

MINUTES OF THE REGULAR MEETING OF THE CITY COUNCIL OF THE CITY OF
YREKA HELD IN SAID CITY ON SEPTEMBER 15, 2016

On the 15th day of September 2016, the City Council of the City of Yreka met in the City Council Chambers of said City in regular session, and upon roll call, the following were present: Deborah Baird, Joan Smith Freeman, and John Mercier. Absent - David Simmen.

Mayor Mercier announced that the Closed Session has been pulled from the agenda.

Consent Calendar: Mayor Mercier announced that all matters listed under the consent calendar are considered routine and will be enacted by one motion unless any member of the Council wishes to remove an item for discussion or a member of the audience wishes to comment on an item:

- a. Approval/ratification of payments issued from September 2, through September 15, 2016.
- b. Approval of Minutes of the meeting held September 1, 2016.
- c. Resolution approving the destruction of certain city records identified by the Finance Director.

Following Council discussion, Councilmember Freeman moved to approve the items on the consent calendar as submitted.

Councilmember Baird seconded the motion, and upon roll call, the following voted YEA: Baird, Freeman, and Mercier.

Mayor Mercier thereupon declared the motion carried.

City Treasurer's Report: Discussion/Possible Action – Approval of:

- a) Cash Balances Report – June 2016
- b) Quarterly Treasurer's Investment Report – 4th Quarter Fiscal Year 2015/2016
- c) Budget of Revenue and Expenditures with Year to Date Actuals through June 2016
- d) Quarterly Fiscal Performance Report – 4th Quarter Fiscal Year 2015/2016

Following Council discussion, Councilmember Baird moved to approve the Treasurer's Reports as submitted.

Councilmember Freeman seconded the motion, and upon roll call, the following voted YEA: Baird, Freeman, and Mercier.

Mayor Mercier thereupon declared the motion carried.

Acceptance of the June 30, 2016 Report on GASB 45 Retiree Benefit Actuarial Valuation prepared by Bickmore.

Finance Director Rhetta Hogan submitted the following report:

The employee compensation packages for the City of Yreka employees include California Public Employees Retirement System ("CalPERS") pensions and CalPERS' Public Employers Medical Care Health Act ("PEMCHA") healthcare benefits ("OPEB" – Other [than pensions] Post- Employment Benefits) at retirement.

In July 2004, the Governmental Accounting Standards Board issued Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires governmental entities to begin accounting for postemployment benefits on an accrual basis. Under these accounting rules, public entities that sponsor postemployment benefits are required to account for the cost of those benefits using accrual accounting rather than the previously more common pay-as-you-go accounting. This means that each employee's benefit "accrues" throughout their working lifetime and that employers are required to show the annual accruals as a current year expense.

As required, the City of Yreka implemented GASB 45 for the fiscal year beginning July 1, 2008 by recognizing the costs and recording the liabilities on its Statement of Net Position in its annual financial reports. In order to calculate costs and liabilities, in accordance with GASB 45, the City prepares triennial Actuarial Valuations of Postemployment Health Benefits. The most recent valuation is as of June 30, 2016 and provides financial reporting information for fiscal years ending 2016, 2017 and 2018.

The Actuarial Valuation of Postemployment Health Benefits is prepared using the "Pay as-you-Go" Scenario with a discount rate of 4.0% (as of September 8, 2016, the US Treasury 30-year bond yield was 2.318%). The City confirmed with Bickmore in preparation of the report that no OPEB trust has been established and indicated that OPEB financing will likely continue on a pay-as-you-go basis for the foreseeable future.

The 4.0% assumed reinvestment scenario provided by Bickmore is primarily used for cities that only contribute OPEB costs in the amount of the actual payments on behalf of retirees and is called the "Pay-as-you-Go" Scenario.

However, the unfunded OPEB liability valuation using the "Pay-as-you-Go" Scenario grows exponentially, as the City is not funding the current liability of its active employees, nor the incurred liability of its annuitants and active employees. The City is now in a "catch-up" mode, that will mirror the experience that the City has seen with its pension liability. GASB75, effective for fiscal years beginning after June 15, 2017, will compel the City begin to start funding the OPEB liability for its active and retired annuitants.

Today most government agencies are now contributing towards narrowing this funding gap by contributions funds into an irrevocable trust for pre-funding post-retirement health care benefits will result in the following benefits to the City:

And aside from the GASB75, pronouncement, the benefits to the City for reduction of the City's total OPEB liability are:

- A reduction in total current and future liability

- A reduction in the actuarial accrued liability
- A reduction in annually recorded OPEB expenses (ARC)
- Offsets medical cost inflation for pay-as-you-go retirees from investment flexibility compared to restrictions on general fund investments (Govt. Code 53216.1)
- Compliance with financial policy and best practices recommendations supported by the Government Finance Officers Association and other public finance standard setting bodies.
- Enhanced reviews from credit rating agencies resulting in future lower borrowing costs
- Other investment benefits as mentioned in the Pension Benefits Section of the staff report

Analogous to the street deferred maintenance problem where repair costs increase exponentially; the "Pay-as-you-Go" (or deferral of not contributing cash into an OPEB trust) account will cost the City far more than a measured incremental approach of investing in an OPEB trust plan.

Next Steps:

The City needs to consider both its pension and OPEB obligations very seriously and examine all options to reduce pension and OPEB obligations and annual costs, with respect to upcoming GASB75 implementation.

And as such, the Audit and Investment Committee will begin exploring options for funding both its Pension and OPEB liabilities. The committee will make recommendations when feasible, and legally permissible, to ensure responsive pension and OPEB reform measures that ensure the long-term fiscal viability and resiliency.

Specifically, GASB Statement 75, issued in June 2015, will impact the liabilities and/or expenses developed in future valuations and require changes beginning with the City's fiscal year beginning July 1, 2017 (FY 2017-18). Reporting for GASB Statement 75 will supersede GASB 45 for Employers Postemployment Benefits Other Than Pensions reporting. The City will need to be ready to address this new Governmental Accounting Standard and ready to consider participation in some form of an OPEB trust.

Also in 2017-18, it is hoped that the City will also have realized the peak of pension plan rates hikes and be ready to be address through payroll costs the current share of the active employees share of the OPEB cost (a GASB75 requirement). The City will still need to recover the annuitants and previous years actives share of OPEB costs as a "side fund" that may or may not be realistic to expense across payroll costs.

The basic results of Bickmore's June 30, 2016 valuation of OPEB liabilities for the City calculated under GASB 45 are compiled on employee and retiree demographic data provided to Bickmore from both the City and CalPERS. These valuation results are applied to develop the annual required contribution (ARC), annual OPEB expense (AOE)

and the net OPEB obligation on (NOO) to be reported by the City in accordance with GASB 45 for the fiscal years ending June 30, 2016, June 30, 2017 and June 30, 2018. All valuation results are compiled using the "Pay-as-you-Go" Scenario with a 4.0% assumed investment return.

Following Council discussion, Councilmember Freeman moved to accept the June 30, 2016 Report on GASB 45 Retiree Benefit Actuarial Valuation prepared by Bickmore.

Councilmember Baird seconded the motion, and upon roll call, the following voted YEA: Baird, Freeman, and Mercier.

Mayor Mercier thereupon declared the motion carried.

Request for consideration of Opposition to Measure H. – Mayor Pro-tempore Freeman.

Mayor Pro-Tempore Freeman provided a copy of the County of Siskiyou's Rebuttal to the argument in favor of Measure H, the Groundwater Management Initiative, stating that: Implementing Measure H:

- Conflicts with the State's management of Spring Water
- Could limit water user's exercise of these State's water rights
- Would require judicial review, even if adopted
- Attempts to exercise power over spring water uses while redefining "groundwater sources" (which is regulated by the State Water Resources Control Board)

Following Council discussion, Councilmember Freeman moved that the Yreka City Council oppose Measure H.

Councilmember Baird seconded the motion, and upon roll call, the following voted YEA: Baird, Freeman, and Mercier.

Mayor Mercier thereupon declared the motion carried.

ADJOURNMENT There being no further business before the Council the meeting was adjourned.

Attest:

John Mercier, Mayor
Minutes approved by Council
Motion October 6, 2016

Elizabeth E. Casson, City Clerk