 2) the City should place a sign for a designated casual carpooling zone; and 3) casual carpooling should be moved to a ride share location; stated the matter is a question of policy.

Councilmember deHaan stated concerns involved sheriff's issuing tickets.

Councilmember Matarrese stated tickets are issued if someone pulls up to a red zone that is a bus stop.

(08-459) Vice Mayor Tam stated that she attended the League of California Cities East Bay Division meeting last Thursday; PG&E made a presentation; PG&E is trying to reduce its carbon footprint; Berkeley, Albany, and Emeryville are trying to create a municipal public power entity; studies show that rates would be 10% higher because of PG&E's broad base; that she has been elected to the Executive Board which requires reviewing legislation on local control for the Light Brown Apple Moth issue.

Mayor Johnson inquired what is PG&E's renewable portion of their portfolio.

The AP&T General Manager responded 11%; stated AP&T is number one in the State.

ADJOURNMENT

Mayor Johnson announced that the November 4, 2008 Regular City Council Meeting will be adjourned to November 6, 2008 due to the November 4, 2008 General Municipal Election. There being no further business, Mayor Johnson adjourned the Regular Meeting at 1:45 a.m.

Respectfully submitted,

Lara Weisiger
City Clerk

The agenda for this meeting was posted in accordance with the Brown Act.

**CITY OF ALAMEDA**
Memorandum

To: Honorable Mayor and
Members of the City Council

From: John A. Russo
City Manager

Date: October 30, 2012

Re: Receive a Report from the Pension/OPEB Task Force and Provide Direction on Next Steps

## BACKGROUND

Last year, the City Manager appointed a Task Force to review the City's pension obligations, develop a consensus around the gap in the City's pension funding, and propose solutions for the City to close the funding gap. Prior to the first meeting, staff decided to expand the scope of the Task Force's charge to include a discussion of Other Post-Employment Benefits (OPEB), a category which is almost entirely related to retiree medical. (Exhibit 1 contains a glossary of terms used in discussing pension and OPEB.)

The Task Force, which met eight times between October 2011 and June 2012, included individuals with a wide range of publicly held positions on the issues to be considered. The Task Force members were:

- City Treasurer Kevin Kennedy
- City Auditor Kevin Kearney
- Jeff Bratzler (community member)
- Madeline Deaton (community member)
- Earl Hamlin (community member)
- Gretchen Lipow (community member)
- Kate Quick (community member)
- Bill Schaff (community member)
- Dick Spees (community member
- International Association of Firefighters Local 689 President Domenick Weaver
- Alameda Police Officers Association President Mike Abreu
- Fire Chief Mike D'Orazi
- Chief of Police Mike Noonan
- Human Resources Director Holly Brock-Cohn
- Assistant City Manager Lisa Goldman

**City Council**
**Exhibit 3 to**
**Agenda Item #6-C**
**7/23/13**

The City's actuary, John Bartel, and his colleague Marilyn Oliver, assisted the Task Force with its work, reviewing with the group the City's PERS and OPEB actuarial valuations (Exhibits 2 and 3).

During Phase 1 of the Task Force's work, the group was charged with reviewing the City's pension and OPEB obligations, discussing the assumptions used to develop estimates of the liabilities, and developing a consensus around the size of the liabilities. During Phase 2, the Task Force was asked to develop potential solutions for dealing with the City's pension and OPEB obligations.

DISCUSSION

***Phase 1: Defining the Size of the Obligations***

The Task Force met with Mr. Bartel and Ms. Oliver several times to discuss the PERS and OPEB actuarial valuations so that they could understand the valuations and the assumptions behind the numbers. Subsequently, a subcommittee comprised of Mr. Bratzler, Ms. Brock-Cohn, Ms. Deaton, Chief D'Orazi, and Mr. Kennedy volunteered to draft a report for the group identifying the magnitude of the unfunded liabilities. The subcommittee presented the report (Exhibit 4) to the Task Force at the March 29 meeting. After discussing the subcommittee's report, the larger Task Force concurred with the findings related to the size of the City's pension and OPEB obligations.

The subcommittee report notes that that the City's unfunded pension liability, based on June 30, 2010 data, is $95 million, comprised of $23 million for Miscellaneous employees and $72 million for sworn Safety employees. Those numbers are estimated to rise as of June 30, 2012, to $107 million, or $28 million for Miscellaneous employees and $79 million for sworn Safety employees.

However, the subcommittee believes that the "valuations of unfunded liability are based on a CalPERS 'smoothing' methodology that is too aggressive (overly optimistic)." Rate smoothing is a method used in the calculation of the actuarial value of assets to spread market value asset gains and losses over time in order to stabilize employer contribution rates from year to year. According to the report, "because of smoothing, contribution rates have not increased as much as they should have to reduce the unfunded liability." As a result, the City's contribution rates have been kept artificially low, allowing the unfunded liability to grow to the amounts noted above.

With respect to OPEB, the subcommittee noted that the City has always used a pay-as-you-go approach to funding retiree medical benefits. In other words, the City makes required payments only as they come due; no money is put aside as benefits accrue. According to the subcommittee, the City's estimated unfunded liability for retiree medical has grown to $86 million (January 1, 2011 valuation).

The accrued liability is expected to grow rapidly in the next 15 years, exceeding $150 million, while the pay-as-you-go cost is projected to grow as medical premiums increase and more employees retire and begin receiving benefits. Over the next 15 years, the amount the City pays using the pay-as-you-go approach is expected to rise from the current $2.5 million annually to an estimated future annual obligation of $7 million.

***Phase 2: Developing Potential Solutions***

**<u>Pensions</u>**

At the April 25 and May 24 meetings, the Task Force began discussing solutions for dealing with the City's pension obligations. Members were asked at the May 24 meeting to answer two questions: 1) does the City have a PERS problem; and 2) what are some solutions if there is a problem. Most of the members agreed that the City has a "PERS problem," but they differed about whether the problem is a serious problem or not, and whether it is a temporary problem or a longer-term, structural problem. After discussion and brainstorming, the Task Force developed a list of potential solutions, but there was no consensus on the universe of options or whether any of the solutions were acceptable. The list was eventually turned into a questionnaire, which all but one Task Force member completed.

Of the 14 respondents, ten answered yes to the question of whether the City has a "PERS problem," three answered no, and one answered both yes and no. The chart below shows the number of respondents who agreed or disagreed with each potential solution. Some respondents did not answer all of the questions, and some wrote comments rather than checking boxes. To the extent feasible, these comments were distilled into agree or disagree answers. (Note that the table below contains the verbatim questions from questionnaire. The pension reform legislation, described below, changes some of these potential solutions.)

| | **Potential Solution** | Agree | Disagree |
|---|---|---|---|
| 1. | Sell Alameda Point; use the proceeds to help pay down the City's PERS liability. | 3 | 11 |
| 2. | Sell other City assets; use the proceeds to help pay down the City's PERS liability. | 4 | 10 |
| 3. | Use any "windfall" monies the City may receive to help pay down the City's PERS liability. | 6 | 7 |
| 4. | Negotiate with Miscellaneous employees to pay more of the City's share of the PERS rate. (This would have to be done outside the PERS contract.) | 10 | 3 |
| 5. | Negotiate with Safety employees to pay more of the City's share of the PERS rate. (This can be done through the PERS contract, up to a cap. Additional contributions must be done outside the PERS contract.) | 14 | 0 |
| 6. | Negotiate with Miscellaneous employees for a 2% @ 60 tier for new employees. | 10 | 3 |
| 7. | Negotiate with Safety employees for a 3% @ 55 tier for new employees. | 10 | 3 |

| | | | |
|---|---|---|---|
| 8. | Freeze COLAs for PERS retirees. | 8 | 6 |
| 9. | Negotiate with employees to change from single highest year to average of three highest years when calculating benefits. (This would apply to new employees only.) | 14 | 0 |
| 10. | Investigate a hybrid plan that combines a smaller defined benefit plan with a defined contribution plan. | 8 | 5 |

Although the Task Force was not able to reach unanimous agreement on whether the City had a "PERS problem" and, if it did, how to address it, the group did reach consensus around two primary options: negotiate with Safety employees to pay more of the City's share of the PERS rate (in addition to the two percent they are already paying), and negotiate with both Miscellaneous and Safety employees so that benefits for new employees would be calculated based on the average of the three highest years of salary, rather than the current single highest year.

**Pension Reform**

Some members of the public have suggested that the City should put forth a ballot measure similar to the one in the City of San Jose that would make dramatic changes to that city's non-CalPERS pension system. However, the City of San Jose has its own retirement system and, therefore, has greater latitude to change benefits. Other jurisdictions with their own retirement systems, such as the City of San Diego, have been troubled over the years by scandal. It is important to note that no one on the Task Force suggested during any of the meetings that the City of Alameda leave CalPERS and create its own retirement system.

Several months after the last Task Force meeting, the California Legislature passed, and the Governor signed, AB 340, the California Public Employees' Pension Reform Act (PEPRA), which will have a dramatic effect on public pensions in California. (PEPRA does not apply to cities like San Jose and San Diego that have their own retirement systems.) The main features of the legislation, which goes into effect January 1, 2013, are included in a document CalPERS developed entitled "Preliminary Summary of Pension Reform Provisions" (Exhibit 5).

The highlights include:

- **New retirement benefit formulas** for new employees (defined as those new to the CalPERS system after January 1, 2013, or those who have a six month or greater break in PERS service). The formulas are:
  - Miscellaneous: 2% @ 62 or 2.5% @ age 67
  - Safety: 2% @ age 57, or 2.5% @ age 57, or 2.7% @ age 57
- **Cap on the annual salary** that counts towards final compensation for all new employees ($110,000 for those in Social Security, $132,000 for those not in Social Security, like City of Alameda employees).
- **Equal sharing of normal cost** of pension contributions for both new and current employees.

- Employees will pay at least 50% of the normal costs, and employers may not pay any of the required employee contribution.
- New employees will immediately pay the 50%.
- Current employees can agree to the cost sharing between January 1, 2013 and December 31, 2017.
- Effective January 1, 2018, employers may unilaterally require employees to pay 50% of the total annual normal cost up to an 8% contribution rate for miscellaneous employees and an 11 or 12% contribution rate for safety employees. **However cities can negotiate with bargaining groups to pay more than the 8%, 11% or 12% of the employer share.** (City of Alameda employees already pay their full employee share. In addition, Safety employees pay 2% of the employer share, while Miscellaneous employees will begin paying 1.868% of the employer share in January 2013, as a result of labor agreements recently negotiated by the City Manager.)

- **Airtime purchases,** or the purchase of nonqualified service credit, would be prohibited after January 1, 2013 for both new and current employees.
- **Pension spiking** would be prohibited for new employees. In other words, bonuses, overtime, cash payouts for unused sick and vacation leave, and severance pay would be excluded from the calculation of retirement benefits.
- **Final compensation based on highest average annual compensation over three-year period,** rather than single-highest year, for new employees.

Many questions remain to be answered about how PEPRA will work once it is implemented. The City's Human Resources Director is participating in an initiative of the League of California Cities that is attempting to develop answers to these questions to help guide cities through this process. Most importantly, the City needs to learn which provisions are mandated upon CalPERS contracting agencies, and which are merely permitted. This is important because those that are mandated are no longer subject to collective bargaining.

Noticeably, with some variations related to second tier retirement benefit formulas for new employees, PEPRA already requires or permits the City to implement the Task Force's five highest-rated potential solutions:

- Negotiate with Safety employees to pay more of the City's share of the PERS rate (14 agree; permitted by PEPRA)
- Negotiate with employees to change from single highest year to average of three highest years when calculating benefits (14 agree; required by PEPRA for new employees)
- Negotiate with Miscellaneous employees to pay more of the City's share of the PERS rate (10 agree; permitted by PEPRA)
- Negotiate with Miscellaneous employees for a second tier for new employees (10 agree; required by PEPRA)
- Negotiate with Safety employees for a second tier for new employees (10 agree; required by PEPRA)

**OPEB**

At the final meeting of the Task Force on June 28, the group turned its attention to discussing solutions to the City's "OPEB problem," agreeing that the City had more leeway to make positive changes in this area and should focus its attention on OPEB rather than on PERS. Once again, members of the Task Force were asked two questions: 1) does the City have an OPEB problem; and 2) what are some solutions if there is a problem. Members brainstormed potential solutions and reviewed a memo (Exhibit 6) that contains descriptions of some of the potential solutions. Once again, Task Force members were asked to respond to a questionnaire that listed all of the solutions proffered by the Task Force members and included a ranking column so that respondents could rank order the solutions with which they agreed. Thirteen Task Force members returned their questionnaires.

Of the 13 respondents, 11 answered yes to the question of whether the City has an "OPEB problem," and two did not answer the question, though their responses to the subsequent questions indicate that they believe there is a problem. The chart below shows the number of respondents who agreed or disagreed with each potential solution, as well as the ranks given by those who ranked their choices. As with the earlier questionnaire, some respondents did not answer all of the questions, and some did not provide rankings for some or all of the options with which they agreed.

| | **Potential Solution** | Agree | Disagree | Rank |
|---|---|---|---|---|
| 1. | Sell Alameda Point; use the proceeds to help pre-fund the City's OPEB liability. | 3 | 10 | 1,1,2 |
| 2. | Sell other City assets; use the proceeds to help pre-fund the City's OPEB liability. | 6 | 7 | 1,2,2,2,2 10 |
| 3. | Use any "windfall" monies the City may receive to help pre-fund the City's OPEB liability. | 9 | 3 | 2,2,2,2,3 3,5,9 |
| 4. | Dedicate some portion of profit from land sales to help pre-fund the City's OPEB liability. | 2 | 8 | 1,2 |
| 5. | Require employee contributions towards OPEB. | 9 | 4 | 1,1,1,1,3 4,6 |
| 6. | Modify vesting and eligibility rules for new hires beyond those changes made in mid-2011 (eligibility for spouses eliminated and number of years to vest standardized to ten years for all new public safety employees) | 11 | 2 | 1,2,2,3,4 4,5,5,5 |
| 7. | "Buy out" the benefit by establishing a program like that in Beverly Hills in which employees are given an option of receiving money (either cash or tax advantaged account) in exchange for their defined benefit. | 10 | 2 | 1,3,4,5,5 5,6,6,6 |
| 8. | Establish a Voluntary Employees' Beneficiary Association (i.e., CALGOVEBA): an irrevocable trust funded by tax-free employee and/or employer contributions to individual accounts. (requires agreement from everyone in a given bargaining group) | 9 | 3 | 1,4,4,5,6 8,9,9 |

| | | | | |
|---|---|---|---|---|
| 9. | Establish a plan such as the 401(a)(h) in which employees make contributions now for their future health care. (requires agreement from everyone in a given bargaining group) | 11 | 2 | 3,3,4,6,7 7,8,8,9 |
| 10. | Establish an OPEB Trust through another mechanism, i.e., CERBT (CalPERS) or PARS | 5 | 6 | 1,6,7,7,8 |
| 11. | Work with employee bargaining groups to negotiate down the liability. | 11 | 2 | 1,1,1,2,2 3,3,4,6,6 |
| 12. | Cap the benefits: put a dollar ceiling on the benefit and index it to the CPI | 6 | 7 | 1,2,3,4,7 7 |
| 13. | Revise the retiree medical plan to establish alternate medical groups for retirees and require retirees to pay the true costs of their health benefits through higher co-pays and deductibles | 8 | 5 | 1,2,6,6,7 8,8 |
| 14. | Move to a defined contribution or hybrid plan | 8 | 5 | 1,4,5,5,5 7,9 |

Although the members of the Task Force who returned their questionnaires agreed that the City does have an "OPEB problem, no potential solution was embraced by all respondents. Those with the highest number of "agree" votes were:

- Modify vesting and eligibility rules for new hires beyond those changes made in mid-2011 (eligibility for spouses eliminated and number of years to vest standardized to ten years for all new public safety employees)
- Establish a plan such as the 401(a)(h) in which employees make contributions now for their future health care. (requires agreement from everyone in a given bargaining group)
- "Buy out" the benefit by establishing a program like that in Beverly Hills in which employees are given an option of receiving money (either cash or tax advantaged account) in exchange for their defined benefit.
- **Work with employee bargaining groups to negotiate down the liability.**

At this time, staff does not have an estimate of the potential savings that the City could realize from these potential solutions, or the others included in the questionnaire. Detailed analysis of the pros and cons, and how the solutions could be implemented, would be required before staff could make a recommendation to the City Council to pursue one or more of the options.

**<u>City and Employees Proactively Address Pension and OPEB Costs</u>**

The Task Force felt that while recent legislative action has been enacted to allow for increased pension cost sharing between employers and employees, it was important to recognize that the City and its bargaining units collaborated on this issue prior to the State's passage of pension reform legislation. All Safety employees have been picking up 2% of the employer contribution to CalPERS since January 2012, while the Miscellaneous employees will begin paying 1.868% of the employer share in January

2013. (Exhibit 7 is a survey conducted by the League of California Cities that shows pension changes undertaken by cities in the Bay Area prior to the passage of pension reform legislation. The survey was conducted prior to the City's Miscellaneous employees agreeing to the 1.868% cost sharing.)

Similarly, the Task Force also wanted to acknowledge that the City and its Safety employees have already taken steps to address OPEB costs. The vesting requirement for these benefits was increased, and the benefits were significantly reduced for employees hired after June 2011. Additional options are being discussed to address the costs of both of these issues moving forward.

## FINANCIAL IMPACT

There is no financial impact from receiving this report. The pension reform legislation will eventually have a positive impact on the City's budget as new employees enter the system under the new pension rules. The financial impacts of the various OPEB solutions cannot be quantified without more analysis. However, each of the options should have some positive impact on reducing the City's $86 million and growing liability.

## MUNICIPAL CODE/POLICY DOCUMENT CROSS REFERENCE

There is no impact to the Alameda Municipal Code.

## ENVIRONMENTAL REVIEW

Receipt of this report will not result in a significant effect on the environment and is exempt from CEQA under Guidelines section 15061(b)(3).

## RECOMMENDATION

Receive a report from the Pension/OPEB Task Force and provide direction on next steps.

Respectfully submitted,

Lisa Goldman
Assistant City Manager

Financial Impact section reviewed,

for Fred Marsh
Controller

Exhibits:
1. Glossary of Pension and OPEB terms
2. Pension actuarial valuation—on file in the City Clerk's Office
3. OPEB actuarial valuation—on file in the City Clerk's Office
4. Subcommittee report on Pension and OPEB liabilities—on file in the City Clerk's Office
5. CalPERS Preliminary Summary of Pension Reform Provisions
6. Other Post-Employment Benefits (OPEB) Summary of Options memo
7. League of California Cities Pension Sustainability Survey

cc: Members, Pension/OPEB Task Force

# MINUTES OF THE SPECIAL CITY COUNCIL MEETING
## TUESDAY- -OCTOBER 30, 2012- -7:00 P.M.

Mayor Gilmore convened the meeting at 7:07 p.m. Councilmember deHaan led the Pledge of Allegiance.

ROLL CALL – Present: Councilmembers Bonta, deHaan, Johnson, Tam and Mayor Gilmore – 5.

Absent: None.

ORAL COMMUNICATIONS, NON-AGENDA

(12-512) Ken Peterson, Alameda, discussed employee compensation and the City's financial situation.

AGENDA ITEMS

(12-513) Receive a Report from the Pension/Other Post-Employment Benefits (OPEB) Task Force and Provide Direction on Next Steps.

The City Manager and Assistant City Manager gave a Power Point presentation.

Councilmember Tam inquired why the use of wind fall monies would be rejected, to which the Assistant City Manager responded she does not have direct insight; stated there was hesitation to use windfall monies of the sale of Alameda Point or other City assets when the City has a lot of need in other areas; suggested Task Force members present could give feedback.

The City Manager stated the community was divided about whether windfall money should be used to help pay down the PERS liability; 75% were in favor of using windfall funds to start paying the OPEB liability; the assumption is if PERS does not recover, the City would not have independence and would be paying down an advance into a system outside City control; OPEB is completely the City's problem; OPEB is a problem for the tax payers and the employees as well because if the money is not there at some point there is a moral and legal obligation; no money is very real in the long term; the Task Force was very successful in having a consensus on what the scope of the problem is and can now argue using the same numbers.

The following Task Force Members made brief comments: Kevin Kennedy, City Treasurer; Kevin Kearney, City Auditor; Jeff Bratzler, Community Member; Domenick Weaver, International Association of Fire Fighters Local 689 President; Gretchen Lipow, Community Member; Mike Noonan, Police Chief; and Bill Schaff, Community Member.

* * *

During Mr. Shaff's comments, Vice Mayor Bonta left the dais at 8:39 p.m. and returned



City Council
Exhibit 4 to
Agenda Item #6-C
7/23/13

at 8:41 p.m.

* * *

Expressed concern about non-public safety bargaining units being excluded from the Task Force: Bill Garvine, Management and Confidential Employees Association.

Expressed concern about spiking: David Maxcy, Alameda.

Urged caution in implementing the State mandate: Tony Daysog, Alameda.

Expressed that the City needs to reduce the amount spent, growth and unfunded liabilities: Jane Sullwold, Alameda.

Encouraged reading certain books: Ken Peterson, Alameda.

Stated the City tools from the State to raise revenue and self-fund the obligations: Jon Spangler, Alameda.

Vice Mayor Bonta inquired whether the issue was fully vetted or if an additional [Task Force] meeting is needed, to which the Assistant City Manager responded there has not been extensive discussion on brainstorming solutions.

Vice Mayor Bonta inquired if the Assistant City Manager was comfortable saying this was the Task Force's best thinking and advice on the OPEB issue and potential solutions.

The Assistant City Manager responded it was their best thinking at the time; stated having members reconvene to look at additional options would be a big time commitment.

Vice Mayor Bonta stated the information is very valuable and it seems an additional meeting is not necessary.

The City Manager stated the starting point is presenting options to Council; there were two labor representatives on the Task Force; having two labor representatives that had the most dollars at stake made sense; most of the OPEB issue is tied up with public safety; staff intends to come back to the Council in March or April with a more focused discussion just on how to go forward with OPEB; a policy change to have a two year budget will come to Council in December.

Councilmember Johnson inquired if the Task Force agreed that there is a possible situation where PERS contributions or OPEB payments could be defaulted.

The City Manager responded the OPEB payment is $7 million a year, which is a large amount of money that requires planning.

Councilmember Johnson inquired if there was agreement about the $7 million amount, to which the City Manager responded in the negative; stated agreement was broad and within a range.

Councilmember Johnson inquired whether impacts of the Affordable Care Act was analyzed.

The City Manager responded understanding how the Affordable Care Act will actually work is difficult; stated the assumption used was that health care costs will continue to rise.

Councilmember Johnson inquired whether current employees would face changes, to which the Assistant City Manager responded the PERS recommendations have been superseded by the pension reform legislation; stated changes included additional contributions from current employees; 14 Task Force members voted to ask safety employees to pay more towards the employer share; OPEB solutions included: increasing vesting and eligibility rules for new hires; participating in the Voluntary Employees' Beneficiary Association (VEBA) or the 401(a)(h); capping benefits for retirees, current or future employees; working with employee bargaining groups to negotiate down the liability.

Councilmember Tam inquired whether the Beverly Hills OPEB solution required a reserve.

The City Manager responded cash is one approach; stated another option is to finance a large buyout with a low interest rate to securely budget; what the premiums are going to be in the future is not known.

The Human Resources Director provided an overview of the Beverly Hills program; stated Beverly Hills did financing; the method would help in Alameda for safety, but not for miscellaneous employees; the fixed amount paid to PERS is currently $115 and will increase by approximately 3% every year; safety has an agreement where an additional amount is paid to employees upon retirement, the amount is calculated and a lump sum is given rather than continuing to pay, which is where there are some savings.

The Controller stated the Beverly Hills plan was a multifaceted plan; an actuarial evaluation would be done to determine what the pay would be as the value of those benefits; if paying all costs up front is a significant dollar amount, which the City does not have; pension bonds can be issued, but are more expensive than the sewer bonds the Council recently approved; pension bond rates are between 6 and 7%, a lot of cost analysis would have to be done to determine if the option makes sense for the City; one of the big benefits from the Beverly Hills program other than the one-time cash out for employees is the defined contribution plan; with VEBA, once employees leave the City there is no OPEB liability going forward.

Councilmember Tam inquired if the City's 1079 and 1082 plans are essentially a pension obligation bond, to which the Controller responded in the negative; stated the 1079 and 1082 plans are another pay-as-you-go plans included in the General Fund as part of the budget each year; the amount is going down over time because the average age of the pensioners is rising and people pass away.

In response to Councilmember deHaan's inquiry about the City's obligation, the Controller responded the City is currently paying approximately $2 million a year.

Councilmember deHaan inquired if the City's obligation was around $5 million in 2005 and has dropped, to which the Controller responded in the affirmative; stated the average age of the participants is 85 years old.

Councilmember deHaan stated every year in our budget the shortfalls are around $3 to $6 million; one-time windfall money has been used; sometimes staffing adjustments have been made, fire stations have been closed, programs have been eliminated; the City is not going to see a big recovery; that he is concerned services keep deteriorating; health benefits increase a good 14% every year; employees have not had raises.

Councilmember Tam stated not increasing public safety salaries since 2007 was really a reduction in salary because the last contract included contributing more into pension; employees are paying the employer's share; that she supports the findings to create a sustainable solution through negotiating with employee bargaining units.

In response to the Assistant City Manager's comments regarding different options, Mayor Gilmore and Vice Mayor Bonta stated all the options should be placed on the table to allow comparison of the full pro formas and financial analysis.

Councilmember Johnson inquired if the OPEB solutions were directed at both current and future employees, to which the Assistant City Manager responded the Task Force did not discuss whether changes should apply to new or current employees.

Mayor Gilmore stated that she wanted to remind members of the public that the problem is long-term; tonight is the first step in reaching a solution that everyone wants; there is a lot of work to be done researching possible solutions and figuring out how some of the vehicles would work; numbers have to be crunched and then there has to be discussion with employee groups; there is no quick fix; every journey starts with a single step; the Council is determined to get the problem under control.

(12-514) Recommendation to Receive Input from the Community and Provide Direction to Guide the City's Future Labor Negotiations with Public Safety Bargaining Groups.

The Human Resources Director gave a brief presentation.

The City Manager stated staff intends to move the process as quickly as possible and try to complete negotiations in the month of November 2012; one of the most important reasons to not be out of contract with public safety is that the 11% PERS contribution returns to 9% at the end of the contract.

Councilmember Johnson inquired if staff would be addressing OPEB, to which the City Manager responded that he did not know at this point; stated the issue would come back for the entire City in the spring; OPEB is a difficult issue.

Councilmember Johnson inquired how reopeners with the bargaining groups would be handled, to which the City Manager responded reopeners are a possibility and occurred in other cases; stated that he does not think there is a solution to OPEB that does not involve talking; the City does not want to fall out of contract or not know impacts on the budget.

Councilmember Tam inquired if the Memorandum of Understanding (MOU) spell out the new employees tiering in terms of the retirement age and averaging the highest three years.

Mayor Gilmore stated in the past, issues have been in side letters which were not part of the MOU; stated her preference is to have an MOU that somebody could pick up and read it and know exactly what was included and agreed to; that she would not want someone to have to go to another document to look up the new law.

The City Manager stated staff intends to incorporate changes into the contracts and extinguish side letters that are no longer relevant.

Councilmember deHaan inquired where the threshold is in the financial emergency of selling off Alameda Point and Alameda Municipal Power (AMP) assets; stated sales should be off the table.

The City Manager responded that he did not what the courts have defined as a fiscal emergency; stated Alameda Point is a decided issue and cannot be sold because any revenues that come from the sale of property or from lease revenues at Alameda Point is required to go back into the infrastructure and development of Alameda Point under the agreement with the Navy.

The City Attorney stated that she would not opine as to what is a fiscal emergency, but the assumption is that there have to be more debts than assets, then the City would have to marshal assets to pay off debts.

Mayor Gilmore stated a fiscal emergency would be hard to declare with a 24% fund balance reserve.

Vice Mayor Bonta inquired if letters were sent to the four public bargaining units to reopen contracts, to which the City Manager responded in the negative; stated new contracts, which will be effective July 1, are being negotiated.

Vice Mayor Bonta inquired if there are meetings next week, to which City Manager responded in the affirmative.

Vice Mayor Bonta inquired if all bargaining units are open to moving forward, to which the City Manager responded informal responses were received from both the International Association of Fire Fighters (IAFF) and the Alameda Police Officers Association (APOA).

Councilmember deHaan stated following San Jose's open negotiation model was discussed in the past; stated he would like to see more transparency.

Councilmember Tam stated that ensuring openness in the discussions is a laudable goal; stated the City of Alameda, the Teacher's Union and the Board of Education negotiated in the open and some proposals were not fully vetted or researched, positions became so intractable that people ended up feeling very disenfranchised.

* * *

Councilmember Tam left the dais at 9:47 p.m. and returned at 9:49 p.m.

* * *

<u>Urged a macro approach be taken</u>: Jane Sullwold, Alameda.

<u>Urged principles be developed using the previous discussion</u>: Tony Daysog, Alameda.

<u>Urged current staffing levels be maintained</u>: Jon Spangler, Alameda.

Mayor Gilmore stated a former Fire Chief gave a presentation on response times; requested the City Clerk post the information on the website.

The City Manager stated all the external studies that have been done about the Fire Department have been up on the website since July.

Councilmember Tam clarified Mayor Gilmore was referring to a Council presentation comparing response times and discussing Fire Department protocol; stated the National Fire Protection Association has standards on why an ambulance is sent along with a truck and how many paramedics are on trucks.

Councilmember Johnson inquired if the Council would receive a briefing on the opening proposal.

The City Manager responded that he would get proposals from labor first and come back to Council in Closed Session.

Councilmember Tam stated the staff direction outlined is consistent with suggestions from the Pension Task Force and the Council.

Mayor Gilmore stated the Council received public input tonight and the City Manager intends to start meeting with the bargaining units next week; last year, there was a primer on labor negotiations and how public input has to be upfront.

Councilmember deHaan inquired if input from the community is closed.

The City Manager responded the City has to be careful not to have regressive bargaining once the ground rules and areas of discussion are established; stated anyone can email the City Manager's office with suggestions or input.

Vice Mayor Bonta stated labor negotiations Closed Sessions are noticed and public input is received prior to adjourning to closed session.

The City Manger stated input is not closed but new issues are difficult to introduce after the outset.

Councilmember Johnson inquired whether each side establishes ground rules separately, to which the City Manager responded ground rules determine the point at which issues can be talked about publicly and is a process.

The Human Resource Director stated one of the rules usually sets the last day new proposals can be submitted.

The City Manager stated best practices are to put everything on the table from the beginning so there are no surprises.

CITY MANAGER COMMUNICATIONS

None.

COUNCIL COMMUNICATIONS

(12-515) Councilmember deHaan stated he attended a Restoration Advisory Board (RAB) meeting; the Navy is moving forward with the Building 5 and 5A remediation; the next RAB meeting has been moved to November 13th.

The City Manager noted the City filed a technical letter expressing concerns about the remediation program that has been proposed.

(12-516) Councilmember Tam announced that the City held an Urban Shield.

(12-517) Councilmember deHaan stated that he attended a Oakland Noise Forum meeting; next year will be a very active year for the Oakland Airport; runways will be modified.

ADJOURNMENT

There being no further business, Mayor Gilmore adjourned the meeting at 10:26 p.m.

Respectfully submitted,

Lara Weisiger
City Clerk

The agenda for this meeting was posted in accordance with the Sunshine Ordinance.