

***CITY OF SUNNYVALE, CALIFORNIA
RETIREE HEALTHCARE PLAN***

Basic Financial Statements and
Independent Auditor's Report

Fiscal Year Ended June 30, 2021



Certified
Public
Accountants

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

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Fiscal Year Ended June 30, 2021

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Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Sunnyvale, California

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Sunnyvale Retiree Healthcare Plan (Plan), a trust fund of the City of Sunnyvale (City), as of and for the year fiscal ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of June 30, 2021, and the changes in fiduciary net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the financial statements present only the Plan and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2021 and changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Changes in the City's Net OPEB Liability and Related Ratios, the Schedule of City Contributions, and the Schedule of Investment Returns as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
May 9, 2022

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2021

The City of Sunnyvale Retiree Healthcare Plan, commonly referred to as the OPEB Plan (Other Postemployment Benefits Plan or the Plan), is administered through a trust that meets the following criteria: 1) contributions from the employer and earnings on those contributions are irrevocable; 2) plan assets are dedicated to providing retiree healthcare in accordance with benefit terms; and, 3) plan assets are legally protected from the creditors of the City and of the OPEB Plan members.

This section of management's discussion and analysis provides an overview of the financial performance for the fiscal year ended June 30, 2021. The information presented here should be read in conjunction with the historical information presented by the accompanying basic financial statements, notes to the basic financial statements, and required supplementary information presented in this report. Certain forward-looking information, which by nature is subject to risks and uncertainties, is presented toward the end of this section.

A. FINANCIAL HIGHLIGHTS.

- On June 30, 2021, the Plan's fiduciary net position was \$149.9 million, which was an increase of \$34.3 million from the prior fiscal year.
- Total benefit payments (including an estimated implied subsidy of \$1.7 million for the non-Medicare eligible retirees) amounted to \$8.1 million, which were paid by the City's own resources outside of the trust assets in the Plan.

B. OVERVIEW OF FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

The basic financial statements consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. The information about the assets, liabilities, fiduciary net position, and changes in the fiduciary net position presented in these statements helps to determine how the trustees and administrators have discharged their fiduciary responsibilities.

Fiduciary net position restricted for other postemployment benefits increased \$34.3 million from the prior fiscal year. The City funded \$3.6 million to the OPEB Trust in addition to making benefit payments (with implied subsidy) of \$8.1 million from its own resources. The Plan earned net investment income of \$30.8 million in this fiscal year.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**Management's Discussion and Analysis (Unaudited)**
Fiscal Year Ended June 30, 2021**B. OVERVIEW OF FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION,**
Continued

The comparative schedules of fiduciary net position and changes in fiduciary net position as of and for the fiscal years ended 2021 and 2020 are presented as follows:

Condensed Fiduciary Net Position

(Amounts in Thousands)

	2021	2020	Increase/ (Decrease)
Assets:			
Cash and Cash Equivalents and Other Assets	\$ 90	\$ 253	\$ (163)
Investments	149,788	115,319	34,469
Total Assets	149,878	115,572	34,306
Liabilities:			
Investment-Related Fees Payable	7	27	(20)
Net Position			
Restricted for OPEB	\$ 149,871	\$ 115,545	\$ 34,326

Condensed Changes in Fiduciary Net Position

(Amounts in Thousands)

	2021	2020	Increase/ (Decrease)
Additions:			
Employer Contributions	\$ 11,641	\$ 12,054	\$ (413)
Net Investment Income	30,761	6,092	24,669
Total Additions	42,402	18,146	24,256
Deductions:			
Benefit Payments	8,057	7,675	382
Administrative Expense	19	21	(2)
Total Additions	8,076	7,696	380
Increase in Net Position	34,326	10,450	23,876
Net Position - Beginning	115,545	105,095	10,450
Net Position - Ending	\$ 149,871	\$ 115,545	\$ 34,326

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2021

**B. OVERVIEW OF FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION,
Continued**

The notes to the basic financial statements provide information related to assets held in trust and managed by this Plan. Also disclosed is the total OPEB liability and net OPEB liability as of the fiscal year-end. The following is a list of items disclosed in the notes to the basic financial statements:

- Summary of significant accounting policies
- Plan description and contribution information
- Investments
- Net OPEB liability of the City, with actuarial methods and assumptions used to measure the total OPEB liability

The required supplementary information presents certain schedules that are essential to understanding the trends by comparing the OPEB information reported for the current year with available data from prior years. The following schedules are presented as required:

- Schedule of changes in the City's net OPEB liability and related ratios
- Schedule of City contributions
- Schedule of investment returns

C. FINANCIAL ANALYSIS

The Plan net position may serve overtime as a useful indication of the Plan's financial position. At the close of fiscal year 2021, the Plan's total assets exceeded the Plan's total liabilities. As of June 30, 2021, the Plan's net position was \$149.9 million, reflecting an increase of \$34.3 million comparing with the Plan's net position \$115.5 million on June 30, 2020. The increase in the Plan's net position is primarily attributed to direct employer contributions and investment income earned from Plan investments exceeding benefit payments and administrative expenses.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

Management's Discussion and Analysis (Unaudited) ***Fiscal Year Ended June 30, 2021***

D. CHANGES IN THE TOTAL OPEB LIABILITY, PLAN NET POSITION, and NET OPEB LIABILITY

The comparative schedules of total OPEB liability, Plan net position, and net OPEB liability at June 30, 2021 and 2020 are presented as follows (Amounts in thousands):

	Total OPEB Liability	Plan Net Position	Net OPEB Liability
June 30, 2020	\$183,591	\$115,545	\$68,046
June 30, 2021	\$186,357	\$149,870	\$36,487
Increase (Decrease)	\$2,766	\$34,325	(\$31,559)

At June 30, 2021, the total OPEB liability was \$186.4 million, which had an increase of \$2.8 million from \$183.6 million at June 30, 2020. The 2021 Plan net position increased by \$34.3 million when compared to the 2020 Plan net position. The net OPEB liability at June 30, 2021 was \$36.5 million, which decreased by \$31.5 million from \$68.0 million at June 30, 2020.

E. REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Finance Department of the City of Sunnyvale, 650 W. Olive Avenue, Sunnyvale, California 94086.

Basic Financial Statements

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

Statement of Fiduciary Net Position**Other Postemployment Benefits Trust Fund****June 30, 2021**

Assets:

Cash and Cash Equivalents	\$	90,695
Interest Receivable		2
Investments at Fair Value:		
Mutual Fund—Fixed Income		45,443,724
Mutual Fund—Equity		104,343,968
Total Investments		<u>149,787,692</u>
Total Assets		149,878,389

Liabilities:

Investment-Related Fees Payable		<u>7,668</u>
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Net Position Restricted for Other Postemployment Benefits	\$	<u><u>149,870,721</u></u>
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See accompanying notes to the basic financial statements.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

**Statement of Changes in Fiduciary Net Position
Other Postemployment Benefits Trust Fund
For the Fiscal Year Ended June 30, 2021**

Additions:

Employer Contributions - Direct	\$ 3,564,000
Employer Contributions - Outside of OPEB Trust	6,341,352
Employer Contributions - Implied Subsidy	1,735,360
Subtotal - Employer Contributions	<u>11,640,712</u>
Net Investment Income:	
Net Increase in Fair Value of Investments	28,461,504
Interest	79
Dividends	2,396,198
Less Investment-Related Expenses	(96,488)
Subtotal - Net Investment Income	<u>30,761,293</u>
Total Additions	<u>42,402,005</u>

Deductions:

Benefit Payments with Implied Subsidy	8,057,414
PEMHCA Administrative Expense	19,298
Total Deductions	<u>8,076,712</u>
Net Increase in Net Position	34,325,293

Net Position Restricted for Other Postemployment Benefits:

Beginning of Year	115,545,428
End of Year	<u><u>\$ 149,870,721</u></u>

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The City of Sunnyvale (City) provides healthcare benefits to eligible retirees and their dependents through the California Public Employee's Retirement System (CalPERS) healthcare program (PEMHCA). Benefit levels are established through agreements and memorandums of understanding between the City and employees or bargaining units.

To implement a funding plan to address the unfunded liabilities associated with retiree medical benefits, the City created an Other Postemployment Benefits (OPEB) Trust (Trust). Note 2 provides more detail about the plan administration.

The City of Sunnyvale Retiree Healthcare Plan (Plan) is a single-employer defined benefit retiree healthcare plan administered by the City through a Trust that meets the criteria in Paragraph 3 of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The Trust is included as an OPEB Trust Fund in the City's fiduciary funds. The Plan's financial statements are intended to present the financial position and changes in financial position of only those transactions attributable to the Plan and are not intended to present the financial position or changes in financial position of the City.

Basis of Presentation

The Plan's resources are required to be held in trust for the members and beneficiaries of the Plan and, therefore, are accounted for as a Fiduciary Fund - Other Postemployment Benefits Trust Fund.

Measurement Focus and Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized in the period in which the contributions are due and the Plan has a legally enforceable right to the resources. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Cash, Cash Equivalents, and Investments

Cash equivalents include cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less at the time of acquisition.

Highly liquid investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Fair value is defined as the exit price that would be received to sell an investment in an orderly transaction at the measurement date.

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investment Related and Administrative Expenses

Investment-related expenses are disbursed from the Trust. The calculation of fees to compensate the services from the Trust Administrator and the Trustee are specified in the Trust Agreement. These expenses, such as investment advisory and management fees and trustee fees, are reported as a decrease of additions related to investment income in the Plan's statement of changes in fiduciary net position.

Administrative expenses are reported as deduction in the in the Plan's statement of changes in fiduciary net position. The City pays for audit costs of the Plan.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Plan Administration

Since 2007, the City has set aside funds in its Employee Benefits Internal Service Fund for meeting future OPEB obligations. On July 20, 2010, Sunnyvale City Council approved an Investment Advisory Agreement with PFM Asset Management, LLC (PFM) to establish and administer the retiree medical trust, a tax-qualified irrevocable trust organized under Internal Revenue Code Section 115 to pre-fund retiree healthcare benefits. On December 7, 2010, Sunnyvale City Council approved a Trust Agreement among the City (Employer), PFM (Trust Administrator), and U.S. Bank National Association (Trustee of Trust assets). The Sunnyvale City Council serves as the governing body of the Plan.

Employees Covered

At June 30, 2021, the following employees were covered by the Plan:

Inactive employees or beneficiaries currently receiving benefits	853
Inactive employees entitled to but not yet receiving benefits	100
Active employees	888
	<u>1,841</u>

Benefits Provided

The Plan provides healthcare benefits to eligible retirees and their dependents through PEMHCA. PEMHCA requires that medical insurance contributions for retired annuitants paid for by a contracting agency be equal to the medical contributions paid for its active employees. Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its non-represented employees, and the unions representing City employees.

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2021

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The City provides a retiree healthcare stipend equal to the lesser of the medical premium or a dollar limit that varies by employee group. The City pays 100% of the medical premium for management employees who retired on or before December 31, 2007 and 100% of the medical premium up to a dollar cap for management employees who retire after December 31, 2007. Management employees appointed on or after July 1, 2007 are subject to a vesting schedule ranging from 50% after 5 years of management service to 100% after 15 years of management service.

The Plan also provides potential retiree medical benefits to all Councilmembers. Councilmembers only receive the benefit if they retire from CalPERS within 120 days of when they leave office with the City. Benefits are subject to change and do not constitute a contract.

Contributions

There are no minimum contribution requirements for the Plan. The City Council determined the amount directly funded to the Trust annually. The June 30, 2018 actuarial valuation set the actuarially determined contribution for the fiscal year ended June 30, 2021 at \$12,086,000. The June 30, 2018 actuarial valuation estimated the implied subsidy for the fiscal year ended June 30, 2021 to be \$1,735,360, which was presented as both an addition to and a deduction from the fiduciary net position.

For the fiscal year ended June 30, 2021, the City directly funded \$3,564,000 to the Trust. The City also contributed \$6,341,352 outside of the Trust on a pay-as-you-go basis for current benefit payments and PEMHCA administration expenses.

NOTE 3 – INVESTMENTS

Investment Policy

The OPEB Trust Investment Policy was established pursuant to Sunnyvale City Council Policy 7.1E.2.6, “An Actuarial Retiree Medical Reserve will be maintained at a level that is deemed adequate to meet the projected liabilities as determined by an actuarial evaluation.”

The Investment Policy Statement for the OPEB Trust was approved and adopted by Sunnyvale City Council on January 12, 2011. The Policy was respectively amended on February 25, 2014 and on October 3, 2017. The latest amendment was to 1) clarify the fiduciary role of the investment management firm and revise the criteria for selection of investment managers, 2) include definitions of investment classes and revise target asset ranges, 3) clarify the use of specific asset allocation and revise benchmarks used for review of the investment performance, and 4) limit or eliminate direct or indirect investment of public funds related to the production of drilling of fossil fuel and encourage the selection of investments that meet social and environmental responsibility goals.

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2021

NOTE 3 – INVESTMENTS, Continued

To achieve the greatest likelihood of meeting the Trust’s investment objectives and the best balance between risk and return for optimal diversification, assets would be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Trust’s actuarial discount rate.

Asset Class	Asset Weightings	
	Range	Target
Growth		
Domestic Equity	29% - 49%	39%
International Equity	1% - 41%	21%
Other Growth Assets	0% - 20%	0%
Income		
Fixed Income	20% - 60%	40%
Cash Equivalent	0% - 20%	0%
Total Portfolio		100%

The asset allocation range established by this Investment Policy represents a long-term perspective. Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Investment Policy Statement ranges. The Plan intend to achieve a target asset allocation of 60 percent equities and 40 percent fixed income.

Fair Value Measurement

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs.

The fair value of the Plan’s investment in the open-end mutual funds are valued using the net asset value (NAV) per share of the investments and are not subject to the fair value hierarchy. These open-end mutual funds do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2021

NOTE 3 – INVESTMENTS, Continued

On June 30, 2021, in addition to holding \$90,695 in open-end money market mutual funds (cash equivalents), the Plan had positions in open-end mutual funds as follows:

Investments	Fund Name	06/30/2021	Percentage of
		Fair Value	Total
Mutual Funds-Domestic Equity	PFM Multi Manager Domestic Equity	\$ 60,983,720	40.7%
Mutual Funds-Domestic Equity	Cohen & Steers Institution Realty Shares	3,287,272	2.2%
Mutual Funds-Domestic Equity	Principal Investors Fund Inc	3,066,049	2.0%
Mutual Funds-Domestic Equity	Invesco Optimum Yield Etf	2,273,264	1.5%
Mutual Funds-Domestic Equity	Pimco Commodity Rr Strat Ins	2,202,175	1.5%
Mutual Funds-International Equity	PFM Multi Manager International Equity	32,531,488	21.7%
Mutual Funds-Fixed Income	PFM Multi Manager Fixed Income Fund	45,443,724	30.3%
Total		<u>\$ 149,787,692</u>	<u>100.0%</u>

Risk Disclosure

Interest rate risk is the risk the changes in interest rates demanded by the market will adversely affect the fair value of an investment. The Plan's fixed-income open-end mutual fund investments had a weighted average maturity of 7.8 years at June 30, 2021.

Disclosures about credit risk, custodial credit risk, concentration of credit risk do not apply to the Plan's investments for the following reasons:

- Open-end mutual funds are not rated by Nationally Recognized Statistical Rating Organizations
- Open-end mutual funds are not evidenced by securities that exist in physical or book entry form
- Open-end mutual funds diversify investments among organizations

Rate of Return

For the fiscal year ended June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 26.22 percent. The money-weighted rate of return expresses investment performance (net of investment expense) adjusted for the changing amounts invested monthly.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2021****NOTE 4 – NET OPEB LIABILITY OF THE CITY**

The City's net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was rolled forward from the June 30, 2020 actuarial valuation using standard update procedures.

The components of the net OPEB liability of the City at June 30, 2021 were as follows:

Total OPEB Liability	\$ 186,357,495
Plan Fiduciary Net Position	149,870,721
City's Net OPEB Liability	<u>\$ 36,486,774</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	80.4%

Changes in the Net OPEB Liability

The following table shows the changes in the net OPEB liability for the fiscal year ended June 30, 2021:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2020	<u>\$ 183,591,556</u>	<u>\$ 115,545,428</u>	<u>\$ 68,046,128</u>
Changes for the year:			
Service cost	6,142,455	-	6,142,455
Interest	11,142,318	-	11,142,318
Difference between expected and actual experience	(12,886,286)	-	(12,886,286)
Changes of assumptions	6,424,866	-	6,424,866
Contributions - employer	-	11,640,712	(11,640,712)
Net investment income	-	30,761,293	(30,761,293)
Benefit payments	(8,057,414)	(8,057,414)	-
Administrative expenses	-	(19,298)	19,298
Net changes	<u>2,765,939</u>	<u>34,325,293</u>	<u>(31,559,354)</u>
Balance at June 30, 2021	<u>\$ 186,357,495</u>	<u>\$ 149,870,721</u>	<u>\$ 36,486,774</u>

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2021****NOTE 4 – NET OPEB LIABILITY OF THE CITY, Continued****Actuarial Methods and Assumptions Used to Determine Total OPEB Liability**

The June 30, 2021 total OPEB liability was determined based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Implied Subsidy	Implied subsidy included for non-Medicare eligible retirees (projected benefit payments are based on claim cost or age-adjusted premiums approximating claim costs)
Actuarial Assumptions:	
Discount Rate	6.0% - full actuarially determined contribution funding
Expected Long-Term Rate of Return	6.0%, net of plan investment expenses, including inflation
Inflation	2.75% annually
Payroll Growth	3.0% annually, including inflation
Cap increase on benefit payments	0% to 5% depending on bargaining unit
Medical Trend	7.0% annually decreasing to 4.0% for retirees not eligible for Medicare. 6.1% annually decreasing to 4.0 % for retirees eligible for Medicare (Non-Kaiser). 5.0% annually decreasing to 4.0% for retirees eligible for Medicare (Kaiser)
Mortality	Derived using CalPERS 1997-2015 Experience Study. Mortality Improvement Scale MP-2020

Change of Assumptions

During the measurement period ended June 30, 2021, actuarial assumptions for medical trend were adjusted and the mortality improvement scale was updated.

The expected nominal long-term rate of return was derived from stochastic projections of expected long-term real rates of return net of investment expenses under various economic scenarios using expected geometric real rates of return and correlation for fund asset classes plus inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation for the June 30, 2020 actuarial valuation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39.0%	4.53%
International Equity	21.0%	4.93%
Fixed Income	40.0%	1.47%
Total	100.0%	

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2021

NOTE 4 – NET OPEB LIABILITY OF THE CITY, Continued

Discount Rate

The discount rate used to measure the total OPEB liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.0 percent) or 1-percentage-point higher (7.0 percent) than the current discount rate:

	Discount Rate -1% (5.0%)	Current Discount Rate (6.0%)	Discount Rate +1% (7.0%)
Net OPEB Liability	\$ 62,958,966	\$ 36,484,774	\$ 14,913,568

Sensitivity of the Net OPEB Liability to Changes in the Medical Trend Rates

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current medial trend rates:

	1% Decrease in Medical Trend Rates	Current Medical Trend Rates	1% Increase in Medical Trend Rates
Net OPEB liability	\$ 18,469,900	\$ 36,486,774	\$ 59,535,632

Required Supplementary Information (Unaudited)

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

Required Supplementary Information
Fiscal Year Ended June 30, 2021

**SCHEDULE OF CHANGES IN THE
CITY'S NET OPEB LIABILITY AND RELATED RATIOS
Last 10 Years¹**

Fiscal Year	2021	2020	2019	2018	2017
Total OPEB liability					
Service Cost	\$ 6,142,455	\$ 5,963,549	\$ 5,293,290	\$ 5,126,000	\$ 5,288,000
Interest	11,142,318	10,609,180	11,532,851	10,946,724	10,076,000
Differences between Expected and Actual Experience	(12,886,286)	-	(15,810,851)	-	-
Changes of Assumptions	6,424,866	-	5,148,704	-	-
Benefit Payments	(8,057,414)	(7,674,549)	(7,211,618)	(7,249,724)	(6,927,000)
Net change in Total OPEB Liability	2,765,939	8,898,180	(1,047,624)	8,823,000	8,437,000
Total OPEB Liability - Beginning	183,591,556	174,693,376	175,741,000	166,918,000	158,481,000
Total OPEB Liability - Ending (a)	\$ 186,357,495	\$ 183,591,556	\$ 174,693,376	\$ 175,741,000	\$ 166,918,000
Plan Fiduciary Net Position					
Contributions - Employer	11,640,712	12,054,056	12,048,370	11,332,886	11,170,000
Net Investment Income	30,761,293	6,091,558	6,472,434	6,736,501	7,487,775
Benefit Payments	(8,057,414)	(7,674,549)	(7,211,618)	(7,249,724)	(6,927,000)
Administrative Expense	(19,298)	(20,507)	(17,752)	(24,162)	-
Net Change in Plan Fiduciary Net Position	34,325,293	10,450,558	11,291,434	10,795,501	11,730,775
Plan Fiduciary Net Position-Beginning	115,545,428	105,094,870	93,803,436	83,007,935	71,277,160
Plan Fiduciary Net Position-Ending (b)	\$ 149,870,721	\$ 115,545,428	\$ 105,094,870	\$ 93,803,436	\$ 83,007,935
City's Net OPEB liability (a) - (b)	\$ 36,486,774	\$ 68,046,128	\$ 69,598,506	\$ 81,937,564	\$ 83,910,065
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	80.4%	62.9%	60.2%	53.4%	49.7%
Covered-Employee Payroll (Contributions not based on measure of pay)	\$ 118,376,979	\$ 114,830,357	\$ 110,932,792	\$ 104,981,096	\$ 99,643,412
City's Net OPEB Liability as a Percentage of Covered-Employee Payroll	30.8%	59.3%	62.7%	78.0%	84.2%

¹ Historical information is required only for measurement periods for which GASB Statement No. 74 is applicable.

Change in Assumptions: During 2019, demographic assumptions were updated in accordance to the CalPERS Membership Data 1997-2015 Experience Study. Mortality improvement scale was updated to Scale MP-2018 from MP-2014. The discount rate reduced from 6.5 percent to 6.0 percent while inflation rate was lowered from 3.0 percent to 2.75 percent. Payroll growth rate reduced from 3.25 percent to 3.0 percent. Healthcare trend was also updated. During 2021, actuarial assumptions for medical trend were adjusted and the mortality improvement scale was updated.

Difference between Expected and Actual Experience : During 2019 and 2021, the difference between expected and actual experience is related to the difference in PEMCHA monthly premium and other demographic changes.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

Required Supplementary Information, Continued
Fiscal Year Ended June 30, 2021

SCHEDULE OF CITY CONTRIBUTIONS
Last 10 Years^{1,2}

Fiscal Year	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially Determined Contribution	\$ 12,086,000	\$ 11,758,000	\$ 11,818,000	\$ 11,460,000	\$ 9,463,000	\$ 7,937,000	\$ 9,758,000	\$ 9,471,000	\$ 9,298,000	\$ 9,024,000
Contributions in Relation to the										
Actuarially Determined Contribution	(11,640,712)	(12,054,056)	(12,048,370)	(11,332,886)	(11,170,000)	(9,824,000)	(10,150,000)	(9,000,000)	(9,971,000)	(8,620,000)
Contribution Deficiency (Excess)	\$ 445,288	\$ (296,056)	\$ (230,370)	\$ 127,114	\$ (1,707,000)	\$ (1,887,000)	\$ (392,000)	\$ 471,000	\$ (673,000)	\$ 404,000
Covered-Employee Payroll										
(Contributions not based										
on measure of pay)	\$ 118,376,979	\$ 114,830,357	\$ 110,932,792	\$ 104,981,096	\$ 99,643,412	\$ 87,488,023	\$ 86,273,294	\$ 86,131,436	\$ 83,622,754	\$ 84,699,137
Contributions as a Percentage of										
Covered-Employee Payroll	9.8%	10.5%	10.9%	10.8%	11.2%	11.2%	11.8%	10.4%	11.9%	10.2%

¹ Historical information is required only for measurement periods for which GASB Statement No. 74 is applicable.

² The City established the OPEB Trust in fiscal year 2011 and elected to present these historical information of the Plan from inception of the Trust.

³ The actuarial methods and assumptions used to determine the fiscal year 2021 employer contribution are as follows:

Valuation date	6/30/2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	6.00% (net of expenses)
Inflation	2.75%
Payroll Growth	3.00%, including inflation
Medical Trend	7.5% annually decreasing to 4.0% for retirees not eligible for Medicare.
	6.5% annually decreasing to 4.0% for retirees eligible for Medicare.
Mortality	CalPERS 1997-2015 Experience Study. Mortality Improvement Scale MP-2018.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

Required Supplementary Information, Concluded
Fiscal Year Ended June 30, 2021

SCHEDULE OF INVESTMENT RETURNS

Last 10 Years¹

Year	Annual Money-Weighted Rate of Return, Net of Investment Expense
2017	10.30%
2018	7.98%
2019	6.79%
2020	5.71%
2021	26.22%

¹ Historical information is required only for measurement periods for which GASB Statement No. 74 is applicable.