

City of Duluth
Committee of the Whole Presentation
OPEB Update (Retiree Health Care)
Thursday, May 9, 2024



City Council Action Items

- May 9th Committee of the Whole with City Council
- May 13th First read of OPEB ordinance and resolution for letter of understanding with SBI
- May 28th second read of OPEB ordinance
- May 29th SBI begins the process of building the long-term investment ladder



Other Post-Employment Benefits (OPEB) History

- OPEB is the City's retiree health insurance obligation
- City is responsible for funding retiree insurance premiums
 - Those under 65 are covered by the same plan as active employees
 - Those over 65 are covered by a Medicare supplement
- Employees hired before 12/31/05 or 12/31/06 depending on bargaining unit are eligible for City funded retiree health insurance
- Majority of eligible retirees have 100% of premium paid for by City based on years of service



OPEB Trust History and Background

- Minnesota Statutes Section 353.95 passed into law in April of 2007 authorized the establishment of an irrevocable trust fund to fund and pay for post-employment benefits.
- The trust provides access to equity investments through the MN State Board of Investment that the City would otherwise be ineligible to invest in.
- Equity investments historically provide higher returns than other eligible City investments.
- In 2014 the City approved an ordinance that established a more structured approach to provide dedicated funding streams to the trust.



OPEB Trust Today

- Market value of trust was \$42M in November of 2014 when the current ordinance was approved
- Market value nearly doubled since 2018 (\$56M)
- Current balance is approximately \$110M



OPEB Trust Opportunity

- City contributions and market growth have produced a significant balance in the City's OPEB trust.
- Current interest rate environment is attractive to lock in yields using US Treasuries.
- City is able to protect the trust from market downturns while providing substantial investment income to fund OPEB obligations.
- The SBI is able to match investment maturities to withdrawal needs to provide a consistent funding stream.



Information Analysis for the Ordinance Change Decision

- City staff created an internal tool to project future retiree premium outflows.
- All current retirees and employees eligible for retiree healthcare were included in the projections using census data.
- City staff contracted with actuary to project future retiree premium outflows using City census data.
- Conservative assumptions were used throughout the actuarial projections.
- City provided OPEB projection tool and actuarial report to SBI for review.
- SBI “stressed” assumptions in the projections to determine if the trust balance could support the funding plan.
- SBI calculated projected yield for OPEB portfolio given current market rates.



	OPEB Trust Liquidity Needs Calculation			OPEB Trust Balance Projection					
	Projected Retiree Cost	City Cap	Amount Funded by OPEB Trust	OPEB Trust Beginning Balance	Int. Rate	Investment Earnings	Contributions to OPEB Trust	Withdrawal for Retiree Insurance	OPEB Trust Ending Balance
2024	10,496,641	3,500,000	6,996,641	110,000,000	4.55%	3,336,667	1,324,072	(6,996,641)	107,664,098
2025	10,662,128	3,500,000	7,162,128	107,664,098	4.55%	4,898,716	-	(7,162,128)	105,400,687
2026	10,850,740	3,500,000	7,350,740	105,400,687	4.55%	4,795,731	-	(7,350,740)	102,845,678
2027	11,105,187	3,500,000	7,605,187	102,845,678	4.55%	4,679,478	-	(7,605,187)	99,919,970
2028	11,421,718	3,500,000	7,921,718	99,919,970	4.55%	4,546,359	-	(7,921,718)	96,544,610
2029	11,732,280	3,500,000	8,232,280	96,544,610	4.55%	4,392,780	-	(8,232,280)	92,705,111
2030	11,849,858	3,500,000	8,349,858	92,705,111	4.55%	4,218,083	-	(8,349,858)	88,573,335
2031	11,983,435	3,500,000	8,483,435	88,573,335	4.55%	4,030,087	-	(8,483,435)	84,119,987
2032	12,139,402	3,500,000	8,639,402	84,119,987	4.55%	3,827,459	-	(8,639,402)	79,308,045
2033	12,025,748	3,500,000	8,525,748	79,308,045	4.55%	3,608,516	-	(8,525,748)	74,390,813
2034	11,847,098	3,500,000	8,347,098	74,390,813	4.55%	3,384,782	-	(8,347,098)	69,428,498
2035	11,636,491	3,500,000	8,136,491	69,428,498	4.55%	3,158,997	-	(8,136,491)	64,451,004
2036	11,302,317	3,500,000	7,802,317	64,451,004	4.55%	2,932,521	-	(7,802,317)	59,581,208
2037	10,933,169	3,500,000	7,433,169	59,581,208	4.55%	2,710,945	-	(7,433,169)	54,858,984
2038	10,505,696	3,500,000	7,005,696	54,858,984	4.55%	2,496,084	-	(7,005,696)	50,349,372
2039	9,951,197	3,500,000	6,451,197	50,349,372	4.55%	2,290,896	-	(6,451,197)	46,189,072
2040	9,329,996	3,500,000	5,829,996	46,189,072	4.55%	2,101,603	-	(5,829,996)	42,460,679
2041	8,731,081	3,500,000	5,231,081	42,460,679	4.55%	1,931,961	-	(5,231,081)	39,161,559
2042	8,267,652	3,500,000	4,767,652	39,161,559	4.55%	1,781,851	-	(4,767,652)	36,175,757
2043	7,569,029	3,500,000	4,069,029	36,175,757	4.55%	1,645,997	-	(4,069,029)	33,752,725
2044	7,037,869	3,500,000	3,537,869	33,752,725	4.55%	1,535,749	-	(3,537,869)	31,750,605
2045	6,587,351	3,500,000	3,087,351	31,750,605	4.55%	1,444,653	-	(3,087,351)	30,107,907
2046	6,170,375	3,500,000	2,670,375	30,107,907	4.55%	1,369,910	-	(2,670,375)	28,807,442
2047	5,999,607	3,500,000	2,499,607	28,807,442	4.55%	1,310,739	-	(2,499,607)	27,618,574
2048	5,737,722	3,500,000	2,237,722	27,618,574	4.55%	1,256,645	-	(2,237,722)	26,637,497
2049	5,571,972	3,500,000	2,071,972	26,637,497	4.55%	1,212,006	-	(2,071,972)	25,777,532
2050	5,383,199	3,500,000	1,883,199	25,777,532	4.55%	1,172,878	-	(1,883,199)	25,067,211
2051	5,183,600	3,500,000	1,683,600	25,067,211	4.55%	1,140,558	-	(1,683,600)	24,524,169
2052	4,985,725	3,500,000	1,485,725	24,524,169	4.55%	1,115,850	-	(1,485,725)	24,154,294
2053	4,747,994	3,500,000	1,247,994	24,154,294	4.55%	1,099,020	-	(1,247,994)	24,005,321
2054	4,503,008	3,500,000	1,003,008	24,005,321	4.55%	1,092,242	-	(1,003,008)	24,094,555
2055	4,302,664	3,500,000	802,664	24,094,555	4.55%	1,096,302	-	(802,664)	24,388,194
2056	4,099,464	3,500,000	599,464	24,388,194	4.55%	1,109,663	-	(599,464)	24,898,393
2057	3,846,975	3,500,000	346,975	24,898,393	4.55%	1,132,877	-	(346,975)	25,684,296
2058	3,587,515	3,500,000	87,515	25,684,296	4.55%	1,168,635	-	(87,515)	26,765,416
2059	3,346,398	3,500,000	-	26,765,416	4.55%	1,217,826	-	-	27,983,242
2060	3,106,990	3,500,000	-	27,983,242	4.55%	1,273,238	-	-	29,256,480
2061	2,845,769	3,500,000	-	29,256,480	4.55%	1,331,170	-	-	30,587,650
2062	2,580,394	3,500,000	-	30,587,650	4.55%	1,391,738	-	-	31,979,388
2063	2,332,534	3,500,000	-	31,979,388	4.55%	1,455,062	-	-	33,434,450
2064	2,112,218	3,500,000	-	33,434,450	4.55%	1,521,267	-	-	34,955,717
2065	1,910,815	3,500,000	-	34,955,717	4.55%	1,590,485	-	-	36,546,203
2066	1,707,622	3,500,000	-	36,546,203	4.55%	1,662,852	-	-	38,209,055
2067	1,507,273	3,500,000	-	38,209,055	4.55%	1,738,512	-	-	39,947,567
2068	1,322,498	3,500,000	-	39,947,567	4.55%	1,817,614	-	-	41,765,181
2069	1,151,815	3,500,000	-	41,765,181	4.55%	1,900,316	-	-	43,665,497
2070	999,265	3,500,000	-	43,665,497	4.55%	1,986,780	-	-	45,652,277
2071	864,642	3,500,000	-	45,652,277	4.55%	2,077,179	-	-	47,729,456



City of Duluth
Other Post Employment Benefit (OPEB) Laddered Bond Discussion
May 9, 2024

Andy Christensen | Deputy Executive Director
Aaron Griga | Fixed Income Director

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Board composition is set in Article XI of Minnesota Constitution

Constitutional Members of the State Board

- Governor Tim Walz
- State Auditor Julie Blaha
- Secretary of State Steve Simon
- Attorney General Keith Ellison

Assisted by 17-member Investment Advisory Council (IAC)

- 10 experienced investment professionals
- Executive directors of statewide retirement plans
- Commissioner of Minnesota Management & Budget
- Two active members and one retired member appointed by the governor

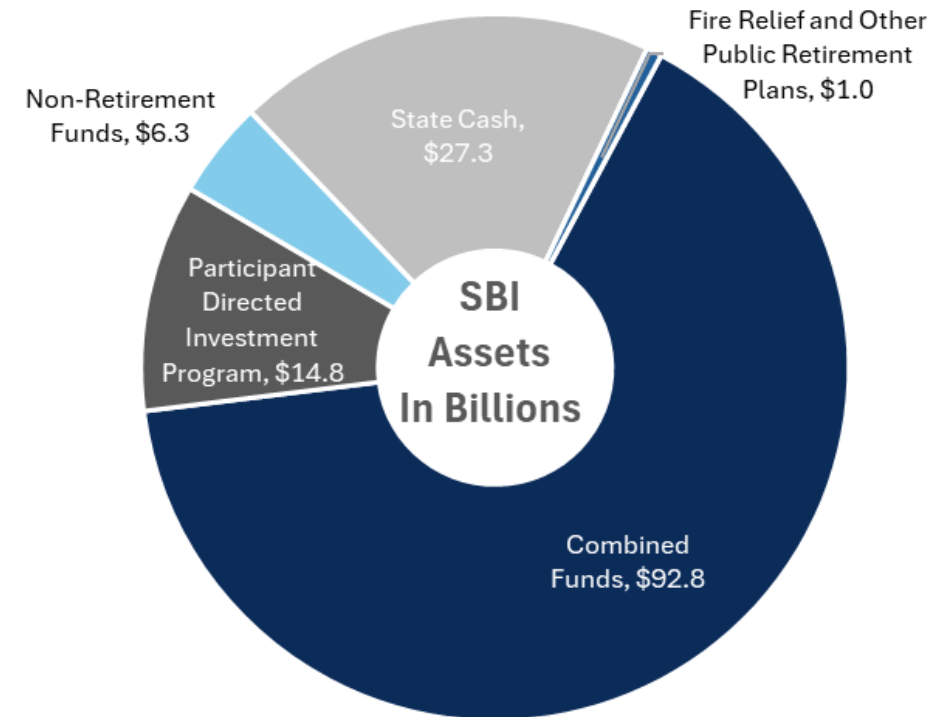
SBI Funds Under Management – Total Assets

As of March 31, 2024



- Total assets under management with the SBI: **\$142.1 billion**
- Non-Retirement assets under management: **\$6.3 billion**
 - 22 Other Post Employment Benefits (OPEB) accounts
 - 19 Trust accounts
 - 3 Qualifying Governmental Entity accounts
- Breakdown of Assets by Non-Retirement Investment option:

○ Equity Fund (Mellon Capital)	\$3,475.2 million
○ Fixed Income Fund (PGIM)	\$1,768.1 million
○ Money Market Fund (SSGA)	\$740.6 million
○ Other Options ¹	<u>\$334.3 million</u>
	\$6,318.2 million



- ¹Other Options include the Assigned Risk Plan Fixed Income Portfolio \$214 million and the Met Council Laddered Bond Portfolio \$120 million, which are separate accounts managed for a specific Non-Retirement client.
- Participant Directed Investment Programs include the Deferred Compensation Plan, Unclassified Plan, Health Care Savings Plan, Hennepin County Supplemental Retirement Plan, Minnesota College Savings Plan, and the Minnesota Achieving a Better Life Experience (ABLE) Plan.
- Non-retirement funds include State Trust Funds, Other Post Employment Benefits Accounts (OPEB), and Qualifying Governmental Entities.

Roles and Responsibilities



Guided by a mutually agreed upon Statement of Understanding

- **City of Duluth (City)**
 - Responsible for determining the asset allocation and the liabilities for the Other Post Employment Benefits (OPEB) account. Additionally, for initiation of OPEB transactions including deposits, withdrawals, and transfers.
 - Provide initial and ongoing annual cash flow projections and timing of withdrawals.
- **SBI**
 - Establish the separate account and manage the separate account in accordance with Minn. Stat. §11A.24, investment guidelines, and the cash flow projections received from the City.
 - The SBI and the City will work together to meet the City's investment accounting and reporting needs as can be provided within SBI's available resources.
 - On an annual basis the SBI will review with the City: a review of investment performance, compliance to the investment guidelines, discussion items presented by the City or SBI, and an overview of expenses.
- **Public Employees Retirement Association (PERA)** will remain as the OPEB account administrator.

Laddered Bond Portfolio



- Investments in US Government Securities
- Maturities and amounts matched to annual payment projections of the trust.
- Closely matching liabilities to assets significantly reduces shortfall risk.
- 30 maturity rungs matched to annual payments.
- Cumulative expected payments beyond 30 years initially invested in 30-year security.
- Annual adjustments to ladder based on updated actuarial projections.
- Yield assumption based on prevailing fixed rate yields on US Treasuries securities.





Andy Christensen

Mr. Christensen is Deputy Executive Director of the Minnesota State Board of Investment, where he assists the Executive Director & CIO in the management of the agency. Prior experience includes serving as Director of Private Markets for GHR Foundation from 2017 to 2019, Director of Private Markets for Carleton College from 2008 to 2017, Portfolio Manager of Alternative Investments for the Minnesota State Board of Investment from 1999 to 2008, and Investment Analyst for Ameriprise Financial from 1995 to 1999. Andy has earned a B.S. in Economics from the University of Minnesota, an M.B.A. in Finance from the Carlson School of Management, University of Minnesota, and has achieved the Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) designations.

Aaron Griga

Mr. Griga is the Director of Fixed Income for the Minnesota State Board of Investment, where he oversees strategy, management and due diligence of SBI's external fixed income programs, as well as leading the team responsible for the SBI's internally managed fixed income portfolios. Prior to joining the SBI in 2011, Mr. Griga worked as a credit analyst for Thrivent Financial for Lutherans in Minneapolis. Aaron has earned a B.S. in Business and an M.B.A. in Finance from the Carlson School of Management, University of Minnesota, and has achieved the Chartered Financial Analyst (CFA) and Certificate in Investment Performance Measurement (CIPM) designations.



Disclaimer

Investing in funds or securities involves risk, including possible loss of principal.

- All figures, results and opinions expressed herein are for informational purposes only and do not constitute investment advice.
- Any historical returns or return expectations are not representative of future returns. Past performance does not guarantee future results.
- While the models utilized to produce this report are believed to be accurate, both the inputs and outputs subject to error and should not be relied upon as the basis for any investment decision.
- All data provided are current as of the date listed and are subject to change without notice.

City Plan

Retiree Medical Savings

2024 General Fund Budgeted Retiree Medical: \$7.6M

2024 General Fund Proposed Retiree Medical: \$3.1M (~88% of claims are GF ~12% other funds)

Proposed Annual General Fund Retiree Medical Savings: \$4.5M

The City will repurpose the annual savings to fund the long awaited consolidated maintenance facility

Alignment with Mayor's Priorities:

Core Services

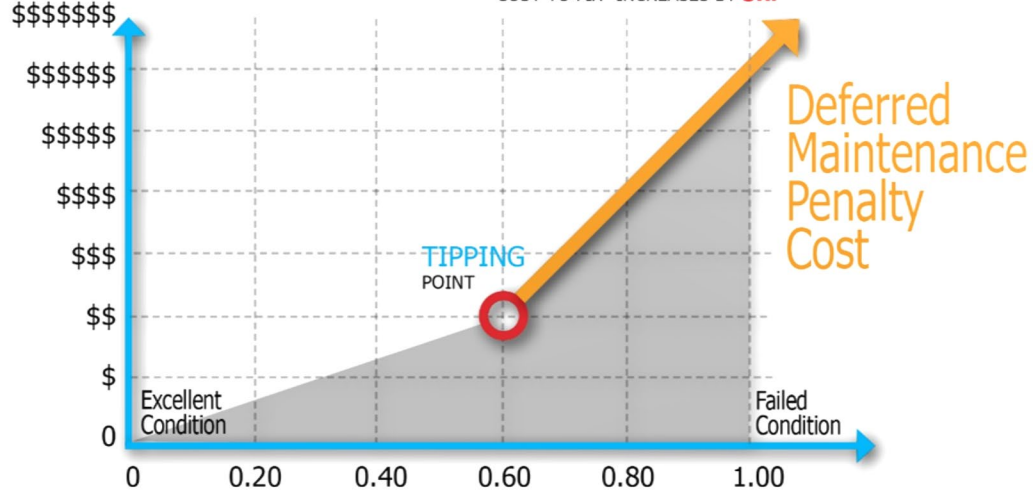
Streets and Utilities

Affordable Property Taxes



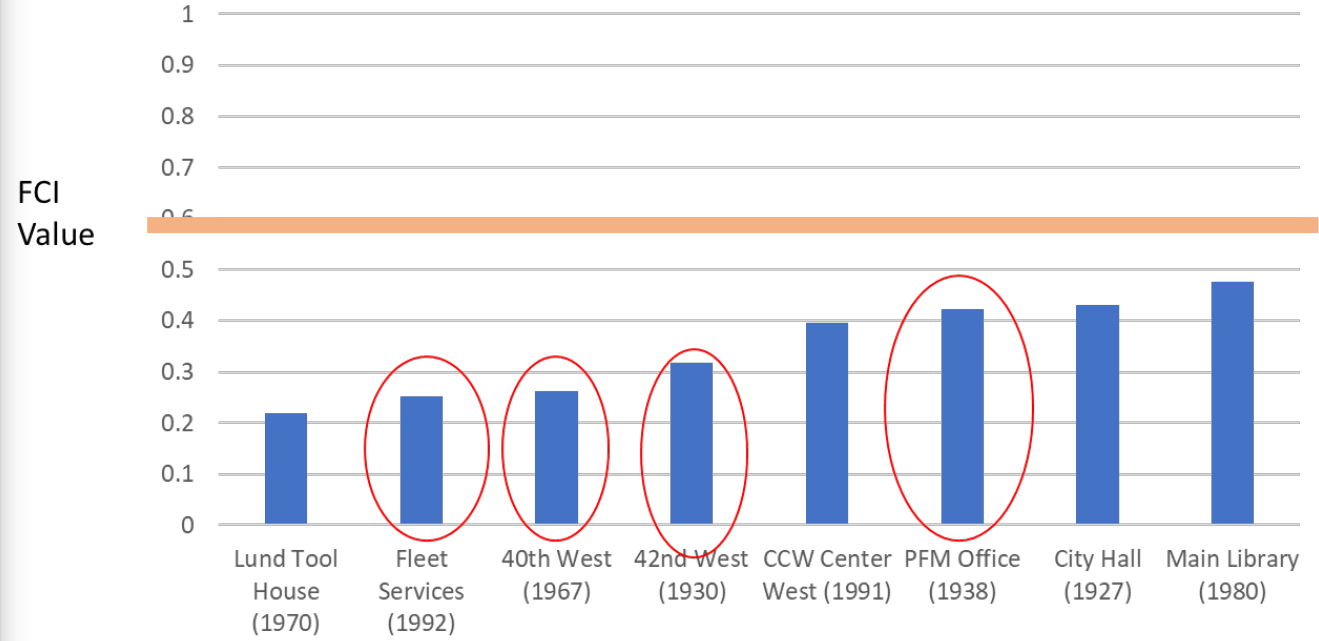
LINE of DOOM

ONCE THE ASSET REACHES A FACILITY CONDITION INDEX OF **0.60** THE "COST TO FIX" INCREASES BY **5x**.



FACILITY
CONDITION
INDEX (FCI)

FCI of CIP Eligible Buildings



Current Facilities



Fleet Building Challenges

4825 Mike Colalillo Dr



- Building built in 1992
- Deferred maintenance backlog - \$1.3m
- Estimated cost to rebuild at same inadequate size - \$10 - \$12m
- Daily back and forth of vehicles being serviced
- Each trip to fleet requires two people
- Conditions are often too constrained for people and equipment – 23,548 sf
- No inside storage - vehicles are stored outdoors. Lost time for moving vehicles in and out is ~1 hour each day.
- Considerable double and triple handling – one vehicle has to be moved to access another
- Failing equipment including lifts
- Fuel is not stored on site so operators use gas stations - bulk fueling would save time
- Difficult/impossible to thoroughly clean all vehicles. No wash bays to extend the life of vehicles – including plow trucks
- Current design does not allow for small engine maintenance strategy
- There is not enough exterior parking
- Organizational structure is not as streamlined as it could be
- A new building would enhance working conditions and air quality

Street Maintenance Building Challenges

105 N 40th Ave W



- Building built in 1967
- Estimated cost to rebuild at inadequate size - \$11 - \$12m
- Inadequate indoor storage for equipment – 25,380 sf
- Equipment sits outside year-round and reduces the life of the equipment and its trade-in value
- Age and condition of equipment results in frequent break-downs
- Inadequate yard space – 2.5 acres
- Currently the streets division is split into four separate locations leading to inefficient and redundant efforts

Park Maintenance Building Challenges

110 N 42nd Ave W



- Building built in 1930 original, 1975 addition
- Deferred maintenance backlog - \$1.4m
- Estimated cost to rebuild at same inadequate size - \$5 - \$6m
- This building is at the end of its life cycle and has significant structural issues
- Grossly inadequate indoor storage for equipment – 11,788 sf
- Equipment sits outside year-round and reduces the life of the equipment and its trade-in value
- Inadequate yard space – 2.5 acres

Facilities Building Challenges

1532 W Michigan St



- Building built in 1938
- Estimated cost to rebuild - \$16 - \$17m
- Inadequate indoor space for storage of vehicles and equipment - 36,237 sf
- Building shared by PFM, Traffic Signals, and Radio Shop
- Inadequate yard space – 2 acres

Street Maintenance Leased Facility from MNDOT

1123 Mesaba Ave

- 29,660 sq ft
- Estimated cost to build \$14m
- Main shop, lunchroom, office, brine tank shed, cold storage, cold mix storage, salt shed, sign shed cold storage, sweeper broom cold storage
- \$45k paid to MNDot annually for utilities in leased space
- Lease expires in 2027



Benefits of a Consolidated Facility

- *This would result in improved service levels across the city.*
- *Staff would be more efficient and effective with their daily operations.*
- *There would be improved communication and cooperation between departments.*
- *There would be more sharing of equipment and less purchasing of specialized equipment.*
- *Health and safety would be improved, in sometime cases considerably.*
- *There would be a higher level of worker satisfaction.*
- *There would be a more efficient use of energy and natural resources.*
- *The fleet would retain a higher value over a longer period of time.*
- *Long term building maintenance, repairs and replacements would be greatly diminished.*
- *Environmentally, a new facility would noticeably improve site conditions and storm water quality.*

Comprehensive Facilities Consolidation
Study, Oertel Architects, Ltd



RECOMMENDATIONS

The following are the key items, listed in no particular order:

1. Store all diesel trucks and readily used smaller trucks indoors, heated or unheated, as applicable.
2. Provide an easy to use, effective, and available truck wash system for the fleet.
3. Provide adequate parking bays of a size to allow for all attached equipment and access.
4. Eliminate or reduce the amount of double and triple handling.
5. Add more daylighting for staff well-being and enjoyment and to reduce artificial lighting.
6. Provide or upgrade HVAC systems to improve air quality and health conditions at all buildings.
7. Provide controls and building systems to reduce energy consumption.
8. Consider a city-owned central fueling system.
9. Provide a more sophisticated brine making system and storage system.
10. Retain the two remote shops and use these for just the limited east/west routes and lands.
11. Provide adequately covered salt storage with ample area for mixed loads
12. Provide dedicated heavy duty storage bins, protected from snow and rain.
13. Provide for state-of-the-art technology.
14. Eliminate distance between departments by combining all departments into one new state-of-the-art facility, including the following:
 - Combining Facilities, Parks, Streets and Maintenance into one new facility.
 - Retaining the Lund site and the tree farm site, using these only for the outmost plow routes, mainly winter operations.
 - Upgrading and repairing the Lund site building, providing an adequate salt storage and making other minor improvements.
 - Selling off the properties at the existing three sites to help cover costs of a new facility.



Consolidated Maintenance Facility

- Replacement Costs:
 - Fleet building \$12 million (2.16% levy increase)
 - Street maintenance building \$12 million (2.16% levy increase)
 - Park maintenance building \$6 million (1.08% levy increase)
 - Facilities building \$17 million (3.06% levy increase)
 - Street maintenance new build for leased space from MNDot \$14 million (2.52% levy increase)
 - **TOTAL building replacement costs assuming same size and locations \$61 million**
 - **MINIMUM debt levy required 10.98%**
- Operational Benefits:
 - Adequate space
 - Indoor storage for vehicles and equipment
 - Safe equipment and facilities for staff
 - Improved coordination between departments
 - Improved work planning
 - Central supply and purchasing
 - On-site, centrally located fleet maintenance
 - Reduction in numbers of each type of vehicle and equipment needed
 - Central tool room
 - Wash bays
 - Bulk fuel
 - Currently the City leases space from MNDot for street maintenance. MNDot is selling the building. The consolidated facility will alleviate the need for another street maintenance facility to replace the leased space.



Questions?