CITY OF OAKLAND

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AGENDA REPORT

TO: **DEANNA J SANTANA**
CITY ADMINISTRATOR

FROM: Katano Kasaine
Osborn Solitei
Donna Hom

SUBJECT: Summary of City's Unfunded Liabilities

DATE: January 6, 2014

City Administrator Approval Dean Santana

Date 1/13/14

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Receive an Informational Report on Developing a Long-Term Plan to Address the City of Oakland's Unfunded Liabilities, which Include But Are Not Limited to, California Public Employee Retirement System (Cal PERS) Plan, Police and Fire Retirement System (PFRS), Other Post Employment Benefits (OPEB), Negative Fund Balance, and Employee Accrued Leaves, Which are Currently Estimated to Total Approximately $1.64 Billion

EXECUTIVE SUMMARY

The City's financial burden due to unfunded liabilities is significant and continues to grow each year Oakland like other cities across the United States has been impacted by the Great Recession While the City has weathered the fiscal storm and continued to show signs of recovery, as evidenced by recent revenue and positive trends in economic development, providing public services to residents are costly and challenging Over the past several years the City has begun to address its unfunded liabilities Previously when those liabilities were discussed the conversation centered solely on the City's Pension Plans and Other Post-Employment Benefits (OPEB) It is important to recognize that the City must address all unfunded liabilities as part of a "Plan", not just the long-term liabilities of pension and OPEB, in a comprehensive and strategic manner The City's strategic approach of considering all unfunded liabilities is consistent with the approach taken by the Governor's Office in the January 2014 release of the Governor's Proposed Budget The City is also constantly dealing with the daily operational needs that impact the quality of life of our residents

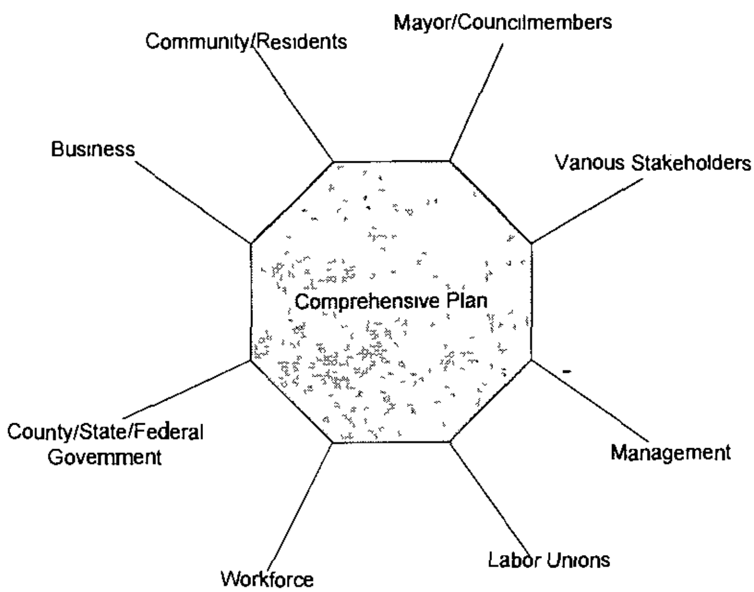
Councilmember Schaaf has requested staff to provide an informational report on developing long-term plan to address the City's unfunded liabilities as described in the title above The purpose of this informational report is to summarize the City's unfunded liabilities to include short-term, medium-term and long-term liabilities categories below

1 Operations
2 Capital Needs
3 Other Post Employment Benefits
4 Negative Fund Balance
5 Employee Accrued Leaves
6 Pension Plans
7 General Liability and Worker's Compensation

The City considers any unfunded liabilities that needs to be addressed in the next two years (within the current biennial budget) as short-term, three (3) to five (5) years (within the five year forecast window) as medium-term, and anythmg over five (5) years as long-term

Some of the short-term unfunded liabilities are operational shortfalls, annual payments for pension, other post-employment benefits, roads, facilities, fire stations, and information technology (IT) staff and systems upgrades that are predictable expenditures, but no appropriated dollars Medium-term unfunded liabilities includes structural imbalance, on-going expenses funded by one-time revenues, sunset of the Wildfire Prevention District, sewers, and Oakland Police Department (OPD) Police Administration Building (PAB) Long-term unfunded liabilities include pension balances, OPEB, new training, building maintenance, staffing, asset management issues, and technology maintenance and upgrades

The "Plan' requires resources to address the unfunded liabilities, which most likely will impact service level In order to properly address and develop a comprehensive plan to tackle each of these unfunded liabilities, the City needs to engage all prospective stakeholders as shown below



Despite the challenges that the City has been faced in the last five years, the City has made some major accomplishments as shown in the following reports, which indicate the need assessment and funding gaps

- Five Year Financial Forecast
http //www2 oaklandnet com/Government/o/CityAdministration/d/BudgetOffice/index htm
- Capital Improvement Plan (CIP)
http //www2 oaklandnet com/Government/o/CityAdministration/d/BudgetOffice/index htm
- Unfunded Actuarial Accrued Liabilities Report
http //www2 oaklandnet com/oakca1/groups/cityadministrator/documents/memorandum/oak044539 pdf

The next step is for the City to begin to prepare a comprehensive plan for unfunded liabilities

BACKGROUND/LEGISLATIVE HISTORY

Operations:

The City has immediate operational needs due to expenditures incurred that are not currently budgeted in the FY 2013-15 Adopted Budget, but generally quite predictable year to year or part of the traditional budgeting best practices (e g , radio, fleet, labor, etc) These unftmded year-to-year needs directly impact the City's ability to proactively plan for this "Plan" and/or present year-to-year fiscal challenges Examples include, but not limited to

- Head Start ($1 5M) for FY 2014-15
- OPD Overtime ($10M-$14M) for the current fiscal year and future years
- Police sworn officer attrition is trending faster than projected, requiring additional resource is required to conduct recruitment to backfill vacancies and reach desired staffing levels (TBD depending on the actual attrition rate)
- Citywide Radio System Replacement ($22-$25M) of financing, with annual impact about $5-7M
- The City's bargaining units that were not fully funded
- Measure Y Expiration ($22M)
- Fleet replacement ($4-5 M)

Capital Needs:

Capital Needs are long-term investments that are designs to upgrade and repair existing facilities, parks/open space, streets, sidewalks, and sewers, purchase technology-related equipment, fleet maintenance and service contracts, mitigate traffic hazards, improve pedestrian and bicycle safety, and improve disabled persons' access to City facilities For a need to qualify as a Capital Project, it must require fifty thousand dollars ($50,000) or more in resources The majority of the City's Capital Needs are incorporated into the Capital Improvement Program or CIP The CIP is a five year plan of potential capital projects which is revisited biennially A total of approximately $54.2 million was budgeted for FY 2013-15 for the CIP. Additional Capital Needs include upgrades and licensing of information technology systems and numerous unapprised facilities including the Police Administrations Building.

Post-Employment Benefits Other Than Pension

The City pays the partial costs of health insurance premiums for certain classes of retirees from City employment. Retirees meeting certain requirements relating to age and years of service are eligible for health benefits. The health benefits are extended to retirees pursuant to labor agreements between the City and certain of its employee labor unions and in resolutions adopted by the City. Approximately $17.6 million was paid on behalf of retirees under these programs for the year ended June 30, 2013.

The City implemented Governmental Accounting Standard Board ("GASB 45") in fiscal year 2008, which addresses how state and local governments should account for and report the annual Post-Employment Benefits Other than Pensions ("OPEB") cost. GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions.

As of July 1, 2012, the Actuarial Accrued Liability (the "AAL"), which is equal to that portion of the Actuarial Present Value of Benefits deemed to have been earned to date, was $553.5 million.

Based on the most recent actuarial report prepared by Aon Hewitt as of July 1, 2012, assuming 4.00% interest earnings, the City's projected net OPEB obligation (defined, in terms of balance sheet liability, as the cumulative difference between the annual OPEB cost, on an actuarial basis, and the City's actual contribution to the OPEB plan since 2008) will be approximately $215.3 million. Currently, the City is funding OPEB on a pay-as-you-go basis and anticipates paying approximately $18.2 million for Fiscal Year 2013-14 as shown in the table below.

FY Ended	Accrued Liability	Unfunded Liability	Annual OPEB Cost	Employer Contribution	Net OPEB Obligation
2009	$591,575,250	$591,575,250	$54,564,000	$12,474,000	$85,758,000
2010	$591,575,250	$591,575,250	$54,495,000	$14,016,000	$126,237,000
2011	$520,882,498	$520,882,498	$46,451,000	$15,710,000	$156,978,000
2012	$520,882,498	$520,882,498	$46,401,000	$16,795,999	$186,583,000
2013	$553,530,074	$553,530,074	$46,291,501	$17,622,496	$215,252,287

Negative Fund Balance

There are funds in the City with negative balances as summarized in the table below. Negative fund balances accumulated over time and are largely due to years of operating gaps caused by charging expenses that could not be sustained and /or ongoing expenditures that outpaced ongoing revenues, made worse by no intervention to reduce costs or raise revenues. A second contributing factor to the increasing deficit balances is the accumulation of negative interest Repayment schedules were established for a number of the City's negative funds such that negative balances would be eliminated in 10 years or sooner, but not all have a payment plan and, yet, still require resolution over time As of June 30, 2013, the total of the negative balances is $109 6 million

The table below presents the status of the negative fund balance

Negative Fund Balance Summary for FY 2010 thru 2013

	Negative Fund Category	Ending Fund Balance FY 2009-10	Ending Fund Balance FY 2010-11	Ending Fund Balance FY 2011-12	Ending Fund Balance FY 2012-13
1	Negative Funds with Repayment Plan	(98 175,474)	(94,379,909)	(78,072,482)	(67,926 367)
2	Reimbursable Negative Funds[1]	(22,448 746)	(13 525 732)	(18 629 957)	(28 219,413)
3	Non-Reimbursable Negative Funds without Repayment Plan	(17,542 656)	(13 441,408)	(14,091,416)	(13,447,067)
	Total Negative Funds	$ (138,166,876)	$ (121,347,049)	$ (110,793,855)	$ (109,592,847)

FY 2010-11 to FY 2010-12 repayment amount $ (28,574,029)

1 As of June 30, 2013, the City has spend $4 1 million of former Redevelopment 3rd Pary Contracts that the State Department of Finance (DOF) has rejected The Oversight Board approved the Bond spending plan to reimburse these funds

Employee Accrued Leaves

The City's policy and its agreements with employee groups permit employees to accumulate earned but unused vested vacation, sick leave and other compensatory time All earned compensatory time is accrued when incurred in the govemment-wide financial statements and the proprietary fund financial statements A liability for these amounts is reported in the governmental funds only if they are due and payable As of June 30, 2013, employee's accrued unfunded leave balances was estimated at $40 6 million, as reported m financial statements and required by law

Pension Plans

The City maintains two closed pension systems, the Police and Fire Retirement System ("PFRS") and the Oakland Municipal Employees Retirement System ("OMERS") In addition, the City is a member of the California Public Employees' Retirement System ("CalPERS"), a multiple-employer pension system that provides a contributory defined-benefit pension for most current employees

The table below provides a summary of the City's pension plans and its unfunded liability.

Plan	Accrued Liability	Assets	Unfunded Liability	Funded Ratio	Employer Rate[1]	Employer Contribution[1]	Valuation Date
PFRS	$640,908,000	$437,219,000	$203,689,000	68 20%	N/A	$0 [2]	7/1/2012
OMERS	$3,630,000	$4,448,000	($818,000)	122 50%	N/A	$0	7/1/2012
PERS--Public Safety	1,398,098,675	1,080,138,724	317,959,951	77 30%	35 15%	45,671,030	7/1/2012
PERS--Miscellaneous	2,080,205,749	1,655,997,001	424,208,748	79 60%	30 16%	60,825,829	7/1/2012

(1) Rates and Employer Contribution is for Fiscal Year 2014-2015
(2) FY 2013-14 contribution is zero based on the funding agreement between the City and PFRS As part of this agreement, $210 million in pension obligation proceeds was deposited into the PFRS trust in late July 2012 and the City is not required to contribute during the prepayment period (7/1/2012 – 6/30/2017)

Each year, CalPERS actuaries calculate a funded ratio which varies from year to year As of June 30, 2012, the City's funded ratio based on actuarial value of asset is 79 6% for Miscellaneous and 77 3% for Safety and the City's funded ratio based on market value of asset is 66 4% for Miscellaneous and 64 8% for Safety The average market value asset for Alameda County, Sacramento County and Contra Costa County is 72 0% for Miscellaneous Plan and 65% for Safety Plan for 2012 Both actuarial and market value require close monitoring

In 2012, the City issued pension obligation bonds and made a one-time deposit of approximately $210 million As a result, the City will not be required to make any further periodic payments to the PFRS through June 30, 2017 However, when this sunset, the City will be required to contribute an estimated $34 2M to fund PFRS UAAL beginning in FY 2017-18 and continues to increase annually PFRS has a dedicated revenue sources (tax override) that is used to pay for PFRS obligations However, if the tax override revenue is insufficient to pay PFRS obligations resulting in a shortfall, this shortfall and similarly large shortfalls in future years will become the liability of the City's General Purpose Fund A shortfall of approximately $24 million is projected for FY 2017-18, which the general purpose fund will have to contribute The City has set a reserve of approximately $10 million for unfunded liabilities which includes PFRS unfunded liabilities

General Liability and Worker's Compensation

General Liability. Numerous lawsuits are pending or threatened against the City The City estimates that as of June 30, 2013, the amount of liability determined to be probable of occurrence is approximately $28,554,250 Of this amount, claims and litigation approximating $11,389,651 are estimated to be due within one year The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated The City has not accumulated or segregated assets or set aside fund balances for the payment of estimated claims and judgments

Changes in general claims liabilities for the years ended June 30. 2013 and 2012 are as follows (in thousands)

	2013		2012	
Self-insuranee liability - general liability, beginning of year	$	33,971	$	36,687
Current year claims and changes in estimates		13 652		12,414
Claims payments		(19,069)		(15,130)
Self-insurance liability - general liability, end of year	$	28 554	$	33,971

Workers' Compensation. The City is self-insured for workers' compensation Payment of claims is provided through annual appropriations, which are based on claim payment experience and supplemental appropriations Of the $80.596,283 in claims liabilities as of June 30, 2013, approximately $20,820,639 is estimated to be due within one year

Changes in workers' compensation claims liabilities for the years ended June 30, 2013 and 2012 are as follows (in thousands)

	2013		2012	
Self-insurance liability - workers' compensation beginning of year	$	85,558	$	82,045
Current year claims and changes in estimates		17,297		29,810
Claims payments		(22,259)		(26,297)
Self-insurance liability - workers' compensation, end of year	$	80,596	$	85,558

The estimated undiscounted liability for claims and contingencies is based on the results of actuarial studies and includes amounts for claims incurred but not reported and allocated loss adjustment expenses The estimated liability is calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors

ANALYSIS

Prior Accomplishments

Operations

Absorbing the Dissolution of the Redevelopment Agency The City put in place plans that prepared it for the dissolution of redevelopment The elimination in January 2012 created a $28 million deficit in the City's budget and eliminated a significant source of ongoing funding for affordable housmg and blight abatement The City imposed restructuring to absorb the shortfall The negative impacts from the dissolution are an on-going challenge to the City as the projects need to be completed and maintained

Surviving the Great Recession The City has weathered the fiscal storm and is on the rise, with economic indicators showing modest and steady upward trends Most importantly economically sensitive revenues are rebounding In June 2012, for the first time in four years, City balanced the budget without layoffs or cuts to public services A few services were restored, and the City invested in increasing police staffing, economic development and job growth However, the expenditure growth out paces the revenue growth, and various anticipated expenditures remain funded and unanticipated expenditures are inevitable but without a fund to draw from m the two-year budget

Capital Needs:

Lease Financings The City has successfully closed the following lease transaction

- Banc of America Leasing & Capital LLC in the amoimt of $16,150,000 for the purpose of financing the acquisition and installation of 30,000 hght-emitting diode (LED) streetlamps and related improvements and equipment on and to an equivalent numbers of streetlights to replace high pressure sodium cobra-head streetlamps in the City of Oakland The LED Lighting Conversion Project provides many benefits to several different audiences, with the primary goal to support public safety with brighter and better lighting, less glare and fewer 'dark spots' between poles Significant energy savings results m lower power consumption and a healthier environment LED streetlights require less maintenance and have a longer lifespan (15 years minimum)
- Chase Equipment Finance, Inc m the amoimt of $11,850,000 for the purpose of financing the acquisition of the equipment, software, maintenance and services for different types of fleet vehicles and equipment
- IBM Credit, LLC and Oracle Capital Corporation for a combined total amoimt of $10,683,408 for the purpose of financing mandatory licenses, operating and maintenance fees, system upgrades and enhancements of critical services of hardware and software used by employees on a day to day basis
- City is contemplating the financing of approximately $2 5 million of parking meter equipment

Other Post Employment Benefits:

Payments through ROPS After the dissolution of former Redevelopment Agency, the City has requested payments for OPEB through the Recognized Obligation Payment Schedule (ROPS) To date, the City has received approximately $1,366,264 anticipates receiving approximately $332,808 in the June 2014 ROPS The City will receive approximately $600,000 annually until June 30, 2022 These payments will go towards paying the OPEB unfunded liability

City Council *appropriate $10 mil*lion The City will appropriate $10 million in FY 2015-16 and an additional $10 million in FY 2016-17 to a reserve for unfunded liabilities

Negative Funds:

*Repayment Pla*n It is also important to note the progress the City continued to make on its negative fund balances Over the past decade, many non-general purpose fund have been depleted creating financial pressures on the general purpose fund They are largely attributable to historical overspending and/or under-recovery and transfers to the general purpose fund for budget balancing measures As of FY 2012-13, just over $109 million remained in negative fund balances

The last three Adopted Policy Budgets (FY 2009-2015) included repayment plans for the City to repay itself for the use of pooled cash for both Program Funds and Internal Service Funds (ISFs) Negative balances continue to draw resources from other funds, and ultimately become the responsibility of the general purpose fund The City has established a formal repayment schedule for many negative funds and has instituted strong fiscal controls that have enabled the City to make good progress in paying down negative fund balances, from approximately $138 2M to $109 6M over the past few years, despite the difficult recent budget situation The repayment plan has been monitored closely by staff, and staff has also instituted more frequent draw-downs of grant funds, as well as increased oversight and management of expenditures for funds with negative balances Since FY 2009-10, over $28 5 million has been repaid, reducing the negative balances and mitigating the accumulation of negative interest Continued commitment to repayment is strongly encouraged to ensure the necessary financial progress as a commitment to external auditors

Pensions:

2012 Pension Obligations Bonds On July 30, 2012, the City issued Taxable Pension Obligation Bonds, Series 2012 ("2012 POBs") of approximately $212 5 million The proceeds of the bonds were deposited into the closed Police and Fire Retirement System (PFRS) to fund the unfunded actuarial accrued liability for beneficiary retirement benefits As a result, the City will not be required to make any further periodic payments to the Retirement System through June 30, 2017, thereby providing temporary relief to the City's general fund Most importantly, the bonds are secured and payable from any legally available source of funds of the City as well as and including the pledge of Tax Override Revenues received by the City from a levy of a 1575% tax on property within the City of Oakland

By issuing the 2012 POBs and making a one-time deposit of approximately $210 million, the City reduced the PFRS' UAAL from $426 8 million to $216 8 million and increased the funded ratio from 37 5% to an estimated ratio of 68 2%, thus reducing the City's annual required contribution Additionally, pre-funding some of the long-term liability will enable the fund the opportunity to generate greater returns and will thereby further reduce the City's UAAL over the long-term

The City's pre- payment period with regards to the PFRS fund is set to expire on June 30, 2017, and at which point the City will be required to contribute an estimated $34 2M to fund PFRS UAAL Since there are no other dedicated revenues to fund PFRS besides tax override, payments in excess of the available revenues (tax override) will be payable from the General Fund A shortfall of approximately $24 million is projected for FY 2017-18, this shortfall and similarly large shortfalls in future years will become the liability of the City's General Purpose Fund

Pension payments through ROPS After the dissolution of former Redevelopment Agency, the City has requested payments pension unfunded obligation through the Recognized Obligation Payment Schedule (ROPS) To date, the City has received approximately $2,705,132 and anticipates receiving approximately $658,942 in the June 2014 ROPS that will go towards paying down the unfunded liability The City will receive approximately $1 2 million annually until June 30, 2022

City Council appropriate $10 million The City will appropriate $10 million in FY 2015-16 and an additional $10 million m FY 2016-17 to a reserve for unfunded liabilities

Implemented Changes to CalPERS amortization and smoothing method In order to address the loss and to reduce the volatility in employer contribution rates, CalPERS implemented a new amortization and smoothing policy for the June 30, 2013 actuarial valuations Under the new smoothing and amortization policy changes, investment gains and losses would be recognized over a fixed 30-year period with the increases or decreased in the rate spread directly over a 5-year period According to CalPERS, this action will resuh in an increase in employer rates in the near term but lower contributions rates in the long term The smoothing will increase the employer rate volatility in normal years but a much reduced chance of very large rate increase in extreme years if there was a large investment loss In addition the adoption of this new amortization and smoothing method will improve funding levels, which would reduce the funding level risk and ultimately achieve a fully funded status for its plans in thirty years The adopted policy changes intend to protect the beneficiaries and reduce the long-term cost of benefits for all

Implemented Tier Pension Plans In order to address the growing concerns of the unfunded liability in CalPERS, the City successfully negotiated with all labor unions for a two-tiered system and implemented the two-tiered pension plans in July 2011 The City approved two-tiered pension plans for all labor unions, one benefit plan for existing employees (classic member), and a less expensive plan for new employees hired after June 9, 2011 to reduce the City's costs overtime

In September 2012, Governor Brown signed Assembly Bill 340, known as PEPRA, which reforms all state and local public retirement systems and their participating employers with the exception of charter cities or counties that operate an independent retirement system (not governed by the 37 Act) that took effect on and after January 1, 2013 PEPRA limits the pension benefits offered to new employees and increases flexibility for employee and employer cost sharing for current employees Therefore, the City now has three-tiered pension plan **The most significant savings will be realized only as new members are hired in the future, short-term savings will be minimal.**

With so much concentration on addressing the concerns of unfunded liability in CalPERS by implementing these changes from CalPERS and realizing savings from the multiple tiered pension system, the pension plans will be funded at an improved level

Future Challenges

The City's unfunded liabilities are grouped into seven categories (see below) and three time horizons Staff has done partial assessment of the City's unfunded liabilities and grouped them into one of 21 groups based on category and time horizon The matrix on the following page presents these 21 groups and summarizes the fiscal challenges posed

1. ***Operations:*** Covers all spending related to operations to provide services to its residents
2. ***Capital Needs:*** The Capital Needs generally include new and continuing projects that than has a useful design life of at least 10 years and costing more than $50,000 These projects are designed to build, replace or improve City assets (buildings, roads, parks, sewer and drainage lines, etc) They are largely reflected in the City's Capital Improvement Program (CIP)
3. ***Other Post-Employment Benefits (OPEB):*** The City pays the partial costs of health insurance premiums for certain classes of retirees from City employment Retirees meeting certain requirements relating to age and years of service are eligible for retiree medical benefits known as OPEB
4. ***Negative Fund Balance:*** Many non-general purpose funds have negative balance due to historical over spending and/or under recovery, as well as operational shortfalls (cost increases outpacing revenue growth)
5. ***Leaves:*** Earned but unused vested vacation, sick leave and other compensatory time
6. ***Pension Plan:*** The City maintains two closed pension systems, the Police and Firemen's Retirement System (PFRS) and Oakland Municipal Employees Retirement System (OMERS) In addition, the City is a member of the California Public Employees' Retirement System (CalPERS), a multiple-employer pension system that provides a contributory defined-benefit pension for most current employees
7. ***General Liability and Worker's Compensation:*** The City is exposed to various risks of liabilities imposed by lawsuits and similar claims lawsuits Also, the City has to pay for the lost wages and medical expenses of an employee who is injured on the job

Unfunded Liability Categories including items already addressed							
	Operations	Capital Needs	OPEB	Negative Fund Balance	Leaves	Pension Plan	General Liability and Worker's Comp/Others
Short-term (2 Years)	• Head Start ($1 5M) • OPD Overtime ($10M-$14M) • OPD Academics for COPS grant positions and attritions faster than projected • Citywide Radio System Replacement ($22-$25M) • Labor Contract (TBD) depending on negotiation terms • Measure Y renewal ($20M) • Fleet replacement (need financing $4 5 - $5M))	• Roads • Facilities (roof, bathroom repair) • Buildings (two fire stations are over 100 years old) • IT staff and system upgrading ($10M) • Parking Meters	• Pay-as-you-go Estimated Cost $37 4M	• repayment plan $12 1M	• Pay-as-you-go Estimated Cost $30 1	• Pay-as-you-go Estimated required contribution for Misc $118 7M • Pay-as-you-go Estimated required contribution for Misc $93 2M	• Pending litigation/ settlements an on-going need of the operations $11 3M • Worker s Comp claims $20 8
Medium-term (3-5 Years)	• Structural Imbalance (see Five Year Forecast) • On-going expense funded by one-time revenue ($11 6M) • Sunset on Wildfire Prevention District ($1 8M impact) • Measure Q Fund Balance exhausted • Increasing Medical Costs	• Sewers • OPD PAB • Parking meters	• Pay-as-you-go Estimated Cost $66 1M	• repayment plan $25 5M			
Long-term (5+ Years and Beyond)	• Staff shortage and development • Asset Management Program • Building and equipment maintenance • IT maintenance and upgrade	• New Facilities (PD and FD Training Center)	As of June 30, 2013 • UAAL @ $553 5M • Net OPLB Obligation @215 3 M	• repayment plan $30 4M (includes 1700 & 1750) • reimbursable/non-reimbursable $41 6	• Accrued Leaves as of 6/30/13 $40 6	As of June 30, 2012 • UAAL @ $945 9M	• Pending litigation/ settlements an on-going need of the operations $17 2M • Worker s Comp claims $59 8

Notes

1) Items presented in this table are included for explanatory and illustrative purposes the grouping of items into categories and time frames is not final and will be assessed in the engagement process
2) Values presented are preliminary, and must be re-appraised both as a part of the engagement process, the valuations will change as time elapses Values are given in order to convey the orders of magnitude of various categories
3) The values presented in each cell may overlap with other categories or timeframes specific values will be refined as a part of the engagement process
4) Table includes items already addressed by prior measures (e g repayment of negative funds, and PFRS tax override), and the list of items is not meant to be comprehensive

NEXT STEPS

In order to resolve the City's unfunded liabilities, the collaboration of all the stakeholders to understand what these imfunded liabilities are and magnitude of the impact on the City's financial health m the short-term, medium-term and long-term It is critical to engage the stakeholder to develop a comprehensive plan for implementation The first step to accomplish this collaboration is public outreach to educate the communities, business, Councilmembers, labor unions, etc through public engagement or meetings Through ongoing collaboration and commitment to finding solutions to these challenges will preserve a better Oakland for all

In conclusion, staff will be bringing a report to Council with balance measures that will address the short-term liabilities m February 2014 with the Mid-year Budget revision, additional short-term issues will be addressed during the Mid-Cycle Budget revisions planned for May and June, 2014 As an ongoing process, staff will begin to work collaboratively with all stakeholders to bring back a comprehensive plan to address the medium-term and long-term unfunded liabilities As these unfunded liabilities were created over a long period of time, they will require substantial time and resources to address See the attached common template which can be used to produce plans for each category of unfunded liability Examples of two items are provided for illustration only, they are not plans being recommended (see **Attachment A**)

The process to formulate a plan includes the following steps

1 Outreach for stakeholder input (6 months, March to August 2014)
2 City Council study sessions (3 months, March – TBD 2014)
3 Draft a plan includes stakeholder input and reactions (3 months, September to December 2014)
4 Proposed plan to City Coimcil (1 month, January 2015)
5 Adopt the Plan and budget amendment as needed (3 months, February to May 2015, part of FY 2015-17 budget)

PUBLIC OUTREACH/INTEREST

This item did not require any additional public outreach other than the required posting on the City's website

COORDINATION

This report has been prepared by the Treasury Division m coordination with the Controller Office, Revenue Division and Budget Office

COST SUMMARY/IMPLICATIONS

This is an informational report

SUSTAINABLE OPPORTUNITIES

Economic There are no environmental opportunities associated with this report

Environmental There are no environmental opportunities associated with this report

Social Equity There are no social equity opportunities associated with this report

CEQA

This report is not a project under CEQA

For questions regarding this report, please contact Katano Kasaine, Treasurer at (510) 238-2989

Respectfully submitted,

Katano Kasaine

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ATTACHMENT A

STRATEGIC FRAMEWORK FOR ADDRESSING UNFUNDED LIABILITIES

Time Horizon: ***Medium -Term***

Category: ***Negative Fund Balances***

Issue

Negative balances continue to draw resources from other funds, and ultimately become the responsibility of the General Purpose Fund As of June 30 2013, the total of the negative balances is $_____ million, with Internal Service Funds accounting for ____% of this figure Negative fund balances accumulate over time and are largely due operating gaps between annual revenues and expenditures and the accumulation of negative interest

Actions

The following table presents actions steps to resolving the medium-liabilities of negative fund balances

	Actions	Timeline
1	Complete repayment plans for fund on such plans	June 30^{th} 2019
2	Use of one-time general fund revenues to pay down funds which are not reimbursable through other means	July 1^{st} 2015
3	Assigned fund managers to monitor negative funds and funds in danger of becoming negative	
4	Increase internal service rates for negative internal service funds	
5	Close all operations in certain negative funds	July 1^{st} 2016

Stakeholders Focus

Challenges and Opportunities noted by City Council, Mayor, Community Groups, Labor Unions, Management, State Government

ATTACHMENT A

STRATEGIC FRAMEWORK FOR ADDRESSING UNFUNDED LIABILITIES

Time Horizon: ***Long -Term***

Category: ***OPEB***

Issue

The City pays the partial costs of health insurance premiums for certain classes of retirees from City employment Retirees meeting certain requirements relating to age and years of service are eligible for health benefits The health benefits are extended to retirees pursuant to labor agreements between the City and certain of its employee labor unions and in resolutions adopted by the City Currently, the City is funding OPEB on a pay-as-you-go basis and anticipates paying approximately $18 2 million for Fiscal Year 2013-14

As of July 1, 2012, the Actuarial Accrued Liability, which is equal to that portion of the Actuarial Present Value of Benefits deemed to have been earned to date, was $553 5 million Based on the most recent actuarial report prepared by Aon Hewitt as of July 1, 2012, assuming 4 00% interest earnings, the City's projected net OPEB obligation (defined, in terms of balance sheet liability, as the cumulative difference between the annual OPEB cost, on an actuarial basis, and the City's actual contribution to the OPEB plan since 2008) will be approximately $215 3 million

Actions

The followmg table presents actions steps to resolving the Long-habilities of OPEB unfunded liability

	Actions	Timeline
1	Fund the City's OPEB Trust fund with PERS	July 2014
2	Continue to pay down the unfunded liabilities from the ROPS	
3	The appropriation of $10 million to be used for pension and OPEB	July 1st 2015
4	Have established an unfunded hability reserve	

Stakeholder Focus

Challenges and Opportunities noted by City Coimcil, Mayor, Labor Unions, Management, Business Groups

Item __________
Finance and Management Committee
Januaiy 28, 2014