



GASB 74/75 INTERIM ACTUARIAL VALUATION

Fiscal Year Ending June 30, 2022

CITY OF FOLSOM

CONTACT

Sandy DeKalb ASA, EA, MAAA
sandy.dekalb@nyhart.com

PHONE

General (619) 239-0831

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September 29, 2022

**Fawn Ramirez
City of Folsom
50 Natoma Street
Folsom, CA 95630**

This report summarizes the interim GASB actuarial valuation for the City of Folsom 2021/22 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 74 (Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans) and GASB Statement No. 75 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions). This report may not be appropriate for other purposes. Please contact Nyhart prior to disclosing this report to any other party or relying on its content for any purpose other than that explained above. Failure to do so may result in misrepresentation or misinterpretation of this report.

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

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

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

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

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

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

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned are compliant with the continuing education requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States.

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



Sandy DeKalb ASA, EA, MAAA
Actuary



John Lee, FSA, MAAA
Actuary

Executive Summary

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Summary of Results

Presented below is the summary of GASB 75 results for the fiscal year ending June 30, 2022 compared to the prior fiscal year as shown in the City's Notes to Financial Statement.

	As of June 30, 2021	As of June 30, 2022
Total OPEB Liability	\$ 101,567,450	\$ 96,507,729
Actuarial Value of Assets	\$ (9,105,123)	\$ (7,850,344)
Net OPEB Liability	\$ 92,462,327	\$ 88,657,385
Funded Ratio	9.0%	8.1%

	FY 2020/21	FY 2021/22
OPEB Expense	\$ 3,259,444	\$ 3,605,320
Annual Employer Contributions	\$ 5,139,343	\$ 5,674,361

	As of June 30, 2021	As of June 30, 2022
Discount Rate	5.50%	5.50%
Expected Return on Assets	5.50%	5.50%

GASB Disclosures

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Schedule of Changes in Net OPEB Liability and Related Ratios

OPEB Liability	FY 2021/22	FY 2020/21	FY 2019/20	FY 2018/19	FY 2017/18
Total OPEB Liability					
Total OPEB Liability - beginning of year	\$ 101,567,450	\$ 103,873,278	\$ 101,419,464	\$ 109,050,417	\$ 115,494,096
Service cost	1,169,455	1,397,788	1,355,366	2,305,252	2,208,096
Interest	5,510,140	5,656,980	5,530,728	4,806,648	5,040,097
Change of benefit terms	0	0	0	0	0
Changes in assumptions	0	(836,918)	0	(6,686,894)	(9,590,919)
Differences between expected and actual experience	(6,564,955)	(3,624,335)	0	(3,828,632)	0
Benefit payments	(5,174,361)	(4,899,343)	(4,432,280)	(4,227,327)	(4,100,953)
Net change in total OPEB liability	\$ (5,059,721)	\$ (2,305,828)	\$ 2,453,814	\$ (7,630,953)	\$ (6,443,679)
Total OPEB Liability - end of year	\$ 96,507,729	\$ 101,567,450	\$ 103,873,278	\$ 101,419,464	\$ 109,050,417
Plan Fiduciary Net Position					
Plan fiduciary net position - beginning of year	\$ 9,105,123	\$ 7,221,026	\$ 6,391,423	\$ 5,585,140	\$ 4,768,431
Contributions - employer	5,674,361	5,139,343	4,932,280	4,727,327	4,600,953
Contributions - active employees	0	0	0	0	0
Net investment income	(1,754,779)	1,644,097	329,603	306,283	316,709
Benefit payments	(5,174,361)	(4,899,343)	(4,432,280)	(4,227,327)	(4,100,953)
Trust administrative expenses	0	0	0	0	0
Net change in plan fiduciary net position	\$ (1,254,779)	\$ 1,884,097	\$ 829,603	\$ 806,283	\$ 816,709
Plan fiduciary net position - end of year	\$ 7,850,344	\$ 9,105,123	\$ 7,221,026	\$ 6,391,423	\$ 5,585,140
Net OPEB Liability - end of year	\$ 88,657,385	\$ 92,462,327	\$ 96,652,252	\$ 95,028,041	\$ 103,465,277
Plan fiduciary net position as % of total OPEB liability	8.1%	9.0%	7.0%	6.3%	5.1%
Covered employee payroll	\$ 17,227,178	\$ 16,766,110	\$ 17,888,010	\$ 17,367,000	N/A
Net OPEB liability as % of covered payroll	514.6%	551.5%	540.3%	547.2%	N/A

* Payroll for FYE 2021/22 is estimated from the FYE 2020/21 payroll using the assumed payroll growth of 3%.

GASB Disclosures

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Schedule of Changes in Net OPEB Liability and Related Ratios (Continued)

OPEB Liability	FY 2016/17
Total OPEB Liability	
Total OPEB Liability - beginning of year	\$ 113,028,453
Service cost	2,148,999
Interest	4,259,868
Change of benefit terms	0
Changes in assumptions	0
Differences between expected and actual experience	0
Benefit payments	(3,943,224)
Net change in total OPEB liability	\$ 2,465,643
Total OPEB Liability - end of year	\$ 115,494,096
Plan Fiduciary Net Position	
Plan fiduciary net position - beginning of year	\$ 3,853,948
Contributions - employer	4,393,224
Contributions - retired members	0
Net investment income	464,483
Benefit payments	(3,943,224)
Trust administrative expenses	0
Net change in plan fiduciary net position	\$ 914,483
Plan fiduciary net position - end of year	\$ 4,768,431
Net OPEB Liability - end of year	\$ 110,725,665
Plan fiduciary net position as % of total OPEB liability	4.1%
Covered employee payroll	N/A
Net OPEB liability as % of covered payroll	N/A

* Payroll for FYE 2021/22 is estimated from the FYE 2020/21 payroll using the assumed payroll growth of 3%.

GASB Disclosures

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

OPEB Expense

OPEB Expense	FY 2021/22	FY 2020/21
Discount Rate		
Beginning of year	5.50%	5.50%
End of year	5.50%	5.50%
Service cost	\$ 1,169,455	\$ 1,397,788
Interest	5,510,140	5,656,980
Change of benefit terms	0	0
Projected earnings on OPEB plan investments	(514,348)	(403,668)
Reduction for contributions from active employees	0	0
OPEB plan administrative expenses	0	0
Current period recognition of deferred outflows / (inflows) of resources		
Differences between expected and actual experience	\$ (2,547,323)	\$ (906,084)
Changes in assumptions	(209,230)	(2,228,371)
Net difference between projected and actual earnings on OPEB plan investments	196,626	(257,201)
Total current period recognition	\$ (2,559,927)	\$ (3,391,656)
Total OPEB expense	\$ 3,605,320	\$ 3,259,444

GASB Disclosures

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Deferred Outflows / (Inflows) of Resources

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

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

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

Differences between expected and actual experience for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2022
June 30, 2017	\$ 0	N/A	\$ 0	\$ 0
June 30, 2018	\$ 0	N/A	\$ 0	\$ 0
June 30, 2019	\$ (3,828,632)	1	\$ 0	\$ 0
June 30, 2020	\$ 0	N/A	\$ 0	\$ 0
June 30, 2021	\$ (3,624,335)	4	\$ (906,084)	\$ (1,812,167)
June 30, 2022	\$ (6,564,955)	4	\$ (1,641,239)	\$ (4,923,716)

Changes in assumptions for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2022
June 30, 2017	\$ 0	N/A	\$ 0	\$ 0
June 30, 2018	\$ (9,590,919)	4	\$ 0	\$ 0
June 30, 2019	\$ (6,686,894)	1	\$ 0	\$ 0
June 30, 2020	\$ 0	N/A	\$ 0	\$ 0
June 30, 2021	\$ (836,918)	4	\$ (209,230)	\$ (418,458)
June 30, 2022	\$ 0	N/A	\$ 0	\$ 0

GASB Disclosures

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Deferred Outflows / (Inflows) of Resources (Continued)

Net Difference between projected and actual earnings in OPEB plan investments for FYE	Initial Balance	Initial Amortization Period	Annual Recognition	Unamortized Balance as of June 30, 2022
June 30, 2018	\$ (95,898)	5	\$ (19,178)	\$ 0
June 30, 2019	\$ 14,650	5	\$ 2,930	\$ 2,930
June 30, 2020	\$ 35,675	5	\$ 7,135	\$ 14,270
June 30, 2021	\$ (1,240,429)	5	\$ (248,086)	\$ (744,257)
June 30, 2022	\$ 2,269,127	5	\$ 453,825	\$ 1,815,302

As of fiscal year ending June 30, 2022	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 0	\$ (6,735,883)
Changes in assumptions	0	(418,458)
Net difference between projected and actual earnings in OPEB plan investments	1,088,245	0
Total	\$ 1,088,245	\$ (7,154,341)

Annual Amortization of Deferred Outflows / (Inflows)

The balances as of June 30, 2022 of the deferred outflows / (inflows) of resources will be recognized in OPEB expense in the future fiscal years as noted below.

FYE	Balance
2023	\$ (2,540,749)
2024	\$ (2,543,676)
2025	\$ (1,435,498)
2026	\$ 453,827
2027	\$ 0
Thereafter	\$ 0

GASB Disclosures

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Sensitivity Results

The following presents the Net OPEB Liability as of June 30, 2022, calculated using the discount rate assumed and what it would be using a 1% higher and 1% lower discount rate.

- The current discount rate is 5.50%.
- The 1% decrease in discount rate would be 4.50%.
- The 1% increase in discount rate would be 6.50%.

As of June 30, 2022	Net OPEB Liability
1% Decrease	\$ 101,483,956
Current Discount Rate	\$ 88,657,385
1% Increase	\$ 78,099,778

The following presents the Net OPEB Liability as of June 30, 2022, using the health care trend rates assumed and what it would be using 1% higher and 1% lower health care trend rates.

- The current health care trend rate starts at an initial rate of 6.50%, decreasing to an ultimate rate of 4.50%.
- The 1% decrease in health care trend rates would assume an initial rate of 5.50%, decreasing to an ultimate rate of 3.50%.
- The 1% increase in health care trend rates would assume an initial rate of 7.50%, decreasing to an ultimate rate of 5.50%.

As of June 30, 2022	Net OPEB Liability
1% Decrease	\$ 76,660,038
Current Trend Rates	\$ 88,657,385
1% Increase	\$ 103,330,759

GASB Disclosures

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Asset Information

Asset Breakdown	FY 2020/21	FY 2021/22
Assets		
Cash and deposits	\$ 11,598	\$ 23,866
Securities lending cash collateral	0	0
Total cash	\$ 11,598	\$ 23,866
Receivables		
Contributions	\$ 0	\$ 0
Accrued interest	0	0
Total receivables	\$ 0	\$ 0
Investments		
Fixed income	\$ 4,500,134	\$ 4,172,645
Equities	4,010,818	3,113,866
Mutual Funds	594,171	563,833
Total investments	\$ 9,105,123	\$ 7,850,344
Total Assets	\$ 9,116,721	\$ 7,874,210
Liabilities		
Payables		
Investment management fees	\$ 11,598	\$ 23,866
Securities lending expense	0	0
Total liabilities	\$ 11,598	\$ 23,866
Net Position Restricted to OPEB	\$ 9,105,123	\$ 7,850,344

GASB Disclosures

City of Folsom Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2022

Asset Information (Continued)

Asset Reconciliation	FY 2020/21	FY 2021/22
Additions		
Contributions Received		
Employer	\$ 5,139,343	\$ 5,674,361
Active employees	0	0
Total contributions	\$ 5,139,343	\$ 5,674,361
Investment Income		
Net increase in fair value of investments	\$ 1,644,097	\$ (1,754,779)
Interest and dividends	0	0
Investment expense, other than from securities lending	0	0
Securities lending income	0	0
Securities lending expense	0	0
Net investment income	\$ 1,644,097	\$ (1,754,779)
Total additions	\$ 6,783,440	\$ 3,919,582
Deductions		
Benefit payments	\$ 4,899,343	\$ 5,174,361
Administrative expenses	0	0
Other	0	0
Total deductions	\$ 4,899,343	\$ 5,174,361
Net increase in net position	\$ 1,884,097	\$ (1,254,779)
Net position restricted to OPEB		
Beginning of year	\$ 7,221,026	\$ 9,105,123
End of year	\$ 9,105,123	\$ 7,850,344

Discussion of Discount Rates

City of Folsom Interim GASB 75 Valuation for Fiscal Year Ending June 30, 2022

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

For the current valuation:

1. The long-term expected rate of return on OPEB plan investment is assumed to be 5.50%. This was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are then combined to produce the long-term expected rate of return by weighting them based on the target asset allocation percentage and adding in expected inflation (2.75%). The best estimates of arithmetic real rates of return for each major asset class included in the OPEB Plan's target asset allocation as of June 30, 2021 are summarized in the following table.
2. The discount rate used when the OPEB plan investments are insufficient to pay for future benefit payments are selected from the range of indices as shown in the table below, where the range is given as the spread between the lowest and highest rate shown.

Asset Class	Target Allocation	L/T Expected Real ROR
Fixed Income	50.0%	1.75%
Equities and Real Estate	50.0%	4.75%
Total	100.00%	

Yield as of	July 1, 2021	June 30, 2022
Bond Buyer Go 20-Bond Municipal Bond Index	2.16%	3.54%
S&P Municipal Bond 20-Year High Grade Rate Index	2.19%	4.09%
Fidelity 20-Year Go Municipal Bond Index	1.94%	3.69%
Bond Index Range	1.94% - 2.19%	3.54% - 4.09%

3. The final equivalent single discount rate used for this year's valuation is 5.50%. This discount rate assumes the City continues to fully fund for its retiree health benefits under its current investment strategy. In addition to the direct payment of current retiree benefits, the City makes discretionary contributions that have ranged between \$450,000 and \$500,000 annually.

Actuarial Methods and Assumptions

City of Folsom Interim GASB 75 Valuation for Fiscal Year Ending June 30, 2022

For a complete summary of actuarial methods and assumptions, refer to the GASB 75 actuarial valuation report for the fiscal year ending June 30, 2021.

Measurement Date	For fiscal year ending June 30, 2022, June 30, 2022 measurement date was used.
Actuarial Valuation Date	July 1, 2021 with results actuarially projected on a “no gain / no loss” basis to get to the June 30, 2022 measurement date. Liabilities as of July 1, 2021 are based on an actuarial valuation date of July 1, 2021.
Funding Policy	In addition to the direct payment of current retiree benefits, the City makes discretionary contributions that have ranged between \$450,000 and \$500,000 annually.
Expected Return on Assets	5.50% per annum; assumes that the City invests in its current asset allocation
Actuarial Value of Assets	The actuarial value of assets is equal to the market value of assets
Discount Rate	5.50% as of July 1, 2021 and June 30, 2020 for accounting disclosure purposes Refer to the Discussion of Discount Rates section for more information on selection of the discount rate.
Payroll Growth	3.00% per annum, in aggregate
Inflation Rate	2.75% per annum
Cost Method	Allocation of Actuarial Present Value of Future Benefits for services prior and after the Measurement Date was determined using Entry Age Normal Level % of Salary method where: <ul style="list-style-type: none">• Service Cost for each individual participant, payable from date of employment to date of retirement, is sufficient to pay for the participant’s benefit at retirement; and• Annual Service Cost is a constant percentage of the participant’s salary that is assumed to increase according to the Payroll Growth.

Actuarial Methods and Assumptions

City of Folsom Interim GASB 75 Valuation for Fiscal Year Ending June 30, 2022

Health Care Trend Rates

Medical and prescription costs are adjusted in future years by the following trends:

FYE	Medical/Rx	FYE	Medical/Rx
2022	6.25%	2027	5.00%
2023	6.00%	2028	4.75%
2024	5.75%	2029+	4.50%
2025	5.50%		
2026	5.25%		

Dental and Vision Trend Rates

Dental and vision premiums are assumed to increase 4% per year

City Maximum Increase Rates

The City maximum contribution is assumed to increased 3% per year

Models

ProVal

Valuation software developed by Winklevoss Technologies, LLC. This software is widely used for the purpose of performing postretirement medical valuations. We coded the plan provisions, assumptions, methods and participant data summarized in this report, and reviewed the liability and cost outputs for reasonableness. We are not aware of any weakness or limitations in the software and have determined it is appropriate for performing this valuation.

HealthMAPS Manual

Rating manual developed by WTW. Aging factors are used to develop per capita costs by age for plans with limited credible exposure to develop plan-specific factors. We are not aware of any weakness or limitations in the factors and have determined they are appropriate for performing this valuation.

Appendix

City of Folsom Interim GASB 75 Valuation for Fiscal Year Ending June 30, 2022

Detailed Actuary's Notes

There have been no substantive plan provision changes since the last full GASB valuation, which was for the fiscal year ending June 30, 2021.

Interim year valuation results have been projected from the prior year's valuation, with adjustments for actual premium and contribution increases from 2020/21 to 2021/22.

Premium Rates

The tables below summarize the 2022 monthly retiree premiums for the primary health plans in which retirees are enrolled.

Early Retiree Under 55	Kaiser HMO	Sutter Health Plus HMO	Western Health Advantage HMO
Retiree Only	\$ 754.22	\$ 781.90	\$ 826.98
Retiree +1 Dependent	\$ 1,508.42	\$ 1,557.70	\$ 1,653.97
Retiree +2 or more Dependents	\$ 1,960.94	\$ 2,025.20	\$ 2,150.14

Early Retiree 55 - 64 (Retired after 7/1/2007)	Kaiser HMO	Sutter Health Plus HMO	Western Health Advantage HMO
Retiree Only	\$ 754.22	\$ 781.90	\$ 826.98
Retiree +1 Dependent	\$ 1,508.42	\$ 1,557.70	\$ 1,653.97
Retiree +2 or more Dependents	\$ 1,960.94	\$ 2,025.20	\$ 2,150.14

Over 65 Retiree	Kaiser Senior Advantage	United Healthcare Senior Supplement
Retiree Only	\$ 343.18	\$ 460.38
Retiree +1 Dependent	\$ 686.36	\$ 920.76

Dental / Vision	Delta Dental	VSP Vision
Retiree Only	\$ 47.99	\$ 9.67
Retiree +1 Dependent	\$ 93.57	\$ 13.85
Retiree +2 or more Dependents	\$ 141.56	\$ 24.81

Maximum Contribution

The table below summarizes the 2021 City maximum medical contribution.

2022 Maximum Contribution	
Retiree Only	\$ 619.00
Retiree +1 Dependent	\$ 1,239.00
Retiree +2 or more Dependent	\$ 1,614.00