AGENDA
REGULAR MEETING
CAPITOLA FINANCE ADVISORY COMMITTEE
Tuesday March 17, 2015
6:00 PM
Community Room
420 Capitola Avenue, Capitola, CA

1. CALL TO ORDER/ROLL CALL
Members: Christine McBroom, Chair; Nathan Cross, Vice Chair; Michael Termini, Will O'Sullivan, Jacques Bertrand, Gary Snelson, and Sondi Carcello

Staff: Jamie Goldstein – City Manager, Tony Sandhu – Interim Finance Director, Linda Benko – Finance Staff

2. **PUBLIC COMMUNICATIONS** - *Public Communications allows time for members of the Public to address any item not on the Agenda.*

3. **BUSINESS** - *The Chair may announce and set time limits for speakers at the beginning of each agenda item.*

Topic	Who	Min.
A. Approval of Minutes – Meeting of January 28, 2015	All	5
B. Introduction of New Members, Committee Overview *- Introduction of Sondi Carcello*	All	2
C. Update on Finance Director Recruitment	Chair	5
D. Q2 Financial Summary & Q1 Sales Tax Reports *(also available online)*	Fin Dir	15
E. Mid-Year Budget Report and Review of Budget Calendar	Fin Dir	
F. Review PERS Rates and Discussion	Fin Dir & City Mgr	15
G. Fee Study 07/01 • Reviewed goal and estimated timing of fee study 07/15 • Provided update on fee study 09/16 • Provide update on fee study 11/18 • Provide update on fee study 01/28 • Provide update on fee study 03/17 • Provide update on fee study	Fin Dir	5
H. Discussion of Items for Next Agenda	All	5

4. ADJOURNMENT
Adjournment date to May 19, 2015 at 6:00 pm, Council Chambers.

If you require special assistance in order to attend the meeting, including needs addressed by ADA, please notify the City at (831) 475-7300 at least 3 days prior to meeting.

MINUTES
REGULAR MEETING
CAPITOLA FINANCE ADVISORY COMMITTEE
Wednesday, January 28, 2015
6:00 PM
Council Chambers
420 Capitola Avenue, Capitola, CA

1. **CALL TO ORDER/ROLL CALL**
Members Present: Christine McBroom, Chair; Nathan Cross, Vice Chair; Michael Termini, Will O'Sullivan, Jacques Bertrand, Sondi Carcello (new member)
Members Absent: Gary Snelson

Staff: Tori Hannah, Finance Director

2. **PUBLIC COMMUNICATIONS** - *Public Communications allows time for members of the Public to address any item not on the Agenda.*

3. **BUSINESS** - *The Chair may announce and set time limits for speakers at the beginning of each agenda item.*

Date	Topic	Who	Min.
Approval of Minutes – Meeting of November 18, 2014 -Minutes approved unanimously			
Introduction of New Members, Committee Overview *- New member appointment 01/22 - Sondi Carcello no present* *- Election of Chair and Vice Chair* • *Christine McBroom nominated as Chair and Nathan Cross nominated as Vice Chair* • *Appointments unanimously approved*			
Follow-up on items from prior meeting -Measure O -CIP: Stairs Project • *Reviewed would like Treasurer to recap Measure O status report at next meeting, suggest City Manager ry for publication in local newspaper, Nathan volunteered to assist, suggested Budget in Brief for next fiscal year*			
Review PERS Rates and Discussion			
Fee Study			
07/01 07/15 09/16 11/18 01/28	• Reviewed goal and estimated timing of fee study • Provided update on fee study • Provide update on fee study • Provide update on fee study • *Provided update for fee study*		
Discussion of Items for Next Agenda • Mid-year Report • Update on PERS rates			

4. **ADJOURNMENT**
Adjournment date to March 17, 2015 at 6:00 pm, Council Chambers
If you require special assistance in order to attend the meeting, including needs addressed by ADA, please notify the City at (831) 475-7300 at least 3 days prior to meeting.

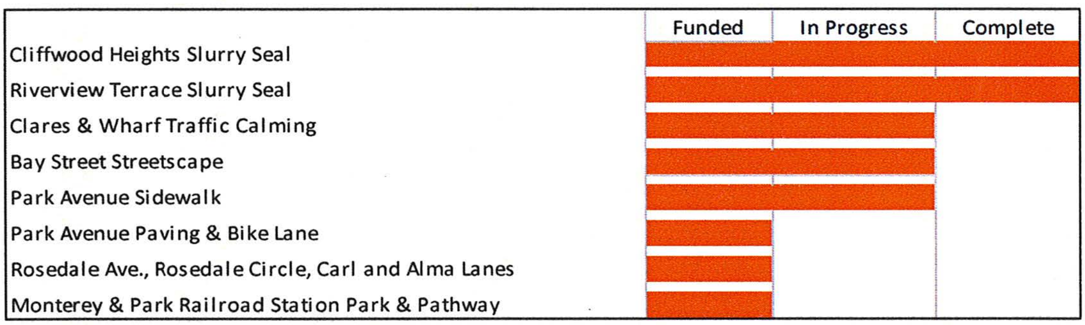
Budget Report
Second Quarter – FY14/15

Overview:
This report summarizes the City's overall financial position for the current fiscal year through December 2014. Except as noted below, revenue and operating expenditures are generally consistent with annual projections.

Measure O Progress Report
On November 26, 2012, voters approved Measure O, instituting a 0.25% local sales tax. The City also receives a second 0.25% sales tax, Measure D, which is anticipated to expire in 2017. During the five-year period when both sales tax measures are in place, a plan was developed to devote 100% of Measure O revenues to the following priorities: Restore reserves, repair and repave City streets; and support community policing projects. An update on the five-year plan, as well as the status on funded CIP projects are listed below:

	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	Total
CIP/Street Maint.	$94,600	$490,900	$504,900	$655,000	$965,000	$2,710,400
Reserves	136,500	463,100	447,700	273,000	-	1,320,300
PW Crew	9,100	45,950	63,300	100,000	100,000	318,350
PD Staff	5,400	18,800	26,000	35,000	35,000	120,200
Total Measure O	$245,600	$1,018,750	$1,041,900	$1,063,000	$1,100,000	$4,469,250
Funding Goal Met	✓	✓	*In Progress*			
GF to Reserves	$350,000	$150,000	$200,000			$700,000

Measure O - CIP Project Update



Fiscal Year 2014/15 General Fund - Second Quarter Results:
The fiscal year is 50% complete, with General Fund revenues trending at 43% of the Amended Budget and expenditures at 48%. Although revenues are less than 50% of the budget, this variation is typical due to revenue receipting patterns. The negative operating difference is covered from the General Fund balance or through short-term loans from the Contingency Reserve Fund. Additional details can be found in the preceding sections.

	Budgetary Comparison			
General Fund	**Amended Budget**	**YTD Transactions**	**Percent**	**Prior Year**
Beginning Fund Balance	$ 1,077,216	$ 1,077,216		
Revenues	14,284,050	6,166,403	43%	$ 5,974,542
Expenditures	12,512,449	5,981,822	48%	5,629,448
Operating Subtotal	1,771,601	184,581		345,094
Other Financing: (CIP, Debt Service, Reserves)	2,320,025	812,037	35%	1,085,360
FY14/15 Operating Difference	$ (548,424)	$ (627,456)		$ (740,266)
Est. Fund Balance	$ 528,792	$ 449,760		

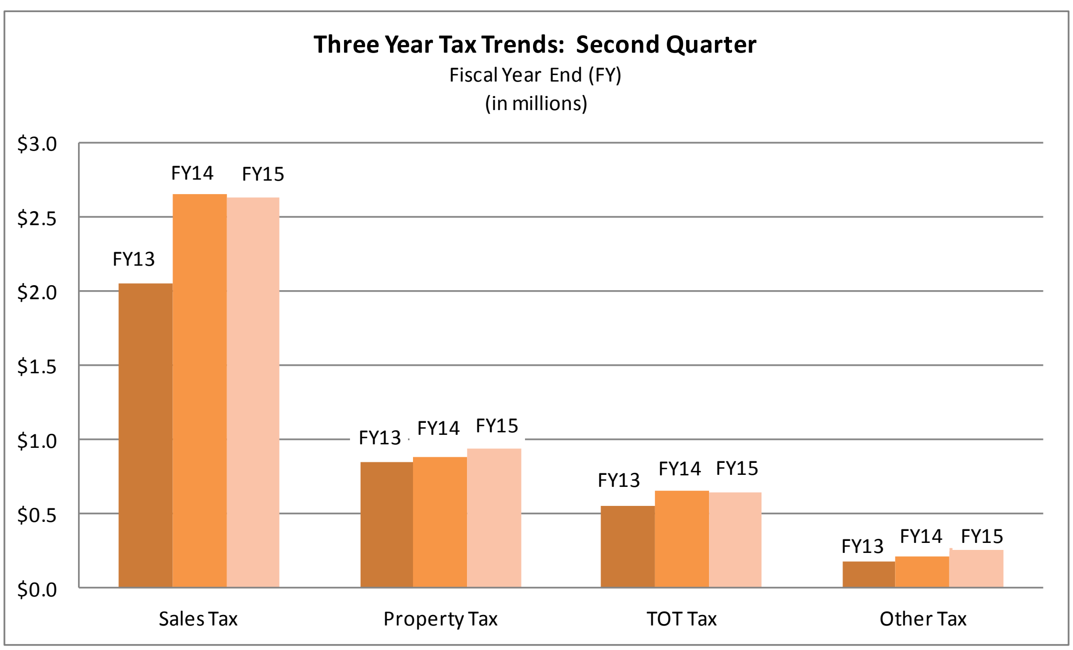
Key Revenues:

Revenue	Budgetary Comparison				Prior Year
	Amended Budget	YTD Transactions	% Used / Rec'd		Prior Year
Taxes:					
Property Taxes	$ 1,762,900	$ 944,797	54%		$ 883,109
Sales and Use Tax	7,318,600	2,637,539	36%		2,657,615
Document Transfer Tax	-	33,153	-		21,012
Business License Tax	280,800	100,083	36%		75,937
Franchise Tax	485,200	135,433	28%		112,297
TOT Tax	1,251,000	649,090	52%		660,270
Subtotal - Taxes	**$ 11,098,500**	**$ 4,500,095**	**41%**		**$ 4,410,240**
Other:					
Licenses and permits	$ 254,450	$ 122,177	48%		$ 114,758
Intergovernmental revenues	168,700	108,721	64%		37,798
Charges for services	1,921,400	1,009,288	53%		1,034,514
Fines and forfeitures	718,800	373,390	52%		315,976
Use of money & property	51,800	11,750	23%		10,732
Other revenues	70,400	40,982	58%		50,524
Other financing sources	-	-	0%		-
Extraordinary Items	-	-	0%		-
Subtotal - Other Revenues	3,185,550	1,666,308	**52%**		1,564,302
Total Revenues	**$ 14,284,050**	**$ 6,166,403**	**43%**		**$ 5,974,542**

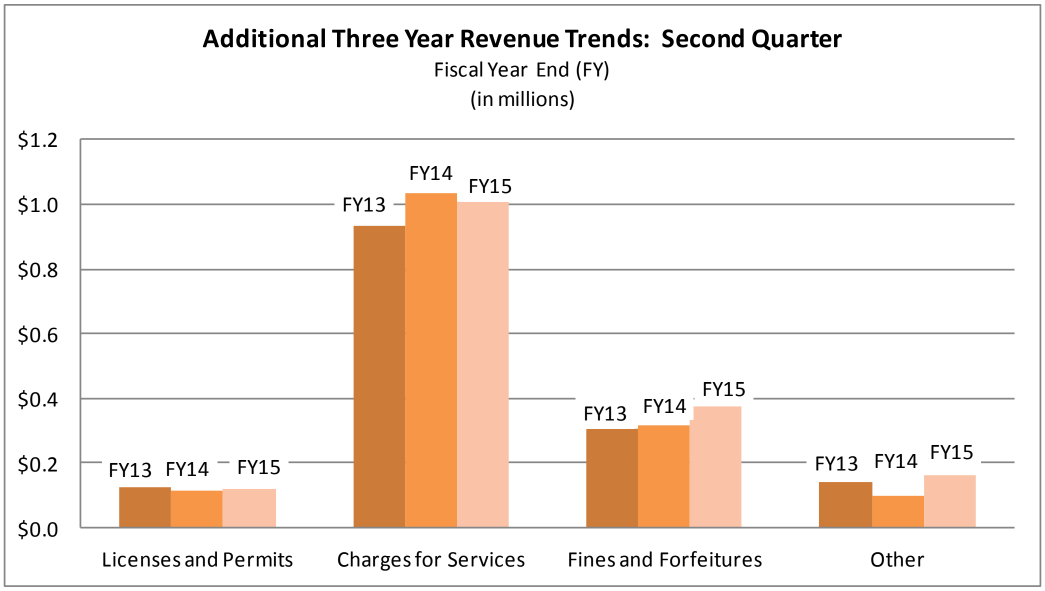
Taxes

The City receives sales, property, franchise, and business license taxes on alternate schedules. Due to the timing of revenue receipts only 41% of the revenues were received in the first two quarters of FY 14/15. The 41% excludes a portion of the second quarter sales tax receipts and a large portion of business license and franchise tax revenues. While sales tax receipts are $20,076 below the prior year, the actual performance has increased by more than 2.4% or $47,483. This variance is due to a $67,559 greater than typical In-Lieu adjustment in FY 13/14. Property tax is trending $61,688 greater than the prior year. This is largely due to increased secured property tax assessment valuations and related property taxes in-lieu of motor vehicle receipts in the amounts of $32,140 and $26,162, respectively. This increase is consistent with projected increases provided by the County Auditor Controller.

The following chart providing three-year tax trend information is provided for reference:



Additional three-year revenue trend information is presented below:



Charges for Services

Charges for Services are relatively consistent with the budget; however it is trending $25,226 less than the prior year. This is primarily due to a planned annual reduction in Successor Agency Administrative fees of $100,000, with a $50,000 reduction attributed to the first half of the year. This amount is primarily offset by increased parking meter revenues of approximately $14,000.

Fines and Forfeitures

Fines and Forfeitures have increased over the prior year by $57,414, with over $48,000 representing increased parking citation fines.

Other - Intergovernmental Revenues

Due to reimbursement patterns related to grants, the timing of intergovernmental revenue receipts can be variable. Increased reimbursements include approximately $11,000 in Peace Officers Standards and Training (POST) reimbursements, $15,484 in State Mandated Claims, and $42,800 in Police Department grants.

Expenditures:

All expenditures are relatively consistent with the budget and prior year expenditures. The subsequent notes provide a description of any variances.

	Budgetary Comparison			
Expenditures by Category	**Amended Budget**	**YTD Transactions**	**% Used/ Rec'd**	**Prior Year**
Personnel	$ 7,985,744	$ 3,816,518	48%	$ 3,663,417
Contract Services	2,762,750	1,352,826	49%	1,112,787
Training & Memberships	83,545	36,503	44%	33,708
Supplies	550,000	226,686	41%	243,045
Grants and Subsidies	269,763	123,965	46%	127,670
Capital Outlay	10,000	-	0%	2,358
Internal Service Fund Charges	850,647	425,324	50%	446,463
Other Financing Uses - Transfers	2,320,025	812,037	35%	1,085,360
Fund Totals: General Fund	$ 14,832,474	$ 6,793,859	46%	$ 6,714,808

Expenditures By Department	Budgetary Comparison			Prior Year
	Amended Budget	YTD Transactions	% Used/ Rec'd	
City Council	$ 127,115	$ 61,971	49%	$ 52,171
City Manager	850,228	378,618	45%	387,019
Personnel	201,926	85,461	42%	75,887
City Attorney	185,000	79,157	43%	79,000
Finance	805,886	317,143	39%	333,700
Community Grants	269,763	123,965	46%	127,670
Public Safety	5,968,947	2,969,054	50%	2,773,887
Public Works	2,442,029	1,177,876	48%	1,060,351
Community Development & Building	702,830	327,459	47%	282,896
Culture and Leisure	958,725	461,118	48%	456,867
Other Financing Uses - Transfers	2,320,025	812,037	35%	1,085,360
Expenditure Totals	$ 14,832,474	$ 6,793,859	46%	$ 6,714,808

Personnel

The personnel numbers presented are trending consistently with the number of payrolls processed. The FY 14/15 salaries are approximately $153,000 greater than the prior year due to filling vacant positions, an additional Maintenance Worker, and a cost of living increase.

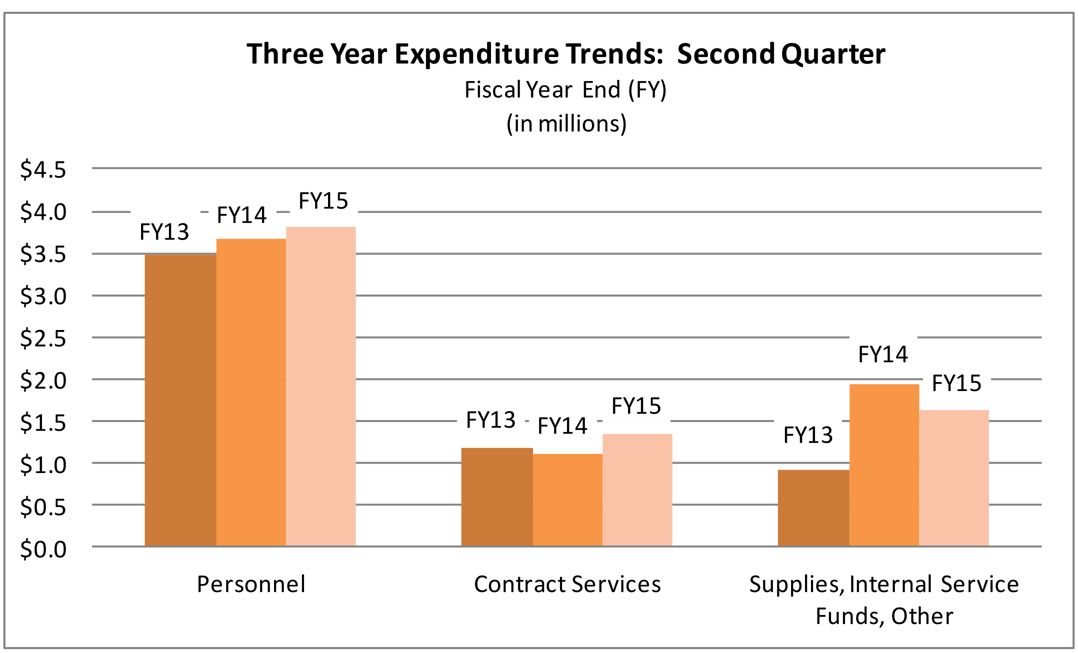
Contract Services

Contract Services are approximately $240,000 more than the prior year. This is primarily due to timing differences associated with a $93,400 payment for Emergency Communication Center costs, $30,700 for stormwater, path maintenance, and creek monitoring fees; $21,900 in Building Consultant and Plan Check contracts; and a $65,000 payment to the Soquel Union Elementary School District for one-time property maintenance. It is anticipated that the majority of the $65,000 payment will be cost-neutral due to offsets in other maintenance accounts.

Other Financing Uses

Other financing uses decreased by $273,323 when compared to the prior year. This reduction is primarily due to increased transfers in FY 13/14, which included supplementary transfers of $156,000 to the Information Technology and Equipment Funds; and a $52,313 Department of Finance recapture related to the RDA dissolution. Additional variances are primarily related to timing differences.

Three year expenditure trend information by category is presented in the following chart.



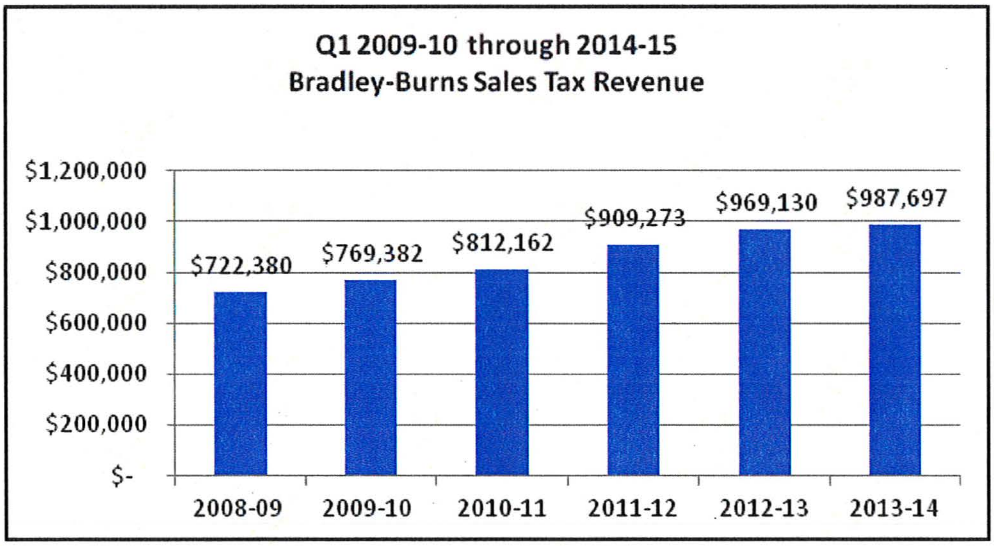
Item 3.D.

Sales Tax Revenue Report
First Quarter – Fiscal Year 14/15

Total sales tax receipts for the first quarter of Fiscal Year 2014-15 were $40,082 or 2.7% greater than the prior year and $1,844 or 0.1% lower than the Amended Budget. The annual Bradley-Burns increase was $18,567 or 1.9%, while the Measure O increase was $14,374 or 5.7%. The Bradley-Burns and Measure O sales tax receipts contributed $32,941 or 82% to the City's overall sales tax growth. A table detailing the First Quarter results is listed below.

First Quarter Sales Tax Revenue Analysis

	2014	2015		Actual vs. Amended Budget		Actual vs. Prior Year	
Description	Actual	Amended Budget	Actual	Amount	%	Amount	%
Q1 Bradley Burns - 3/4%	$ 969,130	$ 996,100	$ 987,697	$ (8,403)	-0.8%	$ 18,567	1.9%
Q1 Measure D - 1/4%	$ 259,765	$ 264,500	$ 266,906	$ 2,406	0.9%	$ 7,141	2.7%
Q1 Measure O - 1/4%	$ 251,779	$ 262,000	$ 266,153	$ 4,153	1.6%	$ 14,374	5.7%
	$1,480,674	$1,522,600	$1,520,756	$ (1,844)	-0.1%	$ 40,082	2.7%



Sales Tax Top Performers from 2009 through 2014 (alphabetically)

AT&T Wireless	Macy's Department Store	Shell 1649 41st
Bed Bath & Beyond	Nob Hill General Stores	Toyota of Santa Cruz
Big 5 Sporting Goods	O'Neill Surf Shop	Trader Joe's
Chevron 1650 41st	Orchard Supply Hardware	Union 76 2178 41st
Chevron 836 Bay	Ross Stores	Union 76 2195 41st
CVS Drug Stores	Sears Roebuck & Company	Verizon Wireless
Gayle's Bakery & Rosticceria	Shadowbrook Restaurant	Zelda's Restaurant

Closed businesses - Since 2009
Gottschalks Department Store
Mervyn's Department Store
Ocean Chevrolet-Honda

New Businesess - Since 2008	
BevMo	late 2008
SC Subaru Mazda	late 2008
Whole Foods	July 2009
Kohls	Sept. 2009
Target	July 2012

Item 3.E.

CITY COUNCIL
AGENDA REPORT
SPECIAL MEETING OF FEBRUARY 25, 2014

FROM: FINANCE DEPARTMENT

SUBJECT: MID-YEAR 2014/15 FISCAL YEAR BUDGET REPORT

RECOMMENDED ACTION:

- Receive mid-year report and amend the Fiscal Year 2014/15 Budget based on the attached budget adjustment.
- Authorize the staff changes as outlined in the staff report.

BACKGROUND:
The Mid-Year Budget Report provides an update on the City's financial status, as well as a projected year-end balance. A recommended budget amendment is also included to reflect updated estimates. All mid-year projections are based on the City's actual revenues and expenditures through December 31, 2014; and any supplementary information received from State or County resources. The mid-year budget includes an update on the City's fund balance. The City ended Fiscal Year 2013/14 with a fund balance of $1,077,200.

The Adopted Fiscal Year 2014/15 Budget originally projected a net operating surplus of $14,196, and a $616,396 adjusted fund balance. The Adopted Budget includes $475,000 in additional fund balance appropriations to support CIP projects, reserves, and a new Facilities Reserve Fund. During the Fiscal Year 2014/15 CIP presentation, an additional $75,000 appropriation was earmarked for ADA projects. This additional appropriation is included with the mid-year budget adjustments. Based on updated budgetary projections, the net operating surplus is estimated to be $171,697, which results in an updated fiscal year-end fund balance of $648,897. Changes from the Adopted to Amended Budgets include Council-approved budget adjustments, and carry-forward contracts and grants.

A summary of the FY 2014/15 General Fund Budget is presented below.

	Adopted	Amended	Year-End Estimate
Beginning Fund Balance	**$ 1,077,200**	**$ 1,077,200**	**$ 1,077,200**
Less Items Allocated in FY 14/15 Budget			
Transfer to Reserves	200,000	200,000	200,000
Transfer to CIP	200,000	200,000	200,000
Transfer to Facilities Reserve Fund	75,000	75,000	75,000
Less Budget Amendment: McGregor Park, Skate Park Elements		50,000	50,000
Less Pending ADA Project Commitment			75,000
Adjusted Fund Balance	**$ 602,200**	**$ 552,200**	**$ 477,200**
Sources:			
Revenues	$ 14,284,050	$ 14,284,050	$ 14,573,845
Uses:			
Expenditures	$ 12,474,829	$ 12,512,449	$ 12,607,123
Transfers	1,795,025	1,795,025	1,795,025
Total Uses:	$ 14,269,854	$ 14,307,474	$ 14,402,148
Net Difference	**$ 14,196**	**$ (23,424)**	**$ 171,697**
Estimated Fund Balance	**$ 616,396**	**$ 528,776**	**$ 648,897**

Revenues

General Fund revenues are projected to increase by $289,795. This difference is primarily due to the estimated increased property tax revenues of $142,000, which includes a $40,000 RDA residual distribution. These increased property tax revenues are consistent with increased property valuations within the City and updated information from the County Auditor-Controller's Office. This represents a 6% increase in base secured property tax revenues over the prior year. Additional increases include $45,500 in intergovernmental reimbursements for a Safe Routes to Schools grant; and Charges for Services increases of $25,000 for Community Development Fees; and $19,000 in paystation revenues.

Sales tax is the City's largest source of revenue. The first quarter results, net of in-lieu revenues, were relatively consistent with the budgeted amount. Actual sales increased by 2.5% or $47,482 over the same time period in the prior year.

Revenue performance in TOT remains relatively constant, with revenues varying between hospitality establishments. The mid-year revenues were $11,180 less than the first two quarters of the last fiscal year. This decrease could be partially attributed to a $48,300 internal hotel adjustment that took place in fiscal year 2013/14.

Revenue	FY14/15 Adopted	FY14/15 Amended Budget	FY14/15 Estimate	Variance
Taxes				
Property Tax	$1,762,900	$1,762,900	$1,904,900	$142,000
Sales Tax	7,318,600	7,318,600	7,315,454	(3,146)
Business License Tax	280,800	280,800	280,800	-
Franchise Fees	485,200	485,200	485,200	-
TOT Tax	1,251,000	1,251,000	1,251,800	800
Documentary Transfer Tax	-	-	33,200	33,200
Licenses and permits	254,450	254,450	249,450	(5,000)
Intergovernmental revenues	168,700	168,700	235,016	66,316
Charges for services	1,921,400	1,921,400	1,980,900	59,500
Fines and forfeitures	718,800	718,800	718,800	-
Use of money & property	51,800	51,800	51,800	-
Other revenues	70,400	70,400	66,525	(3,875)
Other financing sources	0	0	0	-
Revenue Totals	$14,284,050	$14,284,050	$14,573,845	$289,795

Expenditures

Operating expenditures through the end of this fiscal year are $169,674 above of the budgeted amounts. Personnel costs are estimated to be $78,937 below the budgeted amount primarily due to filling vacant positions at lower salary steps and staffing transitions. Approximately $60,000 in salary savings was transferred to Contract Services to provide coverage for vacant Building Division and Finance Department vacancies. Additional contract increases include a $46,000 grant with corresponding revenues; projected water rate increases of $28,000; stormwater and creek compliance costs of $13,000; and maintenance, equipment, and audit fees of $15,000. Expenditures by Major Expense Category are presented below followed by a chart identifying expenditures by department:

Expenditures by Category	FY14/15 Adopted	FY14/15 Amended Budget	FY14/15 Estimate	Variance
Personnel	$7,985,744	$7,985,744	$7,906,807	($78,937)
Contract Services	2,725,130	2,762,750	2,921,578	$158,828
Training and Memberships	83,545	83,545	82,600	($945)
Supplies	550,000	550,000	565,728	$15,728
Grants and Subsidies	269,763	269,763	269,763	$0
Capital Outlay	10,000	10,000	10,000	$0
Internal Service Funds	850,647	850,647	850,647	$0
Other Financing Uses - Transfers				$0
Reserves	647,700	647,700	647,700	$0
CIP	864,900	914,900	989,900	$75,000
Facilities	167,000	167,000	167,000	$0
Other	590,425	590,425	590,425	$0
Expenditure Totals	**$14,744,854**	**$14,832,474**	**$15,002,148**	**$169,674**

Expenditure By Department	FY 14/15 Adopted	FY 14/15 Amended Budget	FY 14/15 Estimate	Variance
City Council	$127,115	$127,115	$125,240	($1,875)
City Manager	850,228	850,228	847,919	(2,309)
Personnel	201,926	201,926	209,744	7,818
City Attorney	185,000	185,000	187,323	2,323
Finance	800,366	805,886	789,080	(16,806)
Community Grants	269,763	269,763	269,763	0
Law Enforcement	5,338,631	5,338,631	5,365,860	27,229
Parking Enforcement	534,916	534,916	552,180	17,264
Lifeguard	71,900	71,900	71,900	0
Animal Services	23,500	23,500	23,500	0
Public Works	2,417,429	2,442,029	2,471,868	29,839
Community Development	695,330	702,830	739,122	36,292
Recreation	847,398	847,398	843,337	(4,061)
Museum	65,175	65,175	64,135	(1,040)
Arts & Culture	46,152	46,152	46,152	0
	12,474,829	12,512,449	12,607,123	94,674
Non-Departmental / Transfers				
Reserves	647,700	647,700	647,700	-
CIP	864,900	914,900	989,900	75,000
Facilities	167,000	167,000	167,000	-
Other	590,425	590,425	590,425	0
Expenditure Totals	**14,744,854**	**14,832,474**	**15,002,148**	**169,674**

Staff has remained cautiously optimistic in preparing the mid-year estimate. All core General Fund revenues are performing relatively consistent with their budgeted amount. The attached budget amendment proposes to make adjustments for the identified increases, as well as the reductions. Proposed adjustments to other funds are presented in a second budget adjustment.

Staffing Changes

This mid-year report includes increasing a half-time Assistant Planner position to a full-time position. The additional hours would enable the department to implement various action items included in the recently adopted General Plan update and the upcoming Climate Action Plan while maintaining efficient delivery of core services. If approved, the transition to full-time would become effective on March 1, 2015. The Fiscal Year 2014/15 cost is anticipated to be $11,800, while the estimated annual cost is anticipated to be $36,200. While the additional hours will increase General Fund expenditures, these costs are anticipated to be recovered through internal billings to the Green Building Fund and General Plan Update and Maintenance Fund; and also recovered through increased planning services. Funds for this increase, along with the related revenues have been included in the projected Fiscal Year 14/15 year-end estimate.

In addition, this report includes reclassifying the Receptionist position in the City Manager Department to 50% Development Services Technician and 50% Receptionist. This change is in recognition of the new duties assumed by the City's receptionist. Those duties were previously the role of a Development Services Technician. Those essential duties include Planning Commission public noticing, agenda preparation, meeting minutes, and final permit correspondence to applicants and the Coastal Commission. Costs associated with this change this fiscal year can be paid within the existing Department budget. Future annual costs are estimated to be less than $5,000.

Emergency and Contingency Reserve Funds

The combined reserve fund balances are estimated to be $2.8 million at the end of the fiscal year. The Contingency Reserve Fund is estimated to be fully funded at $1.8 million, while the Emergency Reserve Fund is estimated to be 87% funded at just over $1 million. Both reserve funds are anticipated to be fully funded in Fiscal Year 2015/16, which is one year earlier than the initial Measure O Funding goals.

Allocation of Estimated Fund Balance

Staff is in the process of developing a plan to allocate the projected fund balance, while considering the long term cost projections associated with the changes in the PERS risk pool structures. Options will be presented to the Finance Advisory Committee in March, followed by a recommendation to Council as part of the Proposed Budget Study Sessions.

Other Funds

Equipment Fund: The Equipment Fund includes a $22,000 appropriation to purchase a replacement Police motorcycle that was damaged beyond repair from an on-duty collision. The Police Department is equipped with three motorcycles for enforcement and patrol activities. Since the collision, the department has been operating with only two motorcycles. Currently, the City is in litigation with the insurance company to recover the cost of replacement. Funds for this purchase are anticipated to be reimbursed from a third party's insurance; however if these efforts are unsuccessful, there is a sufficient fund balance in the Equipment Fund to pay for the new motorcycle. The projected Fiscal Year 2014-15 ending Equipment Fund balance is anticipated to be $121,400 with reimbursement; however $99,400 without reimbursement. Any unreimbursed costs will be recovered through internal service fund charges in the forthcoming years.

CIP Fund: The CIP budget was reduced to reflect the estimated amount of expenditures for FY 14/15. Any unexpended funds will be carried forward with their assigned projects into the next fiscal year.

Successor Agency Fund: In the FY 14/15 Adopted Budget, it was projected that the Successor Agency would use all available revenues to fund recognized obligations. Due to repayment of several obligations, along with on-going negotiations for the Capitola Mall Improvement Project, there weren't sufficient obligations to request the full amount of Redevelopment Property Tax Trust Funds (RPTTF). The mid-year budget was reduced to reflect the approved Recognized Obligation Payment Schedules for this fiscal year and RPTTF disbursement patterns.

Attachments:

1. Budget Adjustment Form – General Fund
2. Budget Adjustment Form – Other Funds

Report Prepared By: Tori Hannah
Finance Director

Reviewed and Forwarded

Reviewed and Forwarded
By City Manager: ____

CITY OF CAPITOLA
BUDGET CALENDAR - 2015/2016 FISCAL YEAR

The City Manager and/or the City Council may change this tentative schedule.
NOTE: Some meetings may be cancelled if they become unnecessary based on prior sessions.

Meeting Date 2015	Week/Day	Nature of Meeting	Description
February 25	4th Wednesday	***Special** Joint City Council/ Successor Agency	Establish Budgeting Principles / Mid-Year presentation
March 17	3rd Tuesday	Finance Advisory Committee	Finance Advisory Committee to discuss elements of the Budget
April 2	1st Thursday	Planning Commission	Planning Commission Review of the Capital Improvement Program (CIP)
May 8	2nd Friday	N/A	Proposed Budget distribution
May 19	3rd Tuesday	Finance Advisory Committee	Finance Advisory Committee to discuss proposed Budget and draft presentation with recommendations to Council
May 20	3rd Wednesday	***Special** Joint City Council/ Successor Agency	Presentation of City, Successor Agency & CIP Budgets
May 28	4th Thursday	*Regular City Council/Successor Agency	
June 3	1st Wednesday	***Special** Joint City Council/ Successor Agency	- Finance Advisory Committee Presentation - Council Deliberations
June 11	2nd Thursday	*Regular City Council/Successor Agency	Reports from Finance: Appropriations Limit Resolution and Investment Policy
June 18	3rd Thursday	***Special** Joint City Council/ Successor Agency	Final City Council and Successor Agency Budget deliberations *(If necessary)*
June 25	4th Thursday	*Regular City Council/Successor Agency	Final Adoption of the City and Successor Agency Budgets and Pertinent Resolutions

NOTE: **Special** meetings will begin at 6:00 p.m., all Regular meetings begin at 7:00 p.m. Meetings with an asterisk (*) are held in the City Hall Council Chambers and will be televised "Live" on Charter Communications Cable Channel 8. The Finance Advisory Committee Meetings begins at 6:00 pm, and are scheduled to be held in the Council Chambers.

CITY COUNCIL AGENDA REPORT

MEETING OF FEBRUARY 26, 2015

FROM: FINANCE DEPARTMENT

SUBJECT: THE CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM ANNUAL ACTUARIAL VALUATION REPORTS AS OF JUNE 30, 2013

RECOMMENDED ACTION: Receive the California Public Employees Retirement System Annual Actuarial Valuation Reports as of June 30, 2013. *(This agenda item was continued from the February 11, 2015, City Council meeting.)*

BACKGROUND: On an annual basis, the City receives actuarial reports from the California Public Employee's Retirement System (CalPERS or PERS) that confirm the current year employer contribution rates, establish rates for the next fiscal year, and project rates for the next year.

DISCUSSION: The PERS contribution rates typically fluctuate for many reasons, including investment gains and losses and unexpected changes to payroll. Beginning with Fiscal Year 2015-16, CalPERS implemented structural changes to the risk pools. These changes included expressing the annual employer contribution for the unfunded liability as a dollar amount, rather than a percentage; and allocating each pool's unfunded liability to individual plans based on the plan's total liability, rather than each plan's payroll costs. This change increased the City of Capitola's actuarially determined employer contribution rates by more than 4.5%. While the current memoranda of understanding (MOU's) indicate that City employees will bear the cost of this increase, the City and employee groups are meeting to review these rate increases.

The City's contribution for Tier I and Tier II "Classic" employees is capped pursuant to existing MOU'S. The City's contribution rate for Tier I employees remains unchanged at 28.291% for Safety and 16.488% for Miscellaneous. The City's contribution rate for Tier II employees also remains unchanged at 23.291% and 11.488%, respectively. The Fiscal Year 2015/2016 calculated contribution rates for Classic Safety employees are 17.314% and 22.314% for Tier I and Tier II employees, respectively. This represents an increase of 5.44% points. The Fiscal Year 2015/2016 contribution rates for Classic Miscellaneous employees are 16.965% and 21.965% for Tier I and Tier II employees, respectively. This represents an increase of 6.673% points over the existing rate. Due to the new PERS model expressing a portion of the rate as a dollar amount, rather than a fixed percentage, the allocated portion may vary based on updated salary projections. It is estimated that this variance should not be more than .50% percentage points. Under the current MOU language, this rate increase would decrease employee take-home pay.

Based on the most recent actuary report, it is projected that Classic employee PERS Safety and Miscellaneous rates for Fiscal Year 2016/2017 will increase by 4.49% points and 2.571% points, respectively. The actual rates will be provided in next year's Actuarial Valuation Reports.

Assembly Bill 340, the California Public Employees' Pension Reform Act (PEPRA), applies to new employees who were not previously members of the PERS reciprocal system. For PEPRA plans, the employee rates remain unchanged through June 30, 2016 at 11.50% for Safety employees and 6.25% for Miscellaneous employees, while the employer rates are 11.50% and 6.237%, respectively. There were no employees enrolled in the Capitola Safety PEPRA plan, therefore a new actuarial report was not prepared. All PEPRA safety rates reference the Benefit and Contribution Rates that became effective on January 1, 2013.

Employee Contribution	Classic – Tier I		Classic – Tier II		PEPRA	
	Safety	Misc	Safety	Misc	Safety	Misc
FY05/06	0.0%	0.0%				
FY06/07	0.0%	0.0%				
FY07/08	1.623%	0.152%				
Dec 30. - July 2008	1.623%	3.594%				
FY08/09	1.849%	3.576%				
FY09/10	1.688%	3.663%				
FY10/11	2.332%	4.128%				
FY11/12	7.801%	7.511%				
FY12/13	8.449%	8.267%	13.449%	13.267%	11.50%	6.25%
FY13/14	10.021%	9.091%	15.021%	14.091%	11.50%	6.25%
FY14/15	11.874%	10.292%	16.874%	15.292%	11.50%	6.25%
FY15/16	17.314%	16.965%	22.314%	21.965%	11.50%	6.25%

Contribution Rates (Classic)	2015-16 PERS Rates	Cap Revised	Tier I Employee Contribution	Tier II Employee Contribution
Safety				
Employer	32.839%	16.955%		
Employee	9.000%	9.000%		
EPMC (a)	2.956%	1.526%		
EPMC (b)	0.810%	0.810%		
Total	**45.605%**	**28.291%**	**17.314%**	**22.314%**

Miscellaneous	2015-16 PERS Rates	Cap Revised	Tier I Employee Contribution	Tier II Employee Contribution
Employer	22.975%	8.409%		
Employee	8.000%	7.000%		
EPMC (a)	1.838%	0.589%		
EPMC (b)	0.640%	0.490%		
Total	**33.453%**	**16.488%**	**16.965%**	**21.965%**

FISCAL IMPACT: Under the current MOU's, all increases related to the Classic PERS rates will be assumed by employees. If there are proposed changes to employee contracts that would result in a fiscal impact, that information will be brought forward to Council at that time. The PEPRA rates remain relatively unchanged from Fiscal Year 2014/2015.

ATTACHMENTS: (The following attachments are available at City Hall)
1. CalPERS Safety Plan of the City of Capitola Actuarial Valuation Report as of June 30, 2013;
2. CalPERS Miscellaneous Plan of the City of Capitola Actuarial Valuation Report as of June 30, 2013;
3. CalPERS PEPRA Misc. Plan of the City of Capitola Actuarial Valuation Report as of June 30, 2013;
4. CalPERS Benefit and Contribution Rates for New Safety Members, Effective January 1, 2013.

Report Prepared By: Tori Hannah, Finance Director

Reviewed and Forwarded By City Manager:

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942709
Sacramento, CA 94229-2709
TTY: (916) 795-3240
(888) 225-7377 phone – (916) 795-2744 fax
www.calpers.ca.gov

October 2014

MISCELLANEOUS PLAN OF THE CITY OF CAPITOLA
(CalPERS ID: 2647630112)
Annual Valuation Report as of June 30, 2013

Dear Employer,

As an attachment to this letter, you will find a copy of the June 30, 2013 actuarial valuation report of your pension plan. Because this plan is in a risk pool and the CalPERS Board approved structural changes to risk pooling on May 21, 2014 you will notice some changes between your last actuarial report and this one. An overview of the changes to pooling is provided below and we urge you to carefully review the information provided in this report.

Because this plan is in a risk pool, the following valuation report has been separated into two Sections:

- Section 1 contains specific information for your plan, including the development of your pooled employer contributions and projected employer contributions, and
- Section 2 contains the Risk Pool Actuarial Valuation appropriate to your plan, as of June 30, 2013.

Section 2 can be found on the CalPERS website at (www.calpers.ca.gov) then select in order "Employers", "Actuarial, Risk Pooling & GASB 27 Information", "Risk Pooling", "Risk Pool Annual Valuation Reports", then select the appropriate pool report.

Your 2013 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. Your CalPERS staff actuary, whose signature appears in the Actuarial Certification Section on page 1, is available to discuss your report with you after October 31, 2014.

Future Contribution Rates

Fiscal Year	Employer Normal Cost Rate	+	Employer Payment of Unfunded Liability
2015-16	9.671%		$ 386,347
2016-17 (projected)	10.1%		$ 441,370

The exhibit above displays the Minimum Employer Contributions, before any cost sharing, for 2015-16 along with estimates of the contributions for 2016-17. The estimated contributions for 2016-17 are based on a projection of the most recent information we have available, including an estimated 18.0 percent investment return for fiscal 2013-14, the impact of the new amortization methods adopted by the CalPERS Board in April 2013 that will impact employer rates for the first time in 2015-16 and new actuarial assumptions adopted by the CalPERS Board in February 2014 that will impact rates for the first time in 2016-17. These new demographic assumptions include a 20-year projected improvement in mortality.

A projection of employer contributions beyond 2016-17 can be found in the Risk Analysis Section of this report, "Analysis of Future Investment Return Scenarios", under a variety of investment return scenarios. Please disregard any projections provided to you in the past. Member contributions, other than cost sharing (whether paid by the employer or the employee), are in addition to the above amounts. The employer contributions in this report do not reflect any cost sharing arrangements you may have with your employees.

The estimate for 2016-17 also assumes that there are no future contract amendments and no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.) This is a very important assumption because these gains and losses do occur and can have a significant effect on your contributions. Even for the largest plans or pools, such gains and losses can impact the employer's contribution rate by one or two percent of payroll or even more in some less common circumstances. These gains and losses cannot be predicted in advance so the projected employer contributions are estimates. Your actual employer contributions for 2016-17 will be provided in next year's valuation report.

Changes since the Prior Year's Valuation

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the *"Analysis of Future Investment Return Scenarios"* subsection of the *"Risk Analysis"* section of your report.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees. As such it is no longer appropriate to assume that the payroll of the risk pools for the classic formulas will continue to grow at 3 percent annually. Funding the promised pension benefits as a percentage of payroll would lead to the underfunding of the plans. In addition the current allocation of the existing unfunded liabilities based on payroll would create equity issues for employers within the risk pools. Furthermore the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

In order to address these issues the CalPERS Board of Administration approved at their May 21, 2014 meeting structural changes to the risk pools. All pooled plans will be combined into two active pools, one for all miscellaneous groups and one for all safety groups, effective with the 2013 valuations. By combining the pools this way the payroll of the risk pools and the employers within the pools can once again be expected to increase at the assumed 3 percent annual growth. However two important changes are being made which will affect employers.

1. Beginning with FY 2015-16 CalPERS will collect employer contributions toward your unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund

payments the plan's normal cost contribution will continue to be collected as a percentage of payroll.

2. The pool's unfunded liability will be allocated to each individual plan based on the plan's total liability rather than by plan individual payroll. This will allow employers to track their own unfunded liability and pay it down faster if they choose. The change in the allocation of unfunded liabilities will result in some employers paying more towards their unfunded liability and some paying less.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of the PEPRA changes are included in the rates and the benefit provision listings of the June 30, 2013 valuation for the 2015-16 rates. For more information on PEPRA, please refer to the CalPERS website.

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies we are seeing in our membership and expected continued improvements. The new actuarial assumptions will be used to set the FY 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

Besides the above noted changes, there may also be changes specific to your plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the *"Highlights and Executive Summary"* section and in Appendix A, *"Statement of Actuarial Data, Methods and Assumptions"* of your section 2 report. We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their result, we ask that, you wait until after October 31 to contact us with actuarial related questions.

If you have other questions, please call our customer contact center at (888) CalPERS or (888**-225-7377**).

Sincerely,

Alan Milligan

ALAN MILLIGAN
Chief Actuary

CalPERS

ACTUARIAL VALUATION

as of June 30, 2013

for the
MISCELLANEOUS PLAN
of the
CITY OF CAPITOLA

(CalPERS ID: 2647630112)

REQUIRED CONTRIBUTIONS
FOR FISCAL YEAR
July 1, 2015 - June 30, 2016

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Section 1

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Specific Information for the MISCELLANEOUS PLAN of the CITY OF CAPITOLA

(CalPERS ID: 2647630112)
(Rate Plan: 876)

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ACTUARIAL CERTIFICATION

Section 1 of this report is based on the member and financial data contained in our records as of June 30, 2013 which was provided by your agency and the benefit provisions under your contract with CalPERS. Section 2 of this report is based on the member and financial data as of June 30, 2013 provided by employers participating in the SAFETY risk pool to which your plan belongs and benefit provisions under the CalPERS contracts for those agencies.

As set forth in Section 2 of this report, the Pool Actuary has certified that, in their opinion, the valuation of the Risk Pool containing your MISCELLANEOUS PLAN has been performed in accordance with generally accepted actuarial principles consistent with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for the Risk Pool as of the date of this valuation and as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Having relied upon the information set forth in Section 2 of this report and based on the census and benefit provision information for your plan, it is my opinion as your Plan Actuary that the Side Fund and other Unfunded Accrued Liability bases as of June 30, 2013 and employer contribution rate as of July 1, 2015, have been properly and accurately determined in accordance with the principles and standards stated above.

The undersigned is an actuary for CalPERS, who is a member of both the American Academy of Actuaries and Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

David Clement

DAVID CLEMENT, ASA, MAAA, EA
Senior Pension Actuary, CalPERS
Plan Actuary

HIGHLIGHTS AND EXECUTIVE SUMMARY

- **INTRODUCTION**
- **PURPOSE OF SECTION 1**
- **REQUIRED EMPLOYER CONTRIBUTION**
- **PLAN'S FUNDED STATUS**
- **PROJECTED CONTRIBUTIONS**

Introduction

This report presents the results of the June 30, 2013 actuarial valuation of the MISCELLANEOUS PLAN of the CITY OF CAPITOLA of the California Public Employees' Retirement System (CalPERS). This actuarial valuation was used to set the 2015-16 required employer contribution rates.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the *"Analysis of Future Investment Return Scenarios"* subsection of the *"Risk Analysis"* section of your report.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees. As such it is no longer appropriate to assume that the payroll of the risk pools for the classic formulas will continue to grow at 3 percent annually. Funding the promised pension benefits as a percentage of payroll would lead to the underfunding of the plans. In addition the current allocation of the existing unfunded liabilities based on payroll would create equity issues for employers within the risk pools. Furthermore the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

In order to address these issues the CalPERS Board of Administration approved at their May 21, 2014 meeting structural changes to the risk pools. All pooled plans will be combined into two active pools, one for all miscellaneous groups and one for all safety groups, effective with the 2013 valuations. By combining the pools this way the payroll of the risk pools and the employers within the pools can once again be expected to increase at the assumed 3 percent annual growth. However two important changes are being made which will affect employers.

1. Beginning with FY 2015-16 CalPERS will collect employer contributions toward your unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund payments the plan's normal cost contribution will continue to be collected as a percentage of payroll.
2. The pool's unfunded liability will be allocated to each individual plan based on the plan's total liability rather than by the plan's individual payroll. This will allow employers to track their own unfunded liability and pay it down faster if they choose. The change in the allocation of unfunded liabilities will result in some employers paying more towards their unfunded liability and some paying less.

The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation that sets the contribution rates for the 2015-16 fiscal year. For more detailed information on changes due to PEPRA, please refer to the CalPERS website.

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns (see Appendix). The adopted asset allocation is expected to have a long- term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies we are seeing in our membership and expected continued improvements. The new actuarial assumptions will be used to set the FY 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

Purpose of Section 1

This section 1 report for the MISCELLANEOUS PLAN of the CITY OF CAPITOLA of the California Public Employees' Retirement System (CalPERS) was prepared by the Plan Actuary in order to:

- Set forth the assets and accrued liabilities of this plan as of June 30, 2013;
- Determine the required employer contribution for this plan for the fiscal year July 1, 2015 through June 30, 2016;
- Provide actuarial information as of June 30, 2013 to the CalPERS Board of Administration and other interested parties; and
- Provide pension information as of June 30, 2013 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a Cost Sharing Multiple Employer Defined Benefit Pension Plan.

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to alternative benefit costs. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

California Actuarial Advisory Panel Recommendations

This report includes all the basic disclosure elements as described in the *Model Disclosure Elements for Actuarial Valuation Reports* recommended in 2011 by the California Actuarial Advisory Panel (CAAP), with the exception of including the original base amounts of the various components of the unfunded liability in the Schedule of Amortization Bases shown on page 12.

Additionally, this report includes the following "Enhanced Risk Disclosures" also recommended by the CAAP in the Model Disclosure Elements document:

- A "Deterministic Stress Test," projecting future results under different investment income scenarios
- A "Sensitivity Analysis," showing the impact on current valuation results using a 1 percent plus or minus change in the discount rate.

Required Employer Contribution

Actuarially Determined Employer Contributions:		Fiscal Year 2014-15[1]		Fiscal Year 2015-16
Employer Contributions (in Projected Dollars)				
Plan's Employer Normal Cost	$	294,207	$	288,414
Plan's Payment on Amortization Bases		206,335		386,347[2]
Surcharge for Class 1 Benefits[3]				
a) FAC 1		18,719		19,213
Phase out of Normal Cost Difference[4]		0		0
Amortization of Side Fund		36,227		0
Total Employer Contribution	$	555,488	$	693,974
Projected Payroll for the Contribution Fiscal Year	$	3,307,177	$	3,180,918
Required Employer Contributions (Percentage of Payroll)				
Plan's Net Employer Normal Cost		8.896%		9.067%
Plan's Payment on Amortization Bases		6.239%		12.145%[2]
Surcharge for Class 1 Benefits[3]				
a) FAC 1		0.566%		0.604%
Phase out of Normal Cost Difference[4]		0.000%		0.000%
Amortization of Side Fund		1.095%		0.000%
Total Employer Contribution Rate		16.796%		21.816%

Required Employer Contribution for FY 2015-16		
Employer Contribution Rate[5]		9.671%
Plus Monthly Employer Dollar UAL Payment[6]	$	32,196
Annual Lump Sum Prepayment Option	$	372,626

*For FY 2015-16 the total minimum required employer contribution is the **sum** of the Plan's Employer Contribution Rate (expressed as a percentage of payroll) **plus** the Employer Unfunded Accrued Liability (UAL) Contribution Amount (in dollars). Whereas in prior years it was possible to prepay total employer contributions for the fiscal year, beginning with FY 2015-16 and beyond, only the UAL portion of the employer contribution can be prepaid.*

[1] The results shown for FY 2014-15 reflect the prior year valuation and do not reflect any lump sum payment, side fund payoff or rate adjustment made after annual valuation report is completed.

[2] For FY 2015-16 the Plan's Payment on Amortization Bases reflects the sum of all UAL amortization bases including the Plan's Side Fund (where applicable).

[3] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

[4] Risk pooling was implemented for most plans as of June 30, 2003. The normal cost difference was scheduled to be phased out over a five year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year.

[5] The minimum employer contribution under PEPRA is the greater of the required employer contribution or the total employer normal cost.

[6] The Plan's Payment on Amortization Bases Contribution amount for FY 2015-16 will be billed as a level dollar amount monthly over the course of the year. Late payments will accrue interest at an annual rate of 7.5 percent. Lump sum payments may be made through my|CalPERS. Plan Normal Cost contributions will be made as part of the payroll reporting process. As a percentage of payroll your UAL contribution is 12.145 percent.

Plan's Funded Status

	June 30, 2012	June 30, 2013
1. Present Value of Projected Benefits (PVB)	$ 31,477,535	$ 32,370,186
2. Entry Age Normal Accrued Liability	27,660,904	28,672,245
3. Plan's Market Value of Assets (MVA)	19,624,525	21,554,138
4. Unfunded Liability [(2) - (3)]	8,036,379	7,118,107
5. Funded Ratio [(3) / (2)]	71.0%	75.2%

Projected Contributions

The contribution rate and amount shown below is an estimate for the employer contribution for fiscal year 2016-17. The estimated contribution is based on a projection of the most recent information we have available, including an estimate of the investment return for fiscal year 2013-14, namely 18.0 percent. It also reflects implementation of the direct rate smoothing method and the impact of new actuarial assumptions.

Projected Employer Contribution Rate:	10.1%
Projected Plan UAL Contribution	$ 441,370

The estimate also assumes that there are no liability gains or losses among the plans in your risk pool, that your plan has no new amendments in the next year, and that your plan's and your risk pool's payrolls both increase exactly 3.0 percent in the 2013-14 fiscal year. Therefore, the projected employer contribution for 2016-17 is strictly an estimate. Your actual rate for 2016-17 will be provided in next year's valuation report. A more detailed analysis of your projected employer contributions over the next five years can be found in the "Risk Analysis" section of this report.

ASSETS AND LIABILITIES

- DEVELOPMENT OF PLAN'S SHARE OF POOL'S UAL
- DEVELOPMENT OF PLAN'S SHARE OF POOL'S MVA
- SCHEDULE OF PLAN'S SIDE FUND & OTHER AMORTIZATION BASES
- ALTERNATIVE AMORTIZATION SCHEDULES
- FUNDING HISTORY
- PLAN'S TOTAL NORMAL COST RATE

Development of the Plan's Share of Pool's Unfunded Accrued Liability

It is the policy of the CalPERS to ensure equity within the risk pools by allocating the pool's unfunded accrued liability in a manner that treats each employer fairly and that maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. Commencing with the June 30, 2013 actuarial valuations and for purposes of allocating the pool's unfunded accrued liability to all the individual plans within the pool, an individual plan's total unfunded accrued liability (Preliminary Plan UAL) on a specific valuation date will be set equal to the sum of the outstanding unamortized balances on the valuation date for the following:

a) Side Fund
b) Plan's share of Pool UAL due to benefit changes (including golden handshakes) provided to the members of that plan
c) Plan's share of the Pool UAL created before the valuation date for reasons other than benefit changes

1.	Plan's Accrued Liability	$	28,672,245
2.	Plan's Side Fund		383,679
3.	Increase in Plan's AL for amendments in FY 2012-13		0
4.	Pool's Accrued Liability	$	2,389,797,201
5.	Sum of Pool's Individual Plan Side Funds		83,573,887
6.	Increase in Pool's AL for amendments in FY 2012-13		964,580
7.	Pre-2013 Pool's UAL	$	319,504,744
8.	Plan's Share of Pre-2013 Pool's UAL [(1)-(2)-(3)]/[(4)–(5)-(6)] * (7)	$	**3,920,745**
9.	Pool's 2013 Investment & Asset (Gain)/Loss		231,453,080
10.	Pool's 2013 Other (Gain)/Loss		(2,213,098)
11.	Plan's Share of Pool's Asset (Gain)/Loss [(1)-(2)-(3)]/[(4)–(5)-(6)] * (9)		2,840,235
12.	Plan's Share of Pool's Other (Gain)/Loss [(1)]/[(4)] * (10)		(26,552)
13.	Plan's UAL as of 6/30/2013 [(2)+(8)+(11)+(12)]	$	**7,118,107**

Development of the Plan's Share of Pool's Market Value of Assets

1.	Plan's Accrued Liability	$	28,672,245
2.	Plan's UAL	$	7,118,107
3.	Plan's Share of Pool's MVA (1)-(2)	$	**21,554,138**

Schedule of Plan's Side Fund and Other Amortization Bases

There is a two-year lag between the Valuation Date and the Contribution Fiscal Year.

- The assets, liabilities and funded status of the plan are measured as of the valuation date; June 30, 2013.
- The employer contribution determined by the valuation is for the fiscal year beginning two years after the valuation date; fiscal year 2015-16.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution well in advance of the start of the fiscal year.

The Unfunded Liability is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The Unfunded Liability is rolled forward each year by subtracting the expected Payment on the Unfunded Liability for the fiscal year and adjusting for interest. The Expected Payment on the Unfunded Liability for a fiscal year is equal to the Expected Employer Contribution for the fiscal year minus the Expected Normal Cost for the year. The Employer Contribution Rate for the first fiscal year is determined by the actuarial valuation two years ago and the rate for the second year is from the actuarial valuation one year ago. The Normal Cost Rate for each of the two fiscal years is assumed to be the same as the rate determined by the current valuation. All expected dollar amounts, with the exception of the Side Fund base, are determined by multiplying the rate by the expected payroll for the applicable fiscal year, based on payroll as of the valuation date.

							Amounts for Fiscal 2015-16		
Reason for Base	**Date Established**	**Amorti-zation Period**	**Balance 6/30/13**	**Expected Payment 2013-14**	**Balance 6/30/14**	**Expected Payment 2014-15**	**Balance 6/30/15**	**Scheduled Payment for 2015-16**	**Payment as Percentage of Payroll**
SIDE FUND	06/30/13	13	$383,679	$35,172	$375,988	$36,227	$366,626	$37,314	1.173%
SHARE OF PRE-2013 POOL UAL	06/30/13	21	$3,920,745	$157,160	$4,051,854	$206,824	$4,141,303	$303,300	9.535%
ASSET (GAIN)/LOSS	06/30/13	30	$2,840,235	$0	$3,053,253	$0	$3,282,247	$46,165	1.451%
NON-ASSET (GAIN)/LOSS	06/30/13	30	$(26,552)	$0	$(28,543)	$0	$(30,684)	$(432)	(0.014%)
TOTAL			**$7,118,107**	**$192,332**	**$7,452,552**	**$243,051**	**$7,759,492**	**$386,347**	**12.145%**

Commencing with the June 30, 2013 actuarial valuations, the side fund will be treated as a liability as opposed to an asset. Prior to June 30, 2013, a positive side fund conveyed that a public agency had a surplus when risk pooling began June 30, 2003. Conversely, a negative side fund signified that a public agency had an unfunded liability that required elimination through an amortization payment schedule. After June 30, 2013 a positive side fund will signify that an agency has an unfunded liability while a negative side fund will indicate a surplus asset. The amortization schedule will remain unchanged, with the exception that a plan with a negative side fund may have its amortization period extended at the discretion of the plan actuary.

Your plan's allocated share of the risk's pool's unfunded accrued liability is based on your plan's accrued liability and is amortized over the average amortization period of the combined existing amortization bases prior to June 30, 2013. The payments on this base for Fiscal Year 2013-14 and 2014-15 are allocated by your plan's payroll.

The (gain)/loss base is your plan's allocated share of the risk pool's asset gain/loss for the Fiscal Year 2012-13, the change in unfunded accrued liability due to direct rate smoothing and your plan's allocated share of the risk pool's other liability gains and losses for fiscal year 2012-13. This base will be amortized according to Board policy over 30 years with a 5-year ramp-up.

Alternate Amortization Schedules

The amortization schedule shown on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze your current amortization schedule and illustrate the advantages of accelerating unfunded liability payments towards your plan's unfunded liability of $7,759,492 as of June 30, 2015, which will require total payments of $18,641,179.

Shown below are the level rate payments required to amortize your plan's unfunded liability assuming a fresh start over the various periods noted. Note that the payments under each scenario would increase by 3 percent for each year into the future.

Level Rate

Period	2015-16 Payment	Total Payments	Total Interest	Savings
20	$ 585,884	$ 15,742,922	$ 7,983,430	$ 2,898,257
15	$ 711,309	$ 13,229,575	$ 5,470,083	$ 5,411,604

Current CalPERS Board policy calls for lump sum contributions in excess of the required employer contribution shall first be used to eliminate the side fund, if applicable, and then the plan's share of the pool's unfunded accrued liability.

Please contact your plan actuary before making such a payment to ensure that the payment is applied correctly.

Funding History

The Funding History below shows the actuarial accrued liability, the plan's share of the pool's market value of assets, plan's share of the pool's unfunded liability, funded ratio and the annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/2011	$ 25,715,152	$ 19,367,109	$ 6,348,043	75.3%	$ 3,143,049
06/30/2012	27,660,904	19,624,525	8,036,379	71.0%	3,026,536
06/30/2013	28,672,245	21,554,138	7,118,107	75.2%	2,910,991

Plan's Total Normal Cost Rate

The Public Employees' Pension Reform Act of 2013 requires that new employees pay at least 50 percent of the total annual normal cost and that current employees approach the same goal through collective bargaining. Please refer to the CalPERS website for more details.

Shown below are the total annual normal cost rates for your plan.

	Fiscal Year 2014-15	Fiscal Year 2015-16
Plan's Net Total Normal Cost Rate for 2.5% @ 55	16.788%	17.009%
Surcharge for Class 1 Benefits		
a) FAC 1	0.566%	0.604%
Plan's Total Normal Cost Rate	17.354%	17.613%

RISK ANALYSIS

- **VOLATILITY RATIOS**
- **PROJECTED EMPLOYER CONTRIBUTIONS**
- **ANALYSIS OF FUTURE INVESTMENT RETURN SCENARIOS**
- **ANALYSIS OF DISCOUNT RATE SENSITIVITY**
- **HYPOTHETICAL TERMINATION LIABILITY**

Volatility Ratios

The actuarial calculations supplied in this communication are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise the employer's rates from one year to the next. Therefore, the rates will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Plans that have higher asset to payroll ratios produce more volatile employer rates due to investment return. For example, a plan with an asset to payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset to payroll ratio of 4. Below we have shown your asset volatility ratio, a measure of the plan's current rate volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio (LVR)

Plans that have higher liability to payroll ratios produce more volatile employer rates due to investment return and changes in liability. For example, a plan with a liability to payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability to payroll ratio of 4. The liability volatility ratio is also included in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility and the asset volatility ratio, described above, will tend to move closer to this ratio as the plan matures.

Rate Volatility		**As of June 30, 2013**
1. Market Value of Assets	$	21,554,138
2. Payroll		2,910,991
3. Asset Volatility Ratio (AVR = 1. / 2.)		7.4
4. Accrued Liability	$	28,672,245
5. Liability Volatility Ratio (LVR = 4. / 2.)		9.8

Projected Employer Contributions

The estimated rate for 2016-17 is based on a projection of the most recent information we have available, including an estimated 18.0 percent investment return for fiscal 2013-14, the impact of the new smoothing methods adopted by the CalPERS Board in April 2013 that will impact employer rates for the first time in 2015-16 and new actuarial assumptions adopted by the CalPERS Board in February 2014. These new demographic assumptions include a 20-year projected improvement in mortality. A complete listing of the new demographic assumptions to be implemented with the June 30, 2014 annual actuarial valuation and incorporated in the projected rates for FY 2016-17 and beyond can be found on the CalPERS website at: http://www.calpers.ca.gov/eip-docs/about/pubs/employer/actuarial-assumptions.xls

The table below shows projected employer contribution rates (before cost sharing) for the next five Fiscal Years, ***assuming CalPERS earns 18.0% for fiscal year 2013-14 and 7.50 percent every fiscal year thereafter***, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2016-17.

	New Rate	Projected Future Employer Contribution Rates				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Normal Cost %:	9.671%	10.1%	10.1%	10.1%	10.1%	10.1%
UAL $	$ 386,347	$ 441,370	$ 499,345	$ 560,404	$ 624,674	$ 639,280

Analysis of Future Investment Return Scenarios

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long- term blended return that continues to support a discount rate assumption of 7.5 percent. The newly adopted asset allocation has a lower expected investment volatility that will result in better risk characteristics than an equivalent margin for adverse deviation. The current asset allocation has an expected standard deviation of 12.45 percent while the newly adopted asset allocation has a lower expected standard deviation of 11.76 percent.

The investment return for fiscal year 2013-14 was announced July 14, 2014. The investment return in fiscal year 2013-14 is 18.42 percent before administrative expenses. This year, there will be no adjustment for real estate and private equities. For purposes of projecting future employer rates, we are assuming a 18.0 percent investment return for fiscal year 2013-14.

The investment return realized during a fiscal year first affects the contribution rate for the fiscal year 2 years later. Specifically, the investment return for 2013-14 will first be reflected in the June 30, 2014 actuarial valuation that will be used to set the 2016-17 employer contribution rates, the 2014-15 investment return will first be reflected in the June 30, 2015 actuarial valuation that will be used to set the 2017-18 employer contribution rates and so forth.

Based on a 18.0 percent investment return for fiscal year 2013-14, the April 17, 2013 CalPERS Board-approved amortization and rate smoothing method change, the February 18, 2014 new demographic assumptions including 20-year mortality improvement using Scale BB and assuming that all other actuarial assumptions will be realized, and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2016-17, the effect on the 2016-17 Employer Rate is as follows:

	Estimated 2016-17 Employer Contribution	Estimated Increase in Employer Contribution between 2015-16 and 2016-17
Normal Cost %:	10.1%	0.4%
UAL $	$ 441,370	$ 55,023

As part of this report, a sensitivity analysis was performed to determine the effects of various investment returns during fiscal years 2014-15, 2015-16 and 2016-17 on the 2017-18, 2018-19 and 2019-20 employer rates. Once again, the projected rate increases assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Five different investment return scenarios were selected.

- The first scenario is what one would expect if the markets were to give us a 5th percentile return from July 1, 2014 through June 30, 2017. The 5th percentile return corresponds to a -3.8 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- The second scenario is what one would expect if the markets were to give us a 25th percentile return from July 1, 2014 through June 30, 2017. The 25th percentile return corresponds to a 2.8 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- The third scenario assumed the return for 2014-15, 2015-16, 2016-17 would be our assumed 7.5 percent investment return which represents about a 49th percentile event.
- The fourth scenario is what one would expect if the markets were to give us a 75th percentile return from July 1, 2014 through June 30, 2017. The 75th percentile return corresponds to a 12.0 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- Finally, the last scenario is what one would expect if the markets were to give us a 95th percentile return from July 1, 2014 through June 30, 2017. The 95th percentile return corresponds to a 18.9 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.

The table below shows the estimated projected contribution rates and the estimated increases for your plan under the five different scenarios.

2014-17 Investment Return Scenario	Estimated Employer UAL Contribution			Estimated Total Change in Employer UAL Contribution between 2016-17 and 2019-20
	2017-18	2018-19	2019-20	
-3.8% (5th percentile)	$ 544,897	$ 697,565	$ 900,189	$ 458,819
2.8% (25th percentile)	$ 518,293	$ 618,709	$ 744,329	$ 302,959
7.5%	$ 499,345	$ 560,404	$ 624,674	$ 183,304
12.0%(75th percentile)	$ 481,201	$ 502,905	$ 503,093	$ 61,723
18.9%(95th percentile)	$ 453,376	$ 0	$ 0	$ (441,370)

In addition to the UAL Contribution amounts shown above the estimated employer normal cost of 10.1% of payroll will also be payable in each of the fiscal years shown above. The projected plan normal cost is expected to remain relatively stable over this time period.

Analysis of Discount Rate Sensitivity

The following analysis looks at the 2015-16 employer contributions under two different discount rate scenarios. Shown below are the employer contributions assuming discount rates that are 1 percent lower and 1 percent higher than the current valuation discount rate. This analysis gives an indication of the potential required employer contribution rates if the PERF were to realize investment returns of 6.50 percent or 8.50 percent over the long-term.

This type of analysis gives the reader a sense of the long-term risk to the employer contributions.

2015-16 Employer Contribution			
As of June 30, 2013	6.50% Discount Rate (-1%)	7.50% Discount Rate (assumed rate)	8.50% Discount Rate (+1%)
Plan's Employer Normal Cost	13.6%	9.7%	6.6%
Accrued Liability	$ 32,305,994	$ 28,672,245	$ 25,638,983
Unfunded Accrued Liability	$ 10,751,856	$ 7,118,107	$ 4,084,845

Hypothetical Termination Liability

Below is an estimate of the financial position of your plan if you had terminated your contract with CalPERS as of June 30, 2013 using the discount rates shown below. Your plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. For this hypothetical termination liability both compensation and service is frozen as of the valuation date and no future pay increases or service accruals are included. In December 2012, the CalPERS Board adopted a more conservative investment policy and asset allocation strategy for the Terminated Agency Pool. Since the Terminated Agency Pool has limited funding sources, expected benefit payments are secured by risk-free assets. With this change, CalPERS increased benefit security for members while limiting its funding risk. This asset allocation has a lower expected rate of return than the PERF. Consequently, the lower discount rate for the Terminated Agency pool results in higher liabilities for terminated plans.

In order to terminate your plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow your plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of your plan liabilities. CalPERS advises you to consult with your plan actuary before beginning this process.

Valuation Date	Hypothetical Termination Liability[1]	Market Value of Assets (MVA)	Unfunded Termination Liability	Termination Funded Ratio	Termination Liability Discount Rate[2]
06/30/2011	$ 36,065,178	$ 19,367,109	$ 16,698,069	53.7%	$ 4.82%
06/30/2012	49,894,471	19,624,525	30,269,946	39.3%	2.98%
06/30/2013	46,285,486	21,554,138	24,731,348	46.6%	3.72%

[1] The hypothetical liabilities calculated above include a 7 percent mortality load contingency in accordance with Board policy. Other actuarial assumptions, such as wage and inflation assumptions, can be found in appendix A.

[2] The discount rate assumption used for termination valuations is a weighted average of the 10 and 30-year US Treasury yields in effect on the valuation date that equal the duration of the pension liabilities. For purposes of this hypothetical termination liability estimate, the discount rate used, is the yield on the 30-year US Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS). Note that as of June 30, 2014 the 30-year STRIPS rate is 3.55 percent.

Participant Data

The table below shows a summary of your plan's member data upon which this valuation is based:

	June 30, 2012	June 30, 2013
Projected Payroll for Contribution Purposes	$ 3,307,177	$ 3,180,918
Number of Members		
Active	49	47
Transferred	29	33
Separated	18	19
Retired	56	59

List of Class 1 Benefit Provisions

- One Year Final Compensation

Information for Compliance with GASB Statement No. 27 for Cost-Sharing Multiple-Employer Defined Benefit Plan

Disclosure under GASB 27 follows. However, note that effective for financial statements for fiscal years beginning after June 15, 2014, GASB 68 replaces GASB 27. Disclosure required under GASB 68 will require additional reporting. CalPERS is intending to provide GASB 68 disclosure information upon request for an additional fee. We urge you to start discussions with your auditors on how to implement GASB 68.

Your plan is part of the Miscellaneous Risk Pool, a cost-sharing multiple-employer defined benefit plan. Under GASB 27, an employer should recognize annual pension expenditures/expense equal to its contractually required contributions to the plan. Pension liabilities and assets result from the difference between contributions required and contributions made. The contractually required contribution for the period July 1, 2015 to June 30, 2016 has been determined by an actuarial valuation of the plan as of June 30, 2013. Your unadjusted contribution for the indicated period is a normal cost contribution of 9.671 percent of payroll and an unfunded accrued liability dollar amount of $386,347. In order to calculate the dollar value of the contractually required contributions for inclusion in financial statements prepared as of June 30, 2016, this normal cost contribution rate, less any employee cost sharing, and as modified by any subsequent financing changes or contract amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2015 to June 30, 2016 combined with the UAL amount of $386,347. However, if this contribution is fully prepaid in a lump sum, then the dollar value of contractually required contributions is equal to the lump sum prepayment. The employer and the employer's auditor are responsible for determining the contractually required contributions. Further, the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years is to be disclosed under GASB 27.

A summary of principal assumptions and methods used to determine the contractually required contributions is shown below for the cost-sharing multiple-employer defined benefit plan.

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions	
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Complete information on assumptions and methods is provided in Appendix A of the Section 2 report. Appendix B of the Section 2 report contains a description of benefits included in the Risk Pool Actuarial Valuation.

A Schedule of Funding for the Risk Pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability (UL) to payroll for the risk pool(s) to which your plan belongs can be found in Section 2 of the report.

PLAN’S MAJOR BENEFIT OPTIONS

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which your agency has contracted. A description of principal standard and optional plan provisions is in Appendix B within Section 2 of this report.

	Contract package					
Benefit Provision	Receiving	Active Misc	Active Misc	Active Misc	Active Misc	
Benefit Formula		2.0% @ 55	2.0% @ 55	2.5% @ 55	2.5% @ 55	
Social Security Coverage		yes	no	yes	no	
Full/Modified		modified	full	modified	full	
Final Average Compensation Period		12 mos.	12 mos.	12 mos.	12 mos.	
Sick Leave Credit		yes	yes	yes	yes	
Non-Industrial Disability		standard	standard	standard	standard	
Industrial Disability		no	no	no	no	
Pre-Retirement Death Benefits						
Optional Settlement 2W		yes	yes	yes	yes	
1959 Survivor Benefit Level		no	level 2	no	level 2	
Special		no	no	no	no	
Alternate (firefighters)		no	no	no	no	
Post-Retirement Death Benefits						
Lump Sum	$500	$500	$500	$500	$500	
Survivor Allowance (PRSA)	no	no	no	no	no	
COLA	2%	2%	2%	2%	2%	

Section 2

Section 2 may be found on the CalPERS website (www.calpers.ca.gov) then selecting:

- **Employers**
- **Actuarial & GASB 27 Information**
- **Risk Pooling**
- **Risk Pool Annual Valuation Report**

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942709
Sacramento, CA 94229-2709
TTY: (916) 795-3240
(888) 225-7377 phone – (916) 795-2744 fax
www.calpers.ca.gov

October 2014

SAFETY PLAN OF THE CITY OF CAPITOLA
(CalPERS ID: 2647630112)
Annual Valuation Report as of June 30, 2013

Dear Employer,

As an attachment to this letter, you will find a copy of the June 30, 2013 actuarial valuation report of your pension plan. Because this plan is in a risk pool and the CalPERS Board approved structural changes to risk pooling on May 21, 2014 you will notice some changes between your last actuarial report and this one. An overview of the changes to pooling is provided below and we urge you to carefully review the information provided in this report.

Because this plan is in a risk pool, the following valuation report has been separated into two Sections:

- Section 1 contains specific information for your plan, including the development of your pooled employer contributions and projected employer contributions, and
- Section 2 contains the Risk Pool Actuarial Valuation appropriate to your plan, as of June 30, 2013.

Section 2 can be found on the CalPERS website at (www.calpers.ca.gov) then select in order "Employers", "Actuarial, Risk Pooling & GASB 27 Information", "Risk Pooling", "Risk Pool Annual Valuation Reports", then select the appropriate pool report.

Your 2013 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. Your CalPERS staff actuary, whose signature appears in the Actuarial Certification Section on page 1, is available to discuss your report with you after October 31, 2014.

Future Contribution Rates

Fiscal Year	Employer Normal Cost Rate	+	Employer Payment of Unfunded Liability
2015-16	18.524%		$ 330,519
2016-17 (projected)	19.6%		$ 395,101

The exhibit above displays the Minimum Employer Contributions, before any cost sharing, for 2015-16 along with estimates of the contributions for 2016-17. The estimated contributions for 2016-17 are based on a projection of the most recent information we have available, including an estimated 18.0 percent investment return for fiscal 2013-14, the impact of the new amortization methods adopted by the CalPERS Board in April 2013 that will impact employer rates for the first time in 2015-16 and new actuarial assumptions adopted by the CalPERS Board in February 2014 that will impact rates for the first time in 2016-17. These new demographic assumptions include a 20-year projected improvement in mortality.

A projection of employer contributions beyond 2016-17 can be found in the Risk Analysis Section of this report, "Analysis of Future Investment Return Scenarios", under a variety of investment return scenarios. Please disregard any projections provided to you in the past. Member contributions, other than cost sharing (whether paid by the employer or the employee), are in addition to the above amounts. The employer contributions in this report do not reflect any cost sharing arrangements you may have with your employees.

The estimate for 2016-17 also assumes that there are no future contract amendments and no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.) This is a very important assumption because these gains and losses do occur and can have a significant effect on your contributions. Even for the largest plans or pools, such gains and losses can impact the employer's contribution rate by one or two percent of payroll or even more in some less common circumstances. These gains and losses cannot be predicted in advance so the projected employer contributions are estimates. Your actual employer contributions for 2016-17 will be provided in next year's valuation report.

Changes since the Prior Year's Valuation

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the *"Analysis of Future Investment Return Scenarios"* subsection of the *"Risk Analysis"* section of your report.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees. As such it is no longer appropriate to assume that the payroll of the risk pools for the classic formulas will continue to grow at 3 percent annually. Funding the promised pension benefits as a percentage of payroll would lead to the underfunding of the plans. In addition the current allocation of the existing unfunded liabilities based on payroll would create equity issues for employers within the risk pools. Furthermore the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

In order to address these issues the CalPERS Board of Administration approved at their May 21, 2014 meeting structural changes to the risk pools. All pooled plans will be combined into two active pools, one for all miscellaneous groups and one for all safety groups, effective with the 2013 valuations. By combining the pools this way the payroll of the risk pools and the employers within the pools can once again be expected to increase at the assumed 3 percent annual growth. However two important changes are being made which will affect employers.

1. Beginning with FY 2015-16 CalPERS will collect employer contributions toward your unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund

payments the plan's normal cost contribution will continue to be collected as a percentage of payroll.

2. The pool's unfunded liability will be allocated to each individual plan based on the plan's total liability rather than by plan individual payroll. This will allow employers to track their own unfunded liability and pay it down faster if they choose. The change in the allocation of unfunded liabilities will result in some employers paying more towards their unfunded liability and some paying less.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of the PEPRA changes are included in the rates and the benefit provision listings of the June 30, 2013 valuation for the 2015-16 rates. For more information on PEPRA, please refer to the CalPERS website.

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies we are seeing in our membership and expected continued improvements. The new actuarial assumptions will be used to set the FY 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

Besides the above noted changes, there may also be changes specific to your plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the *"Highlights and Executive Summary"* section and in Appendix A, *"Statement of Actuarial Data, Methods and Assumptions"* of your section 2 report. We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their result, we ask that, you wait until after October 31 to contact us with actuarial related questions.

If you have other questions, please call our customer contact center at (888) CalPERS or (888**-225-7377**).

Sincerely,

ALAN MILLIGAN
Chief Actuary

ACTUARIAL VALUATION
as of June 30, 2013

for the
SAFETY PLAN
of the
CITY OF CAPITOLA
(CalPERS ID: 2647630112)

REQUIRED CONTRIBUTIONS
FOR FISCAL YEAR
July 1, 2015 - June 30, 2016

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Section 1

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Specific Information for the SAFETY PLAN of the CITY OF CAPITOLA

(CalPERS ID: 2647630112)
(Rate Plan: 877)

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ACTUARIAL CERTIFICATION

Section 1 of this report is based on the member and financial data contained in our records as of June 30, 2013 which was provided by your agency and the benefit provisions under your contract with CalPERS. Section 2 of this report is based on the member and financial data as of June 30, 2013 provided by employers participating in the SAFETY risk pool to which your plan belongs and benefit provisions under the CalPERS contracts for those agencies.

As set forth in Section 2 of this report, the Pool Actuary has certified that, in their opinion, the valuation of the Risk Pool containing your SAFETY PLAN has been performed in accordance with generally accepted actuarial principles consistent with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for the Risk Pool as of the date of this valuation and as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Having relied upon the information set forth in Section 2 of this report and based on the census and benefit provision information for your plan, it is my opinion as your Plan Actuary that the Side Fund and other Unfunded Accrued Liability bases as of June 30, 2013 and employer contribution rate as of July 1, 2015, have been properly and accurately determined in accordance with the principles and standards stated above.

The undersigned is an actuary for CalPERS, who is a member of both the American Academy of Actuaries and Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

David Clement

DAVID CLEMENT, ASA, MAAA, EA
Senior Pension Actuary, CalPERS
Plan Actuary

HIGHLIGHTS AND EXECUTIVE SUMMARY

- **INTRODUCTION**
- **PURPOSE OF SECTION 1**
- **REQUIRED EMPLOYER CONTRIBUTION**
- **PLAN'S FUNDED STATUS**
- **PROJECTED CONTRIBUTIONS**

Introduction

This report presents the results of the June 30, 2013 actuarial valuation of the SAFETY PLAN of the CITY OF CAPITOLA of the California Public Employees' Retirement System (CalPERS). This actuarial valuation was used to set the 2015-16 required employer contribution rates.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the *"Analysis of Future Investment Return Scenarios"* subsection of the *"Risk Analysis"* section of your report.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees. As such it is no longer appropriate to assume that the payroll of the risk pools for the classic formulas will continue to grow at 3 percent annually. Funding the promised pension benefits as a percentage of payroll would lead to the underfunding of the plans. In addition the current allocation of the existing unfunded liabilities based on payroll would create equity issues for employers within the risk pools. Furthermore the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

In order to address these issues the CalPERS Board of Administration approved at their May 21, 2014 meeting structural changes to the risk pools. All pooled plans will be combined into two active pools, one for all miscellaneous groups and one for all safety groups, effective with the 2013 valuations. By combining the pools this way the payroll of the risk pools and the employers within the pools can once again be expected to increase at the assumed 3 percent annual growth. However two important changes are being made which will affect employers.

1. Beginning with FY 2015-16 CalPERS will collect employer contributions toward your unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund payments the plan's normal cost contribution will continue to be collected as a percentage of payroll.
2. The pool's unfunded liability will be allocated to each individual plan based on the plan's total liability rather than by the plan's individual payroll. This will allow employers to track their own unfunded liability and pay it down faster if they choose. The change in the allocation of unfunded liabilities will result in some employers paying more towards their unfunded liability and some paying less.

The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation that sets the contribution rates for the 2015-16 fiscal year. For more detailed information on changes due to PEPRA, please refer to the CalPERS website.

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns (see Appendix). The adopted asset allocation is expected to have a long- term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies we are seeing in our membership and expected continued improvements. The new actuarial assumptions will be used to set the FY 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

Purpose of Section 1

This section 1 report for the SAFETY PLAN of the CITY OF CAPITOLA of the California Public Employees' Retirement System (CalPERS) was prepared by the Plan Actuary in order to:

- Set forth the assets and accrued liabilities of this plan as of June 30, 2013;
- Determine the required employer contribution for this plan for the fiscal year July 1, 2015 through June 30, 2016;
- Provide actuarial information as of June 30, 2013 to the CalPERS Board of Administration and other interested parties; and
- Provide pension information as of June 30, 2013 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a Cost Sharing Multiple Employer Defined Benefit Pension Plan.

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to alternative benefit costs. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

California Actuarial Advisory Panel Recommendations

This report includes all the basic disclosure elements as described in the *Model Disclosure Elements for Actuarial Valuation Reports* recommended in 2011 by the California Actuarial Advisory Panel (CAAP), with the exception of including the original base amounts of the various components of the unfunded liability in the Schedule of Amortization Bases shown on page 12.

Additionally, this report includes the following "Enhanced Risk Disclosures" also recommended by the CAAP in the Model Disclosure Elements document:

- A "Deterministic Stress Test," projecting future results under different investment income scenarios
- A "Sensitivity Analysis," showing the impact on current valuation results using a 1 percent plus or minus change in the discount rate.

Required Employer Contribution

Actuarially Determined Employer Contributions:		**Fiscal Year 2014-15**[1]		**Fiscal Year 2015-16**
Employer Contributions (in Projected Dollars)				
Plan's Employer Normal Cost	$	406,296	$	417,571
Plan's Payment on Amortization Bases		219,479		330,519[2]
Surcharge for Class 1 Benefits[3]				
a) FAC 1		22,535		22,999
Phase out of Normal Cost Difference[4]		0		0
Amortization of Side Fund		0		0
Total Employer Contribution	$	648,310	$	771,089
Projected Payroll for the Contribution Fiscal Year	$	2,327,945	$	2,378,371
Required Employer Contributions (Percentage of Payroll)				
Plan's Net Employer Normal Cost		17.453%		17.557%
Plan's Payment on Amortization Bases		9.428%		13.896%[2]
Surcharge for Class 1 Benefits[3]				
a) FAC 1		0.968%		0.967%
Phase out of Normal Cost Difference[4]		0.000%		0.000%
Amortization of Side Fund		0.000%		0.000%
Total Employer Contribution Rate		27.849%		32.420%

Required Employer Contribution for FY 2015-16		
Employer Contribution Rate[5]		**18.524%**
***Plus* Monthly Employer Dollar UAL Payment**[6]	**$**	**27,543**
Annual Lump Sum Prepayment Option	**$**	**318,781**

*For FY 2015-16 the total minimum required employer contribution is the **sum** of the Plan's Employer Contribution Rate (expressed as a percentage of payroll) **plus** the Employer Unfunded Accrued Liability (UAL) Contribution Amount (in dollars). Whereas in prior years it was possible to prepay total employer contributions for the fiscal year, beginning with FY 2015-16 and beyond, only the UAL portion of the employer contribution can be prepaid.*

[1] The results shown for FY 2014-15 reflect the prior year valuation and do not reflect any lump sum payment, side fund payoff or rate adjustment made after annual valuation report is completed.

[2] For FY 2015-16 the Plan's Payment on Amortization Bases reflects the sum of all UAL amortization bases including the Plan's Side Fund (where applicable).

[3] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

[4] Risk pooling was implemented for most plans as of June 30, 2003. The normal cost difference was scheduled to be phased out over a five year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year.

[5] The minimum employer contribution under PEPRA is the greater of the required employer contribution or the total employer normal cost.

[6] The Plan's Payment on Amortization Bases Contribution amount for FY 2015-16 will be billed as a level dollar amount monthly over the course of the year. Late payments will accrue interest at an annual rate of 7.5 percent. Lump sum payments may be made through my|CalPERS. Plan Normal Cost contributions will be made as part of the payroll reporting process. As a percentage of payroll your UAL contribution is 13.896 percent.

Plan's Funded Status

	June 30, 2012	June 30, 2013
1. Present Value of Projected Benefits (PVB)	$ 36,454,061	$ 37,412,474
2. Entry Age Normal Accrued Liability	30,630,882	31,655,484
3. Plan's Market Value of Assets (MVA)	22,588,206	24,540,509
4. Unfunded Liability [(2) - (3)]	8,042,676	7,114,975
5. Funded Ratio [(3) / (2)]	73.7%	77.5%

Projected Contributions

The contribution rate and amount shown below is an estimate for the employer contribution for fiscal year 2016-17. The estimated contribution is based on a projection of the most recent information we have available, including an estimate of the investment return for fiscal year 2013-14, namely 18.0 percent. It also reflects implementation of the direct rate smoothing method and the impact of new actuarial assumptions.

Projected Employer Contribution Rate:	19.6%
Projected Plan UAL Contribution	$ 395,101

The estimate also assumes that there are no liability gains or losses among the plans in your risk pool, that your plan has no new amendments in the next year, and that your plan's and your risk pool's payrolls both increase exactly 3.0 percent in the 2013-14 fiscal year. Therefore, the projected employer contribution for 2016-17 is strictly an estimate. Your actual rate for 2016-17 will be provided in next year's valuation report. A more detailed analysis of your projected employer contributions over the next five years can be found in the "Risk Analysis" section of this report.

ASSETS AND LIABILITIES

- DEVELOPMENT OF PLAN'S SHARE OF POOL'S UAL
- DEVELOPMENT OF PLAN'S SHARE OF POOL'S MVA
- SCHEDULE OF PLAN'S SIDE FUND & OTHER AMORTIZATION BASES
- ALTERNATIVE AMORTIZATION SCHEDULES
- FUNDING HISTORY
- PLAN'S TOTAL NORMAL COST RATE

Development of the Plan's Share of Pool's Unfunded Accrued Liability

It is the policy of the CalPERS to ensure equity within the risk pools by allocating the pool's unfunded accrued liability in a manner that treats each employer fairly and that maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. Commencing with the June 30, 2013 actuarial valuations and for purposes of allocating the pool's unfunded accrued liability to all the individual plans within the pool, an individual plan's total unfunded accrued liability (Preliminary Plan UAL) on a specific valuation date will be set equal to the sum of the outstanding unamortized balances on the valuation date for the following:

a) Side Fund
b) Plan's share of Pool UAL due to benefit changes (including golden handshakes) provided to the members of that plan
c) Plan's share of the Pool UAL created before the valuation date for reasons other than benefit changes

1.	Plan's Accrued Liability	$	31,655,484
2.	Plan's Side Fund		0
3.	Increase in Plan's AL for amendments in FY 2012-13		0
4.	Pool's Accrued Liability	$	12,307,135,447
5.	Sum of Pool's Individual Plan Side Funds		461,094,417
6.	Increase in Pool's AL for amendments in FY 2012-13		817,039
7.	Pre-2013 Pool's UAL	$	1,391,710,886
8.	Plan's Share of Pre-2013 Pool's UAL [(1)-(2)-(3)]/[(4)–(5)-(6)] * (7)	$	**3,719,244**
9.	Pool's 2013 Investment & Asset (Gain)/Loss		1,285,245,280
10.	Pool's 2013 Other (Gain)/Loss		(15,159,479)
11.	Plan's Share of Pool's Asset (Gain)/Loss [(1)-(2)-(3)]/[(4)–(5)-(6)] * (9)		3,434,723
12.	Plan's Share of Pool's Other (Gain)/Loss [(1)]/[(4)] * (10)		(38,992)
13.	Plan's UAL as of 6/30/2013 [(2)+(8)+(11)+(12)]	$	**7,114,975**

Development of the Plan's Share of Pool's Market Value of Assets

1.	Plan's Accrued Liability	$	31,655,484
2.	Plan's UAL	$	7,114,975
3.	Plan's Share of Pool's MVA (1)-(2)	$	**24,540,509**

Schedule of Plan's Side Fund and Other Amortization Bases

There is a two-year lag between the Valuation Date and the Contribution Fiscal Year.

- The assets, liabilities and funded status of the plan are measured as of the valuation date; June 30, 2013.
- The employer contribution determined by the valuation is for the fiscal year beginning two years after the valuation date; fiscal year 2015-16.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution well in advance of the start of the fiscal year.

The Unfunded Liability is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The Unfunded Liability is rolled forward each year by subtracting the expected Payment on the Unfunded Liability for the fiscal year and adjusting for interest. The Expected Payment on the Unfunded Liability for a fiscal year is equal to the Expected Employer Contribution for the fiscal year minus the Expected Normal Cost for the year. The Employer Contribution Rate for the first fiscal year is determined by the actuarial valuation two years ago and the rate for the second year is from the actuarial valuation one year ago. The Normal Cost Rate for each of the two fiscal years is assumed to be the same as the rate determined by the current valuation. All expected dollar amounts, with the exception of the Side Fund base, are determined by multiplying the rate by the expected payroll for the applicable fiscal year, based on payroll as of the valuation date.

							Amounts for Fiscal 2015-16		
Reason for Base	**Date Established**	**Amortization Period**	**Balance 6/30/13**	**Expected Payment 2013-14**	**Balance 6/30/14**	**Expected Payment 2014-15**	**Balance 6/30/15**	**Scheduled Payment for 2015-16**	**Payment as Percentage of Payroll**
SIDE FUND	06/30/13	10	$0	$0	$0	$0	$0	$0	0.000%
SHARE OF PRE-2013 POOL UAL	06/30/13	22	$3,719,244	$170,173	$3,821,748	$232,313	$3,867,512	$275,325	11.576%
ASSET (GAIN)/LOSS	06/30/13	30	$3,434,723	$0	$3,692,327	$0	$3,969,252	$55,828	2.347%
NON-ASSET (GAIN)/LOSS	06/30/13	30	$(38,992)	$0	$(41,916)	$0	$(45,060)	$(634)	(0.027%)
TOTAL			**$7,114,975**	**$170,173**	**$7,472,159**	**$232,313**	**$7,791,704**	**$330,519**	**13.896%**

Commencing with the June 30, 2013 actuarial valuations, the side fund will be treated as a liability as opposed to an asset. Prior to June 30, 2013, a positive side fund conveyed that a public agency had a surplus when risk pooling began June 30, 2003. Conversely, a negative side fund signified that a public agency had an unfunded liability that required elimination through an amortization payment schedule. After June 30, 2013 a positive side fund will signify that an agency has an unfunded liability while a negative side fund will indicate a surplus asset. The amortization schedule will remain unchanged, with the exception that a plan with a negative side fund may have its amortization period extended at the discretion of the plan actuary.

Your plan's allocated share of the risk's pool's unfunded accrued liability is based on your plan's accrued liability and is amortized over the average amortization period of the combined existing amortization bases prior to June 30, 2013. The payments on this base for Fiscal Year 2013-14 and 2014-15 are allocated by your plan's payroll.

The (gain)/loss base is your plan's allocated share of the risk pool's asset gain/loss for the Fiscal Year 2012-13, the change in unfunded accrued liability due to direct rate smoothing and your plan's allocated share of the risk pool's other liability gains and losses for fiscal year 2012-13. This base will be amortized according to Board policy over 30 years with a 5-year ramp-up.

Alternate Amortization Schedules

The amortization schedule shown on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze your current amortization schedule and illustrate the advantages of accelerating unfunded liability payments towards your plan's unfunded liability of $7,791,704 as of June 30, 2015, which will require total payments of $19,704,809.

Shown below are the level rate payments required to amortize your plan's unfunded liability assuming a fresh start over the various periods noted. Note that the payments under each scenario would increase by 3 percent for each year into the future.

Level Rate

Period	2015-16 Payment	Total Payments	Total Interest	Savings
25	$ 514,988	$ 18,776,084	$ 10,984,380	$ 928,725
20	$ 588,316	$ 15,808,271	$ 8,016,567	$ 3,896,538

Current CalPERS Board policy calls for lump sum contributions in excess of the required employer contribution shall first be used to eliminate the side fund, if applicable, and then the plan's share of the pool's unfunded accrued liability.

Please contact your plan actuary before making such a payment to ensure that the payment is applied correctly.

Funding History

The Funding History below shows the actuarial accrued liability, the plan's share of the pool's market value of assets, plan's share of the pool's unfunded liability, funded ratio and the annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/2011	$ 28,146,569	$ 22,212,634	$ 5,933,935	78.9%	$ 2,076,967
06/30/2012	30,630,882	22,588,206	8,042,676	73.7%	2,130,400
06/30/2013	31,655,484	24,540,509	7,114,975	77.5%	2,176,546

Plan's Total Normal Cost Rate

The Public Employees' Pension Reform Act of 2013 requires that new employees pay at least 50 percent of the total annual normal cost and that current employees approach the same goal through collective bargaining. Please refer to the CalPERS website for more details.

Shown below are the total annual normal cost rates for your plan.

	Fiscal Year 2014-15	Fiscal Year 2015-16
Plan's Net Total Normal Cost Rate for 3% @ 50	26.438%	26.543%
Surcharge for Class 1 Benefits		
a) FAC 1	0.968%	0.967%
Plan's Total Normal Cost Rate	27.406%	27.510%

RISK ANALYSIS

- **VOLATILITY RATIOS**
- **PROJECTED EMPLOYER CONTRIBUTIONS**
- **ANALYSIS OF FUTURE INVESTMENT RETURN SCENARIOS**
- **ANALYSIS OF DISCOUNT RATE SENSITIVITY**
- **HYPOTHETICAL TERMINATION LIABILITY**

Volatility Ratios

The actuarial calculations supplied in this communication are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise the employer's rates from one year to the next. Therefore, the rates will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Plans that have higher asset to payroll ratios produce more volatile employer rates due to investment return. For example, a plan with an asset to payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset to payroll ratio of 4. Below we have shown your asset volatility ratio, a measure of the plan's current rate volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio (LVR)

Plans that have higher liability to payroll ratios produce more volatile employer rates due to investment return and changes in liability. For example, a plan with a liability to payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability to payroll ratio of 4. The liability volatility ratio is also included in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility and the asset volatility ratio, described above, will tend to move closer to this ratio as the plan matures.

Rate Volatility		As of June 30, 2013
1. Market Value of Assets	$	24,540,509
2. Payroll		2,176,546
3. Asset Volatility Ratio (AVR = 1. / 2.)		11.3
4. Accrued Liability	$	31,655,484
5. Liability Volatility Ratio (LVR = 4. / 2.)		14.5

Projected Employer Contributions

The estimated rate for 2016-17 is based on a projection of the most recent information we have available, including an estimated 18.0 percent investment return for fiscal 2013-14, the impact of the new smoothing methods adopted by the CalPERS Board in April 2013 that will impact employer rates for the first time in 2015-16 and new actuarial assumptions adopted by the CalPERS Board in February 2014. These new demographic assumptions include a 20-year projected improvement in mortality. A complete listing of the new demographic assumptions to be implemented with the June 30, 2014 annual actuarial valuation and incorporated in the projected rates for FY 2016-17 and beyond can be found on the CalPERS website at: http://www.calpers.ca.gov/eip-docs/about/pubs/employer/actuarial-assumptions.xls

The table below shows projected employer contribution rates (before cost sharing) for the next five Fiscal Years, ***assuming CalPERS earns 18.0% for fiscal year 2013-14 and 7.50 percent every fiscal year thereafter***, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2016-17.

	New Rate	**Projected Future Employer Contribution Rates**				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Normal Cost %:	18.524%	19.6%	19.6%	19.6%	19.6%	19.6%
UAL $	$ 330,519	$ 395,101	$ 463,262	$ 535,156	$ 610,946	$ 626,817

Analysis of Future Investment Return Scenarios

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long- term blended return that continues to support a discount rate assumption of 7.5 percent. The newly adopted asset allocation has a lower expected investment volatility that will result in better risk characteristics than an equivalent margin for adverse deviation. The current asset allocation has an expected standard deviation of 12.45 percent while the newly adopted asset allocation has a lower expected standard deviation of 11.76 percent.

The investment return for fiscal year 2013-14 was announced July 14, 2014. The investment return in fiscal year 2013-14 is 18.42 percent before administrative expenses. This year, there will be no adjustment for real estate and private equities. For purposes of projecting future employer rates, we are assuming a 18.0 percent investment return for fiscal year 2013-14.

The investment return realized during a fiscal year first affects the contribution rate for the fiscal year 2 years later. Specifically, the investment return for 2013-14 will first be reflected in the June 30, 2014 actuarial valuation that will be used to set the 2016-17 employer contribution rates, the 2014-15 investment return will first be reflected in the June 30, 2015 actuarial valuation that will be used to set the 2017-18 employer contribution rates and so forth.

Based on a 18.0 percent investment return for fiscal year 2013-14, the April 17, 2013 CalPERS Board-approved amortization and rate smoothing method change, the February 18, 2014 new demographic assumptions including 20-year mortality improvement using Scale BB and assuming that all other actuarial assumptions will be realized, and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2016-17, the effect on the 2016-17 Employer Rate is as follows:

	Estimated 2016-17 Employer Contribution	**Estimated Increase in Employer Contribution between 2015-16 and 2016-17**
Normal Cost %:	19.6%	1.1%
UAL $	$ 395,101	$ 64,582

As part of this report, a sensitivity analysis was performed to determine the effects of various investment returns during fiscal years 2014-15, 2015-16 and 2016-17 on the 2017-18, 2018-19 and 2019-20 employer rates. Once again, the projected rate increases assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Five different investment return scenarios were selected.

- The first scenario is what one would expect if the markets were to give us a 5th percentile return from July 1, 2014 through June 30, 2017. The 5th percentile return corresponds to a -3.8 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- The second scenario is what one would expect if the markets were to give us a 25th percentile return from July 1, 2014 through June 30, 2017. The 25th percentile return corresponds to a 2.8 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- The third scenario assumed the return for 2014-15, 2015-16, 2016-17 would be our assumed 7.5 percent investment return which represents about a 49th percentile event.
- The fourth scenario is what one would expect if the markets were to give us a 75th percentile return from July 1, 2014 through June 30, 2017. The 75th percentile return corresponds to a 12.0 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- Finally, the last scenario is what one would expect if the markets were to give us a 95th percentile return from July 1, 2014 through June 30, 2017. The 95th percentile return corresponds to a 18.9 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.

The table below shows the estimated projected contribution rates and the estimated increases for your plan under the five different scenarios.

2014-17 Investment Return Scenario	Estimated Employer UAL Contribution			Estimated Total Change in Employer UAL Contribution between 2016-17 and 2019-20
	2017-18	2018-19	2019-20	
-3.8% (5th percentile)	$ 514,364	$ 688,440	$ 917,654	$ 522,553
2.8% (25th percentile)	$ 484,520	$ 600,326	$ 744,188	$ 349,087
7.5%	$ 463,262	$ 535,156	$ 610,946	$ 215,845
12.0%(75th percentile)	$ 442,902	$ 470,872	$ 475,507	$ 80,406
18.9%(95th percentile)	$ 411,676	$ 0	$ 0	$ (395,101)

In addition to the UAL Contribution amounts shown above the estimated employer normal cost of 19.6% of payroll will also be payable in each of the fiscal years shown above. The projected plan normal cost is expected to remain relatively stable over this time period.

Analysis of Discount Rate Sensitivity

The following analysis looks at the 2015-16 employer contributions under two different discount rate scenarios. Shown below are the employer contributions assuming discount rates that are 1 percent lower and 1 percent higher than the current valuation discount rate. This analysis gives an indication of the potential required employer contribution rates if the PERF were to realize investment returns of 6.50 percent or 8.50 percent over the long-term.

This type of analysis gives the reader a sense of the long-term risk to the employer contributions.

2015-16 Employer Contribution			
As of June 30, 2013	6.50% Discount Rate (-1%)	7.50% Discount Rate (assumed rate)	8.50% Discount Rate (+1%)
Plan's Employer Normal Cost	25.1%	18.5%	13.4%
Accrued Liability	$ 35,821,655	$ 31,655,484	$ 28,212,438
Unfunded Accrued Liability	$ 11,281,146	$ 7,114,975	$ 3,671,929

Hypothetical Termination Liability

Below is an estimate of the financial position of your plan if you had terminated your contract with CalPERS as of June 30, 2013 using the discount rates shown below. Your plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. For this hypothetical termination liability both compensation and service is frozen as of the valuation date and no future pay increases or service accruals are included. In December 2012, the CalPERS Board adopted a more conservative investment policy and asset allocation strategy for the Terminated Agency Pool. Since the Terminated Agency Pool has limited funding sources, expected benefit payments are secured by risk-free assets. With this change, CalPERS increased benefit security for members while limiting its funding risk. This asset allocation has a lower expected rate of return than the PERF. Consequently, the lower discount rate for the Terminated Agency pool results in higher liabilities for terminated plans.

In order to terminate your plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow your plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of your plan liabilities. CalPERS advises you to consult with your plan actuary before beginning this process.

Valuation Date	Hypothetical Termination Liability[1]	Market Value of Assets (MVA)	Unfunded Termination Liability	Termination Funded Ratio	Termination Liability Discount Rate[2]
06/30/2011	$ 41,603,891	$ 22,212,634	$ 19,391,257	53.4%	$ 4.82%
06/30/2012	58,563,693	22,588,206	35,975,487	38.6%	2.98%
06/30/2013	53,187,385	24,540,509	28,646,876	46.1%	3.72%

[1] The hypothetical liabilities calculated above include a 7 percent mortality load contingency in accordance with Board policy. Other actuarial assumptions, such as wage and inflation assumptions, can be found in appendix A.

[2] The discount rate assumption used for termination valuations is a weighted average of the 10 and 30-year US Treasury yields in effect on the valuation date that equal the duration of the pension liabilities. For purposes of this hypothetical termination liability estimate, the discount rate used, is the yield on the 30-year US Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS). Note that as of June 30, 2014 the 30-year STRIPS rate is 3.55 percent.

Participant Data

The table below shows a summary of your plan's member data upon which this valuation is based:

	June 30, 2012	June 30, 2013
Projected Payroll for Contribution Purposes	$ 2,327,945	$ 2,378,371
Number of Members		
Active	21	21
Transferred	19	17
Separated	10	12
Retired	30	30

List of Class 1 Benefit Provisions

- One Year Final Compensation

Information for Compliance with GASB Statement No. 27 for Cost-Sharing Multiple-Employer Defined Benefit Plan

Disclosure under GASB 27 follows. However, note that effective for financial statements for fiscal years beginning after June 15, 2014, GASB 68 replaces GASB 27. Disclosure required under GASB 68 will require additional reporting. CalPERS is intending to provide GASB 68 disclosure information upon request for an additional fee. We urge you to start discussions with your auditors on how to implement GASB 68.

Your plan is part of the Safety Risk Pool, a cost-sharing multiple-employer defined benefit plan. Under GASB 27, an employer should recognize annual pension expenditures/expense equal to its contractually required contributions to the plan. Pension liabilities and assets result from the difference between contributions required and contributions made. The contractually required contribution for the period July 1, 2015 to June 30, 2016 has been determined by an actuarial valuation of the plan as of June 30, 2013. Your unadjusted contribution for the indicated period is a normal cost contribution of 18.524 percent of payroll and an unfunded accrued liability dollar amount of $330,519. In order to calculate the dollar value of the contractually required contributions for inclusion in financial statements prepared as of June 30, 2016, this normal cost contribution rate, less any employee cost sharing, and as modified by any subsequent financing changes or contract amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2015 to June 30, 2016 combined with the UAL amount of $330,519. However, if this contribution is fully prepaid in a lump sum, then the dollar value of contractually required contributions is equal to the lump sum prepayment. The employer and the employer's auditor are responsible for determining the contractually required contributions. Further, the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years is to be disclosed under GASB 27.

A summary of principal assumptions and methods used to determine the contractually required contributions is shown below for the cost-sharing multiple-employer defined benefit plan.

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions	
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Complete information on assumptions and methods is provided in Appendix A of the Section 2 report. Appendix B of the Section 2 report contains a description of benefits included in the Risk Pool Actuarial Valuation.

A Schedule of Funding for the Risk Pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability (UL) to payroll for the risk pool(s) to which your plan belongs can be found in Section 2 of the report.

PLAN'S MAJOR BENEFIT OPTIONS

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which your agency has contracted. A description of principal standard and optional plan provisions is in Appendix B within Section 2 of this report.

	Contract package		
Benefit Provision	Receiving	Active Police	
Benefit Formula		3.0% @ 50	
Social Security Coverage		no	
Full/Modified		full	
Final Average Compensation Period		12 mos.	
Sick Leave Credit		yes	
Non-Industrial Disability		standard	
Industrial Disability		yes	
Pre-Retirement Death Benefits			
Optional Settlement 2W		yes	
1959 Survivor Benefit Level		level 2	
Special		yes	
Alternate (firefighters)		no	
Post-Retirement Death Benefits			
Lump Sum	$500	$500	
Survivor Allowance (PRSA)	no	no	
COLA	2%	2%	

Section 2

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Section 2 may be found on the CalPERS website (www.calpers.ca.gov) then selecting:

- **Employers**
- **Actuarial & GASB 27 Information**
- **Risk Pooling**
- **Risk Pool Annual Valuation Report**

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942709
Sacramento, CA 94229-2709
TTY: (916) 795-3240
(888) 225-7377 phone – (916) 795-2744 fax
www.calpers.ca.gov

October 2014

PEPRA MISCELLANEOUS PLAN OF THE CITY OF CAPITOLA
(CalPERS ID: 2647630112)
Annual Valuation Report as of June 30, 2013

Dear Employer,

As an attachment to this letter, you will find a copy of the June 30, 2013 actuarial valuation report of your pension plan. Because this plan is in a risk pool and the CalPERS Board approved structural changes to risk pooling on May 21, 2014 you will notice some changes between your last actuarial report and this one. An overview of the changes to pooling is provided below and we urge you to carefully review the information provided in this report.

Because this plan is in a risk pool, the following valuation report has been separated into two Sections:

- Section 1 contains specific information for your plan, including the development of your pooled employer contributions and projected employer contributions, and
- Section 2 contains the Risk Pool Actuarial Valuation appropriate to your plan, as of June 30, 2013.

Section 2 can be found on the CalPERS website at (www.calpers.ca.gov) then select in order "Employers", "Actuarial, Risk Pooling & GASB 27 Information", "Risk Pooling", "Risk Pool Annual Valuation Reports", then select the appropriate pool report.

Your 2013 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. Your CalPERS staff actuary, whose signature appears in the Actuarial Certification Section on page 1, is available to discuss your report with you after October 31, 2014.

Future Contribution Rates

Fiscal Year	Employer Normal Cost Rate	+	Employer Payment of Unfunded Liability
2015-16	6.237%		$ 0
2016-17 (projected)	6.8%		$ 0

The exhibit above displays the Minimum Employer Contributions, before any cost sharing, for 2015-16 along with estimates of the contributions for 2016-17. The estimated contributions for 2016-17 are based on a projection of the most recent information we have available, including an estimated 18.0 percent investment return for fiscal 2013-14, the impact of the new amortization methods adopted by the CalPERS Board in April 2013 that will impact employer rates for the first time in 2015-16 and new actuarial assumptions adopted by the CalPERS Board in February 2014 that will impact rates for the first time in 2016-17. These new demographic assumptions include a 20-year projected improvement in mortality.

A projection of employer contributions beyond 2016-17 can be found in the Risk Analysis Section of this report, "Analysis of Future Investment Return Scenarios", under a variety of investment return scenarios. Please disregard any projections provided to you in the past. Member contributions, other than cost sharing (whether paid by the employer or the employee), are in addition to the above amounts. The employer contributions in this report do not reflect any cost sharing arrangements you may have with your employees.

The estimate for 2016-17 also assumes that there are no future contract amendments and no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.) This is a very important assumption because these gains and losses do occur and can have a significant effect on your contributions. Even for the largest plans or pools, such gains and losses can impact the employer's contribution rate by one or two percent of payroll or even more in some less common circumstances. These gains and losses cannot be predicted in advance so the projected employer contributions are estimates. Your actual employer contributions for 2016-17 will be provided in next year's valuation report.

Changes since the Prior Year's Valuation

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the *"Analysis of Future Investment Return Scenarios"* subsection of the *"Risk Analysis"* section of your report.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees. As such it is no longer appropriate to assume that the payroll of the risk pools for the classic formulas will continue to grow at 3 percent annually. Funding the promised pension benefits as a percentage of payroll would lead to the underfunding of the plans. In addition the current allocation of the existing unfunded liabilities based on payroll would create equity issues for employers within the risk pools. Furthermore the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

In order to address these issues the CalPERS Board of Administration approved at their May 21, 2014 meeting structural changes to the risk pools. All pooled plans will be combined into two active pools, one for all miscellaneous groups and one for all safety groups, effective with the 2013 valuations. By combining the pools this way the payroll of the risk pools and the employers within the pools can once again be expected to increase at the assumed 3 percent annual growth. However two important changes are being made which will affect employers.

1. Beginning with FY 2015-16 CalPERS will collect employer contributions toward your unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund

payments the plan's normal cost contribution will continue to be collected as a percentage of payroll.

2. The pool's unfunded liability will be allocated to each individual plan based on the plan's total liability rather than by plan individual payroll. This will allow employers to track their own unfunded liability and pay it down faster if they choose. The change in the allocation of unfunded liabilities will result in some employers paying more towards their unfunded liability and some paying less.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of the PEPRA changes are included in the rates and the benefit provision listings of the June 30, 2013 valuation for the 2015-16 rates. For more information on PEPRA, please refer to the CalPERS website.

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies we are seeing in our membership and expected continued improvements. The new actuarial assumptions will be used to set the FY 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

Besides the above noted changes, there may also be changes specific to your plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the *"Highlights and Executive Summary"* section and in Appendix A, *"Statement of Actuarial Data, Methods and Assumptions"* of your section 2 report. We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their result, we ask that, you wait until after October 31 to contact us with actuarial related questions.

If you have other questions, please call our customer contact center at (888) CalPERS or (888**-225-7377**).

Sincerely,

Alan Milligan

ALAN MILLIGAN
Chief Actuary

CalPERS

ACTUARIAL VALUATION

as of June 30, 2013

for the
PEPRA MISCELLANEOUS PLAN
of the
CITY OF CAPITOLA

(CalPERS ID: 2647630112)

REQUIRED CONTRIBUTIONS
FOR FISCAL YEAR
July 1, 2015 - June 30, 2016

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Section 1

Plan Specific Information for the PEPRA MISCELLANEOUS PLAN of the CITY OF CAPITOLA

(CalPERS ID: 2647630112)
(Rate Plan: 27402)

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ACTUARIAL CERTIFICATION

Section 1 of this report is based on the member and financial data contained in our records as of June 30, 2013 which was provided by your agency and the benefit provisions under your contract with CalPERS. Section 2 of this report is based on the member and financial data as of June 30, 2013 provided by employers participating in the SAFETY risk pool to which your plan belongs and benefit provisions under the CalPERS contracts for those agencies.

As set forth in Section 2 of this report, the Pool Actuary has certified that, in their opinion, the valuation of the Risk Pool containing your PEPRA MISCELLANEOUS PLAN has been performed in accordance with generally accepted actuarial principles consistent with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for the Risk Pool as of the date of this valuation and as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Having relied upon the information set forth in Section 2 of this report and based on the census and benefit provision information for your plan, it is my opinion as your Plan Actuary that the Side Fund and other Unfunded Accrued Liability bases as of June 30, 2013 and employer contribution rate as of July 1, 2015, have been properly and accurately determined in accordance with the principles and standards stated above.

The undersigned is an actuary for CalPERS, who is a member of both the American Academy of Actuaries and Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

David Clement

DAVID CLEMENT, ASA, MAAA, EA
Senior Pension Actuary, CalPERS
Plan Actuary

HIGHLIGHTS AND EXECUTIVE SUMMARY

- **INTRODUCTION**
- **PURPOSE OF SECTION 1**
- **REQUIRED EMPLOYER CONTRIBUTION**
- **PLAN'S FUNDED STATUS**
- **PROJECTED CONTRIBUTIONS**

Introduction

This report presents the results of the June 30, 2013 actuarial valuation of the PEPRA MISCELLANEOUS PLAN of the CITY OF CAPITOLA of the California Public Employees' Retirement System (CalPERS). This actuarial valuation was used to set the 2015-16 required employer contribution rates.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the *"Analysis of Future Investment Return Scenarios"* subsection of the *"Risk Analysis"* section of your report.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members PEPRA also effectively closed all existing active risk pools to new employees. As such it is no longer appropriate to assume that the payroll of the risk pools for the classic formulas will continue to grow at 3 percent annually. Funding the promised pension benefits as a percentage of payroll would lead to the underfunding of the plans. In addition the current allocation of the existing unfunded liabilities based on payroll would create equity issues for employers within the risk pools. Furthermore the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

In order to address these issues the CalPERS Board of Administration approved at their May 21, 2014 meeting structural changes to the risk pools. All pooled plans will be combined into two active pools, one for all miscellaneous groups and one for all safety groups, effective with the 2013 valuations. By combining the pools this way the payroll of the risk pools and the employers within the pools can once again be expected to increase at the assumed 3 percent annual growth. However two important changes are being made which will affect employers.

1. Beginning with FY 2015-16 CalPERS will collect employer contributions toward your unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund payments the plan's normal cost contribution will continue to be collected as a percentage of payroll.
2. The pool's unfunded liability will be allocated to each individual plan based on the plan's total liability rather than by the plan's individual payroll. This will allow employers to track their own unfunded liability and pay it down faster if they choose. The change in the allocation of unfunded liabilities will result in some employers paying more towards their unfunded liability and some paying less.

The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation that sets the contribution rates for the 2015-16 fiscal year. For more detailed information on changes due to PEPRA, please refer to the CalPERS website.

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns (see Appendix). The adopted asset allocation is expected to have a long- term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies we are seeing in our membership and expected continued improvements. The new actuarial assumptions will be used to set the FY 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

Purpose of Section 1

This section 1 report for the PEPRA MISCELLANEOUS PLAN of the CITY OF CAPITOLA of the California Public Employees' Retirement System (CalPERS) was prepared by the Plan Actuary in order to:

- Set forth the assets and accrued liabilities of this plan as of June 30, 2013;
- Determine the required employer contribution for this plan for the fiscal year July 1, 2015 through June 30, 2016;
- Provide actuarial information as of June 30, 2013 to the CalPERS Board of Administration and other interested parties; and
- Provide pension information as of June 30, 2013 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a Cost Sharing Multiple Employer Defined Benefit Pension Plan.

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to alternative benefit costs. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

California Actuarial Advisory Panel Recommendations

This report includes all the basic disclosure elements as described in the *Model Disclosure Elements for Actuarial Valuation Reports* recommended in 2011 by the California Actuarial Advisory Panel (CAAP), with the exception of including the original base amounts of the various components of the unfunded liability in the Schedule of Amortization Bases shown on page 12.

Additionally, this report includes the following "Enhanced Risk Disclosures" also recommended by the CAAP in the Model Disclosure Elements document:

- A "Deterministic Stress Test," projecting future results under different investment income scenarios
- A "Sensitivity Analysis," showing the impact on current valuation results using a 1 percent plus or minus change in the discount rate.

Required Employer Contribution

Actuarially Determined Employer Contributions:	**Fiscal Year 2014-15**[1]	**Fiscal Year 2015-16**
Employer Contributions (in Projected Dollars)		
Plan's Employer Normal Cost	$ 0	$ 4,999
Plan's Payment on Amortization Bases	0	(79)[2]
Surcharge for Class 1 Benefits[3]		
None	0	0
Phase out of Normal Cost Difference[4]	0	0
Amortization of Side Fund	0	0
Total Employer Contribution	$ 0	$ 4,920
Projected Payroll for the Contribution Fiscal Year	$ 0	$ 80,158
Required Employer Contributions (Percentage of Payroll)		
Plan's Net Employer Normal Cost	0.000%	6.237%
Plan's Payment on Amortization Bases	0.000%	(0.099%)[2]
Surcharge for Class 1 Benefits[3]		
None	0.000%	0.000%
Phase out of Normal Cost Difference[4]	0.000%	0.000%
Amortization of Side Fund	0.000%	0.000%
Total Employer Contribution Rate	0.000%	6.138%

Required Employer Contribution for FY 2015-16	
Employer Contribution Rate[5]	**6.237%**
***Plus* Monthly Employer Dollar UAL Payment**[6]	**$ 0**
Annual Lump Sum Prepayment Option	**$ 0**

*For FY 2015-16 the total minimum required employer contribution is the **sum** of the Plan's Employer Contribution Rate (expressed as a percentage of payroll) **plus** the Employer Unfunded Accrued Liability (UAL) Contribution Amount (in dollars). Whereas in prior years it was possible to prepay total employer contributions for the fiscal year, beginning with FY 2015-16 and beyond, only the UAL portion of the employer contribution can be prepaid.*

[1] The results shown for FY 2014-15 reflect the prior year valuation and do not reflect any lump sum payment, side fund payoff or rate adjustment made after annual valuation report is completed.

[2] For FY 2015-16 the Plan's Payment on Amortization Bases reflects the sum of all UAL amortization bases including the Plan's Side Fund (where applicable).

[3] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

[4] Risk pooling was implemented for most plans as of June 30, 2003. The normal cost difference was scheduled to be phased out over a five year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year.

[5] The minimum employer contribution under PEPRA is the greater of the required employer contribution or the total employer normal cost.

[6] The Plan's Payment on Amortization Bases Contribution amount for FY 2015-16 will be billed as a level dollar amount monthly over the course of the year. Late payments will accrue interest at an annual rate of 7.5 percent. Lump sum payments may be made through my|CalPERS. Plan Normal Cost contributions will be made as part of the payroll reporting process. As a percentage of payroll your UAL contribution is (0.099) percent.

Plan's Funded Status

	June 30, 2012	June 30, 2013
1. Present Value of Projected Benefits (PVB)	$ 0	$ 85,150
2. Entry Age Normal Accrued Liability	0	3,331
3. Plan's Market Value of Assets (MVA)	0	4,469
4. Unfunded Liability [(2) - (3)]	0	(1,138)
5. Funded Ratio [(3) / (2)]	0.0%	134.2%

Projected Contributions

The contribution rate and amount shown below is an estimate for the employer contribution for fiscal year 2016-17. The estimated contribution is based on a projection of the most recent information we have available, including an estimate of the investment return for fiscal year 2013-14, namely 18.0 percent. It also reflects implementation of the direct rate smoothing method and the impact of new actuarial assumptions.

Projected Employer Contribution Rate:	6.8%
Projected Plan UAL Contribution	$ 0

The estimate also assumes that there are no liability gains or losses among the plans in your risk pool, that your plan has no new amendments in the next year, and that your plan's and your risk pool's payrolls both increase exactly 3.0 percent in the 2013-14 fiscal year. Therefore, the projected employer contribution for 2016-17 is strictly an estimate. Your actual rate for 2016-17 will be provided in next year's valuation report. A more detailed analysis of your projected employer contributions over the next five years can be found in the "Risk Analysis" section of this report.

ASSETS AND LIABILITIES

- DEVELOPMENT OF PLAN'S SHARE OF POOL'S UAL
- DEVELOPMENT OF PLAN'S SHARE OF POOL'S MVA
- SCHEDULE OF PLAN'S SIDE FUND & OTHER AMORTIZATION BASES
- ALTERNATIVE AMORTIZATION SCHEDULES
- FUNDING HISTORY
- PLAN'S TOTAL NORMAL COST RATE

Development of the Plan's Share of Pool's Unfunded Accrued Liability

It is the policy of the CalPERS to ensure equity within the risk pools by allocating the pool's unfunded accrued liability in a manner that treats each employer fairly and that maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. Commencing with the June 30, 2013 actuarial valuations and for purposes of allocating the pool's unfunded accrued liability to all the individual plans within the pool, an individual plan's total unfunded accrued liability (Preliminary Plan UAL) on a specific valuation date will be set equal to the sum of the outstanding unamortized balances on the valuation date for the following:

a) Side Fund
b) Plan's share of Pool UAL due to benefit changes (including golden handshakes) provided to the members of that plan
c) Plan's share of the Pool UAL created before the valuation date for reasons other than benefit changes

1.	Plan's Accrued Liability	$	3,331
2.	Plan's Side Fund		0
3.	Increase in Plan's AL for amendments in FY 2012-13		0
4.	Pool's Accrued Liability	$	1,063,294
5.	Sum of Pool's Individual Plan Side Funds		0
6.	Increase in Pool's AL for amendments in FY 2012-13		0
7.	Pre-2013 Pool's UAL	$	0
8.	Plan's Share of Pre-2013 Pool's UAL [(1)-(2)-(3)]/[(4)–(5)-(6)] * (7)	$	**0**
9.	Pool's 2013 (Gain)/Loss		(363,303)
10.	Plan's Share of Pool's (Gain)/Loss [(1)]/[(4)] * (9)		(1,138)
11.	Plan's UAL as of 6/30/2013 [(2)+(8)+(10)]	$	**(1,138)**

Development of the Plan's Share of Pool's Market Value of Assets

1.	Plan's Accrued Liability	$	3,331
2.	Plan's UAL	$	(1,138)
3.	Plan's Share of Pool's MVA (1)-(2)	$	**4,469**

Schedule of Plan's Side Fund and Other Amortization Bases

There is a two-year lag between the Valuation Date and the Contribution Fiscal Year.

- The assets, liabilities and funded status of the plan are measured as of the valuation date; June 30, 2013.
- The employer contribution determined by the valuation is for the fiscal year beginning two years after the valuation date; fiscal year 2015-16.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution well in advance of the start of the fiscal year.

The Unfunded Liability is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The Unfunded Liability is rolled forward each year by subtracting the expected Payment on the Unfunded Liability for the fiscal year and adjusting for interest. The Expected Payment on the Unfunded Liability for a fiscal year is equal to the Expected Employer Contribution for the fiscal year minus the Expected Normal Cost for the year. The Employer Contribution Rate for the first fiscal year is determined by the actuarial valuation two years ago and the rate for the second year is from the actuarial valuation one year ago. The Normal Cost Rate for each of the two fiscal years is assumed to be the same as the rate determined by the current valuation. All expected dollar amounts, with the exception of the Side Fund base, are determined by multiplying the rate by the expected payroll for the applicable fiscal year, based on payroll as of the valuation date.

							Amounts for Fiscal 2015-16		
Reason for Base	**Date Established**	**Amorti-zation Period**	**Balance 6/30/13**	**Expected Payment 2013-14**	**Balance 6/30/14**	**Expected Payment 2014-15**	**Balance 6/30/15**	**Scheduled Payment for 2015-16**	**Payment as Percentage of Payroll**
FRESH START	06/30/13	30	$(1,138)	$0	$(1,223)	$0	$(1,315)	$(79)	(0.099%)
TOTAL			**$(1,138)**	**$0**	**$(1,223)**	**$0**	**$(1,315)**	**$(79)**	**(0.099%)**

Commencing with the June 30, 2013 actuarial valuations, the side fund will be treated as a liability as opposed to an asset. Prior to June 30, 2013, a positive side fund conveyed that a public agency had a surplus when risk pooling began June 30, 2003. Conversely, a negative side fund signified that a public agency had an unfunded liability that required elimination through an amortization payment schedule. After June 30, 2013 a positive side fund will signify that an agency has an unfunded liability while a negative side fund will indicate a surplus asset. The amortization schedule will remain unchanged, with the exception that a plan with a negative side fund may have its amortization period extended at the discretion of the plan actuary.

Your plan's allocated share of the risk's pool's unfunded accrued liability is based on your plan's accrued liability and is amortized over the average amortization period of the combined existing amortization bases prior to June 30, 2013. The payments on this base for Fiscal Year 2013-14 and 2014-15 are allocated by your plan's payroll.

The (gain)/loss base is your plan's allocated share of the risk pool's asset gain/loss for the Fiscal Year 2012-13, the change in unfunded accrued liability due to direct rate smoothing and your plan's allocated share of the risk pool's other liability gains and losses for fiscal year 2012-13. This base will be amortized according to Board policy over 30 years with a 5-year ramp-up.

Alternate Amortization Schedules

The amortization schedule shown on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze your current amortization schedule and illustrate the advantages of accelerating unfunded liability payments towards your plan's unfunded liability of $(1,315) as of June 30, 2015, which will require total payments of $0.

Shown below are the level rate payments required to amortize your plan's unfunded liability assuming a fresh start over the various periods noted. Note that the payments under each scenario would increase by 3 percent for each year into the future.

		Level Rate		
Period	**2015-16 Payment**	**Total Payments**	**Total Interest**	**Savings**
N/A	N/A	N/A	N/A	N/A

Current CalPERS Board policy calls for lump sum contributions in excess of the required employer contribution shall first be used to eliminate the side fund, if applicable, and then the plan's share of the pool's unfunded accrued liability.

Please contact your plan actuary before making such a payment to ensure that the payment is applied correctly.

Funding History

The Funding History below shows the actuarial accrued liability, the plan's share of the pool's market value of assets, plan's share of the pool's unfunded liability, funded ratio and the annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/2013	$ 3,331	$ 4,469	$ (1,138)	134.2%	$ 73,356

Plan's Total Normal Cost Rate

The Public Employees' Pension Reform Act of 2013 requires that new employees pay at least 50 percent of the total annual normal cost and that current employees approach the same goal through collective bargaining. Please refer to the CalPERS website for more details.

Shown below are the total annual normal cost rates for your plan.

	Fiscal Year 2014-15	Fiscal Year 2015-16
Plan's Net Total Normal Cost Rate	0.000%	12.487%
Surcharge for Class 1 Benefits		
None	0.000%	0.000%
Plan's Total Normal Cost Rate	0.000%	12.487%

For FY 2015-16 there is no change to the PEPRA employee contribution rate.

RISK ANALYSIS

- **VOLATILITY RATIOS**
- **PROJECTED EMPLOYER CONTRIBUTIONS**
- **ANALYSIS OF FUTURE INVESTMENT RETURN SCENARIOS**
- **ANALYSIS OF DISCOUNT RATE SENSITIVITY**
- **HYPOTHETICAL TERMINATION LIABILITY**

Volatility Ratios

The actuarial calculations supplied in this communication are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise the employer's rates from one year to the next. Therefore, the rates will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Plans that have higher asset to payroll ratios produce more volatile employer rates due to investment return. For example, a plan with an asset to payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset to payroll ratio of 4. Below we have shown your asset volatility ratio, a measure of the plan's current rate volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio (LVR)

Plans that have higher liability to payroll ratios produce more volatile employer rates due to investment return and changes in liability. For example, a plan with a liability to payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability to payroll ratio of 4. The liability volatility ratio is also included in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility and the asset volatility ratio, described above, will tend to move closer to this ratio as the plan matures.

Rate Volatility		**As of June 30, 2013**
1. Market Value of Assets	$	4,469
2. Payroll		73,356
3. Asset Volatility Ratio (AVR = 1. / 2.)		0.1
4. Accrued Liability	$	3,331
5. Liability Volatility Ratio (LVR = 4. / 2.)		0.0

Projected Employer Contributions

The estimated rate for 2016-17 is based on a projection of the most recent information we have available, including an estimated 18.0 percent investment return for fiscal 2013-14, the impact of the new smoothing methods adopted by the CalPERS Board in April 2013 that will impact employer rates for the first time in 2015-16 and new actuarial assumptions adopted by the CalPERS Board in February 2014. These new demographic assumptions include a 20-year projected improvement in mortality. A complete listing of the new demographic assumptions to be implemented with the June 30, 2014 annual actuarial valuation and incorporated in the projected rates for FY 2016-17 and beyond can be found on the CalPERS website at: http://www.calpers.ca.gov/eip-docs/about/pubs/employer/actuarial-assumptions.xls

The table below shows projected employer contribution rates (before cost sharing) for the next five Fiscal Years, ***assuming CalPERS earns 18.0% for fiscal year 2013-14 and 7.50 percent every fiscal year thereafter***, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2016-17.

	New Rate	**Projected Future Employer Contribution Rates**				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Normal Cost %:	6.237%	6.8%	6.8%	6.8%	6.8%	6.8%
UAL $	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

For new plans where active members have accrued little service the future UAL dollar amounts may be unstable. It is more prudent to use projected normal cost times expected payroll for employer budgeting purposes.

Analysis of Future Investment Return Scenarios

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long- term blended return that continues to support a discount rate assumption of 7.5 percent. The newly adopted asset allocation has a lower expected investment volatility that will result in better risk characteristics than an equivalent margin for adverse deviation. The current asset allocation has an expected standard deviation of 12.45 percent while the newly adopted asset allocation has a lower expected standard deviation of 11.76 percent.

The investment return for fiscal year 2013-14 was announced July 14, 2014. The investment return in fiscal year 2013-14 is 18.42 percent before administrative expenses. This year, there will be no adjustment for real estate and private equities. For purposes of projecting future employer rates, we are assuming a 18.0 percent investment return for fiscal year 2013-14.

The investment return realized during a fiscal year first affects the contribution rate for the fiscal year 2 years later. Specifically, the investment return for 2013-14 will first be reflected in the June 30, 2014 actuarial valuation that will be used to set the 2016-17 employer contribution rates, the 2014-15 investment return will first be reflected in the June 30, 2015 actuarial valuation that will be used to set the 2017-18 employer contribution rates and so forth.

Based on a 18.0 percent investment return for fiscal year 2013-14, the April 17, 2013 CalPERS Board-approved amortization and rate smoothing method change, the February 18, 2014 new demographic assumptions including 20-year mortality improvement using Scale BB and assuming that all other actuarial assumptions will be realized, and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2016-17, the effect on the 2016-17 Employer Rate is as follows:

	Estimated 2016-17 Employer Contribution	**Estimated Increase in Employer Contribution between 2015-16 and 2016-17**
Normal Cost %:	6.8%	0.6%
UAL $	$ 0	$ 0

As part of this report, a sensitivity analysis was performed to determine the effects of various investment returns during fiscal years 2014-15, 2015-16 and 2016-17 on the 2017-18, 2018-19 and 2019-20 employer rates. Once again, the projected rate increases assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Five different investment return scenarios were selected.

- The first scenario is what one would expect if the markets were to give us a 5th percentile return from July 1, 2014 through June 30, 2017. The 5th percentile return corresponds to a -3.8 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- The second scenario is what one would expect if the markets were to give us a 25th percentile return from July 1, 2014 through June 30, 2017. The 25th percentile return corresponds to a 2.8 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- The third scenario assumed the return for 2014-15, 2015-16, 2016-17 would be our assumed 7.5 percent investment return which represents about a 49th percentile event.
- The fourth scenario is what one would expect if the markets were to give us a 75th percentile return from July 1, 2014 through June 30, 2017. The 75th percentile return corresponds to a 12.0 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.
- Finally, the last scenario is what one would expect if the markets were to give us a 95th percentile return from July 1, 2014 through June 30, 2017. The 95th percentile return corresponds to a 18.9 percent return for each of the 2014-15, 2015-16 and 2016-17 fiscal years.

The table below shows the estimated projected contribution rates and the estimated increases for your plan under the five different scenarios.

2014-17 Investment Return Scenario	Estimated Employer UAL Contribution			Estimated Total Change in Employer UAL Contribution between 2016-17 and 2019-20
	2017-18	2018-19	2019-20	
-3.8% (5th percentile)	$ 297	$ 409	$ 774	$ 774
2.8% (25th percentile)	$ 83	$ 130	$ 289	$ 289
7.5%	$ 0	$ 0	$ 0	$ 0
12.0%(75th percentile)	$ 0	$ 0	$ 0	$ 0
18.9%(95th percentile)	$ 0	$ 0	$ 0	$ 0

In addition to the UAL Contribution amounts shown above the estimated employer normal cost of 6.8% of payroll will also be payable in each of the fiscal years shown above. The projected plan normal cost is expected to remain relatively stable over this time period.

Analysis of Discount Rate Sensitivity

The following analysis looks at the 2015-16 employer contributions under two different discount rate scenarios. Shown below are the employer contributions assuming discount rates that are 1 percent lower and 1 percent higher than the current valuation discount rate. This analysis gives an indication of the potential required employer contribution rates if the PERF were to realize investment returns of 6.50 percent or 8.50 percent over the long-term.

This type of analysis gives the reader a sense of the long-term risk to the employer contributions.

2015-16 Employer Contribution			
As of June 30, 2013	6.50% Discount Rate (-1%)	7.50% Discount Rate (assumed rate)	8.50% Discount Rate (+1%)
Plan's Employer Normal Cost	8.9%	6.2%	4.2%
Accrued Liability	$ 4,388	$ 3,331	$ 2,453
Unfunded Accrued Liability	$ (81)	$ (1,138)	$ (2,016)

Hypothetical Termination Liability

Below is an estimate of the financial position of your plan if you had terminated your contract with CalPERS as of June 30, 2013 using the discount rates shown below. Your plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. For this hypothetical termination liability both compensation and service is frozen as of the valuation date and no future pay increases or service accruals are included. In December 2012, the CalPERS Board adopted a more conservative investment policy and asset allocation strategy for the Terminated Agency Pool. Since the Terminated Agency Pool has limited funding sources, expected benefit payments are secured by risk-free assets. With this change, CalPERS increased benefit security for members while limiting its funding risk. This asset allocation has a lower expected rate of return than the PERF. Consequently, the lower discount rate for the Terminated Agency pool results in higher liabilities for terminated plans.

In order to terminate your plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow your plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of your plan liabilities. CalPERS advises you to consult with your plan actuary before beginning this process.

Valuation Date	Hypothetical Termination Liability[1]	Market Value of Assets (MVA)	Unfunded Termination Liability	Termination Funded Ratio	Termination Liability Discount Rate[2]
06/30/2013	$ 759	$ 4,469	$ (3,710)	588.8%	$ 3.72%

[1] The hypothetical liabilities calculated above include a 7 percent mortality load contingency in accordance with Board policy. Other actuarial assumptions, such as wage and inflation assumptions, can be found in appendix A.

[2] The discount rate assumption used for termination valuations is a weighted average of the 10 and 30-year US Treasury yields in effect on the valuation date that equal the duration of the pension liabilities. For purposes of this hypothetical termination liability estimate, the discount rate used, is the yield on the 30-year US Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS). Note that as of June 30, 2014 the 30-year STRIPS rate is 3.55 percent.

For plans where active members have little service the hypothetical termination liability methodology used does not fully vest active members upon termination. In these cases the hypothetical termination liability is understated.

Participant Data

The table below shows a summary of your plan's member data upon which this valuation is based:

	June 30, 2012	June 30, 2013
Projected Payroll for Contribution Purposes	$ 0	$ 80,158
Number of Members		
Active	0	1
Transferred	0	0
Separated	0	0
Retired	0	0

List of Class 1 Benefit Provisions

- None

Information for Compliance with GASB Statement No. 27 for Cost-Sharing Multiple-Employer Defined Benefit Plan

Disclosure under GASB 27 follows. However, note that effective for financial statements for fiscal years beginning after June 15, 2014, GASB 68 replaces GASB 27. Disclosure required under GASB 68 will require additional reporting. CalPERS is intending to provide GASB 68 disclosure information upon request for an additional fee. We urge you to start discussions with your auditors on how to implement GASB 68.

Your plan is part of the Miscellaneous Risk Pool, a cost-sharing multiple-employer defined benefit plan. Under GASB 27, an employer should recognize annual pension expenditures/expense equal to its contractually required contributions to the plan. Pension liabilities and assets result from the difference between contributions required and contributions made. The contractually required contribution for the period July 1, 2015 to June 30, 2016 has been determined by an actuarial valuation of the plan as of June 30, 2013. Your unadjusted contribution for the indicated period is a normal cost contribution of 6.237 percent of payroll and an unfunded accrued liability dollar amount of $0. In order to calculate the dollar value of the contractually required contributions for inclusion in financial statements prepared as of June 30, 2016, this normal cost contribution rate, less any employee cost sharing, and as modified by any subsequent financing changes or contract amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2015 to June 30, 2016 combined with the UAL amount of $0. However, if this contribution is fully prepaid in a lump sum, then the dollar value of contractually required contributions is equal to the lump sum prepayment. The employer and the employer's auditor are responsible for determining the contractually required contributions. Further, the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years is to be disclosed under GASB 27.

A summary of principal assumptions and methods used to determine the contractually required contributions is shown below for the cost-sharing multiple-employer defined benefit plan.

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions	
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Complete information on assumptions and methods is provided in Appendix A of the Section 2 report. Appendix B of the Section 2 report contains a description of benefits included in the Risk Pool Actuarial Valuation.

A Schedule of Funding for the Risk Pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the unfunded liability (UL) to payroll for the risk pool(s) to which your plan belongs can be found in Section 2 of the report.

PLAN'S MAJOR BENEFIT OPTIONS

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which your agency has contracted. A description of principal standard and optional plan provisions is in Appendix B within Section 2 of this report.

	Contract package
Benefit Provision	Active Misc
Benefit Formula	2.0% @ 62
Social Security Coverage	no
Full/Modified	full
Final Average Compensation Period	36 mos.
Sick Leave Credit	yes
Non-Industrial Disability	standard
Industrial Disability	no
Pre-Retirement Death Benefits	
Optional Settlement 2W	yes
1959 Survivor Benefit Level	level 2
Special	no
Alternate (firefighters)	no
Post-Retirement Death Benefits	
Lump Sum	$500
Survivor Allowance (PRSA)	no
COLA	2%

Section 2

Section 2 may be found on the CalPERS website (www.calpers.ca.gov) then selecting:

- **Employers**
- **Actuarial & GASB 27 Information**
- **Risk Pooling**
- **Risk Pool Annual Valuation Report**

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942704
Sacramento, CA 94229-2704
TTY: (877) 249-7442
888 CalPERS (or **888**-225-7377) phone • (916) 795-3005 fax
www.calpers.ca.gov

December 19, 2012

Employer Name: City of Capitola
CalPERS ID: 2647630112
Employee Category: Safety Police
Rate Plan Identifier: 25836

Dear Employer:

Subject: BENEFIT FORMULA AND CONTRIBUTION RATES FOR NEW MEMBERS EFFECTIVE JANUARY 1, 2013

The purpose of this letter is to inform you about the impact that the recent passage of Assembly Bill (AB) 340 pension reform will have on employee and employer contribution rates to CalPERS. AB 340 created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member as per PEPRA. Please refer to the Pension Reform section of the CalPERS website for more information on pension reform, including information regarding when an employee will be considered a new member under PEPRA.

The table below provides information on the benefit formula, final compensation period and the employer and member contribution rates effective January 1, 2013 for any safety police employees that meet the definition of a new member under PEPRA.

Benefit Formula	Safety 2.7% at Age 57
Final Compensation Period	3 Year Final Compensation
Employer Contribution Rate as a percentage of payroll	11.50% of Reportable Compensation
Member Contribution Rate as a percentage of payroll	11.50% of Reportable Compensation

Since you currently participate in a risk pool, your new safety police members will participate in the Safety 2.7 percent at age 57 risk pool that was created by the CalPERS Board in November 2012 in response to the passage of PEPRA. The **employer** contribution rate listed above will be good until June 30, 2015. This rate will not be revised until the June 30, 2013 actuarial valuation of the Safety 2.7 percent at age 57 risk pool is completed in the fall of 2014 that will set the contribution requirement for fiscal year July 1, 2015 through June 30, 2016.

In accordance with PEPRA and CalPERS interpretation of the term similarly situated, the member contribution rate shown in the above table was set at 50% of the expected total normal cost rate for the benefits that will apply to your new safety police members on January 1, 2013 rounded to the nearest one quarter of one percent. The total normal cost rate used for this calculation is 23.0 percent of payroll. The normal cost rate was derived based on the benefit formula and final compensation period listed in the above table as well as all other optional benefit provisions you have contracted with CalPERS for your employees. Since the actual demographics of your new pool will not be known until new members are hired, and due to the limited time available for implementation of PEPRA, the normal cost rate was derived based on the demographics of a pool of CalPERS employers and the actuarial assumptions used in the Actuarial Cost Analysis of AB 340. For information on how the normal cost was derived and the actuarial assumptions used, please refer to the following link on the CalPERS website at:

http://www.calpers.ca.gov/eip-docs/employer/program-services/member-rates-pepra.pdf

Note that the member contribution rate may change over time if the total normal cost for new members fluctuates by more than one percent of payroll over the estimated initial normal cost rate of 23.0 percent of payroll. The total normal cost rate will be impacted over time by the actual demographics of the Safety 2.7 percent at age 57 risk pool and the actuarial assumptions used in the funding of the retirement benefits. The member rate will be reviewed once a year when the actuarial valuation of your plan is performed. The first review is expected to be in conjunction with the June 30, 2013 actuarial valuation that will take place in the fall of 2014. Therefore, the member contribution rate listed in the above table is expected to remain unchanged until July 1, 2015.

For more information, you may visit the CalPERS website at www.calpers.ca.gov. If you have questions, please contact the CalPERS Customer Contact Center at
888 CalPERS (or **888**-225-7377).

Sincerely,

Alan Milligan

ALAN MILLIGAN
Chief Actuary