

6/30/12 ✓

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(13) Property Tax Calendar

Property tax revenues are reported on a modified accrual basis. Accordingly, they are recognized in the fiscal year for which the taxes have been levied, provided this accrual meets the available criteria. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County of Orange collects property taxes for the City tax liens attached annually as of 12:01 a.m. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1st to June 30th. All secured personal property taxes and one-half of the taxes on real property are due November 1st. The second installment is due February 1st. All taxes are delinquent if not paid as of December 10th and April 10th, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent if not paid as of August 31st.

(14) Defined Benefit Pension Plan

The City of Costa Mesa contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan, except for, fire safety employees which are in a cost sharing multiple-employer defined pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Starting March 2011, the City contributes 2.95% for the miscellaneous plan. Benefit provisions and all other requirements are established by State statutes and City contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The contribution rate indicated for the period is 37.404% for safety fire and 34.063% for safety police and 19.052% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees that were paid from the period July 1, 2011 to June 30, 2012.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

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(14) Defined Benefit Pension Plan, (Continued)

A summary of principle assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	30 Years as of the Valuation Date for safety police, and 23 Years as of the Valuation Date for miscellaneous plan
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 13.15% depending on Age, Service, and type of employment for safety police, and 3.55% to 14.45% depending on Age, Service, and type of employment for the miscellaneous plan
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plans accrued liabilities exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a period not to exceed 30 years.

As of June 30, 2011, the most recent actuarial valuation date, the miscellaneous plan was 76.1% funded. The actuarial accrued liability for benefits was \$217.1 million, and the actuarial value of assets was \$165.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$51.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$20.2 million, and the ratio of the UAAL to the covered payroll was 256.2%.

As of June 30, 2011, the most recent actuarial valuation date, the safety plan was 71.6% funded. The actuarial accrued liability for benefits was \$204.8 million, and the actuarial value of assets was \$146.7 million, resulting in an unfunded actuarial accrued liability

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(14) Defined Benefit Pension Plan, (Continued)

(UAAL) of \$58.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$17.6 million, and the ratio of the UAAL to the covered payroll was 329.8%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for the benefits.

Annual Pension (Employer Paid Member Contribution (EPMC))

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Police Safety</u>	<u>Fire Safety</u>	<u>Miscellaneous</u>	<u>Percentage of EPMC Contributed</u>	<u>Net Pension Obligation</u>
6/30/10	\$1,743,353	\$1,172,423	\$1,709,342	100%	-
6/30/11	1,757,330	983,455	1,483,728	100%	-
6/30/12	2,653,654	1,520,659	2,155,394	100%	-

(15) Police 1% Supplemental Retirement Plan

Plan Description: The City of Costa Mesa joined the CalPERS 3%@age 50 benefit plan for police employees on December 31, 2000. Prior to that date the City sponsored the retirement plan for safety employees of the City of Costa Mesa providing a 2%@age 50 benefit plan and the Police Officer Separation Incentive Plan providing an additional 1%@age 50 benefit plan. This section presents the actuarial valuation information for the Police Officer Separation Incentive Plan which has been in effect since July 1, 1993 for sworn members of the City of Costa Mesa Police Department. This Plan currently has only retired participants as all active employees were transferred to the CalPERS 3%@age 50 benefit plan. The number of participants as June 30, 2012 was twenty-two with an average age of 66.3. The average monthly benefit being paid is \$871.09. There are no trust financial statements applicable to this plan.

Funding Policy: The City has not adopted a funding policy for this supplemental retirement plan and accordingly plan benefits impact financial resources as benefits are paid.

Actuarial Methods and Assumptions: The ARC for the plan was determined as part of the June 30, 2012 actuarial valuation using the following methods and assumptions:

Actuarial cost method	Projected unit credit
Amortization method*	15 years of UAAL
Actuarial assumptions:	
Investment return	4.50%
Retirement	Age 50 and 5 years
Cost of living adjustments	None
Future healthcare cost increases	4.5% to 10.1%

* The initial unfunded liabilities are amortized over a closed period.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

(Continued)

(15) Police 1% Supplemental Retirement Plan (Continued)

Funded Status and Funding Progress: As of July 1, 2012, the most recent actuarial valuation date, the funded status of the plan was as follows: estimate of the life expectancy of remaining participants.

Actuarial accrued liability (AAL)	\$2,770,839
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$2,770,839</u>
Funded ratio (actuarial value of plan assets/AAL)	00.0%
Covered payroll	<u>\$0</u>
UAAL as a percentage of covered payroll	00.0%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for the benefits.

Employer Contributions: The Annual Pension Cost (APC), percentage of APC contributed, and the NPO for the plan for the current year and each of the two preceding years were as follows:

<u>Date</u>	<u>Annual Pension Cost</u>	<u>Employer Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/10	\$140,503	\$229,179	84.6%	\$2,624,382
6/30/11	140,503	229,966	84.8%	2,534,919
6/30/12	136,038	229,966	89.1%	2,440,991

Determination of Net Pension Obligation as of June 30, 2012

Annual required contribution	\$ 258,003
Interest on Net Pension Obligation	114,071
Adjustment to Annual Required Contribution	<u>(236,036)</u>
Annual Pension Cost	136,038
Less: Employer Contributions	<u>(229,966)</u>
Increase (decrease) in Net Pension Obligation	(93,928)
Net Pension Obligation, beginning of year	<u>2,534,919</u>
Net Pension Obligation, end of year	<u>\$ 2,440,991</u>

(16) Other Post Employment Benefits Plan (Defined Benefit)

Plan Description: The City administers a single-employer defined benefit plan which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. The plan covers employees hired before January 1, 2004 who retire directly from the City with 10 years of City service. The City provides a contribution up to a percentage of the lesser of \$500 per month or the premium for the most popular medical plan elected by the employees. The percentage varies by retirement date and years of City service. The City provides retiree life insurance of \$1,000 for the retiree and \$500 for the retiree's spouse.

CITY OF COSTA MESA, CALIFORNIA

Notes to the Basic Financial Statements

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(16) Other Post Employment Benefits Plan (Defined Benefit) (Continued)

City's Funding Policy: The contribution requirements of plan members and the City are established and may be amended by City Council. The contribution required to be made under City Council and labor agreement requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For fiscal year ending June 30, 2012, the City contributed \$1.609 million to the plan. The City has not established a trust that is administered by the City for the purpose of holding assets accumulated for plan benefits. There are no trust financial statements applicable to this plan.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years based on an open group. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for these benefits:

Annual required contribution	\$2,146,578
Interest on Net OPEB Obligation (NOO)	86,701
NOO amortization adjustment to ARC	<u>(79,475)</u>
Annual OPEB cost (expense)	2,153,804
Annual contributions (including premiums paid)	<u>(1,609,565)</u>
Increase in net OPEB cost (expense)	544,239
Net OPEB obligation, beginning of year	<u>1,926,696</u>
Net OPEB obligation, end of year	<u>\$2,470,935</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Schedule of Employer Postemployment Benefit Contributions

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
6/30/10	\$2,195,589	\$1,454,137	66.2%
6/30/11	2,195,589	1,679,325	76.5%
6/30/12	2,146,578	1,609,565	75.0%

Annual OPEB Cost

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$2,198,079	66.2%	\$1,407,942
6/30/11	2,198,079	76.4%	1,926,696
6/30/12	2,153,804	74.7%	2,470,935

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
(Continued)

(16) Other Post Employment Benefits Plan (Defined Benefit) (Continued)

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)	\$36,429,075
Actuarial value of plan assets	<u> -</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$36,429,075</u>
Funded ratio (actuarial value of plan assets/AAL)	00.0%
Covered payroll (active plan members)	\$38,315,112
UAAL as a percentage of covered payroll	95.1%

Actuarial valuations for the OPEB plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the Normal Cost for each participant is determined as a level percent of payroll throughout the participant's working lifetime. The Unfunded Actuarial Accrued Liability was amortized over a fixed 30-year period as a level percentage of payroll beginning with the 2011/12 fiscal year. The City, with guidance from Actuary, has selected the discount rate (4.5%) and future medical benefit cost increase (various ranging from 4.5% to 10.10%), with a 3% inflation rate. It is assumed the City's payroll will increase 3.25% per year. A June 30, 2012 GAAP based Actuarial Valuation report can be obtained from the City's Finance department upon request.

CITY OF COSTA MESA, CALIFORNIA
Notes to the Basic Financial Statements
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(17) Post Employment Benefits-RHS (Defined Contribution)

On January 1, 2004, the City adopted a new Retirement Health Savings Plan (RHS) for all full-time active employees. This benefit was ratified in the City's contractual agreements (MOU) with the Costa Mesa Employees Association (CMCEA), Costa Mesa Police Association (CMPA), Costa Mesa Police Management Association (CMPMA), and the Costa Mesa Firefighters Association (CMFA). This post-employment medical benefit is to assist employees with their qualifying medical expenses or premiums upon retirement or separation from the City with no minimum age requirement. The RHS plan is a defined contribution plan for all full and part-time employees at the City. Under this plan, the employee and the City each make a mandatory 1% of base pay contribution. If the employee separates from the City prior to the 10-year vesting period, the employee forfeits his or her share of the City's contribution. The City has no payment obligations once the employee separates from the City. Per a side letter agreement with employees, the RHS program was suspended for 52 pay periods starting November 7, 2010. The City's contribution to the defined contribution post retirement plan for the year ended June 30, 2012 was \$0.

(18) Expenditures in Excess of Appropriations

Excess of expenditures over appropriations in individual funds at the function level (level of budgetary control) are as follows at June 30, 2012:

	<u>Function</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Nonmajor Special Revenue Funds:				
Supplemental Law Enforcement Services	Protection of Person and Property	\$220,802	208,529	12,273
Narcotics Forfeiture Fund	Protection of Person and Property	699,408	397,000	302,408
Homelessness Prevention Fund	Community	155,352	155,211	141
Nonmajor Capital Projects Fund:				
Redevelopment Projects Fund	Community	678,818	435,431	243,387

Summary of Results

1. Present Value of Future Benefits (PVFB)

	7/1/2011
Total PVFB	\$ 42,384,095
Discount Rate	4.50%

