

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

Basic Financial Statements and  
Independent Auditor's Report

Fiscal Year Ended June 30, 2019



Certified  
Public  
Accountants

---

**CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**

---

**Table of Contents**  
**Fiscal Year Ended June 30, 2019**

---

	<b>Page</b>
Independent Auditor's Report.....	1
Management's Discussion and Analysis (Unaudited) .....	4
Basic Financial Statements:	
Statement of Fiduciary Net Position .....	9
Statement of Changes in Fiduciary Net Position .....	10
Notes to Basic Financial Statements .....	11
Required Supplementary Information (Unaudited):	
Schedule of Changes in the City's Net OPEB Liability and Related Ratios .....	21
Schedule of City Contributions.....	22
Schedule of Investment Returns .....	23



## **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 ended June 30, 2019, 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 financial position of the Plan as of June 30, 2019, and the changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

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, 2019 and changes in its financial position for the 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.

As described in Note 5, in March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The City expects this outbreak to impact the Plan and its result of activities. The City is not able to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Plan or results of activities. 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 13, 2020

***Management's Discussion and Analysis (Unaudited)***

***Management's Discussion and Analysis (Unaudited)***  
***Fiscal Year Ended June 30, 2019***

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, 2019. 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, 2019, the Plan's fiduciary net position was \$105.1 million, which was an increase of \$11.3 million from the prior year.
- Total benefit payments (including estimated implied subsidy of \$1.4 million for the non-Medicare eligible retirees) amounted to \$7.2 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 \$11.3 million from the prior year. The City funded \$4.8 million to the OPEB Trust in addition to making benefit payments (with implied subsidy) of \$7.2 million from its own resources. The Plan earned net investment income of \$6.5 million in this year.

The comparative schedules of fiduciary net position and changes in fiduciary net position as of and for the fiscal years ended 2019 and 2018 are presented as follows:

# CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN

## Management's Discussion and Analysis (Unaudited) Fiscal Year Ended June 30, 2019

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

#### Condensed Fiduciary Net Position

(Amounts in Thousands)

	2019	2018	Increase/ (Decrease)
<b>Assets:</b>			
Cash and Cash Equivalents and Other Assets	\$ 97	\$ 111	\$ (14)
Investments	105,018	93,729	11,289
<b>Total Assets</b>	<b>105,115</b>	<b>93,840</b>	<b>11,275</b>
<b>Liabilities:</b>			
Investment-Related Fees Payable	20	37	(17)
<b>Net Position</b>			
Restricted for OPEB	\$ 105,095	\$ 93,803	\$ 11,292

#### Condensed Changes in Fiduciary Net Position

(Amounts in Thousands)

	2019	2018	Increase/ (Decrease)
<b>Additions:</b>			
Employer Contributions	\$ 12,048	\$ 11,309	\$ 739
Net Investment Income	6,473	6,736	(263)
<b>Total Additions</b>	<b>18,521</b>	<b>18,045</b>	<b>476</b>
<b>Deductions:</b>			
Benefit Payments	7,211	7,250	(39)
Administrative Expense	18	-	18
<b>Total Deductions</b>	<b>7,229</b>	<b>7,250</b>	<b>(21)</b>
<b>Increase in Net Position</b>	<b>11,292</b>	<b>10,795</b>	<b>497</b>
<b>Net Position - Beginning</b>	<b>93,803</b>	<b>83,008</b>	<b>10,795</b>
<b>Net Position - Ending</b>	<b>\$ 105,095</b>	<b>\$ 93,803</b>	<b>\$ 11,292</b>

***Management's Discussion and Analysis (Unaudited)***  
***Fiscal Year Ended June 30, 2019***

**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
- Subsequent event

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 years 2019, the Plan's total assets exceeded the Plan's total liabilities. As of June 30, 2019, the Plan's net position was \$105.1 million, reflecting an increase of \$11.3 million comparing with the Plan's net position \$93.8 million on June 30, 2018. The Plan net position increase is primarily attributed to direct employer contributions and investment income earned from Plan investments.



## **CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**

### ***Management's Discussion and Analysis (Unaudited)*** ***Fiscal Year Ended June 30, 2019***

#### **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, 2019 and 2018 are presented as follows (Amounts in thousands):

	Total OPEB Liability	Plan Net Position	Net OPEB Liability
June 30, 2018	\$175,741	\$93,803	\$81,938
June 30, 2019	\$174,693	\$105,095	\$69,599
Increase (Decrease)	(\$1,048)	\$11,291	(\$12,339)

As of June 30, 2019, the total OPEB liability was \$174.7 million, which had a decrease of \$1.0 million from June 30, 2018's \$175.7 million. The 2019 Plan net position was higher by \$11.3 million when compared to the 2018 Plan net position. The net OPEB liability at June 30, 2019 was \$69.6 million, which decreased by \$12.3 million from June 30, 2018's \$81.9 million.

#### **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, 2019**

---

**Assets:**

Cash and Cash Equivalents	\$	96,723
Interest Receivable		196
Investments at Fair Value:		
Mutual Fund—Fixed Income		41,710,021
Mutual Fund—Equity		63,308,110
Total Investments		<u>105,018,131</u>
Total Assets		105,115,050

**Liabilities:**

Investment-Related Fees Payable		<u>20,180</u>
---------------------------------	--	---------------

<b>Net Position Restricted for Other Postemployment Benefits</b>	<b>\$</b>	<b><u><u>105,094,870</u></u></b>
--	-----------	----------------------------------

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 Year Ended June 30, 2019**

---

**Additions:**

Employer Contributions - Direct	\$ 4,819,000
Employer Contributions - Outside of OPEB Trust	5,789,747
Employer Contributions - Implied Subsidy	1,439,623
Subtotal - Employer Contributions	<u>12,048,370</u>
Net Investment Income:	
Net Increase in Fair Value of Investments	4,787,485
Interest	6,430
Dividends	1,829,670
Less Investment-Related Expenses	(151,151)
Subtotal - Net Investment Income	<u>6,472,434</u>
Total Additions	<u>18,520,804</u>

**Deductions:**

Benefit Payments with Implied Subsidy	7,211,618
PEMHCA Administrative Expense	17,752
Total Deductions	<u>7,229,370</u>
Net Increase in Net Position	11,291,434

**Net Position Restricted for Other Postemployment Benefits:**

Beginning of Year	93,803,436
End of Year	<u><u>\$ 105,094,870</u></u>

***Notes to Basic Financial Statements***  
***Fiscal Year Ended June 30, 2019***

---

**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.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid investments with maturities of one year or less at time of purchase and guaranteed investment contracts are stated at amortized cost. All other investments are stated at fair value. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value 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, 2019***

---

**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).

***Employees Covered***

At June 30, 2019, the following employees were covered by the Plan:

Inactive employees or beneficiaries currently receiving benefits	822
Inactive employees entitled to but not yet receiving benefits	91
Active employees	896
	<u>1,809</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, 2019***

---

**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***

The June 30, 2016 actuarial valuation set the actuarially determined contribution for the fiscal year ended June 30, 2019 at \$11,818,000. The June 30, 2018 actuarial valuation estimated the implied subsidy for the fiscal year ended June 30, 2019 to be \$1,439,623; which was presented as both an addition to and a deduction from the net position.

For the fiscal year ended June 30, 2019, the City pre-funded \$4,819,000 to the Trust. The City also contributed \$5,789,747 outside of 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, 2019****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
<b>Growth</b>		
Domestic Equity	29% - 49%	39%
International Equity	1% - 41%	21%
Other Growth Assets	0% - 20%	0%
<b>Income</b>		
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.

Open-end mutual funds are not subject to fair value hierarchy. The fair value of an open-end mutual fund is determined by the fund's current share price, which is readily determinable if the fair value per share is determined and published and is the basis for current transactions.



**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2019****NOTE 3 – INVESTMENTS, Continued**

On June 30, 2019, in addition to holding \$96,723 in open-end money market mutual funds (cash equivalents), the Plan had positions in open-end mutual funds as follows:

Investments	06/30/2019	06/30/2019	Percentage of
	Fund Name	Fair Value	Total
Mutual Funds-Domestic Equity	PFM Multi Manager Domestic Equity	\$ 40,969,646	39.0%
Mutual Funds-International Equity	PFM Multi Manager International Equity	22,338,464	21.3%
Mutual Funds-Fixed Income	PFM Multi Manager Fixed Income Fund	41,710,021	39.7%
Total		<u>\$ 105,018,131</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 in PFM Multi Manager Fund Income Fund had a weighted average maturity of 7.5 years at June 30, 2019.

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, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 6.79 percent. The money-weighted rate of return expresses investment performance (net of investment expense) adjusted for the changing amounts invested monthly.

**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2019**

**NOTE 4 – NET OPEB LIABILITY OF THE CITY**

The City's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was rolled forward from the June 30, 2018 actuarial valuation.

The components of the net OPEB liability of the City at June 30, 2019 were as follows:

Total OPEB Liability	\$ 174,693,376
Plan Fiduciary Net Position	105,094,870
City's Net OPEB Liability	<u>\$ 69,598,506</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	60.2%

**Changes in the Net OPEB Liability**

The following table shows the changes in the net OPEB liability for the fiscal year ended June 30, 2019:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2018	<u>\$ 175,741,000</u>	<u>\$ 93,803,436</u>	<u>\$ 81,937,564</u>
Changes for the year:			
Service cost	5,293,290	-	5,293,290
Interest	11,532,851	-	11,532,851
Difference between expected and actual experience	(15,810,851)	-	(15,810,851)
Assumption changes	5,148,704	-	5,148,704
Contributions - employer	-	12,048,370	(12,048,370)
Net investment income	-	6,472,434	(6,472,434)
Benefit payments	(7,211,618)	(7,211,618)	-
Administrative expenses	-	(17,752)	17,752
Net changes	<u>(1,047,624)</u>	<u>11,291,434</u>	<u>(12,339,058)</u>
Balance at June 30, 2019	<u>\$ 174,693,376</u>	<u>\$ 105,094,870</u>	<u>\$ 69,598,506</u>

**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2019****NOTE 4 – NET OPEB LIABILITY OF THE CITY, Continued****Actuarial Methods and Assumptions Used to Determine Total OPEB Liability**

The June 30, 2019 total OPEB liability was determined based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2018
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	7.5% annually decreasing to 4.0% for retirees not eligible for Medicare. 6.5% annually decreasing to 4.0 % for retirees eligible for Medicare.
Mortality	Derived using CalPERS 1997-2015 Experience Study. Mortality Improvement Scale MP-2018

**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2019****NOTE 4 – NET OPEB LIABILITY OF THE CITY, Continued**

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, 2018 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%	

***Change of Assumptions***

For the June 30, 2018 actuarial valuation, 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.

***Difference between Expected and Actual Experience***

For the year ended June 30, 2019, the difference between expected and actual experience is related to the difference in PEMCHA monthly premium and other demographic changes.

***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.

**Notes to Basic Financial Statements**  
**Fiscal Year Ended June 30, 2019**

**NOTE 4 – NET OPEB LIABILITY OF THE CITY, Continued**

***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	\$ 94,712,059	\$ 69,598,506	\$ 49,188,136

***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	\$ 52,570,440	\$ 69,598,506	\$ 91,448,840

**NOTE 5 – SUBSEQUENT EVENT**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and governmental entities and could adversely impact the Plan and its results of activities. It is not possible for the City to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Plan or results of activities at this time.

***Required Supplementary Information (Unaudited)***

**CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**

**Required Supplementary Information**  
**Fiscal Year Ended June 30, 2019**

**SCHEDULE OF CHANGES IN THE  
CITY'S NET OPEB LIABILITY AND RELATED RATIOS  
Last 10 Years<sup>1</sup>**

Fiscal Year	2019	2018	2017
<b>Total OPEB liability</b>			
Service Cost	\$ 5,293,290	\$ 5,126,000	\$ 5,288,000
Interest	11,532,851	10,946,724	10,076,000
Differences between Expected and Actual Experience	(15,810,851)	-	-
Changes of Assumptions	5,148,704	-	-
Benefit Payments	(7,211,618)	(7,249,724)	(6,927,000)
<b>Net change in Total OPEB Liability</b>	<b>(1,047,624)</b>	<b>8,823,000</b>	<b>8,437,000</b>
<b>Total OPEB Liability - Beginning</b>	<b>175,741,000</b>	<b>166,918,000</b>	<b>158,481,000</b>
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 174,693,376</b>	<b>\$ 175,741,000</b>	<b>\$ 166,918,000</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	12,048,370	11,332,886	11,170,000
Net Investment Income	6,472,434	6,736,501	7,487,775
Benefit Payments	(7,211,618)	(7,249,724)	(6,927,000)
Administrative Expense	(17,752)	(24,162)	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>11,291,434</b>	<b>10,795,501</b>	<b>11,730,775</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>93,803,436</b>	<b>83,007,935</b>	<b>71,277,160</b>
<b>Plan Fiduciary Net Position-Ending (b)</b>	<b>\$ 105,094,870</b>	<b>\$ 93,803,436</b>	<b>\$ 83,007,935</b>
<b>City's Net OPEB liability (a) - (b)</b>	<b>\$ 69,598,506</b>	<b>\$ 81,937,564</b>	<b>\$ 83,910,065</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	<b>60.2%</b>	<b>53.4%</b>	<b>49.7%</b>
<b>Covered-Employee Payroll (Contributions not based on measure of pay)</b>	<b>\$ 110,932,792</b>	<b>\$ 104,981,096</b>	<b>\$ 99,643,412</b>
<b>City's Net OPEB Liability as a Percentage of Covered-Employee Payroll</b>	<b>62.7%</b>	<b>78.0%</b>	<b>84.2%</b>

<sup>1</sup> 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.

Difference between Expected and Actual Experience: During 2019, 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, 2019

SCHEDULE OF CITY CONTRIBUTIONS									
Last 10 Years <sup>1</sup>									
Fiscal Year	2019 <sup>2</sup>	2018	2017	2016	2015	2014	2013	2012	2011 <sup>2</sup>
Actuarially Determined Contribution	\$ 11,818,000	\$ 11,460,000	\$ 9,463,000	\$ 7,937,000	\$ 9,758,000	\$ 9,471,000	\$ 9,298,000	\$ 9,024,000	\$ 14,108,000
Contributions in Relation to the Actuarially Determined Contribution	(12,048,370)	(11,332,886)	(11,170,000)	(9,824,000)	(10,150,000)	(9,000,000)	(9,971,000)	(8,620,000)	(36,742,000)
Contribution Deficiency (Excess)	<u>\$ (230,370)</u>	<u>\$ 127,114</u>	<u>\$ (1,707,000)</u>	<u>\$ (1,887,000)</u>	<u>\$ (392,000)</u>	<u>\$ 471,000</u>	<u>\$ (673,000)</u>	<u>\$ 404,000</u>	<u>\$ (22,634,000)</u>
<b>Covered-Employee Payroll</b>									
<b>(Contributions not based on measure of pay)</b>	\$ 110,932,792	\$ 104,981,096	\$ 99,643,412	\$ 87,488,023	\$ 86,273,294	\$ 86,131,436	\$ 83,622,754	\$ 84,699,137	\$ 86,955,245
<b>Contributions as a Percentage of Covered-Employee Payroll</b>	10.9%	10.8%	11.2%	11.2%	11.8%	10.4%	11.9%	10.2%	42.3%

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

<sup>2</sup> 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.

<sup>3</sup> The actuarial methods and assumptions used to determine the fiscal year 2019 employer contribution are as follows:

Valuation date	6/30/2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	6.50% (net of expenses)
Inflation	3.00%
Payroll Growth	3.25%, including inflation
Medical Trend	6.5% annually decreasing to 5.0% for retirees not eligible for Medicare. 6.7% annually decreasing to 5.0% for retirees eligible for Medicare.
Mortality	CalPERS 1997-2011 Experience Study. Mortality Improvement Scale MP-2014.



---

**CITY OF SUNNYVALE RETIREE HEALTHCARE PLAN**

---

*Required Supplementary Information, Concluded*  
*Fiscal Year Ended June 30, 2019*

---

**SCHEDULE OF INVESTMENT RETURNS**

**Last 10 Years<sup>1</sup>**

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2017	10.30%
2018	7.98%
2019	6.79%

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