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December 23, 2013

Ms. Donna Mitchell
Controller/Treasurer
City of Dover
5 E. Reed Street
Weyandt Hall, Suite 300
Dover, DE 19901

Re: Interim Valuation Reports for Fiscal Year Ending June 30, 2014

Dear Donna:

Enclosed are the results of the interim actuarial valuations for the General Employee Pension Plan, Police Pension Plan and the Other Postemployment Benefit (OPEB) Plan for the fiscal year ending June 30, 2014 for the City of Dover, Delaware. These results are based on our understanding of the funding policy of the City and provide the necessary financial statement information in accordance with GASB 27 and 45.

This analysis does not reflect the new accounting standards for pension plans, GASB Statements 67 and 68. These new standards will replace GASB Statements 25 and 27. At this point, there is no change to GASB 43 and 45 for retiree medical plans. GASB 67 is effective for fiscal years beginning after June 15, 2013, which is the fiscal year ending June 30, 2014 for the City of Dover. In the coming months, we will provide information on the new disclosures.

The results for each of the plans are based on projecting the liabilities from the July 1, 2012 actuarial valuations for one year using a roll-forward method, assuming no liability gains or losses. The normal cost rate was assumed to remain unchanged at 4.60% for the General Employee Pension Plan.

In addition, for purposes of the GASB 45 accounting liabilities, the liabilities reflect a change in the discount rate from 5.25% to 5.60% to reflect the fact that the fiscal year ending June 30, 2014 is the sixth year of the City's 10-year phase-in to full funding the Annual Required Contribution.

Actual asset experience during the year ending June 30, 2013 was reflected and for the General Employee Pension Plan, the actuarial value of assets was developed in accordance with the asset valuation method. For purposes of allocating assets among

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the different internal funds of the City (General Fund, Water Fund, and Electric Fund), we have modified the method used for the General Employee Pension Plan to be consistent with the method utilized for the OPEB plan. For the OPEB plan, assets by Fund were developed based on contributions, disbursements and investment income attributed to each internal fund during the fiscal year ending June 30, 2013. This same approach was used for the General Employee Pension Plan due to the large disparity of contributions made by each Fund. Previously, assets in the General Employee Pension Plan, was allocated such that the funded ratio for each of the funds was set to the funded ratio for the plan in total.

The attached exhibits display the results for each of the plans.

This analysis is based on the census data, plan provisions and actuarial assumptions and methods used in the July 1, 2012 Actuarial Valuations, except as noted above, dated July 12, 2013 for the OPEB plan and January 10, 2013 for the pension plans. Please refer to these reports for more information.

Future actuarial measurements may differ significantly from the current measurements presented in this analysis due to actual plan experience deviating from the actuarial assumptions, and changes in plan provisions, actuarial assumptions, and applicable law. An assessment of the potential range and cost effect of such differences is beyond the scope of this analysis.

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The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

Ms. Donna Mitchell
December 23, 2013
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I am a member of the American Academy of Actuaries and meet its qualification standards to render this actuarial opinion.

Sincerely,



Scott Porter, FSA

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CC: Beth Lehman – SB Company, LLC 200 International Circle, Suite 5500 Hunt Valley, Maryland 21030

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CITY OF DOVER, DELAWARE

Interim Actuarial Valuation

FISCAL YEAR ENDING JUNE 30, 2014

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CITY OF DOVER, DELAWARE

**Other Postemployment Benefit
GASB 45 Interim Actuarial Valuation**

FISCAL YEAR ENDING JUNE 30, 2014

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CITY OF DOVER, DELAWARE

Other Postemployment Benefit GASB 45 Actuarial Valuation

Market Value of OPEB Trust Fund Assets as of June 30, 2013

Assets		
Operating Account	\$224,755	
Wells Fargo Cash Fund	267,689	
American New Perspective Fund	705,468	
American Washington Mutual Investors	1,487,579	
Harding Loevner Global Equity	678,507	
Target Small Capitalization Value Portfolio	731,868	
Vanguard Mid Cap Value Index Fund	736,659	
Vanguard Emerging Markets Index Fund	1,838,036	
Vanguard Growth Index Fund	1,433,999	
Vanguard REIT Index Fund	688,882	
PIMCO Total Return Fund	714,649	
PIMCO Long Duration	1,371,317	
Vanguard Inflation Protected Fund	249,628	
Vanguard Long Term Bond Index Fund	1,381,094	
Vanguard Total Bond Market Index	722,890	
Vanguard Short Term Bond Index Fund	<u>401,046</u>	
Total		\$13,634,066
Liabilities		
Accounts payable	<u>(6,843)</u>	
Total		<u>(6,843)</u>
Net Assets in OPEB Trust Fund		\$13,627,223

Allocation of Market Value by Fund as of June 30, 2013

General Fund	\$6,667,682
Water/Wastewater Fund	1,324,077
Electric Fund	<u>5,635,464</u>
Total Assets in OPEB Trust Fund	\$13,627,223

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CITY OF DOVER, DELAWARE

Other Postemployment Benefit GASB 45 Actuarial Valuation

Change in Market Value of OPEB Trust Fund Assets

Market Value of Assets as of June 30, 2012		\$10,913,172
Income		
City's contribution	3,941,035	
Net Investment income	<u>807,572</u>	
Total		4,748,607
Disbursements		
Benefit payments	(2,027,056)	
Administrative Expenses	<u>(7,500)</u>	
Total		<u>(2,034,556)</u>
Net increase/ (decrease)		2,714,051
Market Value of Assets as of June 30, 2013		\$13,627,223
Estimated rate of return		6.81%

Estimated Historical Rates of Return

<u>Fiscal Year Ending</u>	<u>Market Value</u>
June 30, 2013	6.81%
June 30, 2012	2.67%
June 30, 2011	15.57%
June 30, 2010	2.16%
4 - Year Average	6.67%

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CITY OF DOVER, DELAWARE

Other Postemployment Benefit GASB 45 Actuarial Valuation

Funding Policy Contribution for Fiscal Year Ending June 30, 2014

	(110) General <u>Fund</u>	(412) Water <u>Fund</u>	(480) Electric <u>Fund</u>	<u>Total</u>
Actuarial Accrued Liability	\$40,800,000	\$3,845,000	\$11,995,000	\$56,640,000
Market Value of Assets	<u>6,667,682</u>	<u>1,324,077</u>	<u>5,635,464</u>	<u>13,627,223</u>
Unfunded Liability	34,132,318	2,520,923	6,359,536	43,012,777
Funded Ratio	16.3%	34.4%	47.0%	24.1%
Normal Cost	\$1,166,000	\$78,000	\$101,000	\$1,345,000
Amortization Payment	2,570,655	189,862	478,965	3,239,482
Interest at 7.00%	<u>261,566</u>	<u>18,750</u>	<u>40,598</u>	<u>320,914</u>
Full Funding Contribution	3,998,221	286,612	620,563	4,905,396
Estimated Claim Payments	\$1,450,000	\$184,000	\$627,000	\$2,261,000
Funding Policy Contribution	<u>1,528,933</u>	<u>61,567</u>	<u>-</u>	<u>1,590,500</u>
Total Expected Contribution	2,978,933	245,567	627,000	3,851,500

Funding Policy is to phase-in to full funding of the ARC over 10 years. The ARC is based on the ultimate discount rate of 7%. Fiscal Year 2014 is the sixth year of the phase-in. The Funding Policy contribution is equal to 60% of the difference between the ARC and the estimated pay-as-you-go payments. The ARC is based on a 30-year amortization (open) of the unfunded liability.

CITY OF DOVER, DELAWARE

Other Postemployment Benefit GASB 45 Actuarial Valuation

Annual Required Contribution For Fiscal Year Ending June 30, 2014

	(110) General Fund	(412) Water Fund	(480) Electric Fund	Total
Actuarial Accrued Liability	\$51,277,000	\$4,700,000	\$14,437,000	\$70,414,000
Market Value of Assets	<u>6,667,682</u>	<u>1,324,077</u>	<u>5,635,464</u>	<u>13,627,223</u>
Unfunded Liability	44,609,318	3,375,923	8,801,536	56,786,777
Normal Cost	\$1,647,000	\$106,000	\$139,000	\$1,892,000
Amortization Payment	2,938,769	222,399	579,827	3,740,995
Interest at 5.60%	<u>256,803</u>	<u>18,390</u>	<u>40,254</u>	<u>315,447</u>
Annual Required Contribution	4,842,572	346,789	759,081	5,948,442

Annual OPEB Cost For Fiscal Year Ending June 30, 2014

Net OPEB Obligation BOY	\$13,132,434	\$465,157	(\$1,126,787)	\$12,470,804
Annual Required Contribution	4,842,572	346,789	759,081	5,948,442
Interest on Net OPEB Obligation	735,416	26,049	(63,100)	698,365
Adjustment to ARC	<u>(913,585)</u>	<u>(32,360)</u>	<u>78,387</u>	<u>(867,558)</u>
Annual OPEB Cost	4,664,403	340,478	774,368	5,779,249

The ARC is based on a discount rate of 5.6% and a 30-year amortization (open) of the unfunded liability.

CITY OF DOVER, DELAWARE

Other Postemployment Benefit GASB 45 Actuarial Valuation

Estimated Net OPEB Obligation as of June 30, 2014

	(110) General <u>Fund</u>	(412) Water <u>Fund</u>	(480) Electric <u>Fund</u>	<u>Total</u>
Net OPEB Obligation BOY	\$13,132,434	\$465,157	(\$1,126,787)	\$12,470,804
Annual OPEB Cost	4,664,403	340,478	774,368	5,779,249
Actual Contributions	<u>2,978,933</u>	<u>245,567</u>	<u>627,000</u>	<u>3,851,500</u>
Expense Difference	1,685,470	94,911	147,368	1,927,749
Net OPEB Obligation EOY	14,817,904	560,068	(979,419)	14,398,553

The Net OPEB Obligation as of June 30, 2014 assumes contributions will equal the Funding Policy Contribution for the 2014 fiscal year.

Final Net OPEB Obligation as of June 30, 2013

	(110) General <u>Fund</u>	(412) Water <u>Fund</u>	(480) Electric <u>Fund</u>	<u>Total</u>
Net OPEB Obligation BOY	\$11,150,538	\$416,191	(\$1,103,007)	\$10,463,722
Annual OPEB Cost	4,767,099	355,274	825,744	5,948,117
Actual Contributions	<u>2,785,203</u>	<u>306,308</u>	<u>849,524</u>	<u>3,941,035</u>
Expense Difference	1,981,896	48,966	(23,780)	2,007,082
Net OPEB Obligation EOY	13,132,434	465,157	(1,126,787)	12,470,804

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CITY OF DOVER, DELAWARE

Other Postemployment Benefit GASB 45 Actuarial Valuation

Schedule of Funding Progress

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAL as a % of Covered Payroll</u>
7/1/2012	\$10,913,172	\$71,021,484	\$60,108,312	15.4%	\$17,335,618	346.7%
7/1/2010	4,882,375	83,518,121	78,635,746	5.8%	18,292,104	429.9%
7/1/2008	0	64,297,063	64,297,063	0.0%	18,162,177	354.0%

Schedule of Employer Contributions

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Total Contributions</u>	<u>% of OPEB Cost Contributed</u>
6/30/2014 *	\$5,779,249	\$3,851,500	66.6%
6/30/2013	5,948,117	3,941,035	66.3%
6/30/2012	7,528,602	5,645,311	75.0%

* Contributions for fiscal year 2014 are estimated to equal the Funding Policy Contribution for the year

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