

MINUTES BUDGET/PERSONNEL COMMITTEE

Tuesday, June 7, 2016
10:30 A.M.
Sand City Council Chambers

AGENDA ITEM 1, CALL TO ORDER

The meeting was called to order at 10:30 a.m. by Chair Blackwelder

AGENDA ITEM 2, ROLL CALL

Members Present: Chair Blackwelder
City Administrator Todd Bodem
Chief of Police Brian Ferrante {absent}
Administrative Services Director Linda Scholink
Committee Member Mary Ann Carbone

AGENDA ITEM 3, COMMUNICATIONS

10:31 A.M. Floor opened for Public Comment.

There was no communication from the Public.

10:31 A.M. Floor closed to Public Comment.

AGENDA ITEM 4, NEW BUSINESS

Presentation by John Bartel, of Bartel Associates, LLC

a) Consideration and Discussion on Pre-Funding Other Post Employee Benefits (OPEB) Cost Impact and Different Trust Options

John Bartel presented a prefunding study, and the City's historical contributions towards an account for other post employee benefits (OPEB). From an accounting and actuarial perspective it is important to move the money from an internal service fund to an irrevocable trust fund, used only to pay retiree healthcare benefits. This would result in a decrease of unfunded liability as well as the liability itself. The liability goes down because more of the benefit payments will be paid from investment earnings and less cash will be required to be paid

into the plan. The city's current liability is \$4,182,000. Hypothetically, should a trust be established and the City moved \$2,000,000 and invested into a CalPERS trust (with a higher rate of return), the actuarial accrued liability (AAL) would result in a decrease. Mr. Bartel added that it would be in the best interest of the taxpayers, residents, and employees, to place funds into an irrevocable trust to take care of these obligations. It would further save the City money. He explained the amortization period of the unfunded actuarial accrued liability (UAAL) for the 5, 10, and 24 years. The UAAL are essentially the amount of retirement that is owed an employee in future years that exceed current assets and their projected growth. The faster that the UAAL is paid down, the less it will cost the City. The unfunded liability is dependent on the length of time it would take to pay it off, and the payment amount would vary dependent upon the number of years the City decides it would take to make these payments. To address the unfunded liability, the City needs to make a payment of \$596,000, and continue annual payments thereafter of \$205,000 annually to prevent falling behind. The CalPERS CERBT has three investment options with a more aggressive rate beginning at 7.25%, 6.5% and 5.75%. Mr. Bartel reported that 80% of his clients choose CERBT (CalPERS) due to the simplicity of its structure, and that a majority of agencies already have money invested in CalPERS. The other options such as PARS, PFM, Keenan, and Robinson Capital are private corporations who seek to also gain a profit. They are less flexible on how monies may be invested and do not provide the option of dividing funds into certain equities.

In response to Chair Blackwelder's question on how funds would be affected, such as the past occurrence of the .com and housing crash, Mr. Bartel replied that the more aggressively invested funds may be affected, and should it happen again, investments would decline as with any other investment.

There was discussion regarding investment returns, whether to divide the investment between an aggressive and non-aggressive fund, and how much monies should be invested. Mr. Bartel expressed that both Keenan and Robinson Capital Management would have higher fees and normally require a larger investment amount. PARS and PFM is tiered towards how much money is actually invested and would require Staff to negotiate the flexibility of the account.

In response to Committee Member Scholink's inquiry regarding how much time it would take to set up the trust account upon

approval of the Council, Mr. Bartel replied that it may take up to 30 days before it becomes effective once everything has been completed and approved. Ms. Scholink further asked, that once the OPEB is funded how would funds be dispersed from the account? Mr. Bartel answered that forms will be provided by CERBT that will require an authorized signatory to sign in behalf of the City. The fund would pay the City back for what the City has expensed out of the fund.

There was consensus of the Budget Committee to approve the investment of funds into the CalPERS CERBT account. Chair Blackwelder added that a recommendation will be presented to the Council for their vote. Staff will contact CalPERS for additional information. He further added that the Budget Committee would present to the Council an amount agreed upon and that amount will be included within the resolution.

b) Consideration and Discussion on the background of Public Employees Medical and Hospital Care Act (PEMHCA) and Different New Employee Health Options

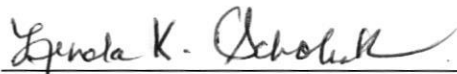
Mr. Bartel reported that CalPERS Medical has basic rules detailing what a local agency does for active employees, must also be equal for retirees. There is also a minimum contribution rule that says an agency may not pay less than the minimum amount. (ie: for 2016 the amount is \$125). There are also requirements that include receiving a pension benefit for a period of time once an employee leaves employment, and that survivor benefits may only be paid to a survivor only if one has been selected. Mr. Bartel recommended that a Cafeteria Plan be established for active employees. The plan should state what portion of the amount paid through the cafeteria plan would be paid as active medical (which cannot be less than the PEMCHA minimum), and that set amount is equal for retirees as well. The PEMCHA resolution would state the minimum amount, and CalPERS would require the City pay the PEMCHA minimum. The City would further pay a reimbursement amount to its active retirees for the difference of the PEMCHA amount. New hires would receive the PEMCHA minimum, current retirees and/or active employees would be reimbursed the difference between the current amount and the PEMCHA minimum amount. A second pension tier may also be added to the City's plan to mitigate the current pension plan, resulting in a new benefit for new employees. The Cafeteria Plan approach is clearly more flexible; however, more administrative time would be spent for additional processing.

Mr. Bartel also reported on what amount may or may not be taxed, and confirmed that the City contact an attorney to determine this amount. The net impact of a Cafeteria Plan for new hires would look different than for current active employees. Committee Member Scholink commented on the upcoming influx of employees who will be retiring within the next few years as well as new hires that will be coming on board, and suggested the possibility of Liebert Cassidy Whitmore (LCW) to assist with the legal aspect of the PEMCHA health benefit option. Mr. Bartel reiterated that the City will need to set up a Cafeteria Plan. LCW can provide assistance with the set up, and suggested that Staff review what was discussed with them. Taxability questions will also need to be addressed, and Mr. Bartel recommended LCW very highly due to the number of his clients that uses the firm. Council Member Blackwelder requested that he would like to be informed and to participate in the discussion with LCW regarding the issue. Mr. Bartel recommended Steve Berliner as a point of contact at Liebert Cassidy Whitmore.

Chair Blackwelder motioned that Staff move forward with the recommendation to contact Liebert Cassidy Whitmore, seconded by Committee Member Carbone. There was consensus of the Budget Committee to approve the motion as recommended.

AGENDA ITEM 6, ADJOURNMENT

There was consensus of the Budget/Personnel Committee to adjourn the meeting at 11:43 a.m. to the next Budget/Personnel Committee meeting at a time and date to be determined.



Linda K. Scholink, City Clerk