

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

Basic Financial Statements and
Independent Auditor's Report

Fiscal Year Ended June 30, 2022



Certified
Public
Accountants

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

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Fiscal Year Ended June 30, 2022

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the 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 fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Plan's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, 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, 2022, and the changes in its financial position, or, where applicable, its cash flows 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.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 GAAS, 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.



Walnut Creek, California
April 20, 2023

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2022

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, 2022. 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, 2022, the Plan's fiduciary net position was \$132.8 million, which was a decrease of \$17.1 million from the prior fiscal year.
- Total benefit payments (including an estimated implied subsidy of \$1.9 million for the non-Medicare eligible retirees) amounted to \$8.3 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 decreased \$17.1 million from the prior fiscal year. The City funded \$3.3 million to the OPEB Trust in addition to making benefit payments (with implied subsidy) of \$8.3 million from its own resources. The Plan recognized net investment loss of \$20.4 million in this fiscal year.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**Management's Discussion and Analysis (Unaudited)**
Fiscal Year Ended June 30, 2022**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 2022 and 2021 are presented as follows:

Condensed Fiduciary Net Position

(Amounts in Thousands)

	2022	2021	Increase/ (Decrease)
Assets:			
Cash and Cash Equivalents and Other Assets	\$ 9,181	\$ 90	\$ 9,091
Investments	123,614	149,788	(26,174)
Total Assets	132,795	149,878	(17,083)
Liabilities:			
Investment-Related Fees Payable	9	7	2
Net Position			
Restricted for OPEB	<u>\$ 132,786</u>	<u>\$ 149,871</u>	<u>\$ (17,085)</u>

Condensed Changes in Fiduciary Net Position

(Amounts in Thousands)

	2022	2021	Increase/ (Decrease)
Additions:			
Employer Contributions	\$ 11,629	\$ 11,641	\$ (12)
Net Investment Income	(20,431)	30,761	(51,192)
Total Additions	(8,802)	42,402	(51,204)
Deductions:			
Benefit Payments	8,263	8,057	206
Administrative Expense	20	19	1
Total Additions	8,283	8,076	207
Increase in Net Position	(17,085)	34,326	(51,411)
Net Position - Beginning	149,871	115,545	34,326
Net Position - Ending	<u>\$ 132,786</u>	<u>\$ 149,871</u>	<u>\$ (17,085)</u>

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2022

**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 2022, the Plan's total assets exceeded the Plan's total liabilities. As of June 30, 2022, the Plan's net position was \$132.8 million, reflecting a decrease of \$17.1 million comparing with the Plan's net position \$149.9 million on June 30, 2021. The decrease in the Plan's net position is primarily attributed to net investment loss of \$20.4 million due to declining equity market conditions, offset by direct employer contributions of \$3.3 million.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2022

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, 2022 and 2021 are presented as follows (Amounts in thousands):

	Total OPEB Liability	Plan Net Position	Net OPEB Liability
June 30, 2021	\$186,358	\$149,871	\$36,487
June 30, 2022	\$195,862	\$132,786	\$63,076
Increase (Decrease)	\$9,504	(\$17,085)	\$26,589

At June 30, 2022, the total OPEB liability was \$195.9 million, which had an increase of \$9.5 million from \$186.4 million at June 30, 2021. The 2022 Plan net position decreased by \$17.1 million when compared to the 2021 Plan net position. The net OPEB liability at June 30, 2022 was \$63.1 million, which increased by \$26.6 million from \$36.5 million at June 30, 2021.

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, 2022**

Assets:

Cash and Cash Equivalents	\$	9,171,728
Interest Receivable		8,932
Investments at Fair Value:		
Mutual Fund – Fixed Income		45,064,284
Mutual Fund – Equity		78,549,881
Total Investments		<u>123,614,165</u>
Total Assets		132,794,825

Liabilities:

Investment-Related Fees Payable		<u>8,937</u>
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Net Position Restricted for Other Postemployment Benefits	\$	<u><u>132,785,888</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, 2022**

Additions:

Employer Contributions - Direct	\$ 3,346,000
Employer Contributions - Outside of OPEB Trust	6,432,583
Employer Contributions - Implied Subsidy	1,850,000
Subtotal - Employer Contributions	<u>11,628,583</u>
Net Investment Income (Loss):	
Net Decrease in Fair Value of Investments	(23,146,014)
Interest	11,181
Dividends	2,762,352
Less Investment-Related Expenses	(58,352)
Subtotal - Net Investment Income (Loss)	<u>(20,430,833)</u>
Total Additions	<u>(8,802,250)</u>

Deductions:

Benefit Payments with Implied Subsidy	8,262,414
PEMHCA Administrative Expense	20,169
Total Deductions	<u>8,282,583</u>
Net Decrease in Net Position	(17,084,833)

Net Position Restricted for Other Postemployment Benefits:

Beginning of Year	149,870,721
End of Year	<u><u>\$ 132,785,888</u></u>

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2022

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 the 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, the changes in financial position, or, where applicable, the cash flows 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, 2022

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, 2022, the following employees were covered by the Plan:

Inactive employees or beneficiaries currently receiving benefits	887
Inactive employees entitled to but not yet receiving benefits	101
Active employees	877
	<u>1,865</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, 2022

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, 2020 actuarial valuation set the actuarially determined contribution for the fiscal year ended June 30, 2022 of \$11,860,000. Based on the June 30, 2020 actuarial valuation, the implied subsidy for the fiscal year ended June 30, 2022 was \$1,850,000, which was presented as both an addition to and a deduction from the fiduciary net position.

For the fiscal year ended June 30, 2022, the City directly funded \$3,346,000 to the Trust. The City also contributed \$6,432,583 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, 2022**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, 2022

NOTE 3 – INVESTMENTS, Continued

On June 30, 2022, in addition to holding \$9,171,728 in open-end money market mutual funds (cash equivalents), the Plan had positions in open-end mutual funds as follows:

Investments	Fund Name	06/30/2022	Percentage of
		Fair Value	Total
Mutual Funds-Domestic Equity	PFM Multi Manager Domestic Equity	\$ 45,395,375	36.7%
Mutual Funds-Domestic Equity	Cohen & Steers Institution Realty Shares	2,715,148	2.2%
Mutual Funds-Domestic Equity	Principal Investors Fund Inc	2,632,437	2.1%
Mutual Funds-Domestic Equity	Invesco Optimum Yield Etf	3,901,673	3.2%
Mutual Funds-Domestic Equity	Pimco Commodity Rr Strat Ins	3,877,338	3.2%
Mutual Funds-International Equity	PFM Multi Manager International Equity	20,027,910	16.2%
Mutual Funds-Fixed Income	Ishares Trust	2,627,375	2.1%
Mutual Funds-Fixed Income	PFM Multi Manager Fixed Income Fund	42,436,909	34.3%
Total		<u>\$ 123,614,165</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. Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. At June 30, 2022, the Plan's investment in PFM Multi Manager Fixed Income Fund open-end fixed income mutual fund had average maturity of 7.4 years and average credit rating of A, while the Plan's investment in Ishares Trust open-end fixed income mutual fund had average maturity of 8.1 years and average credit rating of AAA.

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, 2022, the annual money-weighted rate of return on investments, net of investment expense, was negative 13.48 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, 2022****NOTE 4 – NET OPEB LIABILITY OF THE CITY**

The City's net OPEB liability was measured as of June 30, 2022, 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, 2022 were as follows:

Total OPEB Liability	\$ 195,861,480
Plan Fiduciary Net Position	132,785,888
City's Net OPEB Liability	<u>\$ 63,075,592</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	67.8%

Changes in the Net OPEB Liability

The following table shows the changes in the net OPEB liability for the fiscal year ended June 30, 2022:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2021	<u>\$ 186,357,495</u>	<u>\$ 149,870,721</u>	<u>\$ 36,486,774</u>
Changes for the year:			
Service cost	6,446,058	-	6,446,058
Interest	11,320,341	-	11,320,341
Contributions - employer	-	11,628,683	(11,628,683)
Net investment income	-	(20,430,833)	20,430,833
Benefit payments	(8,262,414)	(8,262,414)	-
Administrative expenses	-	(20,169)	20,169
Net changes	<u>9,503,985</u>	<u>(17,084,733)</u>	<u>26,588,718</u>
Balance at June 30, 2022	<u>\$ 195,861,480</u>	<u>\$ 132,785,988</u>	<u>\$ 63,075,492</u>

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2022****NOTE 4 – NET OPEB LIABILITY OF THE CITY, Continued****Actuarial Methods and Assumptions Used to Determine Total OPEB Liability**

The June 30, 2022 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

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 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39.0%	4.29%
International Equity	21.0%	4.67%
Fixed Income	40.0%	0.78%
Total	100.0%	

Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2022

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	\$ 90,737,620	\$ 63,075,592	\$ 40,526,339

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	\$ 43,194,926	\$ 63,075,592	\$ 88,679,484

Required Supplementary Information (Unaudited)

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

Required Supplementary Information
Fiscal Year Ended June 30, 2022

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

Fiscal Year	2022	2021	2020	2019	2018	2017
Total OPEB liability						
Service Cost	\$ 6,446,058	\$ 6,142,455	\$ 5,963,549	\$ 5,293,290	\$ 5,126,000	\$ 5,288,000
Interest	11,320,341	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	(8,262,414)	(8,057,414)	(7,674,549)	(7,211,618)	(7,249,724)	(6,927,000)
Net change in Total OPEB Liability	9,503,985	2,765,939	8,898,180	(1,047,624)	8,823,000	8,437,000
Total OPEB Liability - Beginning	186,357,495	183,591,556	174,693,376	175,741,000	166,918,000	158,481,000
Total OPEB Liability - Ending (a)	\$ 195,861,480	\$ 186,357,495	\$ 183,591,556	\$ 174,693,376	\$ 175,741,000	\$ 166,918,000
Plan Fiduciary Net Position						
Contributions - Employer	11,628,583	11,640,712	12,054,056	12,048,370	11,332,886	11,170,000
Net Investment Income	(20,430,833)	30,761,293	6,091,558	6,472,434	6,736,501	7,487,775
Benefit Payments	(8,262,414)	(8,057,414)	(7,674,549)	(7,211,618)	(7,249,724)	(6,927,000)
Administrative Expense	(20,169)	(19,298)	(20,507)	(17,752)	(24,162)	-
Net Change in Plan Fiduciary Net Position	(17,084,833)	34,325,293	10,450,558	11,291,434	10,795,501	11,730,775
Plan Fiduciary Net Position-Beginning	149,870,721	115,545,428	105,094,870	93,803,436	83,007,935	71,277,160
Plan Fiduciary Net Position-Ending (b)	\$ 132,785,888	\$ 149,870,721	\$ 115,545,428	\$ 105,094,870	\$ 93,803,436	\$ 83,007,935
City's Net OPEB liability (a) - (b)	\$ 63,075,592	\$ 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	67.8%	80.4%	62.9%	60.2%	53.4%	49.7%
Covered-Employee Payroll (Contributions not based on measure of pay)	\$ 128,464,021	\$ 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	49.1%	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, 2022

SCHEDULE OF CITY CONTRIBUTIONS

Last 10 Years^{1,2}

Fiscal Year	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially Determined Contribution	\$ 11,860,000	\$ 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
Contributions in Relation to the										
Actuarially Determined Contribution	(11,628,583)	(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)
Contribution Deficiency (Excess)	\$ 231,417	\$ 445,288	\$ (296,056)	\$ (230,370)	\$ 127,114	\$ (1,707,000)	\$ (1,887,000)	\$ (392,000)	\$ 471,000	\$ (673,000)

**Covered-Employee Payroll
(Contributions not based
on measure of pay)**

\$ 128,464,021 \$ 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

**Contributions as a Percentage of
Covered-Employee Payroll**

9.1% 9.8% 10.5% 10.9% 10.8% 11.2% 11.2% 11.8% 10.4% 11.9%

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 2022 employer contribution are as follows:

Valuation date	Entry Age Normal
Actuarial Cost Method	Level percentage of payroll
Amortization Method	Market Value
Asset Valuation Method	
Actuarial Assumptions:	
Discount Rate	6.00% (net of expenses)
Inflation	2.75%
Payroll Growth	3.00%, including inflation
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	CalPERS 1997-2015 Experience Study. Mortality Improvement Scale MP-2020.

CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

Required Supplementary Information, Concluded
Fiscal Year Ended June 30, 2022

SCHEDULE OF INVESTMENT RETURNS

Last 10 Years¹

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2017	10.30%
2018	7.98%
2019	6.79%
2020	5.71%
2021	26.22%
2022	-13.48%

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