

CITY COUNCIL RESOLUTION NO. 60-16(a)

**A RESOLUTION OF THE COUNCIL OF THE CITY OF RICHMOND, CALIFORNIA,
ADOPTING THE OPEB FUNDING POLICY FOR THE OTHER POST EMPLOYMENT
BENEFITS (“OPEB”) TRUST**

WHEREAS, the City of Richmond (the “Authority”) is a charter city that operates under the Council-Manager form of government for the purposes of providing a full range of municipal services including police and fire protection; construction and maintenance of highways, streets and infrastructure; library services; storm water and municipal sewer systems; wastewater treatment facility; and the administration of recreational activities and cultural events; and

WHEREAS, the Authority also operates the Richmond Memorial Convention Center and the Port of Richmond; and

WHEREAS, the Authority has established and maintains certain employee benefit plans that provide post-employment benefits other than pensions (hereafter “other post employment benefits” or “OPEBs”), such as, but not limited to, medical, dental, vision and prescription drug coverage, to OPEB participants who are eligible for coverage thereunder; and

WHEREAS, as of June 2008, the Authority established an irrevocable OPEB trust pursuant to Section 115 of the Internal Revenue Code for purposes of funding and pre-funding OPEBs provided under its retirement benefit plans in accordance with GASB 43 and GASB 45; and

WHEREAS, the City Manager is vested with the authority and fiduciary responsibility for the administration, management and operation of the OPEB Trust; and

WHEREAS, the City Manager has an obligation to provide reasonable assurance that the costs of benefits under the OPEB Trust will be funded in an equitable and sustainable manner; and

WHEREAS, a funding policy establishes guidelines for plan funding through actuarial valuations, regular contribution rates, contribution timing and actuarial assumptions; and

WHEREAS, the adoption of a OPEB Funding Policy is consistent with “best practices” and the Board’s fiduciary oversight of the OPEB Trust.

NOW, THEREFORE BE IT RESOLVED, that the City Council hereby adopts the OPEB Funding Policy for the City of Richmond Other Post-Employment Benefits Plan that is attached hereto as Exhibit A.

I certify that the foregoing resolution was passed and adopted by the Council of the City of Richmond at a regular meeting thereof held July 5, 2016, by the following vote:

AYES: Councilmembers Bates, Beckles, McLaughlin, Myrick, Pimplé,
Vice Mayor Martinez, and Mayor Butt.

NOES: None.

ABSTENTIONS: None.

ABSENT: None.

PAMELA CHRISTIAN
CLERK OF THE CITY OF RICHMOND
(SEAL)

Approved:

TOM BUTT

Mayor

Approved as to form:

BRUCE GOODMILLER

City Attorney

State of California }
County of Contra Costa } : ss.
City of Richmond }

I certify that the foregoing is a true copy of **Resolution No. 60-16(a)**, finally passed and adopted by the City Council of the City of Richmond at a regular meeting held on July 5, 2016.



Pamela Christian, Clerk of the City of Richmond

Exhibit A

THE CITY OF RICHMOND, CALIFORNIA

OTHER POST EMPLOYMENT BENEFITS

FUNDING POLICY

OPEB Funding Policy

A. Introduction

The purpose of this Statement of Benefits Plan Funding Policy (“Policy”) is to establish a methodology for funding benefits obligations accruing under the City of Richmond Other Post-Employment Benefit Plan (the “Plan”). It is anticipated that current assets plus future assets from employer contributions, employee contributions, and investment earnings should be sufficient to fund Plan benefits. The Policy is intended to reflect a reasonable, conservative approach with each generation of ratepayers financing, to the greatest extent possible, the cost of pension benefits being accrued. This Policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this Policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic, and financially sound manner. Further, it is the intent that this Policy comply with all applicable laws, rules and regulations (collectively “Laws”). In the event that this Policy conflicts with any such Law, the applicable Law shall prevail.

B. Policy Funding Objectives

The primary funding objectives of this Policy, in order of importance, are to:

1. Provide sufficient assets to permit the payment of all benefits under the Plan.
2. Maintain equity among generations of ratepayers by:
 - a. Establishing improvement, on a projected basis, in the Plan’s Funded Ratio, as defined in Section E, such that it approaches 100% over a given period of time;
 - b. Amortizing the Unfunded Actuarial Accrued Liability, as defined in Section E, over fixed periods, specified below.
3. Minimize the volatility of the employer’s annual contributions by smoothing investment gains and losses over a period of years. Smoothing investment returns over a period of years recognizes that investment performance will fluctuate, and only by coincidence will

it exactly equal the assumed rate of return for any given year. It is anticipated that this approach may reduce volatility within the calculation of the Unfunded Actuarial Accrued Liability.

C. Funding Guidelines

This Policy establishes guidelines for setting the employer contribution rate.

1. Actuarial Valuations

The Plan's actuary shall conduct an actuarial valuation biennially, based on actual Plan data, to determine funding progress as well as employer contributions for the following two fiscal years.

2. Contribution Rate

Coordination of the Plan's Funding and Investment Policies will attempt to minimize the volatility of the employer's contribution.

- a. The City will meet the objective of placing into a Trust half of any one-time revenues.
- b. The City will place half of any year-end surplus in excess of the City's Minimum Reserve Policy into the Trust.
- c. The City will seek to pay down the unfunded liability annually.
- d. For the purposes of the calculation, investment return assumptions will be evaluated by an independent pension investment advisor on a regular basis (at a minimum of every two years), and should reflect the nature of the investments held in the Plan, and the historical and projected return rates anticipated for the investments.

D. Assumption Guidelines

1. The actuarial assumptions are adopted by the City in an effort to align the funding of the Plan with actual demographic, healthcare and economic experience, thus providing stability to the contribution rate over time. It is expected that actual experience will deviate from the actuarial assumptions and Experience Gains and Losses will occur. These gains (or losses) will reduce (or increase) future contributions.
2. Actuarial Assumptions are generally grouped into two major categories:
 - Demographic assumptions -- which include withdrawal (termination), retirement, disability, and mortality rates, as well as assumptions regarding beneficiaries.
 - Economic assumptions -- which include inflation, healthcare inflation and investment return

3. The assumptions for OPEB funding are to maintain consistency, where appropriate as determined by the City, with the assumptions and changes in such adopted for the Authority Employee's Retirement Plan.
4. As part of the biennial OPEB valuation process, the actuary will also provide advice to the City and recommend non-pension assumptions, such as increases in healthcare costs.

E. Transparency and Reporting

Funding of the City's OPEB should be transparent to all parties including City employees, retirees, recognized employee organizations, the City Council and Richmond residents. In order to achieve this transparency, the following information shall be available:

- a. Copies of the biennial actuarial valuations for the City's OPEB plan shall be made available to the City Council.
- b. The City's Comprehensive Annual Financial Report (CAFR) shall be published on its website. This report includes information on the City's OPEB plan, contributions to the OPEB Trust, and the funded status of the plan.
- c. The City's annual operating budget shall include appropriations for contributions to the OPEB Trust and pay-go costs.

F. Review of Funding Policy

Funding OPEB requires a long-term plan. The City will review this policy annually and make changes as necessary. Biennially checking the actuarial valuations to determine if changes to this policy are necessary to ensure adequate resources are being accumulated to fund OPEB.

G. Glossary of Terms

Actuarial Cost Method: The technique used to allocate costs to various time periods.

Actuarial Accrued Liability (AAL): The portion of the Present Value of Projected Benefits that is attributed to past years of service by the Actuarial Funding Method. The AAL serves as a funding target at any given point in time.

Actuarial Value of Assets: The smoothed value of assets used by the actuary in the actuarial valuation, for the purpose of reducing the impact of market fluctuations on the employers' contribution rate.

Entry Age Method: An Actuarial Cost (or Funding) Method that determines the plan's Normal Cost as a level percentage of pay over the working lifetimes of plan members.

Experience Gains and Losses: The difference between the experience anticipated by the actuarial assumptions and the plan's actual experience during the period between valuations. If actual experience is financially more favorable to the Plan, it is a Gain, (e.g., higher investment return

than expected). If actual experience is financially less favorable to the Plan, it is a Loss, (e.g., lower investment return than expected).

Funded Ratio: A measure of the ratio of plan assets to the Actuarial Accrued Liability (funding target) of the Plan. Plan assets can be the Market Value of Assets or the Actuarial Value of Assets.

Market Value of Assets: The total fair value of fund assets as reported in the Plan's financial statements.

Normal Cost: The portion of the Present Value of Projected Benefits that is attributed to the current year by the Actuarial Funding Method. Also referred to as the *Annual Benefit Cost*.

Unfunded Actuarial Accrued Liability (UAAL): The portion of the Actuarial Accrued Liability not covered by plan assets. It is calculated by subtracting the Actuarial Value of Assets from the Actuarial Accrued Liability.

All aspects of this Policy and the individual factors in the calculation of the annual employer contribution rate which is the result of the above process are subject to the review and approval of the Board and are subject to change, in whole and in part, if deemed appropriate and in the best interests of the Plan sponsor and participants.