

**Office of
The City Attorney
City of San Diego**

**MEMORANDUM
MS 59**

(619) 236-6220

DATE: January 7, 2013

TO: Honorable Council President and Councilmembers

FROM: City Attorney

SUBJECT: Requirement for Actuarial Valuation of Retiree Health Benefits Under Fifteen-Year Memoranda of Understanding

On February 7, 2012, the San Diego City Council (Council) approved memoranda of understanding between the City of San Diego (City) and each of its recognized employee organizations related to modifications to the City's retiree health benefits for employees who retire after March 31, 2012. *See* San Diego Ordinances O-20130, O-20131, O-20132, O-20133, O-20134, and O-20135. The Council imposed the modifications on unrepresented employees. *See* San Diego Ordinance O-20105.

The City negotiated the memoranda of understanding with each employee organization pursuant to the Meyers-Milias-Brown Act (MMBA), California's collective bargaining law. The terms of the memoranda of understanding are binding on the City and each employee organization. *Glendale City Employees' Ass'n, Inc. v. City of Glendale*, 15 Cal. 3d 328, 332-333 (1975) (holding that an agreement entered into under the MMBA binds the public employer and the public employee organization once approved by the governing board of the local entity).

Each memorandum of understanding contains the following provision related to the City's funding of the modified retiree health benefit:

The Parties understand that the City will fund the retiree health benefits and post-employment health benefits provided for in this Memorandum annually. Based on current actuarial calculations, the City does not anticipate paying more than \$57,782,000 annually for Fiscal Years 2012, 2013, 2014, and 2015, and further anticipates that the City's payment will not increase by more than 2.5 percent per year after 2015. *At the end of Fiscal Year 2014, in accordance with the City's obligations to report its GASB 45 liability, the City will retain an actuary to present at a public meeting of the Council the results of the most recent actuarial*

Honorable Council President and City Councilmembers
January 7, 2014
Page 2

valuation of the retiree health benefits and post-employment health benefits, which will include projections of the cost of the benefits for future years.

(Emphasis added.)

This Memorandum is to remind the Council and the City's administrators of the City's obligations under the memoranda of understanding to retain an actuary to review the City's funding of retiree health benefits and post-employment health benefits and to present the results of the most recent actuarial valuation at a public Council meeting. Under the memoranda of understanding, the required actuarial valuation is to be done by an actuary, at the end of Fiscal Year 2014, in accordance with the City's obligation to disclose its Governmental Accounting Standards Board (GASB) 45 liability. GASB 45 requires accounting and financial reporting by employers for postemployment benefits other than pensions (OPEB or other postemployment benefits). See <http://www.gasb.org/st/summary/gstsm45.html>.¹ Under Council Policy 000-02 (Budget Policy), the GASB 45 disclosures are done in conjunction with the City's Comprehensive Annual Financial Report (CAFR).

If you have any questions regarding this Report, please contact this Office.

JFD:ccm
cc: Scott Chadwick, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Misc. Memo MS-2014-1
699916.doc

¹ Under GASB 45 standards, employers are required to disclose information, including descriptions of each defined benefit OPEB plan in which they participate, the funding policy, contributions made in comparison to annual OPEB cost, changes in the net OPEB obligation, the funded status of each plan as of the most recent actuarial valuation date, and the nature of the actuarial valuation process and significant methods and assumptions used. Employers that participate in defined contribution OPEB plans, including the City, are required to recognize OPEB expense or expenditures for their required contributions to the plan and a liability for unpaid required contributions on the accrual or modified accrual basis, as applicable. See <http://www.gasb.org/st/summary/gstsm45.html>.