City Council

Tim Smith
Mayor

Vicki Vidak-Martinez
Vice-Mayor

Armando F. Flores
Jake Mackenzie
Amie L. Spradlin
Council Members

Stephen R. Donley
City Manager

Judy Hauff
City Clerk

Michelle Kenyon
City Attorney

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AUG 30 2006

CITY OF ROHNERT PARK

Council:	X
Miscellaneous	8/31/06
Communications	
Agenda	
Copy to: T. Bullard	✓
Copy to: M. Kenyon	✓

J. Hauff ✓
Bd of Supervisors
City Manager.

August 29, 2006

Judge Robert S. Boyd
Presiding Judge of the Superior Court
Hall of Justice
P. O. Box 5109
Santa Rosa, CA 95402

Re: City of Rohnert Park's Response to 2005-2006 Sonoma County Grand Jury Report

This letter is being submitted to you in response to the recommendations and findings contained in the 2005-06 Sonoma County Grand Jury Final Report. Pursuant to Section 933 of the Penal Code, I have a prepared a response to the following:

- **The Impact of Yesterday's Promises – R1, R2, R3, R4, R5**

The City of Rohnert Park is submitting a unified response for the City Council, City Manager and Chief Financial Officer.

THE IMPACT OF YESTERDAY'S PROMISES

R1 The grand jury recommends that Supervisors, Council members and financial officers should verify that health or other lifetime benefit promises are secured properly and in compliance with reserve funding standards.

Retiree Pensions: All City of Rohnert Park employees entitled to retirement pensions are covered under the California Public Retirement System (CalPERS). As indicated under the grand jury's finding F2 of this report, CalPERS has considerable plan management and actuarial experience. The City completely agrees with the grand jury's finding on CalPERS' management and expertise.

Retiree Medical Benefits: The Government Accounting Standards Board (GASB) issued Statement No. 45 in June 2004 requiring government agencies to apply post employment benefits other than pensions to financial statements beginning after December 15, 2007 (for the 2008-09 fiscal year for Rohnert Park). As already acknowledged by the grand jury, the City of Rohnert Park completed an actuarial study of its retiree health benefits in June 2005. This study determined an unfunded liability of $52,336,000. The current balance of city reserves for retiree health benefits is $2,967,500. To be in conformance with GASB Statement 45, the City must place this current reserve and future contributions in a trust account.

The City agrees with this finding; the recommendation requires further analysis. The City Council has directed staff to evaluate trust fund options and all future projection of city expenses indicate the City's obligation to fund its medical retiree liability. A trust account differs from a reserve account in that the trust funds can only be used for their designated purpose. With multiple competing demands for municipal services, this liability projection must be accurately accounted for with payment planning being fully incorporated in the City's budget process in order to ensure future service levels while acknowledging past obligations.

R2 The grand jury recommends that the Board of Supervisors and/or City Councils enlist the actuarial expertise to audit this asset/obligation disclosure.

The City agrees with this finding; the recommendation has been implemented.

Retiree Pensions: Pension benefit plans are analyzed by CalPERS professional actuarial staff annually.

Retiree Medical: The City Council enlisted the actuarial services of Oliver Consulting. Oliver Consulting produced an actuarial report in July 1, 2005 reporting an unfunded liability of $52,336,000. For the grand jury's reference this report is attached as Exhibit A to the City's response.

R3 The grand jury recommends that the advice of an expert should be solicited to consider the fairest most equitable way to offer health care benefits to public employees. This should be disclosed.

The City agrees with this finding; the recommendation has been implemented. City management regularly meets with employee bargaining groups to develop mutual understanding regarding the cost of benefits. This relationship is critical to developing future benefit levels that are fair, yet sustainable. The City Council recently approved funding for a classification and compensation study to be completed by the end of the calendar year. This study will provide objective information on fair compensation, which will be shared with the City's bargaining units and with interested members of the public.

As with private sector employers, the City must maintain competitive salaries and benefits to attract and retain high quality employees. However, employee compensation must be within market standards and affordable to the City.

R4 The grand jury recommends to build a secure structure for maintenance of employee benefits should not be deferred.

The City agrees with this finding; the recommendation requires further analysis.

Retiree Pensions: Through CalPERS, the City of Rohnert Park has a secure structure to maintain its employee pension plan.

Retiree Medical: The City currently has $2,967,500 in reserves to fund the $52,336,000 retiree medical liability identified by its actuarial report. This liability has achieved the highest level of attention by the City Council and the funding of the liability has been added to future expense projections. The City Council intends to engage in a candid dialogue with employee bargaining units on achieving a fair and reasonable solution to this liability. Some of the options being discussed are the following:

1. Seeking alternatives to the current retiree medical system. For example, switching from defined benefit to defined contribution retiree medical plans for new employees and providing this option to existing employees. A defined contribution plan would more equally share the risk between the City and employee. In addition, it would offer the employee a portable, funded medical retirement benefit.

2. Re-evaluation of health care plans. As recommended by the grand jury in R3, an important component of controlling current and future medical benefit costs is offering a fair, yet affordable plan. The City will be conducting a compensation and benefit study and use this information to re-evaluate its existing benefits.

The City would like to emphasize to the grand jury that these recommendations are subject to a meet and confer process under California State law. During labor negotiations, the employee bargaining units will provide comments to the City's proposals, which the City will consider in good faith.

R5 The grand jury recommends full disclosure of each entities total benefit obligations along with information describing provisions to secure them. We are requesting this information between the end of each entities current fiscal year and December 31, 2006:

The City agrees with this finding; the recommendation has been implemented.

In response to the grand jury's report regarding healthcare benefits, the following are the answers to R5:

1. 267 Employees are eligible for retiree healthcare (this includes 79 existing retirees, but does not include spouses or dependents).

2. The number of retired employees receiving healthcare benefits is 79 (this does not include their spouse or dependents).

3. The 2006-07 cost for all retiree benefits is budgeted at $861,986.

4. We have a Retiree Medical Reserve with a current balance of $2,967,500.

5. Our most current actuarial study was performed as of July 1, 2005. The actuarial report indicates that the City has an unfunded liability of $52,336,000. The annual contribution for 30 years to fund this liability is $1,905,000. In addition, the City needs to pay the normal cost of $2,722,000 to cover all existing employees in full when they retire until death. Thus, the total annual contribution required to fund all existing employees and retirees is $4,627,000.

6. All retirees receive lifetime health, dental, and vision coverage. Management employees receive 100% premium coverage for health care. For all other employees, the City pays the lowest health premium (Kaiser or Blue Cross) and the employee/retiree is required to pay the difference.

7. In 1993, the City tiered retiree medical. All employees hired prior to July 1, 1993 receive 100% benefits level based on #6. For those hired on or after July 1, 1993, the benefit for health, vision and dental is prorated based on years of services as follows:

10-14 Years of Service	50%
15-20 Years of Service	65%
20-25 Years of Service	80%
25+ Years of Service	100%

8. The Government Accounting Standards Board (GASB) will require all cities to report post-employment benefits in their financial reports. This reporting requirement for Rohnert Park begins in fiscal year 2008/09. GASB does not require that the full amount be funded, but does require that any of the annual contribution amount that is not funded be reported in the financial statements.

9. The Government Accounting Standards Board (GASB) also requires cities to report their annual pension cost, employer contributions and accrued liability for the prior three years in their financial reports. Unlike retiree medical, PERS requires that both the normal contribution and the

unfunded liability be fully funded each year. The unfunded liability is based on the difference between the actuarial accrued liability and the actuarial asset value. As of June 30, 2004, the unfunded liability was $5.9 million.

The unfunded liability fluctuates each year based on how well PERS's investments perform in the marketplace. For example, in 2002, the City had an overfunded status of $644,000. As interest rates declined, the City's position changed to an unfunded liability of $5.9 million. Over the last year, PERS's investments have performed well and the City has experienced slight increases in their PERS rates. For 2006-07, the Public Safety rate actually declined by 0.2%. PERS has also developed a different rate model so to smooth out market fluctuations and keep rates stabilized.

CONCLUSION

This concludes the City's response to the grand jury report. Unfunded retiree benefits are one of the most significant issues the City of Rohnert Park is facing. On behalf of the City, I greatly appreciate the grand jury's attention to this important issue that needs to be in the forefront of the general public.

Respectfully submitted,

Tim Smith
Mayor

cc: Rohnert Park City Council, Rohnert Park City Attorney, Rohnert Park City Manager, Rohnert Park City Clerk, Sonoma County Board of Supervisors

Post-retirement Benefit Program Actuarial Valuation Report
City of Rohnert Park as of July 1, 2005

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Summary of Results

1.1 Background

Oliver Consulting was retained by the City to perform an actuarial valuation of the post-retirement benefit program. The program includes medical, dental, vision and life insurance coverages. For most employees hired before July 1, 1993 (eligible for "Plan 1") the City pays the cost of the lowest-premium medical plan offered by the City for both the retiree and their eligible dependents. For those electing the higher-premium medical plan, the City pays the premium for employees for the lowest-premium medical plan. For those hired on or after July 1, 1993 (eligible for "Plan 2"), the City pays a percentage, based on service at retirement, of the Plan 1 amount for both the retiree and their eligible dependents. Further details regarding the program are provided in Section 3 and in Appendix A.

Currently 76 retirees are covered by the program. All but 3 are covered by Plan 1. Of the current workforce, approximately 40% will be covered by Plan 1 if they retire from the City; the other 60% will be covered by Plan 2. Further demographic information may be found in Section 2.

Actuarial assumptions and methods utilized for the study are outlined in Section 4 and in Appendix B. These include an interest rate of 4.50%, an inflation rate of 3.50%, and a medical increase trend rate starting at 12.5% and decreasing gradually over an 8-year period to an ultimate rate of 5.75%. Demographic assumptions are generally those utilized by California PERS, modified to reflect anticipated increases in life expectancy and Rohnert Park's lower turnover rates.

1.2 Results

The Unfunded Actuarial Accrued Liability (UAAL) as of July 1, 2005 is shown below along with the contributions that would be necessary to pre-fund the entire program if the Unfunded Actuarial Accrued Liability were paid off over 30 years as a level percentage of payroll. The interest rate used, 4.50%, is representative of the returns that would be expected on the City's assets in a 3.50% inflation environment. Results as of July 1, 2003 are shown for comparison.

In both cases, we have excluded the current balance of the Retired Employee Health Insurance Reserve ($2,900,000) in anticipation of using the reserve to offset the contribution requirement.

More detailed results and explanations of terminology may be found in Sections 4.2 and 4.3.

	July 1, 2003 Valuation	July 1, 2005 Valuation
Counts		
Employees	152	174
Retirees and Beneficiaries	70	76
Total	222	250
Unfunded Actuarial Accrued Liability		
Actuarial Accrued Liability	$40,581,000	$52,336,000
Assets of the Plan held in Trust	0	0
Unfunded Actuarial Accrued Liability	$40,581,000	$52,336,000
Annual Contribution for Coming Fiscal Year		
Normal Cost	$1,877,000	$2,722,000
30-year Funding of UAAL	1,581,000	$1,905,000
Total	$ 3,458,000	$4,627,000
Annual Contribution (% of Payroll)		
Normal Cost	17.7%	22.1%
30-year Funding of UAAL	14.9%	15.4%
Total	32.6%	37.5%

The Unfunded Actuarial Accrued Liability (UAAL) and contribution level have increased since the July 1, 2003 study. Underlying this, the impact of favorable premium increase experience over the last two years due to (1) premium increases less than expected and (2) implementation on January 1, 2006 of Medicare D was offset by a strengthening of actuarial assumptions in a number of areas including – (1) lowering of the assumed interest rate from 5.00% to 4.50%, (2) updating the demographic assumptions based on the recent CalPERS experience study, (3) updating the treatment of the implied subsidy in the premium rates to conform to new Government Accounting Standards, and (4) increasing assumed future increases in medical premiums in the next few years.

The sensitivity of the results to changes in the medical trend assumption over the next 8 years, along with the sensitivity of the results to a 1% increase in the interest rate (to 5.5%) are shown in Section 4.5.

Statement No. 45 of the Government Accounting Standards Board (GASB) regarding Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions will be effective for the City's 2008/2009 financial statements. Actuarial assumptions and methods throughout this study comply with our understanding of that standard.

Data

2.1 Data Summary

A summary of data used in the study appears below. The data is as of July 1, 2005.

Covered Employees, Retirees, and Beneficiaries by Plan

	Plan 1	Plan 2	Total
(1) Counts			
Employees			
Management	8	2	10
Non-Management	59	105	164
Total	67	107	174
Retirees and Beneficiaries			
Management	27	0	27
Non-Management	46	3	49
Total	73	3	76
Total	140	110	250
(2) Percentages			
Employees			
Management	80%	20%	100%
Non-Management	36%	64%	100%
Total	39%	61%	100%
Retirees and Beneficiaries			
Management	100%	0%	100%
Non-Management	94%	6%	100%
Total	96%	4%	100%
Total	56%	44%	100%
(3) Average Age			
Employees	49	41	44
Retirees and Beneficiaries	63	48	63
(4) Average Service			
Employees	19	5	10
(5) Percentage Married			
Employees	82%	78%	79%
Retirees and Beneficiaries	70%	100%	71%

Covered Employees, Retirees, and Beneficiaries by Medical Coverage

	Blue Cross	Kaiser	Alternate Plan	Not Covered	Total
(1) Counts					
Employees					
Management	6	3	1	0	10
Non-Management	52	93	19	0	164
Total	58	96	20	0	174
Retirees and Beneficiaries					
Management	19	6	na[1]	2	27
Non-Management	25	23	na	1	49
Total	44	29		3	76
Total	102	125	20	3	250
(2) Percentages					
Employees					
Management	60%	30%	10%	0%	100%
Non-Management	32%	57%	11%	0%	100%
Total	33%	55%	12%	0%	100%
Retirees and Beneficiaries					
Management	70%	22%	na	8%	100%
Non-Management	51%	47%	na	2%	100%
Total	58%	38%		4%	100%
Total	36%	54%	9%	1%	100%

[1] The Alternate Plan is not available to retirees and beneficiaries.

Program Description

3.1 Design of Current Program

Health Plan

Upon retirement for service or disability or upon death while employed, employees of the City who meet certain criteria may continue health coverage under the City's medical, dental, and vision plans for themselves and their eligible dependents. The City pays portions of the premiums.

Plan 1 is applicable to all retirees hired before July 1, 1993 and requires 10 years of continuous City service. Retirement must be directly from service with a CalPERS pension. In this case, the City pays

(1) the cost of medical coverage for the lowest cost plan and for those electing the higher-premium medical plan, the premium for employees for the lowest-premium medical plan. and

(2) the cost of the dental and vision plans

for the retirees, their spouses, and their dependent children.

Plan 2 is applicable to retirees hired on or after July 1, 1993 and also requires 10 years of continuous City service and the other requirements outlined above. It provides the same benefits outlined in Plan 1, but the City pays a percentage of the premiums paid under Plan 1 according to the following schedule:

Years of Continuous City Service	Percentage
10.00 – 14.99	50%
15.00 – 19.99	65%
20.00 – 24.99	80%
25.00 or more	100%

Additional Benefits are payable to Key Management retirees and beneficiaries. These include payment of premiums for the medical plan chosen by the manager (including Medicare B premiums) and, if hired before May 1, 1997, payment of medical plan co-pays. (Plan 2 percentages apply to managers hired on or after July 1, 1993.) Dental co-pays are paid by the City. Benefits are also payable to retired City Council Members who meet certain criteria, including being sworn in to the Council prior to November 10, 1992.

Life Insurance

Post-retirement life insurance is also provided by the City (subject to the Plan 2 percentages for retirees hired July 1, 1993 or later). Life insurance coverage amounts are shown below. The face amount of the life and AD&D coverage is decreased to 65% at age 70 and coverage ceases at age 75.

Coverage Group	Life and AD&D Face Amount	Dependent Coverage Face Amount
Management, Retired before 7/1/90	$5,000	$1,000
Management, Retired (7/1/90 - 6/30/95)	$55,000	$5,000
Management, Retired (7/1/95 – 6/30/01)	$75,000	$5,000
Management, Retired on or after 7/1/2001	$100,000	$5,000
Non-management, Retired before 7/1/95	$5,000	$1,000
RPPSOA, Retired (7/1/95-6/30/2004)	$25,000	$1,000
RPPSOA, Retired on or after 7/1/2004)	$50,000	$1,000
Dispatchers, Retired (7/1/1995-12/31/2002)	$25,000	$1,000
Dispatchers, Retired on or after 1/1/2003	$50,000	$1,000
SEIU, Retired (7/1/1995-6/30/2001)	$25,000	$1,000
SEIU, Retired on or after 7/1/2001	$50,000	$1,000
Confidential, Retired (7/1/1995-9/30/2000)	$25,000	$1,000
Confidential, Retired on or after 10/1/2000	$50,000	$1,000
RPEA, Retired (7/1/1995-6/30/1999)	$25,000	$1,000
RPEA, Retired on or after 7/1/1999	$50,000	$1,000

3.2 Examples as of July 1, 2005

Non-Management Plans For Retirees with Different Levels of Service

1) Married retiree, 15 years service, both spouses under age 65, Kaiser

	Plan 1	Plan 2
Premium Data		
Monthly Kaiser Premium	$629.78	$629.78
City Payment		
Cap[2]	$629.78	$629.78
Percent paid by City[3]	100%	65%
City Payment	$629.78	$409.36
Cost Sharing by Retiree		
Retiree payment	$0.00	$220.42
As % of total premium	0%	35%

2) Married retiree, 25 years service, both spouses 65+, Kaiser Senior Advantage

	Plans 1 and 2
Premium Data	
Monthly Senior Advantage Premium	$648.82
Monthly Medicare B Premium	$156.40
Est. Premium Offset for Medicare D (1/1/2006)	($94.00)
Total	$711.22
Plan Reimbursement	
Cap[4]	$629.78
Percent Paid by City[5]	100%
City Payment	$629.78
Cost Sharing by Retiree	
Premiums in excess of cap	$81.44
As % of total premium	11%

[2] Kaiser premium. (Kaiser premium was the lowest premium for the 2005 / 2006 fiscal year.)

[3] 100% for Plan 1. For Plan 2, 65% for retirees with service at retirement of 15 years but less than 20 years.

[4] Lowest of Kaiser and Blue Cross premiums for actives.

[5] Because the retiree has 25 years of service, the City pays the same amount, 100%, under both Plans 1 and 2.

3) Married retiree, 25 years service, both spouses 65+, Blue Cross

	Plans 1 and 2
Premium Data	
Monthly Blue Cross Premium	$895.19
Monthly Medicare B Premium	$156.40
Est. Premium Offset for Medicare D (1/1/2006)	($120.00)
Total	$931.59
Plan Reimbursement	
Cap[6]	$629.78
Percent Paid by City[7]	100%
City Payment	$629.78
Cost Sharing by Retiree	
Premiums in excess of cap	$301.81
As % of total premium	32%

[6] Kaiser premium for actives.

[7] Because the retiree has 25 years of service, the City pays the same amount, 100%, under both Plans 1 and 2.

Valuation Results

4.1 Actuarial Assumptions and Methods

Assumptions used in the analysis that follows are outlined below.

General Economic Assumptions

Interest Rate	4.50%
Inflation Rate	3.50%
General Salary Increase Rate	3.75 %
Merit / Longevity Pay Increases	*

*Same as California PERS Assumptions for Public Agencies

A detailed display of the merit/longevity pay increase rates may be found in Appendix B.

General Demographic Assumptions

Pre-Retirement disability, mortality, and retirement probabilities	Same as California PERS Assumptions for Public Agencies
Pre-Retirement probabilities of termination of employment	California PERS Assumptions for Public Agencies modified to reflect Rohnert Park's lower termination rates for Safety and Miscellaneous members
Post-retirement mortality probabilities	California PERS Assumptions for service retirements, ordinary disabilities (for Miscellaneous), and industrial disabilities (for Safety) – with mortality rates after retirement or disablement adjusted for future mortality improvement using Scale AA on a generational basis
Marital Status of employees at retirement	Current marital status, female spouse 3 years younger than male spouse
Marital status of retirees at valuation	Current marital status and spouse birthdate

Detailed displays of probabilities referred to above may be found in Appendix B.

Future Increases in Premium Rates

Based upon:

- the types of health plans covering the City's retirees
- historical experience regarding premium increases
- expectations of future increases in medical costs due to inflation, technological advances, and utilization, and
- the long-term inflation rate of 3.50%,

Kaiser and Blue Cross medical premiums were assumed to increase at the rates shown below.

Year	1	2	3	4	5	6	7	8	9+
Kaiser	12.5%	12.0%	11.5%	10.5%	9.5%	8.5%	7.5%	6.5%	5.75%
Blue Cross	12.5%	12.0%	11.5%	10.5%	9.5%	8.5%	7.5%	6.5%	5.75%
Kaiser SA	12.5%	12.0%	11.5%	10.5%	9.5%	8.5%	7.5%	6.5%	5.75%

Premiums before age 65 were converted to an age-based equivalent. Based on a review of historic experience, Kaiser base rates were increased by 4%.

Medicare Part B premiums were assumed to increase at 5.75% per year. Dental costs were assumed to increase at 5.75% per year. Vision costs were assumed to increase at 3.75% per year.

Annual Claim Rates for Self-Insured Plans

Per person (retiree or spouse) base annual claim rates for the medical-copay self-insured plan are shown below. These rates are based on historical claims experience provided by the City.

Annual Management Medical Plan Co-pays:

Blue Cross	$395.00
Kaiser	$165.00

For key managers, the City self-insures through Delta Dental and pays 100% in all categories, subject to the $2,000 per year maximum. For this group dental claims have been assumed to equal 1.75 times the non-management dental premiums.

Actuarial Funding Method

The level percentage of pay Entry Age Normal Cost Method has been used to calculate contribution levels and the Unfunded Actuarial Accrued Liability. This is the same actuarial method that is used to fund the California PERS retirement system.

Contributions in this report are presented in terms of a Normal (or ongoing) Cost, accompanied by the cost of amortizing over a 30-year period, as a level percentage of payroll, any Unfunded Actuarial Accrued Liabilities attributable to the past.

Data

Data is as of July 1, 2005. The data has been checked for general reasonability but has not been audited.

4.2 Financial Analysis

Present Value of Benefits, Actuarial Accrued Liability, Unfunded Actuarial Accrued Liability (UAAL) and Contribution Rate

The first step in the valuation process is to calculate the Present Value as of July 1, 2005 of Post-retirement Benefits anticipated to be payable to current employees, retirees, beneficiaries, spouses, and other dependents under the City's program. An actuarial funding method is then used to calculate contribution amounts whose present value, together with the plan's assets, will equal the calculated Present Value of Post-retirement Benefits.

The key component of the contribution calculation is the Normal Cost. This is the amount that, if paid each year for a participant in an environment where the actuarial assumptions were exactly born out, would fund the participant's benefit by retirement. Different actuarial methods define the Normal Cost with different payment patterns in mind. Under the actuarial method used in this valuation, the Normal Cost is designed with the objective of producing payments that remain a fixed percentage of the participant's pay.

At each valuation, the Actuarial Accrued Liability (AAL) is calculated. This is the difference between the Present Value of the Post-retirement Benefits for current participants and the Present Value of Future Normal Cost payments to be made for these same participants. If the reserve held for the plan equaled this Actuarial Accrued Liability, the Plan would be in perfect balance, from an actuarial perspective. However, this is usually not the case due to factors such as (1) the actuarial assumptions not being born out, (2) contributions less than normal cost, and (3) plan changes. When this occurs, an Unfunded Actuarial Accrued Liability (UAAL) is formed. This equals the amount by which the AAL exceeds the reserve. This amount is usually funded over a period of years like a home loan, though typically payments are a fixed percentage of each year's payroll, rather than a fixed dollar amount.

Results of Present Value of Benefits, Actuarial Accrued Liability (AAL), and Unfunded Actuarial Accrued Liability (UAAL) Calculations

Results of these calculations as of July 1, 2005 are shown below.

	Misc.	Safety	Total
(1) Present Value of Post-retirement Benefits[8]			
(a) Retirees and Beneficiaries	$14,605,000	$10,956,000	$25,561,000
(b) Employees	$27,035,000	$31,925,000	$58,960,000
(c) Total	$41,640,000	$42,881,000	$84,521,000
(2) Present Value of Future Normal Costs	$13,522,000	$18,663,000	$32,185,000
(3) Actuarial Accrued Liability			
(a) Retirees and Beneficiaries	$14,605,000	$10,956,000	$25,561,000
(b) Employees	$13,513,000	$13,262,000	$26,775,000
(c) Total	$28,118,000	$24,218,000	$52,336,000
(4) Assets of the Plan held in Trust	$0	$0	$0
(5) Unfunded Actuarial Accrued Liability: (3) - (4)	$28,118,000	$24,218,000	$52,336,000

Contributions

Shown below are the contributions that would be necessary to pre-fund the program if the current Unfunded Actuarial Accrued Liability were paid off over 30 years as a level percentage of payroll. The contributions shown are comprised of two pieces: (1) the Normal Cost and (2) 30-year funding of the UAAL (designed to pay off the UAAL over a 30-year period using level percentage of payroll payments). Since these contribution rates are derived as a level percentage of payroll, it is anticipated that the contribution amounts will increase each year as payroll increases.

Annual Contribution in Dollars[9, 10]	Misc.	Safety	Total
Normal Cost	$1,180,000	$1,542,000	$2,722,000
30-year Funding of UAAL	1,023,000	$882,000	$1,905,000
Total	$2,203,000	$2,424,000	$4,627,000

Annual Contribution as Percentage of Payroll[11]	Misc.	Safety	Total
Normal Cost	19.2%	25.0%	22.1%
30-year Funding of UAAL	16.6%	14.2%	15.4%
Total	35.8%	39.2%	37.5%

8 The breakdown by type of coverage is: medical 90%, dental 7%, vision 2%, life insurance 1%.

9 Assumes mid-year payment.

10 Based on total payroll of $12,326,000 made up of Miscellaneous payroll of $6,148,000 and Safety payroll of $6,178,000.

11 Assumes mid-year payment.

4.3 Comparison to Prior Valuation Results

Results as of July 1, 2005 and July 1, 2003 are shown below. The Unfunded Actuarial Accrued Liability (UAAL) and contribution level increased since the July 1, 2003 study. This is primarily due to changes in actuarial assumptions that were offset to a large degree by lower than expected increases in premium rates and reductions in premiums due to Medicare D.

	July 1, 2003 Valuation	July 1, 2005 Valuation
Counts		
Employees	152	174
Retirees and Beneficiaries	70	76
Total	222	250
Unfunded Actuarial Accrued Liability		
Actuarial Accrued Liability (AAL)	$40,581,000	$52,336,000
Retired Employee Health Insurance Reserve	0	0
Unfunded Actuarial Accrued Liability	$40,581,000	$52,336,000
Annual Contribution for Coming Fiscal Year		
Normal Cost	$1,877,000	$2,722,000
30-year Funding of UAAL	1,581,000	$1,905,000
Total	$ 3,458,000	$4,627,000
Annual Contribution (% of Payroll)		
Normal Cost	17.7%	22.1%
30-year Funding of UAAL	14.9%	15.4%
Total	32.6%	37.5%

An estimate of the impact of the factors contributing to the change in the Actuarial Accrued Liability appears on the next page.

(1) Expected AAL 7/1/2005	
(a) Actuarial Accrued Liability (AAL) 7/1/2003 (rounded to millions)	$40.6
(b) Expected Normal Costs through 6/30/2005	$4.1
(c) Expected Benefit Payments through 6/30/2005	$1.3
(d) Interest at 5.0%[12] on (a), (b), and (c)	$4.3
(e) Expected AAL 7/1/2005 = (a)+(b)-(c)+(d)	$47.7
(2) Increases for:	
(a) Miscellaneous[13]	$1.6
(b) Medical Premium Increases 7/1/2003-6/30/2005 Less than Anticipated	($6.7)
(c) Adjustment for Reductions in Premiums due to Medicare D	($3.3)
(d) Future Anticipated Medical Premium Increases	$4.0
(e) Increased Recognition of Implicit Subsidies in Premiums	$1.3
(f) Update of Demographic Assumptions to new CalPERS Assumptions	$3.4
(g) Decrease in Interest Rate (from 5.0% to 4.5%)	$4.3
(h) Total	$4.6
(3) AAL 7/1/2005 (rounded to millions) =(1) (e) + (2)(h)	$52.3

The increase in the Kaiser and Blue Cross medical premiums between the last two studies is illustrated below.

Category	(1) 2003/2004 Single Premium	(2) 2005/2006 Single Premium	Ratio (2) / (1)	Ratio Anticipated in Last Study
Kaiser: Under Age 65	$267.04	$314.89	1.18	1.37
Kaiser: Over Age 65 with Medicare[14]	$261.54	$324.41	1.24	1.50
Blue Cross: Under Age 65	$295.61	$376.23	1.27	1.32
Blue Cross: Over Age 65 with Medicare	$334.74	$426.03	1.27	1.32

[12] The interest rate used in the 7/1/2003 valuation is used to calculate the expected AAL as of 7/1/2005.

[13] Including miscellaneous plan, assumption, and demographic changes

[14] Kaiser Senior Advantage

4.4 Impact of Statement No. 45 of the Governmental Accounting Standards Board

In June of 2004, the Government Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (called Other Postemployment Benefits or OPEB). Under the statement employers with annual revenues between $10 and $100 million (Phase 2 Governments) would be required to apply the statement in completing financial statements for periods beginning after December 15, 2007 (for the 2008/2009 fiscal year in Rohnert Park's case).

The statement requires the calculation of an Annual Required Contribution (ARC) and an Annual OPEB Cost calculated as outlined in the statement. Initially, the Annual Required Contribution (ARC) and the Annual OPEB cost are equal. To the extent that, after the effective date, less than the Annual Required Contribution (ARC) is contributed to the plan, a Net OPEB Obligation is created which is reported as a long-term liability and the Annual OPEB cost is calculated to include interest on the Net OPEB Obligation. The proposed statement also requires the disclosure of the funded status of the plan including the Actuarial Accrued Liability and the Unfunded Actuarial Accrued Liability.

The contribution amount and Unfunded Actuarial Accrued Liability shown in the previous sections have been completed in conformity with Statement No. 45. To the extent that the plan is not prefunded and plan assets are not held in trust the statement requires the interest rate assumption to reflect anticipated earnings on the assets of the employer. The 4.5% interest rate used in the calculations throughout this report fulfills this requirement.

GASB 45 calculations are shown below. Contribution amounts are the same as those shown earlier in the report.

Unfunded Actuarial Accrued Liability	Misc.	Safety	Total
Actuarial Accrued Liability:	$28,118,000	$24,218,000	$52,336,000
Assets of the Plan held in Trust	0	0	0
Unfunded Actuarial Accrued Liability	$28,118,000	$24,218,000	$52,336,000
Net OPEB Obligation	$0	$0	$0
Annual Required Contribution (ARC)			
Normal Cost	$1,180,000	$1,542,000	$2,722,000
30-year Funding of UAAL	1,023,000	$882,000	$1,905,000
Total	$2,203,000	$2,424,000	$4,627,000
Annual OPEB Cost	$2,203,000	$2,424,000	$4,627,000

4.5 Sensitivity Analysis

Sensitivity of results was tested for the following scenarios:

- Medical trend rate over next 8 years decreased by one-third - for instance for Blue Cross over the next three years from (12.5%, 12%, 11.5%) to (8.3%, 8%, 7.7%)
- Medical trend rate over next 8 years increased by one-third - for instance for blue Cross over the next three years from (12.5%, 12%, 11.5%) to (16.7%, 16%, 15.3%)
- Interest rate increased by 1.0% (from 4.5% to 5.5%)

Results are summarized below.

		30-year Contribution as % of Payroll:		
	UAAL in Millions	Normal Cost	30-Year Amortization of UAAL	Total
Baseline	$52.3	22.1%	15.4%	37.5%
Medical trend rate over next 8 years decreased by 1/3[15]	$44.5	18.5%	13.1%	31.6%
Medical trend rate over next 8 years increased by 1/3	$63.9	27.5%	18.9%	46.4%
Interest Rate increased by 1.0% (from 4.5% to 5.5%)	$44.2	17.1%	14.9 %	32.0 %

[15] But not below long-term rate of 5.75%

Appendix A – Health Plan Summaries and Premiums

Medical Coverage

Medical plans offered by the City are described below. Open enrollment is conducted yearly for both employees and retirees.

1. Monthly Premiums effective July 1, 2005

Category	**Blue Cross Prudent Buyer Plan**	**Kaiser** (Northern CA, S Coverage)
Under Age 65:		
Retiree	$376.23	$314.89
Retiree plus Dependent	$790.09	$629.78
Retiree plus Medicare Dependent	$790.09	$639.30
Over Age 65 (unadjusted for Medicare D):		
Eligible for Medicare:		
Retiree	$426.03	$324.41
Retiree plus Dependent	$839.88	$639.30
Retiree plus Medicare Dependent	$895.19	$648.82
Not Eligible for Medicare		
Retiree	--	$939.81
Over Age 65 (adjusted for est. Medicare D):		
Eligible for Medicare:		
Retiree	$369.03	$277.41
Retiree plus Dependent	$782.88	$592.30
Retiree plus Medicare Dependent	$775.19	$554.82

2. Medicare B premium: $78.20 per month.

3. Medical Plan Co-pays, Co-insurance and Covered Expenses

	Blue Cross Prudent Buyer (Network Only)	**Kaiser** (Northern CA, S Coverage)
Doctor Office co-pay		
Office visit	$10/visit	No charge
Physical Therapy	No charge, up to 24 visits/yr. allowed	No charge
Allergy tests and Injections	No charge	No charge
In-patient Hospital		
All physician and surgeon services	No charge	No charge
Room and board	No charge	No charge
Other necessary services and supplies	No charge	No charge
Emergency Room	$50/visit	$50/visit[16]
X-ray and Lab.	No charge	No charge
Rx	$10 generic/$20 brand (up to 60 days, mail-order)	$5 generic/$10 brand (up to 100 days)
Mental Health		
Outpatient	Up to 50 visits/year	Up to 20 visits/year
	Blue Cross pays up to $35/visit	No charge
Inpatient	Blue Cross pays up to $175/day; 30 days/cal. yr.	No charge: Up to 45 days per calendar year

[16] Unless admitted as hospital inpatient, then waived

Dental Coverage

Dental coverage is provided through Delta Dental. The yearly maximum amount paid by the Plan is $2,000. Premiums are:

Retiree:	$62.49 / month
Retiree + 1:	$106.06 / month

Percentages of reasonable and customary charges paid under the Plan are shown below.

Category of Care	Percent Paid by Plan	Lifetime Maximum
Preventative	100%	None
Basic and Restorative	85%	None
Prosthodontics	50%	None
Orthodontia	50%	$3,500

For key managers, the City self-insures through Delta Dental and pays 100% in all categories, subject to the $2,000 per year maximum.

Vision Coverage

Vision coverage is provided through Vision Services Plan. The City pays the entire cost of the plan. Premiums are:

Retiree:	$23.18 / month
Retiree + 1:	$36.02 / month

Services covered by the Plan include eye examinations and treatments, prescription eyeglasses and contact lenses.

Appendix B
Actuarial Assumptions

California PERS: Probabilities of Death and Disability in Next Year
For Public Agency Miscellaneous Members

Attained Age	Ordinary Death (Males)	Ordinary Death (Females)	Ordinary Disability (Males)	Ordinary Disability (Females)
20	0.00019	0.00009	0.0001	0.0001
30	0.00038	0.00021	0.0002	0.0004
40	0.00077	0.00046	0.0015	0.0016
50	0.00156	0.00102	0.0037	0.0035
60	0.00314	0.00226	0.0055	0.0039

California PERS: Probabilities of Retirement in Next Year
For Public Agency Miscellaneous Members under 2.7% at 55 Formula

Attained Age	Service Retirement (Males)	Service Retirement (Females)
50	5%	7%
55	9%	10%
60	17%	13%
65	27%	27%
70	100%	100%

California PERS: Probabilities of Termination in Next Year
85% of California PERS Public Agency rates for Miscellaneous Members

	Years of Service					
Entry Age	0	2	4	5	10	15
27	14.2%	10.8%	7.4%	5.7%	4.1%	3.0%
32	13.6%	10.2%	6.8%	5.1%	3.5%	2.4%
37	13.0%	9.6%	6.2%	4.5%	2.9%	.5%
42	12.4%	9.0%	5.6%	3.9%	.8%	.3%

California PERS: Pay Increase for Longevity
Public Agency Miscellaneous

	Years of Service				
Entry Age	0	2	5	10	20
27	10.1%	6.7%	3.8%	1.8%	.8%
32	8.7%	5.7%	3.3%	1.5%	.7%
37	7.3%	4.9%	2.8%	1.3%	.5%
42	6.4%	4.3%	2.4%	.9%	.2%

California PERS: Probabilities of Death, Disability, and Termination in Next Year
Public Agency Police and Fire Weighted 83%/17%

Age	Death (Males)	Death (Females)	Disability	Service	Employment Termination (85% of CalPERS)
20	.00022	0.00012	0.00063	1	11.0%
30	.00048	0.00031	0.00519	5	2.5%
40	.00094	0.00063	0.01034	10	1.6%
50	.00179	0.00125	0.01566	15	1.0%
55	.00248	0.00178	0.05969	20	0.8%
60	.00344	0.00256	0.06035	25	0.7%

California PERS: Probabilities of Service Retirement in Next Year (3% @ 50 Formula)
Public Agency Police and Fire Weighted 83%/17%

	Years of Service				
Age	5	15	20	25	30
50	4.2%	4.2%	7.6%	11.2%	14.3%
52	6.3%	6.3%	11.3%	16.5%	21.0%
55	9.6%	9.6%	17.1%	25.0%	31.8%
57	8.4%	8.4%	15.0%	21.9%	27.9%
60	100%	100%	100%	100%	100%

California PERS: Pay Increase for Longevity
Public Agency Police

	Years of Service				
Entry Age	0	2	5	10	20
27	7.9%	5.1%	2.7%	1.4%	.7%
32	7.9%	5.1%	2.7%	1.4%	.7%
37	7.9%	5.1%	2.7%	1.4%	.7%
42	7.9%	5.1%	2.7%	1.4%	.7%

California PERS: Post-Retirement Mortality for Service Retirement (With Projection on a generational basis using 1994 Group Annuity Reserving Table Scale AA)

Expected Remaining Years of Life from Age Shown

Age 7/1/2005	Male	Female
50	33.2	36.0
55	28.2	31.1
60	23.4	26.3
65	18.9	21.8
75	11.3	13.6
85	5.9	7.2
95	2.9	3.3

California PERS: Post-Retirement Mortality for Industrial Disability Retirement (With Projection on a generational basis using 1994 Group Annuity Reserving Table Scale AA)

Expected Remaining Years of Life from Age Shown

Age 7/1/2005	Male	Female
40	40.1	42.9
45	35.0	38.1
50	30.0	33.3
55	25.3	28.8
60	20.6	24.4
65	16.3	20.2
75	9.5	12.6
85	5.1	6.7
95	2.4	3.0

California PERS: Post-Retirement Mortality for Ordinary Disability Retirement
(With Projection on a generational basis using
1994 Group Annuity Reserving Table Scale AA)

Expected Remaining Years of Life from Age Shown

Age 7/1/2005	Male	Female
40	33.4	36.1
45	29.0	31.7
50	24.7	27.7
55	20.8	24.0
60	17.5	20.5
65	14.4	17.2
75	8.9	10.9
85	4.9	5.9
95	2.4	2.8