



Santa Cruz County Civil Grand Jury

2014-2015 Response Packet

Funded for the Future?

Retirement Costs and Obligations in Santa Cruz County

Santa Cruz City Council

Due date: 90 Days (by Thursday, Sept.10, 2015)

When finished, email the completed response packet as a file attachment to:
grandjury@co.santa-cruz.ca.us

Instructions for Respondents

California law PC § 933.05 requires that those responding to a Grand Jury report must provide a response for each individual finding and recommendation within a report, not a generalized response to the entire report. Explanations for disagreements and timeframes for further implementation or analysis must be provided.

Please follow the format below when preparing your response.

Response Format

1. Find the Responses Required table that appears near the end of the report. Look for the row with the name of the entity you represent and then respond to the Findings and/or Recommendations listed in that row using the custom packet provided to you.
2. For Findings, indicate one of the following responses and provide the required additional information:
 - a. AGREE with the Finding,
 - b. PARTIALLY DISAGREE with the Finding and specify the portion of the Finding that is disputed and include an explanation of the reasons therefor, or
 - c. DISAGREE with the Finding and provide an explanation of the reasons therefor.
3. For Recommendations, select one of the following actions and provide the required additional information:
 - a. HAS BEEN IMPLEMENTED, with a summary regarding the implemented action,
 - b. HAS NOT YET BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE, with a timeframe or expected date for implementation,
 - c. REQUIRES FURTHER ANALYSIS, with an explanation and the scope and parameters of an analysis or study, and a timeframe for that analysis or study; this timeframe shall not exceed six months from the date of publication of the grand jury report,
 - d. WILL NOT BE IMPLEMENTED because it is not warranted or is not reasonable, with an explanation therefor.

If the respondent is a governing body, please provide the voted response of the body as a whole. Individual responses from members of a governing body will not be published.

If you have questions about the response report please contact the Grand Jury by calling 831-454-2099 or by sending an e-mail to grandjury@co.santa-cruz.ca.us.

How and Where to Respond

1. Please download and fill out the Response Packet provided to you for your responses. Please respond to each finding and recommendation. Be sure to save any changes you make to the packet.
2. Print and send a hard copy of the Response Packet to:
The Honorable Judge Rebecca Connelly
Santa Cruz Superior Court
701 Ocean Street
Santa Cruz, Ca 95060
3. Email the completed Response Packet, as an attachment, to the Grand Jury at grandjury@co.santa-cruz.ca.us.

Due Dates

Elected officials or administrators are required to respond within 60 days of the Grand Jury report's publication. Responses by the governing body of any public entity are required within 90 days.

Penal Code § 933.05

1. For Purposes of subdivision (b) of § 933, as to each Grand Jury finding, the responding person or entity shall indicate one of the following:
 - a. the respondent agrees with the finding,
 - b. the respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.
2. For purpose of subdivision (b) of § 933, as to each Grand Jury recommendation, the responding person shall report one of the following actions:
 - a. the recommendation has been implemented, with a summary regarding the implemented action,
 - b. the recommendation has not yet been implemented but will be implemented in the future, with a timeframe for implementation,
 - c. the recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of the publication of the Grand Jury report, or
 - d. the recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.
3. However, if a finding or recommendation of the Grand Jury addresses budgetary or personnel matters of a County department headed by an elected officer, both the department head and the Board of Supervisors shall respond if requested by the Grand Jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision-making authority. The response of the elected department head shall address all aspects of the findings or recommendations affecting his or her department.
4. A Grand Jury may request a subject person or entity to come before the Grand Jury for the purpose of reading and discussing the findings of the Grand Jury report that relates to that person or entity in order to verify the accuracy of the findings prior to their release.
5. During an investigation, the Grand Jury shall meet with the subject of that investigation regarding that investigation unless the court, either on its own determination or upon request of the foreperson of the Grand Jury, determines that such a meeting would be detrimental.

A Grand Jury shall provide to the affected agency a copy of the portion of the Grand Jury report relating to that person or entity two working days prior to its public release and after the approval of the presiding judge. No officer, agency, department or governing body of a public agency shall disclose any contents of the report prior to the public release of the final report.

Findings

Finding 1: Continually rising retirement costs and obligations put funding of jurisdictions' services and projects at risk.

AGREE

PARTIALLY DISAGREE - explain disputed portion below

DISAGREE - explain below

Response explanation (required for responses other than "Agree"):

Finding 2: A clear and complete statement of the total retirement costs and obligations has not been provided in the budget narrative for either the public or elected officials.

AGREE

PARTIALLY DISAGREE - explain disputed portion below

DISAGREE - explain below

Response explanation (required for responses other than "Agree"):

Already contained in the May 12, 2015 *Proposed* Fiscal Year 2015 Budget was a description of the total unfunded retiree obligations (see the Finance Director's Overview within the Budget in Brief summary, attached). This discussion portrayed the total obligations as compared to funding levels and detailed the benefit levels provided for retiree health.

An additional financial schedule was added to the *Adopted* (final) Fiscal Year 2015 Budget that provides the details of the total annual costs and total obligation for retiree obligations.

Finding 3: Enrollment in the CalPERS Employers Retiree Benefit Trust Fund reduces employer contributions, prevents retiree health obligations from becoming a significant budget liability, and contributes to a positive credit rating.

AGREE
 PARTIALLY DISAGREE - explain disputed portion below
 DISAGREE - explain below

Response explanation (required for responses other than “Agree”):

We agree that enrollment in Retiree Benefit Trust Funds is a valuable and essential tool for government agencies to dedicate general funding for the restricted purpose of offsetting future retiree liabilities. However, there are other options than CalPERS that can have lower entry and maintenance costs.

Regarding lowering employer contributions, the City would not see a reduction in employer contributions to CalPERS but rather would contribute additional general purpose funding towards unfunded obligations.

Finally, without a significant funding strategy, a Trust will have a marginal impact to mitigate future liabilities or enhance the City’s credit rating.

Recommendations

Recommendation 1: To prevent reductions in public services, each of the six public agencies studied in this report should increase, and make public, their efforts to manage and reduce retirement costs and obligations.

HAS BEEN IMPLEMENTED

HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE

- indicate timeframe below

REQUIRES FURTHER ANALYSIS - explain scope and timeframe below (not to exceed six months)

WILL NOT BE IMPLEMENTED - explain below

Response summary, timeframe or explanation:

The City continues with a long-term strategy to increase its efforts to manage and reduce retirement costs and has made some efforts in highlighting those efforts. A summary of the major efforts include:

- 1) Permanent reduction in across-the-board compensation to all employees of at least 10% which reduced the escalation of future retirement liabilities.
- 2) Established a cap on Other Post-Employment Benefits (OPEB) such that there is a maximum hard-dollar cost and that retirees become ineligible upon reaching Medicare eligibility age (currently 65).
- 3) Issued Pension Obligation Bonds that will be paid off in 2022. They immediately reduced the City's interest costs on this Pension debt from the then 7.75% rate. Current estimated, annual savings are \$190,000, based on the recently lowered 7.50% PERS discount rate.
- 4) In advance of statewide reform (PEPRA), proactively implemented a second tier, lower benefited pension system for all newly hired employees. For public safety employees, the plan became effective September 2011 and for all other employees, March 2012. Unlike PEPRA, that became effective June 2013, the City's second tier does not exempt any new hires from the lower benefited plan (PEPRA allows new hires from other CalPERS or similar systems to start with the original, higher cost retirement system).
- 5) Established in June 2013 a \$2.1 million future obligation reserve to be converted into allocations for future liabilities, including establishment of a material retiree benefit trust to pre-fund future pension liabilities.
- 6) Implemented an annual process such that when it is financial advantageous the City makes a lump-sum prepayment to CalPERS to lower retirement costs.
- 7) Continued to obtain larger cost sharing by employees of their CalPERS retirement costs.
- 8) Continued through recent negotiations to restrict any proposals that would directly grow employee future retirement costs.

The elements of this strategy, individually and on the aggregate have been discussed in public, at City Council meetings when Council action was taken to adopt them.

Recommendation 2: Each of the six public agencies studied in this report should provide, in language understandable to the public, the totality of retirement obligations in their annual budget narratives beginning with the fiscal year 2015/16 budget.

HAS BEEN IMPLEMENTED

HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE

- indicate timeframe below

REQUIRES FURTHER ANALYSIS - explain scope and timeframe below (not to exceed six months)

WILL NOT BE IMPLEMENTED - explain below

Response summary, timeframe or explanation:

Please see the response to Finding 2.

In addition, we have historically included similar schedules detailing total retiree obligations, including a description of the benefit levels, in our audited, Comprehensive Annual Financial Report (CAFR) (attached).

Recommendation 3: The Board of Supervisors and the City Councils of Santa Cruz, Scotts Valley and Watsonville should enroll in the California Employers Retiree Benefit Trust Fund (CalPERS Trust Fund) to pre-fund retiree health obligations and unfunded liabilities.

- HAS BEEN IMPLEMENTED
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE
- indicate timeframe below
- REQUIRES FURTHER ANALYSIS - explain scope and timeframe below (not to exceed six months)
- WILL NOT BE IMPLEMENTED - explain below

Response summary, timeframe or explanation:

As a continuation of the development of our \$2.1 million unfunded obligations reserve, we will be building into our FY2017 budget development (1) a funding mechanism to build our reserve; (2) the establishment of a Retiree Trust with a provider yet to be determined (as stated in response to Finding #3, there are providers other than CalPERS to be considered); and (3) the process by which contributions are made to the Trust.

Finance Director's Overview

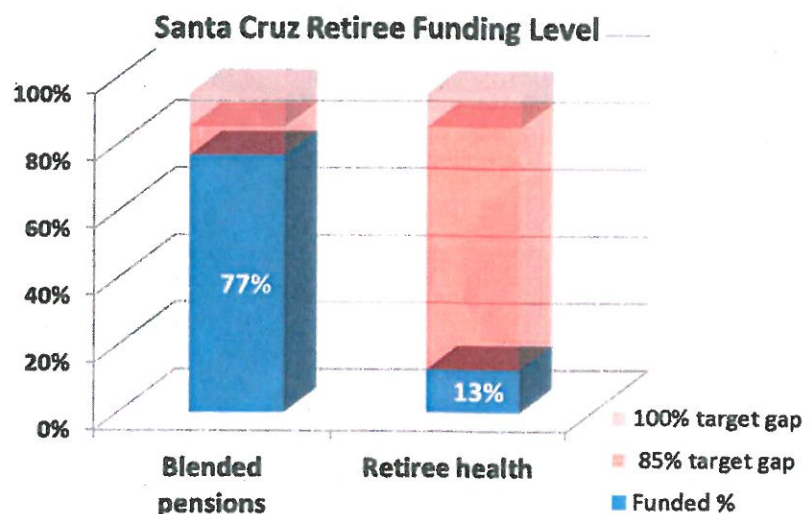
Contained within the FY 2016 *Proposed* Budget are new schedules, expanded summaries and document changes meant to provide greater transparency and easier usability. Some of the notable changes are:

- ◆ Created a new tab section for this Budget in Brief to allow for quicker, easier reference
- ◆ Reorganized by alphabetical order and moved up the operating department summaries
- ◆ Added more emphasis to the Personnel Profile overview to highlight the proposed changes
- ◆ Moved up the Capital Outlay and Capital Improvement Program
- ◆ Reorganized the Capital Improvement Program to (1) move to the intro the Climate Action and Unfunded project lists and (2) move completed projects to be within the lead operating department schedules
- ◆ The City Debt Obligations schedule will be expanded to include future unfunded liabilities

Summary of new Unfunded Obligations schedule

The City of Santa Cruz participates in the State of California's Public Employee Retirement System (CalPERS) to provide pension benefits for past, current and future employees. In addition it provides modest, capped health retiree obligations as required by the CalPERS health program and as negotiated locally by City employees. The "Santa Cruz Retiree Funding Level" chart

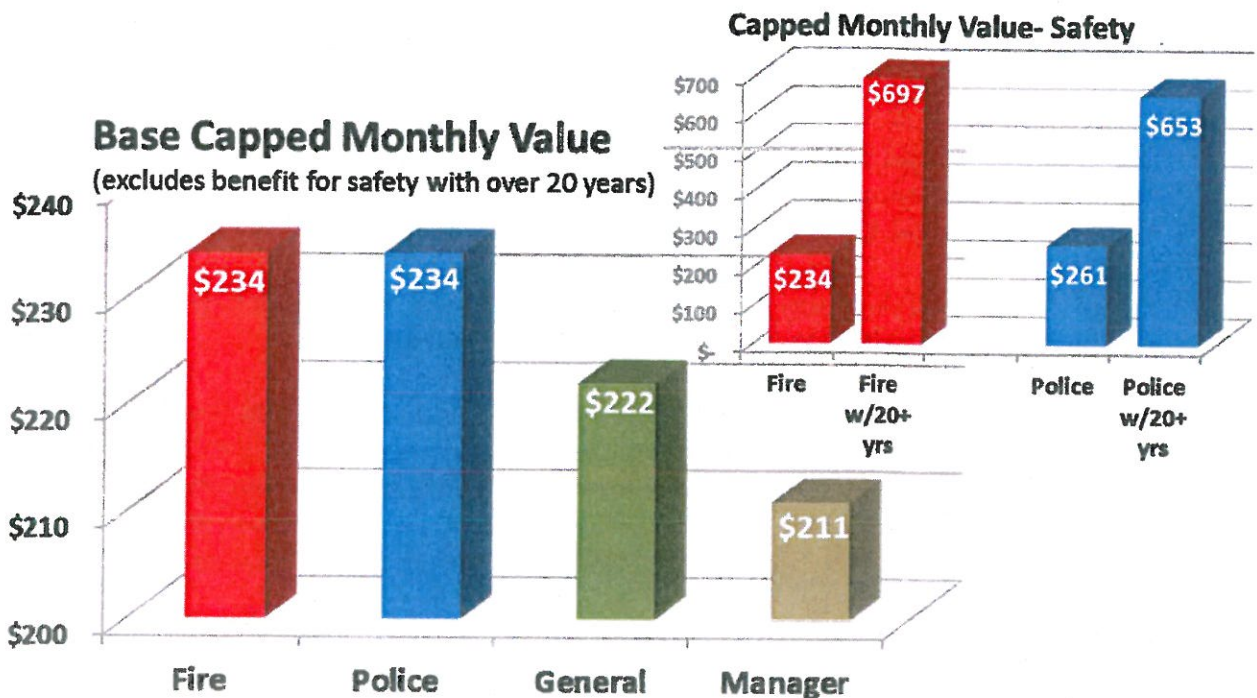
provides a summary, consolidated analysis of the funding levels of the pension and retiree health plans as compared to a minimum funding level of 85%.



Pensions. In the past several years, the City and State have implemented complimentary reform measures to reduce the pension cost for all future City's hires. In 2012, the City's lower "second" tier retirement systems went into effect that reduced

benefits for all future hires. On January 1, 2013, the State's "third" tier reform measure went into effect (known as PEPPRA). This measure provides a lower benefit for all "new" hires (excluding any hires from other CalPERS agencies). Because the City is one of the State agencies that adopted its own "second" tiers, it ensures that all future rehires will be within one of the City's lower cost pension systems. Those agencies who did not adopt a second tier still bring in new hires from other CalPERS agencies into their "classic," higher cost pension benefit. Annually, CalPERS provides the City with a revised actuarial report that provides the total liability by major plan: (1) all general employee's pension plan; (2) police and fire base ("classic") pension plans; and (3) lower police and fire pension plans.

Retiree Health. While some agencies provide large, indexed health retiree benefits that can cover up to the future, full cost of health insurance, the City of Santa Cruz provides a capped benefit to all current and future employees that varies between general employee and public safety (professional fire and police) employees. The benefit rate includes a required, CalPERS minimum amount that is currently \$122 per retiree per month while the retiree remains within the CalPERS health system. This amount grows slightly as mandated by CalPERS. In addition, the City also provides retirees an additional capped amount that varies by employee bargaining unit; and for police and fire employees, can grow for those with over 20 years of service. However, a big difference between the required CalPERS amount is that the City's amount has a limited duration and ends when the retiree reaches Medicare eligibility age (currently 65). The following charts show the difference in the monthly benefit values for retirees between base benefit levels and, for Police and Fire, the additional benefit available after 20 years of service.



For the purpose of calculating this retiree health unfunded obligation, the City contracts with an actuarial service provider who values both benefits for a composite, aggregate total. This liability is based primarily on the (1) capped City values and indexed CalPERS required contribution; (2) the length of the benefit (shorter for the City's contribution); and (3) the difference between what a normal retiree's monthly premium would be for a health plan as compared to the CalPERS required, lower monthly premium for CalPERS retirees.

Significant FY 2016 Proposed Budgetary Changes

Across the board, non-personnel operating costs stayed relatively constant. Within the FY 2016 *Proposed* Capital Outlay section, proposed costs were reduced from the FY 2015 Adopted Budget by approximately \$730,000 city-wide. Note that these Capital Outlay operating costs are different from those large purchases and projects included within the Three Year Capital Improvement Program, as discussed in the "Guide to the Document" section of this budget report. For more details on these proposed costs, see the Departmental Summaries and Capital Outlay sections of this report.

The area of some modest growth was in personnel. Across the entire City operations (excluding Library employees), an additional 5.25 Full Time Equivalent (FTE) positions are being proposed. As compared to the City's starting position count of 730.33 FTE, this represents less than a 1% position growth (0.72%). It is important to note that these amounts exclude the total positions and any changes from the county-wide Library Joint Powers system. Although for administrative purposes their total positions are included within the budget, the City does not maintain any control nor has any direct funding impacts from changes to authorized Library personnel positions.

Of the 5.25 City positions recommended to be added, the largest departmental addition was in the Parks and Recreation department. A net of 3.25 FTE were added. One Park Ranger and one Parks Maintenance Worker positions were added to support increased community demand for services and new parks that were added in the past few years.

More details of all the positions changes, including those for the independent Library, can be found in the Personnel Profile section of this budget report.

Another big change from the FY 2015 Adopted Budget to this FY 2016 *Proposed* Budget is a large reduction in the recommended Capital Improvement Projects for FY 2016. In total, as compared to FY 2015, the recommended FY 2016 projects were down \$6.6 Million. The biggest reduction was \$4.8 Million in total Public Works projects; including \$3.2 Million in lower Gas Tax funded projects. See the Capital Improvement Program section for more details.

City of Santa Cruz
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

9. RETIREMENT PLANS

A. Pension Plan

Plan Description

The City contributes to the California Public Employees' Retirement System (PERS); an agent multiple-employer defined benefit pension plan. The Police and Fire Safety plans are required to participate in a risk pool since there were less than 100 active members in at least one valuation since June 30, 2003. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance.

Copies of PERS' Annual Financial Report may be obtained from their Executive Office located at 400 P Street, Sacramento, CA 95814.

Funding Policy

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. Based on CalPERS requirements, active plan members in the Miscellaneous Plan are required to contribute 7% of their annual covered salary; while active plan members in the Police and Fire Plans are required to contribute 9% of their annual covered salary. The City is required to contribute at an actuarially determined rate for the remaining amounts necessary to cover benefits.

In December 2010, the City contributed a total of \$22,989,831 to CalPERS to pay off the CalPERS Police side fund obligation in the amount of \$12,732,528 and the CalPERS Fire side fund obligation in the amount of \$10,257,303. These amounts will be amortized as a level percentage of payroll over a ten year period. The payoff of the CalPERS side fund obligations did not affect the benefits due to existing or prior City employees.

The fiscal year 2014, actuarially determined employer rates for the annual covered payroll are as listed below:

Miscellaneous Employees	16.029%
Police Employees	27.877%
Fire Employees	27.877%

Annual Pension Cost

For fiscal year 2014, the City's annual pension cost of \$9,254,901 for PERS was equal to the City's actual contributions. The required contribution was determined as part of the June 30, 2013, actuarial valuation using the entry age normal actuarial cost method.

City of Santa Cruz
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

9. RETIREMENT PLANS, Continued

A. Pension Plan, Continued

The annual pension cost for fiscal year ending June 30, 2014, was as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 2012		
Miscellaneous	\$ 5,435,363	100%
Police	1,426,250	100%
Fire	1,368,476	100%
June 30, 2013		
Miscellaneous	5,018,081	100%
Police	1,516,536	100%
Fire	1,481,261	100%
June 30, 2014		
Miscellaneous	5,569,655	100%
Police	2,032,527	100%
Fire	1,652,719	100%

Funding Status as of the Most Recent Actuarial Date

A schedule of funding progress for the most current available year is included in this section. In addition, multi-year trend information about the actuarial value of plan assets can be found in the Defined Benefit Pension Plan section of the Required Supplementary Information. This information will provide an overview on whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

**PUBLIC EMPLOYEE RETIREMENT SYSTEMS (PERS)
SCHEDULE OF FUNDING PROGRESS**

Miscellaneous Employees

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
June 30, 2013	\$ 229,020,181	\$ 301,636,759	\$ 72,616,578	75.9%	\$ 39,021,190	186.1%

City of Santa Cruz
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

9. RETIREMENT PLANS, Continued

B. Pension Plan, Continued

The actuarial assumption included (a) 7.50% investment rate of return (net of administrative expenses); (b) projected salary increases ranging from 3.30% to 14.20% depending on age, service, and type of employment, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of volatility in the market value of investments over a fifteen-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2008, was 30 years for the Miscellaneous Plan and 12 years for the Police and Fire Plans.

Police Safety and Fire Safety Employees

Since the City has less than 100 active members in Fire and Police plans in at least one valuation since June 30, 2004, the City is required to participate in a risk pool. An actuarial valuation was performed with other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City is not available.

10. POST-EMPLOYMENT RETIREMENT BENEFITS

Retiree Medical Plan

The City of Santa Cruz Post-Retirement Health Care Plan is a single-employer defined benefit healthcare plan administered by the California Public Employees' Retirement System (CalPERS). The Plan provides healthcare insurance benefits to eligible retirees. The City contributes the Public Employees' Medical and Hospital Care Act (PEMHCA) minimum required employer contribution of \$115 per month towards the retiree monthly premium for eligible retirees participating in PEMHCA. The Plan does not issue a financial report.

All part-time and full-time regular employees that meet specified Memorandum of Understanding (MOU) continuous service and minimum age requirements are also eligible to receive a Retiree Medical Incentive. Employees must meet the following minimum eligibility requirements:

- Service – Ten years of continued service with the City and be at least 55 years of age
- Supervisor – Ten years of continued service with the City and be at least age 50 years of age
- Management – Five years of continued service with the City and be at least 50 years of age
- Public Safety - Five years of continued service with the City and be at least 50 years of age

Retiree medical incentives will be provided until the retiree becomes eligible for Medicare or discontinues CalPERS medical coverage.

The City Council and unions have the authority to negotiate and amend benefit provisions to the Retiree Medical Incentive.

City of Santa Cruz
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

10. POST-EMPLOYMENT RETIREMENT BENEFITS, Continued

Funding Policy

The contributions and requirements of plan members are established and may be amended with City Council approval. The City is currently contributing to OPEB on a pay-as-you-go basis. The financial statements assume that pay-as-you-go funding will continue. In fiscal year 2014, the City contributed the following amounts for eligible employees:

<u>OPEB</u>	<u>Number of Employees</u>	<u>Amount</u>
Required Employer Contribution	211	\$298,139
Retiree Medical Incentive (RMI)	61	\$250,488
Total FY14 OPEB Costs		\$548,627

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize over thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the state's net OPEB obligation.

Annual required contribution	\$1,790,000
Interest on net OPEB obligation	351,000
Adjustment to annual required contribution	<u>(347,000)</u>
Annual OPEB cost (Expense)	1,794,000
Contributions made	<u>(548,627)</u>
Increase in net OPEB obligation	1,245,373
Net OPEB obligation - Beginning of year	<u>7,018,125</u>
Net OPEB obligation - End of year	<u>\$8,263,498</u>

City of Santa Cruz
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2014

10. POST-EMPLOYMENT RETIREMENT BENEFITS, Continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
06/30/2012	\$2,021,000	\$476,411	23.57%	\$5,858,409
06/30/2013	1,714,000	554,284	32.34%	7,018,125
06/30/2014	1,794,000	548,627	30.58%	8,263,498

Funding Status and Progress

As of July 1, 2012, the most recent actuarial evaluation date, the Plan was not funded. The actuarial accrued liability was \$16,420,991 and there were no actuarial value of assets, which resulted in the unfunded actuarial liability (UAAL) of \$16,420,991. The annual covered payroll for FY12 was \$49,911 and the ratio of the unfunded actuarial liability to the annual covered payroll was 32.90%. In FY12, the City changed its method of calculating covered payroll to include base salaries of covered personnel; rather than all salary costs.

Actuarial valuations of ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples of these estimates and assumptions include future employment trends, mortality and the health care cost trend. Amounts are determined regarding the funded status of the plan, and the annual required contribution of the employer are subject to the continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions include a 5% investment return (used to discount results to present value), covered payroll rising 3.25% annually, premiums for Police and Fire RMI benefits rising 5% per annum, PERS Minimum rising 4% annually, and an underlying 3% inflation rate. The same mortality, retirement, and turnover rates used in the City's PERS pension costs were also referenced in the actuarial assumptions. PERS has changed retiree mortality tables to project longer lifetimes. Probabilities of death, disability, service retirement, and other termination have also been revised. The effects of the assumption changes were an increased in the expense of \$98,000 and of \$707,000 in the Actuarial Accrued Liability (AAL).

The UAAL is being amortized over a 30 year period as a level percentage of increasing payroll on a closed basis.

City of Santa Cruz
Notes to Required Supplementary Information
For the year ended June 30, 2014

PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS)
SCHEDULE OF FUNDING PROGRESS

Miscellaneous Employees

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
June 30, 2011	\$ 234,293,381	\$ 276,803,227	\$ 42,509,846	84.6%	\$ 38,127,214	111.5%
June 30, 2012	246,178,537	288,100,010	41,921,473	85.4%	37,956,947	110.4%
June 30, 2013	229,020,181	301,636,759	72,616,578	75.9%	39,021,190	186.1%

Police Safety Employees

Since the City has less than 100 active members in Fire and Police plans in at least one valuation since June 30, 2003, the City is required to participate in a risk pool. An actuarial valuation was performed with other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City is not available.

Fire Safety Employees

Since the City has less than 100 active members in Fire and Police plans in at least one valuation since June 30, 2003, the City is required to participate in a risk pool. An actuarial valuation was performed with other participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City is not available.

OTHER POST EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
July 1, 2008	\$ -	\$ 15,596,000	\$ (15,596,000)	0.0%	\$ 61,935,000	25.18%
July 1, 2010	-	18,343,000	(18,343,000)	0.0%	48,264,706	38.00%
July 1, 2012	-	16,420,991	(16,420,991)	0.0%	49,911,000	32.90%