



GASB 74/75 INTERIM ACTUARIAL VALUATION

Fiscal Year Ending June 30, 2021

CITY OF PASO ROBLES

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October 1, 2021

Ryan Cornell
City of Paso Robles
821 Pine Street, Suite A
Paso Robles, CA 93446

This report summarizes the interim GASB actuarial valuation for the City of Paso Robles 2020/21 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 74 (Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans) and GASB Statement No. 75 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions). This report may not be appropriate for other purposes. Please contact Nyhart prior to disclosing this report to any other party or relying on its content for any purpose other than that explained above. Failure to do so may result in misrepresentation or misinterpretation of this report.

The information presented herein is based on the actuarial assumptions and substantive plan provisions summarized in this report and participant information furnished to us by the Plan Sponsor. We have reviewed the employee census provided by the Plan Sponsor for reasonableness when compared to the prior information provided but have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based. When relevant data may be missing, we may have made assumptions we feel are neutral or conservative to the purpose of the measurement. We are not aware of any significant issues with and have relied on the data provided.

The discount rate, other economic assumptions, and demographic assumptions have been selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All calculations have been made in accordance with generally accepted actuarial principles and practice.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

- plan experience differing from that anticipated by the economic or demographic assumptions;
- changes in economic or demographic assumptions;
- increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and
- changes in plan provisions or applicable law.

We did not perform an analysis of the potential range of future measurements due to the limited scope of our engagement.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.



Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Should you have any questions please do not hesitate to contact us.

A handwritten signature in black ink that reads "Sandy DeKalb".

Sandy DeKalb ASA, EA, MAAA
Actuary

A handwritten signature in black ink that reads "John Mallows".

John Mallows, FSA, MAAA
Actuary

Executive Summary

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Summary of Results

Presented below is the summary of GASB 75 results for the fiscal year ending June 30, 2021 compared to the prior fiscal year as shown in the City's Notes to Financial Statement.

	As of June 30, 2020	As of June 30, 2021
Total OPEB Liability	\$ 16,957,975	\$ 18,453,647
Actuarial Value of Assets	\$ (7,526,912)	\$ (9,794,260)
Net OPEB Liability	\$ 9,431,063	\$ 8,659,387
Funded Ratio	44.4%	53.1%

	FY 2019/20	FY 2020/21
OPEB Expense	\$ 1,147,676	\$ 1,003,420
Annual Employer Contributions	\$ 447,814	\$ 447,814

	As of June 30, 2020	As of June 30, 2021
Discount Rate	3.00%	2.67%
Expected Return on Assets	6.00%	6.00%

GASB Disclosures

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Schedule of Changes in Net OPEB Liability and Related Ratios

OPEB Liability	FY 2020/21	FY 2019/20	FY 2018/19	FY 2017/18
Total OPEB Liability				
Total OPEB Liability - beginning of year	\$ 16,957,975	\$ 14,991,444	\$ 13,888,468	\$ 13,329,764
Service cost	884,773	653,372	594,575	579,776
Interest	526,097	566,388	566,498	537,631
Change of benefit terms	0	0	0	0
Changes in assumptions	818,395	1,995,683	512,103	(99,964)
Differences between expected and actual experience	(116,693)	(574,832)	0	0
Benefit payments	(616,900)	(674,080)	(570,200)	(458,739)
Net change in total OPEB liability	\$ 1,495,672	\$ 1,966,531	\$ 1,102,976	\$ 558,704
Total OPEB Liability - end of year	\$ 18,453,647	\$ 16,957,975	\$ 14,991,444	\$ 13,888,468
Plan Fiduciary Net Position				
Plan fiduciary net position - beginning of year	\$ 7,526,912	\$ 7,536,826	\$ 7,269,966	\$ 6,945,139
Contributions - employer	447,814	447,814	455,146	130,500
Contributions - active employees	0	0	0	0
Net investment income	2,436,434	216,352	381,914	653,066
Benefit payments	(616,900)	(674,080)	(570,200)	(458,739)
Trust administrative expenses	0	0	0	0
Net change in plan fiduciary net position	\$ 2,267,348	\$ (9,914)	\$ 266,860	\$ 324,827
Plan fiduciary net position - end of year	\$ 9,794,260	\$ 7,526,912	\$ 7,536,826	\$ 7,269,966
Net OPEB Liability - end of year	\$ 8,659,387	\$ 9,431,063	\$ 7,454,618	\$ 6,618,502
Plan fiduciary net position as % of total OPEB liability	53.1%	44.4%	50.3%	52.3%
Covered employee payroll	\$ 18,323,253	\$ 16,841,923	\$ 15,723,440	\$ 14,195,440
Net OPEB liability as % of covered payroll	47.3%	56.0%	47.4%	46.6%

GASB Disclosures

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

OPEB Expense

OPEB Expense	FY 2020/21	FY 2019/20
Discount Rate		
Beginning of year	3.00%	3.70%
End of year	2.67%	3.00%
Service cost	\$ 884,773	\$ 653,372
Interest	526,097	566,388
Change of benefit terms	0	0
Projected earnings on OPEB plan investments	(446,616)	(445,422)
Reduction for contributions from active employees	0	0
OPEB plan administrative expenses	0	0
Current period recognition of deferred outflows / (inflows) of resources		
Differences between expected and actual experience	\$ (125,574)	\$ (114,966)
Changes in assumptions	555,965	481,565
Net difference between projected and actual earnings on OPEB plan investments	(391,225)	6,739
Total current period recognition	\$ 39,166	\$ 373,338
Total OPEB expense	\$ 1,003,420	\$ 1,147,676

GASB Disclosures

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Deferred Outflows / (Inflows) of Resources

Deferred Outflows / (Inflows) of Resources represents the following items that have not been recognized in the OPEB Expense:

1. Differences between expected and actual experience of the OPEB plan
2. Changes of assumptions
3. Differences between projected and actual earnings in OPEB plan investments (for funded plans only)

The initial amortization period for the first two items noted above is based on expected future service lives while the difference between the projected and actual earnings in OPEB plan investment is amortized over five years. All balances are amortized linearly on a principal only basis and new bases will be created annually for each of the items above.

Differences between expected and actual experience for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2021
June 30, 2018	\$ 0	N/A	\$ 0	\$ 0
June 30, 2019	\$ 0	N/A	\$ 0	\$ 0
June 30, 2020	\$ (574,832)	5	\$ (114,966)	\$ (344,900)
June 30, 2021	\$ (116,693)	11	\$ (10,608)	\$ (106,085)

Changes in assumptions for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2021
June 30, 2018	\$ (99,964)	5	\$ (19,993)	\$ (19,992)
June 30, 2019	\$ 512,103	5	\$ 102,421	\$ 204,840
June 30, 2020	\$ 1,995,683	5	\$ 399,137	\$ 1,197,409
June 30, 2021	\$ 818,395	11	\$ 74,400	\$ 743,995

GASB Disclosures

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Deferred Outflows / (Inflows) of Resources (Continued)

Net Difference between projected and actual earnings in OPEB plan investments for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2021
June 30, 2018	\$ (246,205)	5	\$ (49,241)	\$ (49,241)
June 30, 2019	\$ 50,832	5	\$ 10,166	\$ 20,334
June 30, 2020	\$ 229,070	5	\$ 45,814	\$ 137,442
June 30, 2021	\$ (1,989,818)	5	\$ (397,964)	\$ (1,591,854)

As of fiscal year ending June 30, 2021	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 0	\$ (450,985)
Changes in assumptions	2,146,244	(19,992)
Net difference between projected and actual earnings in OPEB plan investments	0	(1,483,319)
Total	\$ 2,146,244	\$ (1,954,296)

Annual Amortization of Deferred Outflows / (Inflows)

The balances as of June 30, 2021 of the deferred outflows / (inflows) of resources will be recognized in OPEB expense in the future fiscal years as noted below.

FYE	Balance
2022	\$ 39,167
2023	\$ 108,400
2024	\$ (4,191)
2025	\$ (334,170)
2026	\$ 63,792
Thereafter	\$ 318,950

GASB Disclosures

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Sensitivity Results

The following presents the Net OPEB Liability as of June 30, 2021, calculated using the discount rate assumed and what it would be using a 1% higher and 1% lower discount rate.

- The current discount rate is 2.67%.
- The 1% decrease in discount rate would be 1.67%.
- The 1% increase in discount rate would be 3.67%.

As of June 30, 2021	Net OPEB Liability
1% Decrease	\$ 11,539,336
Current Discount Rate	\$ 8,659,387
1% Increase	\$ 6,346,299

The following presents the Net OPEB Liability as of June 30, 2021, using the health care trend rates assumed and what it would be using 1% higher and 1% lower health care trend rates.

- The current health care trend rate starts at an initial rate of 6.25%, decreasing to an ultimate rate of 4.50%.
- The 1% decrease in health care trend rates would assume an initial rate of 5.25%, decreasing to an ultimate rate of 3.50%.
- The 1% increase in health care trend rates would assume an initial rate of 7.25%, decreasing to an ultimate rate of 5.50%.

As of June 30, 2021	Net OPEB Liability
1% Decrease	\$ 7,324,619
Current Trend Rates	\$ 8,659,387
1% Increase	\$ 10,816,066

GASB Disclosures

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Asset Information

Asset Breakdown	FY 2019/20	FY 2020/21
Assets		
Cash and deposits	\$ 0	\$ 0
Securities lending cash collateral	0	0
Total cash	\$ 0	\$ 0
Receivables		
Contributions	\$ 0	\$ 0
Accrued interest	0	0
Total receivables	\$ 0	\$ 0
Investments		
Stable Funds	\$ 19,800	\$ 18,665
Balanced Funds	7,507,112	9,775,595
Mutual Funds	0	0
Total investments	\$ 7,526,912	\$ 9,794,260
Total Assets	\$ 7,526,912	\$ 9,794,260
Liabilities		
Payables		
Investment management fees	\$ 0	\$ 0
Securities lending expense	0	0
Total liabilities	\$ 0	\$ 0
Net Position Restricted to OPEB	\$ 7,526,912	\$ 9,794,260

* The employer contributions and benefit payments include retiree benefit payments inclusive of subsidy not reimbursed from the trust. The implicit benefit payment for FY 2020/21 is \$98,314.

GASB Disclosures

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Asset Information (Continued)

Asset Reconciliation	FY 2019/20	FY 2020/21
Additions		
Contributions Received		
Employer	\$ 447,814	\$ 447,814
Active employees	0	0
Total contributions	\$ 447,814	\$ 447,814
Investment Income		
Net increase in fair value of investments	\$ 216,352	\$ 2,436,434
Interest and dividends	0	0
Investment expense, other than from securities lending	0	0
Securities lending income	0	0
Securities lending expense	0	0
Net investment income	\$ 216,352	\$ 2,436,434
Total additions	\$ 664,166	\$ 2,884,248
Deductions		
Benefit payments	\$ 674,080	\$ 616,900
Administrative expenses	0	0
Other	0	0
Total deductions	\$ 674,080	\$ 616,900
Net increase in net position	\$ (9,914)	\$ 2,267,348
Net position restricted to OPEB		
Beginning of year	\$ 7,536,826	\$ 7,526,912
End of year	\$ 7,526,912	\$ 9,794,260

* The employer contributions and benefit payments include retiree benefit payments inclusive of subsidy not reimbursed from the trust. The implicit benefit payment for FY 2020/21 is \$98,314.

Discussion of Discount Rates

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Under GASB 74, the discount rate used in valuing OPEB liabilities for funded plans as of the Measurement Date must be based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that (a) they are sufficient to pay for the projected benefit payments and (b) the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA /Aa or higher (or equivalent quality on another rating scale) must be used.

For the current valuation:

1. The long-term expected rate of return on OPEB plan investment is assumed to be 6.00%. This was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are then combined to produce the long-term expected rate of return by weighting them based on the target asset allocation. The best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan's target asset allocation as of June 30, 2020 are summarized in the following table.
2. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments are selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown.

Asset Class	Target Allocation	L/T Expected Real ROR
Domestic Equity	49.0%	4.75%
International Equity	23.0%	5.00%
Domestic Fixed Income	23.0%	1.50%
International Fixed Income	3.0%	1.75%
Alternatives	2.0%	5.00%
Cash	0.0%	0.00%
Total	100.0%	

Yield as of	July 1, 2020	June 30, 2021
Bond Buyer Go 20-Bond Municipal Bond Index	2.21%	2.16%
S&P Municipal Bond 20-Year High Grade Rate Index	2.66%	2.19%
Fidelity 20-Year Go Municipal Bond Index	2.45%	1.94%
Bond Index Range	2.21% - 2.66%	1.94% - 2.19%

3. The final equivalent single discount rate used for this year's valuation is 2.67%. This rate is based on a blend of asset expected rate of return and 2.19% using the highest of 3 - 20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 Year Bond Index. The City does not currently have a pre-funding policy but has been making annual contributions of \$349,500 to the Trust. The projection of cash flows used to determine the discount rate assumed future pre-funding contributions of \$349,500 are made to the Trust.

Summary of Key Actuarial Assumptions

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

For a complete summary of actuarial methods and assumptions, refer to the GASB 75 actuarial valuation report for the fiscal year ending June 30, 2020.

Measurement Date	For fiscal year ending June 30, 2021, June 30, 2021 measurement date was used.			
Actuarial Valuation Date	July 1, 2020 with results actuarially projected on a “no gain / no loss” basis to get to the June 30, 2021 measurement date. Liabilities as of July 1, 2020 are based on an actuarial valuation date of July 1, 2020.			
Asset Return	6.00% per year			
Discount Rate	2.67% as of June 30, 2021 and 3.00% as of June 30, 2020 for accounting disclosure purposes			
Payroll Growth	2.75% per year, plus merit scale increases			
Merit Increases	Merit increases from the 2017 CalPERS pension plan valuation. The benefits are not payroll related but each individual's projected cost is allocated over their lifetime as a level-percentage of pay.			
Inflation Rate	2.75% per year			
Cost Method	Allocation of Actuarial Present Value of Future Benefits for services prior and after the Measurement Date was determined using Entry Age Normal Level % of Salary method where: <ul style="list-style-type: none"> • service Cost for each individual participant, payable from date of employment to date of retirement, is sufficient to pay for the participant's benefit at retirement; and • annual Service Cost is a constant percentage of the participant's salary that is assumed to increase according to the Payroll Growth. 			
Health Care Trend Rates	FYE	Medical/Rx	FYE	Medical/Rx
	2020 ¹	Actual	2025	5.25%
	2021	6.25%	2026	5.00%
	2022	6.00%	2027	4.75%
	2023	5.75%	2028+	4.50%
	2024	5.50%		
Minimum Contribution	The minimum required contribution increases each year based on medical portion of CPI. The assumed increase is 4% per year.			

¹ Based on actual premium changes from 2019/20 to 2020/21

Actuary's Notes

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Interim year valuation results have been projected from the prior year's valuation, with adjustments for:

1. Actual Premium increases from 2019/20 to 2020/21. Making this change resulted in a decrease in liabilities.
2. Updating the discount rate from 3.00% as of July 1, 2020 to 2.67% as of June 30, 2021. See the Discussion of Discount Rate section for more information. Making this change resulted in an increase in liabilities.

Premium Rates

The City participates in the CalPERS Health Program, a community-rated program, for its medical coverage. The tables below summarize the 2021 monthly medical premiums for the primary medical plans in which the retirees are enrolled. All premiums are effective for the calendar year.

2021 CalPERS Premiums - Region 2	Kaiser	BS Access+	BS Trio	PERS Care	PERS Choice	PERS Select
Retiree Only	\$ 669.77	\$ 938.96	\$ 722.56	\$ 1,115.68	\$ 783.19	\$ 476.92
Retiree plus Spouse	\$ 1,339.54	\$ 1,877.92	\$ 1,445.12	\$ 2,231.36	\$ 1,566.38	\$ 953.84
Retiree Only - Medicare	\$ 324.48	N/A	N/A	\$ 381.25	\$ 349.97	\$ 349.97

2021 CalPERS Premiums - Region 2	UHC HMO	Anthem HMO Select	Anthem HMO Traditional	Health Net SmartCare	Health Net Salud
Retiree Only	\$ 723.84	\$ 674.69	\$ 1,046.04	\$ 769.11	\$ 458.66
Retiree plus Spouse	\$ 1,447.68	\$ 1,349.38	\$ 2,092.08	\$ 1,538.22	\$ 917.32
Retiree Only - Medicare	\$ 311.56	\$ 383.37	\$ 383.37	N/A	N/A

Appendix

City of Paso Robles Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2021

Valuation Results Summary

Below is the summary of the GASB results for fiscal year ending June 30, 2021 based on the Entry Age Normal Level % of Pay cost method with a discount rate of 2.67%.

Present Value of Employer Contributions	Explicit	Implicit	Total
Active	\$ 19,937,965	\$ 6,785,292	\$ 26,723,257
Retirees	\$ 8,975,013	\$ 781,579	\$ 9,756,592
Total	\$ 28,912,978	\$ 7,566,871	\$ 36,479,849

Total (Accrued) OPEB Liability	Explicit	Implicit	Total
Active	\$ 6,488,789	\$ 2,208,266	\$ 8,697,055
Retirees	\$ 8,975,013	\$ 781,579	\$ 9,756,592
Total	\$ 15,463,802	\$ 2,989,845	\$ 18,453,647

Projected Employer Contributions	Explicit	Implicit	Total
2021	\$ 582,666	\$ 98,314	\$ 680,980
2022	\$ 599,154	\$ 117,346	\$ 716,500
2023	\$ 614,524	\$ 134,265	\$ 748,789
2024	\$ 629,204	\$ 128,062	\$ 757,266
2025	\$ 643,762	\$ 142,636	\$ 786,398
2026	\$ 658,064	\$ 145,061	\$ 803,125
2027	\$ 672,765	\$ 147,366	\$ 820,131
2028	\$ 687,676	\$ 136,962	\$ 824,638
2029	\$ 701,876	\$ 162,886	\$ 864,762
2030	\$ 715,820	\$ 188,905	\$ 904,725