City of Culver City, California

Agenda Item Report

Meeting Date: 08/02/2010	Item Number: C-3
CITY COUNCIL AGENDA ITEM: Approval of an Amendment to an Existing Professional Services Agreement with AON Consulting for the Actuarial Services Required by Governmental Accounting Standards Board Statement No. 45.	
Contact Person/Dept.: Jeff Muir/Finance	Phone Number: (310) 253-5865
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: [] Attachments: []	
Commission Action Required: Yes [] No [X] Date: _______________	
Public Notification: (E-Mail) Meetings and Agendas – City Council (07/29/10)	
Department Approval: Jeff Muir (07/22/10)	City Attorney Approval: Carol Schwab (by H. Baker) (07/28/10)
Chief Financial Officer Approval: Jeff Muir (07/22/10)	Acting City Manager Approval: Martin R. Cole (07/29/10)

RECOMMENDATION:

Staff recommends the City Council approve an amendment to the existing professional services agreement with AON Consulting for actuarial services required by Governmental Accounting Standards Board (GASB) Statement No. 45

BACKGROUND:

GASB Statement 45

In 2004, the Government Accounting Standards Board (GASB) issued rules relating to the accounting and reporting of Other Post-Employment Benefits (OPEB). These include all benefits – other than retirement benefits – that are earned by employees as a result of active service, but are not paid-out as benefits until the beneficiaries have retired.

The main purpose of implementing the reporting requirements was to ensure that public entities accurately represent the cost of providing benefits as these costs are incurred (as benefits are earned), and not at a later date when benefits are paid-out. The approach implemented by GASB for OPEB is similar to that long-required of retirement plans in that retirement costs are incurred and reported as active employees earn the benefits, ensuring that adequate funding is available when benefits are actually paid-out.

GASB 45 generally requires that public entities account for and report the annual cost of OPEB, and the outstanding obligations and commitments related to OPEB, in a manner analogous to pension reporting.

Annual OPEB costs for most public entities are based on actuarially determined amounts that, if paid on an ongoing basis, would provide sufficient resources to pay for benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not legally require public entities to fund their OPEB plans. A public entity may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. GASB 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and the extent to which the plan has been funded over time.

GASB 45 replaced the pay-as-you-go method that many public entities, including Culver City, utilized, with accrual accounting (recognizing an expense when it is earned). In addition to paying for current retiree medical premium costs, public entities must now recognize in their financial statements the “earned” cost of current employees’ future retiree medical premiums. In reporting these “earned” costs a public agency is compelled to recognize an important future financial obligation and, through actuarially determined analyses, annually set-aside amounts that enable a public agency to manage its OPEB liability judiciously.

Implementing Provisions of GASB 45

The specific requirements of GASB 45 are for public agencies to report annually, the difference between the Annual Required Contribution (ARC) – as calculated by the actuarial analysis – and the actual annual contribution made by the agency. The financial statements will also contain supplemental information related to the overall funding status of the retiree medical benefit plan. Culver City was required to implement GASB 45 in Fiscal Year 2008/2009.

The Actuarial Study

In accordance with the aforementioned GASB 45 requirements the City previously contracted with AON Consulting to perform an actuarial valuation to determine the City’s unfunded retiree medical insurance liability and the estimated amount the City should set-aside annually to fully fund the OPEB liability. At that time, an RFP process was undertaken and AON Consulting was selected. The valuation was completed in April 2008 and presented to City Council in May 2008.

The following is a summary of the final results of the actuarial valuation of the City’s retiree medical benefit plan:

1. Our Unfunded Actuarial Accrued Liability as of July 1, 2007 was estimated in the range of $105.2 million to $208.7 million, depending on actuarial interest rate assumptions.

2. Both liabilities and Annual Required Contribution Rates (ARC) are highly sensitive to the discount rate and amortization assumptions. While generally accepted actuarial methods would amortize unfunded liabilities over 20 years, GASB allows for up to a 30-year amortization of any unfunded OPEB liabilities. In addition, the discount rate (investment earnings) applied to plan assets have a dramatic effect on annual contributions needed to meet future funding obligations.

3. The following table provides a comparison of using a 4.00% rate (assumed City's investment return at the time of the report) and 7.75% rate (the assumed PERS long-term investment return) for a 30-year amortization of unfunded liabilities:

	4.00%	7.75%
Present Value of Benefits (Total Liability for Current Retirees and Active Employees)	$208,690,000	$105,154,000
Actuarial Accrued Liability (portion of PVB attributable to past service)	$158,324,000	$89,558,000
Normal Cost (current year cost for active employees)	$4,604,000	$1,911,000
Annual Required Contribution	$10,681,000	$7,466,000
% of Pay	22.7%	15.9%

For the Fiscal Year ended June 30, 2009, the City paid $3,255,447 (on a pay-as-you-go basis) for OPEB, which represented about 6.9% of payroll. This compares with possible full-funding of the OPEB liability that requires 16% to 23% of payroll, or $7.5 million to $10.7 million annually, based upon different actuarial assumptions. While GASB 45 does not require the City to modify its current funding of OPEB benefits, implementation of GASB 45's reporting requirements highlights the true cost of these benefits, and long-term cost projections strongly suggest the need to move from a pay-as-you-go funding practice to a pre-funding approach. The City was required to record a $7.4 million liability for OPEB on its June 30, 2009 financial statements.

DISCUSSION:

One of the provisions of GASB 45 is that an updated actuarial report is required every two years. The City's last report was completed in 2008, and a new report is required for the preparation of our June 30, 2010 audit. Staff is recommending the approval of an amendment to the existing professional services agreement in an additional amount not-to-exceed $22,000 (for an aggregate contract amount of $37,000 with AON Consulting to create the actuarial report required by GASB 45. Pursuant to Section 3.07.070, of the Culver City Municipal Code, professional services are excluded from formal bid requirements. As mentioned, AON Consulting was previously selected through an RFP process. They are familiar with the City and will be able to complete the report in the time frame required by our auditors.

FISCAL ANALYSIS:

Sufficient funds for this amendment are available in the City Council Adopted Budget for Fiscal Year 2010/2011.

ATTACHMENTS:

None.

MOTION:

That the City Council:

1. Approve an amendment to the existing professional services agreement with AON Consulting for actuarial services required by Governmental Accounting Standards Board (GASB) Statement No. 45 for an additional amount not-to-exceed $22,000 (for an aggregate contract amount of $37,000); and

2. Authorize the City Attorney to review/prepare the necessary documents; and

3. Authorize the City Manager to execute such documents on behalf of the City.