CITY OF MORRO BAY
Citizens Oversight Committee
Acting as Citizens Finance Advisory Committee
AGENDA

Mission Statement
The City of Morro Bay provides essential public services and infrastructure to maintain a safe, clean and healthy place for residents and visitors to live, work and play.

Tuesday, January 18, 2022 - 3:00 PM
Held Via Teleconference

John Martin Chair

Barbara Spagnola	Vice-Chair	Lois Johnson	Member
Homer Alexander	Member	Stephen Peck	Member
Bart Beckman	Member	Tina Wener	Member

ESTABLISH QUORUM AND CALL TO ORDER

COMMITTEE MEMBER ANNOUNCEMENTS & PRESENTATIONS

PUBLIC COMMENT PERIOD
Pursuant to Executive Order N-08-21, issued by Governor Newsom on June 11, 2021, this Meeting will be conducted telephonically through Zoom and broadcast live on Cable Channel 20 and streamed on the City website (click here to view). Please be advised that pursuant to the Executive Order, and to ensure the health and safety of the public by limiting human contact that could spread the COVID-19 virus, the Vet's Hall will not be open for the meeting.

Public Participation:
In order to prevent and mitigate the effects of the COVID-19 pandemic, and limit potential spread within the City of Morro Bay, in accordance with Executive Order N-08-21, the City will not make available a physical location from which members of the public may observe the meeting and offer public comment. Remote public participation is allowed in the following ways:

- *Community members are strongly encouraged to submit agenda correspondence in advance of the meeting via email to the CFAC Committee at cfac@morrobayca.gov prior to the meeting.*

- *Members of the public may watch the meeting either on cable Channel 20 or as streamed on the City website.*

- *Alternatively, members of the public may watch the meeting and speak during general Public Comment or on a specific agenda item by logging in to the Zoom webinar using the information provided below. Please use the "raise hand" feature to indicate your desire to provide public comment. Each speaker will be allowed three minutes to provide input.*

Please click the link below to join the webinar:

- *https://us02web.zoom.us/j/82722747698?pwd=aWZpTzcwTHlRTk9xaTlmWVNWRWFUQT09*
  Password: 135692

- *Or Telephone Attendee: 1(408) 638-0968 or 1 (669) 900 6833 or 1 (346) 248 7799; Webinar ID: 827 2274 7698; Password: 135692; Press "* 9" (star-9) to raise your hand for Public Comment*

A. CONSENT CALENDAR

1. APPROVAL OF MINUTES FOR THE DECEMBER 21, 2021 CITIZENS' OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

   Recommendation: Approve as submitted.

B. BUSINESS ITEMS

1. BRIEF ASSISTANT CITY MANAGER / DIRECTOR UPDATE

   RECOMMENDATION: Staff recommends the Citizens' Oversight / Finance Advisory Committee (CFAC) receive and file a brief update from the Assistant City Manager/Admin Services Director, which will be provided verbally at the meeting.

2. PRESENTATION TO THE CITY COUNCIL REGARDING CFAC'S REVIEW OF THE FY 2020-21 UNAUDITED TRANSACTIONS FROM THE COLLECTION OF THE GENERAL-PURPOSE LOCAL SALES TAX, COMMONLY KNOWN AS "MEASURE Q"; (CHAIRMAN JOHN MARTIN)

   RECOMMENDATION: Review the presentation drafted by Chairman Martin and provide input before presentation to City Council scheduled on January 25, 2022.

3. INFORMATIONAL UPDATE ON THE CITY'S OPEB LIABILITIES (ADMIN SERVICES)

   RECOMMENDATION: Receive and file the informational update regarding the City's Other Postemployment Benefits (OPEB) liabilities.

C. FUTURE AGENDA ITEMS

D. SCHEDULE NEXT MEETING
February 15, 2022

E. ADJOURNMENT

THIS AGENDA IS SUBJECT TO AMENDMENT UP TO 72 HOURS PRIOR TO THE DATE AND TIME SET FOR THE MEETING. PLEASE CALL CITY HALL AT 805-772-6201 FOR FURTHER INFORMATION.

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN A CITY MEETING, PLEASE CONTACT THE CITY CLERK'S OFFICE AT (805) 772-6205. NOTIFICATION 24 HOURS PRIOR TO THE MEETING WILL ENABLE THE CITY TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THE MEETING.

AGENDA NO:	**A-1**
MEETING DATE:	**January 18, 2022**

MINUTES –CITIZENS OVERSIGHT/FINANCE ADVISORY COMMITTEE
REGULAR MEETING – DECEMBER 21, 2021
TELECONFERENCE – 3:00 p.m.

CFAC conducted this meeting in accordance with California Governor Newson's Executive Order N-08-21 issued on June 11, 2021 in response to the present State of Emergency in existence due to the threat of COVID-19. This meeting was held via teleconference for all participants.

MEMBERS PRESENT:	John Martin	Chair
	Barbara Spagnola	Vice-Chairperson
	Bart Beckman	Committee Member
	Homer Alexander	Committee Member
	Tina Wener	Committee Member
	Stephen Peck	Committee Member
	Lois Johnson	Committee Member

STAFF PRESENT:	Scott Collins	City Manager
	Sarah Johnson-Rios	Assistant City Manager/Admin Services Dir.
	Dana Swanson	City Clerk
	Emily Conrad	Finance Manager
	Laurie Goforth	Human Resources Analyst II
	Greg Kwolek	Public Works Director
	Daniel McCrain	Fire Chief
	Jody Cox	Police Chief

ESTABLISH QUORUM AND CALL TO ORDER
https://youtu.be/LnBva_YK-P0?t=13
Chair John Martin called the meeting to order at 3:02 p.m. with all members present.

COMMITTEE ANNOUNCEMENTS & PRESENTATIONS - None

PUBLIC COMMENT
https://youtu.be/LnBva_YK-P0?t=25
Mayor Headding addressed the Citizens Finance Advisory Committee to wish everyone a happy holiday season, expressed appreciation for all the hard work CFAC has done this year and looks forward to working with them in the next year.

Chair Martin closed public comment.

A. CONSENT CALENDAR
https://youtu.be/LnBva_YK-P0?t=138

A-1 APPROVAL OF MINUTES FOR NOVEMBER 16, 2021 CITIZENS OVERSIGHT/FINANCE ADVISORY COMMITTEE MEETING

MOTION: Member Spagnola moved to approve minutes as submitted from the November 16, 2021 Citizens Oversight/Finance Advisory Committee meeting. The motion was seconded by Member Peck and carried 6-0-1 by roll call vote with Member Johnson abstaining due to being absent for the November meeting.

B. BUSINESS ITEMS

B-1 BRIEF ASSISTANT CITY MANAGER / DIRECTOR UPDATE
https://youtu.be/LnBva_YK-P0?t=243
Assistant City Manager/Admin Services Director Johnson-Rios provided a brief report mentioning the City received the GFOA Award for FY 19/20 Annual Comprehensive Financial Report and reminded the committee that applications are now open for the four positions that will be open for the CFAC committee next year.

Public Comment:
None

Chair Martin closed public comment.

No formal action taken.

B-2 PENSION AND OTHER POST EMPLOYMENT-BENEFIT (OPEB) UNFUNDED LIABILITIES (ADMINISTRATIVE SERVICES)
https://youtu.be/LnBva_YK-P0?t=412
Assistant City Manager/Admin Services Director Johnson-Rios introduced Craig Hill, Mike Myer and Roy Kim of NHA Advisors to present the report and answer Board Member questions.

Public Comment:
None

Chair Martin closed public comment.

MOTION: Member Spagnola moved to 1) Receive and file the informational presentation on CalPERS and the City's unfunded liability and options to address and provide input and feedback; 2) Recommend that Council set aside a one-time lump sum from FY 2020-21 operating surplus to contribute to a Pension Reserve, and budget annual contributions to it going forward; 3) Recommend that Council direct staff to create a Section 115 Trust as the vehicle for the Pension Reserve; 4) Recommend that Council direct staff to evaluate establishing a Section 115 Trust for OPEB liabilities and transferring the approximate $2.1M balance to that Trust. The motion was seconded by Member Peck and carried 4-3 by roll call vote with Members Martin, Alexander and Beckman voting No.

B-3 REVIEW OF THE FISCAL YEAR (FY) 2020-21 UNAUDITED TRANSACTIONS FROM THE COLLECTION OF THE GENERAL-PURPOSE LOCAL SALES TAXES, COMMONLY KNOWN AS "MEASURE Q" AND "MEASURE E" (ADMINISTRATIVE SERVICES)
https://youtu.be/LnBva_YK-P0?t=6954
Assistant City Manager/Admin Services Director Johnson-Rios and Morro Bay City Staff answered Board Member questions.

Public comment:
None

Chair Martin closed public comment.

MOTION: Member Alexander motioned to approve the presentation of FY 2020-21 transactions from the collection of the general-purpose local sales taxes, commonly known as Measure Q and Measure E, and prepare a presentation to be delivered to the City Council by a representative of CFAC in January 2022. The motion was seconded by Member Spagnola and carried 7-0 by roll call vote.

B-4 CONTINUED DISCUSSION AND RECOMMENDATION ON COUNCILMEMBER COMPENSATION (CITY MANAGER/ADMIN SERVICES/CITY CLERK/CITY ATTORNEY)
https://youtu.be/LnBva_YK-P0?t=7514
Assistant City Manager/Admin Services Director Johnson-Rios and City Clerk Swanson made a brief presentation and answered Board Member questions.

Public comment:
None

Chair Martin closed public comment.

MOTION: Member Peck moved to recommend that 1) Council adjust compensation by ordinance within the limits of state law, by $500/month per Councilmember and an additional $200/month for the Mayor and 2) Recommend that Council maintain current health benefits. The motion was seconded by Member Wener and carried 6-1 by roll call vote with Member Alexander voting No.

C. FUTURE AGENDA ITEMS
https://youtu.be/LnBva_YK-P0?t=8341
1. Chair Martin's presentation on Measures Q & E
2. Draft ACFR for review
3. Discussion on OPEB Actuarial

D. SCHEDULE NEXT MEETING
The next regularly scheduled Citizen's Oversight/Finance Committee meeting will be January 18, 2022 at 3:00 pm via teleconference.

E. ADJOURNMENT
The meeting adjourned at 5:26 p.m.

Recorded by:

Tracy McConnell
Account Clerk III

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AGENDA NO: B-1
MEETING DATE: January 18, 2022

Staff Report

TO: **Citizens' Advisory/Finance Oversight Committee (CFAC)**

DATE: **January 11, 2022**

FROM: **Sarah Johnson-Rios, Assistant City Manager/Admin Services Director**

SUBJECT: **Brief Assistant City Manager / Director Update**

RECOMMENDATION

Staff recommends the Citizens' Oversight/Finance Advisory Committee (CFAC) receive and file a brief update from the Assistant City Manager/Admin Services Director, which will be provided verbally at the meeting.

Prepared By: ___SJR_____	**Dept Review: _____**
City Manager Review: ________	**City Attorney Review: ______**

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AGENDA NO: B-2
MEETING DATE: January 18, 2021

Staff Report

TO: **CFAC Committee Members** **DATE: January 12, 2021**

FROM: **John Martin, CFAC Chairman**

SUBJECT: **Presentation to the City Council regarding CFAC's Review of FY 2020-21 Unaudited Transactions from the Collection of the General Purpose Local Sales Tax, commonly known as "Measure Q and E"**

RECOMMENDATION

Review the presentation drafted by Chairman Martin and provide input before presentation to City Council scheduled on January 25, 2022.

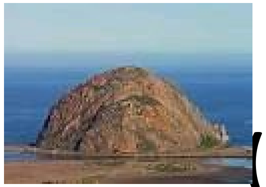
DISCUSSION

On December 21, 2021 the Citizens Financial Oversight Committee reviewed and approved the FY 2020-21 Unaudited Transactions from the Collection of the General Purpose Local Sales Tax, commonly known as "Measure Q and E". Feedback is requested about the attached draft presentation which is scheduled on the City Council agenda on January 25, 2022.

ATTACHMENT:

1. Draft Presentation regarding FY 2020-21 Unaudited Transactions from the Collection of the General Purpose Local Sales Tax, commonly known as "Measure Q and E"

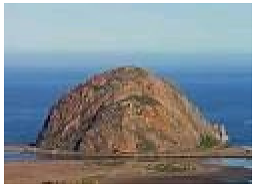
Prepared By: ___SJR_____	**Dept Review: ______**
City Manager Review: ________	**City Attorney Review: ______**



Citizens Oversight Committee
(Acting as the Citizens Finance Advisory Committee - CFAC)
Agenda

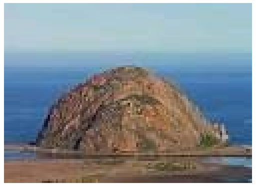
- Summarize CFAC's review of all Measures Q and E previous fiscal year transactions (July 2020-June 2021)

- Report other CFAC activities during past year and recommendations



Citizens Oversight Committee
Measure Q Overview

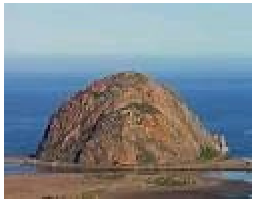
- Committee met Dec 2021 to review and discuss all Measures Q&E fiscal year transactions (2020-2021)
  - Members: John Martin, Barbara Spagnola, Homer Alexander, Lois Johnson, Bart Beckman, Tina Wener and Stephen Peck
- Measure Q/E Financial Summary
  - Tax revenue from Measure Q/E was $ 1.98M
    - $1.11M from Measure Q & $869K from Measure E
  - Total expenditures/transfers out were $ 1.32M
  - Carryover Q/E fund balance is $1.31M as of June 30, 2021
    - Debt service reserve is $ 81K
    - Unassigned fund balance amount is $ 1.23M
    - Cash balance is $ 439K



Citizens Oversight Committee
Measure Q Total Spending 2020-2021

- Fire Department: $ 480K
  - Vacation relief person and OT to maintain four personnel per shift - $ 330K
  - Fire Station debt service - $ 68K*
    - (* $15,582 interest accrual error was corrected in FY 2020-21. Actual FY 2020-21 debt service was $83,294)
  - Fire safety equipment and gas detectors- $ 26K
  - Replacement engine debt service - $ 56K

General Fund reserve: $ 282K (transfer)

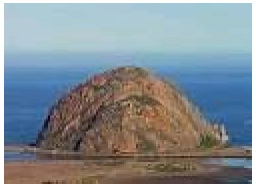


Citizens Oversight Committee
Measure Q Total Spending 2020-2021

- Street Maintenance: $ 425K
  - Pavement Management Plan - $ 415K (transfer)
  - Street maintenance materials - $ 10K

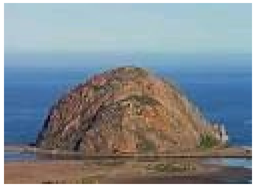
- Police Department: $ 132K
  - Standby pay / overtime / other pay - $ 83K
  - Payment to SLO Sheriff - $ 29K
    - Task forces / CAD / data lines
  - Equipment & Supplies - $ 20K
    - First responder kits / active shooter kits

- Storm Drains: $0



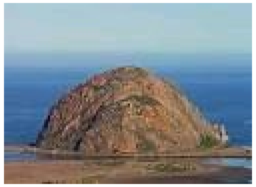
Citizens Oversight Committee
Measure Q Recommendations

- CFAC approved Measure Q/E transactions during the fiscal year 2020-2021
- Carryover and unallocated cash
  - CFAC defers recommendation for the unassigned fund balance of $ 1.23M until midyear 2021-22 budget review occurs
- Continue progress on the funding categories identified in the 2006 Measure Q ballot initiative and the 2020 Measure E ballot initiative



Citizens Oversight Committee

- Summary of other CFAC accomplishments
  - Review of two quarterly budget reports with feedback provided to City Finance staff
  - Review and recommendations for WRF Capital Project quarterly reports
  - Review of quarterly investment reports
  - Miscellaneous reviews and discussions
    - City Council compensation, PERS/OPEB liability



Citizens Oversight Committee

- Upcoming activities
  - Welcome and transition new members to CFAC
  - Continue Measure Q/E oversight
  - Review fiscal 2021 Annual Comprehensive Financial Report
  - Participation in midyear budget process
  - Review 10-year General Fund forecast
  - Continue review of quarterly WRF reports
- Any questions ?
- Thank You

AGENDA NO:	B-3
MEETING DATE:	January 18, 2022

Staff Report

TO: **CFAC Chair and Committee Members** **DATE: January 12, 2021**

FROM: **Sarah Johnson-Rios, Assistant City Manager/ Admin Services Director**

SUBJECT: **Informational Update on the City's OPEB Liabilities**

RECOMMENDATION

Receive and file the informational update regarding the City's Other Postemployment Benefits (OPEB) liabilities.

FISCAL IMPACT

There is no fiscal impact associated with the recommended action.

BACKGROUND

Other Postemployment Benefits (or OPEB) are benefits (other than pensions) that U.S. state and local governments provide to their retired employees. These benefits principally involve health care benefits, but also may include life insurance, disability, legal and other services.

Because the City provides health insurance through CalPERS, the City is mandated by California Government Code 22892(b)(1) of the Public Employees' Medical and Hospital Care Act (PEMHCA) to contribute the established minimum health premium contribution for participating active members and annuitants at the current monthly rate per employee and retiree ($149/month for 2022). The annual pay-as-you-go costs for retirees are currently about $70,000 per year.

Unlike CalPERS, there is no external agency that the City must make payments to for future OPEB liabilities. However, cities are required to report on the level of their unfunded liability. This was previously governed by Governmental Accounting Standards Board (GASB) 45, and is now governed by GASB 74 and 75, described below.

Since 2009, the City has retained Total Compensation Systems, Inc. as its OPEB actuary to complete OPEB actuarial reports as part of the city's annual financial reporting.

In 2013, the City Council passed Resolution 03-13 (Attachment 1) to establish a restricted OPEB trust fund with ICMA (now called MissionSquare Retirement) to begin to pre-fund the long-term OPEB liability. Funds have been budgeted and contributed in most years since 2013.

In 2015, GASB issued two new Statements, Nos. 74 and 75, that changed reporting requirements for OPEB and were intended to improve the information, comparability across governments, and transparency. These new requirements went into effect in FY 2017-18 for Morro Bay, and in FY

Prepared By: ________SJR	Dept Review: ______SJR
City Manager Review: ___SC_____	City Attorney Review: ______

2019-20, Morro Bay was required to begin using the implied rate subsidy in its annual OPEB unfunded liability calculations. The implied rate subsidy accounts for how much more employers would be charged for retiree medical coverage if not combined with active employees.

When the implied rate subsidy was included in the City's reporting in FY 2019-20, it significantly increased the City's OPEB unfunded liability and CFAC was interested in better understanding the reporting. Members of CFAC met with staff to provide input regarding the OPEB actuarial report.

For FY 2019-20, the City's OPEB actuarial report indicated that the net OPEB liability was approximately $5.3 million.

DISCUSSION

In recent weeks, new City staff has been reviewing the City's OPEB liabilities as well as the City's restricted trust fund. Staff determined that the City's OPEB actuarial reports should have accounted for the restricted trust fund balance but have not in recent years. Staff made the actuary and the new auditors aware of the existing trust fund. There are a few types of trusts that meet the GASB requirements under GASB 74 and 75 and may offset plan liabilities. These include but are not limited to "section 115" trusts. Qualifying trusts must be protected from creditors and be for the exclusive use of retiree health benefits.

After confirming that the City's established trust with MissionSquare Retirement (formerly ICMA) meets the GASB requirements, the actuary revised the City's FY 2020-21 actuarial report to include the trust's balance as of June 30, 2021. This allowed the report to not only directly offset approximately $1.8 million from the liability; it also allowed the actuary to use a higher valuation interest rate, which decreases the net liability further (they utilized a 5.4% interest rate which represents their expected long-term rate of return for the investment portfolio).

A smaller adjustment resulted from a change in the assumption that the actuary used last year regarding the percentage of retirees utilizing the retiree health benefit.

As a result of incorporating the restricted trust balance in the actuarial report, and to a lesser degree of changing the assumption about retiree participation, the City's net OPEB liability as of June 30, 2021 is approximately $1.2 million, a reduction of over $4 million from last year's report (Attachment 3). Further, the City made an annual contribution after the measurement date consistent with prior year-end practices, which will result in an even lower estimated net liability when next year's actuarial report is completed.

Going forward, if the City opts not to budget for the implied rate subsidy assumption, then the OPEB trust is essentially fully funded at this time. The City may opt to redirect funds budgeted for OPEB unfunded liabilities to instead to address the much larger CalPERS unfunded liability. Staff is evaluating and will bring forward a recommendation with future budget actions.

The primary purpose of this agenda item is to provide CFAC with an informational update on the City's improved Net OBEP Liability (OPEB). Will Kane from Total Compensation Systems, Inc. will present the attached slides (Attachment 2) at the CFAC meeting and will be available for questions.

ATTACHMENTS:

1. Resolution 03-13 Establishing an OPEB Trust_agreement updated 1.19.2022
2. Presentation from Total Compensation Systems, Inc.
3. OPEB Actuarial Report for FY 2020-21

RESOLUTION NO. 03-13

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORRO BAY, CALIFORNIA, ADOPTING THE VANTAGECARE RHS EMPOYER INVESTMENT PROGRAM (EIP) FOR PRE-FUNDING OTHER POSTEMPLOYMENT BENEFITS (OPEB)

THE CITY COUNCIL
City of Morro Bay, California

WHEREAS, the Government Accounting Standards Board (GASB) issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* which requires all government employers to measure, recognize, and display other postemployment benefits (OPEB) expenditures and related liabilities; and

WHERAS, the City of Morro Bay ("Employer"), due to its participation in the California Public Employee Retirement System's (CalPERS) health plans, is mandated by California Government Code 22892(b)(1) of the Public Employees' Medical and Hospital Care Act (PEMHCA) to contribute the established minimum health premium contribution for their participating active membership and annuitants at the current monthly rate per employee and retiree; and

WHEREAS, the Employer has determined that pre-funding this liability and placing that money in an OPEB trust is in the best interests of the Employer; and

WHEREAS, the Employer has determined that the establishment of the retiree health savings plan ("Plan") serves the above objective.

NOW, THEREFORE IT IS RESOLVED, that the Employer hereby adopts the Plan in the form of the ICMA Retirement Corporation's VantageCare RHS Employer Investment Program.

BE IT FURTHER RESOLVED that the assets of the Plan shall be held in trust, with the Administrative Services Director serving as trustee.

PASSED AND ADOPTED by the City Council of the City of Morro Bay, at a regular meeting thereof held on the 8th day of January 2013, by the following vote:

AYES: Irons, C. Johnson, N. Johnson, Leage, Smukler
NOES: None
ABSENT: None

Jamie L. Irons
JAMIE L. IRONS, Mayor

Jamie Boucher
JAMIE BOUCHER, City Clerk

I, Jamie Boucher, Clerk of the City of Morro Bay, do hereby certify that the foregoing Resolution No. 03-13, proposed by the Administrative Services Director, was duly passed and adopted by the City Council of the City of Morro Bay at a regular meeting thereof assembled this 8th day of January, 2013, by the following vote:

AYES: Irons, C. Johnson, N. Johnson, Leage, Smukler

NAYS: None

ABSENT: None

JAMIE BOUCHER, City Clerk

(Seal)

ADMINISTRATIVE SERVICES AGREEMENT

Type: VantageCare RHS Employer Investment Program

Account Number: 803394

ADMINISTRATIVE SERVICES AGREEMENT

This Agreement, made as of the day of January 10, 2013 (herein referred to as the "Inception Date"), between The International City Management Association Retirement Corporation ("ICMA-RC"), a nonprofit corporation organized and existing under the laws of the State of Delaware; and the City of Morro Bay ("Employer") a local governmental instrumentality organized and existing under the laws of the State of California with an office at 595 Harbor Street, Morro Bay, California 93442.

RECITALS

Employer acts as a public employer and is seeking to provide retiree health benefits for its eligible employees and retirees;

ICMA-RC makes available the VantageCare Retirement Health Savings Program Employer Investment Program ("RHS EIP" or "Program") to public employers as a means of providing retiree health benefits on behalf of employees and retirees of such employer;

ICMA-RC further makes available The Vantagepoint Funds and other non-proprietary, no-load, diversified mutual funds, as investment vehicles for public employer plan assets, including RHS EIP assets;

Employer desires to fund retiree health benefits by establishing an investment account under the RHS EIP, to be invested in one or more of The Vantagepoint Funds or other non-proprietary mutual funds on a pooled basis;

Employer intends that the assets so invested ultimately shall be used to provide retiree health benefits for its eligible employees and retirees under the Program.

AGREEMENTS

1. <u>Establishment of Account</u>

Employer hereby establishes an RHS EIP investment account ("Account") for the purpose of investing assets Employer intends to use to fund retiree health benefits under the Program. Account assets will be held in trust, and invested in accordance with the Declaration of Trust of the Integral Part Trust established by Employer.

2. <u>Appointment of ICMA-RC</u>

Employer appoints ICMA-RC to act as recordkeeper with respect to the Account to perform all non-discretionary functions necessary to facilitate the investment administration of Account assets. The functions to be performed by ICMA-RC and its agents include:

(a) Allocation in accordance with Employer direction of Account assets to investment funds made available under the Program;

(b) Maintenance of Account records reflecting amounts contributed, income, gain, or loss credited, and amounts as allocated to provide benefits; and

(c) Provision of periodic reports to the Employer regarding the status of the Account and Account investments.

3. Employer Duty to Furnish Information and to Review Transaction Confirmations and Reports

Employer agrees to furnish to ICMA-RC on a timely basis such information as is necessary for ICMA-RC to carry out its responsibilities with respect to the Account, including: (a) information needed to allocate Account assets to investment funds and (b) relevant Employer and other identifying information (including tax identification numbers). ICMA-RC shall be entitled to rely upon the accuracy of any information that is furnished to it by a responsible official of the Employer, and ICMA-RC shall not be responsible for any error arising from its reliance on such information. ICMA-RC will provide Account information in reports, statements or accountings.

For transactions for which Employer receives confirmations, if Employer notifies ICMA-RC within 30 days of the confirmation date, ICMA-RC will correct the transaction and the Account will be made 100% whole. For transactions for which Employer does not receive confirmations and only receives quarterly or annual statements, if Employer notifies ICMA-RC within 90 days following statement end date, ICMA-RC will correct the transaction and the Account will be made 100% whole.

4. Certain Representations and Warranties

ICMA-RC represents and warrants to Employer that:

(a) ICMA-RC is a non-profit corporation with full power and authority to enter into this Agreement and to perform its obligations under this Agreement.

(b) ICMA-RC is an investment adviser registered as such with the Securities and Exchange Commission under the Investment Advisers Act of 1940, as amended. ICMA-RC Services, LLC (a wholly owned subsidiary of ICMA-RC) is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and is a member in good standing of Financial Industry Regulatory Authority (FINRA)

Employer represents and warrants to ICMA-RC that:

(c) Employer is organized in the form and manner recited in the opening paragraph of this Agreement with full power and authority to enter into and perform its obligations under this Agreement and to act for the Account and Account beneficiaries in the manner contemplated in this Agreement. Execution, delivery, and performance of this Agreement will not conflict with any law, rule, regulation or contract by which the Employer is bound or to which it is a party.

(d) Any information required to be retained by the Employer in connection with an RHS EIP Plan shall be set forth in the RHS EIP Plan materials developed by ICMA-RC and provided to the Employer.

(e) Employer is aware that their Account investments in The Vantagepoint Funds are limited to $250,000 per fund and an aggregate of $1,000,000 per EIP plan.

5. Compensation and Payment

Employer acknowledges that certain wholly-owned subsidiaries of ICMA-RC receive compensation from the Vantagepoint Funds for advisory and other services furnished to the Vantagepoint Funds. The fees referred to in this subsection are disclosed in the Vantagepoint Funds Prospectus and Statement of Additional Information.

Employer acknowledges and agrees that ICMA-RC does not assume any responsibility with respect to the selection or retention of the Plan's investment options. Employer shall have exclusive responsibility for the Plan's investment options, including the selection of the applicable mutual fund share class.

Employer further acknowledges that a fee for non-proprietary funds will be charged on the following schedule:

Assets	Fee
First $15 MM	45 bps
Next $35 MM	25 bps
Next $25 MM	15 bps
Over $75 MM	10 bps

The non-proprietary fund fee is charged based upon a percentage of the average daily balance of non-proprietary funds in the Account. The non-proprietary fund fee is payable in arrears on a monthly basis as of the last business day of each calendar month and shall be deducted from the Account. In the event that the Account's balance of non-proprietary funds in the Account goes to zero, the non-proprietary fund fee will be pro-rated based on the number of days the Account had a non-proprietary fund balance during the month.

The non-proprietary fund fee will be assessed pro-rata against all the non-proprietary fund investments in the Account. In the event that the balance of non-proprietary funds in the Account is insufficient to cover the non-proprietary fund fee, the unpaid amount of the fee will be deducted against the Vantagepoint Funds investment with the largest month-end balance. The non-proprietary fund fee will be deducted directly from the

Account and will be reflected on your quarterly statement. If there are no Vantagepoint Funds investments, ICMA-RC will invoice the client for the insufficient amount.

Any payment from non-proprietary mutual fund families or their service providers received by ICMA-RC or its affiliates in the form of 12b-1 fees, service fees, compensation for sub-accounting, and other services provided by ICMA-RC or its affiliates for the non-proprietary funds will be used to offset the asset-based fee schedule disclosed above. To the extent that such payment exceeds the non-proprietary fund fee, the Account will be credited the difference.

6. Custody

Employer understands that amounts contributed to the Account are to be remitted directly to Vantagepoint Transfer Agents in accordance with instructions provided to Employer in the RHS EIP Plan materials and are not to be remitted to VantageTrust or ICMA-RC. In the event that any check or wire transfer is incorrectly labeled or transferred, ICMA-RC will return it to Employer with proper instructions.

7. Responsibility

(a) ICMA-RC shall not be responsible for any acts or omissions of any person other than ICMA-RC in connection with the administration or operation of the Account.

(b) Employer is responsible for determining that there are no state or local laws that would prohibit it from establishing the Program. Employer is also responsible for determining that the investments selected for the Program fall within state/local requirements.

(c) Employer understands that ICMA-RC shall not act as an investment adviser with respect to the Employer and will not be responsible for the Employer's investment decisions. ICMA-RC herein specifically disclaims any liability derived, connected to or related to any such decisions.

(d) Employer agrees to indemnify and hold harmless ICMA-RC and its agents from and against any and all claims, actions, suits or proceedings of any kind (whether in tort, in contract, at law or in equity) brought against said parties because of any injury or damage received or sustained by any person, persons or property arising out of or resulting from Employer's investment decisions. Provided, however, that Employer's obligations under this subsection shall not apply to protect ICMA-RC in the event that damages in any such action relate to the gross negligence or intentional misconduct of ICMA-RC.

8. Term

This Agreement shall be in effect for an initial term beginning on the Inception Date and ending 5 years after the Inception Date. This Agreement will be renewed automatically for each succeeding year unless written notice of termination is provided by either party to the other no less than 60 days before the end of such Agreement year.

9. Amendments and Adjustments

(a) This Agreement may not be amended except by written instrument signed by the parties.

(b) The parties agree that compensation for services under this Agreement and administrative and operational arrangements may be adjusted as follows:

ICMA-RC may propose an adjustment by written notice to the Employer given at least 60 days before the effective date of the adjustment and the notice may appear in disclosure documents such as Employer Bulletins. Such adjustment shall become effective unless, within the 60 day period before the effective date the Employer notifies ICMA-RC in writing that it does not accept such adjustment, in which event the parties will negotiate with respect to the adjustment.

(c) No failure to exercise and no delay in exercising any right, remedy, power or privilege hereunder shall operate as a waiver of such right, remedy, power or privilege.

10. Notices

All notices required to be delivered under Section 9 of this Agreement shall be delivered personally or by registered or certified mail, postage prepaid, return receipt requested, to (i) Legal Department, ICMA Retirement Corporation, 777 North Capitol Street, N.E., Suite 600, Washington, D.C, 20002-4240; (ii) Employer at the office set forth in the first paragraph hereof, or to any other address designated by the party to receive the same by written notice similarly given.

11. Complete Agreement

This Agreement shall constitute the sole agreement between ICMA-RC and Employer relating to the object of this Agreement and correctly sets forth the complete rights, duties and obligations of each party to the other as of its date. Any prior agreements, promises, negotiations or representations, verbal or otherwise, not expressly set forth in this Agreement are of no force and effect.

12. Governing Law

This agreement shall be governed by and construed in accordance with the laws of the State of California, applicable to contracts made in that jurisdiction without reference to its conflicts of laws provisions.

In Witness Whereof, the parties hereto have executed this Agreement as of the Inception Date first above written.

CITY OF MORRO BAY

By Susan Slayton Date 1/10/13
Signature

SUSAN SLAYTON, ADMINISTRATIVE SERVICES DIR
Name and Title (Please Print)

INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION RETIREMENT CORPORATION

Angela C. Montez

By ______________________
Angela Montez
Assistant Corporate Secretary

ICMA-RC
Building Retirement Security

VANTAGECARE RHS EMPLOYER INVESTMENT PROGRAM (EIP) ACCOUNT SET-UP FORM – PAGE 1 OF 2

Instructions to Employer: Please ensure that each section of this form is completed before returning it to ICMA-RC. Provide all requested information to ensure the proper establishment of your EIP. Please contact ICMA-RC's VantageCare RHS New Business Analyst at 800-326-7272, if you have any questions.

ICMA-RC Use Only
1. Employer # ______________

General Information *Primary Contact is responsible for the day-to-day administration and processing of EIP transactions. If you wish to designate an* *<u>additional</u>* *contact for specific functions (e.g. Contributions, Withdrawals or Investment Authority), please do so in the Alternate Contacts section.*	2. (902) Employer's Full Name: CITY OF MORRO BAY 3. (924) Street Address: 595 HARBOR ST. (925) ______________ 4. (918) City: MORRO BAY (919) State: CA (920) Zip Code: 93442 5. (633) Primary Contact: SUSAN SLAYTON 6. (634) Primary Contact Title: ADMINISTRATIVE SERVICES DIR 7. (631) Primary Contact Telephone #: (805) 772-6217 8. (632) Primary Contact Fax #: (805) 772-7329 9. (PT00) Primary Contact E-mail Address: sslayton@morro-bay.ca.us 10. (882) Employer's Federal Tax Identification Number: 95-2308629 11. # of Employees: 95 12. # of Retirees: 36
Plan Implementation Information	13. Deposit Medium for Contributions (624) ☒ Check* ☐ Wire ☐ EFT *Note: * = default* 14. Data Medium for Contribution Detail: EZLink 15. First Contribution Date: __ __/__ __/__ __ __ __ (mm/dd/yyyy)

(continue to page 2)

VANTAGECARE RHS EMPLOYER INVESTMENT PROGRAM (EIP) ACCOUNT SET-UP FORM – PAGE 2 OF 2

ICMARC
Building Retirement Security

Employer Name CITY OF MORRO BAY

Alternate Contacts

Use this section to designate an alternate contact for a specific function (e.g. Contributions).

16. PT02 Function: Contributions
(200) Contact Name: ____
(200) Contact Title: ____ (422) Email: ____
(420) Telephone: (___) ____ (421) Fax: (___) ____
Address: ____
City: ____ State: ____ Zip: ____

17. PT01 Function: Withdrawals
(200) Contact Name: ____
(200) Contact Title: ____ (422) Email: ____
(420) Telephone: (___) ____ (421) Fax: (___) ____
Address: ____
City: ____ State: ____ Zip: ____

18. PT Function: Investment Authority
(200) Contact Name: ____
(200) Contact Title: ____ (422) Email: ____
(420) Telephone: (___) ____ (421) Fax: (___) ____
Address: ____
City: ____ State: ____ Zip: ____

Trustee Contact Information

The title of this person is designated in the Resolution, if required by state or local law , or the Affirmative Statement of Adoption. If the individual appointed to the title changes, you may use this form to update the name. To change the title of the person acting as Trustee Contact, you must pass a resolution if your state or local law so requires. The Trustee will receive all quarterly statements as well as confirmations for each contribution received and confirmations for all reinvested dividends.

19. PT10
(200) Trustee Name: SUSAN SLAYTON
(210) Trustee Title: ADMIN SVCS DIR (422) Email: sslayton@morro-bay.ca.us
(310) Trustee Address: 595
(305) Street: HARBOR ST
(320) City: MORRO BAY (325) State: CA (330) Zip: 93442
(420) Telephone: (805) 772-6217 (421) Fax: (805) 772-7329

Allocation of EIP Contributions and Account Balances

20. Use this section to designate your initial EIP investment allocation. Fill in the boxes with codes of the fund(s) you want to invest in. A list of funds and codes can be found on the EIP Fund Options Sheet. Designate whole percentages only. All designated allocation percentages must total 100%. Failure to designate whole percentages or total 100% may result in a delay in processing your request. To change your allocation in the future, please use the RHS Employer Investment Program Allocation Form.

ALLOCATION			
Code	Percent	Code	Percent
			TOTAL = 100%

Internal Use Only

641 ____ 912 ____

City of Morro Bay

January 18, 2022

Retiree Health Benefits under GASB 74/75

June 30, 2021 Actuarial Valuation

Presentation Outline

- Current Benefit Structure
- Valuation Terminology
- Changes Since 2019
- Funding Decisions

Current Benefits

- The City only provides statutory minimum coverage as required under PEMHCA
  - Public agencies that participate in the CalPERS medical pool are required to provide a minimum benefit to retirees
  - $149 / month for 2022
- Under GASB 75, the employer is also assigned a liability due to an implied rate subsidy
  - Currently, pre-65 retirees and active employees are charged the same medical premium rates
  - If these groups were charged separate rates, the retiree rates would be higher because the cost of medical coverage increases with age
  - The implied rate subsidy represents how much more retirees would be charged for medical coverage if not combined with active employees
  - An exception is possible to apply to avoid application of the implied rate subsidy under GASB 75, but many auditors pushed against that exception beginning in 2020

Valuation Terminology

- **Total OPEB Liability (TOL)**
  - Represents what is “owed” due to the promise to provide future benefits
  - Only represents benefits already earned due to past service
  - Grows as benefits are earned and with interest; shrinks as benefits are paid
- **Fiduciary Net Position (FNP)**
  - The amount of assets that have been set aside in an irrevocable trust for the exclusive use of paying retiree health benefits
  - Grows or shrinks each year based on investment return, contributions to the trust, and benefit payments from the trust
- **Net OPEB Liability (NOL)**
  - The TOL minus the FNP, in other words, what is “owed” that is in excess of what has already been set aside
- **Service Cost**
  - An active employee’s liability accumulates over the course of his/her career
  - The value of the additional benefit accrued in one year is the Service Cost

Four Significant Changes since June 30, 2019

1) A decrease in the valuation interest rate from 3.5% as of 6/30/2019 to 2.2% as of 6/30/2020
   - For unfunded plans, the valuation interest rate must be based on a municipal bond index
   - The City's OPEB plan was originally considered unfunded as of 6/30/2020
2) The addition of the implied rate subsidy beginning 6/30/2020
   - Many City auditors began pushing back against the use of a previously used exception to not reflect an implied rate subsidy
3) A decrease in the assumed participation assumption beginning 6/30/2021
   - The participation assumption determines what percentage of future new retirees are expected to elect City coverage
   - Examination of additional retiree data provided by the City indicated a 50% assumption would be appropriate (reduced from an 80% assumption previously)
4) The inclusion of the City's ICMA trust as a qualifying trust under GASB 75
   - This allows the trust balance to be reported as offsetting assets directly under GASB 75
   - Additionally, pre-funded OPEB plans can use the expected rate of return on investments as the valuation interest rate instead of a municipal bond index

June 30, 2021 Valuation Results
Comparison with Prior Valuations

$ in millions	TOL	FNP	NOL
June 30, 2019 (3.5% interest, 80% participation, no implied subsidy)	**$2.8**	**$0.0**	**$2.8**
1) Change from interest rate decrease (3.5% to 2.2%)	+0.7		+0.7
2) Change from adding implied rate subsidy	+2.1		+2.1
Other changes	-0.3		-0.3
June 30, 2020 (2.2% interest, 80% participation, with implied subsidy)	**$5.3**	**$0.0**	**$5.3**
3) Change from participation assumption (80% to 50%)	-1.4		-1.4
4a) Change from including trust		+1.8	-1.8
4b) Change from pre-funded interest rate (2.2% to 5.4%)	-1.3		-1.3
Other changes	+0.4		+0.4
June 30, 2021 (5.4% interest, 50% participation, with implied subsidy)	**$3.0**	**$1.8**	**$1.2**

Impact of the Implied Rate Subsidy

- The implied rate subsidy can make funding decisions complicated
  - Of the $3.0 of Total OPEB Liability reported under GASB 75, about $1.5M is due to the implied rate subsidy
  - The implied rate subsidy does not represent any future direct cash costs to the City, so it does not necessarily need to be pre-funded
- The FY 21-22 year-end NOL will likely be lower
  - Balance in the trust as of 9/30/21 is $2.1 million (up from $1.8m)

Decisions Regarding Future Funding

- Funding decisions revolve around the City's goal
  - Is the goal to show a fully funded OPEB plan in the City's financials?
  - Is the goal to plan ahead for future retiree benefit payments, which may be able to be covered without the implied rate subsidy?
- If financial statements are the focus, then the City should aim to have the full $3.0M in the trust
  - Future contributions should be planned with this in mind
- If covering anticipated benefits is the focus, then $1.5M in the trust is sufficient and the City has already exceeded that target
  - Future OPEB contribution amounts can be decreased significantly or eliminated in the near-term
  - Can redirect funding to the much larger unfunded CalPERS liability

Thank you!

Questions?

City of Morro Bay

Actuarial Study of
Retiree Health Liabilities Under GASB 74/75
Roll-forward Valuation
Valuation Date: June 30, 2020
Measurement Date: June 30, 2021
For Fiscal Year-End: June 30, 2021

Prepared by:
Total Compensation Systems, Inc.

Date: January 4, 2022

Table of Contents

City of Morro Bay

Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

This report was produced by Total Compensation Systems, Inc. for City of Morro Bay to determine the liabilities associated with its current retiree health program as of a June 30, 2021 measurement date and to provide the necessary information to determine accounting entries for the fiscal year ending June 30, 2021. This report may not be suitable for other purposes such as determining employer contributions or assessing the potential impact of changes in plan design.

Different users of this report will likely be interested in different sections of information contained within. We anticipate that the following portions may be of most interest depending on the reader:

- A high level comparison of key results from the current year to the prior year is shown on this page.
- The values we anticipate will be disclosed in the June 30, 2021 year-end financials are shown on pages 2 and 3.
- Additional accounting information is shown on page 12 and Appendices C and D.
- Description and details of measured valuation liabilities can be found beginning on page 10.
- Guidance regarding the next actuarial valuation for the June 30, 2022 measurement date is provided on page 13.

B. Key Results

Morro Bay uses an Actuarial Measurement Date that is the same as its Fiscal Year-End. This means that these actuarial results measured as of June 30, 2021 will be used directly for the June 30, 2021 Fiscal Year-End.

Key Results	**Current Year** *June 30, 2021 Measurement Date* *for June 30, 2021 Fiscal Year-End*	**Prior Year** *June 30, 2020 Measurement Date* *for June 30, 2020 Fiscal Year-End*
Total OPEB Liability (TOL)	$2,970,326	$5,273,880
Fiduciary Net Position (FNP)	$1,766,650	$1,197,981
Net OPEB Liability (NOL)	$1,203,676	$4,075,899
Service Cost *(for year following)*	$157,824	$444,307
Estimated Pay-as-you-go Cost *(for year following)*	$196,166	$203,278
GASB 75 OPEB Expense *(for year ending)*	$505,822	$483,024

Refer to results section beginning on page 10 or the glossary on page 28 for descriptions of the above items.

Key Assumptions	**Current Year** *June 30, 2021 Measurement Date* *for June 30, 2021 Fiscal Year-End*	**Prior Year** *June 30, 2020 Measurement Date* *for June 30, 2020 Fiscal Year-End*
Valuation Interest Rate	5.40%	2.20%
Expected Rate of Return on Assets	5.40%	5.40%
Long-Term Medical Trend Rate	4.00%	4.00%
Projected Payroll Growth	2.75%	2.75%

C. Summary of GASB 75 Accounting Results

1. Changes in Net OPEB Liability

The following table shows the reconciliation of the June 30, 2020 Net OPEB Liability (NOL) in the prior valuation to the June 30, 2021 NOL. A more detailed version of this table can be found on page 12.

	TOL	*FNP*	*NOL*
Balance at June 30, 2020 Measurement Date	**$5,273,880**	**$1,197,981**	**$4,075,899**
Service Cost	$444,307	$0	$444,307
Interest on TOL / Return on FNP	$118,677	$198,205	($79,528)
Employer Contributions*	$0	$575,001	($575,001)
Benefit Payments*	($203,278)	($203,278)	$0
Administrative Expenses	$0	($1,259)	$1,259
Experience (Gains)/Losses	$0	$0	$0
Changes in Assumptions	($2,663,260)	$0	($2,663,260)
Other	$0	$0	$0
Net Change	($2,303,554)	$568,669	($2,872,223)
Actual Balance at June 30, 2021 Measurement Date	**$2,970,326**	**$1,766,650**	**$1,203,676**

***** Includes $137,290 due to implied rate subsidy.

2. Deferred Inflows and Outflows

Changes in the NOL arising from certain sources are recognized on a deferred basis. The following tables show the balance of each deferral item as of the measurement date and the scheduled future recognition. A reconciliation of these balances can be found on page 12 while the complete deferral history is shown beginning on page 25.

Balances at June 30, 2021 Fiscal Year-End	*Deferred Outflows*	*Deferred Inflows*
Differences between expected and actual experience	$0	($426,939)
Changes in assumptions	$2,368,605	($2,388,697)
Differences between projected and actual return on assets	$0	($158,564)
Total	$2,368,605	($2,974,200)

To be recognized fiscal year ending June 30:	*Deferred Outflows*	*Deferred Inflows*
2022	$311,230	($369,651)
2023	$311,230	($369,651)
2024	$311,230	($369,651)
2025	$311,230	($369,651)
2026	$311,230	($330,010)
Thereafter	$812,455	($1,165,586)
Total	$2,368,605	($2,974,200)

3. OPEB Expense

Under GASB 74 and 75, OPEB expense includes service cost, interest cost, administrative expenses, and change in TOL due to plan changes, adjusted for deferred inflows and outflows. OPEB expense can also be derived as change in net position, adjusted for employer contributions, which can be found on page 12.

To be recognized fiscal year ending June 30, 2021	*Expense Component*
Service Cost	$444,307
Interest Cost	$118,677
Expected Return on Assets	$0
Administrative Expenses	$1,259
Recognition of Experience (Gain)/Loss Deferrals	($55,447)
Recognition of Assumption Change Deferrals	$36,667
Recognition of Investment (Gain)/Loss Deferrals	($39,641)
Employee Contributions	$0
Changes in Benefit Terms	$0
Net OPEB Expense for fiscal year ending June 30, 2021	$505,822

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

4. Adjustments

We are unaware of any adjustments that need to be made.

5. Trend and Interest Rate Sensitivities

The following presents what the Net OPEB Liability would be if it were calculated using a discount rate assumption or a healthcare trend rate assumption one percent higher or lower than the current assumption.

Net OPEB Liability at June 30, 2021 Measurement Date	*Discount Rate*	*Healthcare Trend Rate*
1% Decrease in Assumption	$1,606,318	$777,923
Current Assumption	$1,203,676	$1,203,676
1% Increase in Assumption	$872,480	$1,742,405

D. Description of Retiree Benefits

Following is a description of the current retiree benefit plan:

	Fire	General Employees	Management	Police and Harbor Patrol
Benefit types provided	Medical only	Medical only	Medical only	Medical only
Duration of Benefits	Lifetime	Lifetime	Lifetime	Lifetime
Required Service	5 years	5 years	5 years	5 years
Minimum Age	50	50	50	50
Dependent Coverage	Yes	Yes	Yes	Yes
City Contribution %	100%	100%	100%	100%
City Cap	$139 per month*	$139 per month*	$139 per month*	$139 per month*

*This amount will increase in accordance with Government Code Section 22892 ($143 per month in 2021)

E. Summary of Valuation Data

Because this is a roll-forward valuation, this report is based on census data previously provided to us as of July, 2020 for the June 30, 2020 full valuation. Distributions of participants by age and service can be found on page 18. The active count below excludes employees for whom it was not possible to receive retiree benefits (e.g. employees who were already older than the maximum age to which benefits are payable or who will not accrue the required service prior to reaching the maximum age).

	Valuation Year *June 30, 2020 Valuation Date* *June 30, 2021 Measurement Date*
Active Employees eligible for future benefits	
Count	89
Average Age	45.2
Average Years of Service	7.9
Retirees currently receiving benefits	
Count	39
Average Age	70.9

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

F. Certification

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

This report is for fiscal year July 1, 2020 to June 30, 2021, using a measurement date of June 30, 2021. The calculations in this report have been made based on our understanding of plan provisions and actual practice at the time we were provided the required information. We relied on information provided by Morro Bay. Much or all of this information was unaudited at the time of our evaluation. We reviewed the information provided for reasonableness, but this review should not be viewed as fulfilling any audit requirements. We relied on the following materials to complete this study:

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

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

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

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

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

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

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

Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Will Kane, FSA, EA, MAAA
Actuary
Total Compensation Systems, Inc.
(805) 496-1700

PART II: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

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

The actuarial assumptions used for this study are summarized beginning on page 14.

B. Liability for Retiree Benefits.

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

The product of each year's benefit payments and the probability the benefit will be paid equals the expected cost for that year. We multiplied the above expected cost figures by the probability that the retiree would elect coverage. A retiree may not elect to be covered if retiree health coverage is available less expensively from another source (e.g. Medicare risk contract) or the retiree is covered under a spouse's plan. Finally, we discounted the expected cost for each year to the measurement date June 30, 2021 at 5.40% interest.

For any ***current retirees***, the approach used was similar. The major difference is that the probability of payment for current retirees depends only on mortality and age restrictions (i.e. for retired employees the probability of being retired and of not being terminated are always both 100%).

The value generated from the process described above is called the actuarial present value of projected benefit payments (APVPBP). We added APVPBP for each participant to get the total APVPBP for all participants which is the estimated present value of all future retiree health benefits for all **current** participants. The APVPBP is the amount on June 30, 2021 that, if all actuarial assumptions are exactly right, would be sufficient to expense all promised benefits until the last participant dies or reaches the maximum eligibility age. However, for most actuarial and accounting purposes, the APVPBP is not used directly but is instead apportioned over the lifetime of each participant as described in the following sections.

C. Actuarial Accrual

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

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an "actuarial cost method" and uses the APVPBP to develop expense and liability figures. Furthermore, the APVPBP should be accrued over the working lifetime of employees.

In order to accrue the APVPBP over the working lifetime of employees, actuarial cost methods apportion the APVPBP into two parts: the portions attributable to service rendered prior to the measurement date (the past service liability or Total OPEB Liability (TOL) under GASB 74 and 75) and to service after the measurement date but prior to retirement (the future service liability or present value of future service costs). Of the future service liability, the portion attributable to the single year immediately following the measurement date is known as the normal cost or Service Cost under GASB 74 and 75.

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

D. Actuarial Assumptions

The APVPBP and service cost are determined using several key assumptions:

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

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

- ***Mortality rates*** varying by age and sex (and sometimes retirement or disability status). If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

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

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

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

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

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

E. Total OPEB Liability

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

Changes in the TOL can arise in several ways - e.g., as a result of plan changes or changes in actuarial assumptions. Change in the TOL can also arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience. GASB 75 allows certain changes in the TOL to be deferred (i.e. deferred inflows and outflows of resources).

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

- Investment gains and losses are deferred five years.

- Experience gains and losses are deferred over the Expected Average Remaining Service Lives (EARSL) of plan participants. In calculating the EARSL, terminated employees (primarily retirees) are considered to have a working lifetime of zero. This often makes the EARSL quite short.

- Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the EARSL.

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

F. Valuation Results

This section details the measured values of the concepts described on the previous pages. Because this is a roll-forward valuation, the results shown in this section do not match the overall results as of the measurement date.

1. Actuarial Present Value of Projected Benefit Payments (APVPBP)

Actuarial Present Value of Projected Benefit Payments as of June 30, 2020 Valuation Date

	Total	*Fire Fighters*	*General Employees*	*Management*	*Police Officers*
Active: Pre-65 Benefit	$2,061,965	$397,679	$802,375	$397,068	$464,843
Post-65 Benefit	$874,753	$124,863	$387,021	$227,142	$135,727
Subtotal	$2,936,718	$522,542	$1,189,396	$624,210	$600,570
Retiree: Pre-65 Benefit	$611,237	$261,602	$174,300	$159,065	$16,270
Post-65 Benefit	$939,059	$154,398	$416,105	$203,717	$164,839
Subtotal	$1,550,296	$416,000	$590,405	$362,782	$181,109
Grand Total	$4,487,014	$938,542	$1,779,801	$986,992	$781,679
Subtotal Pre-65 Benefit	$2,673,202	$659,281	$976,675	$556,133	$481,113
Subtotal Post-65 Benefit	$1,813,812	$279,261	$803,126	$430,859	$300,566

2. Service Cost

The service cost represents the value of the benefit earned during a single year of employment. It is the APVPBP spread over the expected working lifetime of the employee and divided into annual segments. We applied an "entry age" actuarial cost method to determine funding rates for active employees. The table below summarizes the calculated service cost.

Service Cost Valuation Year Beginning July 1, 2020

	Total	*Fire Fighters*	*General Employees*	*Management*	*Police Officers*
# of Eligible Employees	89	12	42	20	15
First Year Service Cost					
Pre-65 Benefit	$107,763	$17,964	$41,664	$20,640	$27,495
Post-65 Benefit	$45,837	$6,192	$20,790	$11,400	$7,455
Total	$153,600	$24,156	$62,454	$32,040	$34,950

Accruing retiree health benefit costs using service costs levels out the cost of retiree health benefits over time and more fairly reflects the value of benefits "earned" each year by employees. While the service cost for each employee is targeted to remain level as a percentage of covered payroll, the service cost as a dollar amount would increase each year based on covered payroll. Additionally, the overall service cost may grow or shrink based on changes in the demographic makeup of the employees from year to year.

3. Total OPEB Liability and Net OPEB Liability

If actuarial assumptions are borne out by experience, the City will fully accrue retiree benefits by expensing an amount each year that equals the service cost. If no accruals had taken place in the past, there would be a shortfall of many years' accruals, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the Total OPEB Liability. We calculated the Total OPEB Liability (TOL) as the APVPBP minus the present value of future service costs. To the extent that benefits are funded through a GASB 74 qualifying trust, the trust's Fiduciary Net Position (FNP) is subtracted to get the NOL. The FNP is the value of assets adjusted for any applicable payables and receivables as shown in the table on page 15.

Total OPEB Liability and Net OPEB Liability as of June 30, 2020 Valuation Date

	Total	*Fire Fighters*	*General Employees*	*Management*	*Police Officers*
Active: Pre-65 Benefit	928,754	$180,381	$374,077	$235,109	$139,187
Active: Post-65 Benefit	$422,277	$58,404	$175,465	$137,864	$50,544
Subtotal	$1,351,031	$238,785	$549,542	$372,973	$189,731
Retiree: Pre-65 Benefit	$611,237	$261,602	$174,300	$159,065	$16,270
Retiree: Post-65 Benefit	$939,059	$154,398	$416,105	$203,717	$164,839
Subtotal	$1,550,296	$416,000	$590,405	$362,782	$181,109
Subtotal: Pre-65 Benefit	$1,539,991	$441,983	$548,377	$394,174	$155,457
Subtotal: Post-65 Benefit	$1,361,336	$212,802	$591,570	$341,581	$215,383
Total OPEB Liability (TOL)	$2,901,327	$654,785	$1,139,947	$735,755	$370,840
Fiduciary Net Position as of June 30, 2020	$1,197,981				
Net OPEB Liability (NOL)	$1,703,346				

4. "Pay As You Go" Projection of Retiree Benefit Payments

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

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

Year Beginning July 1	*Total*	*Fire Fighters*	*General Employees*	*Management*	*Police Officers*
2020	$203,278	$48,225	$77,058	$53,265	$24,730
2021	$196,166	$50,841	$70,429	$62,196	$12,700
2022	$178,060	$41,538	$63,476	$57,379	$15,667
2023	$168,325	$31,875	$68,996	$48,568	$18,886
2024	$188,703	$36,515	$72,582	$57,231	$22,375
2025	$211,238	$41,566	$81,241	$61,367	$27,064
2026	$224,621	$46,672	$91,490	$54,957	$31,502
2027	$252,572	$52,473	$103,552	$60,764	$35,783
2028	$226,594	$47,401	$83,078	$62,294	$33,821
2029	$238,808	$52,555	$91,356	$62,835	$32,062

G. Additional Reconciliation of GASB 75 Results

The following table shows the reconciliation of the June 30, 2020 Net OPEB Liability (NOL) in the prior valuation to the June 30, 2021 NOL. For some plans, it will provide additional detail and transparency beyond that shown in the table on Page 2.

	TOL	*FNP*	*NOL*
Balance at June 30, 2020	**$5,273,880**	**$1,197,981**	**$4,075,899**
Service Cost	$444,307	$0	$444,307
Interest on Total OPEB Liability	$118,677	$0	$118,677
Expected Investment Income	$0	$0	$0
Administrative Expenses	$0	($1,259)	$1,259
Employee Contributions	$0	$0	$0
Employer Contributions to Trust	$0	$371,723	($371,723)
Employer Contributions as Benefit Payments**	$0	$203,278	($203,278)
Benefit Payments from Trust	$0	$0	$0
Expected Benefit Payments from Employer**	($203,278)	($203,278)	$0
Expected Balance at June 30, 2021	**$5,633,586**	**$1,568,445**	**$4,065,141**
Experience (Gains)/Losses	$0	$0	$0
Changes in Assumptions	($2,663,260)	$0	($2,663,260)
Changes in Benefit Terms	$0	$0	$0
Investment Gains/(Losses)	$0	$198,205	($198,205)
Other	$0	$0	$0
Net Change during 2021	($2,303,554)	$568,669	($2,872,223)
Actual Balance at June 30, 2021*	**$2,970,326**	**$1,766,650**	**$1,203,676**

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

****** Includes $137,290 due to implied rate subsidy.

Changes in the NOL arising from certain sources are recognized on a deferred basis. The deferral history for Morro Bay is shown beginning on page 25. The following table summarizes the beginning and ending balances for each deferral item. The current year expense reflects the change in deferral balances for the measurement year.

Deferred Inflow/Outflow Balances Fiscal Year Ending June 30, 2021

	Beginning Balance	*Change Due to New Deferrals*	*Change Due to Recognition*	*Ending Balance*
Experience (Gains)/Losses	($482,386)	$0	$55,447	($426,939)
Assumption Changes	$2,679,835	($2,663,260)	($36,667)	($20,092)
Investment (Gains)/Losses	$0	($198,205)	$39,641	($158,564)
Deferred Balances	$2,197,449	($2,861,465)	$58,421	($605,595)

The following table shows the reconciliation of Net Position (NOL less the balance of any deferred inflows or outflows). When adjusted for contributions, the change in Net Position is equal to the OPEB expense shown previously on page 3.

OPEB Expense Fiscal Year Ending June 30, 2021

	Beginning Net Position	*Ending Net Position*	*Change*
Net OPEB Liability (NOL)	$4,075,899	$1,203,676	($2,872,223)
Deferred Balances	$2,197,449	($605,595)	($2,803,044)
Net Position	$1,878,450	$1,809,271	($69,179)
Adjust Out Employer Contributions			$575,001
OPEB Expense			$505,822

H. Procedures for Future Valuations

GASB 74/75 require annual measurements of liability with a full actuarial valuation required every two years. This means that for the measurement date one year following a full actuarial valuation, a streamlined "roll-forward" valuation may be performed in place of a full valuation. The following outlines the key differences between full and roll-forward valuations.

	Full Actuarial Valuation	Roll-Forward Valuation
Collect New Census Data	Yes	No
Reflect Updates to Plan Design	Yes	No
Update Actuarial Assumptions	Yes	Typically Not
Update Valuation Interest Rate	Yes	Yes
Actual Assets as of Measurement Date	Yes	Yes
Timing	4-6 weeks after information is received	1-2 weeks after information is received
Fees	Full	Reduced
Information Needed from Employer	Moderate	Minimal
Required Frequency	At least every two years	Each year, unless a full valuation is performed

The majority of employers use an alternating cycle of a full valuation one year followed by a roll-forward valuation the next year. However, a full valuation may be required or preferred under certain circumstances. Following are examples of actions that could cause the employer to consider a full valuation instead of a roll-forward valuation.

- The employer considers or puts in place an early retirement incentive program.
- The employer considers or implements changes to retiree benefit provisions or eligibility requirements.
- The employer desires the measured liability to incorporate more recent census data or assumptions.
- The employer forms a qualifying trust or changes its investment policy.
- The employer adds or terminates a group of participants that constitutes a significant part of the covered group.

We anticipate that the next valuation we perform for Morro Bay will be a full valuation with a measurement date of June 30, 2022 which will be used for the fiscal year ending June 30, 2022.

PART III: ACTUARIAL ASSUMPTIONS AND METHODS

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

A. ACTUARIAL METHODS AND ASSUMPTIONS:

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

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

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

IMPLICIT RATE SUBSIDY: GASB 74 and 75 require use of claims costs or age-adjusted premiums approximating claims costs to determine the plan's liability. However, GASB 74 and 75 defer to Actuarial Standards of Practice (ASOPs) to guide how those age-adjusted premiums should be calculated and when exceptions may be warranted. Adjusting premiums for age creates what is commonly referred to as an Implicit Subsidy and is reflected as part of the plan's liability.

ASOP 6 provides an exception for pooled health plans such as the CalPERS medical plan. In cases where the premium structure is sustainable over the measurement period even if some groups or active participants cease to participate, the pooled health plan's premium may be used without regard to adjustments for age. In this case, there would be no implicit subsidy included as part of the plan's liability.

While TCS believes it may be proper to utilize this exception for PEMHCA agencies, the more common approach amongst other actuaries in California is to include an implicit subsidy as part of the liability. At the request of Morro Bay, we have reflected age-adjusted premiums in the calculation of the actuarial values presented in this report.

B. ECONOMIC ASSUMPTIONS:

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

INFLATION: We assumed 2.50% per year used for pension purposes. Actuarial standards require using the same rate for OPEB that is used for pension.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 5.40% per year net of expenses. This is based on assumed long-term return on employer assets.. We used the "Building Block Method". (See Appendix C, Paragraph 53 for more information). Our assessment of long-term returns for employer assets is based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq.

TREND: We assumed 4.00% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

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

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

Fiduciary Net Position as of June 30, 2021

	06/30/2020	*06/30/2021*
Cash and Equivalents	$0	$0
Contributions Receivable	$0	$0
Total Investments	$1,197,981	$1,766,650
Capital Assets	$0	$0
Total Assets	$1,197,981	$1,766,650
Benefits Payable	$0	$0
Fiduciary Net Position	$1,197,981	$1,766,650

C. NON-ECONOMIC ASSUMPTIONS:

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

MORTALITY

Participant Type	*Mortality Tables*
Police	2017 CalPERS Mortality for Safety Employees
Firefighters	2017 CalPERS Mortality for Safety Employees
Miscellaneous	2017 CalPERS Mortality for Miscellaneous and Schools Employees

RETIREMENT RATES

Employee Type	*Retirement Rate Tables*
Police Officers	Hired 2012 and earlier: 2017 CalPERS 3.0%@50 Rates for Police Employees Hired 2013 and later: 2017 CalPERS 2.7%@57 Rates for Police Employees
Fire Fighters	Hired 2012 and earlier: 2017 CalPERS 3.0%@50 Rates for Fire Employees Hired 2013 and later: 2017 CalPERS 2.7%@57 Rates for Fire Employees
General Employees	Hired 2012 and earlier: 2017 CalPERS 2.7%@55 Rates for Miscellaneous Employees Hired 2013 and later: 2017 CalPERS 2.0%@62 Rates for Miscellaneous Employees
Management	Hired 2012 and earlier: 2017 CalPERS 2.7%@55 Rates for Miscellaneous Employees Hired 2013 and later: 2017 CalPERS 2.0%@62 Rates for Miscellaneous Employees

COSTS FOR RETIREE COVERAGE

Retiree liabilities are based on actual retiree premium plus an implicit rate subsidy of 92.1% of non-Medicare medical premium. Liabilities for active participants are based on the first year costs shown below, which include the implicit rate subsidy. Subsequent years' costs are based on first year costs adjusted for trend and limited by any City contribution caps.

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

Participant Type	*Future Retirees Pre-65*	*Future Retirees Post-65*
Fire Fighters	Statutory minimum: $1,692 Implied rate subsidy: $13,806	Statutory minimum: $1,692
General Employees	Statutory minimum: $1,692 Implied rate subsidy: $13,806	Statutory minimum: $1,692
Management	Statutory minimum: $1,692 Implied rate subsidy: $13,806	Statutory minimum: $1,692
Police Officers	Statutory minimum: $1,692 Implied rate subsidy: $13,806	Statutory minimum: $1,692

PARTICIPATION RATES

Employee Type	*<65 Non-Medicare Participation %*	*65+ Medicare Participation %*
Police	80%	80%
Firefighters	80%	80%
Miscellaneous	80%	80%

TURNOVER

Employee Type	*Turnover Rate Tables*
Police	2017 CalPERS Turnover for Police Employees
Firefighters	2017 CalPERS Turnover for Fire Employees
Miscellaneous	2017 CalPERS Turnover for Miscellaneous Employees

SPOUSE PREVALENCE

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

SPOUSE AGES

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

AGING FACTORS

The aging factors used were based on information provided by CalPERS labeled: CalPERS Health Plan (PEMHCA) Implicit Subsidy Data for Calendar Year 2017.

PART IV: APPENDICES

APPENDIX A: DEMOGRAPHIC DATA BY AGE

ELIGIBLE ACTIVE EMPLOYEES BY AGE AND EMPLOYEE CLASS

Age	*Total*	*Fire Fighters*	*General Employees*	*Management*	*Police Officers*
Under 25	1	0	0	0	1
25 – 29	3	0	0	0	3
30 – 34	16	4	9	1	2
35 – 39	10	1	7	0	2
40 – 44	12	1	4	4	3
45 – 49	15	3	9	2	1
50 – 54	14	1	6	6	1
55 – 59	12	2	5	3	2
60 – 64	4	0	2	2	0
65 and older	2	0	0	2	0
Total	89	12	42	20	15

ELIGIBLE ACTIVE EMPLOYEES BY AGE AND SERVICE

	Total	*Under 5 Years of Service*	*5 – 9 Years of Service*	*10 – 14 Years of Service*	*15 –19 Years of Service*	*20 – 24 Years of Service*	*25 – 29 Years of Service*	*30 – 34 Years of Service*	*Over 34 Years of Service*
Under 25	1	1							
25 – 29	3	3							
30 – 34	16	10	5	1					
35 – 39	10	6	4						
40 – 44	12	7	2	2	1				
45 – 49	15	8	3	2	2				
50 – 54	14	3	4	3	1	2	1		
55 – 59	12	3	3	1	2	2	1		
60 – 64	4			1	1	1	1		
65 and older	2	1				1			
Total	89	42	21	10	7	6	3	0	0

ELIGIBLE RETIREES BY AGE AND EMPLOYEE CLASS

Age	*Total*	*Fire Fighters*	*General Employees*	*Management*	*Police Officers*
Under 50	1	1	0	0	0
50 – 54	0	0	0	0	0
55 – 59	2	0	1	1	0
60 – 64	8	2	2	2	2
65 – 69	5	0	3	1	1
70 – 74	11	2	4	2	3
75 – 79	6	1	4	1	0
80 – 84	5	0	4	1	0
85 – 89	0	0	0	0	0
90 and older	1	0	1	0	0
Total	39	6	19	8	6

APPENDIX B: ADMINISTRATIVE BEST PRACTICES

It is outside the scope of this report to make specific recommendations of actions Morro Bay should take to manage the liability created by the current retiree health program. The following items are intended only to allow the City to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of Morro Bay's practices, it is possible that Morro Bay is already complying with some or all of these suggestions.

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

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

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

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

APPENDIX C: GASB 74/75 ACCOUNTING ENTRIES AND DISCLOSURES

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

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

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

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

50.c: Following is a table of plan participants

	Number of Participants
Inactive Employees Currently Receiving Benefit Payments	39
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments*	0
Participating Active Employees	89
Total Number of participants	128

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

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

Shown in Part III.

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

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

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

Mortality Table	2017 CalPERS Mortality for Miscellaneous and Schools Employees
Disclosure	The mortality assumptions are based on the 2017 CalPERS Mortality for Miscellaneous and Schools Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

Mortality Table	2017 CalPERS Mortality for Safety Employees
Disclosure	The mortality assumptions are based on the 2017 CalPERS Mortality for Safety Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.
Mortality Table	2017 CalPERS Retiree Mortality for All Employees
Disclosure	The mortality assumptions are based on the 2017 CalPERS Retiree Mortality for All Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

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

Retirement Tables

Retirement Table	2017 CalPERS 2.0%@62 Rates for Miscellaneous Employees
Disclosure	The retirement assumptions are based on the 2017 CalPERS 2.0%@62 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2017 CalPERS 2.7%@55 Rates for Miscellaneous Employees
Disclosure	The retirement assumptions are based on the 2017 CalPERS 2.7%@55 Rates for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2017 CalPERS 2.7%@57 Rates for Fire Employees
Disclosure	The retirement assumptions are based on the 2017 CalPERS 2.7%@57 Rates for Fire Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2017 CalPERS 3.0%@50 Rates for Fire Employees
Disclosure	The retirement assumptions are based on the 2017 CalPERS 3.0%@50 Rates for Fire Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2017 CalPERS 2.7%@57 Rates for Police Employees
Disclosure	The retirement assumptions are based on the 2017 CalPERS 2.7%@57 Rates for Police Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Retirement Table	2017 CalPERS 3.0%@50 Rates for Police Employees
Disclosure	The retirement assumptions are based on the 2017 CalPERS 3.0%@50 Rates for Police Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Tables

Turnover Table	2017 CalPERS Turnover for Fire Employees
Disclosure	The turnover assumptions are based on the 2017 CalPERS Turnover for Fire Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Table	2017 CalPERS Turnover for Miscellaneous Employees
Disclosure	The turnover assumptions are based on the 2017 CalPERS Turnover for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

Turnover Table	2017 CalPERS Turnover for Police Employees
Disclosure	The turnover assumptions are based on the 2017 CalPERS Turnover for Police Employees table created by CalPERS. CalPERS periodically studies the experience for participating agencies and establishes tables that are appropriate for each pool.

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

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

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

	Trend 1% Lower	Valuation Trend	Trend 1% Higher
Net OPEB Liability	$777,923	$1,203,676	$1,742,405

Paragraph 53: **Discount Rate**

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

53.a: A discount rate of 5.40% was used in the valuation. The interest rate used in the prior valuation was 2.20%.

53.b: We assumed that all contributions are from the employer.

53.c: We used historic 28 year real rates of return for each asset class along with our assumed long-term inflation assumption to set the discount rate. We offset the expected investment return by investment expenses of 25 basis points.

53.d: The interest assumption does not reflect a municipal bond rate.

53.e: Not applicable.

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

Asset Class	Percentage of Portfolio	Assumed Gross Return
All Equities	38.0000	7.5450
All Fixed Income	62.0000	4.2500

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

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

	Discount Rate 1% Lower	Valuation Discount Rate	Discount Rate 1% Higher
Net OPEB Liability	$1,606,318	$1,203,676	$872,480

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

Please see reconciliation on pages 2 or 12.

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

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

56.a: The valuation date is June 30, 2020.
The measurement date is June 30, 2021.
56.b: We are not aware of a special funding arrangement.
56.c: The interest assumption changed from 2.20% to 5.40% as part of adding the ICMA qualifying trust. The assumed participation rate for future retirees was reduced from 80% to 50%.
56.d: There were no changes in benefit terms since the prior measurement date.
56.e: Not applicable
56.f: To be determined by the employer
56.g: To be determined by the employer

56.h: Other than contributions after the measurement, all deferred inflow and outflow balances are shown on page 12 and in Appendix D
56.i: Future recognition of deferred inflows and outflows is shown in Appendix D

Paragraph 57: **Required Supplementary Information**

57.a: Please see reconciliation on pages 2 or 12. Please see the notes for Paragraph 244 below for more information.
57.b: These items are provided on pages 2 and 12 for the current valuation, except for covered payroll, which should be determined based on appropriate methods.
57.c: We have not been asked to calculate an actuarially determined contribution amount. We assume the City contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 28 years.
57.d: We are not aware that there are any statutorily or contractually established contribution requirements.

Paragraph 58: **Actuarially Determined Contributions**

We have not been asked to calculate an actuarially determined contribution amount. We assume the City contributes on an ad hoc basis, but in an amount sufficient to fully fund the obligation over a period not to exceed 28 years.

Paragraph 244: **Transition Option**

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

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

EXPERIENCE GAINS AND LOSSES

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

Measurement Period	Experience (Gain)/Loss	Original Recognition Period (Years)	Amounts Recognized in OPEB Expense through 2020	2021	Amounts to be Recognized in OPEB Expense after 2021	2022	2023	2024	2025	2026	Thereafter
2019-20	($537,833)	9.7	($55,447)	($55,447)	($426,939)	($55,447)	($55,447)	($55,447)	($55,447)	($55,447)	($149,704)
2020-21	$0	0	$0	$0	$0						
Net Increase (Decrease) in OPEB Expense			**($55,447)**	**($55,447)**	**($426,939)**	**($55,447)**	**($55,447)**	**($55,447)**	**($55,447)**	**($55,447)**	**($149,704)**

CHANGES OF ASSUMPTIONS

Increase (Decrease) in OPEB Expense Arising from the Recognition of Effects of Changes of Assumptions (Measurement Periods)

Measurement Period	Changes of Assumptions	Original Recognition Period (Years)	Amounts Recognized in OPEB Expense through 2020	2021	Amounts to be Recognized in OPEB Expense after 2021	2022	2023	2024	2025	2026	Thereafter
2018-19	$129,005	8.8	$29,320	$14,660	$85,025	$14,660	$14,660	$14,660	$14,660	$14,660	$11,725
2019-20	$2,876,720	9.7	$296,570	$296,570	$2,283,580	$296,570	$296,570	$296,570	$296,570	$296,570	$800,730
2020-21	($2,663,260)	9.7	$0	($274,563)	($2,388,697)	($274,563)	($274,563)	($274,563)	($274,563)	($274,563)	($1,015,882)
Net Increase (Decrease) in OPEB Expense			**$325,890**	**$36,667**	**($20,092)**	**$36,667**	**$36,667**	**$36,667**	**$36,667**	**$36,667**	**($203,427)**

INVESTMENT GAINS AND LOSSES

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

Measurement Period	Investment (Gain)/Loss	Original Recognition Period (Years)	Amounts Recognized in OPEB Expense through 2020	2021	Amounts to be Recognized in OPEB Expense after 2021	2022	2023	2024	2025	2026	Thereafter
2020-21	($198,205)	5	$0	($39,641)	($158,564)	($39,641)	($39,641)	($39,641)	($39,641)		
Net Increase (Decrease) in OPEB Expense			**$0**	**($39,641)**	**($158,564)**	**($39,641)**	**($39,641)**	**($39,641)**	**($39,641)**	**$0**	**$0**

APPENDIX E: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

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

Actuarial Cost Method:	A mathematical model for allocating OPEB costs by year of service. The only actuarial cost method allowed under GASB 74/75 is the entry age actuarial cost method.
Actuarial Present Value of Projected Benefit Payments:	The projected amount of all OPEB benefits to be paid to current and future retirees discounted back to the valuation or measurement date.
Deferred Inflows/Outflows of Resources:	A portion of certain items that can be deferred to future periods or that weren't reflected in the valuation. The former includes investment gains/losses, actuarial gains/losses, and gains/losses due to changes in actuarial assumptions or methods. The latter includes contributions made to a trust subsequent to the measurement date but before the statement date.
Discount Rate:	Assumed investment return net of all investment expenses. Generally, a higher assumed interest rate leads to lower service costs and total OPEB liability.
Fiduciary Net Position:	Net assets (liability) of a qualifying OPEB "plan" (i.e. qualifying irrevocable trust or equivalent arrangement).
Implicit Rate Subsidy:	The estimated amount by which retiree rates are understated in situations where, for rating purposes, retirees are combined with active employees and the employer is expected, in the long run, to pay the underlying cost of retiree benefits.
Measurement Date:	The date at which assets and liabilities are determined in order to estimate TOL and NOL.
Mortality Rate:	Assumed proportion of people who die each year. Mortality rates always vary by age and often by sex. A mortality table should always be selected that is based on a similar "population" to the one being studied.
Net OPEB Liability (NOL):	The Total OPEB Liability minus the Fiduciary Net Position.
OPEB Benefits:	Other Post Employment Benefits. Generally, medical, dental, prescription drug, life, long-term care or other postemployment benefits that are not pension benefits.
OPEB Expense:	This is the amount employers must recognize as an expense each year. The annual OPEB expense is equal to the Service Cost plus interest on the Total OPEB Liability (TOL) plus change in TOL due to plan changes minus projected investment income; all adjusted to reflect deferred inflows and outflows of resources.
Participation Rate:	The proportion of retirees who elect to receive retiree benefits. A lower participation rate results in lower service cost and a TOL. The participation rate often is related to retiree contributions.

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