

KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

Date: September 8, 2016
TO: KPPCSD Board
FROM: Kevin E. Hart, Interim General Manager
Subject: **Item 8a-Agreement for GASB 45 Actuarial Services**

At the Board's direction, I have reached out to several consulting groups experienced in performing actuarial reports, in order to have a new actuarial report completed to address changes resulting from a new contract/MOU with the Kensington Police Officer's Association. We received two proposals; one from Nicolay Consulting group, and one from Bartels and Associates.

The Finance Committee reviewed both proposals at its meeting held on August 31, 2016, and after discussion, moved to recommend that the Board of Directors to approve the agreement with Nicolay Consulting Group.

At the Finance Committee's direction, I clarified several questions that members of the Committee had, and pursuant to the responses, I am satisfied that Nicolay Consulting Group will perform in accordance with best practices consistent with the industry and Federal and State regulations.

After my discussion with Nicolay, a new proposal dated September 1, 2016, was developed.

Although this agreement is under my monetary approval limit, I bring it forward for your review and approval.

Fiscal Impact: Cost is \$4,700, which is included within the current fiscal year budget. Based on this amount, there will a savings in this line item from the approved budget.



Kevin E. Hart
Interim General Manager

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530 BUSH STREET, SUITE 500
SAN FRANCISCO, CALIFORNIA 94108-3633
TEL: 415-512-5300
FAX: 415-512-5314

September 1, 2016

Kevin Hart
Chief of Police
Kensington Police Protection & Community Services District
217 Arlington Avenue
Kensington, CA 94707

Dear Chief Hart:

Re: Agreement for GASB 45 Actuarial Services

Nicolay Consulting appreciates the opportunity to present this agreement to complete a full actuarial valuation of the postemployment medical program provided by the Kensington Police Protection District ("the District") for fiscal year 2016-17. This letter describes the scope of services, timing of the delivery of services, and our fee requirement.

Background

We understand that the District had approximately 9 employees and 14 retirees as of July 1, 2015, the date of the last valuation. The District would like to update the GASB 45 valuation as of July 1, 2016 covering the fiscal year 2016-17, including (a) implicit subsidies, (b) newest CalPERS mortality rates, (c) revised health care trend rates, and (d) consideration of changes in the plan provisions as documented in the KPOA MOU effective July 1, 2014 through December 31, 2017. The census data in this valuation can be used to provide transition services for GASB 74 and 75, if any.

Scope of Services

The project is to complete a July 1, 2016 GASB 45 actuarial valuation of the District's postemployment healthcare program. Our services include presentation of a GASB 45 compliant actuarial valuation report and discussions of the results with District representatives generally by conference call, but can include in-person meetings if requested. (The District has already requested one in-person meeting.) In addition, we provide proactive consulting, such as introductory education on the initial steps involved in converting to GASB 74/75.

Staffing and Qualifications

Nicolay has provided actuarial and consulting services to a wide variety of public and private sector clients for more than 20 years. The firm employs two Fellows of the Society of Actuaries, three Associates of the Society of Actuaries and several benefit specialists. The team assigned to this engagement has extensive experience in completing postemployment health care actuarial valuations.

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Gary Cline is Vice President and Chief Operations Officer for Pension and Healthcare Practices and will manage this engagement. He is an Associate of the Society of Actuaries, a member of the American District of Actuaries, a Fellow of the Conference of Consulting Actuaries and an Enrolled Actuary.

Eddie Lee is a Senior Actuary, a member of the American District of Actuaries, a Fellow of the Conference of Consulting Actuaries and an Enrolled Actuary. Eddie joined Nicolay Consulting in 2008.

Joshua Clement is an Actuarial Analyst who has been with Nicolay Consulting for over five years.

Gary, Eddie and Josh may be assisted by other members of the Nicolay team with similar credentials.

Timing and Fees

We anticipate delivery of our 7/1/16 GASB 45 report within approximately six to eight weeks after we receive the data required to commence the engagement. Our valuation report will be emailed (signed PDF copy) to the District.

Our fees for an engagement are determined by the level of staff assigned and the time required to complete the engagement. We have based our fee estimate on the time and staffing requirements of recent projects. If the requirements of the engagement do not deviate significantly from the approach outlined above, we agree that our all-inclusive fee for completing the in-scope work described herein will be **\$4,700**, which includes \$200 for one in-person meeting.

Our fee includes attendance at meetings via conference call. It does not include a provision for an in-person meeting. If in-person meeting(s) are requested, we will bill separately for travel expenses and professional time associated with those meetings. If additional work is requested, we will obtain authorization from the District before beginning the work.

The above fee assumes that the plan has not materially changed since our prior valuation. In addition, it is based on the assumption that the District will provide clean demographic data on a USB drive or via e-mail, and that our data analysts will only be required to spend a minimal amount of time verifying that the data is complete and accurate. Our fees are based on regulations published as of the date of this proposal. Additional work caused by publication of new regulations or guidance to existing regulations is considered out-of-scope. In addition, additional work requested by the District such as experience studies, financial projections, plan design consulting and the like is also considered out-of-scope. If significant additional out-of-scope work is required, we will communicate a cost for the additional work and obtain authorization from the District before beginning the work.

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Our 2016 hourly billing rates for out-of-scope work are the same as those used to develop the fixed fees for in-scope work and are as follows:

Vice President/Consultant	\$250 - \$275
Senior Actuary	\$220 - \$250
Actuary Analyst	\$150 - \$200
Administrative Support	\$100 - \$125

Hourly billing rates are adjusted each year for inflation and the increase in cost related to the overall business. These increases have historically been 4% or less per year.

Our bill(s) for the above described project shall be submitted to the District for payment by the lesser of ten days after the submission of our final report or thirty days after the submission of our draft report.

Kensington Police District

Nicolay Consulting Group

By _____

By *Haye E. Elvir*

Title _____

Title Vice President and COO

Date _____

Date 9-1-16

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**KENSINGTON POLICE PROTECTION
AND
COMMUNITY SERVICES DISTRICT**

Proposal prepared by
Nicolay Consulting Group
in Response to:
Request For Proposal
to Perform Actuarial Valuation

Nicolay Consulting Group
530 Bush St., Suite 500
San Francisco, CA 94108
(415) 512-5300

August 16, 2016



August 19, 2016

PENSION CONSULTANTS AND ACTUARIES

530 BUSH STREET, SUITE 500
SAN FRANCISCO, CALIFORNIA 94108-3633
TEL: 415-512-5300
FAX: 415-512-5314

Chief Kevin Hart
Interim Assistant Director Finance/Chief of Police
Kensington Police Protection and Community Services District
601 Carmen Drive
P.O. Box 248
Camarillo, CA 93011

Dear Chief Hart:

**Re: Proposal for Kensington Police Protection and Community Services District
Retiree Healthcare Valuation Services**

Thank you for inviting us to give you our fees and related information to again perform the required actuarial valuation of the District's Other Post Employment Benefits (OPEB) Program. We had enjoyed providing actuarial and consulting services to the District from 2006 through 2010. This letter describes our qualifications, our approach to completing the valuation, the scope of the work, our fees, and references.

Contents:

- Pages 1-3 – About Nicolay Consulting Group and your Engagement Team
- Pages 4-8 – Project Background, Scope and Fees
- Page 8 – Data Requirements, Timing and References
- Attachments: Sample Valuation Report, Companion Presentation, and Client List

About Nicolay Consulting Group

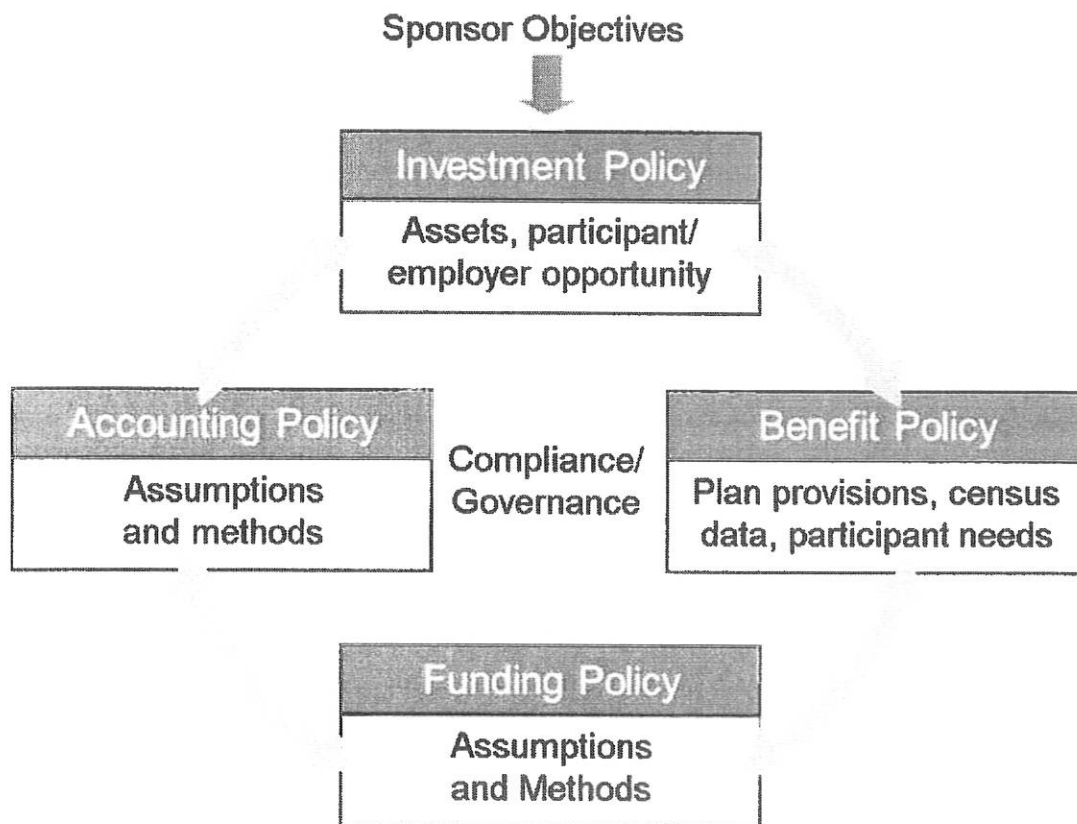
Nicolay Consulting Group (NCG) is a relatively small, low-overhead actuarial firm consisting of five actuaries and thirteen other professionals and support staff. Yet we are a major force in the California GASB post-retirement healthcare actuarial consulting arena, having performed over two hundred actuarial valuations for a wide assortment of public agencies including cities, community services districts, water districts, fire protection districts, housing authorities, school districts, community colleges and other public agencies. In addition to providing the accounting actuarial valuations, we have significant consulting experience on pre-funding of these plans as over 25% of our clients are utilizing PARS, CalPERS or a similar trust vehicle.

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A key differentiator at NCG is that we bring transparency to your valuation results, enabling you to better manage the financial risks associated with your plans as you manage them going forward. One key new component of this strategy is to provide the incremental impact of changes to your valuations. This reconciliation detail is not provided by other actuarial firms, and yet is instrumental in allowing a plan sponsor to see the relative impact of changes to the many assumptions, plan provisions, and data that have occurred since your last valuation. Understanding the impact of these changes each time you perform a valuation helps you see the big picture of what really drives costs in your plan. This enables you to better manage the risks posed by these plans over time. See Table 1-3 in our sample **Actuarial Valuation Report** (included with this proposal) for an example of this innovation.

At NCG, we strive to understand a Plan Sponsor's Objectives and utilize their Investment, Benefit, Funding and Accounting Policies to manage the risks associated with their plans. Our risk management framework is centered on good governance and is represented by the diagram below:



Retirement Risk Management Framework



Engagement Team

The firm employs three Fellows of the Society of Actuaries and Conference of Consulting Actuaries, two Associates of the Society of Actuaries and several benefit specialists. Each NCG Senior Actuary is fully qualified to perform actuarial services and has over 20 years of experience. The two Senior Actuaries assigned to this engagement have extensive experience speaking in public meetings and other board of directors and management settings.

Gary Cline is a Senior Actuary and is Nicolay Consulting's new Vice President and Chief Operations Officer for Pension and Healthcare Practices and will manage this engagement. He has more than 25 years of actuarial experience including 20+ years of experience consulting on OPEB plans. He is a member of the American Academy of Actuaries, an Associate of the Society of Actuaries and a Fellow of the Conference of Consulting Actuaries. Gary joined Nicolay Consulting in 2015. He has significant experience managing actuarial valuations governed by the IRS, FASB and GASB regulatory agencies. He is a frequent speaker at industry seminars and public meetings. Gary graduated from the University of California, Davis with a BS degree in Statistics and Computer Science and a BA degree in Economics. He was the 2000 San Francisco Actuarial Club President, and the Actuarial Liaison to the President Clinton Town Hall Meeting on Social Security in San Francisco.

Eddie Lee is a Senior Actuary, a member of the American Academy of Actuaries and a Fellow of the Conference of Consulting Actuaries and an Enrolled Actuary. Prior to joining Nicolay Consulting in 2008, Eddie was a senior retirement consultant with Towers Watson and Mercer Human Resource Consulting. He has been the lead Senior Actuary working in GASB 67/68 implementation for various Hospitals and Cities in California and working with various auditing firms on GASB related matters. Eddie graduated with a BS in computer engineering and BA in computer science from University of Texas, Austin.

Joshua Clement is an Actuarial Analyst who has been with Nicolay Consulting for over five years. During this time, he has worked on more than 100 GASB 45 actuarial valuations for a wide variety of public sector clients. Josh holds a Master's Degree in mathematics from the University of California at Davis.

Project Background

The District obtained a GASB 45 OPEB actuarial valuation effective as of July 1, 2015. The valuation results reflect opinions by the actuary on certain assumptions, specifically (a) TCS did not recognize implicit subsidies, (b) TCS uses flat 4.00% trend rate, and (c) TCS used a 2009 CalPERS mortality table for safety employees with no projection scale. The District would like our input on these assumptions.



The District owns the actuarial assumptions. What this means is that the District dictates what actuarial assumptions should be used to complete the actuarial valuation. Auditors are responsible for reviewing and approving financial statements and, ultimately, represent the regulator that has the final decision as to the appropriateness of an assumption used in accounting estimates. Given their lack of familiarity with the actuarial valuation process, both the District and the auditor rely on the actuary to present a reasonable set of assumptions.

In the decades to come, auditors will become more familiar with the impact of certain assumptions (e.g., via information presented in a transparent way such as our innovation shown in Table 1-3 of our sample **Actuarial Valuation Report**). When auditors become more familiar with the assumptions and their impact, they will likely take a more prescriptive role in setting these assumptions, especially ones that have a material impact.

At Nicolay, we inform our clients of their options and the potential downstream impacts of their choices when setting assumptions. The downstream impact of the District's choice of assumptions includes financial management, plan design/negotiations, and regulator acceptance. Our sample **Actuarial Valuation Report** shows actuarial assumptions that are representative of ones we would recommend, including (a) reflecting implicit subsidies, (b) initial pre-65 trend rates of 8% grading down to 5%, and (c) the 2013 CalPERS mortality table with projected mortality improvement using scale MP-2014.

Given the complexities of implicit subsidies, the sample **Companion Presentation** (included with this proposal) was created and presented to our clients for free. It is intended to focus in on the implicit subsidies, issues regarding their funding, and the downstream effects of regulatory changes due to GASB 75.

During the 2016-17 fiscal year the District will be required to adopt GASB 74 (for Plans) and during the 2017-18 fiscal year the District will be required to adopt GASB 75 (for employers). The District's OPEB liability balance sheet and income statement footprint will change as a result of these new standards. A key focus of the Nicolay strategy is keep transition fees low whilst satisfying District and regulator needs.

An advantage of hiring our Firm is that we have the historical data and experience to help with the transition to GASB 74 and 75.

"When it comes to GASB 75, I know I have the right man for the job "

-Mr. Thomas Fil, Finance Director, City of Belmont

If we complete a July 1, 2016 valuation, the District is required to follow Governmental Accounting Standards Board **Statement No. 45, Accounting and Financial Reporting by**

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Employers for Postemployment Benefits Other Than Pensions. This statement requires governmental entities to account for postemployment benefits on an accrual basis, which incorporates the Actuarial Standards of Practice (ASOP). As the District is aware, a key change is a revision to the ASOPs that require us to base the District's obligations under the retiree medical plan on age-graded premiums. This is described in more detail in the next section.

We describe our process for managing a GASB 45 engagement below.

Scope of Services

Our actuarial valuation services include production of a biennial report and the related consulting, including:

- Calculation of the postretirement medical benefit liability based on the present value of future benefits to be provided to current and future retirees, broken down by bargaining group if needed.
- Reconciliation of results with the prior valuation showing separately the impact of key changes, such as material assumption changes, data experience, and plan or regulatory amendments.
- A discussion of key actuarial assumptions to be used in the valuation.
- Projections of the post-employment medical benefit payments for the next ten years.
- Calculation of the Annual Required Contribution with a breakdown of the annual normal cost and amortization of unfunded actuarial accrued liability.
- Provide GASB 43 results, as requested by your Trust auditor.
- Provide a comprehensive report and executive summary discussing assumptions, data utilized, and results. The executive summary should be clear and non-technical. The report should provide sufficient information for staff to implement GASB 45 reporting on the District's Comprehensive Annual Financial Statement, including note disclosure and required supplemental information.
- Attend at least one public meeting to present the study results to the District Council, if necessary.

ASOP 6 Implicit Subsidies: GASB 45 calculations need to meet the requirements of recently issued Actuarial Standard of Practice 6 (ASOP 6). ASOP 6 has made several changes intended to provide increased transparency to how actuaries determine costs. By far, the biggest change is the elimination of reliance on flat rate medical premiums as basis for actual cost of plans that are community-rated (such as CalPERS plans). Instead of flat-rate premiums, actuaries have to age-adjust the costs to reflect the fact



that older people tend to cost more than younger ones. CalPERS is providing actuaries with data that can be used to age adjust premiums for GASB 45 valuations. Nicolay Consulting has already taken this data and developed a set of curves that can be used in the District's valuations.

New in 2017: Beginning with the District's July 1, 2017 valuation, the District will be required to adopt GASB 75, which significantly changes how the Net OPEB Obligation (NOO) will be calculated and presented. For example, a key change on how the NOO is calculated includes a new method for determining the discount rate that may significantly increase reported liabilities by lowering the allowable discount rate. In addition, several new schedules will need to be created that reconcile results of the valuations from one year to the next, including tables showing separate tracking and reporting of liability changes due to specific items such as plan amendments and assumption changes, and so on.

For the July 1, 2017 valuation and beyond, note that GASB has not yet published the implementation guide for GASB 75. Additional work that must be performed as a result of additional regulations or guidance that is not yet published, or additional work such as experience studies, financial projections, plan design discussion, and the like can be provided by Nicolay Consulting. *The July 1, 2017 valuation is not currently considered in the scope of this project, however, we can prepare a fee estimate if requested.*

Our Approach

If we are selected, the key steps of the engagement will be:

1. Review all plan design, eligibility rules and census information necessary to perform the project.
2. Perform a detailed analysis of the demographic data.
3. After discussions with the District, select assumptions to be used in the valuation, most importantly the discount rate and the expected rate of increase in future healthcare costs.
4. Prepare computer files required to complete the valuations.
5. Perform the actuarial valuation and perform internal review of the results.
6. Prepare a detailed actuarial report including:
 - A summary of the postemployment benefits provided by the District;
 - The estimated present value of the benefits attributable to past service rendered by current and future retirees; a reconciliation of the change in NOO with the prior valuation due to assumption changes, method changes, plan amendments, and demographic experience;

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- Information showing the impact of GASB 45 accounting rules on the District's financial statement.
 - An exhibit that contains the estimated postemployment pay-as-you-go costs for the next ten years for current and future retirees; and age/service distributions of active employees and retirees broken down by implicit subsidy amounts prescribed by ASOP 6;
7. Conference calls to discuss the results in actuarial reports or discussing strategic issues with the financial managers and/or other key individuals at the District. Strategic issues include covering the implication of changes required under ASOP 6 and GASB 75 (preliminary) on the District's current funding policy.

If requested, we will be available to present the valuation at a meeting with District representatives and/or to assist with the preparation of year-end financial statement and financial statement disclosure information.

Nicolay Consulting will request the same data as used in our prior actuarial valuations for the District. We are not proposing any changes to the data items or collection process required by Nicolay Consulting to complete future work.

Fees

Our fees for the engagement are determined by the level of staff assigned and the estimated time required to complete the engagement. We have based our fees below on the time and staffing requirements of recent, similar projects. If the requirements of the engagement do not deviate significantly from the approach outlined above, **we agree that our all-inclusive fixed-fee for completing the engagement will be \$4,500.** This amount includes \$700 for the new work required under recent ASOP 6.

The above fee assumes that the plan has not materially changed since our prior valuation. It is based on the assumption that the District will provide clean demographic data in an Excel file, and that our data analysts will only be required to spend a minimal amount of time verifying that the data is complete and accurate. Our fees are based on regulations published as of the date of this proposal. Additional work caused by publication of new regulations or guidance to existing regulations is considered out-of-scope. In addition, additional work requested by the District such as experience studies, financial projections, plan design consulting and the like is also considered out-of-scope. If significant additional out-of-scope work is required, we will communicate a cost for the additional work and obtain authorization from the District before beginning the work.

Our hourly billing rates for out-of-scope work are the same as those used to develop the fixed fees for in-scope work and are as follows:

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Vice President/Consultant	\$250 - \$275
Senior Actuary	\$200 - \$250
Actuarial Analyst	\$130 - \$175
Administrative Support	\$100 - \$125

Timing and Fees

We anticipate completion of a draft report within approximately six to eight weeks after we have received all required information. We can accelerate the process in order to meet an earlier deadline (e.g., late October), assuming the District supplies all required information timely.

References

We are happy to provide the following three references for a small sample of the California cities we now serve as actuary.

City of Belmont	City of Marina	City of El Monte
Mr. Thomas Fil Finance Director 1 Twin Pines Lane Belmont, CA 94002 (650) 595-7435 tfil@belmont.gov	Ms. Lauren Lai Finance Director 211 Hillcrest Avenue Marina, CA 93933 (831) 884-1221 llai@ci.marina.ca.us	Ms. Ernestine Jones Finance Director 11333 Valley Boulevard El Monte, CA 91731 (626) 580-2026 ejones@elmonteca.gov

Again, we thank the District for the opportunity to again provide actuarial services. Please let me know if there are any questions about our proposal, either via email or phone at (800) 998-7675 x231.

Sincerely,

Gary E. Cline, ASA, FCA, EA, MAAA
Vice President and Chief Operations Officer

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The City of XYZ

**Actuarial Valuation of
Postretirement Medical Benefits**

Valuation Date: July 1, 2015

Nicolay Consulting Group

March 17, 2016

Administrative Services Manager
The City of XYZ

Dear Ms. Smith:

Re: Actuarial Valuation of Postretirement Medical Benefits

The City of XYZ ("the City") has retained Nicolay Consulting Group to complete this valuation of the City's postemployment medical program as of July 1, 2015.

The purpose of this valuation is to determine the value of the expected postretirement benefits for current and future retirees and the Actuarial Accrued Liability and Annual Required Contribution recognized under Government Accounting Standards Board Statement No. 45 (GASB 45) requirements for the fiscal year ending June 30, 2016. The amounts reported herein are not necessarily appropriate for use for a different fiscal year without adjustment.

In preparing this report we relied on employee data and plan information provided by the the potential cost of the retiree medical program and for the plan sponsor's financial statements. Use of this report for any other purpose may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. No one may make any representations or City. The results of the valuation are dependent on the accuracy of the data and other information provided. These data are not audited by Nicolay Consulting Group, although they were reviewed for reasonableness. Calculations presented in this valuation do not reflect any other postemployment benefits than those described in this report.

The financial projections presented in this report are intended for internal use in evaluating the potential cost of the retiree medical program and for the plan sponsor's financial statements. Use of this report for any other purpose may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the report for that purpose. No one may make any representations or warranties based on any statements or conclusions contained in this report without the written consent of Nicolay Consulting Group.

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On the basis of the data provided, this report has been prepared in accordance with generally accepted actuarial principles and methods. The assumptions for termination, retirement, mortality and health care claims morbidity rates are those used in the most recent California PERS Public Agency retirement plan valuations. Mortality improvement was reflected based on the recent tables published by the Society of Actuaries. Morbidity rates for age-adjusting claims rates are based on the most recent tables published by CalPERS. Certain other assumptions were selected specifically for this valuation, and in many cases, including assumed health care trend, reflect changes from that used in the prior valuation. For all other assumptions, we believe they are reasonable for the measurement of the obligation involved. It should be recognized, however, that there can be significant differences between actual experience and the assumptions. Moreover, other sets of reasonable assumptions can yield materially lesser or greater results.

GASB stipulates that if the plan is prefunded, the discount rate should be the expected long-term yield on investments to be used to pay plan benefits. The City is considering participating in the Public Agency Retirement Services Trust Fund (PARS).

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: retiree group benefits program experience differing from that anticipated by the assumptions; changes in assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in retiree group benefits program provisions or applicable law. Retiree group benefits models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. Because of limited scope, we have not performed analysis of the potential range of such future differences.

Based on the foregoing, the cost results and actuarial exhibits presented in this report were determined on a consistent and objective basis in accordance with applicable Actuarial Standards of Practice and generally accepted actuarial procedures. They fully and fairly disclose the actuarial position of the Plan based on the plan provision, employee and plan cost data submitted.

The passage of healthcare reform in March 2010 ushered in a number of changes that might be expected to impact postretirement medical plans over time. We analyzed the effects of these changes for the City and summarized the results in this report.

Ms. Smith
March 17, 2016
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On December 18, 2015, the President signed the Omnibus Appropriations Act of 2016. There are significant provisions in this law relating to the Cadillac tax, the annual fee on health insurers, and the medical device tax. This valuation does not reflect this new legislation.

This report represents a statement of actuarial opinion by the undersigned actuary, who is a member of the American Academy of Actuaries (AAA) and is qualified to issue that opinion. Questions about the report should be directed to Doug Tokerud or Gary Cline at (415) 512-5300 x231.

Sincerely,

Gary E. Cline, A.S.A., M.A.A.A

THE CITY OF XYZ
Actuarial Valuation of
Postretirement Medical Benefits

Valuation Date: July 1, 2015

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SECTION I

Summary of Valuation Results

Table 1-1
Summary of Valuation Results
Assuming a Discount Rate of 4.00%

	<u>7/1/2015</u>	<u>7/1/2012</u>
Present Value of Future Benefits		
Active	\$1,959,511	\$1,176,714
Retiree	<u>\$502,289</u>	<u>\$280,281</u>
Total	\$2,461,800	\$1,456,995
Actuarial Accrued Liability		
Active	\$1,314,407	\$805,138
Retiree	<u>\$502,289</u>	<u>\$280,281</u>
Total	\$1,816,696	\$1,085,419
Actuarial Value of Assets	\$318,424	\$0
Unfunded Actuarial Accrued Liability	\$1,498,272	\$1,085,419
Expected Employer Share of Current Year Plan Cost (Pay-As-You-Go)	\$16,354*	\$11,934
Annual Required Contribution	\$145,382	\$92,815
Number of Plan Participants		
Actives	32	35
Retirees & Surviving Spouses	<u>10</u>	<u>9</u>
Total	42	44
Discount rate	4.00%	4.00%
Assumed Increase in Per-Capita Claim Costs		
Initial Rate		
Pre-65	8.0%	6.7%
Post-65	5.5%	6.7%
Ultimate Rate	5.0%	5.0%
Year Ultimate Rate Reached	2029	2021

*Excludes implicit subsidy related to retiree premiums (since unadjusted premiums represent the true cash cost) and the implied subsidy related to active employee premiums (but the Agency can elect to recognize this as a retiree cash cost under GASB 45).

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Table 1-2
Summary of Valuation Results
Assuming a Discount Rate of 7.00%

	<u>7/1/2015</u>	<u>7/1/2012</u>
Present Value of Future Benefits		
Active	\$1,062,874	\$617,742
Retiree	<u>\$349,993</u>	<u>\$199,035</u>
Total	\$1,412,867	\$816,777
Actuarial Accrued Liability		
Active	\$805,612	\$468,590
Retiree	<u>\$349,993</u>	<u>\$199,035</u>
Total	\$1,155,605	\$667,625
Actuarial Value of Assets	\$318,424	\$0
Unfunded Actuarial Accrued Liability	\$837,181	\$667,625
Expected Employer Share of Current Year Plan Cost (Pay-As-You-Go)	\$16,354*	\$11,934
Annual Required Contribution	\$92,062	\$63,924
Number of Plan Participants		
Actives	32	35
Retirees & Surviving Spouses	<u>10</u>	<u>9</u>
Total	42	44
Discount rate	7.00%	7.00%
Assumed Increase in Per-Capita Claim Costs		
Initial Rate		
Pre-65	8.0%	6.7%
Post-65	5.5%	6.7%
Ultimate Rate	5.0%	5.0%
Year Ultimate Rate Reached	2029	2021

*Excludes implicit subsidy related to retiree premiums (since unadjusted premiums represent the true cash cost) and the implied subsidy related to active employee premiums (but the Agency can elect to recognize this as a retiree cash cost under GASB 45).

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The City has been using a 4% discount rate for financial reporting. On a 4% discount rate basis, the Actuarial Accrued Liability (AAL) has increased \$731,277 from \$1,085,419 as of July 1, 2012 to \$1,816,696 as of July 1, 2015. A breakdown of the sources of this change in liability is shown in Table 1-3.

	<u>Amount</u>	<u>Percent</u>
Expected Benefits Earned, Benefit Payments and Interest	0.24	22%
Recognition of an Age-Related Implicit Subsidy	0.85	78%
Revised CalPERS Assumed Mortality Rates	0.11	10%
Revised Marriage Assumptions	0.01	1%
Revised CalPERS Assumed Retirement Rates	(0.03)	(3%)
Mid-year Decrement Assumption	(0.05)	(4%)
Actual 2015 Minimum Contribution Rates	(0.08)	(7%)
Revised Minimum Contribution Assumed Trend Rates	(0.16)	(15%)
Actual Demographic and Other Experience	<u>(0.16)</u>	<u>(14%)</u>
Total Liability Change	0.73*	67%*

*Individual amounts may not add to total due to rounding.

Expected Benefits Earned, Benefit Payments and Interest: The liabilities were expected to increase 22% from the prior actuarial valuation due to net effect of active employees continuing to earn benefits, retirees receiving benefit payments, and interest.

New Pre and Post-Medicare Age-Related Implicit Subsidy: Since healthcare costs generally increase with age, an implied subsidy exists. This subsidy is caused by the difference between the flat-rate premiums participants are charged and the assumed average age-related claims costs.

Effective with measurement dates on or after March 31, 2015, Actuarial Standard of Practice No. 6 (ASOP 6) requires actuarial valuations to reflect the impact of aging on claims for "community-rated" plans. For the City, this means we were required to revise the pre and post-Medicare plan liabilities to base them on a claims cost curve as opposed to premiums. The resulting implicit subsidy identified from this assumption increased liabilities approximately \$850,000, or roughly 78%. This subsidy is positive (an increase in the liability), which reflects the fact that the flat-rate premiums are lower than the assumed age-adjusted cost of coverage (e.g., for the pre-Medicare plans the younger active employees are subsidizing the older retired participants).

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Revised CalPERS Assumed Mortality Rates: We updated the valuation assumed mortality rates to reflect those rates most recently published by CalPERS, and the projection scales most recently published by the Society of Actuaries, which drove a 10% increase in liabilities. This increase is primarily caused by an observed improvement in longevity for the overall population in the SOA study.

Revised Marriage Assumptions: For current active employees we revised the spouse coverage assumption from assuming all currently married participants would cover their spouses to 60% of all participants would cover a spouse. The result of these changes was a 1% increase in liabilities.

Revised CalPERS Assumed Retirement Rates: We updated the valuation assumed retirement rates to reflect those rates most recently published by CalPERS, which drove a 3% decrease in liabilities. This decrease is caused by an observed delay in retirements for the overall CalPERS population.

Middle-of-Year Active Decrements: We have changed from assuming that decrements for retirees (i.e. deaths) will occur at the beginning of the year to assuming that they will occur in the middle of the year. This change is consistent with uniform distribution of decrements throughout the year. This change has resulted in a 4% decrease in liabilities.

Actual 2015 Minimum Contribution Rates: The increase in premiums from 2012 to 2015 was lower than assumed, resulting in a 7% decrease in liabilities.

Revised Minimum Contribution Assumed Trend Rates: The PEMHCA Minimum Contribution in the July 1, 2012 valuation was assumed to increase at 5%. For the July 1, 2015 valuation we revised this assumption to 4%, resulting in a 15% decrease in liabilities.

Actual Demographic and Other Experience: This is a catch-all category that refers to actual demographic experience (e.g., withdrawal, retirement, death, disability, marriage, etc.) and other experience (e.g., plan participation, plan selection, etc.) other than expected. Actual demographic experience is driven by the participant census data we collect from the City for our valuations. Demographic experience since the July 1, 2012 valuation resulted in an overall 14% decrease in the liability. This is mainly because several actives retired without participating.

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SECTION II

Valuation Results

Tables 2-1 and 2-2 present the Present Value of Future Benefits (i.e., liability based on all past and future service) and the Actuarial Accrued Liability (i.e., liability based on past service only) broken down by participant status and benefit type. Table 2-1 assumes a discount rate of 4%; Table 2-2 assumes a discount rate of 7%.

The implicit subsidy is the obligation associated with the difference between premiums and the assumed true per capita healthcare costs for CalPERS participants.

Table 2-1			
Present Value of Future Postemployment Medical Benefits			
As of July 1, 2015			
Entry Age Normal Actuarial Cost Method			
Discount Rate: 4.00%			
	<u>City Contribution</u>	<u>Implicit Subsidy</u>	<u>Total</u>
Present Value of Future Benefits			
Actives	\$979,219	\$980,292	\$1,959,511
Retirees	<u>\$309,294</u>	<u>\$192,995</u>	<u>\$502,289</u>
Total	\$1,288,513	\$1,173,287	\$2,461,800
Actuarial Accrued Liability (AAL)			
Actives	\$660,051	\$654,356	\$1,314,407
Retirees	<u>\$309,294</u>	<u>\$192,995</u>	<u>\$502,289</u>
Total	\$969,345	\$847,351	\$1,816,696

This valuation was completed using the Entry Age Normal Actuarial Cost method and assumes a closed 30-year amortization of the Unfunded Actuarial Accrued Liability using the level percentage of payroll amortization method.

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Table 2-2

**Present Value of Future Postemployment Medical Benefits
As of July 1, 2015
Entry Age Normal Actuarial Cost Method
Discount Rate: 7.00%**

	<u>City Contribution</u>	<u>Implicit Subsidy</u>	<u>Total</u>
Present Value of Future Benefits			
Actives	\$521,219	\$541,655	\$1,062,874
Retirees	<u>\$217,124</u>	<u>\$132,869</u>	<u>\$349,993</u>
Total	\$738,343	\$674,524	\$1,412,867
Actuarial Accrued Liability (AAL)			
Actives	\$396,297	\$409,315	\$805,612
Retirees	<u>\$217,124</u>	<u>\$132,869</u>	<u>\$349,993</u>
Total	\$613,421	\$542,184	\$1,155,605

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Projected Expected Benefit Payments

Table 2-3 contains a 25-year projection of the City pay-as-you-go cost to provide postemployment medical benefits and the expected benefit payments.

	<u>City Contribution*</u>	<u>Implicit Subsidy</u>	<u>Total</u>
2015/16	\$16,354	\$7,837	\$24,191
2016/17	\$19,587	\$17,106	\$36,693
2017/18	\$22,728	\$25,710	\$48,438
2018/19	\$25,811	\$34,835	\$60,646
2019/20	\$29,089	\$42,026	\$71,115
2020/21	\$32,339	\$54,544	\$86,883
2021/22	\$35,610	\$52,184	\$87,794
2022/23	\$39,581	\$55,338	\$94,919
2023/24	\$42,916	\$45,993	\$88,909
2024/25	\$46,073	\$33,360	\$79,433
2025/26	\$49,287	\$28,162	\$77,449
2026/27	\$52,883	\$38,832	\$91,715
2027/28	\$55,880	\$54,100	\$109,980
2028/29	\$58,847	\$68,376	\$127,223
2029/30	\$62,188	\$71,240	\$133,428
2030/31	\$65,281	\$72,321	\$137,602
2031/32	\$68,116	\$56,219	\$124,335
2032/33	\$70,801	\$44,791	\$115,592
2033/34	\$73,390	\$37,695	\$111,085
2034/35	\$75,750	\$34,602	\$110,352
2035/36	\$77,854	\$41,970	\$119,824
2036/37	\$79,818	\$51,735	\$131,553
2037/38	\$81,749	\$64,826	\$146,575
2038/39	\$83,410	\$72,155	\$155,565
2039/40	\$84,947	\$62,262	\$147,209

*This is actual pay-as-you-go cost, which excludes the implicit subsidy related to retiree premiums (since unadjusted premiums represent the true cash cost) and the implied subsidy related to active employee premiums (but the Agency can elect to recognize this as a retiree cash cost under GASB 45).

Health Benefit Costs Under GASB 45

The Annual Required Contribution (ARC) consists of the Normal Cost plus the current period amortization of the Unfunded Actuarial Accrued Liability.

Normal Cost is the portion of the actuarial present value of future benefits that is allocated to a particular year. Another interpretation is that the Normal Cost is the present value of future benefits that are "earned" by employees for service rendered during the current year. This valuation is based on the Entry Age Normal actuarial cost method and an attribution period that runs from date of hire until the expected retirement date.

Employers are allowed to amortize the Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years. The following Tables are based on amortization of the UAAL over a closed 30-year period using the level percentage of payroll amortization method. The City of XYZ adopted GASB 45 in the 2009/10 fiscal year. The remaining amortization period is 24 years.

	<u>2015</u>	<u>2012</u>
Discount rate	4.00%	4.00%
Actuarial Accrued Liability	\$1,816,696	\$1,085,419
Actuarial Value of Assets	\$318,424	\$0
Unfunded Actuarial Accrued Liability	\$1,498,272	\$1,085,419
Remaining Amortization Period	24 years	27 years
Level Percent of Pay Amortization Factor (based on a 4.00% discount rate)	21.261	23.668
Annual Level Percent of Pay Amortization of Unfunded AAL	\$70,472	\$45,861
Normal Cost (based on the Entry Age Normal Method)	\$74,910	\$46,954
Annual Required Contribution	\$145,382	\$92,815
Interest on Net OPEB Obligation	\$7,773	\$9,722
Adjustment to ARC	(\$9,141)	(\$10,270)
Annual OPEB Cost	\$144,015	\$92,267

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Table 2-5
**Fiscal Year 2015/16 OPEB Annual Required Contribution
 Assuming a Discount Rate of 7.00%**

	<u>2015</u>	<u>2012</u>
Discount rate	7.00%	7.00%
Actuarial Accrued Liability	\$1,155,605	\$667,625
Actuarial Value of Assets	\$318,424	\$0
Unfunded Actuarial Accrued Liability	\$837,181	\$667,625
Remaining Amortization Period	24 years	27 years
Level Percent of Pay Amortization Factor (based on a 7.00% discount rate)	15.340	16.489
Annual Level Percent of Pay Amortization of Unfunded AAL	\$54,577	\$40,489
Normal Cost (based on the Entry Age Normal Method)	\$37,485	\$23,435
Annual Required Contribution	\$92,062	\$63,924
Interest on Net OPEB Obligation	\$13,603	\$17,014
Adjustment to ARC	(\$12,669)	(\$14,741)
Annual OPEB Cost	\$92,996	\$66,197

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Table 2-6 presents a two-year projection under the assumption **that the City contributes \$72,000 in both years**, the discount rate remains 4.00% and the Normal Cost component of the ARC increases by 4.0% per year throughout the two-year period. We assumed mid-year benefit withdrawals from the Trust.

Table 2-6 The City of XYZ Two-year Projection of Annual OPEB Cost and Net OPEB Obligation Based on a 4.00% discount rate the Entry Age Normal Actuarial Cost Method and assuming contributions of \$72,000 in both years		
	<u>7/1/15 to 6/30/16</u>	<u>7/1/16 to 6/30/17</u>
Actuarial Accrued Liability (AAL)	\$1,816,696	\$1,947,596
Actuarial Value of Assets at beginning of year	<u>\$318,424</u>	<u>\$404,587</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$1,498,272	\$1,543,009
Remaining Amortization Period	24	23
Normal Cost	\$74,910	\$77,906
Amortization of UAAL	<u>\$70,472</u>	<u>\$75,466</u>
Annual Required Contribution (ARC)	\$145,382	\$153,372
Annual Required Contribution (ARC)	\$145,382	\$153,372
Interest on net OPEB Obligation	\$7,773	\$10,000
Adjustment to ARC	<u>(\$9,141)</u>	<u>(\$12,227)</u>
Annual OPEB Cost	\$144,015	\$151,145
Contribution	<u>(\$88,354)</u>	<u>(\$91,587)</u>
Increase in net OPEB Obligation	\$55,661	\$59,558
Net OPEB Obligation - Beginning of Year	\$194,335	\$249,996
Net OPEB Obligation - End of Year	\$249,996	\$309,553
Projected pay-as-you-go Cost*	\$16,354	\$19,587
Expected Benefit Payments	\$24,191	\$36,693

* Excludes the implicit subsidy related to retiree premiums and to active employee premiums. Expected Benefit Payments includes both the retiree, but not active employee subsidies.

Note: A substantial change in GASB accounting rules is scheduled for Fiscal Year 2017/18 and later years and we have not reflected the change in GASB rules in the above projection results.

Amounts that can be counted as contributions towards the ARC include:

- Contributions made to the PARS Trust
- Employer paid premium payments for retirees made directly to providers net of any reimbursements from the PARS Trust
- Implicit rate subsidy payments related to premium payments for active employees, if elected

Table 2-7 presents a two-year projection under the assumption **that the City contributes \$72,000 in both years**, the Fund earns 7.00% per year, the discount rate remains 7.00% and the Normal Cost component of the ARC increases by 4.0% per year throughout the two-year period. We assumed mid-year benefit withdrawals from the Trust.

Table 2-7 The City of XYZ Two-year Projection of Annual OPEB Cost and Net OPEB Obligation Based on a 7.00% discount rate the Entry Age Normal Actuarial Cost Method and assuming contributions of \$72,000 in both years		
	7/1/15 to 6/30/16	7/1/16 to 6/30/17
Actuarial Accrued Liability (AAL)	\$1,155,605	\$1,257,020
Actuarial Value of Assets at beginning of year	<u>\$318,424</u>	<u>\$415,191</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$837,181	\$841,829
Remaining Amortization Period	24	23
Normal Cost	\$37,485	\$38,984
Amortization of UAAL	<u>\$54,577</u>	<u>\$56,392</u>
Annual Required Contribution (ARC)	\$92,062	\$95,376
Annual Required Contribution (ARC)	\$92,062	\$95,376
Interest on net OPEB Obligation	\$13,603	\$13,928
Adjustment to ARC	<u>(\$12,669)</u>	<u>(\$13,329)</u>
Annual OPEB Cost	\$92,996	\$95,975
Contribution	<u>(\$88,354)</u>	<u>(\$91,587)</u>
Increase in net OPEB Obligation	\$4,642	\$4,388
Net OPEB Obligation - Beginning of Year	\$194,335	\$198,977
Net OPEB Obligation - End of Year	\$198,977	\$203,366
Projected pay-as-you-go Cost*	\$16,354	\$19,587
Expected Benefit Payments	\$24,191	\$36,693

* Excludes the implicit subsidy related to retiree premiums and to active employee premiums. Expected Benefit Payments includes the retiree, but not active employee subsidies.

Note: A substantial change in GASB accounting rules is scheduled for Fiscal Year 2017/18 and later years and we have not reflected the change in GASB rules in the above projection results.

Again, amounts that can be counted as contributions towards the ARC include:

- Contributions made to the PARS Trust
- Employer paid premium payments for retirees made directly to providers net of any reimbursements from the PARS Trust
- Implicit rate subsidy payments related to premium payments for active employees, if elected

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SECTION III

Plan Description and Demographic Summary

Employees hired prior to January 1, 2013 are eligible for postretirement medical benefits upon reaching age 50 with a minimum of 5 years of service.

Employees on or after to January 1, 2013 are eligible for postretirement medical benefits upon reaching age 52 with a minimum of 5 years of service.

The benefit is the minimum amount provided under Government Code Section 22825 of the Public Employees Medical and Hospital Care Act (PEMCHA). The minimum PEMCHA benefit is being pro-rated over the 20-year period starting from coverage under CalPERS. The amount being paid in 2015 is 95% of \$122, or \$115.90 per month. In 2016 and after, the percentage will be 100%. PEMCHA minimum benefits are shown in Table 3-1.

<u>Calendar Year</u>	<u>Amount</u>
2015	\$122.00
2016	\$125.00

City-provided benefits continue for the life of the retiree and surviving spouse.

Retirees pay the full cost of coverage in excess of the amounts shown above.

2015 and 2016 CalPERS Premium Rates

2015 and 2016 CalPERS premium rates for the "Other Northern California" counties are shown in Table 3-2. These are used to calculate the implicit subsidy.

Table 3-2
Monthly Premium Rates

Pre-Medicare Rates

Plan	EE	<u>2015</u>			<u>2016</u>		
		EE	Couple	Family	EE	Couple	Family
Anthem EPO	656.08	1,312.16	1,705.81	795.57	1,591.14	2,068.48	
Blue Shield Access+	804.34	1,608.68	2,091.28	879.96	1,759.92	2,287.90	
PERS Choice	656.08	1,312.16	1,705.81	795.57	1,591.14	2,068.48	
PERS Select	646.35	1,292.70	1,680.51	727.47	1,454.94	1,891.42	
PERSCare	725.54	1,451.08	1,886.40	886.15	1,772.30	2,303.99	

Post-Medicare Rates

Plan	EE	<u>2015</u>			<u>2016</u>		
		EE	Couple	Family	EE	Couple	Family
Anthem Blue Cross*	445.38	890.76	1,336.14	n/a	n/a	n/a	
Blue Shield Access+	352.63	705.26	1,057.89	n/a	n/a	n/a	
PERS Choice	339.47	678.94	1,018.41	366.38	732.76	1,099.14	
PERS Select	339.47	678.94	1,018.41	366.38	732.76	1,099.14	
PERSCare	368.76	737.52	1,106.28	408.04	816.08	1,224.12	

* Assume will switch to PERSCare in 2016

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Demographic Data

The City of XYZ provided demographic information as of June 2015. The data is summarized in Tables 3-3 and 3-4.

Table 3-3
Age and Service Table of Active Employees
 As of July 2015

<u>Age</u>	<u>Years of Service</u>						<u>Total</u>
	<u>0 - 4</u>	<u>5 - 9</u>	<u>10 - 14</u>	<u>15 - 19</u>	<u>20 - 24</u>	<u>25 +</u>	
20-24	0	0	0	0	0	0	0
25-29	1	0	0	0	0	0	1
30-34	1	0	0	0	0	0	1
35-39	0	0	0	0	0	0	0
40-44	2	2	0	0	0	0	4
45-49	1	1	0	0	4	1	7
50-54	2	0	0	0	1	0	3
55-59	0	2	0	0	1	5	8
60-64	1	2	0	0	0	2	5
65+	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>3</u>
Total	8	8	0	0	8	8	32

Table 3-4
Age Table of Retirees, and Surviving Spouses
who participate in
the Postemployment Healthcare Program
 As of July 2015

<u>Age</u>	<u>Total</u>
45-49	0
50-54	0
55-59	2
60-64	0
65-69	3
70-74	2
75-79	2
80-84	1
85-89	0
90+	<u>0</u>
Total	10

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SECTION IV

Actuarial Method and Assumptions

In order to project the The City of XYZ liabilities into the future, a number of economic, demographic, and baseline cost assumptions are necessary. For this valuation, we have used assumptions consistent with those specified in the 2014 "OPEB Assumption Model" released by the CalPERS Health Benefits Committee.

Actuarial Cost Method

The valuation was completed using the Entry Age Normal Method. An Actuarial Cost Method is a procedure for allocating the actuarial present value of benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability. Under the Entry Age Normal cost method the projected benefits of each individual included in the valuation are separately calculated and allocated to each year of service by a consistent formula. The portion of the present value of future benefits allocated to a valuation year is the Normal Cost. The portion allocated to all prior years is the Actuarial Accrued Liability.

Valuation Date

The valuation date is July 1, 2015. This date is the starting point from which current health premium costs are increased according to the assumed annual rates of health care cost trend. The City census is projected from the valuation date to the date of the final benefit payment for each employee and retiree on the census. After calculating future costs for the projected retiree and dependent population, all liabilities are discounted back to the valuation date to obtain the present value of future costs.

Amortization Methodology

This valuation is based on a closed, level dollar, 30-year amortization of the Unfunded Actuarial Accrued Liability. Amortization commenced in the 2009/10 fiscal year.

Actuarial Value of Assets

Actuarial Value of Assets is assumed to be equal to market value of assets as reported by the Public Agency Retirement Services Trust Fund as of the valuation date.

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Economic Assumptions

Discount Rate

A discount rate is required to calculate the present value of future benefit payments which are used to determine financial statement expense. This valuation is based on a 4% discount rate and a 7% discount rate. The 4% rate is based on what the City can reasonably expect to earn on its long-term investments, and the City has been funding on that basis. However, the City is considering contributing to the PARS Trust, which earns 7% on its assets.

Health Care Trend

The PEMHCA Minimum benefit is assumed to increase at 4% per year.

Based on our experience with postemployment health plans, we selected the following annual medical trend rates for use in this valuation. We assumed that CalPERS premium rates, which we used to calculate the implicit subsidy, will increase at the rates shown in Table 4-1.

Year <u>Beginning</u>	Increase in CalPERS Regional Premium Rates	
	<u>Pre-65</u>	<u>Post-65</u>
January 1, 2017	8.00%	5.50%
January 1, 2018	7.75%	5.25%
January 1, 2019	7.50%	5.00%
January 1, 2020	7.25%	5.00%
January 1, 2021	7.00%	5.00%
January 1, 2022	6.75%	5.00%
January 1, 2023	6.50%	5.00%
January 1, 2024	6.25%	5.00%
January 1, 2025	6.00%	5.00%
January 1, 2026	5.75%	5.00%
January 1, 2027	5.50%	5.00%
January 1, 2028	5.25%	5.00%
January 1, 2029 and later	5.00%	5.00%

Administrative Expenses

Administrative Expenses were not included in this valuation.

Plan Assets

As of June 30, 2015 the City's CERBT balance was \$318,424.

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Per Capita Health Plan Costs

Due to the small size of the retiree population, the per capita claims were developed using the age adjusted premiums for the current CalPERS population. These premiums are assumed to include administrative costs. The premiums for CalPERS are based on community-rated claims experience by region for all CalPERS member agencies.

Age-Adjusted Costs

The gender distinct age morbidity factors for pre- and post-Medicare morbidity were developed by CalPERS based on 2013 data. CalPERS developed these tables for use in complying with ASOP 6. Table 4-2 illustrates the age-graded premiums based on the premiums and the male and female morbidity factors that were provided by CalPERS for HMO and PPO plans.

<u>Age</u>	<u>HMO Rates</u>		<u>PPO Rates</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
50	8,557	9,652	7,206	8,724
55	11,466	11,072	9,717	9,989
60	14,193	12,122	12,063	11,031
65	5,476	5,746	4,295	4,756
70	4,909	4,548	3,688	3,640
75	5,410	5,409	4,322	4,208
80	5,812	6,100	4,870	4,688
85	5,962	6,374	5,106	4,933

Based on current participants, we have assumed that 70% of future retirees will elect PPO plans, and that the other 30% will elect HMO plans.

Demographic Assumptions

In estimating this obligation, a number of demographic assumptions are needed. The retirement, mortality and termination rates used in this valuation were used in the 2013 California PERS pension valuations.

Withdrawal

We used withdrawal rates that match those used in the 2013 California PERS Public Agency retirement plan valuations. Sample rates for Miscellaneous employees are shown in table 4-3 (e.g., an employee hired at age 30 with 5 years of service is assumed to have a 7.11% probability of leaving City employment in the current year).

Table 4-3
Public Agency Miscellaneous Employees Withdrawal Rates

Service	Entry Age						
	20	25	30	35	40	45	50
0	0.17420	0.16740	0.16060	0.15370	0.14680	0.14000	0.13320
1	0.15450	0.14770	0.14090	0.13390	0.12710	0.12030	0.11350
2	0.13480	0.12800	0.12120	0.11420	0.10740	0.10060	0.09380
3	0.11510	0.10830	0.10150	0.09450	0.08770	0.08090	0.07410
4	0.09540	0.08860	0.08180	0.07480	0.06800	0.06120	0.05430
5	0.08680	0.07900	0.07110	0.06320	0.05540	0.01160	0.00970
6	0.08290	0.07510	0.06700	0.05920	0.05140	0.01030	0.00840
7	0.07900	0.07100	0.06310	0.05520	0.04710	0.00900	0.00720
8	0.07490	0.06700	0.05910	0.05100	0.04300	0.00770	0.00600
9	0.07100	0.06290	0.05480	0.04690	0.03890	0.00660	0.00490
10	0.06680	0.05870	0.05070	0.04270	0.00710	0.00550	0.00380
15	0.05030	0.04240	0.03470	0.00320	0.00230	0.00140	0.00040
20	0.03700	0.02900	0.00210	0.00130	0.00050	0.00010	0.00010
25	0.02290	0.00110	0.00050	0.00010	0.00010	0.00010	0.00010
30	0.00050	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010
35	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010	0.00010

Disability

Because of the anticipated low incidence of disability retirements we did not value disability retirement.

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Retirement Rates

We used the retirement rates that match those used in the most recent California PERS retirement plan valuations.

Table 4-4a illustrates the rates used for miscellaneous employees participating in the CalPERS 2%@55 pension plan (employees hired prior to January 1, 2013) and Table 4-4b illustrates the rates used for miscellaneous employees participating in the CalPERS 2%@62 pension plan (employees hired on or after January 1, 2013). Selected rates are shown below.

Table 4-4a							
Annual Rates of Retirement							
CalPERS 2%@55 Public Agency Miscellaneous							
----- Years of Service -----							
	5	10	15	20	25	30	35
50	0.0140	0.0180	0.0210	0.0250	0.0270	0.0310	0.0350
51	0.0120	0.0140	0.0170	0.0200	0.0210	0.0250	0.0280
52	0.0130	0.0170	0.0190	0.0230	0.0250	0.0280	0.0320
53	0.0150	0.0200	0.0230	0.0270	0.0300	0.0340	0.0390
54	0.0260	0.0330	0.0380	0.0450	0.0510	0.0590	0.0680
55	0.0480	0.0610	0.0740	0.0880	0.1000	0.1170	0.1320
56	0.0420	0.0530	0.0630	0.0750	0.0850	0.1000	0.1130
57	0.0440	0.0560	0.0670	0.0810	0.0910	0.1070	0.1210
58	0.0490	0.0620	0.0740	0.0890	0.1000	0.1180	0.1340
59	0.0570	0.0720	0.0860	0.1030	0.1180	0.1380	0.1560
60	0.0670	0.0860	0.1030	0.1230	0.1390	0.1640	0.1860
61	0.0810	0.1030	0.1240	0.1480	0.1680	0.1990	0.2240
62	0.1160	0.1470	0.1780	0.2140	0.2430	0.2880	0.3240
63	0.1140	0.1440	0.1740	0.2080	0.2370	0.2810	0.3170
64	0.1080	0.1380	0.1660	0.1990	0.2270	0.2680	0.3020
65	0.1550	0.1970	0.2380	0.2850	0.3250	0.3860	0.4350
66	0.1320	0.1680	0.2030	0.2430	0.2760	0.3280	0.3690
67	0.1220	0.1550	0.1890	0.2250	0.2560	0.3040	0.3430
68	0.1110	0.1410	0.1700	0.2040	0.2320	0.2740	0.3090
69	0.1140	0.1440	0.1740	0.2090	0.2380	0.2820	0.3170
70	0.1300	0.1650	0.2000	0.2400	0.2720	0.3230	0.3640
71	0.1070	0.1370	0.1640	0.1980	0.2250	0.2660	0.2990
72	0.1100	0.1400	0.1690	0.2020	0.2300	0.2720	0.3070
73	0.0850	0.1090	0.1320	0.1580	0.1790	0.2120	0.2390
74	0.1000	0.1290	0.1560	0.1860	0.2120	0.2510	0.2820
75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

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For the July 1, 2012 valuation, the 2010 California PERS Miscellaneous 2% at 55 rates were used.

Table 4-4b
Annual Rates of Retirement
CalPERS 2%@62 Public Agency Miscellaneous

Age	----- Years of Service -----						
	5	10	15	20	25	30	35
50	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
51	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
52	0.0103	0.0132	0.0160	0.0188	0.0216	0.0244	0.0272
53	0.0131	0.0167	0.0202	0.0238	0.0273	0.0309	0.0345
54	0.0213	0.0272	0.0330	0.0388	0.0446	0.0504	0.0562
55	0.0440	0.0560	0.0680	0.0800	0.0920	0.1040	0.1160
56	0.0303	0.0385	0.0468	0.0550	0.0633	0.0715	0.0798
57	0.0363	0.0462	0.0561	0.0660	0.0759	0.0858	0.0957
58	0.0465	0.0592	0.0718	0.0845	0.0972	0.1099	0.1225
59	0.0578	0.0735	0.0893	0.1050	0.1208	0.1365	0.1523
60	0.0616	0.0784	0.0952	0.1120	0.1288	0.1456	0.1624
61	0.0619	0.0788	0.0956	0.1125	0.1294	0.1463	0.1631
62	0.0968	0.1232	0.1496	0.1760	0.2024	0.2288	0.2552
63	0.0888	0.1131	0.1373	0.1615	0.1857	0.2100	0.2342
64	0.0941	0.1197	0.1454	0.1710	0.1967	0.2223	0.2480
65	0.1287	0.1638	0.1989	0.2340	0.2691	0.3042	0.3393
66	0.1045	0.1330	0.1615	0.1900	0.2185	0.2470	0.2755
67	0.1045	0.1330	0.1615	0.1900	0.2185	0.2470	0.2755
68	0.1045	0.1330	0.1615	0.1900	0.2185	0.2470	0.2755
69	0.1045	0.1330	0.1615	0.1900	0.2185	0.2470	0.2755
70	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
71	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
72	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
73	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
74	0.1254	0.1596	0.1938	0.2280	0.2622	0.2964	0.3306
75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

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Mortality

The mortality rates used in this valuation are those used in the most recent California PERS pension valuations. These rates provide a starting point for the projection of future mortality rates. The mortality rates for each future year were determined based on a generational mortality projection using Projection Scale MP-2014. This scale consists of a set of Annual Mortality improvement factors as a function of age and sex. The resulting projected mortality rates were applied to each employee and retiree.

Age	Non-Safety Employees		Safety Employees		Retired Employees	
	Male	Female	Male	Female	Male	Female
55	0.228%	0.138%	0.244%	0.154%	0.599%	0.416%
60	0.308%	0.182%	0.325%	0.199%	0.710%	0.436%
65	0.400%	0.257%	0.418%	0.275%	0.829%	0.588%
70	0.524%	0.367%	0.543%	0.386%	1.305%	0.993%
75					2.205%	1.722%
80					3.899%	2.902%
85					6.969%	5.243%
90					12.974%	9.887%

For the July 1, 2012 valuation, the 2010 California PERS mortality rates were used with a generational projection using Projection Scale AA.

Spousal enrollment

We have assumed that 50% of active employees will enroll their spouses at retirement. Retirees were assumed to continue their current enrollment. That is, retirees who are enrolled as Single are assumed to remain enrolled as a Single into retirement. Similarly employees who have elected Two Party or Family enrollment are assumed to retain Two Party enrollment at retirement.

Children of future retirees were not included in this valuation.

Age Difference

Females are assumed to be two years younger than their spouses.

Health Plan Participation

We assumed that 85% of future eligible retirees will participate in the City's postretirement medical program.

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Health Care Reform Considerations

Health care delivery is going through an evolution due to enactment of Health Care Reform. The Patient and Affordable Care Act (PPACA), was signed March 23, 2010, with further changes enacted by the Health Care and Education Affordability Reconciliation Act (HCEARA), signed March 30, 2010. This valuation uses various assumptions that may have been modified based on considerations under PPACA. This section discusses particular legislative changes that were reflected in our assumptions. We have not identified any other specific provision of PPACA that would be expected to have a significant impact on the measured obligation. As additional guidance on the Act continues to be issued, we'll continue to monitor impacts.

Individual Mandate

Under PPACA, individuals (whether actively employed or otherwise) must be covered by health insurance or else pay a penalty tax to the government. While it is not anticipated that the Act will result in universal coverage, it is expected to increase the overall portion of the population with coverage. We believe this will result in an increased demand on health care providers, resulting in higher trend for medical services for non-Medicare eligible retirees. (Medicare costs are constrained by Medicare payment mechanisms already in place, plus additional reforms added by PPACA and HCERA.) While we believe that the mandate may result in somewhat higher participation overall, this issue is moot since we assume 100% participation upon retirement.

Employer Mandate

Health Care Reform includes various provisions mandating employer coverage for active employees, with penalties for non-compliance. Those provisions do not directly apply to the postemployment coverage included in this valuation.

Medicare Advantage Plans

Effective January 1, 2011, the Law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. We considered the effect of these reductions in federal payments to Medicare Advantage plans when setting our trend assumption.

Expansion of Child Coverage to Age 26

Health Care Reform mandates that coverage be offered to any child, dependent or not, through age 26, consistent with coverage for any other dependent. We assume that this change has been reflected in current premium rates. While this plan covers dependents, we do not currently assume non-spouse dependent coverage other than for firefighters. We believe the impact this assumption has on the valuation is

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immaterial due to the lack of retirees that have had or are expected to have non-spouse dependents for any significant amount of time during retirement.

Elimination of Annual or Lifetime Maximums

Health Care Reform provides that annual or lifetime maximums have to be eliminated for all “essential services.” We assume that current premium rates already reflect the elimination of any historic maximums.

Cadillac Tax (High Cost Plan Excise Tax)

The PPACA legislation added a new High-Cost Plan Excise Tax (also known as the “Cadillac Tax”) starting in calendar year 2018. For valuation purposes, we assumed that the value of the tax will be passed back to the plan in higher premium rates.

- The tax is 40% of the excess of (a) the cost of coverage over (b) the limit. We modeled the cost of the tax by calculating (a) using the working rates projected with trend. We calculated (b) starting with the statutory limits (\$10,200 single and \$27,500 family), adjusted for the following:
 - Limits will increase from 2018 to 2019 by 4.25% (CPI plus 1%);
 - Limits will increase after 2019 by 3.25% (CPI); and
 - For retirees over age 55 and not on Medicare, the limit is increased by an additional dollar amount of \$1,650 for single coverage and \$3,450 for family coverage.
- Based on the above assumptions, we estimate that the tax will apply as early as 2018 for some of the City’s pre-Medicare plans. In addition, we estimate that the tax will not apply to any of the post-Medicare plans.

Other Revenue Raisers

The Health Care Reform includes a variety of other revenue raisers that involve additional costs on providers (such as medical device manufacturers) and insurers. We considered these factors when developing the trend assumptions.

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SECTION V

Glossary

- Accrual Accounting – A method of matching the cost of an employee's service, including long term obligations such as OPEB, to that employee's period of active service.
- Actuarial Accrued Liability (AAL) – The Actuarial Present Value of all postemployment benefits attributable to past service. Note: the AAL is sometimes referred to as the Past Service Liability.
- Actuarial Cost Method – A procedure for allocating the actuarial present value of benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.
- Actuarial Present Value – The value of an amount or series of amounts payable or receivable at various times. Each such amount or series of amounts is:
 - a. adjusted for the probable financial effect of certain intervening events (such as changes in healthcare costs, compensation levels, Medicare, marital status, etc.)
 - b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
 - c. discounted according to an assumed rate (or rates) of return to reflect the time value of money
- Actuarial Valuation – The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets and related Actuarial Present Values.
- Actuarial Value of Assets – The value of cash, investments and other property belonging to a plan. These are amounts that may be applied to fund the Actuarial Accrued Liability. Note: assets must be segregated and placed in a Trust in order to be considered OPEB assets
- Amortization Payment – That portion of the Annual OPEB cost which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

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In the year that Statement 45 becomes effective an employer is allowed to commence amortization of the Unfunded Actuarial Accrued Liability, over a period not to exceed 30 years.

- Annual Other Postemployment Benefit (OPEB) Cost - An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan. The annual OPEB cost is the amount that must be calculated and reported as an expense.

When an employer has no net OPEB obligation (e.g., in the year of implementation) the annual OPEB cost is equal to the Annual Required Contribution (ARC).

In subsequent years the Annual OPEB cost will include:

- the ARC (equal to the Normal Cost plus one year's amortization of the Unfunded Actuarial Accrued Liability);
 - one year's interest on the net OPEB obligation at the beginning of the year using the valuation discount rate; and
 - an adjustment to the ARC. This adjustment is intended to provide a reasonable approximation of that portion of the ARC that consists of interest associated with past contribution deficiencies. GASB Statement No. 45 specifies that this adjustment should be equal to an amortization of the discounted present value of the net OPEB obligation at the beginning of the year. The amortization should be calculated using the same amortization method and period used in determining the ARC for that year. If the net OPEB obligation is positive the adjustment should be deducted from the ARC.
 - Note: As long as the net OPEB obligation is zero, there will not be any interest charge or adjustment to the ARC. However, if an employer does not contribute the full amount of the ARC, a net OPEB obligation will emerge.
- Annual required contributions of the employer (ARC) - The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.
 - Defined benefit OPEB plan - An OPEB plan having terms that specify the *benefits* to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors, such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

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- Defined contribution plan - A pension or OPEB plan having terms that (a) provide an individual account for each plan member and (b) specify how contributions to an active plan member's account are to be determined, rather than the income or other benefits the member or his beneficiaries are to receive at or after separation from employment. Those benefits will depend only on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. For example, an employer may contribute a specified amount to each active member's postemployment healthcare account each month. At or after separation from employment, the balance of the account may be used by the member or on the member's behalf for the purchase of health insurance or other healthcare benefits.
- Employer's contributions - Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator.
- Entry Age Normal Actuarial Cost Method – An actuarial cost method under which the Actuarial Present Value of the Projected Benefits of each individual included in the valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.
- Healthcare cost trend rate - The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.
- Investment return assumption (discount rate) - The rate used to adjust a series of future payments to reflect the time value of money.
- Net OPEB obligation - The cumulative difference since the effective date of GASB Statement 45 between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

Most employers will have no net OPEB obligation at the beginning of the year in which Statement 45 is implemented.

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If an employer contributes the annual OPEB cost to the plan each year, and there are no actuarial or investment gains or losses then the net OPEB Obligation will remain zero.

- Normal Cost - That portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Another interpretation is that the Normal Cost is the present value of future benefits that are “earned” by employees for service rendered during the current year.
- OPEB assets - The amount recognized by an employer for contributions to an OPEB plan greater than OPEB expenses.
- OPEB expense - The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting.
- Other postemployment benefits (OPEB) - Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, except benefits defined as special termination benefits.
- Plan assets - Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or in an equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer(s) or plan administrator, for the payment of benefits in accordance with the terms of the plan.
- Present Value – See Actuarial Present Value.
- Entry Age Normal Cost Method – An actuarial cost method under which the projected benefits of each individual included in an Actuarial Valuation are separately calculated and allocated to each year of service by a consistent formula.
- Substantive plan - The terms of an OPEB plan as understood by the employer(s) and plan members.
- Unfunded Actuarial Accrued Liability (UAAL) – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.
- Valuation date – The date as of which the postemployment benefit obligation is determined.

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 **TECH SAVVY &
FISCALLY READY**

Retiree Medical/OPEB Plans ASOP 6 and GASB 75

**NICOLAY
CONSULTING**

AJPA

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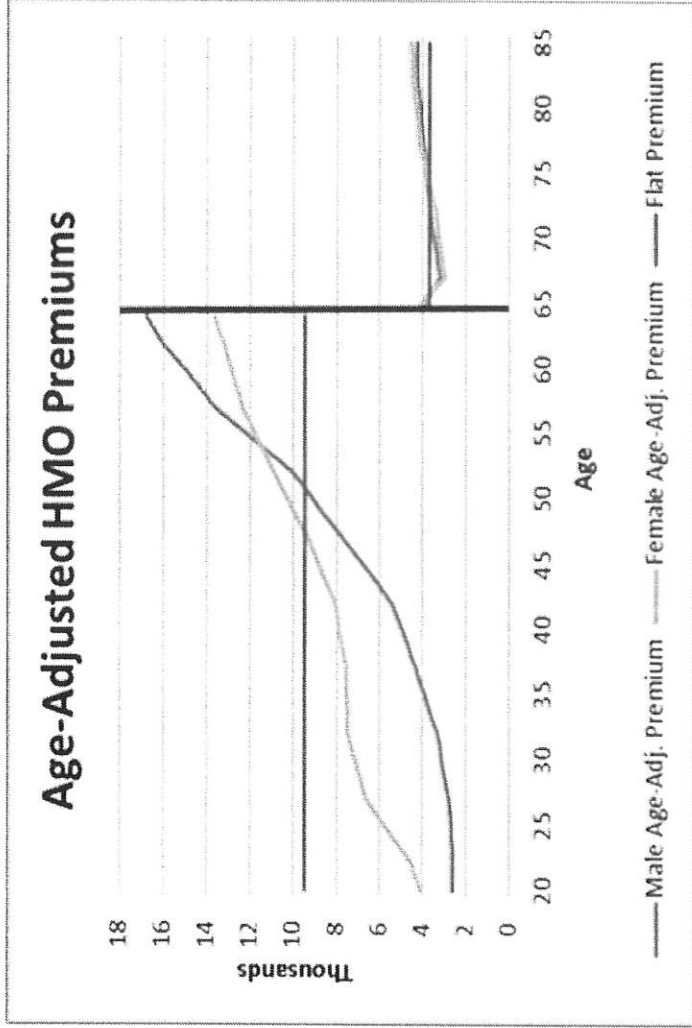
Agenda

- ASOP 6 Implicit Subsidy
 - A New Liability
 - Doesn't increase Cash Cost
 - Expected Future Premiums and Subsidies
 - Discount Rate and Prefunding Considerations
- GASB 75
 - Overview
 - New Discount Rate Method
 - Early Adopt? Measurement Date? Funding Method?
- Summary of GASB 74 & 75

ASOP 6 Implicit Subsidy: A New Liability

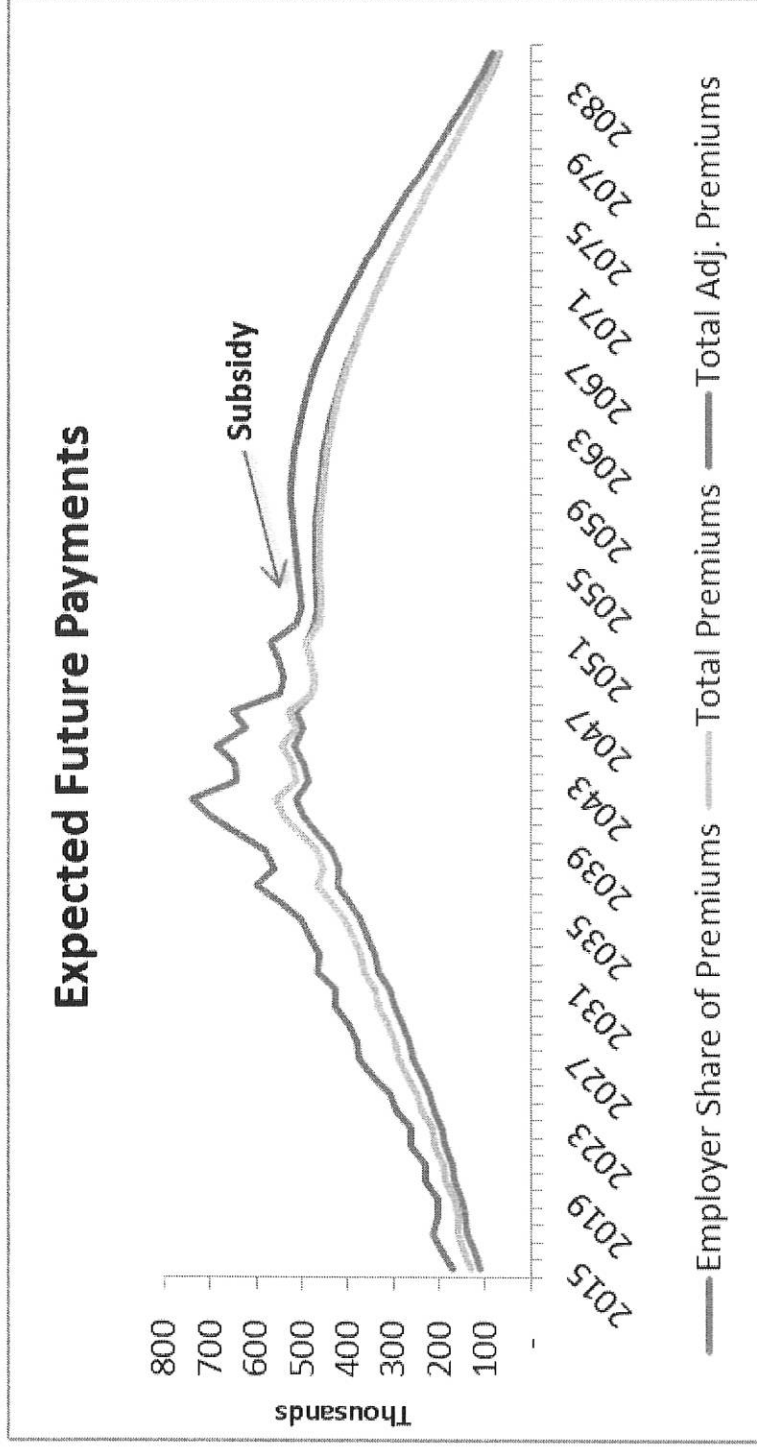
- New requirement to include implicit subsidies in the accounting liabilities
 - Effective for Fiscal Years beginning after 3/31/15
- What is an implicit subsidy?
 - Premiums paid for active and retiree benefits are calculated by ACWA/JPIA or CalPERS
 - ACWA/CalPERS calculates a single flat premium rate unadjusted for age or gender
 - Older participants cost more than younger and males cost differently from females

Implicit Subsidy: Doesn't Increase Cash Cost



- Employer actual retiree cash costs are based on flat premiums (i.e., explicit costs)
- Prior to change, GASB allowed accounting liabilities to be based on flat premiums for community rated plans such as those offered by ACWA/JPIA and CalPERS
- Switching to age/gender-adjusted premiums raises the accounting costs, but not the cash costs

Expected Future Premiums and Subsidies



- Chart assumes the Employer and Retiree pay a share of the premium
- The Retiree pays for the cost of premiums in excess of the Employer's cost
- The implicit subsidy is considered an Employer liability
- If the system became unsustainable, actives and retirees would be rated separately

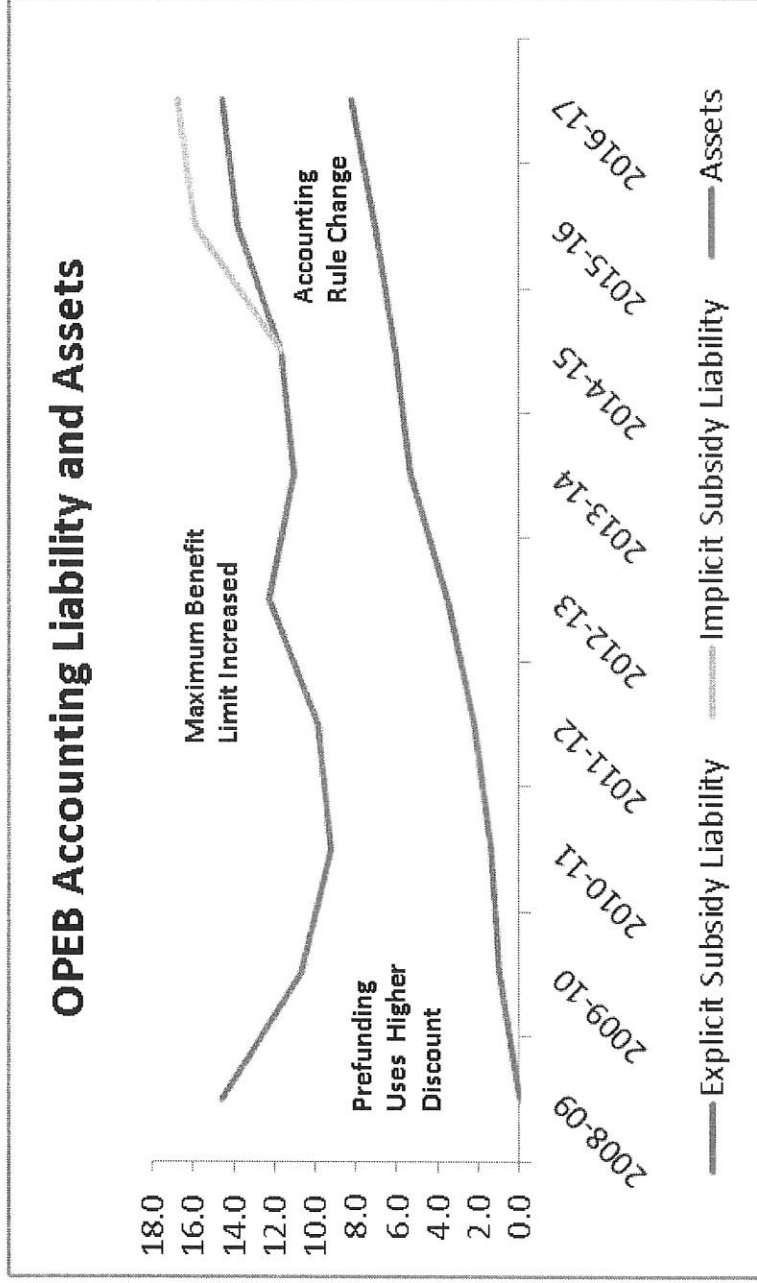
Discount Rate—No/Partial/Full ARC Funding

Funding Policy	Approximate GASB 45 Discount Rate
No Prefunding (e.g., Pay-go Funding Only)	4.00%
Partial Prefunding (e.g., Explicit Subsidy Only)	5.00%
Full Prefunding (e.g., Explicit and Implicit Subsidies)	7.00%

- No Prefunding: Liability discounted using expected long-term rate of return on employer assets (4.00% assumed)
- Partial Prefunding: Liability discounted using a blend of No and Full prefunding rates of return
- Full Prefunding: Liability discounted using expected long-term rate of return on Trust assets (7.00% assumed)

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Pre-Funding Milestones



- Prefunding allows the Employer to reflect lower liability via a higher discount rate
- Should you prefund the implicit liability if it isn't anticipated to be a cash cost?
- Declining to prefund a portion of the liability means a lower discount rate

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Implicit Subsidy Funding Strategies

If you don't want to prefund implicit subsidies, but want a higher accounting discount rate:

- Consider shifting active employee implied subsidies from cash to (GASB 45/75) accrual accounting
- Consider a funding policy that over-funds the accounting explicit subsidy for good reason:
 - Targeted Funding Level: Set a target funding level, say 120% of the explicit subsidy liability, to act as a hedge against future losses (e.g., ad hoc maximum benefit limit increases, asset declines, system unsustainability, etc.)
 - Conservative Assumptions: Base funding policy on a more conservative set of valuation assumptions than your accounting policy to act as a hedge against future experience losses (fund at 4.0% discount rate and account at 7.0% discount rate)

NOTE: GFOA recommends prefunding explicit and implicit subsidies.

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GASB 75 Overview

GASB 75 is effective in FY's beginning after 6/15/17

- Puts the unfunded liability on the balance sheet
- Lowers the discount rate for unfunded liabilities
- Shortens the amortization of unanticipated costs, making accounting costs more volatile
- Greater need to manage risks via:
 - Investment Policy
 - Funding Policy
 - Benefit Policy
 - Accounting Policy

Comparison of Discount Rates (GASB 45 and GASB 75)

Funding Policy	Approximate Discount Rate	
	GASB 45	GASB 75
No Prefunding (e.g., Pay-go Funding Only)	4.00%	3.00%
Partial Prefunding (e.g., Explicit Subsidy Only)	5.00%	3.50%
Full Prefunding (e.g., Explicit and Implicit Subsidies)	7.00%	7.00%

- GASB 45: Unfunded liabilities are discounted using long-term return of employer assets (4.00% assumed)
- GASB 75: Unfunded liabilities are discounted using rate on 20-year, tax exempt general obligation municipal bonds rated AA/Aa or higher (3.00% assumed)
- GASB 45 and GASB 75: Pre-funded liabilities are discounted using Trust long term target return (7.00% assumed)

GASB 75 Implementation – Initial Considerations

GASB 75 is an *accounting method* and does not dictate methods or assumptions for determining contributions to an OPEB trust.

- Decide if you want to adopt early
- Select your measurement date timing—a lag of up to one year is permitted
- Determine the contribution level desired—you may want to change from GASB 45's ARC to a different actuarial funding method

Valuation (census) date can be up to 30 months prior to the fiscal year-end and need not be consistent from year to year. Measurement date must be consistent.

GASB 75 Setting the Measurement Date

- Early Adopt? Not normally advised because...
- GASB will not issue their Implementation Guides until 2017
 - As late as February 2017 for GASB 74 (plan)
 - As late as November 2017 for GASB 75 (employer)
- If the AICPA issues audit standards similar to those related to pensions, then the plan (trust) assets used in GASB 75 reporting must be audited and the census data used to calculate the accrued liability would be subject to audit, too
 - Employer should confirm that they can obtain these audits in time to use for their financial reporting
 - For these reasons, employers using the CERBT for funding may select a June 30 Measurement date which is 12 months prior to their fiscal year end

Information on this slide is taken from a template letter dated April 6, 2016 provided by Bruce Eastes, CalPERS CERBT Program Compliance and Reporting Specialist

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GASB 75 Setting the Measurement Date

- The real issues faced by employers and actuaries in setting the measurement date might, in part, revolve around audit issues, such as:
 - Can the assets in the valuation be supported by an audit performed in a timely way?
 - Will PARS make available on the Internet an audited Statement of Changes in Net Position for all their participating employers?
 - If PARS does not, will employers be required to provide asset related disclosures on their financial statements , and possibly need to report a fiduciary fund under GASB 74?
- In the end, this is a discussion about an accounting standard, so what really matters is what the accountants and auditors have to say

Information on this slide is taken from a template letter dated April 6, 2016 provided by Bruce Eastes, CalPERS CERBT Program Compliance and Reporting Specialist

The remainder of this presentation is material presented at the April 10-16, 2016 Enrolled Actuaries Meeting in Washington DC by Scott Reeser, Supervising Project Manager, GASB

SUMMARY OF GASB 74 & 75



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GASB 74 & 75 Other Postemployment Benefits

- **What:** The Board issued Statement 74 (plans) and 75 (employers), making OPEB accounting and financial reporting consistent with the pension standards in Statements 67 and 68
- **Why:** Pension and OPEB standards were updated subsequent to a review of the effectiveness of the standards – objective was to establish a consistent set of standards for all postemployment benefits, providing more transparent reporting of the liability and more useful information about the liability and costs of benefits
- **When:** Effective for periods beginning after June 15, 2016 (plans) and June 15, 2017 (employers)

GASB 74 Plan and Asset Reporting

- Scope includes defined benefit and defined contribution OPEB plans administered through trusts that meet the specified criteria
- Also addresses assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are *not* administered through trusts that meet the criteria
 - Assets reported as assets in employer’s governmental proprietary funds
 - Assets held for other government reported in an agency fund
- Few changes from statement 43 for financial statement recognition
- Notes/RSI changes primarily to reflect changes in measurement of defined benefit liabilities of employers

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GASB 75 Scope

- Applies same definition of OPEB as used in Statement 45
 - All postemployment healthcare benefits
 - Other forms of postemployment benefit not provided through a pension plan
- Addresses both defined benefit OPEB and defined contribution OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as those payments come due
 - Special funding situations
 - Other circumstances

GASB 75 Employer Liability to Employees for OPEB

- Based on total OPEB liability—the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service
- Is OPEB administered through a trust that meets specific criteria?
 - Yes—recognize net OPEB liability (total OPEB liability, net of OPEB plan fiduciary net position (i.e., assets))
 - No—recognize total OPEB liability

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GASB 75 Timing and Frequency of Measurement

- Employer's liability to employees for OPEB measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the employer's current fiscal year
 - Based on an actuarial valuation obtained at least biennially no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end

GASB 75 Measurement

- Three broad steps
 - Project benefit payments
 - Discount projected benefit payments to actuarial present value
 - Attribute actuarial present value to periods
- Methods and assumptions
 - Generally, assumptions in conformity with Actuarial Standards of Practice
 - Single attribution method-entry age, level percentage of pay

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GASB 75 Measurement—Projection

- Based on claims costs or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice
- Not reduced by amounts expected to be received for making benefits payments unless payments are providing Medicare benefits
- Consider legal or contractual benefit caps if determined to be effective
- Alternative measurement method may be applied if fewer than 100 employees (active and inactive) are provided benefits through plan as of the beginning of the measurement period

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GASB 75 Measurement—Discounting

- Single discount rate that reflects:
 - Long-term expected rate of return on OPEB plan investments to extent that fiduciary net position from specified resources is:
 - Projected to be sufficient to make benefit payments
 - Expected to be invested using a strategy to achieve that return
 - Yield or index rate for 20-year, tax-exempt general obligation municipal bond rated AA/Aa (or equivalent) or higher, to extent that conditions for long-term expected rate of return are not met
- Calculated using the same process as required for pensions in Statement 68
- If not administered through a trust in which the specific criteria is met, the tax-exempt municipal bond rate is required to be used

GASB 75 Measurement—Attribution

- Single method
 - Entry age actuarial cost method
 - Level percentage of pay
- Applied on an employee-by-employee basis
- Beginning in 1st period of benefit accrual and through all assumed exit ages from active service
- Same benefit terms to determine service cost as to determine actuarial present value of projected benefit payments

GASB 75 Expense Recognition

- Recognize most changes in liability for the current reporting period as OPEB expense immediately, except:
 - Changes in total OPEB liability:
 - Differences between expected and actual experience with regard to economic and demographic factors in the measurement of the total OPEB liability
 - Changes of assumptions in the measurement of the total OPEB liability
 - For OPEB administered through trust in which specific criteria are met
 - Difference between projected and actual earnings on OPEB plan investments
 - Employer contributions

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GASB 75 Cost-Sharing Employers

- Relevant only for OPEB administered through trust in which specific criteria are met
- Recognize proportionate shares of collective net OPEB liability, OPEB expense, and deferred inflows of resources related to OPEB
- Proportion (%)
 - Basis required to be consistent with contributions
 - Use of relative long-term projected contribution effort encouraged
 - Consider separate rates related to separate portions of collective net OPEB liability
- Collective measure x proportion = proportionate share of collective measure

GASB 75 Notes and RSI

- Similar to those required for pensions
- Disclosure of effect on net OPEB liability of a discount rate +/-1 percent
- Disclosure of effect on net OPEB liability of a healthcare cost trend rate +/-1 percent
- Single and agent employers: 10-year RSI schedules for changes in the net OPEB liability, ratios, and actuarially determined contributions (statutorily or contractually determined contributions, if no actuarially determined contribution is calculated)
- Cost-sharing employers: 10-year RSI schedules of proportions and ratios, and statutorily or contractually determined contributions

Nicolay Consulting Representative OPEB Client List

Exhibit 1

ACWA Joint Powers Insurance Authority	CSU Fullerton Associated Students Corporation	Rowland Water District
Agoura Hills / Calabasas Community Center	CSU Long Beach Research Foundation	Sacramento Area Council of Governments
Alameda County Transportation Commission	CSU San Marcos Foundation	Sacramento County Office of Education
Alexander Valley School District	CSU Stanislaus ABS	Salinas Valley Memorial Hospital
Arrowbear Park County Water District	El Dorado Hills Community Services District	San Bernardino Valley Municipal Water District
Auburn Cemetery District	Elk Grove Water District	San Diego City Schools - Administrators Association
BETA Healthcare Group	Empire Union School District	San Diego City Schools - OSS
Cal Poly Pomona Foundation	Escondido Secondary Teachers Association	San Diego City Schools - OTBS
Cal Poly San Luis Obispo Associated Students	Folsom Cordova Unified School District	San Diego City Schools - Paraeducators
Cal Poly San Luis Obispo Corporation	Goleta Sanitary District	San Diego City Schools - POA
Calaveras County Water District	Hannibal Industries, Inc.	San Diego USD - All BUs
California Association of Highway Patrolmen	Hayward Area Rec and Park District	San Diego USD - SDEA Trust
City of Agoura Hills	Hemet Unified School District	San Geronio Pass Water Agency
City of Belmont	Hesperia Rec and Park District	San Jose State University Foundation
City of Benicia	Housing Authority County of Merced	San Jose State University Student Union, Inc.
City of Camarillo	Housing Authority County of San Bernardino	Santa Ana Watershed Project Authority
City of Carmel-by-the-Sea	Housing Authority of Contra Costa County	Simplicity Bank (formerly Kaiser Federal Bank)
City of El Monte	Housing Authority of Tulare County	Solano County Mosquito Abatement District
City of Fillmore	Housing Authority Sutter County	South Placer Fire Protection District
City of Marina	Inland Empire Utilities Agency	Stinson Beach County Water District
City of Milpitas	Kensington Fire Protection District	Sylvan Cemetery District
City of Mountain View	Las Gallinas Valley Sanitary District	The Doctors Company
City of Nogales	Los Rios Community College District	The Episcopal Church in Hawaii
City of Pacific Grove	Macias Gini	Tower Foundation (SJSU)
City of Pacifica	Manteca Unified School District	Town of Atherton
City of Rosemead	Marina Coast Water District	Town of Colma
City of Sausalito	Marinwood Community Services District	Town of Tiburon
City of Spokane	Merced City School District	Town of Woodside
City of Thousand Oaks	Monterey Bay Air Pollution Control District	University Enterprises Corp., (CSU San Bernardino)
Recreation and Park District	Municipal Pooling Authority (CCCMRMIA)	University Enterprises Corporation
Cosumnes Community Services District	Murphy School District	Valecitos Water District
Crescenta Valley Water District	Nuvium Union School District	Vallejo City Unified School District
Crestline-Lake Arrowhead Water Agency	Oakland Housing Authority	Ventura County Office of Education
CSLA Associated Students, Inc.	Olivenhain Municipal Water District	Ventura Unified School District
CSLA University Auxiliary Services, Inc.	Orchard Dale Water District	Victor Valley Water District
CSLA University- Student Union	Oxnard Harbor District	Water Replenishment District of So. California
CSU Chico Associated Students, Inc.	Pico Water District	West Contra Costa Unified School District
CSU Chico Research Foundation	Pleasant Valley Recreation and Park District	West Valley Water District
CSU Dominguez Hills - Associated Students	Rancho Murieta Community Services District	Westlands Water District
CSU Dominguez Hills - Foundation	River Delta USD	Willits USD
CSU Dominguez Hills - Student Union	Round Valley USD	Woodside Fire Protection District

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KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

Date: September 8, 2016
TO: KPPCSD Board
FROM: Kevin E. Hart, Interim General Manager
Subject: **Item 8b-Board Resolution 2016-12**

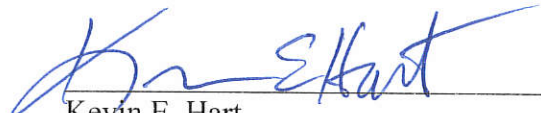
Earlier this year, the KPPCSD approved a new MOU with the Kensington Police officer's Association which runs through December 31, 2017. This new contract calls for KPD employees to contribute towards their Health Pan Benefits.

Effective January 1, 2017, all eligible employees will be required to contribute at least \$85 per month toward the cost of healthcare, regardless of the coverage level selected.

Effective June 30, 2017, all eligible employees will be required to contribute at least \$125 per month toward the cost of healthcare, regardless of the coverage level selected.

This Resolution is required in order to facilitate the process and change our master agreement with CalPERS. This change will also impact all retired Kensington Police Officers in the same manner as active officers.

Fiscal Impact: Modest reduction of cost to the District this fiscal year, with significant savings over the long term.


Kevin E. Hart
Interim General Manager

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BB

RESOLUTION NO. 2016-12

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT FIXING THE EMPLOYER CONTRIBUTION AT AN EQUAL AMOUNT FOR EMPLOYEES AND ANNUITANTS UNDER THE PUBLIC EMPLOYEES' MEDICAL AND HOSPITAL CARE ACT

WHEREAS, (1) Kensington Community Services District is a contracting agency under Government Code Section 22920 and subject to the Public Employees' Medical and Hospital Care Act (the "Act"); and

WHEREAS, (2) Government Code Section 22892(a) provides that a contracting agency subject to Act shall fix the amount of the employer contribution by resolution; and

WHEREAS, (3) Government Code Section 22892(b) provides that the employer contribution shall be an equal amount for both employees and annuitants, but may not be less than the amount prescribed by Section 22892(b) of the Act; and

RESOLVED, (a) That effective January 1, 2017 the employer contribution for each employee or annuitant of the Kensington Police Officer's Association shall be the amount necessary to pay the full cost of his/her enrollment, including the enrollment of family members, in a health benefits plan up to a maximum of:

Medical Group	Monthly Employer Contribution
001 Kensington POA	Total premium less \$85 (Basic, Medicare, Combination) not to exceed Kaiser Bay less \$85 (Basic, Medicare, Combination)
002 GM/Police Chief	Total premium less \$85 (Basic, Medicare, Combination) not to exceed Kaiser Bay less \$85 (Basic, Medicare, Combination)

RESOLVED, (b) That effective July 1, 2017 the employer contribution for each employee or annuitant shall be the amount necessary to pay the full cost of his/her enrollment, including the enrollment of family members, in a health benefits plan up to a maximum of:

Medical Group	Monthly Employer Contribution
001 Kensington POA	Total premium less \$125 (Basic, Medicare, Combination) not to exceed Kaiser Bay less \$125 (Basic, Medicare, Combination)
002 GM/Police Chief	Total premium less \$125 (Basic, Medicare, Combination) not to exceed Kaiser Bay less \$125 (Basic, Medicare, Combination)

Plus administrative fees and Contingency Reserve Fund assessments; and be it further

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RESOLUTION NO. 2016-12

- RESOLVED, (c) Kensington Community Services District has fully complied with any and all Applicable provisions of Government Code Section 7507 in electing the benefits set forth above; and be it further
- RESOLVED, (d) That the participation of the employees and annuitants of Kensington Community Services District shall be subject to determination of its status as an "agency or instrumentality of the state or political subdivision of a State" that is eligible to participate in a governmental plan within the meaning of Section 414(d) of the Internal Revenue Code, upon publication of final Regulations pursuant to such Section. If it is determined that Kensington Community Services District would not qualify as an agency or instrumentality of the state or political subdivision of a State under such final Regulations, CalPERS may be obligated, and reserves the right to terminate the health coverage of all participants of the employer.
- RESOLVED, (e) That the executive body appoint and direct, and it does hereby appoint and direct, Interim General Manager/Chief of Police Kevin E. Hart to file with the Board a verified copy of this resolution, and to perform on behalf of Kensington Community Services District all functions required of it under the Act.

Adopted at a Regular meeting of the Kensington Police Protection and Community Services District at Kensington, CA, this 8th day of September, 2016.

Signed: _____
Len Welsh, Board President

Attest: _____
Kevin E. Hart, Interim General Manager/Chief of Police

KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

Date: September 8, 2016
TO: KPPCSD Board
FROM: Kevin E. Hart, Interim General Manager
Subject: **Item 8c-Agreement between KPPCSD and KCC for Recreation and Education Programs**

Kensington Community Council (KCC) President Anne Forrest and I have been working on updating the agreement between KPPCSD and the KCC to provide recreation and education programs services and facilities management.

The attached document outlines the lease agreement for the community center, tennis courts, recreation building and the annex.

For use of these facilities, KCC will pay the District \$15,000 per year, along with annual CPI increases. This is a long standing agreement between both parties and this updated agreement contains no substantive changes from past agreements.

The agreement covers the time period from July 1, 2016 through June 30, 2020.

Fiscal Impact: Included with current fiscal year budget as revenue.

Kevin E. Hart
Interim General Manager

OC

AGREEMENT BETWEEN KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT AND KENSINGTON COMMUNITY COUNCIL FOR RECREATION AND EDUCATION PROGRAM SERVICES AND FACILITIES MANAGEMENT

To enable the residents of Kensington to benefit from recreational and educational activities, the Kensington Community council (KCC) and the Kensington Police Protection and Community Services District (KPPCSD) enter into the following agreement:

I. KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

A. KPPCSD agrees to maintain in good condition and repair the Kensington Community Center (aka. Youth Hut), tennis courts and such other recreation properties (i.e. Recreation Building and the annex), in and about these facilities, over which it exercises ownership or control.

KPPCSD's maintenance obligations shall include providing general maintenance of the recreational improvements, as well as providing janitorial and gardening services, building supplies, utilities and other items listed under Article 1 of the Objectives attached hereto as Exhibit 1 for the Community Center, tennis courts and the Kensington Park grounds and equipment. KPPCSD agrees to provide property insurance coverage on the improvements on the Park and Recreational property.

At this time, KPPCSD cannot provide liability insurance covering the KCC's recreational and educational programs for the reasons described in the letter from the Special Risk Management Authority, dated April 20, 1998.

In the event of damage to the Park and Recreation property which substantially interferes with the KCC recreational/educational programs or the continued operation of the Park and its buildings, either party may terminate this Agreement by giving written notice to the other party.

B. KPPCSD shall be entitled to set and retain any and all rental or use fees generated from the use of the Park and Recreational facilities.

II. KENSINGTON COMMUNITY COUNCIL

A. KCC's mission as stated in the Articles of Incorporation is to provide educational and recreational programs for community enrichment and to improve and administer such educational and recreational facilities designated as "community," solely, or in conjunction with the Kensington Police Protection and Community Service district, a public district and agency, or other facilitating public body or agency.

B. KCC, acting as the agent for the KPPCSD, agrees to maintain a program of recreational and educational activities, using the Community Center, the Recreation Building and the Kensington Park grounds. KPPCSD will provide water garbage service and general building maintenance.

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KCC shall be entitled to set and retain all of the fees generated by the recreational and educational programs.

- C. KCC shall pay an annual contribution to the KPPCSD, payable in two equal installments on June 15th and December 15th of each year, for the use of the Community Center, tennis courts and the Park grounds and equipment.

Additionally, KCC shall contribute \$1.00 per year on June 15th for the use of the Recreation Building ("Building E") for educational programs only. Also, KCC agrees to be responsible for all interior and exterior maintenance and repair, janitorial services and supplies, excluding the Recreation Building roof. The maintenance and repair of the roof will be the responsibility of KPPCSD.

- D. KCC agrees to maintain a general liability insurance policy covering KCC's activities occurring at the Park, Community Center and the Recreation Building. This policy shall cover KCC, its employees, directors and such other persons as KCC shall determine and shall have a minimum bodily injury liability limits of \$1,000,000 per occurrence with a \$2,000,000 aggregate limit and a property damage liability limit of \$50,000.

KPPCSD shall be named as an additional insured on the policy and evidence of current coverage will be provided to KPPCSD upon request.

- E. KCC agrees to notify all K-Group Umbrella members of the need to carry liability insurance, in accordance with the KCC bylaws, in order to use the Community Center free of charge.

- F. KCC agrees to work with the KPPCSD under its status as a 501(c) (3) non-profit organization for the purposes of fund raising and grant application towards the goal of improving and enhancing the Park, Community Center and Recreation Building facilities.

This Agreement shall commence on July 1 2016 and continue thereafter for each twelve (12)-month period unless either the KPPCSD or KCC gives written notice of intent to terminate said Agreement at least forty-five (45) days prior to the commencement of the next fiscal year. Without the notification of intent being received by either party within that designated 45-day period, the Agreement shall remain in force, as drafted, until the subsequent fiscal year begins.

Unless otherwise agreed, the Agreement shall be reviewed every three (3) years.

GM/COP, Kensington Police Protection
And Community Service District

Date

President, Kensington Community Council

Date

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EXHIBIT A

OBJECTIVES OF KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT AND KENSINGTON COMMUNITY COUNCIL

The objectives of the Kensington Police Protection and Community Services District (KPPCSD) and the Kensington Community Council (KCC) are to furnish the citizens of Kensington with park facilities, recreation and educational programs to meet their needs. In the connection, the general responsibilities shall be as follows.

- I. KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
 - A. To make available to KCC and Kensington residents the Kensington Park, Community Center, tennis courts, Recreation Building("Building E"), and such other recreation property as determined by the KPPCSD Board.
 - B. To maintain these facilities and grounds in a safe, usable condition.
 - C. To be responsible for inventory of property owned by KPPCSD on its grounds and facilities.
 - D. To maintain its existing policy and financial commitment to recreation and education.
 - E. To mitigate cost to the taxpayer in the operation and maintenance of the Park and its Building and recreational equipment.

(Note: all facilities and grounds maintenance by KPPCSD is based on budget and grant funds, which may vary with the amount of funds available)

- II. KENSINGTON COMMUNITY COUNCIL
 - A. To recommend, develop and implement recreational and educational programs which promote the general welfare of the community of Kensington.
 - B. The KCC Recreation Administrator will supervise all programs provided by the KCC.
 - C. To encourage volunteers from the community to work with the Recreation Administrator.

- D. To work with the KPPCSD in meeting the needs of programs for the citizens of Kensington.
- E. To maintain the interior and exterior of the Recreation Building in a good, safe and usable condition with the exception of the roof.
- F. To maintain recreation and educational supplies.
- G. Be responsible for setting up programs and hiring for all programs. The office hours of the Administrator shall be set by the KCC. The Recreation Administrator shall report regularly to the KPPCSD regarding the status of KCC programs.
- H. Report any damage, repairs or problems with the recreation facilities described in section I. item A to the General Manager of the District or to the Park and Facilities Administrator and assist and facilitate any necessary repair and maintenance.
- I. Coordinate with the Park and Facilities Administrator in scheduling events. The KPPCSD Park and Facilities Administrator shall be responsible for seeing that the facility users obtain and required insurance coverage, liquor licenses, and the like. Also, the Administrator will explain procedures and issue keys to facility users, as needed.
- J. Be responsible for inventory of KCC property and equipment on KPPCSD grounds and in KPPCSD facilities.
- K. Work with KPPCSD and KCC Boards of Directors in publicizing the available facilities and programs.
- L. Work with the KPPCSD General Manager and KCC in budget preparation and operate within the budget guidelines.
- M. KPPCSD will not be responsible for any costs related to the provision of recreational or educational programs to the community by KCC.

ANNUAL KENSINGTON COMMUNITY
COUNCIL CONTRIBUTION FROM
7/1/2016 - 6/30/2020

- For the fiscal year 2016/2017, KCC will contribute \$15,000 plus the 2016 San Francisco Bay Area Consumer Price Index, published annually to the KPPCSD to use exclusively towards the maintenance of the Kensington recreational facilities, payable in equal installments on December 15, 2016 and June 15, 2017.

NOTE: Due to significant changes in the Kensington Hilltop School schedule, affecting the operation of KASEP Kindergarten program, KCC will evaluate the operational costs of the 2016/2017 fiscal year.

- For every subsequent fiscal year, starting with 2017/2018 through fiscal year 2019/2020, KCC will contribute the compounded amount of the previous year plus the Bay Area Consumer Price Index, published annually to the KPPCSD to use exclusively towards the maintenance of the Kensington recreational facilities, payable in equal installments on December 15, and June 15.

Beyond 2020, KCC requests renegotiation of the base rate of the contribution in any future contracts and it is agreed that subsequent annual KCC contribution increases will be limited to the increase in the San Francisco Bay Area Consumer Price Index, published annually.

GM/COP, Kensington Police Protection and
Community Service District

Date

President, Kensington Community Council

Date