Napa County Mosquito Abatement District
Ad-Hoc Finance Committee Report
February 14, 2018

Revenues, Expenses, Infrastructure, Salaries and Benefits Review

Introduction

Napa County Mosquito Abatement District (NCMAD) is bordered by Lake, Solano, Sonoma and Yolo Counties, each with their own vector control agency. The District is also a member of the Mosquito and Vector Control Association of California (MVCAC) north coast region which consists of 10 vector management agencies.

NCMAD, like most government agencies, has experienced many changes and challenges. Proposition 13, which was passed by the voters in 1978, resulted in an immediate 30% reduction in staffing. Subsequently, tight budgets and budget shortfalls occurred throughout the 1980's. The 1990's saw changes to the District's administration as well as the District's Board recognizing the need to address the District's funding, staffing, services provided, and environmental impact issues. In 1999 the District completed an analysis of its integrated mosquito management program and approved an Environmental Quality Act (CEQA) Mitigated Negative Declaration. March 12, 2001 the ninth circuit court of appeals decided the Headwaters Inc. v. Talent Irrigation District case, reversing a lower district court decision. The ninth circuit court decision determined that a Clean Water Act (CWA) NPDES permit was required to apply pesticides with an EPA-approved label under FIFRA (Federal Insecticide Fungicide Rodenticide Act) to waters of the United States. This decision significantly changed the District's operations and reporting requirements, adding both increased workload and costs. The years 2001 through 2003 saw the financial markets negatively affected by the dot com losses and 9/11 which significantly increased the District's pension contribution rate in subsequent years. In 2002 the District was relocated from Napa to American Canyon as a result of the Napa River Restoration Project. West Nile Virus, first detected in New York in 1999, was detected in six southern California counties in 2003 and Napa County in 2004. Common mosquito species that were historically viewed as pests (e.g. Southern House Mosquito, Foul Water Mosquito, and Tule Mosquito) were now vectors of West Nile Virus and required greater control effort. In 2003 a benefit assessment was passed by 67.8% of the vote. This assessment allowed the District to hire three additional vector control techs, a scientist, provide yellowjacket control services, and upgrade its existing mosquito management and disease surveillance program. The years 2008 and 2009 saw significant losses in the financial markets mostly due to the subprime mortgage crisis and collapse of the real estate market. This downturn, whose effects continued through 2012, resulted in a decrease in revenues as well as increased District costs due to numerous abandoned and foreclosed properties that developed vector control issues. Starting in 2009, pension and post-employment benefits costs became significant issues of public concern with various initiatives and legislative bills being proposed in an effort to manage current and future costs. The Public Employees' Pension Reform Act (PEPRA) was passed in 2012. This act changed the way CalPERS retirement and health benefits are now applied, and placed compensation limits on its members. Changes in retirement age, benefit formulas, purchasing of service credit, and contribution rates, especially for newly hired employees, were some of the changes enacted. PEPRA also created two participating member groups, Classic or those employed and participating in CalPERS prior to 2013, and PEPRA those that become participating members in the CalPERS retirement program starting January 1, 2013. In 2015, the District completed a review of the potential environmental impacts of its integrated vector management program which included yellowjackets, rodents, and ticks as well as mosquitoes. The programmatic environmental impact report (PEIR) findings were adopted on October 14, 2015. It should be noted this short summary is only a partial list of the challenges and changes NCMAD has experienced and is provided to help illustrate the required evolution of the District and its programs.

The purpose of this report is to bring forward information and potential concerns that will aid in future District discussions and planning, especially with respect to sustainability, cost-effective quality programs, and financial health. The ability to adapt physically and financially to constant change continues to be an important concern of the District's governing Board. Additional concerns include but are not limited to the: 1) ability to effectively adapt to the public's increased demand for services; 2) ability to adapt to public's demand for environmentally friendly vector management strategies; 3) ability to adapt to changing regulatory requirements; 4) public's demand to manage overall costs; 5) ability to sustain current levels of service in the future; 6) impacts of current decisions on the District's future financial health; 7) and, impacts of both short- and long-term District commitments.

Because finance is a significant part of the District's planning process, a salary and benefits comparison was also performed with the following 11 District's; Alameda County MAD, Contra Costa County MVCD, Lake County VCD, Marin-Sonoma MVCD, Napa County MAD, Northern Salinas Valley MAD, Sacramento-Yolo MVCD, San Mateo County MVCD, Santa Clara County VCD, Santa Cruz County MVCD and Solano County MAD. This comparison, used, when available, the most recent general information, financial data, and salaries and benefits.

District Revenues

The District is funded by a combination of ad valorem property taxes (56.1%), a benefit assessment (40.9%) and contracts (3%). Ad valorem taxes consists mostly of property taxes secured (buildings and land), property taxes unsecured (planes, boats, etc.), and supplemental property taxes (changes due to new construction or ownership). NCMAD participates in the County's Teeter Plan method of ad valorem tax distribution. The Teeter Plan allows the County of Napa to finance property tax receipts for local agencies. The County advances cash to each taxing jurisdiction in an amount equal to the current year's delinquent property taxes. In exchange, the County receives the penalties and interest on any delinquent taxes collected. Ad valorem property taxes are remitted to the District as follows: 55 percent in December, 40 percent in April, and 5 percent at the end of the fiscal year. The benefit assessment is a levy on properties that benefit from the proposed vector control services being financed. Initial implementation of an assessment requires a minimum of 66.7% of the votes cast by property owners be in favor in order to pass and then be levied. The District's assessment passed with 67.8% of the votes and was certified on July 9, 2003. It should be noted that all government and special district properties are exempt from paying the ad valorem tax and benefit assessment, and that some of these properties (e.g. tidal marshes, seasonal wetlands, storm water management systems) require significant expenditure of District resources for vector management.

District Infrastructure, Staffing, and Growth

The District's infrastructural needs have continually changed and at times also been challenging. From its inception until 1955, the District operated out of the manager's house, used the manager's garage to store equipment and supplies, and sometimes used an office space provided by the County. In 1955, the District leased land from the Napa Sanitation District and constructed an 1800 square foot metal building. Operations were conducted from this space until the District relocated to American Canyon in 2002. On December 1, 2004, the District purchased approximately 0.6 acres and constructed and moved into its current facility which consists of an 1800 square foot administration building with laboratory, two shop buildings to store and maintain equipment, a 240 square foot pesticide shed, and two covered car ports. The total approximate cost of the current facility was $1.6 million dollars at the time of construction and is now insured at replacement cost of $4.1 million dollars.

District staffing levels have varied. From the District's inception until late 1947, the District had one full-time employee and utilized temporary seasonal labor including the manager's wife and laborers released for the day from the County jail. In 1948 the District hired a full-time field staff person to work with the District Manager. By the early 1960's District staffing had changed and now encompassed one manager, two full-time field technicians, and seasonal labor as needed. The 1970's saw staffing levels that included one manager, one full-time secretary, four field technicians, and seasonal labor as needed. The passage of proposition 13 on June 6, 1978 significantly reduced District funding resulting in a half-time secretary, one manager, three technicians and no seasonal labor by 1980. Staffing levels remained unchanged until 2004 following the approval of a benefit assessment in July of 2003 by property owners of Napa County. District staff currently consists of one manager, an administrative assistant, one scientist, and five field staff (includes one which supervises the field techs).

The opportunity for future growth is limited with the District's current facility. There is no extra office space, parking spaces, or places to store the additional equipment needed (e.g. trucks with sprayers) for any future increases in staffing. Increased public demand for District services, increasing labor intensive regulatory requirements, and increasing labor intensive vector management materials and methodologies are also intensifying the District's challenges with infrastructure and staffing. The current cost of a 1.5-acre parcel with constructed facilities that will allow for future growth has been estimated to be at least 6 million dollars. The District will need to address its infrastructural needs as well as the ability for it to grow in the future. Managing its debt obligation will also be important if the District is to maintain its ability to successfully adapt to other potential financial challenges (e.g. California's boom and bust cycles, pension and OPEB obligations, unfunded regulatory mandates, etc.).

District Comparisons: General Information, Salaries and Benefits

General District Information

- *Exhibit 1: Comparison of General District Information*

Exhibit 1 provides an overview of general District data such as total District area, total population served, sources of funding, revenues, wages, number of staff, retirement and health costs, etc. for the year ending 2016. Data was collected from the 2017 MVCAC yearbook, the California State Controller Government Compensation website, and direct communication with the management teams for each of the aforementioned Districts.

In terms of total area, population, and revenues Napa County MAD (NCMAD) ranks 7th, 10th and 8th respectively. This suggests a potential for future, funding issues as well as possible challenges the District could face with its ability to provide continuous effective levels of service. The District is of moderate size (798 square miles), sparsely populated, and has a limited tax base, which requires that it take and maintain a conservative approach with respect to budgeting, staffing, services provided, and overall debt management.

Pension

- *Exhibit 2: Summary and Comparison of District Pension Information*

All eleven Districts offer a defined benefit pension plan to their employees. Eight participate with the California Public Employees Retirement System (CalPERS), while three are with individual County retirement programs. *Exhibit 2* summarizes the plan type, benefit formulas and key data from each District's actuarial reports of 2016 and 2017. It is important to note that actuarial studies typically use a measurement date that ends June 30 of the prior year (e.g., an August 2016 report has a measurement date of June 30, 2015). Therefore, any contributions made after the measurement date would not appear until the issuance of the next report. It should also be noted that the data presented in *exhibit 2* is for Classic members, those hired prior to Jan 1, 2013, as the majority of staff at all Districts is comprised of classic members which also comprises most of each District's pension expense and debt obligation.

Whether an agency's staff are Classic or PEPRA (Public Employee Pension Reform Act) members, the result is still the same. An employer will accrue debt for retirement benefits promised. This debt, which is also charged interest (currently 7.375%) is typically amortized over 30 years with the bulk of the debt being paid during years 15 through 30. Some of the factors which can affect an agency's accrued pension debt include but are not limited to: staffing changes (hiring and retirements), changes in total salaries, actuarial assumptions being used, discount rate used (projected net average annual rate of return on invested funds), actual investment returns on plan assets, and timely and full payment of each years' required contributions.

NCMAD compares favorably with the other Districts with respect to its unfunded liability and the overall funded status of its pension plan. The District has set a goal of trying to maintain a minimum funded status of 90%. This will require continuous careful monitoring of pension assets and liabilities as well as management of the District's revenues. A reserve fund was recently established and will need to be adequately funded to help manage the debt that can occur due to poor investment returns, changes made by CalPERS to the actuarial assumptions and discount rate being used, and staffing changes due to hiring and retirements. For example, the District's August 2017 CalPERS actuarial study shows that if the current discount rate of 7.375% were reduced to 6%, the funded status of the plan would drop from 92.4% to 78.6% and the unfunded liability (District pension debt) would be increased by $1,170,374. This new debt, with interest, would then be amortized over 20, 25 or 30 years and the District would accordingly make the required additional payment (total cost with 20, 25, and 30-year amortization at 6% would be $2,012,381.48, $2,262,220.83, and $2,526,114.05 respectively). It is also important to remember that using a 6% discount rate means the assumed average rate of return on invested assets would be 6% over the long term. It should further be noted that a 6% discount rate is still a generous average annual return rate on assets considering the volatility of the markets during the past few years and the fact that the industry projected average annual return rate for the next decade is expected to be significantly less (approximately 4 to 5%).

Deferred Compensation

- *Exhibit 8: Comparison of Holiday, Vacation, Sick Leave and Other*

A voluntary deferred compensation plan (IRC 457(b)) is available to District staff. This plan is through Voya Financial and offers a wide range of investment options. An employee may elect to defer part of their compensation, thus lowering their current tax liability while also saving additional funds for retirement. Deposited funds and any investment earnings become taxable when the employee makes a withdrawal. Withdrawals without a 20% early withdrawal penalty can begin when the employee reaches age 59½. An employee must begin withdrawals when they reach age 70½. The minimum contribution is $25 per pay period ($600/year), the current maximum is $750 per pay period ($18,000/year) and is subject to change by congress.

Exhibit 8 shows ten districts offer a 457(b) deferred compensation plan and one district offers a 401K plan. Only one district, Northern Salinas Valley Mosquito Abatement District, offers a partial match (25%) of the employees' contribution with a District cap for all employees combined not to exceed $15,000.00 per year.

Providing some level of employee contribution match, similar to what some private employers do with 401K plans, is possible but also has potential issues. First, from a legal perspective, matching employee contributions to a 457(b) plan can be done and considered part of the compensation provided to staff. From a tax payer perspective though, the optics are not so good, especially in light of the costs the District pays for the current level of wages, medical, dental, pension, post-employment benefits, and miscellaneous benefits (e.g., certifications and licenses, boot allowance, wellness program, continuing education, etc.). Second, establishing a matching contribution plan becomes a permanent commitment that over time would be subject to continual negotiation for increases. Third, the District will need to have very clear policies about a deferred compensation matching contribution program that includes clearly delineated employer and employee responsibilities and liabilities.

That said, cost to the District could be small depending on the level of match. For example, the District could match 25% of an employees' contribution up to a maximum of $1,000 per year. If all nine employees contributed $4,800 each, the District would have to match at $1,000 for each employee for a total cost to the District of $9,000 per year. If there were no cap on the District's matching contribution and all employees made the maximum allowed contribution including the employer match, the following would apply. Nine employees could contribute $14,400 each, the District would have to match at $3,600 for each employee, and the total cost to the District would be $32,400. (*Note: It is important to remember the current maximum total contribution per year (employer and employee combined) cannot exceed $18,000. Therefore, under a 25% employer matching contribution program the maximum contribution an employee can make would be $14,400 per year.)*

NCMAD Revenues, Salaries and Benefits Expenses

- *Exhibit 3: District Base Revenues, Salaries and Benefits Expenses Spreadsheet*
- *Exhibit 4: Graph of District Base Revenues 2003 to 2016*
- *Exhibit 5: Graph of District Base Salaries and Benefits Expenditure 2003 to 2016*

Exhibit 3 provides a summary of base revenues received (secured ad valorem property tax plus benefit assessment), salary and base benefits expenses, supplemental payments to pension and the post-employment benefits trust account, and changes in staffing. Base or core revenues are being defined as those revenues which are usually not subject to significant downward variance in any given year. The District does receive other revenues such as unsecured property taxes (boats, planes, etc.), supplemental property taxes (changes in valuation due to sale or significant property improvements), interest on deposited funds with the county, sale of capital assets, dividends and rebates, etc. These revenues are treated as unstable as they can vary significantly from year to year. Therefore, the District as a rule is cautious about relying on them in its annual budgeting and expenses planning because of their unreliability.

The following items are worthy of note. First, *exhibit 3* illustrates the District's commitment to paying down and managing both its pension and OPEB debt. Since 2007, there have been a number of payments made to reduce debt and increase the funded status of both of these financial commitments for retirement benefits that have been promised to District employees. Continued close oversight and timely payments (when necessary) will still be required if the District is to maintain an overall positive financial position.

Second, although there has been a steady upward trend in base revenues, there has similarly been an upward trend in base salaries and benefits expenses. Overall, since fiscal year end 2004, the ratio of base salaries and benefits expenses to core revenues has varied but has generally remained below the desired limit of 65%. This has allowed the District some latitude to address its debt issues as well as infrastructural needs. It should be noted that fiscal year 2010 saw a significant decline of $127,256.53 or 7.1% in base revenues. This drop in revenues was the result of both the State of California “borrowing” $78,695 from the District to help address its budget shortfall as well as a decline in property values from the recession that started in late 2008. The $78,695 “borrowed” by the State was ultimately repaid in 2013 per the provisions of proposition 1A which was passed in 2004. Recessions and the State appropriating funds from cities, counties and special districts is nothing new and has happened multiple times in the past. Continued prudent management of the District’s revenues and expenses should allow the District to effectively adapt to and weather the next down economy and resultant drop in revenues.

Exhibit 4, base revenues from fiscal year end (FYE) 2004, and *exhibit 5,* base salaries from FYE 2004, help illustrate the upward trend being observed since FYE 2004. *Exhibit 4* also shows the variable nature of the Districts base revenues. The time period 2004 to present is being used as fiscal year 2004 was the year the District saw a major change in its revenues, staffing levels, and the implementation of additional vector management programs (e.g. yellowjacket control) which have been ongoing ever since.

Salaries and Benefits

Exhibits 6, 7 and 8 reflect data for 11 Regional Districts for Fiscal Year 2017/2018

- *Exhibit 6: Comparison of Base District Wages*
- *Exhibit 7: Comparison of Medical, Dental and SDI Benefits*
- *Exhibit 8: Comparison of Holiday, Vacation, Sick Leave and Other*
- *Exhibit 23: District Base Wages Comparison Fiscal Year 1998/1999*

Exhibit 6 is a summary of the base wages being paid for relatively comparable positions between the 11 Districts. There are some limitations with the comparisons in that specific duties, requirements, and working conditions between the positions and the districts are not identical. In some instances, duties may be divided between more than one position at some Districts, whereas at NCMAD the opposite is true. In other situations, some positions have clearly defined supervisorial/managerial and/or special training requirements along with their other regular duties that are not a part of or necessarily needed with similarly titled NCMAD positions. That said, NCMAD salaries are for the most part near the middle when compared to the other Districts.

NCMAD for most of its history has provided wages that were typically near the bottom when compared to its peers and is illustrated by *Exhibit 23* which is a salary survey for fiscal year 1998/1999. To offset this, the District has tried to provide reasonable health and retirement benefits. Approximately 18 years ago the District began to address its funding issues. Wages and benefits also became a part of that focus. Positions were updated, new positions and programs created, salary adjustments implemented, and benefits upgrades made to meet the specific needs of the different County communities as well as bring the District a little closer into alignment with its peers. The Board, since 1998 has also periodically reviewed wages and benefits with the idea that the District's total compensation package be, when feasible, near the middle when compared to its regional and neighboring peers. *Exhibits* 6, 7, and 8, comparing wages, medical, dental, vacation, paid holidays, sick leave, night differential and other allowances show that the District has, when taking the entire compensation package into consideration, generally met this goal.

The NCMAD Board has also long recognized the limitations imposed on the District with respect to its revenues. The County of Napa is sparsely populated, has a limited number of parcels, and has practices and policies in place which limit growth and development. Therefore, NCMAD has had to be careful to manage its financial resources and not make commitments which will become unsustainable in the future.

The District Board has also seen significant changes in regulatory requirements and associated costs, introductions of vector borne diseases such as West Nile Virus, and the real potential for difficult to manage and costly invasive *Aedes* mosquito introductions. The public's desire for sound integrated vector management with minimal environmental impact has also increased and with it significantly higher labor and materials costs. The District's ability to adapt to these and other changes and constraints is essential if the District is to continue to provide proactive, cost effective and efficient services to the citizens it serves.

NCMAD Financials

NCMAD Wages, COLA and CPI

- *Exhibit 9: History of COLA, CPI-U, Salary Adjustments, and Benefit Upgrades*
- *Exhibit 10: COLA, CPI-U and Wage Adjustments*
- *Exhibit 11: Monthly Health Insurance Premium for Employee + 1 1997 to 2018*
- *Exhibit 12: Monthly Dental Insurance Premium for Employee + 1 1997 to 2018*
- *Exhibit 13: Monthly Life Insurance Premium 1997 to 2018*
- *Exhibit 14: 22-Year COLA, CPI-U and Benefits Cost Spreadsheet*

Napa County Mosquito Abatement District wages have typically been less than most of its San Francisco Bay area peers, with some periods in the District's history when wages were significantly less. This is primarily due to the County's small total population and therefore limited tax base. Napa County's policy and practice of limiting urban growth and sprawl as well as its agrarian focus are also significant factors.

The District uses the February to February San Francisco Bay Area CPI for All Urban Consumers (CPI-U), short- and long-term analysis of revenues and expenses, and projected changes in benefits costs when considering Cost of Living Adjustments (COLA) for its employees.

Exhibits 9 and 10 illustrate the San Francisco Bay Area Feb-Feb CPI-U, District COLAs, wage adjustments, and benefits enhancements for the years 1997 through 2017. When comparing COLA and CPI-U for the entire 21-year period, it can be seen that the overall cumulative difference between COLA and CPI-U is -5.6%. Further examination of the data covering fiscal years 1997 through 2017 shows that the average increase in CPI-U was 2.77% while the average COLA, exclusive of wage adjustments, benefits enhancements and increased benefits costs provided, was 2.5%.

Additionally, salary adjustments occurred in 1998 and again in 2002 due to District restructuring and reclassification of positions. This resulted in wage increases of 5.6% and 4.6% respectively.

The District has always taken a benefits (health, dental, life, retirement, etc.) over salary approach when considering total compensation for its staff. If the increased costs of medical, dental, life, and retirement were to be factored in as part of the annual increase in compensation to District staff, the end result is clearly positive and exceeds San Francisco CPI-U for all years except 2010, the only year there was no COLA. *Exhibits 9 and 14* provide the raw data for COLA and CPI-U as well as all benefits upgrades that occurred from 1997 through 2017. These benefits enhancements when also included as part of the increase in annual compensation further improve total compensation for staff. Thus, as has been done for many decades, total compensation is and has always been viewed as a package that consists of wages and benefits.

An analysis was also performed to better understand the approximate cost of a ½% COLA for all eight-staff using current salaries, and assuming the COLA would take effect July 1, 2018. This analysis did not include the 5% step increases that would apply for three staff that are not at the top step for their positions. The total cost of a ½% COLA was determined to be $8,625.86 ($3,785.60 salaries, $4,785.36 pension, and $54.90 Medicare). Exhibit 14 illustrates that the average COLA received by staff between 1997 and 2017 was 2.5%. If the COLA for fiscal year 18/19 were 2.5%, this would result in an increased cost of $43,129.30 ($18,928.00 salaries, $23,926.80 pension, and $274.50 Medicare).

NCMAD Pension

- *Exhibit 15: CalPERS: Pension, Assets and Liabilities*
- *Exhibit 16: CalPERS: Pension, Assets and Liabilities Spreadsheet*
- *Exhibit 17: CalPERS Annual Investment Return*

The District participates in the CalPERS local miscellaneous Classic and PEPRA defined benefit pension plans which are part of a public agency cost-sharing multiple-employer pool. These plans provide service retirement and disability benefits, a maximum 2% annual cost of living adjustment to retirees, and death benefits to qualified public employees and beneficiaries. Benefits are based on years of credited service. Members with 5 years of total service are eligible to retire at age 50 (Classic) and 57 (PEPRA) with statutorily reduced benefits. Full benefits apply at age 55 (Classic) and age 62 (PEPRA).

Plan provisions and benefits in effect are as follows:

	Classic	**PEPRA**
Hire date	Prior to 1/1/2013	On or after 1/1/2013
Benefit Formula	2.7%@55	2%@62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	monthly for life	monthly for life
Retirement Age	50 to 55	57 to 62
FY 17/18 Required Employer Contribution (% of salaries)	12.470	6.908
Required Employee Contribution (% of salaries)	8.0	6.5
Minimum Required Employer UAL Payment (FY 17/18)	$605	$71
Discount Rate	7.375%	7.375%

The District's net pension liability as of the June 30, 2016 plan actuarial measurement date is $491,994 for classic members and $3,084 for PEPRA members. The market value of assets is $6,115,607 with a funded status of 92.4% for classic members, and $26,495 with a funded status of 91.6% for PEPRA members. Assuming CalPERS fiscal year 16/17 net investment returns are 7.5% (discount rate for 16/17), total salaries do not increase by more than 3%, and there are no changes to the retirement plans actuarial assumptions and discount rate, the District's required contribution rates for fiscal year 17/18 will be 12.5% of total salaries with an unfunded accrued liability (UAL) payment of $7,350 for classic members, and 6.9% of total salaries and $79 for PEPRA members. This translates to a total fiscal year 17/18 employer pension cost of $93,383.25, excluding additional pension expense incurred for payout of overtime and earned leave.

The pension cost for fiscal year 18/19 and potential for incurred debt is as follows. First, the August 2017 actuarial reports (measurement date June 30, 2016) state the District's contribution rates for fiscal year 18/19 will be 13.084% of total salaries with a UAL payment of $6,128 for classic members, and 7.266% of total salaries with a UAL payment of $841 for PEPRA members. This assumes net fiscal year 17/18 investment returns of at least 7.375% and that the total annual increase in salaries does not exceed 3%. Second, CalPERS lowered the discount rate used for fiscal year 17/18 from 7.5% to 7.375% and reported investment returns on plan assets for fiscal year 16/17 of 11.2% (3.7% above expected). It is believed the benefit of the 3.7% investment returns above expected will offset the increased pension contribution costs to the employer due the lowering of the discount rate. Unfortunately, that will not be clear until the issuance of the next actuarial study by CalPERS which is anticipated will occur around October of 2018. Therefore, any debt incurred will not be known until after October 2018. Third, assuming a 2% COLA for all staff and 5% step increases for the four staff not at the top step of their salary ranges, the total increase in District salaries will be 3.4% which exceeds the 3% actuarial assumption. The effect this will have on the District's pension contribution rate will not be clear until the 2020 actuarial study as the salary increase would have occurred in fiscal year 18/19. It is expected the change in the employer rate would be small. Should many of the other members of the miscellaneous pension pool to which the District belongs reflect similar increases in total salaries, this effect would be more significant. Again, what this means to the District's contribution rate will not be known until some time into the future. That said, using the fiscal year 18/19 contribution rates and the assumed total increase in salaries (2% COLA and 5% step increases for four staff), the District's fiscal year 18/19 total pension cost would increase by $13,305.93 to $106,689.18. This does not include additional pension expenses incurred due to payouts for overtime and earned leave.

In general, pension debt and payment are as follows. An employer's initial pension debt comes from the cost of benefits for work employees have already performed. Repayment of this pension debt is currently amortized over 30 years.

CalPERS typically backloads the debt payment schedule such that the first seven years payments do not cover the interest that is accruing. This means it takes almost 16 years before the employer's payments begin to effectively paydown the original debt incurred. Therefore, it is essential that an employer be mindful of any changes to: staffing (hiring and retirements), total salaries, actuarial assumptions being used, discount rate used, investment returns and market value of assets (MVA), and accruing unfunded accrued liabilities (UAL). As mentioned earlier in this report, factors that significantly influence an employer's UAL are: investment returns on pension assets, increases in total annual salaries that exceed 3% per annum, staff retirements, hiring of new staff, and changes to the discount rate, actuarial methods and assumptions being used.

Exhibit 15 illustrates and *Exhibit 16* provides the raw data of the District's market value of assets (MVA) and unfunded accrued liability (UAL) over the last six fiscal years along with significant additional contributions made to paydown the employer UAL. (*Note: These are the years for which specific District data are available as prior years did not clearly separate out District assets and debt from the miscellaneous multiple-employer pool of which the District is a member*.) Due to the District's small size, the District is part of the CalPERS public agency cost-sharing multiple-employer miscellaneous plan pool, which is comprised of similar small individual miscellaneous rate plans (employers with less than 100 employees). The intent of this pool is to help reduce the severity of adverse investment return years and other factors that would otherwise result in large fluctuations in the District's contribution rates. *Exhibits 15 and 16* show only the District's portion of the pool assets and UAL. The CalPERS Board has adopted a change in the discount rate to be used and therefore over the next three fiscal years will be reducing the rate from 7.5% to 7%. This will result in an increase in the District's UAL by approximately $450,000. If the additional debt incurred each year were to be paid in full, the District would need to contribute an additional $150,000 each year above the required annual contribution. It should be noted the District could choose to follow the current 30-year amortization schedule, in which case the additional annual payments would be smaller though the total amount paid would be approximately $1,077,790. Therefore, whenever possible, it is better for the District to eliminate debt as it is incurred as this significantly reduces the overall total expense.

Exhibit 17 illustrates CalPERS investment returns from fiscal year 1996 through fiscal year 2017. When the discount rate is taken into consideration, it becomes clear just how significant poor return years become. For example, fiscal year 2001 had a -7.2% return. When the discount rate (expected rate of return on invested funds used in the actuarial study for that year) of 8% is factored in, the true rate of return for the employer becomes -15.2%. In other words, the -7.2% return as well as the 8% expected rate of return (discount rate) becomes incurred debt to the employer. If we look at fiscal years 2008 through 2017 and factor in the 7.75% (years 2008-2011) and 7.5% (years 2012-2017) discount rate, the impact of the five negative return years still outweighs the five positive return years (those years that met or exceeded the discount rate being used). It should also be noted that during this time period there was an equal number of positive and adverse return years, a pattern that was very different from the previous 12-year period.

Looking simply at overall return for fiscal years 2008 through 2017, we find the average rate of return was 5.12%. This is well below the expected average annual rate of return (7.75% and 7.5%) and means that overall the District has been accumulating debt. This has been reflected in the District's August 2017 Classic and PEPRA member actuarial reports for the period ending June 30, 2016. These reports show a total combined unfunded balance of $501,890, even after the significant contributions to pay down UAL during fiscal years 2014, 2015 and 2016.

The District could exercise the option to terminate its contract with CalPERS. Although this might seem like a possible solution, in reality it would generate a significant amount of debt, also known as the termination liability. When an agency terminates its contract with CalPERS,

CalPERS then moves the agency's funds into the Terminated Agency Pool. This pool has a more conservative investment policy and asset allocation strategy, especially since the pool has limited new funding sources and no new employer contributions are expected to be made. The idea is that expected benefit payments are secured by risk-free assets and therefore benefit security for the pools' members is increased while funding risk is limited. But, because the expected rate of return is lower than the non-terminated agency pool (where the agency's funds originated prior to termination), a much lower discount rate is also assumed. Per the August 2017 actuarial report, the current discount rate, which uses the 20-year Treasury yield, was 1.75% as of June 30, 2016 and 2.75% as of January 31, 2017. Both of these rates are far lower than the current discount rate of 7.375%. CalPERS has calculated the hypothetical termination liability and funded status with a discount rate of 1.75% to be $6,569,030 and 48.2% respectively. The hypothetical termination liability and funded status for a discount rate of 3% was determined to be $4,892,979 and 55.6% respectively. What this means is termination of the CalPERS contract is a costly option if the District were to honor all of its pension commitment to its retired and active staff. If the hypothetical termination liability expense were not paid, then the District would be going back on its pension commitments and retired personnel would receive approximately half of what was promised.

In summary, although the above discussion is both simplistic and conservative in approach, the District will need to be diligent about managing its pension debt.

NCMAD Retiree Medical Costs

- *Exhibit 18: NCMAD Retiree Medical Costs 96/97 to 16/17 (Graph)*
- *Exhibit 19: NCMAD Retiree Medical Costs 96/97 to 16/17 (Data)*

The District provides medical benefits, via contract with CalPERS and pursuant to the Public Employees' Medical and Hospital Care Act (PEMHCA), to active employees, retirees, and their dependents. The three plans that are available to active employees, Kaiser, PERS Care and PERS Choice, are also available to retired employees. The District currently pays 100% of the premium.

Currently, the District has 5 retirees. Two are surviving spouses, one is single, one is an employee plus spouse, and one is an employee plus spouse and children under age 26. It should be noted that per the Affordable Care Act (ACA), children can remain on active and retired employees' employer provided medical insurance until age 26 regardless of whether or not they are employed, are in school, or are married. This has added to the expenses incurred by the District when providing medical benefits to active and retired employees.

Conversely, when an employee reaches age 65, they become part of the Medicare program and the District's premium rate is reduced, currently by about 50%.

The District participates in PEMHCA and is therefore required by law to provide the same level of benefits to its retirees that it provides to its active employees. This is known as the equal contribution rule (government code §22892(b)(1)). This same Act also allows the District to annually set the amount it will contribute towards payment of the medical premiums for both active and retired employees. The current minimum monthly contribution required by law is $128 and is adjusted annually by the medical care component of the Consumer Price Index (CPI) and rounded to the nearest dollar. The District may choose to contribute any amount more than the minimum up to 100% of the medical insurance premium. The amount to be contributed by the District is passed each year by resolution, pursuant to CalPERS guidelines, and a copy of the resolution is sent to the CalPERS Health Benefits Division by October of each year to become effective January 1st of the following year.

The District may adopt by resolution the CalPERS vesting schedule (government code §22893) which would require a much higher minimum contribution rate towards premiums for retirees, and by association active employees. The minimum contribution rate under this section is based on the average of the four benefit plans with the highest State enrollment for the employee only rate. Dependents would be 90% of the weighted average of the additional premiums required for enrollment of those family members. The vesting schedule is then applied to determine the final amount to be contributed by the employer for retirees. The vesting schedule ranges from 50% for 10 years of completed full-time service and goes up 5% per year thereafter until one reaches 100% for 20 years of full-time service. The District has not adopted government code §22893.

Exhibit 18 illustrates the total retiree medical costs paid by the District from fiscal year 1997 through fiscal year 2017. Staff retirements, reductions in premium rates due to annuitants reaching age 65, and deaths of annuitants have also been included. Overall, there is a significant upward trend in costs to the District. It can also be seen that each time an employee retired from service there was an increased cost to the District, with the largest increase occurring during fiscal year 14/15. Similarly, the most significant decline in costs began with fiscal year 07/08 and continued through fiscal year 09/10. Because the District is so small, the retirement, death, or Medicare age of a single retired employee can have a significant impact on retiree medical costs. The average age of current active staff is 52 years, with three long-term employees that can retire at any time. One more employee will be qualified to retire in the next year. The potential retirement of these four staff over the next few years will significantly increase the District's retiree medical costs. The estimated additional cost if all four staff retired at current medical benefit levels December 31, 2018 would be $82,990 bringing the total annual cost of retiree medical costs to $130,841.

The District also maintains an Other Post-Employment Benefits (OPEB) trust account with CalPERS CERBT that is more than 92% funded. Funds in this account can only be used for the payment of post-employment benefits other than pension (e.g. medical premiums). The District is required to show the balance and funded status of this account on its annual financial statements. Any debt affects the District's bond-rating and interest rates it could get on loans for capital projects. The actuarial present value of projected benefits or APVPB (the amount presently required to fund all future projected benefits in the future) as of July 1, 2017 is $3,221,359. The APVPB changes each year with any changes that occur in medical premiums, number of active and retired staff, and ages of staff and their dependents. The July 1, 2017 OPEB fund balance is $2,962,231.62. The present strategy is to have a fund balance large enough so that the annual interest earned on the invested funds would be able to easily cover the District's retiree medical costs while also allowing for at least 1% growth, as well as weather most adverse return years. Funds are currently invested in CalPERS CERBT strategy 2 which consists of 40% global equities, 39% fixed income, 10% treasury inflation protected securities (TIPS), 8% real estate investment trusts, and 3% commodities. This investment strategy is considered moderate risk and may be subject to fluctuation of value, although less than a portfolio that is predominantly stocks but more than a portfolio that is predominantly fixed income securities. The average rate of net return for the last three years is 5.01% which is in line with the District's discount rate of 5%. Net fund performance since inception (October 2011) is 7.82%.

A future issue is the Affordable Care Act 40% tax on health insurance premiums that exceeds the predetermined threshold amounts of $10,200 for single and $27,500 for family coverage (commonly referred to as the Cadillac Tax). This federal tax was to be implemented in 2018 but is now scheduled to take effect in 2022. It is most likely the costs will end up being paid by the District, its employees and retirees, or both. The District Board will need to review this further to determine the best course of action.

In summary, the District will need to regularly evaluate the level of health benefits it chooses to provide to its retired employees. Keeping in mind the PEMHCA equal contribution rule that requires benefit levels be the same for both active and retired employees, the District will need to carefully manage both the OPEB trust account funded status as well as the costs associated with the level of health benefits it chooses to provide to both active and retired staff.

NCMAD Medical, Dental, and Life Benefits Costs

- *Exhibit 11: Monthly Health Insurance Premium for Employee + 1, 1997 to 2018*
- *Exhibit 12: Monthly Dental Insurance Premium for Employee + 1, 1997 to 2018*
- *Exhibit 13: Monthly Life Insurance Premium 1997 to 2018*
- *Exhibit 14: 22-Year COLA, CPI and Benefits Cost Spreadsheet*

The District currently provides medical, dental, and life benefits to its active duty employees, medical benefits to its retirees, and dental benefits to retired management staff.

Medical

Medical benefits are through CalPERS and are subject to Public Employees Medical and Health Care Act law (PEMHCA). The three medical plans that staff can choose from are Kaiser, PERS Care and PERS Choice. The District pays 100% of the premiums for staff and their dependents as well as retirees and their dependents.

Exhibit 11 illustrates the change in medical premium rates for an employee with one dependent from 1997 to present. Overall *exhibit 11* shows a steady increase with the average annual increase in medical premiums being 8.12% (see *exhibit 14*).

Dental

The dental plan provided is Delta Dental Plan I. This plan provides 100% coverage for diagnostic services (exams, cleaning, x-rays), 80% coverage for basic dental services (fillings, oral surgery, periodontics, endodontics) and 50% coverage for major dental services (in-lays, crowns, partials and dentures). The maximum calendar year benefit per individual is $1500 with a calendar year deductible of $25. The District pays 100% of the dental insurance premiums for staff and their dependents.

Exhibit 12 illustrates the changes in dental premiums for an employee with one dependent. Overall *exhibit 12* shows a steady increase in premium rates even though there are alternating periods of premium increase and no increase. The average annual increase is 2.91% for the years 1997 through 2017 (see *exhibit 14*).

The question of providing dental coverage to retired staff and their dependents has historically been and was again reviewed. The most significant issue, irrespective of what other Districts in the San Francisco Bay Area may be doing, is cost, both in premiums and for the OPEB trust. The current rate for an employee and spouse is $1,656.00 per year. First, when an employee turns 65 there is no decrease in rate like there is with medical because of Medicare. Therefore, the rate for a retiree will always be the same as the rate for an active employee. Second, the Affordable Care Act mandates that if coverage is provided to an employee and all their dependents, then the children may choose to remain on their parents plan until age 26 whether or not they are married, employed, or in school. With these factors in mind the following rough approximation can be made for an employee and spouse only (one dependent). If an employee retires at age 60, it is reasonably safe to assume the employee and spouse will live at least another 25 years. If we assume an average 3% increase in premium rates for the entire 25-year retirement period the total cost to the District would be approximately $60,378. Multiply this by the current number of active staff (8) and the potential total cost would be approximately $483,024 (clearly not all staff will be married, nor do we know what the marital status will be for new hires or for current staff for the duration of their careers with the District). Were the benefit to be provided to a retired employee only (no dependents) the estimated cost would be $31,457 for the employee and $251,656 for all 8 staff members. These estimates are undoubtedly simplistic and a bit low, especially when assuming that: the average annual premium rate increase would be about 3%, the size of the District would still be the same 25 years from now, demand for services would remain the same, the State would not raid District revenues to balance its periodic budget short falls as it has done repeatedly in the past, and revenue growth would be sufficient to cover not only this added cost but also other increased costs (wages, benefits, retirement, pesticides, equipment, etc.).

Life

The District contracts with MetLife to provide $25,000 accidental death and dismemberment life insurance for active duty staff. The District pays 100% of the premium for staff. *Exhibit 13* illustrates the changes in premium rates from 1997 through 2018. Overall the exhibit shows a steady increase with the average annual increase being 7.31% (see *exhibit 14*).

NCMAD Paid Leave

- *Exhibit 8: Comparison of Holiday, Vacation, Sick Leave and Other*
- *Exhibit 20: NCMAD Paid Leave Hours Used (Non-Management Staff)*
- *Exhibit 21: NCMAD Paid Leave Hours Used Spreadsheet (Non-Management Staff)*
- *Exhibit 22: Total NCMAD Service Calls by Program for Fiscal years 2005 to 2016*

Paid Leave

The District provides the following forms of paid leave to all employees: vacation, sick leave (including family sick leave), critical illness leave, bereavement leave, paid time for jury duty, voting time, and holiday leave. *Exhibit* 8 illustrates the different amounts of vacation, holiday and sick leave provided by the District. The amount of paid time for the other types of leave are as follows: critical illness (40 hours), bereavement (40 hours); jury duty (120 hours); and voting time (2 hours). The aforementioned types of paid leave, excluding paid holidays, have been grouped into three categories, vacation, sick leave and other paid leave to facilitate discussion and analysis.

Exhibit 20 graphically illustrates the total amount of vacation, sick leave and other leave used per year (excluding holidays) for all non-management staff combined for calendar years 2005 through 2017. *Exhibit 21*, top chart, is the spreadsheet with the specific data that also shows the number of non-management staff for each years' data totals. *Exhibit 21*, bottom chart, shows the total annual work hours (2080 x number of non-management staff), total paid holiday hours, and the total percentage of annual work hours, with and without holiday pay, that were taken as paid time off.

The District's revenue and staffing levels currently meet demands for service. Challenges can occur when staffing levels are inadequate and/or long-term costs continually exceed available resources. There are over 700 potential vector producing sites, some are hundreds of acres in size, that are routinely surveyed and managed every year. The District also processes an average of 1300 requests for service annually (see *exhibit 22*). The nature and volume of workload requires staff be physically present and also work as a team, including filling in for other team members when they are off. Providing paid leave time is therefore beneficial to both the District and its staff. That said, there are times when staffing levels become insufficient and make it challenging to effectively get required work done. There is also public concern about the levels and costs of compensation and benefits provided to staff, overall costs of the services provided, and is the work getting done in a timely manner. For example, a review of all 2017 non-management compensation paid as leave, including holidays, showed the total was $100,600.91 ($89,211.55 salaries, $10,095.79 pension, $1293.57 Medicare), and the cost for all non-management staff to be off one day in 2017 was $2,556.33 ($2,269.20 salaries, $254.23 pension, $32.90 Medicare). It should be noted that compensation provided as paid leave will vary from year to year but over time is expected to increase, especially as newer staff receive higher vacation accrual rates due to their increased time in service, and as all staff receive any increases in salary.

Paid leave benefits are a valuable benefit to both the District and its staff. Therefore, it is in the best interests of both staff and the District that the Board regularly review its paid leave policies and usage.

County of Napa Economic Forecast

The committee also reviewed economic indicators and forecast data for the County of Napa. Reports by California Economic Forecast (www.californiaforecast.com) and the California Center for Jobs and the Economy (www.centerforjobs.org) were used. Some of the highlights are as follows:

- Expected job growth for 2017 is 1.6% with an expected 1.1% average annual growth rate between 2017 and 2022;
- Average salaries for Napa County will remain below the California average with inflation adjusted salaries expected to rise by 2.7% per year from 2017 to 2022;
- Average annual population growth is expected to be 0.7% from 2017 to 2022;
- Real per capita income is expected to rise by 2.2% in 2017, and 2.5% for each year between 2017 and 2022;
- Average salary per all workers was $62,797 (California Economic Forecast)
- 2016 average annual private sector wage was $51,584. The total increase from 2012 was $3,744 or 7.8% (California Center for Jobs);
- 2016 average annual government sector wage was $60,684. The total increase from 2012 was 5,876 or 10.7% (California Center for Jobs);
- Napa County has the 8th lowest unemployment rate in the State with an unemployment rate of 3.5% (1.3% lower than the State of California).

Overall, the County is expected to continue slow and steady growth in all areas. The number of new residential units is expected to remain limited through the year 2050 (between 180 and 350 new units per year). CPI is expected to range from 2.4 to 3.1% annually through 2030. Manufacturing jobs will peak about 2030 and then decline while employment in professional services will continue a steady increase from 2017 to 2050. Real earnings per worker is expected to steadily increase.

Recommendations

The committee proposes the following recommendations:

- Continue the District's conservative debt management, budgeting and expenditures practices;
- The Board should develop and begin implementation of a strategy to address the District's future growth and infrastructural needs;
- Continue use of conservative 5% discount rate and prefunding of Other Post-Employment Benefits (OPEB) Trust Account. Maintain a minimum 90% funded status;
- Continue conservative management of the District's CalPERS pension debt, maintain a minimum 90% funded status, and have sufficient reserves in the pension reserve fund to offset adverse investment return years;
- Whenever feasible, pay off debt as it is incurred (e.g. OPEB, pension, capital projects);
- Approximately every 5 years, the Board should perform a revenue, debt, salary, and benefits survey of the Districts within the MVCAC coastal region and those vector agencies that also border Napa County which are not in the coastal region;
- Continue current deferred compensation program and practice as is;
- The Board should regularly review the District's paid leave policies and usage;
- The Board should annually review the District's pension, medical, dental, life and other benefits costs provided to active and retired employees and their dependents;
- The Board should resolve the employer provided medical benefits "Cadillac Tax" issue which is scheduled to take effect in 2022;
- Continue staff total compensation practice which reviews and uses the Feb-Feb San Francisco Bay Area CPI for all urban consumers (CPI-U) and, is a combination of salary and benefits;
- Continue current Board review of the District's overall health, adaptability and sustainability of its finances and programs.

The following recommendations, although not specifically discussed in this report, are included.

- Bring the District's Public Health Emergency, Natural Disaster, and Pension liability reserve funds up to a minimum level of 50% funded;
- Formalize establishment of the wetlands management reserve fund in the District's policies and bring funding level up to a minimum of 50%.

Exhibit 1: Comparison of General District Information

District Name	Total Area (sq miles)	Estimated Population	Total Revenues	Total Wages Paid 2016	Total Retire. & Health Cost	% Revenues used for wages, retire. & Health	Total # FT staff	Seasonals	Funding Sources
Alameda MAD	819	1,491,732	$ 4,180,831	$ 1,530,588	$ 429,436	46.9	17	yes	P/B/O
Contra Costa MVCD	736	1,126,745	$ 6,642,462	$ 3,174,966	$ 1,729,998	73.8	34	yes	P/B/C
Lake County VCD	1329	64,306	$ 1,678,637	$ 629,107	$ 257,170	52.8	8	no	P/B/O
Marin-Sonoma MVCD	2300	736,000	$ 8,277,314	$ 3,071,263	$ 1,590,713	56.3	34	yes	P/B/C/O
Napa County MAD	798	142,300	$ 2,116,839	$ 710,649	$ 232,476	44.5	8	no	P/B/O
Northern Salinas Valley MAD	429	220,000	$ 1,799,763	$ 525,997	$ 239,383	42.5	7	no	B
Sac-Yolo MVCD	2013	1,714,351	$ 12,361,414	$ 4,752,622	$ 787,288	44.8	66	yes	P
San Mateo MVCD	448	747,373	$ 4,607,886	$ 1,956,127	$ 869,490	61.3	21	yes	P/B/C/O
Santa Clara VCD	1304	1,900,000	$ 7,125,917	$ 2,612,055	$ 1,122,949	52.4	30	yes	B
Santa Cruz MVCD	445	267,000	$ 1,387,493	$ 735,229	$ 298,531	74.5	8	yes	B
Solano MAD	909	424,000	$ 2,288,557	$ 829,928	$ 260,506	47.6	9	no	P

P = Property Tax
B = Benefit Assessment
C = Contract
O = Other

Source: Total Area, Est. Pop, Rev. + Funding Source from 2017 MVCAC Yearbook
Source: Total Wages, Total Ret + Health Care Cost from CA State Controller Govt Compensation
Source: # Staff + Seasonals from district web sites and CA State Controller compensation report

Exhibit 2: Summary and Comparison of District Pension Information

District Name	Retirement Plan	Benefit Formula	Employer Contribution Rate 16/17	Actuarially Projected Unfunded Liability	Funded Status (%)	Actuarial Study Cited
Alameda MAD	PERS	2% @ 55, 3 highest years	9.558	$2,271,130	80.5	Aug. 2016
Contra Costa MVCD	CCERA	2% @ 55, final year	29.94	$5,655,700	79.57	Oct. 2016
Lake County VCD	PERS	3% @ 60, final year	12.657	$1,508,536	75.2	Aug. 2016
Marin-Sonoma MVCD	MCERA	2% @ 55.5, final year	33.78	$11,818,241	50.6	Apr. 2016
Napa County MAD	PERS	2.7% @ 55, final year	12.429	$995,821	83.6*	Aug. 2016
Northern Salinas MAD	PERS	2% @ 55, final year	8.88	$913,212	80.5	Aug. 2016
Sac-Yolo MVCD	PERS	2.5% @ 55, final year	10.657	$10,173,638	75.6	Aug. 2016
San Mateo MVCD	SamCERA	2% @ 55.5, 3 highest years	31.29	approx. $2.2 million	82.6	Sept. 2016
Santa Clara VCD	PERS	2.5% @ 55, final year	18.978	NA	NA	Aug. 2016
Santa Cruz MVCD	PERS	2% @ 55, final year	8.172	NA	74.3	Aug. 2016
Solano MAD	PERS	2% @ 55, 3 highest years	8.377	$2,224,285	74.7*	Aug. 2016

*Does not reflect additional contributions paid towards pension unfunded liability during 2016 as the 2016 accuarial studies are for the period ending June 30, 2015.

District Name	Retirement Plan	Benefit Formula	Employer Contribution Rate 17/18	Actuarially Projected Unfunded Liability	Funded Status (%)	Actuarial Study Cited
Alameda MAD	PERS	2% @ 55, 3 highest years	10.152	$2,902,912	76	Aug. 2017
Contra Costa MVCD	CCERA	2% @ 55, final year	29	$5,140,418	84.2	June 2017
Lake County VCD	PERS	3% @ 60, final year	13.439	$1,882,583	70.3	Aug. 2017
Marin-Sonoma MVCD	MCERA	2% @ 55.5, final year	35.27	$5,900,000	80	Mar. 2017
Napa County MAD	PERS	2.7% @ 55, final year	12.47	$499,471	92.4	Aug. 2017
Northern Salinas MAD	PERS	2% @ 55, final year	8.921	$1,246,967	74.4	Aug. 2017
Sac-Yolo MVCD	PERS	2.5% @ 55, final year	10.698	$13,011,973	69.9	Aug. 2017
San Mateo MVCD	SamCERA	2% at 55.5, 3 highest years	24.52	approx. $2 million	84.3	Sept. 2017
Santa Clara VCD	PERS	2.5% @ 55, final year	8.645	NA	68.8	Aug. 2017
Santa Cruz MVCD	PERS	2% @ 55, final year	7.974	NA	68.5	Aug. 2017
Solano MAD	PERS	2% @ 55, 3 highest years	8.418	$2,186,694	74.6	Aug. 2017

Exhibit 3: NCMAD Base Revenues, Salaries and Benefits Expenses Spreadsheet						
Year (starting July 1st)	**Core Revenue (Assess + PTax Sec)**	**Salaries Only**	**Salaries + Benefits (does not incl. OPEB or Addl PERS)**	**OPEB Payments**	**Addl. PERS Payments**	**Notes**
1997	323,469.00	197,332.90	285,163.04			
1998	337,323.00	202,469.94	296,127.07			Manager retires 12/97, new Manager hired 12/97
1999	363,557.00	229,054.15	329,725.83			
2000	392,860.29	245,071.05	326,535.65			
2001	437,940.38	256,106.68	338,788.40			
2002	487,777.29	266,485.85	342,094.03			
2003	545,169.21	285,717.66	368,086.72			
2004	1,309,553.75	361,894.87	498,828.77			Benefit assessment passes 7/03. 3 techs hired 1/04. 1 Entomologist hired 4/04
2005	1,365,147.47	509,446.25	740,895.55			
2006	1,469,706.37	491,670.31	797,071.66			1 Vector Biologist retires 7/05
2007	1,539,217.22	535,497.60	829,284.71			1 Vector Biologist hired 4/07
2008	1,626,942.75	622,935.66	954,948.32	1,008,187.00		2.7% @ 55 approved 10/07
2009	1,782,446.91	665,328.35	1,022,388.71	90,000.00		
2010	1,655,190.38	682,308.93	1,035,318.76	42,494.00		
2011	1,772,117.28	670,525.76	1,031,534.37	45,000.00		1 Vector Biologist laid off 2/11
2012	1,778,890.87	646,878.84	1,031,487.03	525,000.00		Admin Asst retires, new Admin Asst hired
2013	1,964,303.45	646,459.70	1,051,166.40			
2014	1,931,352.87	676,984.38	1,038,890.46		645,629.00	
2015	1,993,767.90	625,197.24	990,157.97	95,000.00	570,000.00	1 vector biologist released 12/14. FOS retires 8/14. 2 techs hired 1/15
2016	2,144,749.81	692,169.50	1,059,251.10	330,000.00	700,000.00	
2017	2,185,953.63	728,668.76	1,100,006.51	135,000.00		

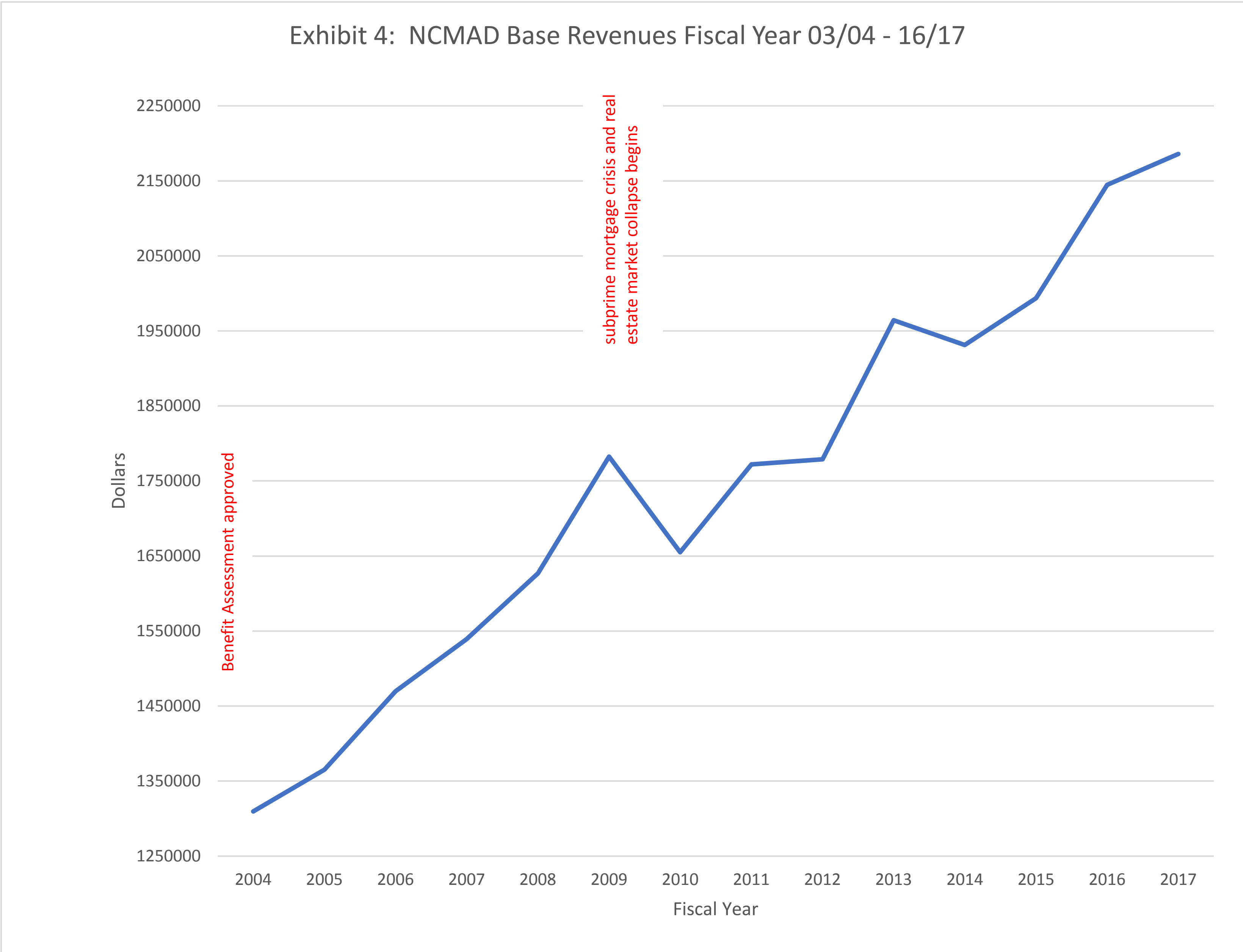


Exhibit 4: NCMAD Base Revenues Fiscal Year 03/04 - 16/17
Dollars
2250000
2150000
2050000
1950000
1850000
1750000
1650000
1550000
1450000
1350000
1250000
subprime mortgage crisis and real estate market collapse begins
Benefit Assessment approved
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Fiscal Year

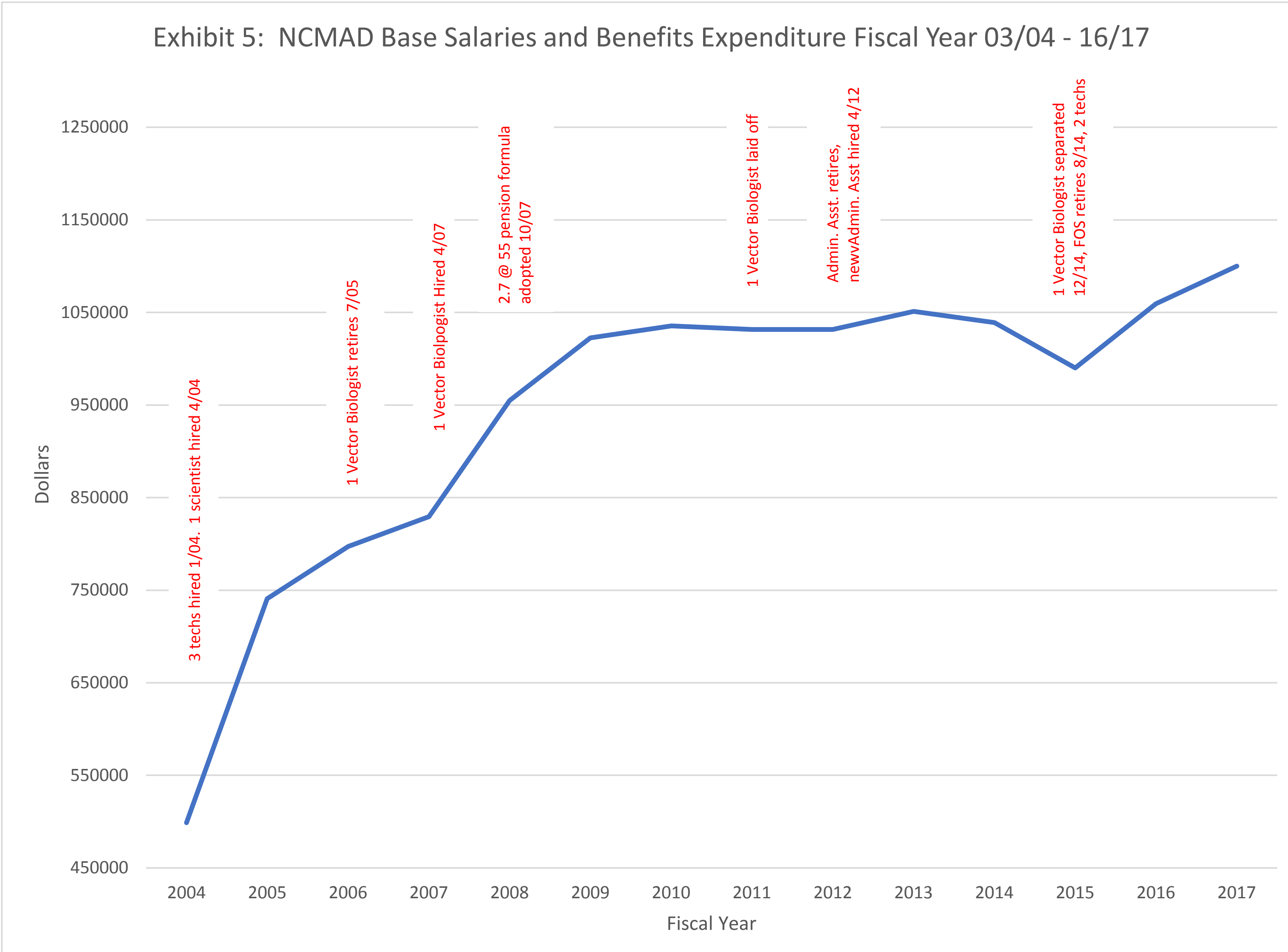


Exhibit 5: NCMAD Base Salaries and Benefits Expenditure Fiscal Year 03/04 - 16/17
1250000
1150000
1050000
950000
850000
750000
650000
550000
450000
Dollars
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Fiscal Year
3 techs hired 1/04. 1 scientist hired 4/04
1 Vector Biologist retires 7/05
1 Vector Biolpogist Hired 4/07
2.7 @ 55 pension formula adopted 10/07
1 Vector Biologist laid off
Admin. Asst. retires, newAdmin. Asst hired 4/12
1 Vector Biologist separated 12/14, FOS retires 8/14, 2 techs

Exhibit 6: District Base Wages Comparison FY 17/18

(MVCAC North Coastal Region Districts and those Districts that border Napa County but not part of Coastal Region)

Vector Control Technician (1, 2, 3)/Inspector/Vector Biologist (tech oriented)

Alameda Co MAD	6024 – 8071	(69840 – 96852)	2 ranges, tech 5 steps, VB 2 steps
San Mateo MVCD	5855 – 7979	(70260 – 95748)	1 range, 7 steps
Marin-Sonoma MVCD	6428 – 7381	(77136 – 88572)	1 range, 4 steps
Napa MAD	3652 – 7022	(43824 – 84264)	3 ranges, 5 steps each range
Solano MAD	5238 – 7019	(62856 – 84228)	1 range, 6 steps
Contra Costa MVCD	4669 – 6902	(56028 – 82824)	3 ranges, 3 steps T1, 2 steps T2, 1 step Insp
Santa Cruz MVCD	5252 – 6647	(63024 – 79764)	1 range, 7 steps
Santa Clara VCD	4429 – 6345	(53148 – 76140)	3 ranges, 5 steps each range
North Salinas MAD	4335 – 5294	(52020 – 63528)	1 range, 6 steps
Sac-Yolo MVCD	4342 – 5278	(52104 – 63336)	1 range, 5 steps
Lake Co VCD	1501 – 2990	(18012 – 35880)	3 ranges, 5 steps each range

Field OPS Supervisor/Supervisor/Field Supervisor/Senior Tech

Alameda Co MAD	7959 – 9748	(95508 – 116976)	1 range, 5 steps
Contra Costa MVCD	7394 – 8829	(86400 – 103164)	1 range, 7 steps
San Mateo MVCD	6643 – 8768	(79716 – 105216)	1 range, 7 steps
Marin-Sonoma MVCD	7573 – 8705	(90876 – 104460)	1 range, 4 steps
Napa MAD	6646 – 8075	(79752 – 96900)	1 range, 5 steps
Solano MAD	7419 – 7819	(89028 – 93828)	1 range, 3 steps
North Salinas MAD	6231 – 7572	(74772 – 90864)	1 range, 5 steps
Santa Clara VCD	5985 – 7276	(71820 – 87312)	1 range, 5 steps
Sac-Yolo MVCD	5542 – 6737	(66504 – 80844)	1 range, 5 steps

Lake County VCD and Santa Cruz VCD do not have an FOS/Supervisor/Senior Tech

Mechanic/Mechanical Specialist/Maint. Specialist Vector Biologist/Shop Facilities Asst.

Alameda Co MAD	7618 – 8430	(91416 – 101160)	1 range, 5 steps
Contra Costa MVCD	6126 – 8226	(73512 – 98712)	1 range, 9 steps
Marin-Sonoma MVCD	6750 – 7750	(81000 – 93000)	1 range, 4 steps
Napa MAD	6211 – 7547	(74526 – 90563)	1 range, 5 steps
Sac-Yolo	4560 – 5542	(54720 – 66504)	1 range, 5 steps

A number of Districts do not have a full-time mechanic

Exhibit 6: District Base Wages Comparison FY 17/18

(MVCAC North Coastal Region Districts and those Districts that border Napa County but not part of Coastal Region)

General Manager/Manager/Manager Biologist

North Salinas MVCD	13224 – 16075	(158688 – 192900)	1 range, 5 steps
Marin-Sonoma MVCD	15047	(180564)	1 range, 1 step
Contra Costa MVCD	14844	(178128)	1 range, 1 step
San Mateo MVCD	14333	(172000)	1 range, 1 step
Napa MAD	11495 – 13975	(137967 – 167710)	1 range, 5 steps
Santa Clara VCD	10977 – 13361	(131724 – 160332	1 range, 5 steps
Alameda MAD	12827	(153924)	1 range, 1 step
Sac-Yolo MVCD	12500	(150000)	1 range, 1 step
Santa Cruz MVCD	7993 – 10683	(95916 – 128196)	1 range, 7 steps
Lake Co MVCD	8733 – 10615	(104796 – 127380)	1 range, 5 steps
Solano MAD	10200	(122400)	1 range, 1 step

Administrative Assistant/Senior Admin. Asst./Actg. & Benefits Specialist/Office Manager

Napa MAD	5346 – 8294	(64147 – 99528)	2 ranges, 5 steps each
Contra Costa MVCD	5757 – 7496	(67272 – 87588)	1 range, 7 steps (+1 Admin Asst.)
Solano MAD	7019	(84228)	1 range, 1 step (title Sect. Bookkeeper)
Alameda MAD	5488 – 6670	(65856 – 80040)	1 range, 5 steps (+ Actg. Assoc & Admin Mngr)
San Mateo MVCD	4711 – 6646	(56534 – 79747)	1 range, 7 steps (Office Admin + Acct + Finan)
North Salinas MVCD	4795 – 5827	(57540 – 69924)	1 range, 5 steps
Marin-Sonoma MVCD	4603 – 5329	(55236 – 63948)	1 range, 4 steps (+ reception & Finance Mngr)
Lake County VCD	3866 – 5187	(46394 – 62247)	1 range, 5 steps (does not oversee anyone)
Sac-Yolo MVCD	3240 – 5027	(38880 – 60324)	2 ranges, 5 steps each (Admin and Sr Adm)
Santa Cruz MVCD	3917 – 4952	(47004 – 59424)	1 range, 7 steps (title = Sr Acct Clerk)

Admin Asst. position is difficult to compare as some Districts have divided the duties into multiple positions (e.g. Admin Asst, Receptionist, and Finance Manager), or the titles are different even though many of the duties are very similar (e.g. Secretary/Bookkeeper).

Exhibit 6: District Base Wages Comparison FY 17/18

(MVCAC North Coastal Region Districts and those Districts that border Napa County but not part of Coastal Region)

Lab Director/Entomologist/Biologist/Vector Ecologist (1,2)/Biological Specialist

San Mateo MVCD (Lab Dir)	7525 – 10204	(90300 – 122448)	1 range, 7 steps	supervisor
Contra Costa MVCD (Sci Prog Mgr)	7562 – 9881	(90744 – 118572)	1 range, 7 steps	supervisor
Alameda Co MAD (Lab Dir)	7939 – 9747	(95268 – 116964)	1 range, 5 steps	supervisor
Marin-Sonoma MVCD (Sci Prog Mgr)	8650 – 9729	(103800 – 116748)	1 range, 4 steps	supervisor
Santa Clara VCD (Sci Tech Svc Mgr)	7368 – 8978	(88416 - 107736)	1 range, 5 steps	supervisor
Marin-Sonoma MVCD (Lead Biol)	7932 – 8964	(95184 – 107568)	1 range, 4 steps	
San Mateo MVCD (Vector Ecol)	5966 – 8603	(71592 – 103236)	1 range, 7 steps	
Alameda Co MAD (Biol Spec)	7765 – 8594	(93180 – 103128)	1 range, 5 steps	
Marin-Sonoma MVCD (Biologist)	7555 – 8537	(90660 - 102444)	1 range 4 steps	
Napa Co MAD (Entomologist)	6949 – 8445	(83388 – 101340)	1 range, 5 steps	
Contra Costa MVCD (Vector Ecol II)	6030 – 8203	(72360 – 98436)	1 range, 7 steps	
Sac-Yolo MVCD (Lab Dir)	6737 – 8188	(80844 – 98256)	1 range, 5 steps	supervisor
Solano MAD (Biologist)	6250 – 8019	(75000 – 96228)	1 range, 5 steps	
Contra Costa MVCD (Vector Ecol I)	6303 – 7979	(75636 – 95748)	1 range, 7 steps	
Santa Cruz MVCD (Vector Ecol)	6042 – 7646	(72504 – 91752)	1 range, 7 steps	
North Salinas MAD (Biol/Ed Coord)	5832 – 7087	(69984 – 85044)	1 range, 5 steps	
Sac-Yolo MVCD (Biologist)	5819 – 7073	(69828 – 84876)	1 range, 5 steps	
Lake Co VCD (Entomologist)	3749 – 4558	(44988 – 54696)	1 range, 5 steps	

Some Districts have multiple scientific staff which includes a lab director, scientific program manager or scientific technical services manager that hires and oversees additional scientific staff as well as larger, well-equipped, minimum advanced biosafety level 1 laboratory facilities. Positions listed above are the managerial scientific staff as well as scientific staff that performs vector and vector borne disease surveillance and research.

Exhibit 7: Comparison of Medical, Dental and SDI Benefits

District Name	Medical	EE/ER Contribution Towards Medical Insurance	Dental	EE/ER Dental Contrib.	ER Paid SDI
Alameda MAD	PERS	100/90 formula. ER pays 100% of Kaiser Bay Area/Sac for EE, 90% for dependents	Delta Dental	ER 100%	yes
Contra Costa MVCD	PERS	ER pays 86% of Kaiser rate for northern CA region, EE pays 14%	Delta Dental	ER 100%	no
Lake County VCD	PERS	ER pays 100% EE only	Delta Dental	ER pays 100% EE only	
Marin-Sonoma MVCD	MCERA	District pays up to 80% of Kaiser rate. EE pays $404.75/mo for family Kaiser; $1365.08/mo for Anthem Blue Cross PPO	Delta Dental	ER 100%	yes
Napa MAD	PERS	ER pays 100%	Delta Dental	ER 100%	no
Northern Salinas MAD	PERS	100/66.7 formula. ER pays 100% for EE, 66.7% for dependents		ER 100%	no
Sac-Yolo MVCD	PERS	Cafeteria style with certain insurances mandatory. ER contributes $1000/mo. EE amount varies depending on plan selected		ER 100%	no
San Mateo MVCD	FDAC	ER pays 100%	Delta Dental	ER 100%	no
Santa Clara VCD	PERS	ER pays 100% if Valley Health Plan selected	Delta Dental	ER 100%	no
Santa Cruz MVCD	PERS	95/90 formula. ER pays 95% of lowest cost HMO premium, excluding Kaiser, ($696.63 EE only); 95% for EE+1 & EE+2 or more ($1319.92 and $1715.90). Amount includes PEMHCA minimum	Delta Dental	Varies. Fee for service 80/50 for preventative/major services, 80/60 if go with preferred provider, or 100% with limited orthodontia. For all max use capped at $1200/year per enrollee	yes
Solano MAD	PERS	ER pays up to $1436/mo; EE amount varies depending on plan selected	Health Care Trust	ER 100%	no

EE = Employee
ER = Employer

Exhibit 8: Comparison of Holiday, Vacation, Sick Leave and Other

District Name	Holidays Observed	Vacation	Sick Leave days/year	Night Differential	WorkBoot Allowance	Uniform Req'd/ Provided	Deferred Comp
Alameda MAD	14	12 days, 1-3 yrs 15 days, 4-7 yrs 20 days, 8-12 yrs 25 days 13-35 yrs	12	1.5x comp time for hours worked after 10 PM	yes $190/yr	yes/yes	457, voluntary, 0 match
Contra Costa MVCD	11	10 days, 1 yr 15 days, 2-4 yrs 20 days, 5-9 yrs 25 days, 10-35 yrs	12	no	yes $275/yr	yes/yes	457, voluntary, 0 match
Lake County VCD	12	10 days, 1-5 yrs 15 days, 6-15 yrs 1 day added/yr for yrs 16-19 20 days, 20-35 yrs	12	no	no	yes/yes	457, voluntary, 0 match
Marin-Sonoma MVCD	11	10 days, 1-2 yrs 15 days, 3-8 yrs 20 days, 9-18 yrs 25 days 19-35 yrs	12	no	yes $150/yr	yes/yes	457, voluntary, 0 match
Napa County MAD	14	10 days, 1-5 yrs 15 days, 6-10 yrs 20 days, 15-35 yrs	15	ULV only, $12.50/hr for ULV work performed between 11PM and 9AM	yes $180/yr	no	457, voluntary, 0 match
Northern Salinas MAD	13	15 days, 1-10 yrs 20 days, 11-20 yrs 25 days, 21-35 yrs	15	no	no	yes/yes	457, voluntary, 25% match

Exhibit 8: Comparison of Holiday, Vacation, Sick Leave and Other

District Name	Holidays Observed	Vacation	Sick Leave days/year	Night Differential	WorkBoot Allowance	Uniform Req'd/ Provided	Deferred Comp
Sac-Yolo MVCD	14	12 days, 1-4 yrs 17 days, 5-9 yrs 19 days, 10-14 yrs 22 days, 15-19 yrs 25 days, 20-35 yrs	15	no		yes/yes	401K, new
San Mateo MVCD	13.5	12 days, 0-2 yrs 15 days, 3-6 yrs 19.5 days, 7-11 yrs; 22.5 days, 12-15 yrs; 24 days, 16-25 yrs; 25 days 26-35 yrs	13	no	no	yes/yes	457, voluntary, 0 match
Santa Clara VCD	12	10 days, 1 yr 12 days, 2-4 yrs 16 days, 5-9 yrs 18 days, 10-14 yrs 20 days, 15-19 yrs 22 days, 20-35 yrs	12	$3.30/hr for each hour worked after 11PM and before 7AM	yes $250/yr	yes/yes	457, voluntary, 0 match
Santa Cruz MVCD	12.5	sick leave and vacation replaced with annual leave. 22 days, 1-4 yrs; 27 days, 5-9 yrs; 32 days 10-14 yrs; 37 days 15		$2.00/hr for each hour worked after midnight and before 8AM	no	?	?
Solano MAD	12	10 days, 1-3 yrs 15 days, 4-10 yrs 20 days, 11-20 yrs 25 days, 21-35 yrs	12	no	no	shirt only	457, voluntary, 0 match

Exhibit 9: History of COLA, CPI, Salary Adjustments and Benefit Upgrades

Fiscal Year	M.A.D. COLA	SF Bay CPI (Feb-Feb)	% diff.	Benefits Upgrades
1996/97	2	1.8	0.2	CalPERS Level 4 1959 Survivor Benefit adopted
1997/98	3.5	3.1	0.4	Family Sick Leave increased from 32 to 40 hrs per year
1998/99	3.5	3.4	0.1	100% Health Insurance paid by employer (prior = 95%)
1999/00	2	3.8	-1.8	
2000/01	2.5	4.2	-1.7	Dental upgraded from Plan II to Plan 1. Sick leave accrual increased from 12 to 15 days per year.
2001/02	2	6.5	-4.5	Longevity pay added: 0.5% @ 20 years, 0.5% @ 30 years, Xmas eve added as paid holiday
2002/03	2.5	1.8	0.7	
2003/04	2	3.3	-1.3	Cell phone reimbursement adopted (max $45/mo)
2004/05	2	0.2	1.8	
2005/06	2.5	1.6	0.9	
2006/07	3	2.9	0.1	Workboot allowance increase from $150 to $180
2007/08	4	3.2	0.8	Retirement formula changed from 2.0 @ 55 to 2.7 @ 55
2008/09	3.5	2.8	0.7	
2009/10	2	1.2	0.8	
2010/11	0	1.8	-1.8	
2011/12	2	1.7	0.3	
2012/13	3	3	0.0	Wellness Program increased from $500 to $700/FY
2013/14	2.5	2.4	0.1	
2014/15	2.5	2.5	0.0	
2015/16	2.5	3	-0.5	
2016/17	2.5	3.4	-0.9	$12.50/hr ULV night differential implemented
2017/18	2.5			

Notes: Reclassifications of 1998/99 with increase in wages not included. Nov. 1998 5.6% increase in wages in addition to 3.5% COLA of July 1, 1998

Restructuring of positions 01/02 w/increase in wages not included. Restructuring resulted in 4.6% increase for techs and admin assistant in addition to 2% COLA of July 1, 2001

Increase costs of benefits (medical, dental, life) not included

Cumulative % difference from fiscal year 96/97 through fiscal year 2016/17 equals -5.6 % between MAD COLA and SF CPI.

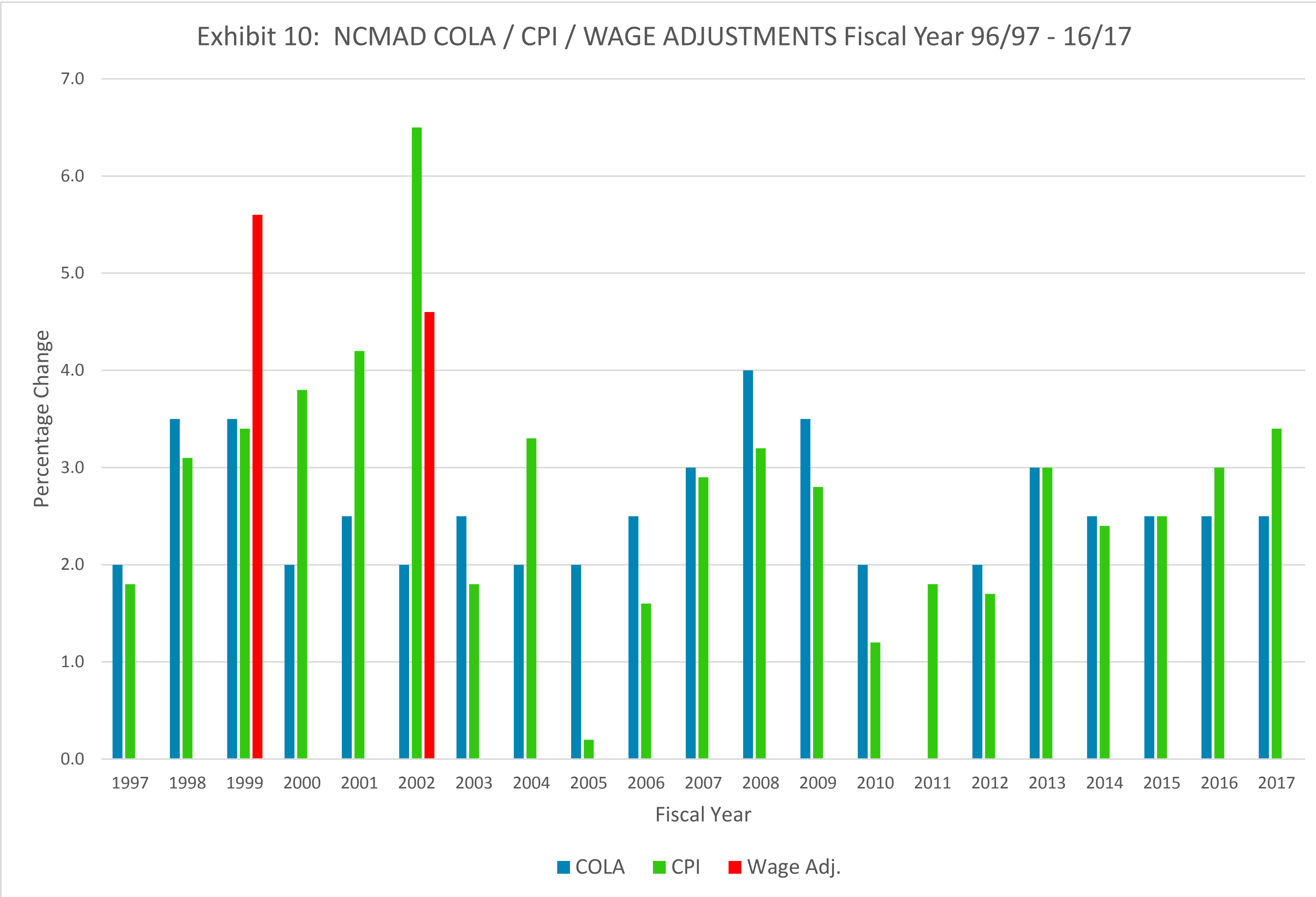


Exhibit 10: NCMAD COLA / CPI / WAGE ADJUSTMENTS Fiscal Year 96/97 - 16/17
Percentage Change
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Fiscal Year
COLA
CPI
Wage Adj.

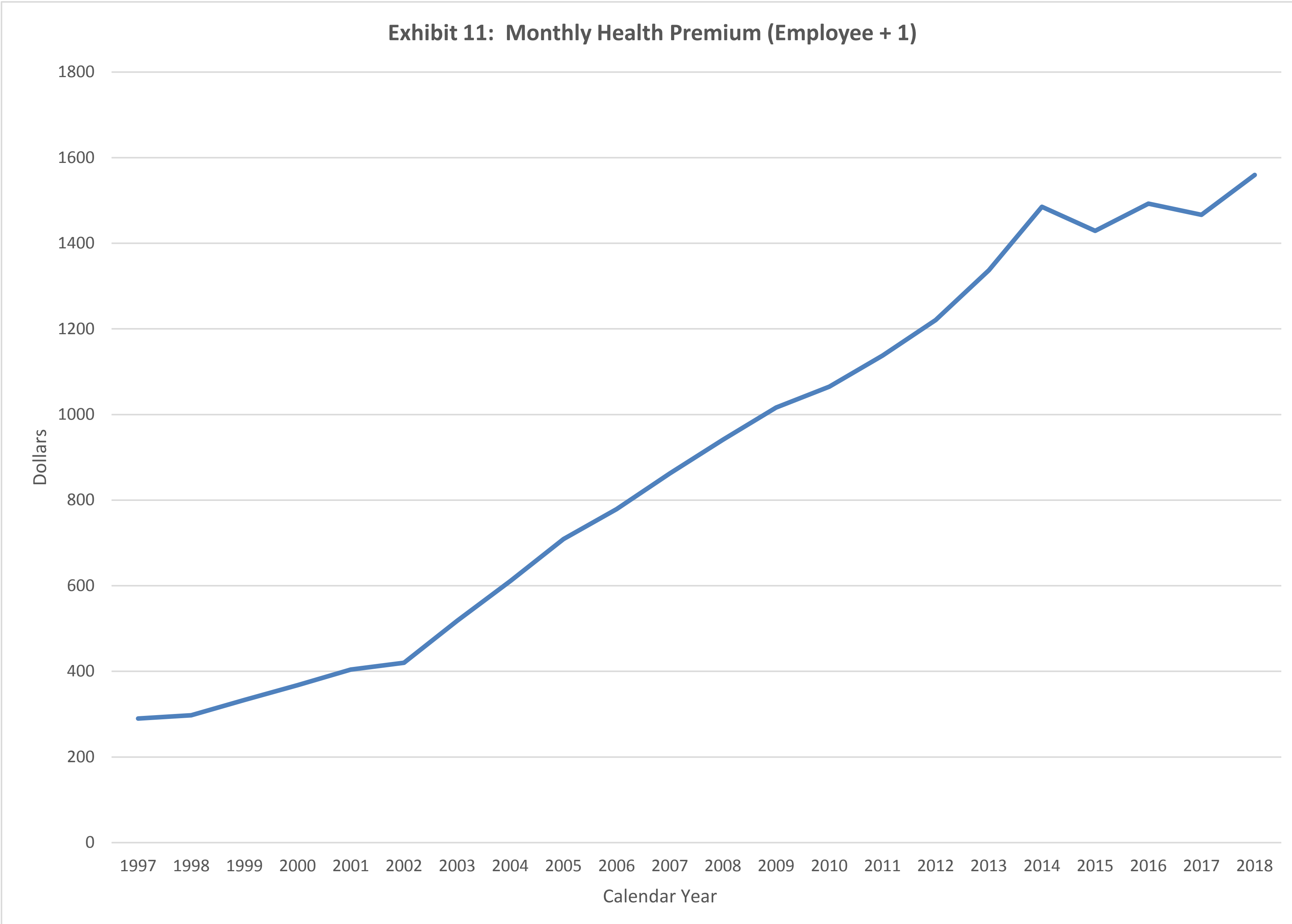


Exhibit 11: Monthly Health Premium (Employee + 1)
1800
1600
1400
1200
1000
800
600
400
200
0
Dollars
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Calendar Year

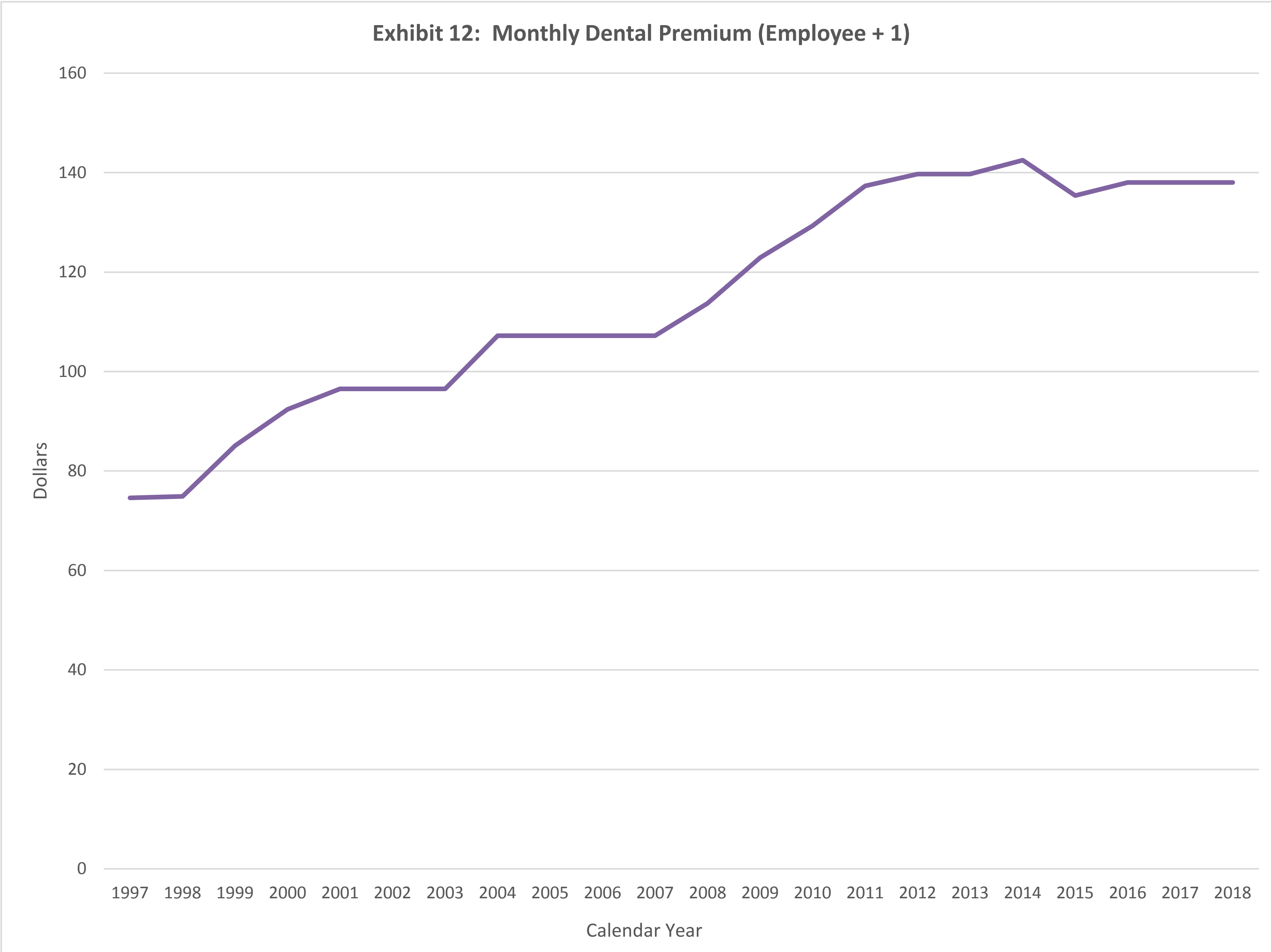


Exhibit 12: Monthly Dental Premium (Employee + 1)
160
140
120
100
80
60
40
20
0
Dollars
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Calendar Year

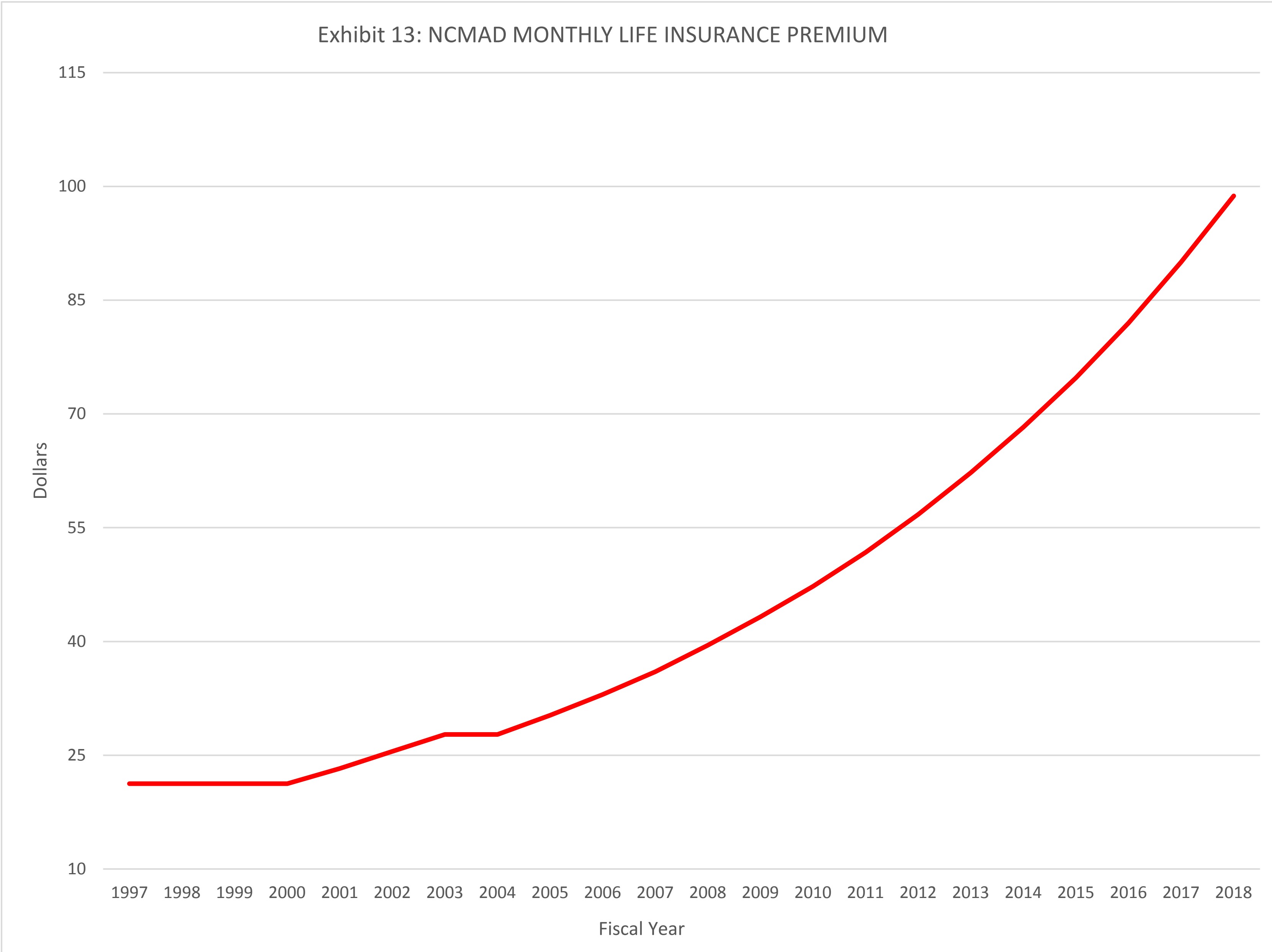


Exhibit 13: NCMAD MONTHLY LIFE INSURANCE PREMIUM
115
100
85
70
55
40
25
10
Dollars
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Fiscal Year

Exhibit 14: 22-Year NCMAD COLA, CPI, and Benefits Cost Spreadsheet

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Health	$ 289.90	$ 297.66	$ 333.46	$ 368.12	$ 404.42	$ 420.34	$ 518.42	$ 610.84	$ 709.38	$ 778.76	$ 862.34	$ 941.34	$ 1,016.60	$ 1,065.12	$ 1,137.98	$ 1,220.88	$ 1,337.26	$1,485.44	$1,428.90	$1,492.94	$1,466.78	$1,559.72	
%↑	0.00	2.68	12.03	10.39	9.86	3.94	23.33	17.83	16.13	9.78	10.73	9.16	7.99	4.77	6.84	7.28	9.53	11.08	(3.81)	4.48	(1.75)	6.34	8.12
Dental	$ 74.60	$ 74.90	$ 85.10	$ 92.40	$ 96.50	$ 96.50	$ 96.50	$ 107.20	$ 107.20	$ 107.20	$ 107.20	$ 113.70	$ 122.90	$ 129.30	$ 137.30	$ 139.70	$ 139.70	$142.50	$135.40	$138.00	$138.00	$138.00	
%↑	0.00	0.01	13.62	8.58	4.44	0.00	0.00	11.09	0.00	0.00	0.00	6.06	8.09	5.21	6.19	1.75	0.00	2.00	-4.99	1.92	0.00	0.00	2.91
Life	$ 21.25	$ 21.25	$ 21.25	$ 21.25	$ 23.25	$ 25.50	$ 27.75	$ 27.75	$ 30.25	$ 33.00	$ 36.00	$ 39.50	$ 43.25	$ 47.25	$ 51.75	$56.75	$62.25	$68.25	$74.75	$82.00	$90.00	$98.75	
%↑	0.00	0.00	0.00	0.00	9.41	9.68	8.82	0.00	9.01	9.09	9.09	9.72	9.49	9.25	9.52	9.66	9.69	9.64	9.52	9.70	9.76	9.72	7.31
CPI	3.1	3.4	3.8	4.2	6.5	1.8	3.3	0.2	1.6	2.9	3.2	2.8	1.2	1.8	1.7	3	2.4	2.4	2.5	3	3.4		2.77
COLA	3.5	3.5	2	2.5	2	2.5	2	2	2.5	3	4	3.5	2	0	2	3	2.5	2.5	2.5	2.5	2.5		2.5

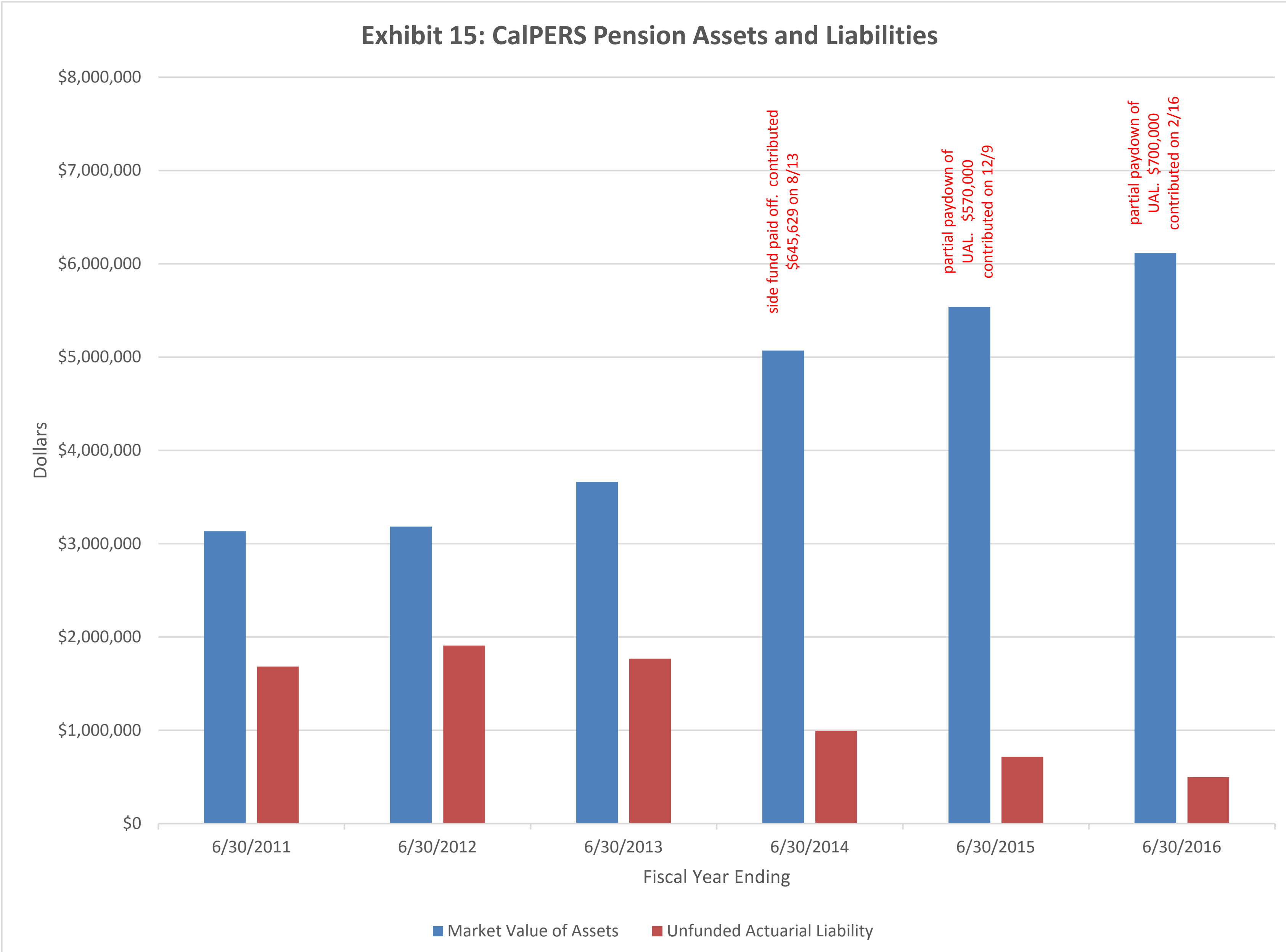
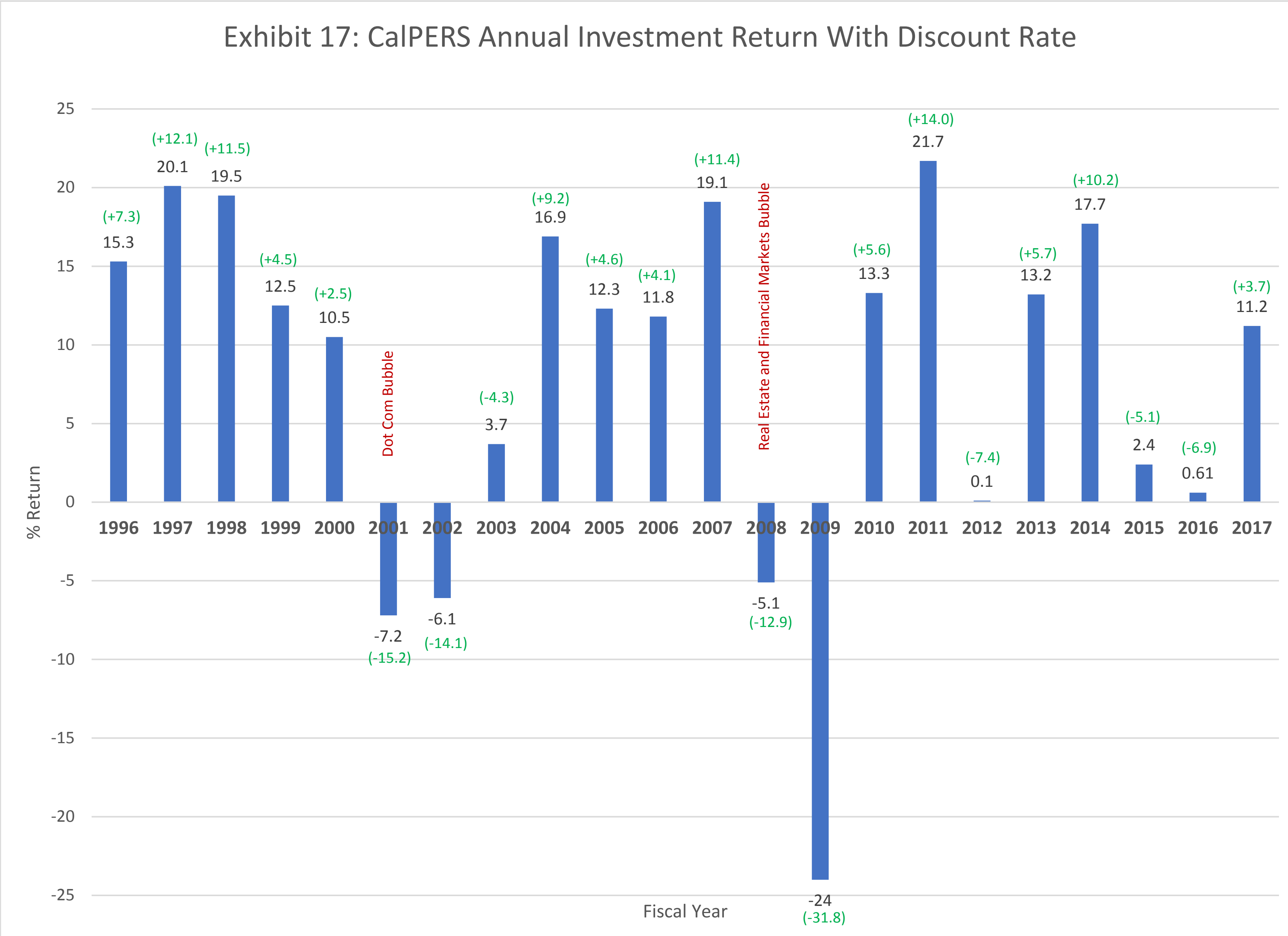


Exhibit 15: CalPERS Pension Assets and Liabilities
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
Dollars
side fund paid off. contributed $645,629 on 8/13
partial paydown of UAL. $570,000 contributed on 12/9
partial paydown of UAL. $700,000 contributed on 2/16
6/30/2011
6/30/2012
6/30/2013
6/30/2014
6/30/2015
6/30/2016
Fiscal Year Ending
Market Value of Assets
Unfunded Actuarial Liability

Exhibit 16: District CalPERs Pension Assets and Liabilities Spreadsheet						
Fiscal Year	**Market Value of Assets**	**Unfunded Actuarial Liability**	**Funded Status**	**CalPERS Invest Return**	**Add'l Contributions**	**Notes**
6/30/2011	3,132,876	1,683,681	65%	21.70%		
6/30/2012	3,184,620	1,909,332	62.50%	0.20%		
6/30/2013	3,664,045	1,766,823	67.50%	13.20%		
6/30/2014	5,071,434	995,821	83.60%	17.70%	645,629 on 8/13	side fund payoff
6/30/2015	5,538,535	716,351	88.50%	2.40%	570,000 on 12/9	partial paydown UAL
6/30/2016	6,115,607	499,471	92.40%	0.61%	700,000 on 2/16	partial paydown UAL



GREEN NUMBERS
(+) = return above CalPERS discount rate
(-) = adverse return year compounded with CalPERS discount rate

NOTE: CalPERS discount rate 8% for years 1996 - 2003; 7.75% for years 2004 - 2011; 7.5% for years 2012 - 2017

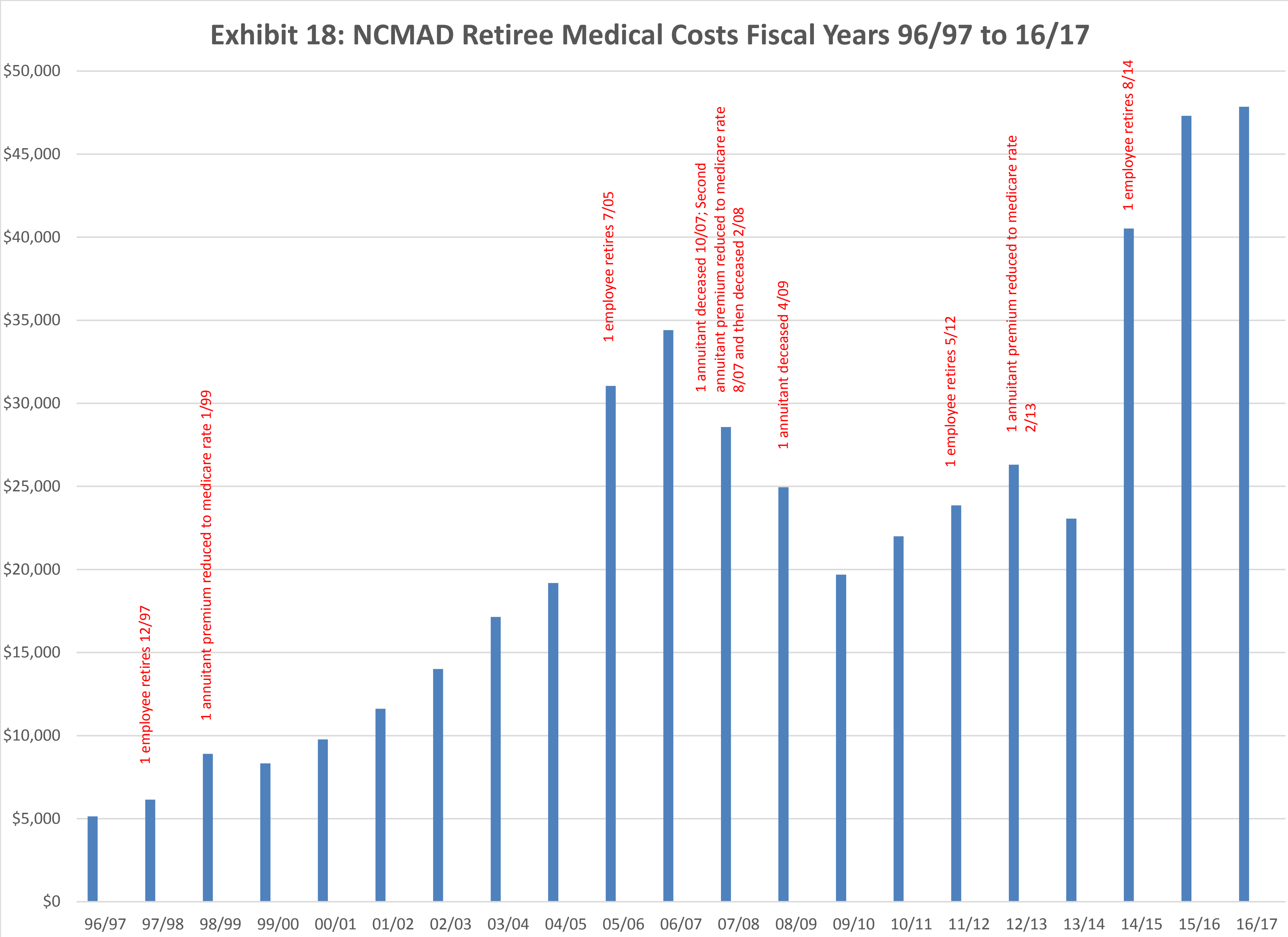


Exhibit 18: NCMAD Retiree Medical Costs Fiscal Years 96/97 to 16/17
$50,000
$45,000
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
96/97
97/98
98/99
99/00
00/01
01/02
02/03
03/04
04/05
05/06
06/07
07/08
08/09
09/10
10/11
11/12
12/13
13/14
14/15
15/16
16/17
1 employee retires 12/97
1 annuitant premium reduced to medicare rate 1/99
1 employee retires 7/05
1 annuitant deceased 10/07; Second annuitant premium reduced to medicare rate 8/07 and then deceased 2/08
1 annuitant deceased 4/09
1 employee retires 5/12
1 annuitant premium reduced to medicare rate 2/13
1 employee retires 8/14

Exhibit 19: NCMAD Retiree Medical Costs 96/97 to 16/17 (Data)		
Fiscal Year	**Retiree Medical**	**Notes**
96/97	$ 5,143.80	
97/98	$ 6,149.95	1 employee retires 12/97
98/99	$ 8,901.00	1 annuitant premium reduced to medicare rate
99/00	$ 8,328.72	
00/01	$ 9,763.56	
01/02	$ 11,619.96	
02/03	$ 14,004.25	
03/04	$ 17,149.00	
04/05	$ 19,184.08	
05/06	$ 31,050.62	1 employee retires 7/05
06/07	$ 34,410.44	
07/08	$ 28,571.26	1 annuitant deceased 10/07; Second annuitant premium reduced to medicare rate 8/07 and then deceased 2/08
08/09	$ 24,943.67	1 annuitant deceased 4/09
09/10	$ 19,689.69	
10/11	$ 22,002.24	
11/12	$ 23,853.12	1 employee retires 5/12
12/13	$ 26,313.01	1 annuitant premium reduced to medicare rate
13/14	$ 23,063.82	
14/15	$ 40,527.81	1 employee retires 8/14
15/16	$ 47,311.47	
16/17	$ 47,851.02	

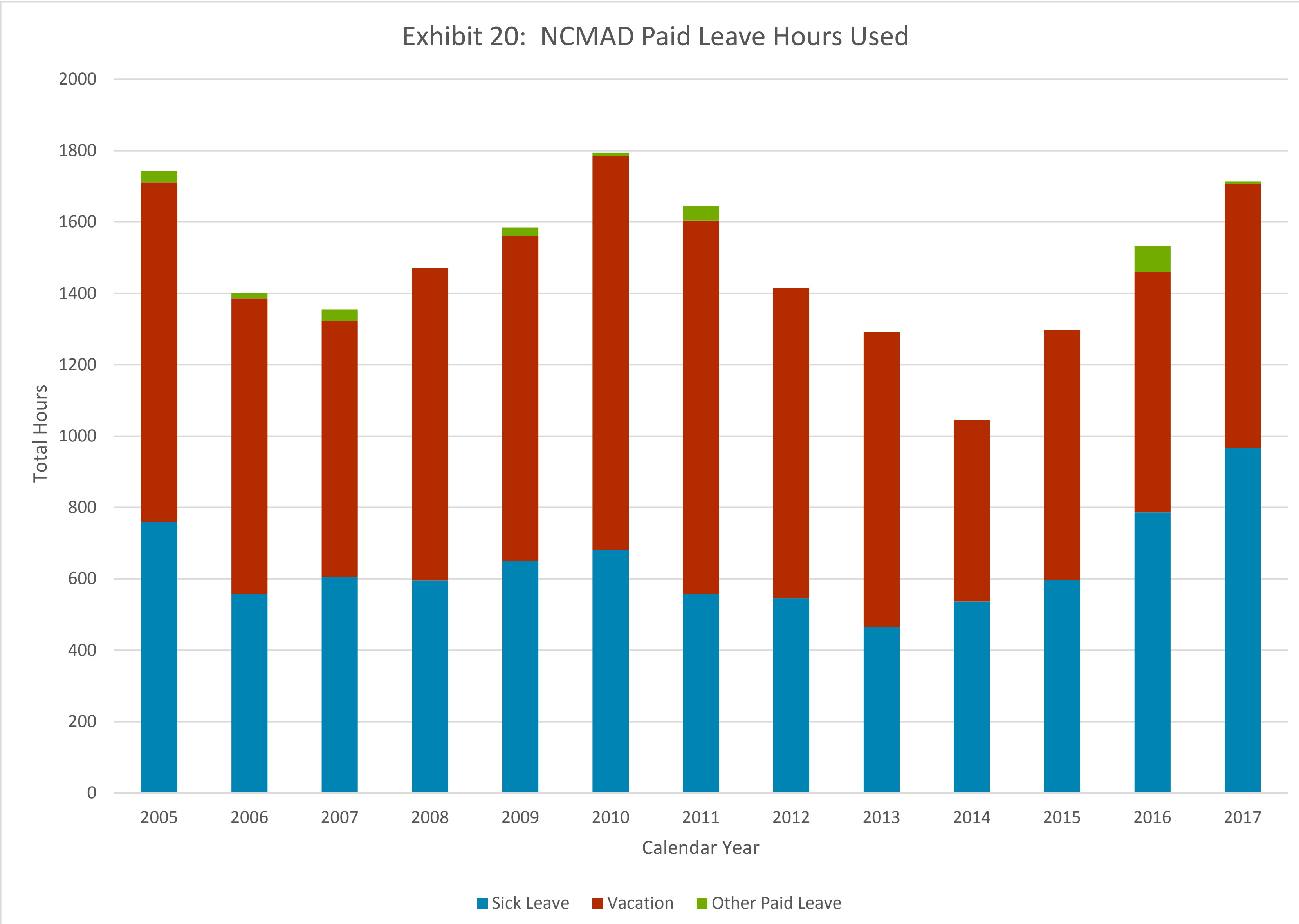


Exhibit 20: NCMAD Paid Leave Hours Used
2000
1800
1600
1400
1200
1000
800
600
400
200
0
Total Hours
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Calendar Year
Sick Leave
Vacation
Other Paid Leave

Exhibit 21: NCMAD Paid Leave Usage 2005 to 2017

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sick Leave	759.5	558	605.5	595	651.5	681.5	558	546.3	465.45	537	597.5	786.4	966.3
Vacation	951.5	827.5	717	876.5	909.5	1104.5	1046.5	868.25	826.2	509.15	700.3	673.5	739.2
Other Paid Leave	32	16	32	0	24	8	40	0	0	0	0	72	8
Total	1743	1401.5	1354.5	1471.5	1585	1794	1644.5	1414.55	1481.85	1046.15	1297.8	1531.9	1713.5
No. Staff	7	7	8	8	8	8	7	7	7	6	7	7	7

Note: Number of staff and leave usage is for all staff except the District Manager. Leave time for 2017 does not include paid time off during the October Napa and Sonoma County fires.

Percentage of Total Annual Work Hours Taken as Paid Leave, With and Without Holiday Pay

Total Work Hours	14560	14560	16640	16640	16640	16640	14560	14560	14560	12480	14560	14560	14560
% PTO no Holiday Hours	12.0%	9.6%	8.1%	8.8%	9.5%	10.8%	11.3%	9.7%	10.2%	8.4%	8.9%	10.5%	11.7%
Total Paid Holiday Hours	784	784	896	896	896	896	784	784	784	672	784	784	784
% PTO w/ Holiday Hours	17.4%	15.0%	13.5%	14.2%	14.9%	16.2%	16.7%	15.1%	15.6%	13.8%	14.3%	15.9%	17.1%

Note: PTO = paid time off

Exhibit 22: Total NCMAD Service Calls By Program 2005-2016

Fiscal Year	Mosquitoes	Yellowjackets	Rodents	Ticks	Other	Total
2005	1252	311	39	1	19	1622
2006	1873*	153	27	0	13	2066
2007	857	147	29	0	12	1045
2008	988	258	16	0	16	1278
2009	978	145	6	0	10	1139
2010	966	145	9	1	17	1138
2011	1130	126	20	0	21	1297
2012	828	181	21	0	13	1043
2013	904	304	23	2	18	1251
2014	964	202	16	1	29	1212
2015	984	185	22	0	16	1207
2016	1305**	96	11	0	21	1433
Average	**1085.8**	**187.8**	**19.9**	**0.4**	**17.1**	**1310.9**

* High number of service calls due to extensive West Nile Virus media coverage

** High number of mosquito calls due to extensive Zika Virus coverage.

Exhibit 23: District Wages Comparison FY 1998/1999

(MVCAC North Coastal Region Districts and those Districts that border Napa County but not part of Coastal Region)

Administrative Assistant/Secretary

Marin Sonoma MVCD	4696
Alameda Co MAD	4043 – 4246
Lake County VCD	2764 – 3617
Solano Co MAD	2000 – 3560
Contra Costa MVCD	2970 – 3515
San Mateo MVCD	2564 – 3475
Sac-Yolo MVCD	2658 – 3232
North Salinas MAD	2509 – 3048
Santa Clara VCD	2370 – 2859
Napa Co MAD	2318 – 2814
Santa Cruz VCD	n/a, part of Ag. Dept., does not have

Vector Biologist/Technician/Operator

Santa Clara VCD	3142 – 3996
Contra Costa MVCD	3496 – 3943
San Mateo MVCD	2828 – 3854
Alameda Co MAD	3168 – 3851
Lake County VCD	2833 – 3708
Sac Yolo MVCD	3232 – 3658
Marin Sonoma MVCD	3072 – 3591
Napa MAD	2945 – 3579
Solano MAD	1600 – 3560
North Salinas MAD	2850 – 3398
Santa Cruz VCD	2621 – 3370

Manager

Contra Costa MVCD	6150 – 8130
San Mateo MVCD	5187 – 7096
Alameda Co MAD	5389 – 6551
Sac-Yolo MVCD	6417
Marin-Sonoma MVCD	6344
Santa Clara VCD	5174 – 6292
Solano MAD	4500 – 5859
North Salinas MAD	4798 – 5831
Lake County VCD	4418 – 5783
Napa Co MAD	4281 – 5203
Santa Cruz VCD	n/a, part of Ag. Dept., has Asst. Manager only

Appendices

1. Copy of NCMAD Employee Compensation and Reimbursement Package MOU for Fiscal Years 13/14 – 17/18
2. CIGNA Cadillac Tax Fact Sheet
3. Government.com Article – Obamacare's Cadillac Tax Forces a Tough Decision on Governments, November 2013
4. CalPERS CERBT Strategy 2 September 30, 2017 Fact Sheet
5. California Economic Forecast September 2017 Report Excerpt for Napa County
6. California Center for Jobs & the Economy November 2017 Report Excerpt for Napa County
7. Napa County Growth Information and Ordinances
8. Pension Debt Articles
9. CalPERS 1959 Survivor Benefit Program
10. California Public Employees' Pension Reform Act (PEPRA)
11. Santa Clara County Grand Jury May 17, 2012 Pension and Other Post-Employment Benefits (OPEB) Analysis Report

1. Employee Compensation and Reimbursement Package
   MOU for Fiscal Years 2013/14 – 2017/18

EMPLOYEE COMPENSATION & REIMBURSEMENT PACKAGE

EFFECTIVE FOR FISCAL YEARS 2013/14, 2014/15, 2015/16, 2016/17 & 2017/18

The terms of the approved package stated below will be reviewed annually, and may be re-negotiated by the Napa County Mosquito Abatement District Board of Trustees.

Cost of Living Salary Increase (COLA)
A 2.5% increase to be effective the first pay period of July 2013, July 2014, July 2015, July 2016 and July 2017.

Health Insurance
The District will cover the full benefit amount and any increases to health insurance premiums through fiscal year 2017/18.

Dental Insurance
The District will cover the full benefit amount and any increases to dental insurance premiums through fiscal year 2017/18.

Life Insurance
The District will cover the full benefit amount and any increases to life insurance premiums through fiscal year 2017/18.

Boot Allowance
Each employee (excluding admin staff) can receive up to a maximum of $180.00 per fiscal year.

Cell Phone Reimbursement
Each employee (excluding admin staff) can receive up to a maximum of $540.00 per fiscal year.

Continuing Education
Each employee attends two workshops per year at a cost of $80.00 per year.

State Certification Card Renewal Fee
Each applicable employee maintains a California Vector Control Certification Card at a cost of $120.00 per year.

Wellness Program
Each employee can be reimbursed up to a maximum of $700.00 per fiscal year for health club membership.

PERS 1959 Survivor Benefit Level 4 (Maximum Level)
The District paid $384.00 in fiscal year 2012/13. The District will cover the full benefit amount and any increases through fiscal year 2017/18. The latest information projects no increase in cost.

PERS Retirement Contribution
Each employee pays 8% of their salary to PERS as their share of the retirement cost. The rate for the District in fiscal year 2013/14 is 16.707% (as of September 1, 2013). The District will continue to cover the full cost above 8%, exclusive of any changes in retirement law, for fiscal year 2013/14 thru fiscal year 2017/18.

Other Post Employment Benefit (OPEB - GASB45)
Each retired employee currently receives some level of medical insurance paid by the District. GASB45 required $34,857.00 be deposited into a dedicated trust fund in addition to retiree medical premiums paid by the District for fiscal year 2012/13. Future OPEB contributions to be determined by actuarial analysis.

Ayes: Cabral, Johnson, Lamb, Rosa, Valentine **Noes: -0- Absent: -0- Abstain: Carbone**

Signed:

President, Board of Trustees

Attest:

Secretary, Board of Trustees

COPY

2. CIGNA Cadillac Tax Fact Sheet

CADILLAC TAX FACT SHEET

INFORMED ON REFORM

Overview

On January 22, 2018, Congress passed and the President signed a two-year delay of the 40% excise tax on high-cost employer-sponsored health plans, also known as the "Cadillac Tax." This delay was part of a short-term federal spending bill and changes the effective date from 2020 to 2022. The tax was delayed once before through the Consolidated Appropriations Act of 2016.

No regulations have been issued to date. In February and July 2015, the Internal Revenue Service (IRS) issued notices covering a number of issues concerning the Cadillac Tax, and requested comments on the possible approaches that could ultimately be incorporated into proposed regulations. While the tax was originally non-tax deductible, the December 2015 changes make it tax deductible for employers who pay it.

	CADILLAC TAX
What it is/ fee duration	Permanent, annual tax beginning in 2022 on high-cost employer-sponsored health coverage.
Purposes	› Reduce tax preferred treatment of employer provided health care › Reduce excess health care spending by employees and employers › Help finance the expansion of health coverage under the Affordable Care Act (ACA)
Amount	› The tax is 40% of the cost of health coverage that exceeds predetermined threshold amounts. › Cost of coverage includes the total contributions paid by both the employer and employees, but not cost-sharing amounts such as deductibles, coinsurance and copays when care is received. › For planning purposes, the thresholds for high-cost plans are currently $10,200 for individual coverage, and $27,500 for family coverage. › These thresholds will be updated before the tax takes effect in 2020 and indexed for inflation in future years. › The thresholds will also be increased: – If the majority of covered employees are engaged in specified high-risk professions such as law enforcement and construction, and – For group demographics including age and gender. (The December 2015 law calls for a study on how to determine these adjustments.) › For pre-65 retirees and individuals in high-risk professions, the threshold amounts are currently $11,850 for individual coverage and $30,950 for family coverage. These amounts will also be indexed before the tax takes effect.

Together, all the way.®

Cigna®

	CADILLAC TAX
Who calculates and pays	**Insured:** Employers calculate and insurers pay **Self-funded:** Employers calculate and "the person who administers the plan benefits" pays **HSAs and Archer MSAs:** Employers calculate and employers pay
How a group health plan's cost is determined	› The tax is based on the total cost of each employee's coverage above the threshold amount. › The cost includes contributions toward the cost of coverage made by employers and employees. › The statute states that costs of coverage will be calculated under rules similar to the rules for calculating COBRA premium.
How the tax will be paid	Forms and instructions for paying the tax are not yet available.
Tax implications	Based on the December 2015 changes, Cadillac Tax payments will be deductible for federal tax purposes.
Applicable types of coverage	› Insured and self-insured group health plans (including behavioral, and prescription drug coverage) › Wellness programs that are group health plans (most wellness programs) › Health Flexible Spending Accounts (FSAs) › Health Savings Accounts (HSAs), employer and employee pre-tax contributions* › Health Reimbursement Accounts (HRAs)* › Archer Medical Savings Accounts (MSAs), all pre-tax contributions* › On-site medical clinics providing more than de minimis care* › Executive Physical Programs* › Pre-tax coverage for a specified disease or illness › Hospital indemnity or other fixed indemnity insurance › Federal/State/Local government-sponsored plans for its employees › Retiree coverage › Multi-employer (Taft-Hartley) plans
Excluded types of coverage	› U.S.-issued expatriate plans for most categories of expatriates › Coverage for accident only, or disability income insurance, or any combination thereof › Supplemental liability insurance › Liability insurance, including general liability insurance and automobile liability insurance › Worker's compensation or similar insurance › Automobile medical payment insurance › Credit-only insurance › Other insurance coverage as specified in regulations under which benefits for medical care are secondary or incidental to other insurance benefits › Long Term Care › Standalone dental and vision* › Coverage for the military sponsored by federal, state or local governments* › Employee Assistance Programs* › Employee After-Tax Contributions to HSAs and MSAs* › Coverage for a specified disease or illness and hospital indemnity or other fixed indemnity insurance if payment is not excluded from gross income

*As indicated by IRS notice issued on February 23, 2015 and subject to future regulatory clarification.

How it works: Examples based on current threshold amounts

Note: These threshold amounts will be indexed before the tax takes effect in 2022.

Self-only coverage

A $12,000 individual plan would pay an excise tax of $720 per covered employee:

$12,000 – $10,200 = $1,800 above the $10,200 threshold

$1,800 x 40% = $720

Family coverage

A $32,000 family plan would pay an excise tax of $1,800 per covered employee:

$32,000 – $27,500 = $4,500 above the $27,500 threshold

$4,500 x 40% = $1,800

These charts show how the tax increases as the plan's cost increases.

Self-only coverage

Plan Cost	$11,000	$12,000	$13,000	$14,000	$15,000
Tax	$320	$720	$1,120	$1,520	$1,920

Family coverage

Plan Cost	$28,000	$30,000	$32,000	$34,000	$36,000
Tax	$200	$1,000	$1,800	$2,600	$3,400

3. **Government.com Article – Obamacare's Cadillac Tax Forces Tough Decision on Governments, November 2013**

Obamacare's Cadillac Tax Forces a Tough Decision on Governments

The law's new excise tax on high-cost health insurance plans leaves government officials with three choices -- all of which have undesirable consequences.

BY: | November 2013

For years, the philosophy on compensation for public-sector workers has been fairly straightforward: The pay isn't always great, but the benefits are. But that's changing, and the political implications could be big for public officials.

Under the terms of the Obama health reform law, so-called "Cadillac" health insurance plans worth more than $10,200 for individuals or $27,500 for families face a 40 percent excise tax starting in 2018. The logic behind the plan is that rapidly exploding health costs are driven partly by overconsumption of health-care services by Americans who have little skin in the game thanks to low co-pays and deductibles. The goal is to tax the most generous Cadillac plans to drive people toward plans that make them contribute more. Taxes collected from those who stay in Cadillac plans could be used to fund other aspects of the law.

But these taxes are proving be a thorn in the sides of public-sector employers and workers, who have long understood that strong health-care benefits are often granted in lieu of less-than-stellar pay. Because the threshold is indexed to inflation—not health-care costs, which historically increase at a much faster rate—the assumption is that more plans will be subject to the tax each year. Already, it's started coming up in multiyear negotiations between governments and workers.

The Cadillac tax will be levied on health insurance companies, which many expect will pass the tax along to governments. That leaves government officials with a big decision: They can cut employees' health plans so they fall below the Cadillac threshold; pass the tax cost on to workers; or eat the tax themselves and make other budget cuts. Each choice has consequences. "Quite honestly, the decision is almost unmakeable for a local official," says Sonny Brasfield, executive director of the Association of County Commissions of Alabama.

Read the rest of this month's magazine issue.

The feds estimate that 12 percent of all insured workers will be in plans affected by the excise tax in 2019. It's hard to say how many of that percentage will be public-sector workers, but most assume they'll be impacted at a much higher rate than the average worker. Barbara VanEpps, deputy director of the New York State Conference of Mayors and Municipal Officers, estimates that at least two-thirds of her members' employees could be impacted. She says her organization is trying to educate both sides about the tax so that when it's time to negotiate, it's something employers and employees will understand.

Unlike private-sector CEOs—who might damage their relationship with employees but wouldn't risk losing their own jobs—the stakes are higher for government leaders who cut benefits. Politically powerful unions could cost officials their jobs if they're unhappy with potential health-care cuts. If taxes have to rise or other services are cut to pay the Cadillac fee, then elected officials will likely anger taxpayers. Essentially, state and local politicians are in the unenviable position of being thrown into a fight they didn't even pick.

The unions initially scored a victory by delaying the tax until 2018, and some cynics say they'll use the time to continue fighting for its repeal. But already its impact is starting to be felt. In Orange County, Calif., for example, the Newport-Mesa Unified School District reportedly predicts the tax could cost $2.3 million in its first year. (Three public unions—the American Federation of State, County and Municipal Employees; the American Federation of Teachers; and the International Association of Fire Fighters—didn't comment for this story.)

4. CalPERS CERBT Strategy 2 September 30, 2017 Fact Sheet

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 2

CalPERS

September 30, 2017

Objective

The objective of the CERBT Strategy 2 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 2 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under "Composition". Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 1 and Strategy 3, this portfolio consists of a moderate allocation of equities, bonds, and other assets. Historically, equities have displayed greater price volatility and therefore, this portfolio may experience comparatively less fluctuation of value compared to CERBT Strategy 1 but more fluctuation of value compared to CERBT Strategy 3. Employers that seek a moderate approach to investing may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes, in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end, the aggregate total of assets under management for all CERBT Strategies was

$7,264,870,239.

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 2 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation[1]	Target Range	Benchmark
Global Equity	40%	± 2%	MSCI All Country World Index IMI (net)
Fixed Income	39%	± 2%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	10%	± 2%	Bloomberg Barclays U.S. TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 2%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	± 2%	S&P GSCI Total Return Index

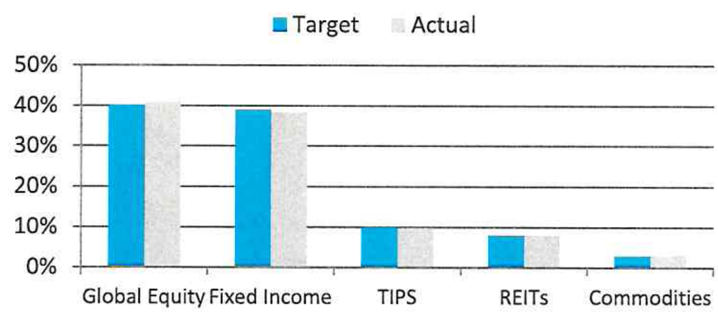
[1] Allocations approved by the Board at the October 2014 Investment Committee meeting

Portfolio Benchmark

The CERBT Strategy 2 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



CERBT Strategy 2 Performance as of September 30, 2017							
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (October 1, 2011)
Gross Return[1,3]	0.59%	3.05%	3.05%	7.51%	5.10%	6.27%	7.94%
Net Return[2,3]	0.58%	3.03%	3.03%	7.42%	5.01%	6.15%	7.82%
Benchmark returns	0.54%	2.98%	2.98%	6.90%	4.66%	5.85%	7.62%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.

*Returns for periods greater than one year are annualized.

[1] Gross performance figures are provided net of SSGA operating expenses.

[2] Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.

[3] See the Expense section of this document.

California Employers' Retiree Benefit Trust (CERBT)

CERBT Strategy 2

September 30, 2017

General Information

Information Accessibility

The CERBT Strategy 2 portfolio consists of assets managed internally by CalPERS and/or external advisors. Since it is not a mutual fund, a prospectus is not available nor is information available from a newspaper source. This summary is designed to provide descriptive information. CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and current performance information, including performance to the most recent month-end, please visit our website at: **www.calpers.ca.gov**.

Portfolio Manager Information

The CalPERS Investment Committee and Board of Administration directs the investment strategy and investments of the CERBT. Under that direction, CalPERS Investment staff manages fixed income, treasury inflation-protected securities and commodities assets; and State Street Global Advisors (SSGA) manages the global equity and real estate investment trust assets.

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as record keeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the fee, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage the global equity and real estate trust assets, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per share. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or market conditions. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

What Employers Own

Each employer choosing CERBT Strategy 2 owns a percentage of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily, based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits. CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives nor provide sufficient funding to meet these employer obligations. Further, CalPERS will not make up the difference between actual health care premiums for payment of future benefits provided to retirees should CERBT assets not be sufficient to cover future obligations.

An investment in the portfolio is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at **www.calpers.ca.gov**.

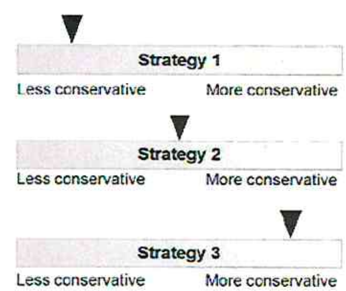
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit **www.calpers.ca.gov** and follow the links to California Employers' Retiree Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	57%	40%	24%
Fixed Income	27%	39%	39%
Treasury Inflation-Protected Securities	5%	10%	26%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	3%	3%



5. California Economic Forecast – September 2017 Report Excerpt for Napa County

California County-Level Economic Forecast 2017-2050

CALIFORNIA Economic Forecast

CALIFORNIA REPUBLIC

Caltrans

California County-Level Economic Forecast 2017 - 2050

September 2017

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Napa County Economic Forecast

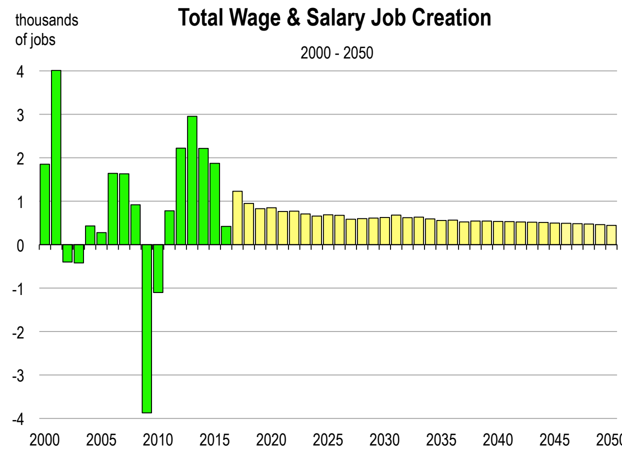
Napa County is home to the Napa Valley, a popular tourist destination known for wine grapes and premium wine production. Napa County has a population of 142,300 people and a total of 76,000 wage and salary jobs. The per capita income in Napa County is $64,279, and the average salary per worker is $62,797.

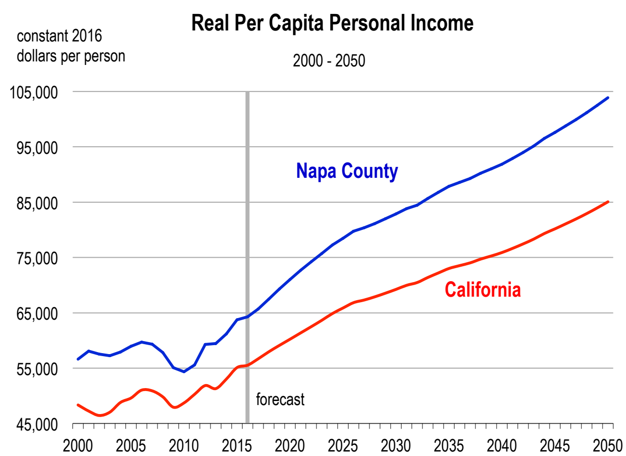
Wine grapes account for 99 percent of all agricultural output in Napa County. Red grapes are dominant in the region, with a total value that is almost 5 times than that of white grapes. The viticulture industry also attracts a large number of tourists to the county each year, generating a substantial amount of economic activity.

In 2016, employment in Northern California increased by 3.2 percent, whereas employment in the greater Bay Area grew by 3.3 percent. In Napa County, a total of 420 jobs were created, representing a growth rate of 0.6 percent. Non-farm employment increased by 0.7 percent, while farm employment decreased by 1.2 percent. The unemployment rate improved during the year, falling from 4.6 percent in 2015 to 4.3 percent in 2016.

During 2016, the largest employment increases were observed in government (+330 jobs), healthcare and education (+110 jobs), and wholesale and retail trade (+80 jobs). The largest losses were observed in construction (-180 jobs), agriculture (-60 jobs), and information (-30 jobs).

Between 2011 and 2016, the population of Napa County grew at an annual average rate of 0.7 percent. Net migration accounted for almost 75 percent of this growth, with an average of 740 net migrants entering the county each year.



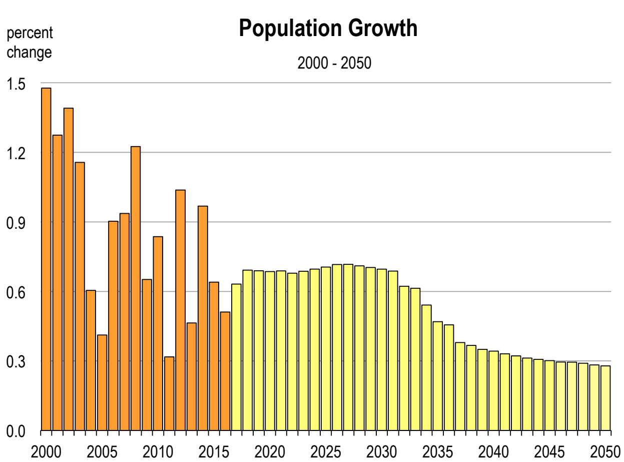


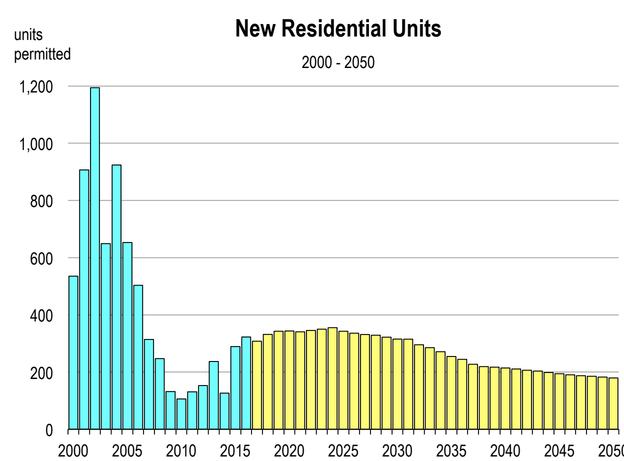
Forecast Highlights

- Job growth of 1.6 percent is expected in 2017. Between 2017 and 2022, the annual growth rate for total wage and salary jobs will average 1.1 percent.
- Average salaries are below the California average, and will remain so over the foreseeable future. In Napa County, inflation-adjusted salaries are expected to rise by 2.7 percent per year from 2017 to 2022.
- Between 2017 and 2022, job creation will be concentrated in leisure services, professional and business services, and manufacturing. Together, these industries will account for 59 percent of net job creation in the county.
- Population growth is expected to average 0.7 percent per year from 2017 to 2022.
- During the 2017-2022 period, an average of 715 net migrants will enter the county each year, accounting more than 70 percent of all population growth.
- Real per capita income will rise by 2.2 percent in 2017. From 2017 to 2022, real per capita income is expected to increase by 2.5 percent per year.
- Total taxable sales, adjusted for inflation, are expected to increase by an average of 1.4 percent per year between 2017 and 2022.
- Industrial production is expected to rise by 6.4 percent in 2017. From 2017 to 2022, industrial production will grow at an average rate of 2.6 percent per year.
- Farm production is expected to increase by 1.2 percent per year between 2017 and 2022. Wine grapes will continue to account for the vast majority of all output.

Napa County Economic Forecast
2010-2016 History, 2017-2050 Forecast

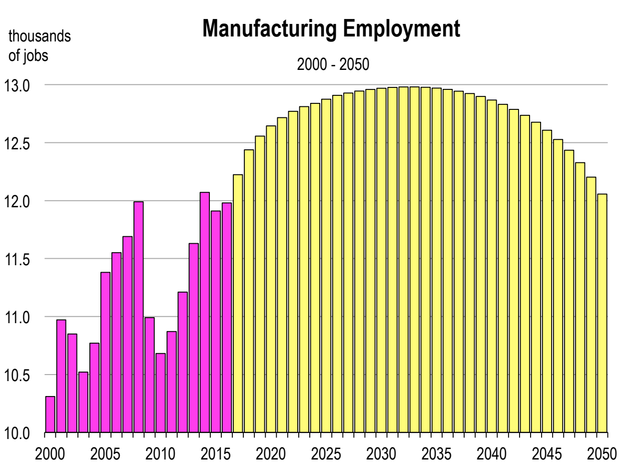
	Population (people)	Net Migration (people)	Registered Vehicles (thousands)	Households (thousands)	New Homes Permitted (homes)	Total Taxable Sales (billions)	Personal Income (billions)	Real Per Capita Income (dollars)	Inflation Rate (% change in CPI)	Real Farm Crop Value (millions)	Real Industrial Production (billions)	Unemploy-ment Rate (percent)
2010	136,798	648	138	48.9	106	$2.3	$6.3	$54,345	1.3	540.5	2.7	10.3
2011	137,232	75	137	49.0	131	$2.5	$6.7	$55,585	2.7	491.1	2.5	9.8
2012	138,655	1,014	137	49.3	153	$2.7	$7.4	$59,273	2.7	739.4	2.8	8.5
2013	139,298	472	141	49.7	237	$2.9	$7.6	$59,455	2.3	719.7	3.0	6.9
2014	140,646	1,029	143	49.8	126	$3.1	$8.1	$61,185	2.8	761.8	3.2	5.7
2015	141,546	650	146	50.0	289	$3.3	$8.8	$63,736	2.6	570.0	3.2	4.6
2016	142,269	530	149	50.1	323	$3.4	$9.1	$64,279	3.0	608.7	3.3	4.3
2017	143,168	672	150	50.3	308	$3.5	$9.7	$65,698	3.1	619.3	3.5	3.9
2018	144,158	747	151	50.6	332	$3.7	$10.3	$67,461	3.0	622.4	3.6	3.6
2019	145,151	730	152	51.0	343	$3.9	$11.0	$69,291	2.6	628.5	3.7	3.8
2020	146,146	714	153	51.3	344	$4.0	$11.7	$71,020	3.1	642.8	3.8	3.8
2021	147,152	706	154	51.6	341	$4.2	$12.4	$72,671	3.0	649.6	3.8	3.9
2022	148,151	679	156	52.0	346	$4.4	$13.1	$74,198	3.0	657.5	3.9	3.9
2023	149,169	680	157	52.3	350	$4.6	$13.9	$75,697	3.0	654.5	4.0	3.8
2024	150,207	684	157	52.7	355	$4.8	$14.7	$77,246	2.9	661.6	4.1	3.8
2025	151,266	692	158	53.0	343	$5.0	$15.4	$78,458	2.9	671.3	4.2	3.6
2026	152,349	702	159	53.4	336	$5.2	$16.2	$79,768	2.8	681.6	4.3	3.5
2027	153,441	701	160	53.7	331	$5.5	$17.0	$80,385	2.9	691.8	4.4	3.5
2028	154,531	691	161	54.1	329	$5.7	$17.7	$81,134	2.7	702.4	4.5	3.5
2029	155,617	678	162	54.4	322	$5.9	$18.5	$81,975	2.5	713.1	4.6	3.5
2030	156,701	667	163	54.7	315	$6.1	$19.2	$82,856	2.4	724.0	4.8	3.5
2031	157,778	654	164	55.0	315	$6.4	$20.1	$83,810	2.3	735.1	4.9	3.5
2032	158,760	553	165	55.3	296	$6.7	$20.8	$84,462	2.5	746.4	5.0	3.4
2033	159,734	542	166	55.6	285	$7.0	$21.7	$85,666	2.1	758.0	5.1	3.4
2034	160,599	430	167	55.9	271	$7.3	$22.6	$86,772	2.3	769.7	5.3	3.4
2035	161,353	322	167	56.2	254	$7.6	$23.6	$87,875	2.4	781.7	5.4	3.4
2036	162,088	310	168	56.5	245	$7.9	$24.6	$88,577	2.8	793.8	5.5	3.4
2037	162,703	201	169	56.7	227	$8.3	$25.6	$89,269	2.9	806.3	5.6	3.4
2038	163,300	190	170	56.9	219	$8.6	$26.6	$90,221	2.7	818.9	5.8	3.4
2039	163,872	180	170	57.2	217	$8.9	$27.7	$91,004	2.9	831.7	5.9	3.4
2040	164,433	171	171	57.4	214	$9.2	$28.9	$91,855	2.8	844.9	6.0	3.4
2041	164,977	164	172	57.6	211	$9.5	$30.0	$92,878	2.6	858.2	6.2	3.4
2042	165,508	157	173	57.8	206	$9.8	$31.3	$93,973	2.5	871.9	6.3	3.4
2043	166,025	149	173	58.0	203	$10.1	$32.5	$95,143	2.4	885.7	6.4	3.4
2044	166,535	144	174	58.2	198	$10.4	$33.8	$96,494	2.2	899.8	6.5	3.4
2045	167,037	138	175	58.4	194	$10.7	$35.1	$97,600	2.4	914.2	6.7	3.4
2046	167,530	130	176	58.6	191	$11.0	$36.5	$98,777	2.3	928.9	6.8	3.4
2047	168,024	129	176	58.8	187	$11.4	$37.9	$99,942	2.3	943.8	6.9	3.4
2048	168,511	121	177	59.0	185	$11.7	$39.3	$101,185	2.3	959.0	7.0	3.4
2049	168,988	115	178	59.2	183	$12.1	$40.9	$102,497	2.3	974.5	7.1	3.4
2050	169,459	111	178	59.4	180	$12.4	$42.5	$103,872	2.3	990.3	7.2	3.4

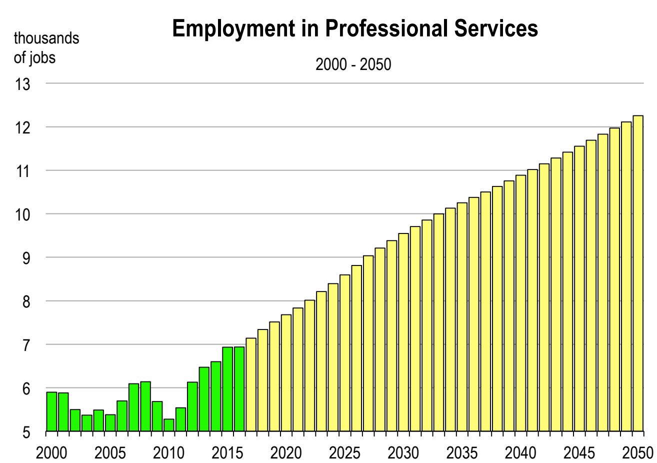


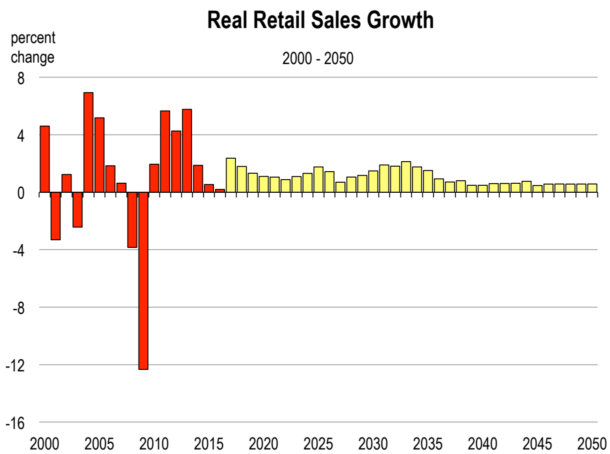


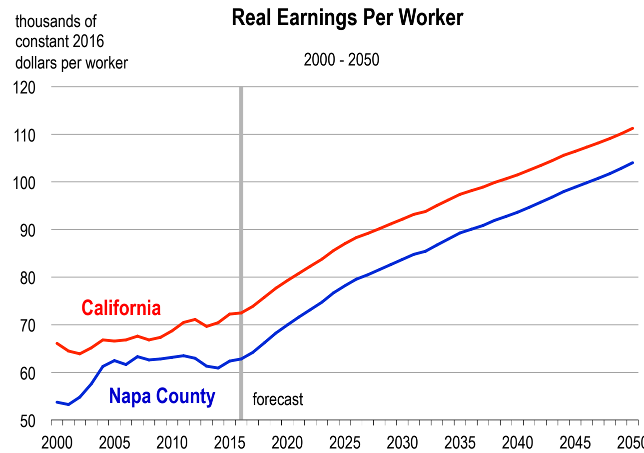
Napa County Employment Forecast
2010-2016 History, 2017-2050 Forecast

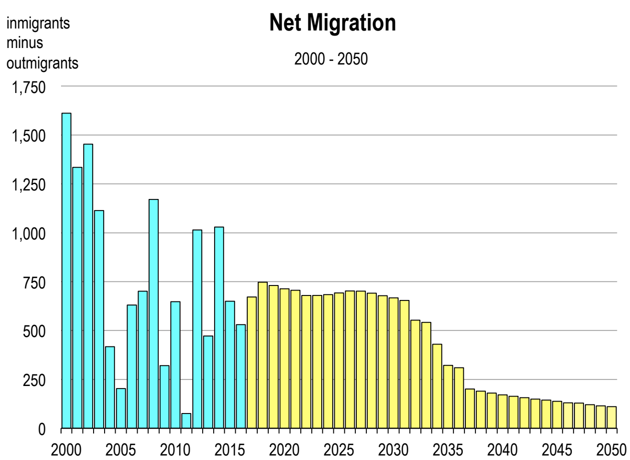
	Total Wage & Salary	Farm	Construction	Manufac- turing	Transportation & Utilities	Wholesale & Retail Trade	Financial Activities	Professional Services	Information	Health & Education	Leisure	Government
	employment (thousands of jobs)											
2010	65.5	4.67	2.6	10.7	1.5	7.3	2.3	5.3	0.6	9.0	9.3	10.4
2011	66.3	4.80	2.5	10.9	1.6	7.1	2.3	5.5	0.6	9.1	10.0	10.1
2012	68.5	4.81	2.7	11.2	1.8	7.3	2.3	6.1	0.5	9.4	10.7	9.9
2013	71.5	4.95	3.2	11.6	1.9	7.7	2.2	6.5	0.5	9.7	11.3	10.0
2014	73.7	4.94	3.7	12.1	2.0	7.9	2.3	6.6	0.5	9.9	11.9	10.0
2015	75.6	5.02	4.3	11.9	2.0	8.1	2.3	6.9	0.4	9.8	12.6	10.2
2016	76.0	4.96	4.1	12.0	2.0	8.2	2.4	6.9	0.4	9.9	12.6	10.5
2017	77.2	5.03	4.2	12.2	2.0	8.3	2.4	7.1	0.4	10.0	12.9	10.5
2018	78.1	5.05	4.2	12.4	2.1	8.4	2.4	7.3	0.4	10.1	13.1	10.6
2019	79.0	5.08	4.3	12.6	2.1	8.5	2.4	7.5	0.4	10.2	13.3	10.6
2020	79.8	5.17	4.3	12.6	2.1	8.6	2.4	7.7	0.4	10.2	13.5	10.7
2021	80.6	5.21	4.3	12.7	2.2	8.6	2.4	7.8	0.4	10.3	13.7	10.7
2022	81.4	5.26	4.3	12.8	2.2	8.7	2.4	8.0	0.4	10.4	14.0	10.7
2023	82.1	5.24	4.3	12.8	2.2	8.8	2.5	8.2	0.4	10.5	14.2	10.8
2024	82.7	5.29	4.3	12.8	2.2	8.8	2.5	8.4	0.4	10.5	14.4	10.8
2025	83.4	5.35	4.3	12.9	2.3	8.9	2.5	8.6	0.4	10.6	14.4	10.9
2026	84.1	5.41	4.3	12.9	2.3	8.9	2.5	8.8	0.4	10.7	14.5	11.0
2027	84.7	5.48	4.2	12.9	2.4	9.0	2.5	9.0	0.4	10.8	14.6	11.0
2028	85.3	5.54	4.2	12.9	2.4	9.0	2.5	9.2	0.4	10.9	14.7	11.0
2029	85.9	5.61	4.2	13.0	2.4	9.1	2.5	9.4	0.4	11.0	14.8	11.1
2030	86.5	5.68	4.2	13.0	2.4	9.1	2.6	9.5	0.4	11.1	15.0	11.1
2031	87.2	5.74	4.2	13.0	2.5	9.2	2.6	9.7	0.4	11.3	15.1	11.1
2032	87.8	5.82	4.2	13.0	2.5	9.3	2.6	9.9	0.4	11.4	15.3	11.2
2033	88.4	5.89	4.2	13.0	2.5	9.3	2.6	10.0	0.4	11.5	15.4	11.2
2034	89.0	5.96	4.1	13.0	2.6	9.4	2.6	10.1	0.4	11.6	15.6	11.2
2035	89.6	6.03	4.1	13.0	2.6	9.5	2.6	10.3	0.4	11.8	15.7	11.2
2036	90.2	6.11	4.1	13.0	2.6	9.5	2.6	10.4	0.4	11.9	15.9	11.3
2037	90.7	6.19	4.0	12.9	2.6	9.5	2.6	10.5	0.4	12.0	16.0	11.3
2038	91.2	6.27	4.0	12.9	2.6	9.6	2.6	10.6	0.4	12.1	16.2	11.3
2039	91.8	6.35	4.0	12.9	2.7	9.6	2.6	10.8	0.4	12.3	16.3	11.4
2040	92.3	6.43	4.0	12.9	2.7	9.6	2.6	10.9	0.4	12.4	16.5	11.4
2041	92.8	6.51	4.0	12.8	2.7	9.6	2.6	11.0	0.4	12.5	16.6	11.4
2042	93.4	6.59	4.0	12.8	2.7	9.7	2.6	11.1	0.4	12.6	16.8	11.4
2043	93.9	6.68	4.0	12.7	2.7	9.7	2.6	11.3	0.4	12.7	17.0	11.5
2044	94.4	6.77	4.0	12.7	2.7	9.7	2.6	11.4	0.4	12.8	17.1	11.5
2045	94.9	6.86	4.0	12.6	2.7	9.7	2.6	11.6	0.4	12.9	17.3	11.5
2046	95.4	6.95	4.0	12.5	2.8	9.8	2.6	11.7	0.4	13.0	17.4	11.6
2047	95.9	7.04	4.0	12.4	2.8	9.8	2.6	11.8	0.4	13.1	17.6	11.6
2048	96.3	7.14	4.0	12.3	2.8	9.8	2.6	12.0	0.4	13.2	17.8	11.6
2049	96.8	7.23	4.0	12.2	2.8	9.8	2.6	12.1	0.4	13.3	17.9	11.6
2050	97.2	7.33	4.0	12.1	2.8	9.8	2.6	12.3	0.4	13.4	18.1	11.7

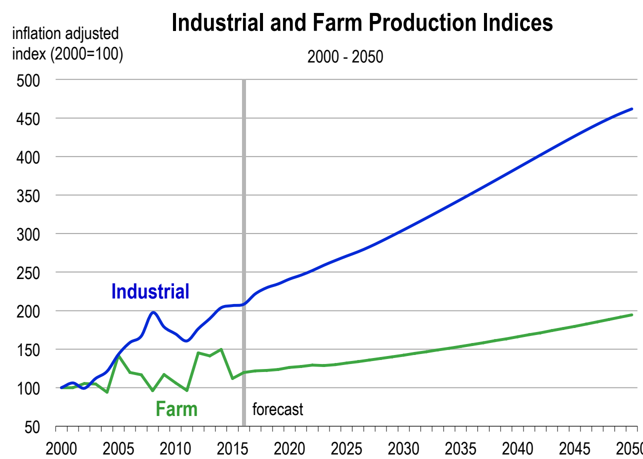












County Economic and Demographic Indicators

Projected Economic Growth (2017-2022)

Expected retail sales growth:	6.3%
Expected job growth:	5.4%
Fastest growing jobs sector:	Professional Services
Expected personal income growth:	16.9%

Expected population growth:	3.5%
Net migration to account for:	71.8%
Expected growth in number of vehicles:	4.0%

Demographics (2017)

Unemployment rate (April 2017):	3.4%
County rank* in California (58 counties):	8th
Working age (16-64) population:	63.5%

Population with B.A. or higher:	33.0%
Median home selling price (2016):	$555,000
Median household income:	$77,511

Quality of Life

Violent crime rate (2015):	276 per 100,000 persons
County rank* in California (58 counties):	15th
Average commute time to work (2017):	26 minutes

High School drop out rate (2016):	4.5%
Households at/below poverty line (2017):	6.6%

* The county ranked 1st corresponds to the lowest rate in California

6. California Center for Jobs & the Economy November 2017 Report Excerpt for Napa County

CALIFORNIA CENTER FOR JOBS & THE ECONOMY | California Business Roundtable

11/22/2017

Economic Indicators

Economic Indicators is designed to help gauge California's current economic health and performance. Using public data, and with the oversight over our Research Advisory Council, we assembled a database of key economic indicators that are useful for understanding current and future economic conditions.

Our collection of indicators are grouped into categories that reflect how they are experienced in daily life. The dashboard below features eight key metrics that are generally representative of each category for a quick snapshot that's meaningful and relevant to all Californians.

Economic indicators are available for the state, and for regions, counties, and legislative districts when data is available. Detailed explanations for each indicator are available through info icons next to each indicator name. Additional background on the Economic Indicators and the detailed breakdowns in the columns to the right of each Indicator is available here. A complete Methodology and Sources for all the indicators is available here.

If you have ideas for improving our indicators database, or questions/comments, please contact us.

Napa County

UNEMPLOYMENT RATE	PRIVATE SECTOR JOBS	AVERAGE ANNUAL WAGE	BUSINESS REGISTRATIONS
3.6%	67.0k	$51.6k	261
▼ 0.5% from Jun 2016	▼ 1.1% from Q3 2015	▲ 6.7% from Q3 2015	▲ 69.5% from Q1 2016
6th of 58 Counties	27th of 58 Counties	13th of 58 Counties	26th of 58 Counties

PERCENT BELOW POVERTY	GASOLINE PER GALLON	HOME PRICE +/- US AVG.	K-12 GRADE LEVEL: MATH
10.1%	$3.11	+77.9%	34.0%
▲ 12.2% from 2013	▼ 3.3% from Sep 2017	▼ 16.4% from Q4 2016	
8th of 58 Counties	40th of 58 Counties	47th of 58 Counties	25th of 58 Counties

ECONOMIC HEALTH

Private Sector Jobs Q3 2016	67.0k Current Value ▼ 1.1% from Q3 2015	67.0k County · 14.2mil California  Q3 2007 – Q3 2016	–	–	468 ▼ 1.8% Current per 1,000 Value	107 ▼ 1.9 Current per 1,000 Index	–	–

Change in Private Jobs Q3 2016	**1.2k** Current Value 0.0% from Q2 2016	1.2k County · 65.0k California Q3 2007 – Q3 2016	–	–	–	–	–	–
Taxable Sales Q1 2016	**$744mil** Current Value ▼ 11.8% from Q1 2015	$744mil County · $151bil California Q1 2007 – Q1 2016	$650mil ▼ 12.7% Real Value	101 ▼ 14.7 Real Index	$5.2k ▼ 12.4% Current per capita Value	108 ▼ 15.3 Current per capita Index	$4.6k ▼ 13.3% Real per capita Value	94.3 ▼ 14.5 Real per capita Index
Vehicle Registration 2016	**634** Current Value ▲ 0.9% from 2015	634 County · 604 California 2007 – 2016	–	–	90.9k ▲ 1.5% Current Per 1,000 Value	105 ▲ 1.6 Current Per 1,000 Index	–	–
Total Civilian Employment Jun 2017	**502** Current Per 1,000 Value ▲ 0.6% from May 2017	502 County · 460 California Jan 2007 – Jun 2017	–	–	72.3k ▲ 1.3% Current Value	103 ▲ 1.3 Current Index	–	–
Unemployment Rate Jun 2017	**3.6%** Current Value ▼ 0.5% from Jun 2016	3.6% County · 4.9% California Jan 2007 – Jun 2017	–	–	–	–	–	–
Non-Residential Permits: Cost Q1 2017	**$34.3mil** Current Value ▲ 62.7% from Q1 2016	$34.3mil County · $6.4bil California Q1 2007 – Q1 2017	$29.2mil ▲ 58.6% Real Value	41.0 ▲ 15.2 Real Index	$954 ▲ 61.6% Current pc Value	813 ▲ 57.6 Current pc Index	–	–
Manufacturing Employment Q3 2016	**12.6k** Current Value ▼ 1.3% from Q2 2016	12.6k County · 1.3mil California Q3 2007 – Q3 2016	–	–	88.0 ▼ 2.0% Current per 1,000 Value	100 ▼ 2.0 Current per 1,000 Index	–	–

COST OF LIVING

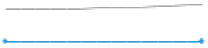
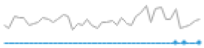
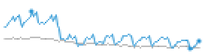
Gasoline Per Gallon Oct 2017	**$3.11** Dollars per gallon ▼ 3.3% from Sep 2017	$3.11 County · $3.06 California Jan 2007 – Oct 2017	$2.60 ▼ 3.6% Real Value per gallon	82.7 ▼ 3.1 Real Index	–	–	–	–
Average Annual Wage Q3 2016	**$51.6k** Current Value ▲ 6.7% from Q3 2015	$51.6k County · $62.0k California Q3 2007 – Q3 2016	$44.4k ▲ 5.5% Real Value	77.7 ▲ 4.0 Real Index	–	–	–	–

Indicator	Current Value	County / California	Trend						
Home Price +/- US Avg. Q1 2017	+77.9% Current Value ▼ 16.4% from Q4 2016	77.9% County; 56.9% California	 Q1 2007 – Q1 2017	+13.4% ▼ 9.6% Home Price +/- CA Avg.	–	–	–	–	–

ENERGY COST

Indicator	Current Value	County / California	Trend						
Diesel Per Gallon Oct 2017	$3.27 Dollars per gallon ▲ 2.2% from Sep 2017	$3.27 County; $3.20 California	 Jan 2007 – Oct 2017	$2.74 ▲ 1.9% Real Value per gallon	83.2 ▲ 1.6 Real Index	–	–	–	–

ECONOMIC OPPORTUNITY

Indicator	Current Value	County / California	Trend						
New Business Registrations Q1 2017	261 Total New ▲ 69.5% from Q1 2016	261 County; 71.9k California	 Q1 2007 – Q1 2017	66.0 ▲ 37.5% Corporations	174 ▲ 93.3% LLC	3.0 ▼ 25.0% LP	18.0 ▲ 50.0% Non-Profit	–	–
Number of Business Registrations Q1 2017	7.9k Total	7.9k County; 1.9mil California	 Q1 2013 – Q1 2017	2.5k Corporations	4.0k LLC	384 LP	996 Non-Profit	–	–
Number of Proprietors 2015	24.3k Total Proprietors ▲ 3.3% from 2014	24.3k County; 5.5mil California	 2007 – 2015	23.0k ▲ 3.5% Non-Farm Proprietors	$60.9k ▲ 10.2% Non-Farm Income	1.3k 0.0% Farm Proprietors	$20.1k ▼ 37.2% Farm Proprietors Income	–	–
Business Registration Terminations Q1 2017	111 Corporate Terminations	111 County; 38.3k California	 Q1 2007 – Q1 2017	28.0 Corporate Terminations	78.0 LLC Terminations	5.0 LP Terminations	–	–	–
Number of Establishments Q3 2016	5.5k Establishments ▲ 2.8% from Q3 2015	5.5k County; 1.5mil California	 Q3 2007 – Q3 2016	–	–	–	–	–	–
Labor Force Participation Jun 2017	64.5% Current Value ▲ 0.7% from May 2017	64.5% County; 61.9% California	 Jan 2007 – Jun 2017	–	–	–	–	–	–

New Residential Permits: Cost
Q1 2017

$11.9mil Current Value

▼ 14.6% from Q1 2016

$11.9mil County | $5.4bil California

$10.2mil ▼ 16.7% Real Value	33.4 ▼ 6.7 Real Index	$332 ▼ 15.1% Current per capita Value	283 ▼ 17.2 Current per capita Index	$16.00 ▼ 57.9% Real per capita Value	0.4 ▼ 58.2 Real per capita Index

Residential Alteration Permits: Cost
Q1 2017

$9.6mil Current Value

▼ 27.6% from Q4 2016

$9.6mil County | $1.6bil California

$8.2mil ▼ 29.4% Real Value	77.9 ▼ 32.5 Real Index	$267 ▼ 28.1% Current per capita Value	228 ▼ 29.9 Current per capita Index	–	–

WORK FORCE PREPAREDNESS

K-12 Grade Level: Math
2016

34.0% Current Value

34.0% County | 37.0% California

White	Hispanic	Black	Asian	English Learners	Socially Disadvantaged
50.0%	22.0%	20.0%	63.0%	10.0%	20.0%

K-12 Grade Level: English
2016

47.0% Current Value

47.0% County | 48.0% California

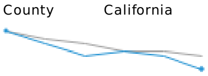
White	Hispanic	Black	Asian	English Learners	Socially Disadvantaged
64.0%	33.0%	39.0%	72.0%	10.0%	32.0%

High School Dropout Rate
2015

6.0% Current Value

▼ 40.0% from 2014

6.0% County | 10.0% California



White	Hispanic	Black	Asian	English Learners	Socially Disadvantaged
5.0% 0.0%	6.0% ▼ 57.1%	8.0% ▼ 42.9%	2.0% ▼ 60.0%	9.0% ▼ 59.1%	8.0% ▼ 46.7%

College Prepared Students: Math
2014

0.0% Current Value

n/a County | 10.0% California

–	–	–	–	–	–

College Prepared Students: English
2014

39.0% Current Value

39.0% County | 25.0% California

White	Hispanic				Socially Disadvantaged
50.0%	23.0%	–	–	–	22.0%

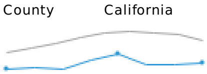
ECONOMIC DISPARITY

Percent Below Poverty
2015

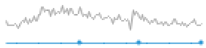
10.1% Current Value

▲ 12.2% from 2014

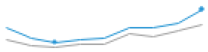
10.1% County | 15.0% California



–	–	–	–	–	–

Unemployment Insurance Claims Apr 2017	**1.0k** Current Value ▼ 11.9% from Mar 2017	1.0k County · 191k California  Jan 2007 · Apr 2017	–	–	7.0 ▼ 12.0% Current per 1,000 Value	150 ▼ 20.4 Current per 1,000 Index	–	–
Number Receiving Food Stamps 2013	**52.0** Per 1,000 People ▼ 5.6% from 2012	52.0 County · 111 California  2007 · 2013	–	–	7.2k ▼ 4.9% Current Value	266 ▼ 13.9 Current Index	–	–
Number Receiving Social Disability 2015	**19.0** Per 1,000 People ▼ 4.0% from 2014	19.0 County · 18.0 California  2007 · 2015	–	–	2.7k ▼ 3.2% Current Value	109 ▼ 3.6 Current Index	–	–

REVENUE MEASURES

PIT Receipts: AGI 2015	**$43.2k** Current per capita Value ▲ 13.9% from 2014	$43.2k County · $34.9k California  2007 · 2015	$37.8k ▲ 13.7% Real per capita Value	104 ▲ 12.5 Real per capita Index	$6.1bil ▲ 14.9% Current Value	126 ▲ 16.4 Current Index	$5.4bil ▲ 14.6% Real Value	111 ▲ 14.1 Real Index
Personal Income 2015	**$61.5k** Current Per Capita ▲ 6.9% from 2014	$61.5k County · $53.7k California  2007 · 2015	$53.8k ▲ 6.6% Real per capita Value	111 ▲ 6.9 Real per capita Index	$8.8bil ▲ 7.6% Current Value	137 ▲ 9.6 Current Index	$7.7bil ▲ 7.3% Real Value	120 ▲ 8.2 Real Index
PIT Receipts: Tax Liability 2015	**$2.6k** Current per capita Value ▲ 25.5% from 2014	$2.6k County · $2.0k California  2007 · 2015	$2.3k ▲ 25.3% Real per capita Value	124 ▲ 24.9 Real per capita Index	$367mil ▲ 26.5% Current Value	151 ▲ 31.6 Current Index	$321mil ▲ 26.3% Real Value	132 ▲ 27.5 Real Index
CIT Receipts: Income 2011	**$1.8k** Current per capita Value ▲ 19.5% from 2010	$1.8k County · $3.2k California  2007 · 2011	$1.6k ▲ 15.9% Real per capita Value	42.6 ▲ 5.8 Real per capita Index	$244mil ▲ 20.2% Current Value	48.1 ▲ 8.1 Current Index	$225mil ▲ 16.5% Real Value	44.3 ▲ 6.3 Real Index
CIT Receipts: Tax Assessed 2011	**$95.00** Current per capita Value ▼ 41.8% from 2010	$95.00 County · $183 California  2007 · 2011	$88.00 ▼ 43.6% Real per capita Value	24.9 ▼ 19.2 Real per capita Index	$13.2mil ▼ 41.5% Current Value	28.0 ▼ 19.9 Current Index	$12.1mil ▼ 43.3% Real Value	25.8 ▼ 19.7 Real Index

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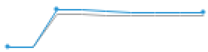
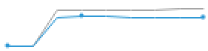
916.553.4093

QUALITY OF LIFE

Housing: Percent Owner-Occupied 2015	**60.0%** **Current Value** ▼ 0.8% from 2014	60.0% County 54.3% California	 2007 2015	–	–	–	–	–	–
Travel Time to Work 2015	**30.6%** **Commute 30min+** ▼ 3.2% from 2014	30.6% County 40.9% California	 2007 2015	76.0% % using SOV	11.5% % carpooling	1.3% % public	5.7% % other	5.5% %work from home	–
Property Crime Rate 2015	**1.8k** **Per 100,000 People** ▲ 8.4% from 2014	1.8k County 2.6k California	 2007 2015	–	–	2.6k ▲ 8.4% Total Crimes	69.5 ▲ 5.4 Current Index	–	–
Violent Crime Rate 2015	**413** **Per 100,000 People** ▲ 9.9% from 2014	413 County 426 California	 2007 2015	–	–	587 ▲ 9.9% Total Crimes	128 ▲ 11.5 Current Index	–	–

7. Napa County Growth Information and Ordinances

a. Napa County Memorandum: Napa Pipe Response to Request for Growth Management System Information

b. Napa Valley Register – Napa County Population Grows by Less Than 1 Percent (March 24, 2017)

c. Napa County Code of Ordinances – Sections 8.02.010 – 8.02.030

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Hillary Gitelman
Director

A Tradition of Stewardship
A Commitment to Service

MEMORANDUM

To:	Planning Commissioners	From:	Hillary Gitelman
Date:	March 9, 2012	Re:	Napa Pipe – Response to Request for Growth Management System Information

At the meeting on February 21, 2012, the Commission requested additional information about the County's growth management system, which is the annual residential building permit limit adopted to regulate growth in unincorporated Napa County. The growth management system was the subject of scrutiny during the 2008 election cycle, when the Responsible Growth Initiative was before the voters, and the information contained in this memo is derived from the study of that initiative prepared by Seifel Consulting Inc.

History

Voters adopted the Napa County Slow Growth Initiative (Measure A) on November 4, 1980. Measure A limited the annual number of residential building permits issued in unincorporated Napa County to reflect an annual population growth rate no higher than that of the Bay Area region or 1 percent, whichever was less. The measure also stipulated that at least 15 percent of new housing units permitted each year be affordable to persons of average or below-average income.

When Measure A expired in December 2000, the Napa County Board of Supervisors reaffirmed the Measure's growth management policies by adopting the Housing Allocation Program in Napa County Code Chapter 8.02 (via Ordinance No. 1178). In 2004, the Board of Supervisors amended the Growth Management System Element of the General Plan and Housing Allocation Program to comply with federal and state land use and fair housing law, and to be consistent with the 2004 update to the County's Housing Element. The General Plan Update, adopted in June 2008, eliminated the stand-alone Growth Management System Element and included a slightly amended Growth Management System as Policy AG/LU-119 in the Agricultural Preservation & Land Use Element.

How it Works: Theory and Practice

The Growth Management System allows for a fixed number of new residential building permits annually in unincorporated Napa County. The number, which currently stands at 115, is updated each time the Housing Element is updated to reflect new population data.

The Growth Management System exempts non-residential development and some limited types of residential construction, including secondary dwelling units. Residential building permits subject to the annual limit are divided into four categories: owner-builders (Category 1), small-scale homebuilders (Category 2), larger housing developers (Category 3), and affordable housing (Category 4). Pursuant to Measure A, Category 4 permits make up 15% of the 115 total. There is currently no required percentage for annual allocations in Categories 1-3.

Unused permit allocations in Categories 1-3 can be carried over for future use for up to three years. Category 4 Affordable Housing permits carry over indefinitely, and at the end of three years, unused Category 1-3 allocations become Category 4 allocations.

Permits are issued on a first-approved, first-served basis. In the event that the demand for residential building permits outstrips the supply, permits are issued through a lottery. There are no regulations or written procedures that govern how a lottery would be conducted.

Tables 1 & 2, below, show data for population and households in Napa County between the passage of Measure A in 1980 and 2005. (Data for 2010 is available upon request, but was not included in the 2008 Seifel study.)

Table 1
Population in Napa County 1980–2005

	Population				Annual Growth		
	1980	**1990**	**2000**	**2005**	**1980Š1990**	**1990Š2000**	**2000Š2005**
AMERICAN CANYON[a]	5,712	7,706	9,813	14,600	3.04%	2.45%	8.27%
CALISTOGA	3,879	4,468	5,190	5,200	1.42%	1.51%	0.04%
NAPA	50,879	61,842	72,781	76,400	1.97%	1.64%	0.98%
ST. HELENA	4,898	4,990	5,951	6,100	0.19%	1.78%	0.50%
YOUNTVILLE	2,893	3,259	2,916	3,400	1.20%	-1.11%	3.12%
UNINCORPORATED	30,938	28,500	27,628	28,000	-0.82%	-0.31%	0.27%
NAPA COUNTY	**99,199**	**110,765**	**124,279**	**133,700**	**1.11%**	**1.16%**	**1.47%**

a. Prior to 1992, American Canyon was an unincorporated Census Designated Place.

Sources: 1980-2000 from U.S. Decennial Census (STF 3); 2005 Estimates from ABAG (Projections 2007).

Table 2
Households in Napa County 1980–2005

	Households				Annual Growth		
	1980	1990	2000	2005	1980-1990	1990-2000	2000-2005
AMERICAN CANYON[a]	2,285	2,647	3,164	4,870	1.48%	1.80%	9.01%
CALISTOGA	1,791	1,953	2,029	2,080	0.87%	0.38%	0.50%
NAPA	19,714	23,830	27,032	28,730	1.91%	1.27%	1.23%
ST. HELENA	2,146	2,156	2,378	2,420	0.05%	0.98%	0.35%
YOUNTVILLE	771	891	1,046	1,080	1.46%	1.62%	0.64%
UNINCORPORATED	9,917	9,708	9,746	10,090	-0.21%	0.04%	0.70%
NAPA COUNTY	**36,624**	**41,185**	**45,395**	**49,270**	**1.18%**	**0.98%**	**1.65%**

a. American Canyon household total estimated based on Countywide average of 2.5 persons per household.

Sources: 1980 from CA Dept. of Finance, 1990Š2000 from U.S. Decennial Census (STF 3);
2005 Estimates from ABAG (Projections 2007).

In practice, the County has not had to conduct a lottery, since the number of building permits requested each year has not exceeded the allocation, even during years when there was an allocation specific to Categories 1-3 as well as Category 4. This suggests that other constraints to development (e.g., land supply and development cost) are limiting residential growth.

Data for the years 1980 through 2007 is presented in Table 3 and 4, below. (Again, data for more recent years is available upon request, but was not included in the 2008 Seifel study. Also see the Napa Pipe Staff Recommendation report dated February 10, 2012.)

Table 3
New Dwelling Units Permitted in Unincorporated Napa County 1980–2007

1980-2000: *As defined under Voter Initiative Measure A (enacted in 1980 and expired December 31, 2000)
2000-2004: * As defined in Ordinance 1178
10.20.2004-present: * As defined in Resolution 04-180

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued
Category 1	80	-	67	100	80	57	77	101	85	77	80	80	-	75
Category 2	16	-	-	-	-	0	0	2	4	4	3	16	-	-
Category 3	16	-	-	-	-	3	6	8	0	0	4	32	-	-
Category 4	6	-	-	-	-	0	0	0	0	0	0	17	-	-
TOTAL	118	-	67	100	80	60	83	111	89	81	87	145	-	75

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued	Permits Issued
Category 1	38	35	44	45	49	47	64	-	-	-	-	75	53	45
Category 2	0	0	0	0	3	2	2	-	-	-	-	2	6	8
Category 3	1	0	0	0	0	0	0	-	-	-	-	0	0	0
Category 4	0	0	4	0	0	0	0	-	-	-	-	0	0	0
TOTAL	39	35	48	45	52	49	66	-	-	-	-	77	59	53

Source: Conservation, Development, and Planning Building Permits, January 2008

There is unavailable data for 1981, 1992, 2001, 2002, 2003, 2004; therefore the dash (-) represents unknown informati

Table 4
New Dwelling Units Permitted in Unincorporated Napa County*
2005–2007

		Building Permits issued		
	Annual Allocation *	**2005**	**2006**	**2007**
Category 1	69	75	53	45
Category 2	14	2	6	8
Category 3	14	0	0	0
Category 4	17	0	0	0
TOTAL Applicable Units	**114**	**77**	**59**	**53**
Exempt Units**		22	17	29
TOTAL UNITS		99	76	82

*As per definition within Board Resolution No. 04-180, Growth Management System

**Second Units, Guest Cottages, Commercial, Replacement, and Grandfathered Units are not included as per the Growth Management System.

Source: Conservation, Development, and Planning Building Permits, January 2008.

http://napavalleyregister.com/news/local/napa-county-population-grows-by-less-than-percent
/article_d36c8b6c-48cd-563b-a0f5-e82aaed70ed3.html

Census

Napa County population grows by less than 1 percent

JENNIFER HUFFMAN jhuffman@napanews.com Mar 24, 2017

New Napa County census numbers were released Thursday.

J.L. Sousa, Register

MORE INFORMATION

+2

Are high housing prices and low housing inventories driving away new Napa County residents?

Hello IKEA, so long vineyards?

Those are two factors economists and others are considering based on new Napa County population numbers released by the U.S. Census on Thursday.

A total of 312 newcomers declared themselves Napa County residents from July 1, 2015 to July 1, 2016. The county's population grew from 141,854 to 142,166 souls — a measly .21 percent increase. Individual city populations were not reported.

To compare, Sonoma County's population rose by .3 percent and Solano County's rose by 1.3 percent. Lake County's population declined by .5 percent.

"It seems as if the population growth rate in both Napa and Sonoma counties have fallen below the rate for the state as a whole," said Peter Allen, instructor of economics at Napa Valley College.

Typically, the state population grows at around 0.9 percent per year, Allen noted. Napa and Sonoma counties roughly kept pace with the state until 2015 and 2016, he said.

"There's not an easy way of becoming a new resident of Napa," Sonoma State University Professor of Economics Robert Eyler said.

"Housing prices have risen such a way that it may be a turn-off to potential new residents," he said. "Are people choosing to live in a ring around Napa County and not in Napa County?"

What is not known is how many of those 312 people are in the job market, versus retired or not working, he said.

“The hope is that your area is attracting people to work there,” said Eyler.

The slight increase in the number of new residents is such a small number “it doesn’t change how the county does business,” said Kristi Jourdan, public information officer for Napa County.

“We continue to provide services as we would for everyone and are always looking at ways to make sure services are accessible throughout the valley,” she said.

The county uses census data in planning and in health and human services. The data is also used every 10 years in the redistricting process, which is expected in 2020, for the Board of Supervisors, Napa Valley College and the county’s Board of Education, said Jourdan.

Barbara Nemko, superintendent of the Napa County Office of Education, noted that Napa County schools have seen a decrease in student population.

“Obviously we’d like to see an increase,” she said. However, “so many people with young children can’t afford to live in Napa County.”

Any population increase, however small, “means that we’ll get some more kids in school,” said Nemko. “That would be wonderful partly because lots of the funding comes on a per pupil basis.”

Each student enrolled in a Napa County school generates between $8,000 to more than $22,000 in local funding per year for the school that student attends.

“Every time we lose a kid we lose that amount of funding. And when you lose a kid you still have all the same costs, salaries, etc.,” said Nemko.

The increased student population growth in American Canyon “helped us offset the issue for many years,” she said. “Now it’s slowed down.”

In October, the Napa Valley Unified School district ordered 9 percent school budget cuts.

When told about the slight increase in population, Danis Kreimeier, director of the Napa City-County Library, said she welcomed the new Napans, no matter how many or few.

“Come on in and check out our stuff,” she said with a laugh.

“I hope those 312 people find us and get a library card, find out what your new county has to offer.”

Actually, the library is a common first stop for new residents wanting to know about schools, neighborhoods, services and other logistics, said Kreimeier.

“We can connect you with all those different serves you might not know about it,” she said. “Start here.”

Jennifer Huffman

Business Editor

Jennifer Huffman is the business editor and a general assignment reporter for the Napa Valley Register. I cover a wide variety of topics for the newspaper. I've been with the Register since 2005.

Chapter 8.02 - HOUSING ALLOCATION PROGRAM

Sections:

8.02.010 - Definitions—Generally.

Unless the context requires otherwise, the definitions in this section shall govern the interpretation of the provisions of this chapter.

"Affordable housing capable of purchase or rental by persons with moderate or below moderate income" means that not more than thirty percent of the (gross) household income shall be spent on housing costs such as rent, mortgage payments, insurance, taxes, necessary utilities, and condominium membership fees.

"Building permits" means permits for the construction of new dwelling units on a site, not including rebuilding, remodeling, renovating or enlarging existing units, moving an existing dwelling from one unincorporated site to another unincorporated site, or units exempted from the Growth Management System.

"Growth Management System" means the comprehensive plan which is a part of the Agricultural Preservation and Land Use Element (AG/LU-119) of the county's general plan, which this chapter implements.

"Median Income" means the median income, adjusted for family size, applicable to Napa County as published annually pursuant to Title 25 of the California Code of Regulations, section 6932 or its successor provision as determined by the California Department of Housing and Community Development and/or the Federal Department of Housing and Urban Development.

"Moderate" shall mean up to one hundred twenty percent of the area median income.

"New housing units" means a room or connected rooms constituting a separate, independent housekeeping establishment for owner occupancy or rental or lease on a monthly or longer basis, physically separate from other rooms or dwelling units in the same structure, and containing independent cooking and sleeping facilities. New housing units may also be referred to as "dwelling units" or "residential units" and shall include mobile homes, not including mobile homes within the federal take line at Lake Berryessa. New housing units shall not mean the rebuilding of an existing unit, the replacement of an existing unit by another, or the movement of an existing unit or units exempted by the Growth Management System.

"Nine Bay Area counties" means the counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Sonoma, and Solano.

"Persons per household" means the population in households divided by the number of occupied dwelling units.

"Population growth rate" means the change in the total population in one year's time stated as a percentage either increasing or decreasing, based on relevant data from the United States Census, the Association of Bay Area Governments, the California Department of Finance's Demographic Research unit, or similar sources for the unincorporated area of Napa County adjusted for annexations and incorporations.

"Relevant data" means information needed to calculate the actual number of dwelling units to be permitted.

"United States census" means censuses conducted by the United States Bureau of the Census, including Decennial Census and the Mid-Decade Census.

"Vacancy rate" means the number of vacant year-round dwelling units divided by the total number of year-round dwelling units in the unincorporated area.

"Year-round housing units" means those dwelling units which are capable of year-round occupancy, but not including less than monthly rentals and dwelling units within the federal take line at Lake Berryessa.

(Ord. No. 1322, § 1, 6-23-2009; Ord. 1246 § 3 (part), 2004: Ord. 1178 § 2 (part), 2000)

8.02.020 - Annual growth rate calculation.

A. The annual number of new housing units in the unincorporated area of the county of Napa shall be allocated so as to allow an annual population growth rate that shall not exceed one percent of the population of the unincorporated area. Such growth rate shall be determined using the most recent census and other relevant data provided by the United States Census, the Association of Bay Area Governments, the California Department of Finance's Demographic Research Unit or similar sources. The annual number of new housing units shall be set by multiplying the population of the unincorporated Napa County by 0.01 and then dividing by the number of persons per household. The calculation may be adjusted to reflect the vacancy rate of year-round housing units and shall include comparison to the average annual growth rate for the nine Bay Area counties over the prior five to seven years (if less than one percent). In no instance shall the new annual limit be less than the prior limit if the units are required to meet the County's Regional Housing Needs Allocation, except as warranted by the occurrence of annexations or incorporations since the prior calculation.

B. At least fifteen percent of the housing units allocated each year shall be for affordable housing capable of purchase or rental by persons with moderate or below moderate income.

(Ord. No. 1322, § 1, 6-23-2009; Ord. 1246 § 3 (part), 2004: Ord. 1178 § 2 (part), 2000)

8.02.030 - Implementation and review following census.

A. General Plan and Growth Management System. The county shall implement the provisions of this chapter in accordance with the Growth Management System of the Agricultural Preservation and Land Use Element of the Napa County General Plan and such other ordinances as may be, or may have been, enacted to carry out the provisions of such Growth Management System. The county reserves the right to amend the Growth Management System in accordance with the requirements of applicable law.

B. Periodic Review. The board of supervisors shall modify the Growth Management System based on data from the 2010 Census and each time the Housing Element is updated, or more frequently if so desired by the board of supervisors. In setting the annual number of new housing units (and building permits) allocated in the future, the board of supervisors shall use the most recent census and other relevant data provided by the United States Census, the Association of Bay Area Governments, the California Department of Finance's Demographic Research Unit, or similar sources.

(Ord. No. 1322, § 1, 6-23-2009; Ord. 1246 § 3 (part), 2004: Ord. 1178 § 2 (part), 2000)

Division I. Food Facilities

8. Pension Debt Articles

a. BusinessInsider.com – California's Massive State Pension Fund Lost $15 billion in the Recent Market Chaos. (February 14, 2018)

b. Sacramento Bee – Pension Costs Unsustainable, California Cities Say. (February 2, 2018)

c. Bay Area News Group – Borenstein: Ain't Seen Nothing Yet; California Pension Cost Rise Just Staring. (February 8, 2018)

d. Bloomberg.com – California's Brown Raises Prospect of Pension Cuts in Downturn. (January 10, 2018)

e. Courthousenews.com – California Pension Battles Play Out in Court. (January 9, 2018)

f. Sacramento Bee – Pension Costs Are Threatening Public Services All Over California. It Has to Stop. (January 3, 2018)

g. Reason.com – CalPERS Is Shocked - Just Shocked - To Find Cities Reeling Under Growing Pension Debt. (November 24, 2017)

h. Sacramento Bee – California Should Be Able to Reduce Public Employees' Pension Benefits, Jerry Brown Argues. (November 22, 2017)

i. Orange County Register – Bull? Stocks Can't Stave Off California Pension Crisis Forever. (August 10, 2017)

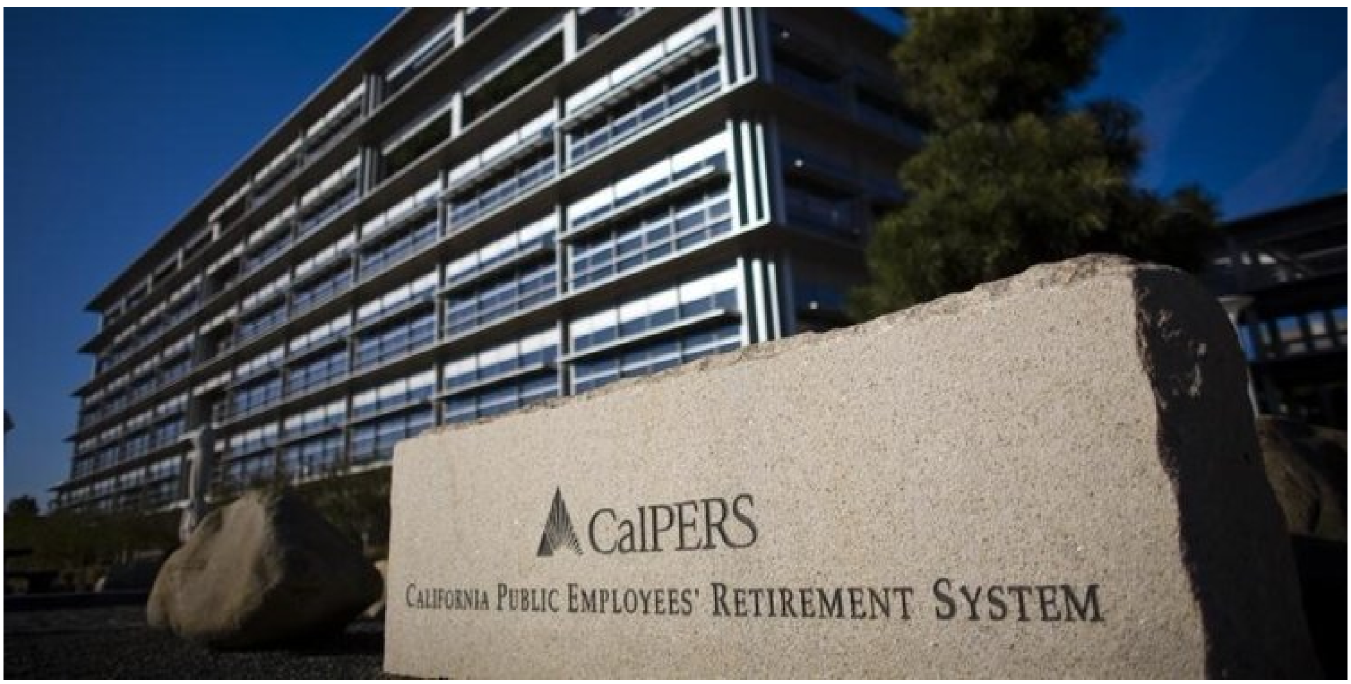
j. Los Angeles Times – California Promised Public Employees Generous Retirements. Will the Courts Give Government a Way Out? (October 20, 2016)

k. Los Angeles Times – The Pension Gap. (September 18, 2016)

l. Los Angeles Times - Jerry Brown Touted His Pension Reforms as a Game-Changer. But They've Done Little to Rein in Costs. (October 28, 2016)

California's massive state pension fund lost $15 billion in the recent market chaos

Gary, ValueWalk February 14, 2018
http://www.businessinsider.com/californias-massive-state-pension-fund-lost-15-billion-in-the-recent-market-chaos-2018-2



Thomson Reuters

- **The California Public Employees Retirement System got slammed during the stock market slide that ended last week.**
- **The massive pension fund lost $15 billion in assets under management between January 26 and February 9.**
- **Despite that, Ted Eliopoulos, the system's chief investment officer, argued that market volatility was normal.**

The California Public Employees Retirement System (CalPERS), the most massive pension plan in the US, has lost more than $15 billion in assets under management during an 11-day stock market slide- January 26 to February 9th.

The pension system's chief investment officer, Ted Eliopoulos, speaking at the system's Investment Committee in Sacramento on Monday, said that the retirement plan lost $15 billion which accounts for a 4.6% drop in AUM for the pension fund during the recent market decline. He went on to say that CalPERS' AUM stood at $345 billion as of February 9.

Attempting to shield the fund's recent performance from criticism, Mr. Eliopoulos claimed that the pension plans diversified portfolio saved it from even more severe losses due to market declines. His example was that the S&P 500 index lost 8.7% during the same period. Also, he indicated he believes that the years of low market volatility may be coming to an end saying "Now looking forward to 2018...we're seeing the beginning of the market environment that may be shifting."

It is not likely that anyone knows what lies in store for the rest of 2018 and beyond, but Eliopoulos insisted on his view that stock market volatility was the norm. Furthermore, he explained that stock market declines of more than 10% were in fact "not unusual" when a historical view of the stock market is observed.

The strong stock market performance in 2017 allowed the pension fund system to experience a 24% return - becoming the most influential performing asset class for the fund. Private equities were the second-best performing asset class in 2017 with an 18% return. Both stocks and private equity were under the fund benchmark fund weight of 24.4% and 22.9%, respectively.

Fixed income asset class for the fund produced 7.2% in returns for 2017, beating its benchmark of 6.4%. Real assets, which include real estate infrastructure, posted 8.5% return in 2017, surpassing their common 6.4% benchmark. Inflation-sensitive asset class- including inflation-linked bonds and commodities (futures, forwards, swaps, structured notes, and options) had a 6.3% return, beating the benchmark's 6. 2% return.

Mr. Eliopoulos noted on Monday that going forward returns may not be as high for the pension system. He explained that the projected expected returns for the next decade were in the low 6% range. CalPERS is in the process of lowering its benchmark from 7.5% to 7%. Mr. Eliopoulos indicated that bringing in more contributions from employers and ending the practice of CalPERS selling off assets to pay for pension beneficiaries will be the fund's new approach.

In 2016, the pension fund had to sell off $4 billion in assets to make a beneficiary payout totaling $20.5 billion, $4 billion more than the fund had on hand.

Pension costs 'unsustainable,' California cities say

By Adam Ashton

aashton@sacbee.com

February 02, 2018 09:58 AM

Updated February 03, 2018 09:31 AM

http://www.sacbee.com/news/politics-government/the-state-worker/article198062129.html

Most California cities expect their spending on public employee pensions to climb by at least 50 percent over the next seven years, restricting their ability to fund basic services like public safety and parks, according to a study their lobbying organization released on Thursday.

The report escalates the League of California Cities' appeal for more flexibility in negotiating pension obligations. Almost all of California's cities belong to the $360 billion California Public Employees' Retirement System, and some cities over the past year have raised increasingly loud complaints that fee hikes from the pension fund are "crowding out" other spending priorities.

The new report warns that pension costs are becoming "unsustainable."

"The impact of pension costs are becoming such a large element of city costs that it is inevitably going to cause the reduction of services somewhere," said Dan Keen, a retired Vallejo city manager.

The league developed its study by conducting a survey of its members and hiring an accounting firm to review CalPERS' financial statements. About 170 cities responded to the survey.

By 2024, cities anticipate that they will spend an average of 15.8 percent of their general fund budgets on pensions, up from an average of 8.3 percent today. About 10 percent of cities anticipate spending more than 21 percent of their general fund budgets on pensions in 2024.

Cities are spending more on pensions because of several changes CalPERS has made to shore up the retirement fund, such as lowering its investment forecast. Because the fund expects to earn less money from its investments, government agencies must kick in more money to pay for their workers' pensions. CalPERS now expects to average 7 percent earnings on its investments each year, down from its previous projection of 7.5 percent.

CalPERS is doing well in the stock market this year, with its portfolio gaining almost $40 billion since July. But the system is underfunded overall. Its assets are worth about 68 percent of what it owes to retirees and public workers.

The league report paints cities as having few options. It notes that they could raise taxes, create special funds to pay down their pension liabilities ahead of schedule, reduce services or bargain changes in compensation plans with their unions.

Cities don’t have a totally free hand in bargaining, however. For instance, they’re barred from tinkering with cost-of-living adjustments that retirees receive in their pensions.

“These pressures are not only mounting, but will force cities to make very tough choices in the next seven years and beyond,” said League of California Cities Executive Director Carolyn Coleman.

Public employee unions generally want more time for CalPERS to recover from its recession investment losses. A pension law Gov. Jerry Brown signed in 2012 eliminated generous retirement plans that the Legislature offered to public employees during the Dot Com boom, a change that’s intended to gradually bring CalPERS back to full funding because it applies only to workers hired after Jan. 1, 2013.

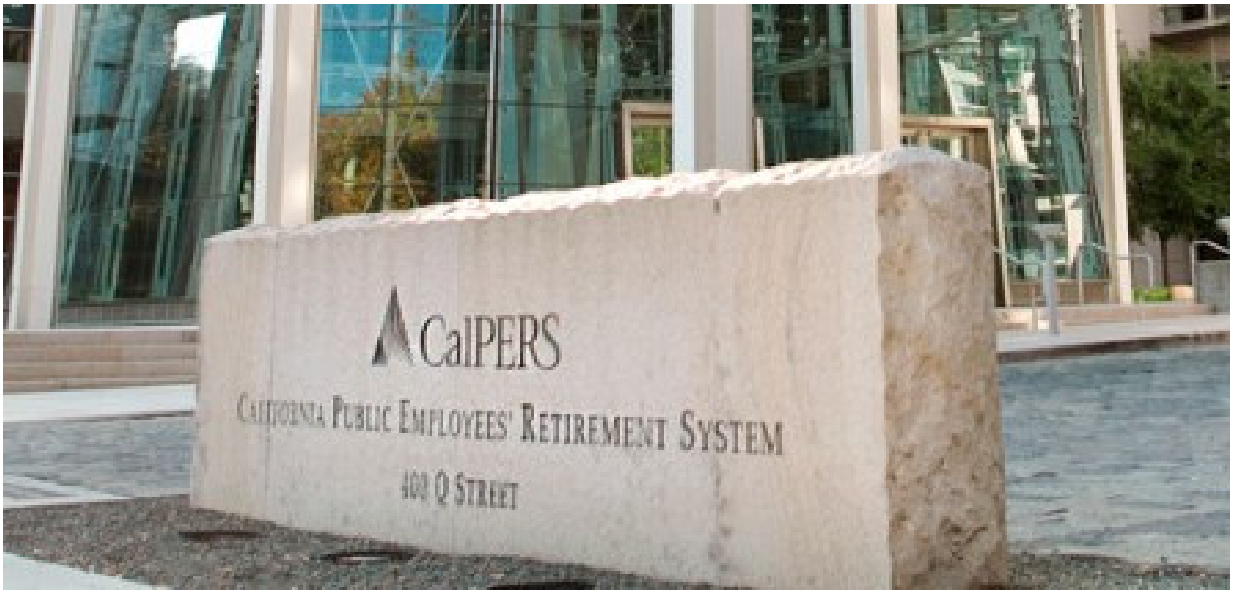
Brown at a news conference last month predicted the next recession will force even bigger changes on California public pension plans. In a high profile court case, his office is advocating for an end to the legal precedent that prohibits public agencies from reneging on pension promises without offering workers other compensation.

Dave Low, president of the union that represents classified school employees, said local governments are paying more for pensions because CalPERS has responded to criticism by moving to more conservative projections.

“This is a long-term process,” he said. “Pensions are one piece of compensation. When we go to the table, everything is on the table, health care, wages, step increases. They have a lot of control in compensation.”

Borenstein: Ain’t seen nothing yet; California pension cost rise just starting

https://www.mercurynews.com/2018/02/08/borenstein-aint-seen-nothing-yet-pension-cost-rise-just-starting/



Borenstein: Ain’t seen nothing yet; California pension cost rise just starting

By Daniel Borenstein | dborenstein@bayareanewsgroup.com | Bay Area News Group
PUBLISHED: February 8, 2018 at 6:15 am | UPDATED: February 8, 2018 at 2:57 pm

California cities reeling under the strain of rising pension costs haven’t seen anything yet.

• In a six-year period from fiscal year 2019 to 2025, city payments for pensions will increase an estimated 50 percent.

• By the end, cities on average will pay 60 cents for pensions for every dollar of payroll for police and firefighters, and 35 cents on the dollar for other employees.

• Pension costs, which sucked up an average 8 percent of cities’ general fund budgets in 2007, will drain an average 16 percent by 2025.

Those conclusions come from a report the League of California Cities released last week after reviewing data for 451 municipalities that use CalPERS to administer their pensions. That includes most Bay Area cities except San Jose and San Francisco, which have their own retirement systems.

The upshot is that, without tax increases, there will be less money for public services. How much less will vary from city to city. But the threat to fiscal solvency in many cases is severe: Ten percent of municipalities will spend more than 21 percent of general fund dollars on pension costs. Never mind salaries or health care benefits — that's just pensions.

Yet those numbers understate the problem, and the league, the lobbying arm for California's cities, until now has sat quietly on the sidelines rather than advocating for meaningful change.

It's great that cities have finally woken up to the crisis. Unfortunately, they're the Rip Van Winkle of the pension world, having slept through the past two decades as pension debt mounted. Cities are just now opening their eyes to the new world they live in.

While others, like the non-partisan Little Hoover Commission in 2011, have warned for years that this day would come, cities have exacerbated the problem. They agreed to retirement benefits they couldn't afford and then encouraged CalPERS, the nation's largest pension system, to cook the books to hide the magnitude of the shortfall.

They supported CalPERS' understating of the shortfall by relying on overly aggressive investment forecasts and accounting practices that irresponsibly postpone debt repayment for decades.

CalPERS is only too happy to accommodate because the strategy meets the desires of the labor unions to which many of the retirement board members — and elected city officials — are politically beholden.

As a result, despite a banner year of stock market investments, CalPERS, by its own accounting, currently has at best only about 70 percent of the funds it should to cover pension benefits that workers already earned.

The problem will likely get worse. Most cities have encouraged CalPERS, or sat back silently, as the pension administrator continues to rely on forecasts of 7 percent investment returns even though its chief investment officer predicts 6.1 percent over the next 10 years.

There's been barely a peep from cities as CalPERS spread repayment of the shortfall over 30 years and backloaded payment amounts — thereby adding to the shortfall.

Like reckless spenders on credit card binges, most cities have made only the minimum payments and then complained for years about it increasing, but done little to control their pension costs.

As a result, payments continue rising, prompting cities to plead for further deferral of their obligations — that is, they beg CalPERS to continue accounting games that hide the magnitude of the problem.

Meanwhile, the debt mounts. More than eight years after the Great Recession, little progress has been made to shore up the pension system before the onset of the next economic downturn.

The question for cities, now coming out of their slumber, is whether they're finally willing to take meaningful steps. True fiscal sobriety must begin with insisting that CalPERS honestly calculate the size of the problem.

Yes, it will be painful. Yes, some cities will need special payment deferrals to avoid bankruptcy. But hiding the size of the debt is not a solution.

For most cities, the solution will include tough and publicly transparent negotiations with labor unions to reduce pension costs. The decades of overly generous deals reached in secret bargaining have only made the problem worse.

In its report last week, the League of Cities for the first time suggested cities engage in transparent negotiations for more employee contributions to their pensions. The League also seemed to support Gov. Jerry Brown's push in the state Supreme Court to end the "California Rule," the legal doctrine that has blocked meaningful changes to public employee pension levels.

The question now is whether the league will walk the talk, or whether this is just lip service.

Cities must decide whether they want to be reformers or enablers.

BloombergPolitics

California's Brown Raises Prospect of Pension Cuts in Downturn

By
Romy Varghese
January 10, 2018, 1:28 PM PST
https://www.bloomberg.com/news/articles/2018-01-10/california-s-brown-raises-prospect-of-pension-cuts-in-downturn

- Supreme Court is set to consider if benefit cuts permissible
- Ruling could provide relief to cash-strapped localities


Jerry Brown Photographer: David Paul Morris/Bloomberg

California Governor Jerry Brown said legal rulings may clear the way for making cuts to public pension benefits, which would go against long-standing assumptions and potentially provide financial relief to the state and its local governments.

Brown said he has a "hunch" the courts would "modify" the so-called California rule, which holds that benefits promised to public employees can't be rolled back. The state's Supreme Court is set to hear a case in which lower courts ruled that reductions to pensions are permissible if the payments remain "reasonable" for workers.

"There is more flexibility than there is currently assumed by those who discuss the California rule," Brown said during a briefing on the budget in Sacramento. He said that in the next recession, the governor "will have the option of considering pension cutbacks for the first time."

That would be a major shift in California, where municipal officials have long believed they couldn't adjust the benefits even as they struggle to cover the cost. They have raised taxes and dipped into reserves to meet rising contributions. The California Public Employees' Retirement System, the nation's largest public pension, has about 68 percent of assets needed to cover its liabilities. For the fiscal year beginning in July, the state's contribution to Calpers is double what it was in fiscal 2009.

Across the country, states and local governments have about $1.7 trillion less than what they need to cover retirement benefits -- the result of investment losses, the failure by governments to make adequate contributions and perks granted in boom times.

"In the next downturn, when things look pretty dire, that would be one of the items on the chopping block," Brown said.

— *With assistance by John Gittelsohn*

California Pension Battles Play Out in Court

January 9, 2018
MATTHEW RENDA
https://www.courthousenews.com/california-pension-battles-play-out-in-court/

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SAN FRANCISCO (CN) – A state appeals court ruled that overtime, severance pay and on-call pay cannot be included in pension formulas for public employees in the latest in the seemingly ceaseless battle over pensions in California.

A three-judge panel of the First Appellate District in the California Court of Appeals attempted to strike a balancing act on Monday between a lower trial court ruling that set forth a rigid interpretation of the state's pension reform and public employee unions that wanted to give discretion entirely to County Employee Retirement [CERL] boards.

"In the end, we believe that the correct understanding of board discretion under CERL lies somewhere in between the expanded notion of discretion espoused by appellants and the constrained, arithmetical approach endorsed by the trial court," Judge Timothy Reardon wrote for the panel in a 73-page opinion.

The opinion sets forth the complexities of the issue, which pits public employees – who believe they are entitled to pension after years of service – against public entities that worry the rising costs of retired employees will render them less able to address the pressing concerns of their institutions and constituents.

In 2013, on the heels of The Great Recession, Governor Jerry Brown signed the Pension Reform Act into law.

Part of the law's purpose was to end what many viewed as pension abuses. In California, the formula for an annual pension is based in part on the salary earned by an employee in his or her final year of employment.

Investigations found that many employees were padding their final salary with items like equipment or vehicle use, overtime and on-call pay, sick leave and vacation time cash-outs, and other related pay variables.

In the aftermath of pension reform, several public employee unions sued in state court seeking court declarations about exactly what was and was not permissible under the new law.

In the present instance, the Alameda County Employees' Retirement Association and other related unions sued in Contra Coast Superior Court.

The first of their two main points was that overtime, vacation and sick leave cash-outs, and on-call pay should be included in the employee's final salary and thus incorporated into the pension formula.

Second, they asked whether legacy employees – or those who were hired prior to the 2013 Pension Reform Act – should be subjected to the changes or guided by the law as it previously stood.

The appellate court agreed with the superior court's ruling that overtime pay should not be included in pension equations.

The unions had argued that CERL Boards should have the discretion to decide what does or does not get included. The court shot this notion down, saying boards cannot decide to include items explicitly rendered impermissible by law.

"An item of compensation is either includable in compensation, compensation earnable, and final compensation under the CERL statutes, or it is not," Reardon wrote.

However, the unions were not entirely without victory, as the court ruled vacation and sick leave cash-outs should be included in final salary formulas.

"Moreover, many such premiums and incentives—including the in-service leave cash-outs here at issue—can be understood simply as increased salary payments, specially designed by employers to encourage certain employee behaviors, such as longevity, foregoing time away from work, and the development of special employment enhancing skills," Reardon wrote.

However, terminal pay and on-call pay are not included, according to the appellate court.

Terminal pay is when an employee is fired or laid off, but is entitled to the rest of his or her salary for a given year. On-call pay is when an employee may not be working, but needs to be available in case of emergencies, as is often the case for firefighters and police officers.

The appellate court remanded the question of whether legacy employees should be exempt from the 2013 law's major changes back to superior court, citing insufficient briefing from both sides.

Pension costs are threatening public services all over California. It has to stop.

By Chuck Reed   Special to The Bee

January 03, 2018 03:25 AM

Updated January 06, 2018 10:07 AM

http://www.sacbee.com/opinion/california-forum/article192645574.html

California is great at making pension promises, but a dismal failure at properly funding them. The most recent annual report released by the California Public Employees' Retirement System shows that, as of June 2016, CalPERS was more than $138 billion in debt. The teachers' retirement system (CalSTRS) is nearly as bad, with $96 billion in debt. Even with a couple of really good years in the stock market, pension debts have grown.

The California system of overpromising and underfunding is failing taxpayers, public employees and retirees and wreaking havoc on California's finances, including those of cities like Sacramento. And the giant CalPERS and CalSTRS pension debts ensure more of the same for decades to come.

As government contributions to CalPERS and CalSTRS soar, policymakers pull funds from important public services such as education, public safety and transportation to cover the pension cost increases.

The first pension domino fell in 1999, when the state Legislature granted retroactive pension benefits without paying for them. Since then, many factors have contributed to the pension debt, including chronic underfunding and relying on the stock market with unrealistic assumptions for investment returns. Quite simply, California has relied on kicking the can down the road for someone else to deal with at a later time.

These falling dominoes have taken CalPERS from a surplus of $33 billion in 1999 to a pension debt of more than $138 billion in just 17 years. CalSTRS also had a surplus in 1999. The debt numbers got worse in 2017, but won't be published officially until next year.

The local picture is not much better, according to data released through Stanford University in October. Funded in part by a nonprofit that advocates pension reform and conducted by Joe Nation, a former Democratic assemblyman who is now with the Stanford Institute for Economic Policy Research, the study found that the city of Sacramento has more than doubled its contribution to CalPERS in the past nine years, going from $42.4 million in 2008 to $88.2 million in 2017. Sacramento's pension costs are expected to reach about $150 million by 2022.

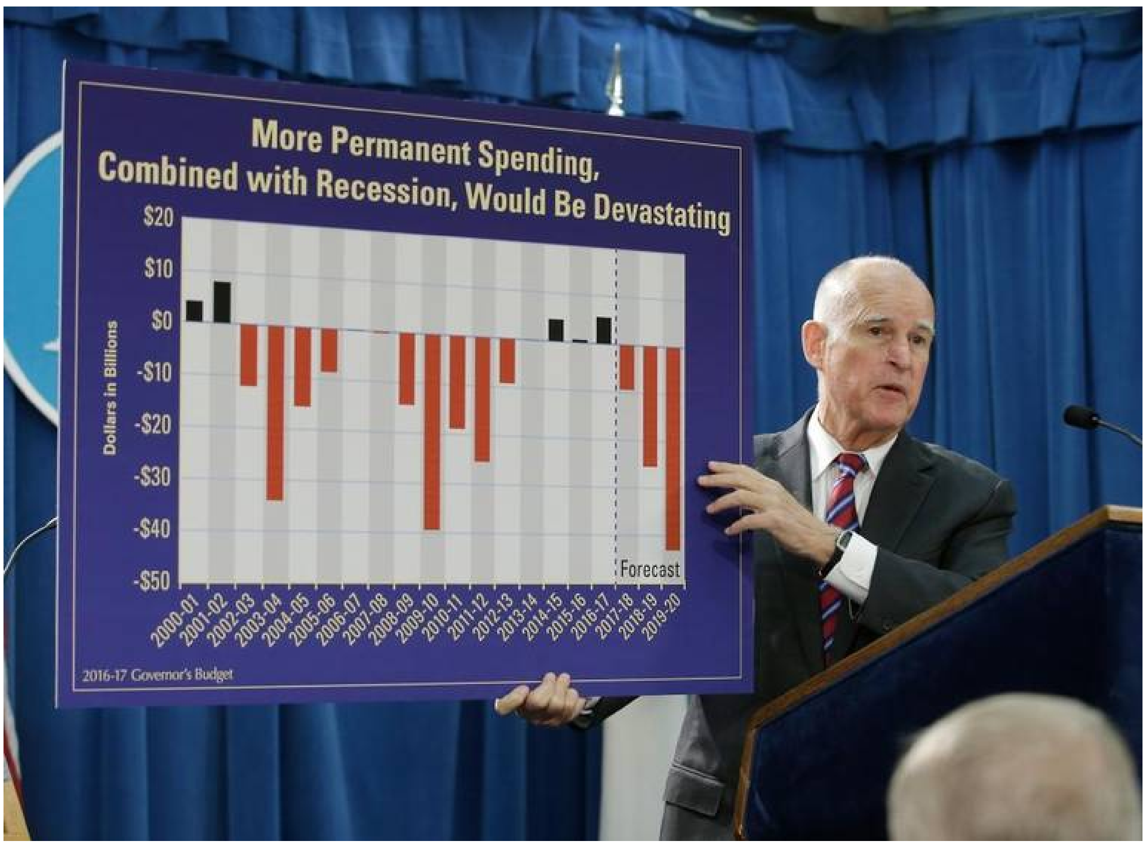
So what does this cost taxpayers? A lot. As government contributions to CalPERS and CalSTRS soar, policymakers pull funds from important public services such as education, public safety and transportation to cover the pension cost increases. According to Nation, Sacramento's higher pension contributions have likely reduced the city's share of expenditures on police, transportation, neighborhood services, and convention and cultural services. By 2029, city pension expenditures will likely crowd out an additional $53 billion, requiring more taxpayer services to go on the chopping block.

Crowd-out isn't unique to Sacramento – it's happening throughout all of California as cities, counties and school systems must shift funding from other services and programs to cover pension costs. Local governments have a responsibility to provide essential services that protect the safety, health, welfare and quality of life for their citizens. These services will continue to be reduced as pension debt and pension payments skyrocket.

Taxpayers aren't the only losers. Public employees and retirees, too, have drawn the short end of the stick. Pity the workers and retirees from Loyalton and the East San Gabriel Valley Human Services Consortium who lost a large chunk of their pensions when their employers couldn't keep up with CalPERS' bills. That can and will happen again as growing pension costs threaten the solvency of public employers, putting at risk the retirement hopes of many workers and retirees.

How many more billion-dollar dominoes are going to fall before California takes action to repair the fiscal damage caused by too many years of overpromising pension benefits to government employees and underfunding our obligations to pension plans? Enough is enough. California's taxpayers and public workers deserve better.

Former San Jose Mayor Chuck Reed chairs the Retirement Security Initiative, a national, bipartisan advocacy group for pension reform; chuckreed@aol.com.



In this Jan. 7, 2016, file photo, Gov. Jerry Brown holds a budget chart as he discusses his proposed 2016-17 state budget. The ballooning costs are an issue Brown will face in his final year in office despite his earlier efforts to reform the state's pension systems and pay down massive unfunded liabilities. (AP Photo/Rich Pedroncelli, File) Rich Pedroncelli AP

CalPERS Is Shocked—Just Shocked—To Find Cities Reeling Under Growing Pension Debt

California's pension fund looks to shift blame and avoid responsibility.

Steven Greenhut | Nov. 24, 2017 2:30 pm

http://reason.com/archives/2017/11/24/calpers-is-shockedjust-shockedto-find-ci

The California Public Employees' Retirement System's union defenders feign shock whenever pension reformers accuse it of "kicking the can down the road" in dealing with the state's mounting pension debt. It's like the scene from *Casablanca*, when Captain Louis Renault is absolutely shocked to find gambling going on in a gambling house.

CalPERS is never going to state the obvious: "We know these massive, underfunded pensions are not sustainable, but we're going to do everything possible to push the problem into the future and blame everyone else for the problem." But the pension fund's board might as well have said as much after two actions it took at last week's Sacramento meeting.

In one case, it decided to seek a legislative sponsor for a bill that would enable it to shift the blame to local agencies whenever such agencies decide to stop making their payments to the fund and retiree pensions are cut as a result. In the second case, at the urging of cities CalPERS decided to delay a vote on a more actuarially sound means of paying off pension debt—rather than risk a fifth rate hike to local governments, and risk a mutiny among hard-pressed local governments.

Both of these actions maintain the status quo and—you got it—kick the can down the road.

The first action involved the fate of two local agencies that have exited the pension fund because they couldn't afford to keep making their payments. As California Policy Center previously reported, the tiny Sierra Nevada town of Loyalton in 2013 decided to exit the plan, but then was hammered with a $1.66 million termination fee that it couldn't possibly afford. The town's entire annual budget is $1 million and it couldn't even make its $3,500 per month payments to the fund.

Furthermore, the East San Gabriel Valley Human Resources Consortium, known as LA Works, shut its doors in 2014, but was likewise penalized by CalPERS for stopping its payments. The end result: Loyalton's four retirees have their pension benefits sliced by 60 percent, and LA Works' retirees lost as much as 63 percent of their pension checks.

In making an example of these small agencies, CalPERS revealed an ugly truth. The pension fund assumes a rate of return of 7 percent to 7.5 percent on its investments. The higher the assumed rate, of course, the less debt on its books. It's in the union-controlled fund's interests to assume the highest-possible rates and maintain the status quo—even if that means that taxpayers ultimately will have to pick up any slack.

When agencies decide to leave the fund, however, CalPERS puts them in a Terminated Agency Pool, where CalPERS assumes a rate of return of a measly 2 percent. Upon departure, these agencies can no longer expect future earnings or taxpayers to pick up the shortfall, so the 2 percent rate is the actual risk-free rate that CalPERS expects from its investments.

The legislation the fund seeks, facetiously referred to as the Anti-Loyalton Bill, would "require a terminating agency to notify past and present employees of its intention to terminate," according to the language approved by the full CalPERS board last Wednesday. Bottom line: CalPERS wants local agencies to provide the bad news to employees and retirees so that they, rather than the massive pension fund, receive the brickbats.

The proposed bill is not a big deal per se, but it's yet another example of how CalPERS is more interested in hiding—rather than dealing with—its pension debt. Basically, this is a public-relations strategy designed to discourage agencies from leaving the fund. It's a way to tighten the golden handcuffs and punish agencies that want to exit the fund.

In reality, if 2 percent is the earning rate that CalPERS can safely expect on its long-term investments, then that should be the rate that it assumes for all of its investments. But lowering the assumed earnings to such a realistic number would cause mass panic, as municipalities would need to come up with dramatically increased payments. They already are struggling with their current payments.

Under that scenario, the state's pension debt would be around $1.3 trillion, according to some estimates—and it would become implausible to push the problem down the road. Even with the current high assumption rates and even after a great year of earnings of 11.2 percent, CalPERS is only funded at a troubling 68 percent. (The California State Teachers' Retirement System had even better returns last year, but is funded only at 64 percent.)

In its second major action last week, "CalPERS delayed action... on the chief actuary's proposal to shorten the period for paying off new pension debt from 30 years to 20 years, a cost-cutting reform that would end the current policy not recommended by professional groups," explained Ed Mendel, on his respected *Calpensions* blog.

Localities already have faced four major rate increases since 2012. CalPERS assesses the increases to make up for the unfunded liabilities, and recent studies suggest that local governments are slashing public services to come up with the cash. Had CalPERS decided to pay off new debt in a shorter time frame, it would have meant a fifth increase, according to Mendel. He quoted the League of California Cities' official Dane Hutchings with these words of warning: "The well is running dry."

It's a mess. If CalPERS does the right thing, it exacerbates local governments' current problems. But maintaining the status quo will make them worse down the road. As Mendel explained, under CalPERS' current payment approach, "the debt continues to grow for the first nine years" with the payment not even covering the interest. "(T)he payments do not begin reducing the original debt until year 18, more than halfway through the period."

In other words, I have a great 30-year plan for paying off your credit-card debt: You make minimum payments for the next 18 years and then worry about it then. Isn't that the very definition of kicking the can down the road?

It's hard to feel too sorry for these struggling cities. Do you remember when they warned about the impending disaster if the state legislature passed a 1999 bill, promoted by the California Public Employees' Retirement System, that would retroactively raised pensions across the state by 50 percent? Do you remember when city managers angrily resisted union-backed efforts to raise pensions at their city councils? Neither do I.

Unfortunately, their efforts to avoid another rate hike only helps CalPERS do what it likes to do most—remind us that all is well and that the stock market will pay for all the pension promises. It might, but then again it might not. If the market slows, there will be a lot of California officials shocked to find a dead end up ahead.

This column was first published by the California Policy Center.

California should be able to reduce public employees' pension benefits, Jerry Brown argues

By Adam Ashton

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November 22, 2017 09:48 AM

Updated November 28, 2017 09:05 AM

http://www.sacbee.com/news/politics-government/the-state-worker/article186044653.html

Gov. Jerry Brown got most of what he wanted when he carried a proposal to shore up the state's underfunded public employee pension plans by trimming benefits for new workers.

Five years later, he's in court making an expansive case that government agencies should be able to adjust pension benefits for current workers, too.

A new brief his office filed in a union-backed challenge to Brown's 2012 pension reform law argues that faith in government hinges in part on responsible management of retirement plans for public workers.

"At stake was the public's trust in the government's prudent use of limited taxpayer funds," the brief reads, referring to the period when he advocated for pension changes during the recession.

While the brief targets a specific provision of the pension overhaul he championed, its arguments suggest he favors broader pension changes that affect current employees.

"It was as good as anything the lawyers we use could have written," said Dan Pellissier, president of an advocacy group that that wants to reduce California pension obligations for public employees and retirees.

The filing embraces a cluster of recent court decisions that hold public employees are entitled to reasonable pensions, but not necessarily ones that are calculated on the most favorable formulas for them.

And the filing paints unions as unreasonable in insisting that any reduction in pension benefits must be offset by additional compensation. That's the so-called "California rule," the legal precedent that has barred state and local governments from modifying pension benefits for existing workers they've offered over the past 60 years.

"Many legal experts have criticized the rigid inflexibility of the union's position, pointing out that it is contrary to contract clause principles, inconsistent with general contract and economic theory, and effectively depresses the salaries and benefits of new generations of public employees," Brown's attorneys wrote in a footnote.

Brown's office this month supplanted the attorney general in defending Brown's pension reform law in a long-running lawsuit filed by the union that represents Cal Fire firefighters. The union wants to restore the ability of public employees to buy "air time," a perquisite that lets workers purchase extra years of service that are credited to their pensions.

Before Brown's pension reform law took effect, California public employees could buy up to five years of service credit through the air time offerings. Participating in the program cost workers tens of thousands of dollars up front, but gave them a higher pension when they reached retirement age.

Cal Fire Local 2881 President Mike Lopez said air time gave firefighters some assurance that they could count on a full pension if an illness or injury forced them to retire early.

"It's an option for the sacrifice the firefighters are making for the citizens we protect," he said.

Neither Brown's office nor the Attorney's General's Office would say why the governor took over the case, but unions and lobbyists noticed the change.

"The governor has one year left and he like others sees the future and wants to try to make some meaningful reforms," said Dane Hutchings, the chief lobbyist for the League of California Cities. Members of his organization have been asking lawmakers and pension leaders for more flexibility in negotiating to lower their pension costs.

Advocates who say California can't afford the benefits it has promised to 1.8 million public workers and pensioners in the California Public Employees' Retirement System in particular cheered the governor's arguments.

Despite the pension changes Brown championed, the state's two largest public pension systems are still severely underfunded. CalPERS, with $343 billion in assets, and the California State Teachers' Retirement System, with $220 billion, each have a little more than two-thirds of the assets they'd need to pay the benefits they owe.

Both systems also are asking local governments and schools to pay more money to fund the pensions of their employees, a trend that some local government advocates say is "crowding out" their ability to fund services.

"There comes a point where you can't become any leaner than you are," Tulare City Manager Joe Carlini told the CalPERS Board of Administration last week.

The Cal Fire Local 2881 case is one several lawsuits that public employee unions filed shortly after Brown signed the Public Employees' Pension Reform Act, which restricted benefits for public employees hired after Jan. 1, 2013, and required them to contribute more money toward their retirement plans. It did not change the base pension formulas that were available to employees who were hired before that date.

The law took aim at "spiking" by restricting the types of pay that public employees could use to calculate their pensions, and it prevented CalPERS from selling "air time" credits after Jan. 1,

2013. Both of those changes applied to workers who started their jobs before the law took effect, which the unions considered to be an infringement on the “California rule” because they cut incentives for current employees.

“You have to twist yourself up pretty good” to believe the air time and spiking changes will hold up in court despite the “California rule,” said Terry Brennand, pension director for SEIU California. “You’re taking away a benefit that is part of my program without offering me anything. I get removing it for future employees, but going backwards was a political move.”

The other lawsuits, one from Alameda County and from Marin County, challenge parts of the pension reform law that restrict “spiking,” or the practice of inflating public employees’ salaries late in their careers to swell the pensions they receive in retirement.

All three cases are headed to the California Supreme Court. They gained attention in lower courts when judges handed down opinions that seemed to challenge the “California rule.”

“While plaintiffs may believe they have been disadvantaged by these amendments, the law is quite clear that they are entitled only to a ‘reasonable’ pension, not one providing fixed or definite benefits immune from modification,” justices at the state’s 1st District Court of Appeal wrote in the Cal Fire case.

Brown’s filing at the state Supreme Court in the Cal Fire case cited those recent rulings in contending that governments have an interest in modifying pension plans. His brief called the airtime credits an “inherently unworkable and fiscally irresponsible scheme” and it warned that voters would not support tax increases if they don’t trust officials to manage the money well.

“That to me was the broadest argument he could make,” said Joe Nation, a former Democratic assemblyman who researches public employee pensions at the Stanford Institute for Economic Policy Research.

“What’s promising to me is he ties pension benefits to the general public good, and the general public good I would define as the government’s core mission” to provide public services, Nation said.

Union representatives and Cal Fire Local 2881’s attorneys said they were not surprised that Brown’s office intervened to defend a law that’s closely associated with his legacy. The Cal Fire union attorneys are also representing Marin County retirees in that other marquee case.

“The signature issue in both cases is the future of the California rule,” Gary Messing, one of the lead union attorneys. The Cal Fire “case is directly in the heart of it because you have a promise” from an employer to an employee.

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Gov. Jerry Brown in 2011 advanced a 12-point pension reform plan. Lawmakers adopted much of it in a law he signed the following year. Brown's legal office in November 2017 took over the state's defense of the law against a state worker lawsuit that challenges part of it. Hector Amezcua, Sacramento Bee file photo, 2011

Bull? Stocks can't stave off California pension crisis forever

AP Photo/Rich Pedroncelli
In this Oct. 23, 2003 file photo, Gov.-elect Arnold Schwarzenegger, left, and Gov. Gray Davis joke with each other as Davis shows Schwarzenegger the governor's private office at the Capitol in Sacramento.

By Teri Sforza | tsforza@scng.com | Orange County Register
PUBLISHED: August 10, 2017 at 3:16 pm | UPDATED: September 15, 2017 at 9:47 am

https://www.ocregister.com/2017/08/10/bull-stocks-cant-stave-off-california-pension-crisis-forever/

Remember 2003? Gray Davis was recalled, porn stars ran for governor, Arnold Schwarzenegger catapulted into office – and California's state and, for the last time in many, many years, local governments paid more into their pension plans than they owed in outstanding pension debt.

In those halcyon days, your cities, state and local governments paid $7 billion to support their workers' golden years, while the gap between what they owed those workers – and what they actually had squirreled away – was just a wee $6 billion, according to figures from the State Controller's Office.

One year later – the year Ronald Reagan died, John Kerry faced off against George W. Bush, "The Lord of the Rings: The Return of the King" won 11 Oscars and newly sweetened public employee retirement formulas kicked in in earnest – the gap between what California governments had on hand what they owed workers exploded to $50.9 billion.

And so it went. Each year, state and local governments shoveled more and more cash into pension funds – $16 billion, $19 billion, $21 billion – but each year, the growth of their "unfunded pension liabilities," as it's called in government-speak, continued at a monstrous rate nonetheless – to $64 billion, $128 billion, $241 billion.

Then – hallelujah! – the hole *shrank* a tad in 2015, dipping to $234 billion.

Did California turn the corner?

Unlikely, experts say. That dip was the work of some stellar years on the stock market – the mammoth California Public Employees' Retirement System clocked returns of 13.2 percent in 2012-13, and 18.4 percent in 2013-14 – mixed with a brew of overly-optimistic expectations on investment returns and less-than-realistic assumptions on how long retirees will live, among other things, which will soon be sobering up in such a way that the unfunded figures will grow even more.

Even at that lower figure, unfunded liabilities can be viewed as a $6,000 debt for every man, woman and child in the state of California.

Why should you care? Because it's your pocketbook. If that hole is not filled up with meatier earnings and heftier contributions from public workers and agencies, taxpayers could be called upon to fill it directly.

This is where folks start talking about heady concepts like "generational equity." Your children and grandchildren will be paying for the services that you are enjoying today. And there's also the concept of "crowd-out;" as governments pay more into pension funds there is less available for services like roads and parks and libraries. They ask: Is that fair?

There are basically two things that can happen next: Workers and governments negotiate more modest benefits for work yet to be performed, or taxes go up.

The smart money is on some combination of the two, and the California Supreme Court may make a game-changing decision on all that soon.

California has long considered public pension promises as contracts etched in stone – i.e., the formulas in place on the first day of a worker's employment can never, ever be changed, and any attempts to do so violate the California constitution. But state appellate courts have concluded that governments do, indeed, have wiggle room:

“While a public employee does have a ‘vested right’ to a pension, that right is only to a ‘reasonable’ pension — not an immutable entitlement to the most optimal formula of calculating the pension,” wrote Justice James Richman in a ruling regarding Marin County last year. “And the Legislature may, prior to the employee’s retirement, alter the formula, thereby reducing the anticipated pension. So long as the Legislature’s modifications do not deprive the employee of a ‘reasonable’ pension, there is no constitutional violation,”

The California Supreme Court has agreed to hear this, and similar cases. It’s unclear if it will agree.

Bear wrestling

CalPERS headquarters at Lincoln Plaza in Sacramento.

Officials from retirement systems say they’ll be able to hold the line on the growth of unfunded liabilities and eventually catch up without changing the formulas. Observers remain skeptical.

“The economic downturn and the volatility in the market were still the primary drivers for CalPERS unfunded liability growth during this time period,” CalPERS spokeswoman Amy Morgan said after reviewing our numbers. “Our strong investment returns in fiscal year 2013-14 of 18.4 percent and pension reform savings helped offset the unfunded liabilities increase from growing significantly.”

Many agencies in California are trying to attack the problem by paying down their unfunded liabilities earlier and kicking in more than the minimum-required annual contribution, she said. The state will pay an extra $6 billion this year to fill its hole, which should save $11 billion over the next 20 years, Morgan said. In the last fiscal year, more than 150 agencies did much the same thing.

“CalPERS estimates that our unfunded liabilities are expected to decrease over time and not increase unless there is a string of losses,” she said.

Tom Aaron, vice president and senior analyst at Moody’s Investors Service, expects to see much the opposite, at least for a while.

“Something we’ve seen on a widespread basis in the past year or two is that public pension plans have reduced their assumed rates of return,” Aaron said. “Not long ago, CalPERS had assumed returns of more than 8 percent, but recently decided to drop that down to 7 percent. That results in liabilities going up.”

Even when systems hit targeted returns – and they exceeded those targets this year – the amount that governments and workers kick in isn’t enough to prevent unfunded liabilities from growing, he said. They tend to favor paying less now and paying more later, robbing them of the magic of compounding.

There is not a pension fund in America that can earn its way out of its liabilities, said Peter Kiernan, public finance specialist and chair of the New York State Law Revision Commission. Lost compounding is the primary reason.

Money makes money

Compounding, Mary Mary Quite Contrary, is how the money garden grows.

If you put $100 away today and earn 5 percent interest, viola! Next year you’ll have $105 to earn 5 percent interest, and so on. Money makes money. Exponential growth.

But, if you put $100 away today and *lost* money, not only is your principal gone, but the interest earnings you were counting on to pile up and earn even *more* interest are gone as well. Dramatic events, like the financial meltdown of 2008, wiped out billions from public pension funds – including nearly one-quarter of what was in the coffers of the CalPERS. That makes it very hard to regain lost ground.

There are larger changes at work: Forty years ago, contributions from governments and workers comprised two-thirds of what was in the pension funds, and one-third was expected from investments, Kiernan said. Today – driven by the bull markets of the 1980s and '90s – it's just the opposite.

Annual required contributions have more than doubled over last decade, from 6.2 percent to 18.1 percent, which leaves less money to pay for other things.

John Moorlach. Paul Bersebach, The Orange County Register

State Sen. John Moorlach had been warning that the current system is unsustainable for years before the issue pierced the popular consciousness. The spike in liabilities seen between 2003 and 2004 was the work of new, more generous, retroactive retirement formulas adopted by one public agency after another in the early 2000s.

Meaning this: City A had been socking money away for Police Officer B's retirement for decades. When City A adopted sweetened pension formulas, it suddenly was committed to paying Police Officer B quite a bit more every month for the rest of his life – even though it had never set money aside to cover a pension that large.

Officials thought pensions were so super-funded that this retroactive thing would not come back to bite them. Add in "pension holidays" (when funds looked so healthy that officials quit putting money into them, sometimes for years), a crippling recession, lengthening life spans, a spike in retirements and reductions in what pension plans expect to earn on investments, and you get a hole hundreds of billions of dollars deep.

What's next?

Or deeper. Current liability totals are computed assuming returns on investments that exceed 7 percent, which critics say won't pan out over the long haul.

If one assumes lower return rates – as does former Democratic Assemblyman Joe Nation, now of the Stanford Institute for Economic Policy Research, on Stanford's Pension Tracker – the hole can easily double, triple or quadruple.

But the end is not nigh, said Kiernan.

"California's pension systems are underfunded significantly, but they are not in a death spiral," he said. "An effort is being made to achieve reform and enhance funding. A good investment year easily could be followed by a bad one and there could be regression, however. It just is too early for gloom and doom."

There must be political bargaining, he said. Since the recession, every state has tried to adopt reforms – but those modest formulas apply only to new hires, doing little to nothing to reduce current liabilities for the vast universe of public workers.

We invited several public pension advocates to share their thoughts on the numbers. They said they were studying them, but did not respond by deadline.

"The relevant question to ask is: Is there sufficient political will to achieve major reform?" Kiernan asked.

We'll see.

California promised public employees generous retirements. Will the courts give government a way out?

A case before the state Supreme Court could clear the way for reductions in public retiree benefits, which have become hugely expensive. But the outcome is "hard to predict."

By Maura Dolan

Oct. 20, 2016

http://www.latimes.com/projects/la-me-pension-legal/

The California Supreme Court is now reviewing written arguments in a pension case that has attracted national attention. (Justin Sullivan / Getty Images)

California's generous public employee pensions, shielded for decades by the state's courts, may soon no longer be sacrosanct.

In a potentially huge win for advocates of cutting government pensions, an appeals court in August declared that public retirement plans were not "immutable" and could be reduced. The three-judge panel said the law merely requires government to provide a "reasonable" pension.

That unanimous ruling, now before the California Supreme Court, could be a vehicle for reducing a shortfall amounting to hundreds of billions of dollars in state and local pension systems. If upheld, the decision could lead to the kinds of cutbacks previous courts blocked.

Emory University Law Professor Alexander Volokh called the decision “a big change from what the doctrine has been so far” and expressed doubt that it would be upheld. University of Minnesota Law Professor Amy B. Monahan described the ruling as “novel” and the outcome “hard to predict.”

The decision has attracted national attention because of California’s influential role in pension law. Like California, other states are facing massive shortfalls in public pensions and wrangling with ways to head off staggering debts.

Standing in the way have been decades of court decisions that created what is called the “California Rule.” It guarantees government workers the pension that was in place on the day they were hired.

The formula for calculating retirement income generally can be changed only if it is neutral or advantageous to the employee, courts have ruled. It cannot be reduced, except for new hires.

“It is a rule that makes it extremely difficult for states to reform their pensions,” Volokh said, “and lots of states have really big pension problems now.”

Until the last century, the law generally treated government pensions as gifts that could be taken away. People didn’t live long, and pensions were not considered particularly important.

That changed as lifespans rose and government employees sued to protect their retirement earnings. California law now treats government pensions as contracts protected by the state Constitution.

Twelve other states eventually adopted the California Rule, although not all interpret it so strictly. Now that public pension systems are facing massive debts, many states are again looking to California for possible answers.

The case that could weaken the California Rule stems from a “pension reform” law state legislators passed in 2012.

The law cut pensions and raised the retirement ages for new government employees and banned “pension spiking” for existing workers.

Judges, who generally have benefited from past public pension rulings, were exempted.

“They stuck it to pretty much everybody except the judges,” said Gregg McLean Adam, who is representing unions in the case.

Some unions objected to the law’s prohibition on pension spiking for longtime employees.

The practice involves inflating an employee’s pay during the period on which retirement is based — usually at the end of a worker’s career.

This can be done by cashing in years of accumulated vacation or sick pay or volunteering for extra duties just before retirement.

In some cases, spiking has created pensions higher than the workers' salaries.

The Marin County retirement system, relying on the new law, decided to remove pay from pension calculations for various on-call duties and for waiving health insurance.

Unions sued, contending that employees had long been promised that benefit and took jobs because of it. They argue the rules for new workers will eventually end the pension shortfalls.

In a ruling written by Justice James A. Richman, appointed by former Gov. Arnold Schwarzenegger, the appeals court said the Legislature can alter pension formulas for active employees and reduce their anticipated retirement benefits.

"While a public employee does have a 'vested right' to a pension, that right is only to a 'reasonable' pension — not an immutable entitlement to the most optimal formula of calculating the pension," wrote Richman, joined by Justices J. Anthony Kline and Marla J. Miller, both Gov. Jerry Brown appointees.

In most states, this sort of law easily would be upheld and perhaps not even challenged, legal scholars said.

"But in California, it's a tough issue," Monahan said.

Unions appealed the decision to the California Supreme Court.

"This a frontal assault on 60 years of California pension law," Adam said.

The state's top court is now reviewing written arguments on the case. It could agree to take up the appeal, let the decision stand as precedent or limit its effect only to Marin County.

Scholars agree the decision stands apart in the state's long jurisprudence on public pensions. But the state high court might want to shift the law to meet new economic realities, they said.

"Specific facts in different cases really drive the development of the law, "said Minnesota's Monahan.

She attributed the origins of the California Rule in part to a 1947 case brought by a public employee whose story stirred sympathy.

In that case, Kern v. City of Long Beach, a firefighter sued because the city abolished pensions for all working employees 32 days before he was entitled to retire. The firefighter had been contributing toward his pension for 20 years.

“So the court came up with a rule that was going to protect this person from losing his pension,” the law professor said. “The Kern facts were really awful for the government.”

The real “bombshell” came in 1955 in Allen v. City of Long Beach, when the California Supreme Court ruled that any cutbacks in pensions for current employees must be offset by comparable new advantages, Monahan wrote in a law review.

Unlike private pensions, which are governed by a federal law and must be insured, public retirement systems depend on government revenue if obligations exceed contributions and investment income.

Numerous attempts have been made around the country to reel in pension costs, with mixed success. Even in dire consequences, some courts have refused to retreat from protective pension law.

In Illinois, which has similar, or stronger, pension protections, shortfalls caused bond ratings to plummet. Chicago and the state passed reform measures, both of which the Illinois Supreme Court soundly rejected.

A decision by the California Supreme Court on whether to review the Marin County dispute is likely to be weeks or even months away.

Another ruling on the new pension law, by a Contra Costa County judge in 2014, is pending in the same appeals court that decided the Marin County case but before different judges.

That decision, responding to lawsuits brought by public employees in Contra Costa, Alameda and Merced counties, upheld the anti-spiking provisions but allowed some employees to count pay for regular and required on call duties toward their pensions.

Linda Ross, who represented a county agency in that case, said the Marin decision went further.

It “kind of rewrote the rule” that made it impossible to reduce pensions without providing equivalent benefits, she said.

“That is what prevented changes over the years,” Ross said, “because if you have to give someone something equivalent you are not saving money.”

Public employee unions say the decision, if upheld, would spark endless litigation.

“The court says you can reduce current employee pensions to a point of reasonableness” Adam said. “Where that point is, your guess is as good as mine.”

Contact the reporter. Twitter: @mauradolan

The Pension Gap

It was a deal that wasn't supposed to cost taxpayers an extra dime. Now the state's annual tab is in the billions, and the cost keeps climbing.

By [Jack Dolan]

Sept. 18, 2016

http://www.latimes.com/projects/la-me-pension-crisis-davis-deal/

With the stroke of a pen, California Gov. Gray Davis signed legislation that gave prison guards, park rangers, Cal State professors and other state employees the kind of retirement security normally reserved for the wealthy.

More than 200,000 civil servants became eligible to retire at 55 — and in many cases collect more than half their highest salary for life. California Highway Patrol officers could retire at 50 and receive as much as 90% of their peak pay for as long as they lived.

Proponents sold the measure in 1999 with the promise that it would impose no new costs on California taxpayers. The state employees' pension fund, they said, would grow fast enough to pay the bill in full.

They were off — by billions of dollars — and taxpayers will bear the consequences for decades to come.

This year, state employee pensions will cost taxpayers $5.4 billion, according to the Department of Finance. That's more than the state will spend on environmental protection, fighting wildfires and the emergency response to the drought combined.

And it's more than 30 times what the state paid for retirement benefits in 2000, before the effects of the new pension law, SB 400, had kicked in, according to data from the California Public Employees' Retirement System.

Cities, counties and school districts across California are in the same financial vise. After state workers won richer retirement benefits, unions representing teachers, police, firefighters and other local employees demanded similar benefits, and got them in many cases.

Today, the difference between what all California government agencies have set aside for pensions and what they will eventually owe amounts to $241 billion, according to the state controller.

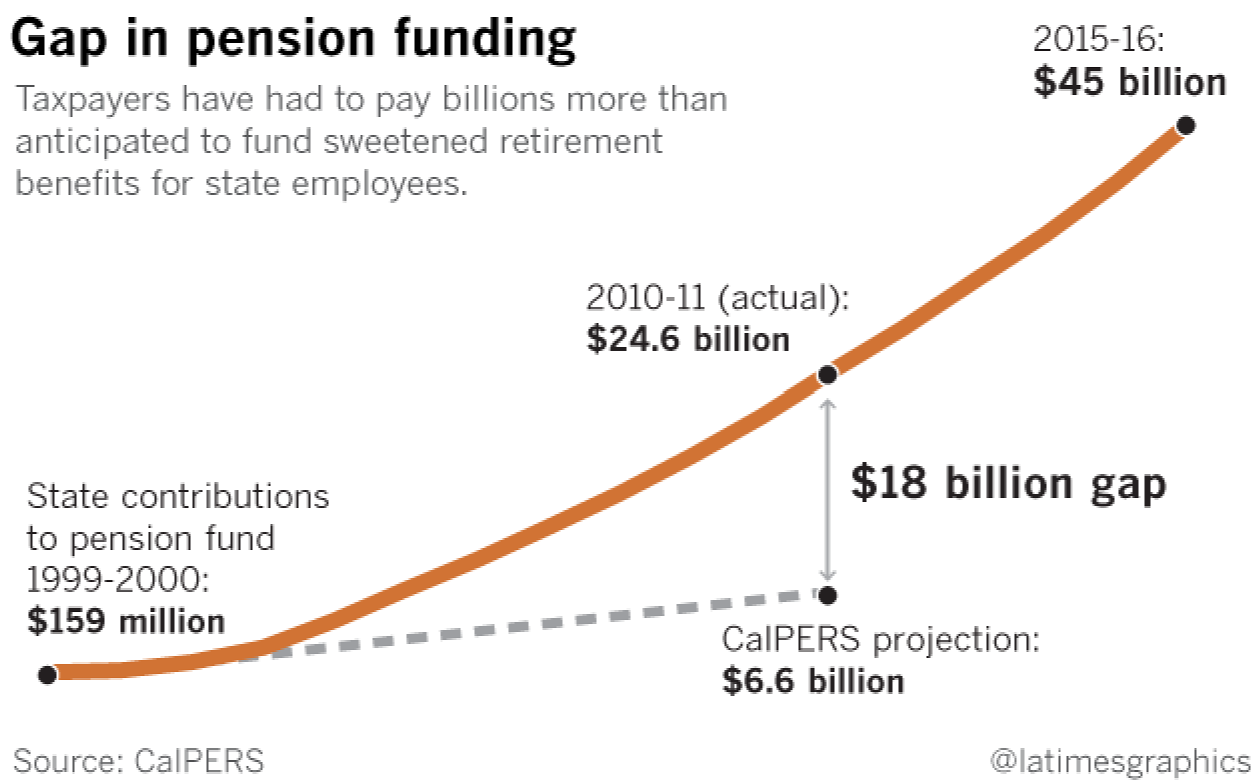
Davis, who was elected in 1998 with more than $5 million in campaign contributions from public employee unions, says that if he had it to do over, he would not support the pension improvements.

"If you're asking me, with everything I've learned in the last 17 years, would I have signed SB 400…. no, I would not have signed it," Davis, now 73, said in a recent interview at his Century City law office.

The law took effect in 2000, and that same year CalPERS investments were hammered by the bursting of the dot.com bubble. Eight years later, the housing market collapsed and the Great Recession set in, putting the pension fund in a deep hole.

CalPERS had projected in 1999 that the improved benefits would cause no increase in the state's annual pension contributions over the next 11 years. In fact, the state had to raise its payments by a total of $18 billion over that period to fill the gap, according to an analysis of CalPERS data.

The pension fund has not been able to catch up, even though financial markets eventually rebounded. That's because during the lean years, older employees kept retiring and younger ones continued to build up credit toward their own pensions. Pay raises and extended lifespans have magnified the impact of the sweetened benefits.



One of the few voices of restraint back in 1999 belonged to Ronald Seeling, then CalPERS' chief actuary.

Asked to study differing scenarios for the financial markets, Seeling told the CalPERS board that if the pension fund's investments grew at about half the projected rate of 8.25% per year on average, the consequences would be "fairly catastrophic."

The warning made no discernible impression on the board, dominated by union leaders and their political allies.

"There was no real taxpayer representation in that room," Seeling, now retired and living in a Dallas suburb, said in a recent interview. "It was all union people. The greed was overwhelming."

The enhanced benefits stand in stark contrast to the financial insecurity facing most Americans in retirement. The vast majority of private sector workers have no pensions and very little retirement savings, and will depend largely on Social Security payments, which average about $16,000 per year.

Union leaders say their generous pensions are preserving the middle-class dream of a comfortable retirement.

“People should not have to work their whole life and never be able to retire,” said Dave Low, executive director of the California School Employees Assn.

“We need to fix the system … but fixing it doesn’t mean taking secure retirements away from the last people who have them.”

State pensions are funded by regular deductions from workers’ paychecks and contributions from the state. CalPERS invests the money to cover future benefits.

The employee contribution, typically determined through collective bargaining, remains fairly constant. The employer contribution fluctuates based on CalPERS investment returns.

By far the largest group of state workers — office workers at the Department of Motor Vehicles, the Department of Social Services and dozens of other agencies — contributed between 5% and 11% of their salary in 2015, and the state kicked in an additional 24%. To fund their more costly benefits, Highway Patrol officers contributed 11.5% of pay and the state added 42%.

Separately, the state pays for lifetime health insurance for retirees who worked at least 20 years.

State agencies don’t have a say in how much they contribute toward pensions. That’s determined by CalPERS, where unions have long had considerable influence. Six of the agency’s 13 board members are chosen by public employees; the others are elected officials and their appointees.

By 1999, the retirement system’s investments had grown to $159 billion, from $49 billion in 1990, making it the largest public pension fund in the country and one of the largest institutional investors in the world.

To labor representatives and their allies on the board, the time seemed right to fix what they described as years of “benefit inequity.” They saw Davis, a Democratic former Assemblyman and state controller, as a savior after 16 years of Republican governors.

His predecessor, Gov. Pete Wilson, took $1.6 billion from CalPERS accounts in 1991 to help close a state budget gap. Wilson also reduced retirement benefits for new state employees, effectively creating a second class of state workers.

In May 1999, board members started work on what became SB 400. The state’s formula for calculating pensions had not changed in 20 years, and retirees had lost ground to inflation, according to background material prepared for the board.

The board invited a long list of union leaders to weigh in. They talked about fairness and about employees’ desire to be treated with respect.

It fell to Michael Picker, an aide to then-state Treasurer Phil Angelides who was sitting in for him that day, to raise what he called the “rainy day question.”

“The bull market has been on such a good run for so long that I continually wake up expecting to find out that the bottom has dropped out from underneath us,” Picker said, according to meeting transcripts.

Picker suggested the board refrain from pushing for expanded benefits until Seeling, the CalPERS actuary, had come up with best- and worst-case scenarios for investments over the next decade.

Board chairman William Crist, an economics professor at Cal State Stanislaus and former president of the faculty union, interrupted with sarcasm.

“I guess the best case for the retirement system is everybody dies tonight,” Crist said, meaning the fund wouldn’t have to pay any benefits. “We could go through a modeling exercise where we make all sorts of different assumptions and make predictions, but that’s really more than I think we can expect our staff to do.”

William Crist, an economics professor at CSU Stanislaus, was chairman of the CalPERS board when it pushed for bigger state employee pensions in 1999. (Steve Yeater / For the Times)

May 3, 1999

The rainy day question

At a meeting of the CalPERS board, an aide to the state treasurer suggested that the board carefully consider how a plunge in the stock market would affect its investments.

just from an economics point of view, there really isn't any best or worst cases. There's different assumptions that you can make.

I guess the best case for the retirement system is everybody dies tonight, the death benefit.

So in dealing with making actuarial assumptions, we have to just do the best work we can, and that's what we have these workshops and really work it through.

Despite the objection, Seeling did the analysis, considering three different scenarios.

One assumed that the fund's investments earned what CalPERS was expecting, an average annual return of 8.25% over the coming decade.

In that case, even with improved pension benefits, the annual contribution required from taxpayers would actually go down. By Seeling's calculations, it would hover around $650 million a year — $110 million less than the state was currently chipping in.

A second scenario showed what would happen if the investments earned 12.1% per year on average: CalPERS would be so flush that the state would not have to contribute any money.

Then Seeling turned to his most pessimistic assumption: investment growth of 4.4% per year, about half the rate CalPERS was expecting.

That would be "fairly catastrophic," Seeling said at a May 18, 1999, meeting of the board's benefits committee.

May 18, 1999

Double whammy

Ronald Seeling, then chief actuary for CalPERS, warned about the potential cost to taxpayers of enhanced retirement benefits for state employees.

coming in, and so you are relying on investment income,
dividends and coupons to help pay for the benefits going out
the door.
So, if you have a negative return for the year, it
is just a double whammy. Not only do your assets not grow,
but you wind up with some fairly dire consequences, in terms
of a drop in the asset value.
If you go quickly to Attachment 9, I would only
point out that the schools, that middle box, the sort of bad

The scariest part of that scenario was a hypothetical 18% one-year loss in investment value, which would require a multi-billion-dollar bailout from taxpayers.

The discussion was over in a few minutes, and board members did not revisit the issue, according to meeting transcripts. That summer, they approved the benefits expansion, the legislature passed it by overwhelming margins in both houses and the governor signed the bill in September 1999.

In November, CalPERS executives produced an in-house video congratulating themselves, Davis and the sponsoring legislators.

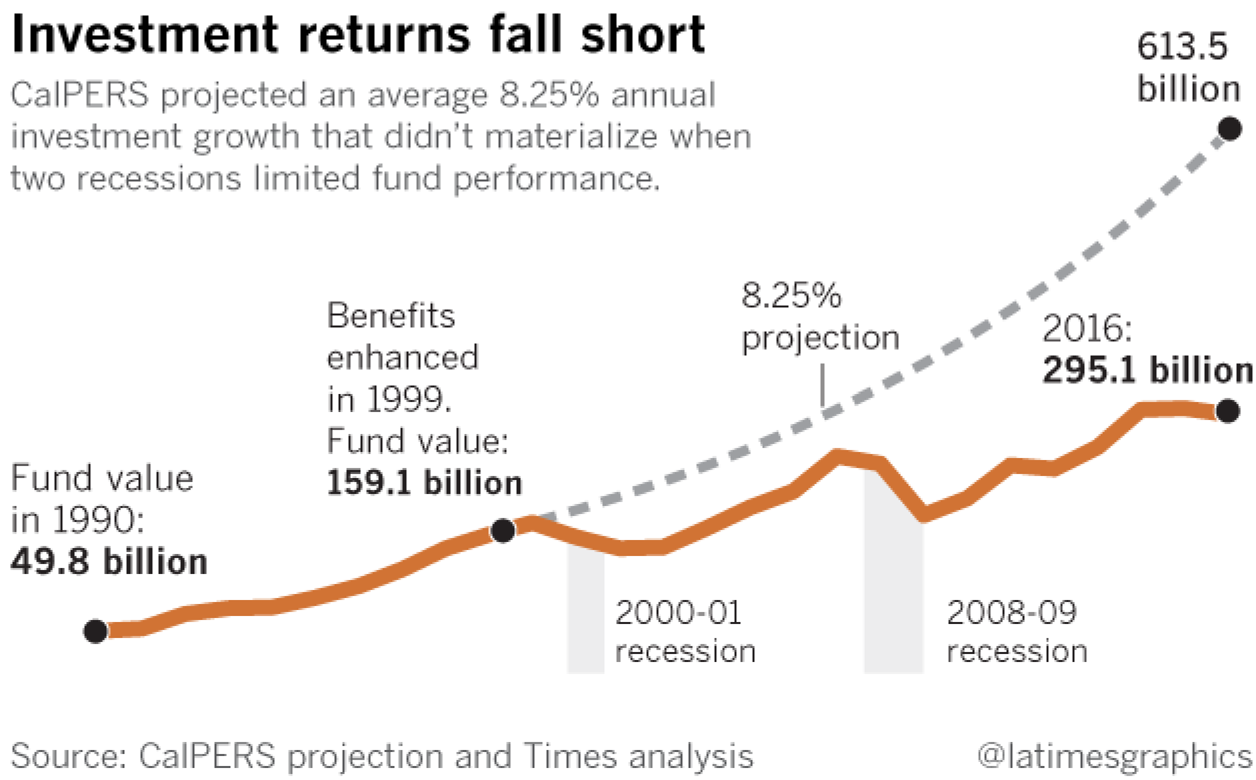
Crist appears, applauding the board for finding a way to ensure secure retirements for state employees "without imposing any additional cost on the taxpayers."

The measure was "the biggest thing since sliced bread," Perry Kenny, then president of the California State Employees Assn., says on the video.

No less enthusiastic were unnamed state employees interviewed on-camera. "I have so much I want to do, and I dreaded being too old to enjoy it," says one, adding that the opportunity to retire comfortably at 55 "opens up a whole new world to me."

The next year, 2000, the Dow Jones Industrial Average dropped for the first time in a decade, by 6%. The following year, it fell 7%, and then again the next year, by 17%.

CalPERS investments lost 3% in 2008 and 24% in 2009 — wiping out $67 billion in value.



Crist retired from the board and CSU in 2003. In 2010, his name surfaced in a pay-to-play scandal that rocked CalPERS. After retiring, he had accepted more than $800,000 from a British financial firm to help secure hundreds of millions in investments from the pension fund. Crist was not accused of wrongdoing

His wife said he suffered a stroke three years ago and was unable to respond to questions for this article.

His state pension is $112,000 per year, CalPERS records show.

Although all state employees benefited from SB 400, none hit the jackpot quite like the 6,500 sworn officers then on the California Highway Patrol. Previously, their pensions had been calculated by multiplying 2% of their salary times the number of years they worked. SB 400 raised that to 3%.

It was an innocuous-looking change on paper, but it had a huge effect.

CHP officers who retired in 1999 or earlier after at least 30 years on the job collected pensions averaging $62,218, according to CalPERS data.

For those who retired after 1999, the average pension was $96,270.

The average retirement age for CHP officers is 54. Someone that age without a pension who wanted to buy an annuity to generate the same income for life would have to pay more than $2.6 million, according to Fidelity Investments.

Few Americans have that kind of nest egg.

About a third of those between 55 and 64 have no retirement savings, according to Alicia Munnell, who was an economic advisor to President Bill Clinton and is now director of the Center for Retirement Research at Boston College. For those with savings, the median was $111,000 in 2013, she said.

Jon Hamm, the recently retired chief executive of the California Assn. of Highway Patrolmen, is widely regarded as the father of the "3 at 50" formula, which has been expanded to cover prison guards, police and firefighters across the state.

Jon Hamm, former head of the California Assn. of Highway Patrolmen, helped secure an earlier retirement age and bigger pensions for union members. (Steve Yeater / CALmatters)

Hamm said he now worries that "pension envy" could lead to a backlash against public employees.

"If I was in the private sector just struggling to get by, had no dream of retiring, would I be upset?" Hamm asked during a recent interview. "Yeah. And we have to understand that's a reality."

Joe Nation, a former Democratic assemblyman who teaches public policy at Stanford's Institute for Economic Policy Research, sees the same reality bearing down on public employees. He believes their sweetened pensions are not sustainable.

“There’s no way to close this gap without some sort of hit, or financial pain, for those employees,” he said.

He pointed to Detroit, where pensions were cut by nearly 7% after the city went bankrupt in 2013.

California labor leaders insist that could not happen here because state courts have ruled that pension benefits promised on the day an employee begins work can never be reduced.

Pensions have not been cut in any of the three California cities that declared bankruptcy in recent years — Stockton, San Bernardino and Vallejo.

But a number of rulings in those and other California cases have paved the way for a state Supreme Court showdown on whether bankrupt cities can treat retirees like other creditors, forcing them to stand in line hoping for pennies on the dollar of what they are owed.

Nation said he has been vilified by labor leaders for suggesting public employees voluntarily surrender some of their benefits. He comes from a family of public employees and was a union representative in the 1980s when he worked as a flight attendant for Pan Am.

“It’s hard to believe anyone would consider me anti-union,” Nation said. “I’m just a Democrat who can do math.”

When the legislature considered SB 400 in 1999, Democrats championed the expansion of pension benefits. Most Republican legislators voted for it, too — a reflection of the economic optimism of the time.

Dan Pellissier, then an aide to Republican Assembly leader Scott Baugh, said he was surprised that CalPERS thought it could afford such generosity toward future retirees, himself included. But he was not inclined to doubt it.

“It came down to everyone wanting to believe that CalPERS were masters of the universe,” said Pellissier. “I figured, who am I to substitute my judgment for theirs?”

He feels differently now. Pellissier is president of an advocacy group called California Pension Reform, which is seeking to curb retirement benefits.

In the Assembly, Democrats voted unanimously for the bill, as did 23 of 32 Republicans.

Lou Correa, then a freshman Democrat who carried the bill in the Assembly, said he fell victim to inexperience. He remembers seeing actuarial reports and assuming he’d “kicked the tires” and asked the right questions.

Correa, now running for Congress in Orange County’s 46th district, said he should have sought independent financial advice.

In the Senate, it took Deborah Ortiz less than 45 seconds to pitch SB 400 to her colleagues on Sept. 10, 1999. She sponsored the bill because her Sacramento district had the most state workers.

Ortiz recited a few changes to complicated retirement formulas and then pointed to the security staff, the sergeants-at-arms, noting their retirements would be enhanced with a yes vote.

The measure passed unanimously, without debate.

Ortiz now runs a Sacramento nonprofit that resettles refugees and victims of human trafficking.

In a recent interview, she said CalPERS' assurances that investments growth would cover the costs "made sense at the time," and there was no real opposition from any of the state government's financial analysts.

"All of the assumptions across the board were wrong," Ortiz said. "I don't think it was anything nefarious. Everyone was just wrong."

Davis said he took "with a grain of salt" assurances that SB 400 wouldn't cost taxpayers anything extra. Still, he recalled, CalPERS had seen steady gains in its investments and at the time had billions more than it needed to meet its obligations.

"I believed, when I signed it, it was sustainable," Davis said. "I knew it might take some tweaks here and there…but nobody on the planet Earth predicted we'd be going through what 2008 brought us."

In 2003, months into his second term, Davis became the first California governor to be recalled from office. His successor, Arnold Schwarzenegger, tried to rein in pension costs but failed. He blamed fellow Republicans in the legislature for voting against his proposal in return for contributions from the state prison guards union.

In 2012, Gov. Jerry Brown, a Democrat, persuaded the legislature to raise the retirement age for new employees and reduce their benefits slightly. That will save money decades from now, when those employees retire, but it will not reduce the cost of benefits already locked in for active and retired workers.

Lawmakers blocked Brown's broader effort to create a hybrid retirement system, with some of the state's contribution steered to 401k accounts, which are much less costly for employers because they don't guarantee benefits.

Brown also failed in his bid to add independent members to state retirement boards — people with financial expertise and no ties to public employee unions.

The outcome didn't surprise Ron Seeling. If the board had included truly independent financial experts in 1999 — the state treasurer and controller, he noted, are elected officials dependent on campaign contributions — they might have pushed to save the extra money from the boom years for a "rainy day," he said.

"They had that surplus, and there was an incredible push to spend it," said Seeling who collects a $110,000 state pension after a 20-year career at CalPERS.

"Politics and pensions just don't mix. That's all there is to it."

Contact the reporter. Twitter: @jackdolanLAT
Reporter Judy Lin of CALmatter contributed to this report.

Jerry Brown touted his pension reforms as a game-changer. But they've done little to rein in costs

The governor pushed for sweeping action in 2011 to close a funding gap and ease the burden on taxpayers. Then lawmakers blocked his most ambitious ideas.

By Judy Lin

Reporting from Sacramento | Oct. 28, 2016

http://www.latimes.com/projects/la-me-pension-crisis-brown/

Gov. Jerry Brown has described pension reform as a "moral obligation." Above, he outlines his 12-point plan in October 2011. (Associated Press)

A year after his 2010 election, Gov. Jerry Brown made a rare appearance at a legislative committee hearing to confront lawmakers about the steep cost of public employee pensions — and to demand that they pass his 12-point pension overhaul.

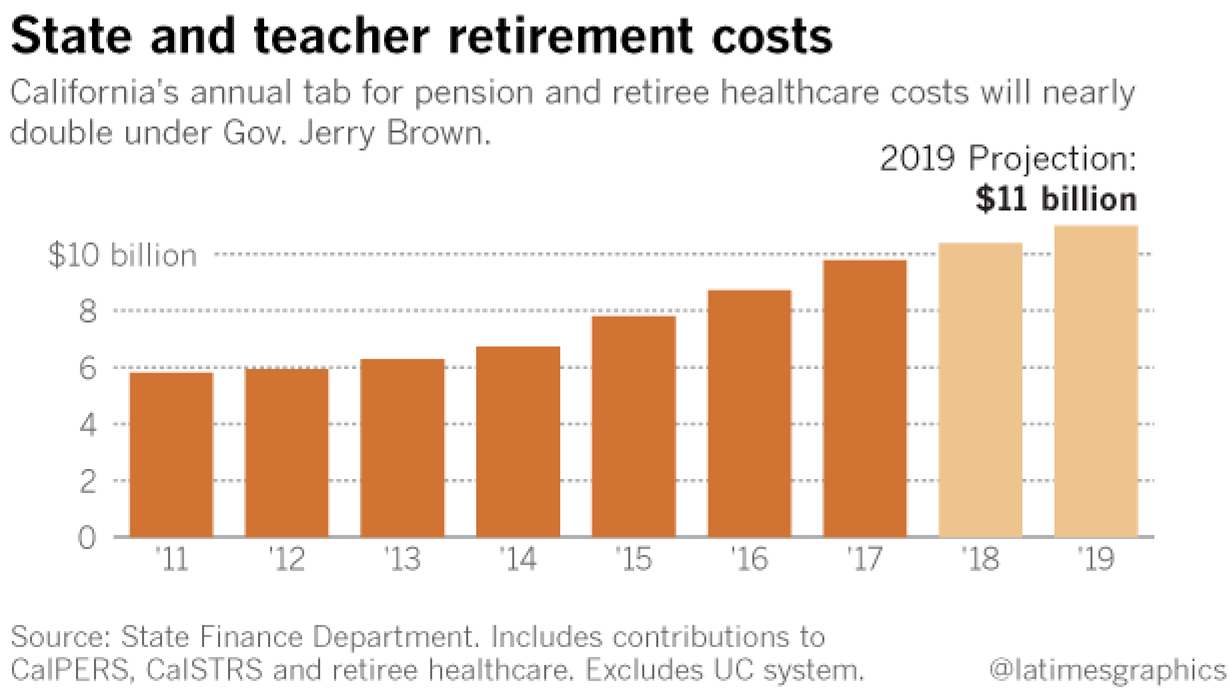
Brown challenged fellow Democrats to drink political "castor oil" so public retirement costs would not overburden future generations.

"We don't really have too much choice here," Brown said in a commanding tone as he addressed a special panel of Assembly and Senate members in the Capitol in December 2011.

State lawmakers eventually passed many of Brown's proposals, including a higher retirement age for new employees. But they rejected those with the biggest dollar savings — notably his plan for a hybrid retirement system combining smaller pensions with 401k-style savings plans.

Instead, legislators chose to tinker at the margins of pension reform. Although Brown touted it as the "biggest rollback to public pension benefits in the history of California," the package of modest changes he signed into law in 2012 has done little to slow the growth of retirement costs.

The state's annual bill for retirement obligations is expected to reach $11 billion by the time Brown leaves office in January 2019 — nearly double what it was eight years earlier.



Since the 2012 law applied mainly to newly hired employees, savings will trickle in slowly over many years. Pension contributions required from state and local governments will continue to increase — although they are estimated to be 1% to 5% less than they would have been without the changes.

Total savings from the Public Employee Pension Reform Act of 2012 are estimated at $28 to $38 billion over 30 years for the state's main pension fund, the California Public Employees' Retirement System, and $22.7 billion for the state's teacher pension fund.

The savings are a fraction of the two plans' unfunded liability — the gap between the benefits owed to current and future retirees and the money set aside to pay for them. CalPERS' unfunded liability is estimated at $93 billion. For the teachers' fund, it is $76 billion.

Politically unattainable

The fate of Brown's plan illustrates the deep difficulty of reining in California's public retirement costs. Brown's disappointment is all the more stark given that the political stars were aligned that year: The governor was popular with voters, enjoyed good relations with public employee unions and had a supermajority of his party in power in the Legislature.

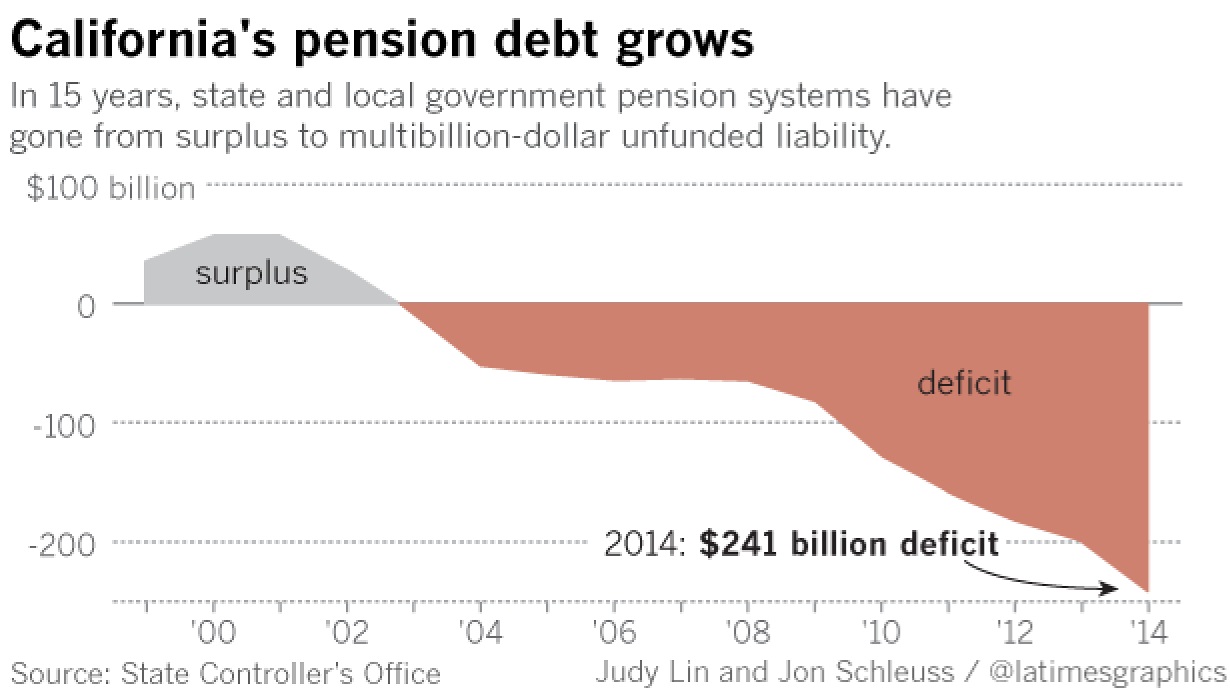
Steep cuts in state spending during the Great Recession, along with a highly publicized scandal in Bell, Calif., where city leaders arranged lavish salaries and pensions for themselves, had generated momentum for pension reform.

A tax increase anticipated on the November 2012 ballot gave Brown added leverage over legislators. Democrats wanted the increase to pass to protect public schools, universities and other services from further cuts. Brown told them that a demonstration of fiscal responsibility on pensions would greatly improve a tax measure's prospects on Election Day.

Still, the bulk of what Brown got were the easiest fixes. The big-dollar items proved politically unattainable.

The dynamic is unchanged today, as Brown prepares to begin his final two years in office.

At least publicly, Democratic legislators and labor officials do not share Brown's urgency about rising pension costs. They say economic growth could ease the burden on taxpayers by boosting pension-fund investments.



“Unfunded liability is not the same thing as debt,” said Steve Maviglio, a longtime advisor to Democratic officeholders and a spokesman for Californians for Retirement Security, a labor coalition. “It’s a snapshot in time of where the system is.”

Democratic legislators also argue that taking guaranteed pensions away from public workers isn’t the right way to bridge inequities between public employees and those in the private sector, few of whom have pensions.

“There are those who say those in the public sector should not have pensions that are any better than those in the private sector, and while I understand that answer, I think the answer lies in trying to improve retirement security on the private-sector side,” said Darrell Steinberg, who was president of the state Senate when Brown made his push for pension reform.

Darrell Steinberg, former leader of the California Senate and now mayor-elect of Sacramento. (Steve Yeater / CALmatters)

‘Stranglehold’

Democratic lawmakers are strongly allied with public employee unions, for which pension protection is a top priority.

Public employee unions gave $12.5 million to Democratic candidates for the Legislature between 2010 and 2014, compared with $1 million for Republicans, according to the nonpartisan National Institute on Money in State Politics.

Every Democratic lawmaker elected in 2010 received campaign contributions from public sector unions, as did Brown.

"Let's just be clear: The unions have a stranglehold on the Legislature," said Sen. Joel Anderson (R-San Diego), the only senator to vote against the 2012 pension bill. "Their loyalty is to those unions because that's how they got elected."

Former Sen. Joe Simitian (D-Palo Alto), who served on the special pension committee and is now a Santa Clara County supervisor, insisted that the final package — although less than Brown had asked for — was an impressive achievement. He said it reflected the governor's willingness to confront labor, something no single lawmaker could have done without fear of union retribution.

"This was and remains an issue that is probably beyond the ability of any individual legislator to make significant change on," Simitian said. "And the governor was able to bring the stakeholders together and get to yes on a very challenging subject."

When Brown pitched his pension reform proposal in December 2011, Assemblyman Warren Furutani (D-Gardena), then chair of the Assembly's public employees and retirement committee, told the governor that lawmakers were committed to "maintaining public pensions for our workers that have invested years and years of their lives in serving our state."

Furutani, who carried the reform bill, AB 340, for Brown, recalled there was tacit support from labor to close pension-spiking loopholes, but not to do much more than that.

"I was given a wink and a nod, saying 'OK, let's come up with something realistic here,'" said Furutani, who is now running for state Senate in the 35th District in Los Angeles County.

The Legislature eventually raised the age for retirement with full pension from 50 to 57 for newly hired public safety workers and from 55 to 62 for newly hired civil servants. Lawmakers banned retroactive pension increases and stopped practices such as hoarding vacation and sick time to inflate retirement calculations.

They also required minimum contributions from employees toward their pensions, to supplement the much-larger taxpayer-funded contributions.

The changes applied to most employees of the state, counties, cities and local districts. Not included were the University of California and cities that manage their own pension systems such as Los Angeles, San Francisco, Fresno, San Diego and San Jose.

‘We were never going to go there’

Brown wanted the Legislature to do more, including adding more independent members to the board of CalPERS, which is dominated by labor representatives.

Marty Morgenstern, Brown’s longtime labor advisor, who negotiated with lawmakers over the 12-point plan, said the change was important to the governor because he was mayor of Oakland in 1999 when the retirement board supported higher pension benefits that raised costs for local governments.

“That’s why Jerry was upset,” Morgenstern said.

But Democrats did not like the idea of handing the governor more authority. It would also have required voter approval.

“Ultimately, what I think the governor focused on — and we focused on — were the policy issues,” Furutani said. “I think that was just left for another day.”

Brown’s most ambitious proposal was the hybrid pension plan for new employees that would join traditional pensions and 401k-style plans, which help workers build up retirement savings but don’t guarantee any level of benefits. Brown said the hybrid system would pay retirees 75% of the salaries they collected when active.

“We were never going to go there because we didn’t believe in that,” said Steinberg, now mayor-elect of Sacramento. He and Simitian argue that 401k-style plans alone do not provide sufficient financial security.

“The fact that some employees in the state have some economic security and others don’t is not an argument for saying, ‘Well then, let’s reduce the number of folks with economic security,’” Simitian said.

‘Ponzi scheme’

At the 2011 legislative hearing, CalPERS presented an analysis of Brown’s 12-point plan that criticized the hybrid concept. The analysis said closing CalPERS off to new workers would starve the system and prevent it from keeping up with pension payments.

Brown, who had never proposed eliminating pensions, took umbrage at the criticism.

“Well, that tells you you’ve got a Ponzi scheme, because if you have to keep on bringing in new members, then the current system itself is not in a sustainable position,” Brown said. “So I don’t accept that, and we don’t need to close it off anyway.”

As an alternative to the hybrid, lawmakers approved a cap on the salary that could be used to calculate an employee’s pension.

The current cap is $117,020 for workers who participate in Social Security and $140,424 for those who don't.

Sen. John Moorlach (R-Costa Mesa), who serves on the Senate Public Employment and Retirement Committee, said Brown deserves credit for what he was able to accomplish. "Maybe you're never going to get perfect, so you settle for good," Moorlach said.

Morgenstern said Brown would have asked current workers to take a pension haircut but couldn't because of the so-called "California rule," a constitutional doctrine that prevents cutting an employee's future pension benefit unless the reduction is offset by a new benefit of comparable value.

In a departure from precedent, a state appellate court recently ruled that the Legislature can trim future benefits so long as a "reasonable" pension is maintained. The case is now before the California Supreme Court.

Brown's 12-point plan also called for public employees to contribute toward the cost of their retirement health benefits.

Currently, state workers with 20 years of service are entitled to full health coverage in retirement, worth $20,000 a year. Newer state workers will have to work longer to get the benefit, a perk not commonly offered by private employers.

Instead of mandating employee contributions, however, lawmakers told the governor to negotiate the issue with labor unions, which he's doing this year as contracts come up for renewal.

So far, highway patrol officers, prison guards and engineers have agreed to make contributions that start at less than 1% of their pay and increase to 2% to 4% over the next three years.

But the largest state employee union, the Service Employees International Union Local 1000, has threatened a strike over the issue.

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9. CalPERS 1959 Survivor Benefit Program

Cal PERS 1959 Survivor Benefit Program

Employers can amend their contracts to provide the 1959 Survivor Benefit to employees who aren't covered by Social Security. This benefit provides a monthly allowance to eligible survivors of covered members who died before retirement. Covered members pay a monthly fee that is deducted from their salary.

The 1959 Survivor Benefit allowance is payable in addition to pre-retirement death benefits, except for the Special Death Benefit. If the 1959 Survivor Benefit is greater than the Special Death Benefit, then the difference is paid as the 1959 Survivor Benefit. Search for your member benefit publication for information on the Special Death Benefit and other pre-retirement death benefits.

Upon a member's pre-retirement death, the respective employer and survivors are encouraged to contact us immediately for assistance.

Benefit Levels

There are six different benefit levels. The applicable level depends on the contract the employer has with CalPERS:

- Local public agency members may be covered by any of the first four levels or by the indexed level.
- School and state members are covered at Level 5.

Refer to the following chart to determine the amounts payable under each level depending on the number of eligible survivors.

Monthly Benefit Levels

Benefit Level	One Survivor	Two Survivors	Three or More Survivors
Level 1*	$180	$360	$430
Level 2*	$225	$450	$538
Level 3*	$350	$700	$840
Level 4	$950	$1,900	$2,280
Level 5	$750	$1,500	$1,800
Indexed**	$500	$1,000	$1,500

* These levels are closed to new agency contract amendments.
** These benefit amounts increase 2 percent each January, beginning January 2001.

NCMAD has Level 4 (highlighted in yellow).

Retirement Planning
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Survivor Benefits

What would happen to your CalPERS benefits if you should die? Actually, there are several different benefits that your family or beneficiary may receive, depending on your age, vesting and retirement status at the time of your death.

It is important that you fully understand the survivor benefits that are offered through the CalPERS plan, and you are encouraged to visit the CalPERS website at www.calpers.ca.gov, or visit the "Retirement Plans" section of *Inside Irvine* (the City's intranet site), for more information. Following, is a brief explanation of some of the survivor benefits that are available to eligible CalPERS members:

CalPERS Survivor Benefits	Under Age 50, *With and Without Vesting*	Over Age 50 *Without Vesting*	Over Age 50 *With Vesting*
Pre-Retirement	Basic Death Benefit and 4th Level 1959 Survivor Benefit	Basic Death Benefit and 4th Level 1959 Survivor Benefit	Basic Death Benefit and 4th Level 1959 Survivor Benefit; **or**, 1957 Survivor Benefit and 1959 Survivor Benefit
Post-Retirement	N/A	N/A	$500 lump sum death benefit, plus any Optional Settlement if selected at the time of retirement by the employee

CalPERS Survivor Benefit Definitions:

Basic Death Benefit – A lump-sum refund of employee contributions only, plus 6% interest and up to 6 months pay (1 month average salary for each current year of service to maximum of 6 months). This benefit is payable to any beneficiary the employee chooses.

4th Level 1959 Survivor Benefit – A monthly benefit of $950 for 1 eligible survivor, $1,900 for 2 eligible survivors, or $2,280 for 3+ eligible survivors. Eligible survivors are defined as 1) a spouse who is age 60 or older, or 2) a spouse who has care of eligible children. Eligible children are under the age of 22 and unmarried.

1957 Survivor Benefit – A monthly allowance equal to one-half (½) of the employee's highest service retirement on date of death. This benefit is only payable to a spouse, if he/she was married to the employee for at least 1-year before the employee's death. If there is no spouse, then the benefit will be paid to eligible unmarried children under age of 18.

Optional Settlement – At retirement, an employee can select an unmodified allowance (determined by multiplying years of service, highest salary and the appropriate benefit factor). Or an employee can take a reduction to his/her unmodified allowance to provide a benefit to a named beneficiary in the event of the retired employee's death. The $500 lump sum death benefit is in addition to the Optional Settlement selected by the employee.

10. California Public Employees' Pension Reform Act (PEPRA)

a. CSDA – California Public Employees' Pension Reform Act of 2013 (PEPRA) FAQ

b. CalPERS Education Forum Oct 2012 – Preliminary Summary of Pension Reform Provisions

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California Special Districts Association
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Districts Stronger Together

California Public Employees' Pension Reform Act of 2013 (PEPRA) - FAQ

The following Frequently Asked Questions (FAQ) were developed directly from CSDA member questions posed during the October 11 CSDA-hosted Pension Reform webinar. Additional materials and resources on the California Public Employees' Pension Reform Act of 2012 (PEPRA) are available online at www.csda.net, in the Grassroots Action Center.

DISCLAIMER:
This publication is provided for general information only and is not offered or intended as legal advice. Readers should seek the advice of an attorney when confronted with legal issues and attorneys should perform an independent evaluation of the issues raised in these materials.

Application

1. TO WHICH EMPLOYERS DOES PEPRA APPLY?
   a. PEPRA applies to ***all*** public employers and pension plans except:
      i. The University of California and charter cities and charter counties that do not participate in the California Public Employees' Retirement System (CalPERS) or the 37' Act system.
      ii. Any retirement plan approved by the voters of any entity before Jan. 1, 2013.

2. WHEN DO THESE REFORMS GO INTO EFFECT?
   a. All provisions go into effect on January 1, 2013. Please view the chart in FAQ #3 below to see which provisions affect current members versus new members.

3. WHICH PROVISIONS APPLY TO CURRENT MEMBERS AND NEW MEMBERS?

Proposal	Current Members	New Members
Retirement Benefit Cap		X
Increase Retirement Age		X
Cost Sharing	X*	X
Final Compensation-3 year avg.		X
Annuitant Restrictions	X	X
Felony Forfeiture		X
Elimination of Airtime	X	X
Elimination of Pension Holidays	X	X
Final Compensation Limits		X
Prohibits retroactive benefit increases	X	X

* *See Cost Sharing Section on page three for information related to current members.*

Member Definitions

4. HOW DO YOU DEFINE "NEW MEMBER" AND "CURRENT MEMBER"?
   a. "New member" is defined as:
      i. An individual who has never been a member of any public retirement system prior to January 1, 2013; or
      ii. An individual who moved between employers and/or retirement systems after more than a six month break in service; or
      iii. An individual who moved between employers within six months, if reciprocity does not exist between the systems.

   b. "Current member" is defined as:
      i. An individual who was part of a public retirement system or plan prior to January 1, 2013 (see FAQ #1 for exclusions) and remains employed by the public employer providing that plan.
      ii. An individual who was employed by a public employer before January 1, 2013, and who becomes employed by a subsequent public employer for the first time on or after January 1, 2013. These individuals will be subject to the retirement plan that was available to employees of the subsequent employer on December 31, 2012, if reciprocity is established under any of the following provisions:
         A. If the individual's previous and subsequent employers were in the same system (i.e. CalPERS) and the individual moved to the new agency within six months of departing the previous agency.
         B. If reciprocity exists between two systems (i.e. CalPERS and a county 37' Act), and the individual moved to the new agency within six months of departing the previous agency (see FAQ #8 for further detail).

Note: New employees or new hires are not necessarily "new members." For purposes of PEPRA, it is irrelevant whether one is a new employee/hire; it is only relevant if one is a "new member," per above.

5. IF A PUBLIC AGENCY EMPLOYS A PART-TIME EMPLOYEE PRIOR TO JANUARY 1, 2013, WHO HAS NEVER BEEN IN A PUBLIC RETIREMENT SYSTEM (I.E. CALPERS), ARE THEY CONSIDERED A "NEW MEMBER" OR "CURRENT MEMBER"?
   a. CalPERS requires that an employee has worked 1,000 hours within a fiscal year in order to establish him or her as an eligible member of CalPERS. This employee would likely be considered a new member even if they started employment before January 1, 2013 because the employee is likely not to have worked more than 1,000 hours, by the implementation date, a requirement necessary for enrollment in the public retirement system.

6. IF A FULL-TIME EMPLOYEE IS HIRED ON OCTOBER 31, 2012, AND THEY HAVE NEVER BEEN PART OF RETIREMENT SYSTEM, ARE THEY A "NEW MEMBER" OR A "CURRENT MEMBER"?
   a. If your agency participates in PERS or a reciprocal public retirement plan, the employee would be a current member because they would be hired before the December 31, 2012, cut-off.

7. IF AN EMPLOYEE HAS BEEN ON LEAVE BECAUSE OF WORKERS' COMPENSATION, DOES THIS HAVE AN IMPACT ON THE RECIPROCITY PROVISION OF NO MORE THAN A SIX MONTH BREAK BETWEEN EMPLOYERS/EMPLOYMENT?
    a. No, workers' compensation does not count toward the six month break as long as the employee does not drop his or her status as a member of his or her public retirement system. PEPRA allows other permissible separation provisions that will not count towards the six months break provision.

8. WHERE CAN I FIND OUT WHICH AGENCIES HAVE RECIPROCITY WITH CALPERS?
    a. CalPERS features a list of agencies that provide independent pension programs that would have reciprocity with CalPERS, available at: http://www.calpers.ca.gov/index.jsp?bc=/member/service-credit/purchase-options/redeposit/recipretiresystems.xml&pst=IN&pca=PA
    b. For other public retirement systems, contact a member service representative for a complete list.

Cost Sharing Provisions

9. WHAT GENERAL CHANGES ARE MADE TO COST SHARING UNDER PEPRA?
    a. Makes 50 percent cost share mandatory for all new members after January 1, 2013.
    b. Prohibits an employer from paying any part of the new member's share.
    c. While the state has set a "standard" of 50 percent cost sharing for all employees, employers are not required to adopt that standard for "current members."
    d. As of 2018, employers may impose up to a 50 percent cost-share for represented current members outside of collective bargaining, but the cost share is capped at eight percent of pay for miscellaneous and 11 percent or 12 percent of pay for public safety employees (see FAQs #13 and #15 for further detail).
    e. Employers may choose to collectively bargain for represented employees to pay beyond a 50 percent share of normal cost.

10. WHAT IS THE NORMAL COST RATE?
    a. The statute defines normal cost as the actual expense of providing the pension benefit for one year, which varies from year to year. It is paid by a combination of employer and employee contributions. Employees pay a percentage of monthly salary, and employers pay a percentage of payroll. Total normal cost reflects both employer and employee contributions. Normal cost does not include payments toward an agency's unfunded liability.

11. WHERE DO I FIND MY NORMAL COST?
    a. For members of CalPERS, normal cost is outlined in a statement every year. Your current statement is available under "Public Agencies" at http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml.
    b. To calculate a 50 percent cost share you would add the employee and employer contributions and divide it by two. CalPERS will differentiate the two costs in their statements to make it easier to determine your normal cost, which will be sent out to employers in November.

12. ARE LOCAL PUBLIC AGENCIES PROHIBITED FROM PAYING THE EMPLOYEE SHARE OF THE NORMAL COST UNDER PEPRA?
    a. All new members are required to pay at least a 50 percent share of normal costs and employers are prohibited from paying any portion of that share. This provision does not apply to current members.
    b. While the state has set a "goal" of 50 percent cost sharing, employers are not required to adopt that standard for current members.
    c. As of January 1, 2018, employers may impose up to a 50 percent cost share on current members, after making a good faith effort to do so under collective bargaining, which is subject to employee contribution caps (see FAQ #13).
    d. Employers may choose to collectively bargain for represented employees to pay beyond a 50 percent share of normal cost.

13. IF AN EMPLOYER IMPOSES 50 PERCENT COST SHARING AFTER JANUARY 1, 2018, IS THERE A CAP ON EMPLOYEE CONTRIBUTIONS?
    a. Yes, if an employer chooses to impose a 50 percent cost share then the employee contribution is capped according to his or her classification. After January 1, 2018, employers may impose up to a 50 percent cost share should bargaining meet an impasse but are not allowed to impose cost shares greater than eight percent of pay for miscellaneous, 12 percent of pay for police and fire, and 11 percent of pay for other safety employees. Employers are prohibited from using impasse procedures to impose an employee cost sharing arrangement greater than the caps.
        i. Example: District "X" has a normal cost of 20 percent of payroll. After January 1, 2018, District "X" seeks to impose 50 percent cost sharing (10 percent of pay). For miscellaneous employees, however, the share could be no greater than eight percent of pay. Safety employees could contribute the full 10 percent (half of the normal cost) because it does not exceed their caps.
    b. Cost sharing caps only apply to current members. Cost sharing caps do not apply to new members, who are all subject to the full, mandatory 50 percent cost share.
    c. For employers with 37 Act plans the cap level is slightly different, but those employers also have the authority to unilaterally impose 50 percent cost sharing that does not exceed provided caps.

14. HOW DO THE COST SHARING PROVISIONS OF PEPRA AFFECT EMPLOYEES SUBJECT TO COLLECTIVE BARGAINING?
    a. If an MOU is already in place before January 1, 2013, the terms of the MOU in respect to cost sharing continue for current members until the MOU expires. After which, a new MOU or contract may be created through the collective bargaining process.
    b. New members whose classification is included in an MOU that was in place prior to January 1, 2013, are also subject to the terms of the MOU until the MOU expires. After which, the 50 percent cost share automatically takes effect. The cost share terms of the MOU override the previsions of PEPRA up until the point the MOU expires. However, all other PEPRA new member provisions, such as retirement formulas, take precedent over the MOU as of January 1, 2013.
    c. An employer and represented employees who are current members can negotiate a 50 percent cost share before January 1, 2018, but it must be agreed to by both parties, per current statute.
    d. PEPRA encourages employers to negotiate a 50 percent cost share through collective bargaining with current members. If an agreement is not achieved by January 1, 2018, an employer may impose a shared cost of up to 50 percent of normal cost through the impasse process that is subject to caps on the employee contribution at eight percent of pay for miscellaneous and 11 percent or 12 percent of pay for public safety employees.
    e. A "standard" of 50 percent cost-sharing of normal costs is suggested but not mandated for current members. Subject to good-faith bargaining, employers may negotiate employee cost sharing beyond 50 percent.

15. HOW DOES COST SHARING AFFECT NEW MEMBERS AND CURRENT MEMBERS THAT ARE NOT SUBJECT TO COLLECTIVE BARGAINING?
    a. Current members who are not represented may have a new cost share formula imposed upon them by the employer, following adoption of a resolution that rescinds any prior resolution that outlines an employer paid member contribution. The employer may amend a resolution at any time to set new cost sharing levels.

16. IF AN EMPLOYER CURRENTLY PAYS 100 PERCENT OF THE EMPLOYEE'S SHARE, WOULD THE EMPLOYEE BE REQUIRED TO PAY 50 PERCENT IF THEY ARE A CURRENT MEMBER?
    a. No, the mandatory 50 percent cost share applies to new members only. Employers are prohibited from contributing more than 50 percent percent of normal cost for new members.
    b. Current members may be subject to the 50 percent cost sharing, subject to caps (See FAQ #13) after January 1, 2018, at the discretion of the employer.
    c. Even after January 1, 2018, an employer may choose to continue to pay any percentage (up to 100 percent) since the 50 percent cost share is discretionary for current members.

New Retirement Formulas

17. WHAT GENERAL CHANGES HAVE BEEN MADE TO THE ESTABLISHED PENSION FORMULAS?
    a. New formulas apply to new members only.
    b. PEPRA requires new compulsory pension formulas offered by public retirement systems for miscellaneous employees and public safety employees.
    c. The only exceptions to PEPRA are in cases where the employer has a lower retirement benefit or defined contribution alternative in place as of January 1, 2013.
    d. The new compulsory formulas are as follows (early retirement is possible with an actuarially adjusted retirement formula):

	New Compulsory Formula	Actuarially Adjusted Formula
Miscellaneous Employees	2 percent at age 62	with 1 percent at age 52
Basic Safety Plan	2 percent at age 57	with 1.426 percent at age 50
Safety Option Plan One	2.5 percent at age 57	with 2 percent at age 50
Safety Option Plan Two	2.7 percent at age 57	with 2 percent at age 50

    e. An employer will not have an option to choose between safety formulas. Instead, the formula determined for new members will be the closest formula that is provided for current employees in the same retirement classification as of December 31, 2012, which may mean reduced benefit for new members.
    f. If the newly hired individual is a current member, then an employer must offer the new employee the formula in place for current employees as of December 31, 2012. Should an employer want to offer a lesser formula to new hires who are "current members," the employer must create a second tier no later than December 31, 2012.

18. IS A NEW MEMBER HIRE AFTER JANUARY 1, 2013 SUBJECTTO PEPRA'S COMPULSORY PENSION FORMULA EVEN IFTHERE IS AN MOU IN PLACE?
    a. Yes. A new member will be subject to PEPRA's pension formula regardless of whether an MOU is in place. MOU cost share provisions are the only component of the MOU that are grandfathered in for new members until the expiration of the MOU.

19. WHAT PENSION FORMULA WOULD A NEW HIRE BE SUBJECTTO IF HE OR SHE IS COMING FROM ANOTHER AGENCY WITHIN CALPERS?
    a. So long as the new hire is still a current member (see FAQ #6) then he or she would be subject to the pension formulas in place at his/her new employer as of December 31, 2012.

20. DO AGENCIES HAVETO AMENDTHEIR MOUs OR CONTRACTSTO REFLECT PEPRA'S NEW FORMULAS FOR HIRES AFTER JANUARY 1, 2013 WHO ARE ALSO NEW MEMBERS?
    a. MOUs or contracts will not have to be amended because the new formulas are compulsory. This will be done automatically by the contracting retirement system.

21. CAN AN AGENCY ADOPT A LOWER FORMULA BEFORE JANUARY 1, 2013 AND "KEEP" IT AFTER JANUARY 1, 2013 INSTEAD OFTHE PEPRA FORMULAS?
    a. An agency cannot adopt any new formulas after January 1, 2013. The PEPRA formulas are mandatory after January 1, 2013 for all new members.
    b. Any new formulas adopted prior to January 1, 2013 will apply to all new hires after January 1, 2013, who are current members.
    c. After January 1, 2013, all new members will receive the mandatory PEPRA formula and all current members will receive the formula that the agency had in place on December 31, 2012.

Post-Employment Provisions

22. CAN EMPLOYEES RETIRE EARLYTO AVOIDTHE IMPACT OF PEPRA ONTHEIR PENSIONS?
    a. PEPRA does not impact the existing pension credit that current members have earned. Therefore, early retirement offers no advantage or disadvantage to employees as it relates to avoiding PEPRA impacts. Going forward, current members' pensions will be left relatively the same under PEPRA, as most of the reforms impact new members to the applicable public retirement system. In addition to the previous topics discussed, the applicable provisions that will impact current members are:
        i. Elimination of airtime
            A. As of January 1, 2013, employees will not be allowed to purchase time not served. This will have no impact on air time purchased or requested prior to January 1, 2013.
        ii. Elimination of pension holidays
            A. As of January 1, 2013, employers will not be allowed to suspend employer and/or employee contributions necessary to fund the normal costs, except under limited circumstances as follows:
                1. The plan is funded more than 120 percent;
                2. The excess earnings could result in disqualification of plan's tax deferred status;
                3. The board of the public retirement system finds that additional contributions would conflict with its fiduciary responsibility.

iii. Elimination of retroactive benefit increases
   A. Prohibits a retroactive (i.e., prior to the operative date of the enhancement) enhancement to a benefit formula, either due to a change to an existing formula, or due to a change to the retirement classification for a specific job.
   B. Defines "operative date" for purposes of this section to mean one of the following:
      a. The date the agreement is signed by the parties.
      b. A date agreed to by the parties that occur after the agreement is signed.
      c. A date agreed to by the parties that occurred prior to the date the agreement was signed if the most recent collective bargaining agreement was expired on the agreement date, and the date designated for the benefit improvement is the day after the expiration of the prior contract or 12 months prior to the agreement date - whichever is less.
   C. Clarifies that a retiree's annual cost-of-living increase is not considered to be an enhancement to a retirement benefit for purposes of this section.
   D. Applies to all employees and employers with regard to enhancements made to retirement benefits or formulas on and after January 1, 2013.

23. WHAT RESTRICTIONS DOES PEPRA IMPOSE ON RETIREES?

a. Restrictions apply to current and new members.
b. Requires a retiree to be reinstated should the retiree return to work within the same public retirement system.
c. When a retiree is reinstated, the retiree will stop receiving retirement benefits and return to active member status to begin receiving additional service credits.
d. PEPRA provides exceptions to the reinstatement provision when the retiree has been appointed by the employer during an emergency to prevent stoppage of the agency's business or the retiree has certain skills to perform a job and their work would be temporary.
e. Requires a 180-day "sit-out" period before a retiree can return to work, with some exceptions (see FAQ #25).
f. Mandates, with no exceptions, the 180-day "sit-out" period for retirees who received either a "golden handshake" or some other retirement incentive.

24. IF AN AGENCY WANTS TO BRING AN ANNUITANT BACK TO WORK, WHAT PROVISIONS OF PEPRA APPLY?

a. The annuitant must be reinstated if he or she is returning to an employer within the same retirement system. Exceptions to reinstatement include:
   i. If the annuitant is hired into a public retirement system other than the one he or she is currently collecting retirement benefits from; or
   ii. Hiring is imperative to the functioning of the agency due to emergency circumstances and is approved at a public meeting.
b. The annuitant is restricted to working no more than 960 hours for any employer in the same public retirement system.
c. The retiree may not be paid more or less than any other employee performing the same duties.
d. A retiree who received unemployment benefits for the loss of a job as a retired annuitant may not be hired in any public employment capacity until 12 months after his or her unemployment benefits cease.

25. HOW DOES THE 180-DAY SIT OUT PERIOD APPLY TO RETIREES?
    a. For current and new members there is a mandatory 180 day sit-out period. Exceptions to the sit-out requirement are:
        i. The employer certifies that the hiring of the annuitant is critical to the continuing function of the agency and the retiree appointed is approved by the agency's board during a regular public meeting of that governing body; or
        ii. The retiree is a public safety officer or firefighter, with some exceptions.
    b. PEPRA does not outline the exact process by which the employer certifies the critical nature of hiring an annuitant, leaving room for flexibility. The employer should consult with their general counsel on the best way to comply with this provision.

26. DO PEPRA PROVISIONS APPLY TO RETIRED ANNUITANTS WHO RETURN TO WORK WITHIN THE SAME PUBLIC RETIREMENT SYSTEM THROUGH A CONTRACT AS A CONSULTANT?
    a. It depends on whether the annuitant is considered an independent contractor because independent contractors are not subject to PEPRA. An employer should check with the retirement system on whether the returning employee fits the definition of an independent contractor.

Pensionable Compensation

27. WHAT LIMITS DOES PEPRA PLACE ON PENSIONABLE COMPENSATION?
    a. PEPRA's pensionable compensation limits apply to new members only.
    b. PEPRA limits pensionable compensation as follows:
        i. 100 percent of Social Security wage base limit (FY 2013 wage base is $113,700) for employees who participate in Social Security; or
        ii. 120 percent of the Social Security wage base limit (which totals $136,440) for employees who do not participate in Social Security.
    c. Adjustments to these caps are permitted annually based on changes to the Consumer Price Index and the Legislature is authorized to modify the caps in the future.

28. UNDER PEPRA, WHAT TYPES OF COMPENSATION ARE CONSIDERED "PENSIONABLE" FOR NEW MEMBERS?
    a. PEPRA calculates "pensionable compensation" on base pay only, defined as the normal monthly rate of pay to similarly situated members in the same employment group or class.
    b. The following types of "special compensation" will no longer be considered "pensionable compensation" under PEPRA:
        i. Any compensation determined by the board to have been paid to enhance a member's retirement benefit under that system. This may include: Compensation that had previously been provided in kind to the member by the employer or paid directly by the employer to a third party other than the retirement system for the benefit of the member, and which was converted to and received by the member in the form of a cash payment in the final average salary period.
        ii. Any one-time or ad hoc payment made to a member, but not to all similarly situated members in the member's grade or class.

iii. Any payment that is made solely due to the termination of the member's employment, but is received by the member while employed, except those payments that do not exceed what is earned in each 12-month period during the final average salary period regardless of when reported or paid.
iv. Payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off, however denominated, whether paid in a lump sum or otherwise, in an amount that exceeds that which may be earned in each 12-month period during the final average salary period, regardless of when reported or paid.
v. Payments for additional services rendered outside of normal working hours, whether paid in a lump sum or otherwise.
vi. Payments made at the termination of employment, except those payments that do not exceed what is earned in each 12-month period during the final average salary period, regardless of when reported or paid.

29. CAN CURRENT MEMBERS CONTINUE TO CONVERT UNUSED SICK TIME TO SERVICE CREDITS FOR "PENSIONABLE COMPENSATION" BENEFIT CALCULATIONS? WHAT ABOUT THEIR UNIFORM ALLOWANCE?
    a. Yes. Current members may continue rolling over unused sick, personal, annual, or vacation leave, as well as a uniform allowance. Restrictions on pensionable compensation only apply to new members.

Other

30. COULD PEPRA PROHIBIT A LOCAL AGENCY FROM EVER LEAVING ITS RETIREMENT SYSTEM (CALPERS) AND FORMING AN INDEPENDENT SYSTEM, WITHOUT THE PERMISSION OF THE LEGISLATURE?
    a. Unless it is a charter city or a charter county, an agency is prohibited from setting up an independent system without first obtaining certification by an actuary (that would provide proof of lesser costs) and approval from the state Legislature.

CalPERS Educational Forum 2012

A Guide to Pension Reform

October 22-24, 2012

Preliminary Summary of Pension Reform Provisions

These preliminary comments of CalPERS staff are based on its current understanding of AB 340 and therefore these comments are not intended to address all issues that could arise in this recently enacted law.

Brief Summary	Proposed Statute	Impacts Current Members	Impacts Future Members
Reduced Benefit Formulas & Increased Retirement Ages Would create a new defined benefit formula of 2% at age 62 for all new non-safety employees with an early retirement age of 52 and a maximum benefit factor of 2.5% at age 67, and three new defined benefit formulas for safety public employees with a normal retirement age at 50 and a maximum retirement age at 57 as follows: Normal Ret Age / Maximum Benefit Factor Basic Formula: 1.426% at Age 50 / 2% at Age 57 and older Option Plan 1: 2% at Age 50 / 2.5% at Age 57 and older Option Plan 2: 2% at Age 50 / 2.7% at Age 57 and older Also would require the formula offered be the closest to the formula presently offered to the same classification and that provides a lower benefit at 55 years of age.	**7522.10** **7522.15** **7522.20** **7522.25**		**X**
Cap Compensation that Counts Toward Pension Benefits Would cap the annual salary that counts towards final compensation for all new employees, excluding judges, at $113,700 (2013 Social Security Contribution and Benefit Base) for employees that participate in Social Security or $136,440 (120 percent of the Contribution and Benefit Base) for those employees that do not participate in Social Security. This compensation cap would adjust annually based on the CPI for All Urban Consumers.	**7522.10**		**X**
Eliminate Replacement Benefit Plans Would prohibit a public employer from offering a plan of replacement benefits for new members whose retirement benefits are limited by IRC Section 415. Also would prohibit a public employer from offering a replacement benefit plan for any employee if the employer does not offer a plan of replacement benefits prior to January 1, 2013.	**7522.43**	*	**X**

Brief Summary	Proposed Statute	Impacts Current Members	Impacts Future Members
Federal Compensation Limit for Determining Retirement Benefits (1) Would require all public retirement systems in California to adhere to the federal compensation limit when calculating retirement benefits for new members; and (2) would prohibit a public employer from making contributions to any qualified public retirement plan based on any portion of compensation that exceeds this limit. *(Note: CalPERS already adheres to the federal compensation limit)*	**7522.42**		**X**
Actuarially Reduced IDR Benefits for Public Safety Would allow a safety member, who qualifies for an IDR, to receive the greater of: 1) 50 percent of the member's final compensation plus any annuity purchased with his/her accumulated contributions, if any; 2) A service retirement, if the member qualifies for service retirement; or 3) An actuarially reduced retirement formula, as determined by the actuary, for each quarter year of service age less than age 50, if that amount would be higher than 50 percent of salary.	**7522.66** **21400**	**X**	**X**
Equal Sharing of Normal Cost ▪ For new and current employees, the bill provides that "the standard shall be that employees pay at least 50 percent of the normal costs and that employers not pay any of the required employee contribution." ▪ For new employees of contracting agencies and schools, the initial employee contribution rate may not be less than 50 percent of the total annual normal cost of pension benefits. ▪ For employees of contracting agencies and schools, the employer and employee organization may mutually agree to pay cost sharing agreement for pension benefits between January 1, 2013 and December 31, 2017. Beginning on January 1, 2018 the employer may unilaterally require employees to pay 50 percent of the total annual normal cost up to an 8% contribution rate for miscellaneous employees and an 11 or 12 percent contribution rate for safety employees. ▪ For state employees, contribution rates increase by a fixed percentage at specific dates beginning July 1, 2013. Rates increase and vary by bargaining unit and classification.	**7522.30** **20516.5** **20683.2**	**X**	**X**
Close LRS For New Members Would prohibit new members from participating in the LRS. However, new statewide constitutional and legislative statutory officers would still be eligible for optional membership in CalPERS.	**9355.4**		**X**

Brief Summary	Proposed Statute	Impacts Current Members	Impacts Future Members
Equal Health Benefit Vesting Schedule for Non-Represented and Represented Employees Would eliminate the ability of an employer to provide a better health benefit vesting schedule to non-represented employees than it does for represented employees.	**7522.40**	**X**	**X**
Prohibit Purchases of Airtime Would eliminate the ability of any public employee to purchase non qualified service or "airtime," unless an official application was received by the system prior to January 1, 2013.	**7522.46**	**X**	**X**
Prohibit Retroactive Pension Increases Would prohibit public employers from granting retroactive pension benefit enhancements that would apply to service performed prior to the date of the enhancement. This would apply to current and future employees.	**7522.44**	**X**	**X**
Prohibit Pension Holiday Would require the combined employer and employee contributions, in any fiscal year, to cover that year's normal cost.	**7522.52**	**X**	**X**
Calculate Benefits Based on Regular or Base Pay to Stop Spiking: New Employees Would require that pensionable compensation for all new employees be defined as the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group for services rendered on a full-time basis during normal working hours, pursuant to a publicly available pay schedule. Would also exclude all bonuses, overtime, pay for additional services outside normal working hours, cash payouts for unused leave (vacation, annual, sick leave, CTO, etc.), severance pay and various other types of pay as specified. Also would exclude any compensation determined by the retirement board to have been paid to increase a member's retirement benefit and any other form of compensation determined to be inconsistent with the statutory definition.	**7522.40**		**X**

Brief Summary	Proposed Statute	Impacts Current Members	Impacts Future Members
Require Three-Year Final Compensation Would require that final compensation for new employees of all California public agencies be defined as the highest average annual final compensation during a consecutive 36 month period, subject to the cap. Also would prohibit a public employer in the future from modifying a benefit plan to provide a final compensation period of less than a three year period for existing employees.	**7522.33**	*	X
Felons Forfeit Pension Benefits Would require both current and future public officials and employees to forfeit certain specified pension and related benefits if they are convicted of a felony in carrying out their official duties, in seeking an elected office or appointment, or in connection with obtaining salary or pension benefits, subject to certain requirements.	**7522.70** **7522.72** **7522.74**	X	X
Limit Post-Retirement Public Employment • Would limit all employees who retire from public service from working more than 960 hours or 120 days per year for any public employer in the same public retirement system without reinstating from retirement. • Would require a 180-day "sit-out" period before a retiree could return to work without reinstating from retirement except under certain circumstances. • Would require a 180-day "sit-out" period for retirees who received either a golden handshake or some other employer incentive to retire. • Would require a 180-day "sit-out" period for retirees who received either a golden handshake or some other employer incentive to retire. Would require a public retiree appointed to a full-time position on a state board or commission to suspend his or her retirement allowance and become a member of CalPERS.	**7522.56**	X	X
Contracting Agency Liability for Excessive Compensation Would require CalPERS (for plans it administers) to define a “significant increase” in actuarial liability for a former employer caused by increased compensation paid to a non represented employee by a subsequent public employer. Would also require CalPERS develop a plan to assess the cost of that excess liability to the employer who paid the excessive compensation and the provision would apply to any significant increase that is determined after January 1, 2013 regardless of when that increase occurred.	**20791**	X	X

* Although these provisions would not impact current members directly, they would prohibit public employers from offering such a benefit or option to current members in the future.

Public Employees' Pension Reform Act of 2013

Frequently Asked Questions

This document reflects CalPERS preliminary interpretation of the complex changes brought about by PEPRA and related PERL changes. Positions taken in this document may change as additional review and analysis continue and may change depending upon whether the Legislature undertakes clean-up legislation.

New Members

If an employee who became a CalPERS member on or before 01/01/13 changes from one CalPERS covered employer to a different CalPERS covered employer, would the employee be considered a new member under the Public Employees' Pension Reform Act of 2013 (PEPRA)?
A member that moves from one CalPERS covered employer to a different CalPERS covered employer would only be considered a new member if there was break in service greater than six months between the separation date with the previous employer and the appointment date with the subsequent employer.

I have worked for the past six years as a part-time miscellaneous employee and not become eligible for CalPERS membership yet, nor have I ever been a member of any other public retirement system. If I do not become a CalPERS member until 2013, will I be subject to the 2% @ 62 formula for new members?
Yes. PEPRA provides that the new pension formula be offered to new members. A new member includes an individual who becomes a member of a public retirement system for the first time on or after 01/01/2013 (and who was not a member of another public retirement system prior to that date). Under the scenario described, a part-time employee –who is hired prior to 01/01/2013 but does not become a member of CalPERS until after 01/01/2013 – would be considered a new member for the purposes of PEPRA.

Are leaves of absence considered a break in service?
No. Leaves of absence (i.e., maternity leave, military leave) should not be considered a break in service; CalPERS believes that a termination of employment must occur for there to be a break in service.

If I took a refund from CalPERS and later returned to a CalPERS covered employer, would I be considered a new member?
No, provided you became a CalPERS member prior to 01/01/2013 and you returned to work with the same employer. Your original membership date would apply. If you returned to work with a different CalPERS employer, you would be considered a new member if your break in service between employers was greater than six months.

How will CalPERS know if a new employee is eligible for reciprocity?
CalPERS will develop a new procedure for employers to validate and report the reciprocal employment details. An employee should provide accurate and timely information to their employer regarding their reciprocal status.

New Retirement Formulas

Will CalPERS recognize a ratified collective bargaining agreement that agrees to offer a lower retirement formula prior to 12/31/2012, even if the employer has not been able to complete the formal contract amendment process?
No. If an employer would like to adopt a lower benefit formula prior to 01/01/2013, the employer must complete the contract amendment process in accordance with all applicable requirements (which generally means that the effective date is the date of final action of governing body) prior to 12/30/2012. CalPERS will work with employers to expedite the contract amendment process to the extent possible, but CalPERS cannot retroactively implement contract amendments that are completed after 01/01/2013.

PEPRA requires all new members to go into one of the lower retirement formulas and 3-year final compensation, but what about the other optional benefit provisions?
CalPERS will automatically provide all of the same optional benefit provisions provided to your latest active benefit group effective on 12/31/2012 to all of your new members, except to the extent an optional benefit is not permitted for new members.

How will I know what safety formula to provide to new members hired on or after 01/01/2013?
The new safety formula is based on the closest, lowest new formula to the existing formula at age 55 as shown in the table below.

Existing Safety Formula	New Safety Formula
3% @ 50, 3% @ 55, 2% @ 50	2.7% @ 57
2.5% @ 55	2.5% @ 57
2% @ 55, 2.5% @ 60, ½ @ 55	2% @ 57

What is the minimum retirement age for the new 2% @ 62 retirement formula?
The minimum retirement age is age 52 with 5 years of service.

What happens to prior state service after 01/01/2013 when an existing employee who previously retired reinstates to work with a public employer?
PEPRA does not change how prior state service would be treated upon reinstatement. The prior state service would remain at the same retirement formula that was applied to it at the time of initial retirement.

What retirement formula will be applied for employees who reinstate from retirement to accept a full-time position in January 2013 with the same employer the employee retired from?
A person who reinstates from retirement and returns to the same employer would be entitled to the same retirement formula he or she had at the time of the initial retirement.

What benefit retirement formula will be applied for employees who reinstate from retirement to accept a full-time position in January 2013 with a different employer than the employee retired from?
Since a retirement is considered a break in service, the retirement formula that would apply to a person who reinstates from retirement and accepts employment with a different employer would depend on whether the person meets the definition of new member under PEPRA. If the person meets the definition of a new member, then the person would be enrolled in one of the new retirement formulas. Otherwise, the person would be enrolled in the formula the new employer had in place on 12/31/2012.

I am a police cadet under a 2% @ 55 retirement formula. If I am reclassified to a police officer in 2013, will I also be reclassified to the 3% @ 50 retirement formula? Can my reclassification be retroactive?
An individual who is a member of a retirement system as a police cadet in a miscellaneous formula and subsequently transfers to a safety formula would not be a new member and would therefore be entitled to the safety formula in effect on 12/31/2012.

It is important to note that PEPRA prohibits retroactive benefit increases which include formula enhancements stemming from reclassifications from miscellaneous to safety; therefore, the service accrued as a cadet would remain under the miscellaneous formula.

Employer and Member Contributions

How does a contracting agency determine 50 percent of the total normal cost for current employees?
This information will be provided to contracting agencies as part of their 06/30/2011 Annual Valuations that are scheduled to be completed and mailed out in November 2012. If a contracting agency would like to obtain a rough estimate of 50% of the total normal cost for each of its rate plans, the contracting agency may use the employer normal cost and employee contribution rate found in its 06/30/2010 Annual Valuation. Keep in mind that the total normal cost will increase with the 06/30/2011 Annual Valuation due to recent changes in actuarial assumptions.

How does a contracting agency determine 50 percent of the total normal cost for new members?
Upon completion of the 06/30/2011 Annual Valuations, the CalPERS actuaries will develop and provide contracting agencies with the necessary normal cost information for each of the new retirement formulas created by AB 340. These numbers should be used for determining the employee contribution for applicable new employees through 06/30/2015. Beginning with the 06/30/2013 Annual Valuation that sets the contribution rate for 07/01/2015, the employee contribution rate could fluctuate for each employer rate plan based on the actual experience and demographics of the employer.

How does an employer of the State, including CSU, judicial branch, legislative branch, and school districts, determine 50 percent of the total normal cost for current members?
The total normal cost for current members is available in the State and Schools June 30, 2011 actuarial valuation report that can be found online on the CalPERS website.

http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/all-er/home.xml

How does an employer of the State, including CSU, judicial branch, legislative branch and school districts, determine 50 percent of the total normal cost for new members?
The total normal cost for new members under the State and School plans will vary depending on the benefit formula applicable to the new member. The table below provides the total normal cost for new members for some of the State plans:

Plan	Total Normal Cost for New Members
State Miscellaneous – 2% at Age 62	12.1%
State Industrial – 2% at Age 62	14.4%
State Safety – 2% at Age 57	18.1%
POFF – 2.5% at Age 57	20.8%
POFF – 2.7% at Age 57	21.8%
CHP – 2.7% at Age 57	19.4%
Schools – 2% at Age 62	11.9%

PEPRA provides that beginning in 2018 an employer may require employees to pay 50 percent of the total annual normal cost up to an 8 percent contribution rate for miscellaneous employees, and an 11 percent or 12 percent contribution rate for safety employees. Does this provision apply to all public employers?
No, this provision only applies to contracting agencies and school districts. Once operable in 2018, PEPRA does not require any employer to implement the change discussed in the statute, rather the statute says that an employer may do so where all other statutory requirements are met.

For employers that have multiple retirement formulas, will CalPERS provide multiple employer contribution rates, or one combined rate?
CalPERS will look to its existing practice related to two tiers of benefits when providing employer contribution rates for new members. For State and school employers, a single combined employer rate per plan will continue to be used. For public agency plans in a risk pool, a separate employer rate will be provided for the new PEPRA benefit formula. For public agency plans that do not participate in a risk pool, a combined rate will be provided.

Pensionable Compensation

How will CalPERS treat pensionable compensation if the individual is not in a group or class?
The Public Employees' Retirement Law addresses how an individual's compensation earnable is determined when the individual is not in a group or class. CalPERS plans to work with the Legislative staff and will seek statutory amendments to clarify that these rules apply to determining pensionable compensation when a new member is not in a group or class.

Working after Retirement

Can employees work in the private sector after retiring from a public employer on or after 01/01/2013 without jeopardizing their retirement benefits or waiting 180 days?
Generally, a retiree can work in the private sector (meaning he or she is not providing services directly to a public employer), or with a public employer that is not in the same retirement system the individual retired from, without waiting 180 days or being limited to 960 hours. It is important to note that there could be other applicable restrictions if the person retired on an industrial disability retirement.

PEPRA exempts public safety officers from the 180 day waiting period. How will CalPERS define a public safety officer?
CalPERS has interpreted the phrase public safety officer to means any individual in one of CalPERS safety membership classifications and plans to promulgate a regulation to clarify this interpretation.

Retroactive Benefit Enhancements

Is the prohibition on retroactive pension increases only applicable to the retirement formula changes?
No. This could apply to other forms of optional benefits, such as post retirement survivor allowance.

If I get a retroactive salary increase, does that mean that CalPERS will not factor my new salary for retirement after 01/01/2013?
The prohibition on retroactive benefit increases would not impact salary increases. This is because your retirement formula already contemplates that your salary may go up in the future. Hence, there is not enhancement to your benefit formula. However, any increases must meet the definition of compensation earnable for existing members and pensionable compensation for new members in order to be used when calculating a retirement benefit.

As a result of PEPRA, will there be any changes to how unused sick time will be applied for service credit at retirement?
No. PEPRA does not change the provision that allows a member to convert sick leave to service credit. However, sick leave payouts would not count toward pensionable compensation for new members.

11. Santa Clara County Grand Jury May 17, 2012 Report – An Analysis of Pension and Other Post-Employment Benefits.

AN ANALYSIS OF PENSION AND OTHER POST EMPLOYMENT BENEFITS

Issue

After reviewing the Comprehensive Annual Financial Reports (CAFRs) of all cities, towns and the County of Santa Clara (hereafter referred to as City or Cities[1]), the Grand Jury was struck by the extent that the pensions and Other Post Employment Benefits (OPEB) (collectively "Benefits") were underfunded. Subsequently, the Grand Jury sought to answer the following question: "Is the cost of providing pension and other post employment benefits interfering with the delivery of essential City services and is the ultimate cost to the taxpayers a bearable burden?"

Introduction

The Grand Jury developed a survey to gather information from the Cities and the County. The Survey and responses are important to this report and the Grand Jury encourages readers to read the Survey questionnaire provided in Appendix A before continuing. Due to the technical complexity of this report, the Grand Jury has provided a glossary of the terminology used throughout this report (Appendix B). Acronyms are also included in the glossary.

CalPERS[2] requires Cities to contribute sufficient funds, held in trust, to pay for pension benefits as they are earned. This helps to ensure sufficient funding is in place to provide the promised pension benefits. This trust money is invested and expected to return a long-range investment return as high as 7.50%[3] (after expenses). It is these investment earnings that are expected to pay for as much as 70%[4] of the cost of pension benefits.

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[1] Cities as defined in this report include: Santa Clara County; the cities of Campbell, Cupertino, Gilroy, Los Altos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, Sunnyvale; and the towns of Los Altos Hills and Los Gatos,

[2] The California Public Employees' Retirement System (CalPERS) is an agency in the California executive branch that manages pension and health benefits for California public employees, retirees, and their families.[

[3] CalPERS recently reduced this rate from 7.75%.

[4] Expected to decline as investment yield declines.

According to interviews, historically high investment earnings in the early 1990s spawned the belief that expensive pension enhancements could be granted and paid for by the excess investment earnings without compromising the Cities' ability to afford other services. Once these pension enhancements are granted to an employee, they generally cannot be retracted unless a substantially comparable replacement is offered, a concept referred to as vested rights. Cities reported that they felt compelled to enhance benefits to attract and retain the best work force possible.

In addition to pensions, employers provide OPEB consisting primarily of health care benefits. Unlike pension funding requirements, there is no requirement for Cities to pre-fund the cost of OPEB benefits. As a result, most Cities have not funded OPEB benefits and have accrued large OPEB debts. Escalating health care costs, the largest component of OPEB, compound this debt problem.

As a result of an economic downturn, the average investment rate of return (investment earnings) for the last ten years is considerably below what experts and Cities agree is the still optimistic assumed rate of 7.5%. This return on investment (ROI) leads to an increase in the Cities' annual payment into the pension fund to make up the difference.

The rising costs of pension and OPEB (collectively hereinafter referred to as Benefits), combined with the downturn of the economy have resulted in very large budget shortfalls. These must be paid by current and future tax revenue, which is limited. Thus, according to interviews, paying for these rising costs will come at the expense of other City services.

With this in mind, the Grand Jury assessed the viability and sustainability of Cities' public employee Benefits. This assessment sought to answer the following questions:

- What are the costs of public employee Benefits and who pays for them?
- Will Cities' projected revenues keep up with projected expense of Benefits?
- What is being done and what can be done to control Benefit costs?
- Why are public employee Benefits different from those in the private sector?

Background

Several cities have declared bankruptcy. While the reasons for bankruptcy vary from one municipality to another, and include lower tax revenues and decreased home values, one common reason cited is large unfunded liability associated with providing pension and healthcare benefits to its public employees. Locally, the City of Vallejo declared bankruptcy in 2009 after failing to negotiate pay cuts in the face of $195 million in unfunded pension obligations. Stockton is falling into bankruptcy with less than 70 cents set aside for every dollar of pension benefits its workers are owed[5]. A recent Stanford University study regarding public pension funds statewide emphasizes this predicament: “public pension shortfalls of $379 billion or $30,500 per household” exist statewide[6] contributing to the downgrading of California’s bond rating. San Jose is proposing pension reform and considering higher taxes resulting from ten consecutive years of budget shortfalls. The full effect of these unsustainable costs is yet to come.

Methodology

The scope of the Grand Jury’s investigation was limited to the Cities. Special districts and other agencies were excluded from this investigation. The following resources were used to gather and evaluate the data contained in this report:

- City CAFRs; particularly notes to financial statements concerning Benefits (see Appendix A)
- Results obtained from a survey created by the Grand Jury and distributed to the Cities (see Appendix B for the complete survey)
- Interviews conducted with one or more of the following persons from the Cities: Financial Manager, Chief Finance Officer, City Manager, Retirements Service Director, and Human Resource Manager. All interviews were conducted following receipt and evaluation of a survey, affording the opportunity to seek clarification and elaboration on survey responses as necessary.
- Interviews with CalPERS actuaries and CalPERS consultants
- Other documents listed in Appendix A.

Report Conventions

The Grand Jury did not extrapolate, derivate or convert the data provided by the Cities in response to the survey. When the Grand Jury had questions, or found inconsistencies in the data provided, every effort was made to resolve the issues through interviews, email and phone conversations.

All dollar figures are expressed in actuarial valuation units,[7] not market value, unless otherwise stated. The glossary in Appendix C provides definitions of the terminology used throughout this report. Acronyms are also included in the glossary.

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[5] "Untouchable pensions may be tested in California," Mary Williams Walsh, New York Times, March 16, 2012.

[6] http://siepr.stanford.edu/system/files/shared/Nation%20Statewide%20Report%20v081.pdf

[7] See Appendix C Glossary for definition.

Discussion

This discussion consists of three primary sections:

- **Understanding CalPERS** presents and discusses the basic concepts of CalPERS public pension benefits to lay a foundation for a more detailed look at City-provided Benefits.
- **Key Survey Results** discusses those survey results found to be most relevant to answering the Grand Jury questions.
- San **Jose's Plan** is discussed separately because San Jose is the only city to not use CalPERS.

Understanding CalPERS

Because all Cities except San Jose[8] participate in CalPERS for pension and many use CalPERS for OPEB as well, it is vital to understand the following key concepts:

- Basic Pension Plan Formulas
- Annual Required Contribution (ARC)
- CalPERS Menu Options
- Assumed or expected Return on Investment (ROI)
- Unfunded Liability.

Basic Pension Plan Formulas

Employees belong to one of two different groups: Miscellaneous (MISC) or Public Safety,[9] each having defined plans. Table 1 lists all first tier[10] CalPERS plans utilized by Cities. Note that the plan names include the pension earned per year and the retirement age at which full benefits are received.

[8] Excluding the San Jose Mayor and Council Member plan.

[9] Police and Fire personnel.

[10] See Appendix C Glossary for definition.

Table 1: First Tier CalPERS Plans Used by the Cities

s Plans		Public Safety Plans	
Plan Name	Number of Cities Participating	Plan Name	Number of Cities Participating
2.0%@55	4	3.0%@50	11[11]
2.5%@55	5	3.0%@55	1
2.7%@55	7		

For all plans the pension benefit formula contains the same three primary components multiplied together as shown here:

Pension = Earned Benefit Rate x Years of Service x Salary

Earned Benefit Rate: This is the percent of salary earned per year of service as indicated by the plan name. Retirement before age 55 for MISC employees and before age 50 for most Public Safety employees results in the Earned Benefit Rate being reduced (per CalPERS' table). For example, a MISC employee in the 2.0%@55 plan who retires at age 50 gets an earned benefit rate of 1.426[12] per year of service rather than 2.0. Similarly, participants of the 2.5%@55 plan as well as the 2.7%@55 plan receive an earned benefit rate of 2.0 at age 50. Interestingly, the earned benefit rate for members of the 2.0%@55 plan continue to rise until the age 63 where it plateaus at 2.418[13] percent per year of service. This contrasts with the other two MISC plans that plateau at age 55 at 2.5% and 2.7% respectively. (For a more detailed delineation of earned benefit rates, see www.calpers.ca.gov).

Years of Service: This is self explanatory except to point out CalPERS supports reciprocity, which means that employees can transfer from one CalPERS-covered agency (City) or any other public agency that has established reciprocity with CalPERS, to another such agency without forfeiture of earned pension (as is usually the case in the private sector).[14] Thus, an employee may work 10 years each for three different cities and earn the same pension benefits as otherwise would have been earned if they had worked for 30 years at a single city. But because each of the three cities pays only its one-third share of the earned pension, statistically, this employee appears as three employees earning a more modest pension from each city.

[11] Some Cities contract for police and fire. Gilroy police and fire belong to separate Public Safety plans.

[12] From CalPERS Benefit FactorsTable, page 22, Local Miscellaneous Benefits

[13] From CalPERS Benefit FactorsTable, page 22, Local Miscellaneous Benefits

[14] Reciprocity agreements may also exist between other pension plan providers.

Salary: CalPERS has guidelines defining what wages and reimbursements qualify for the purposes of determining pension. For a detailed discussion, go to www.calpers.ca.gov. Generally, salary can either be the average highest salary over a three-year period, or a highest single 12-month salary can be used, depending on the plan adopted by the City. Using the highest 12-month salary (rather than highest 36-month average salary in the pension formula shown above) is an example of what is known as a "Class 1" benefit enhancement that is more expensive to provide.

It is noted here that Public Safety plan participants have a 90% maximum salary cap that can be earned at onset of retirement. There is no corresponding limit placed on plan participants. In both cases however, the Grand Jury learned that large pensions (expressed as a percent of salary) serve as a deterrent to prolonging employment because one can retire at close to full pay. Subsequent discussions on Employer Paid Member Contribution (EPMC) and Cost-of-Living Allowances (COLA) will show how pensions can actually exceed salary, leading to the paradox of employees losing income if they continue to work as a public employee rather than retire.

ARC: What is it and How is it Determined?

The ARC is the annual actuarially determined amount that must be paid to ensure there will be enough money to pay for all promised Benefits. As shown below, the pension ARC consists of three principle components added together:

ARC = Employee Contribution + Normal Cost + Past Service Cost

It should be noted that generally the Normal Cost and Past Service Cost, in accordance with labor contracts, are paid for by the Cities—through tax revenue—and sometimes are supplemented by an employee contribution.

Employee Contribution: From the perspective of CalPERS, this is a fixed percent and, as the name would suggest, was intended to be paid by the employees in much the same way as most private workers pay a portion of their own Social Security benefits. For all City employees, the Employee Contribution is either 7%, 8% or 9% of an employee's salary, depending in which plan the employee participates. It is important to note, however, that in practice, most Cities pay some portion of this cost on behalf of the employees.

Normal Cost: Less the employee contribution, if made, this is the amount required to pay for the benefits that were earned in the prior year for the (expected) life of the employee in retirement. This is determined through rigorous actuarial valuations taking many variables into account, including retirement age, life expectancy, and probability of disability. Normal Cost tracks very closely with the degree of Benefits being offered. That is to say, discrete cost increases occur to this component of the ARC with each benefit enhancement proportional to the cost of the benefit. Without benefit enhancements, Normal Cost remains relatively flat over time.

Past Service Cost: Whenever the plan assets (all previously paid ARCs), including ROI, become insufficient to pay the actuarial accrued cost of benefits, an unfunded liability[15] exists. This deficit must be made up in the form of Past Service Cost. This component of the ARC is largely proportional to unfunded liability, increasing as the unfunded liability goes up to begin paying down the debt. For many Cities surveyed, Past Service Cost is approaching and in some cases already exceeds Normal Cost. Later, this report will discuss the three most often cited reasons for unfunded liability: market losses (ROI lower than the assumed rate), retroactive benefit enhancements, and other accumulated actuarial assumption changes (e.g., longer life expectancy, demographic changes).

CalPERS Menu Options

Each CalPERS plan has numerous benefits that are inherent to the plan itself.[16] In addition to these benefits, CalPERS offers a wide range of menu options that can be thought of as upgrades or enhancements to the base plan. They are too numerous to list but include the following:

- Annual cost-of-living allowance (COLA) increase
- Employer-paid member contribution (EMPC)
- Credit for unused sick leave
- Improved industrial and non-industrial disability
- Special death benefits
- Survivor benefits
- Various military and public service credits.

Each enhancement selected results in quantifiably larger ARC payments. One cannot conclude from the plan name that it is necessarily more or less generous than another plan of a different name. For this reason, the Grand Jury's investigation concerned itself not with the issue of what specific Benefits were being provided but rather what was the total cost of providing the Benefits expressed as a percent of payroll. Cities and CalPERS experts agreed this is a sound methodology for comparing cities of different sizes.

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[15] See Appendix C Glossary for definition.

[16] For a more detailed discussion of menu options, go to www.calpers.ca.gov.

Sensitivity to Expected ROI

All Cities and all CalPERS representatives interviewed consistently told us that somewhere between 65% and 70% of the money to pay for Benefits comes from the ROI of previously accumulated ARC payments. This cannot be emphasized enough. The Cities spoke to their burden in struggling to meet ARC obligations in light of budget constraints, but these ARC payments cover only about 30% of the amount necessary to cover the cost of providing these Benefits. A critical actuarial assumption is the expected ROI, which is currently assumed to be 7.50% after expenses for pension. The actual average ROI over the last ten years has been 6.1% as depicted in Figure 1. The result of this underperformance is higher unfunded liabilities, lower funded ratios, and larger ARC payments (in particular, the Past Service Cost component of the ARC as discussed above). Discussion of San Jose's ROI included in this figure is deferred until later.

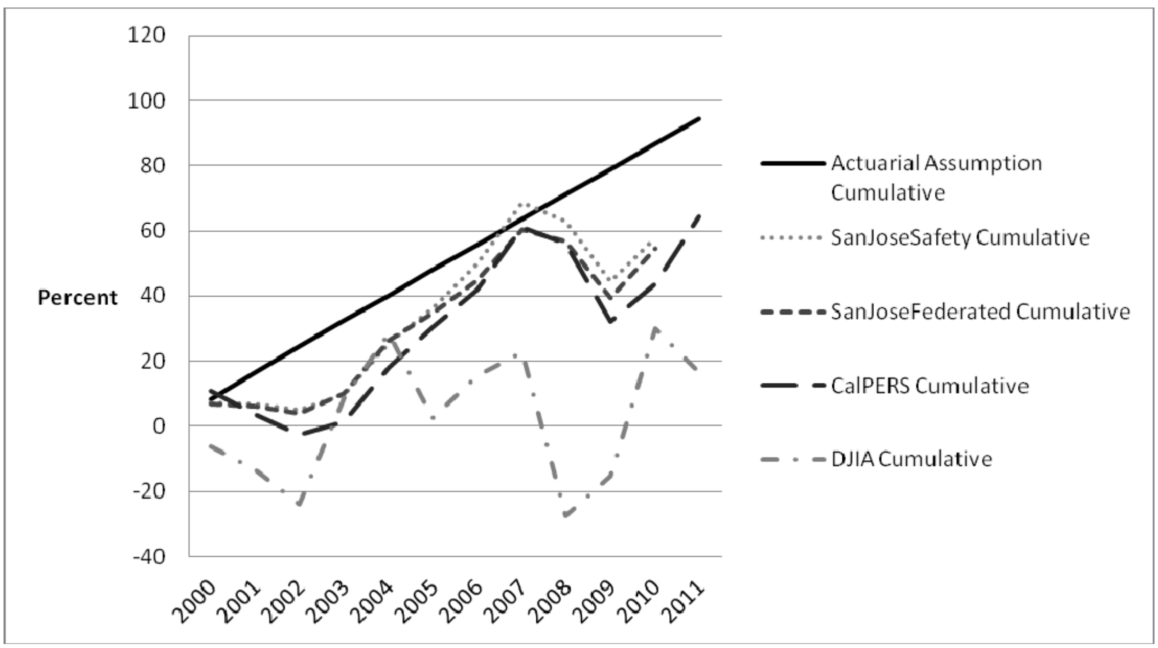

Figure 1: Actual Return on Investment Compared to Assumed and Dow Jones[17]

CalPERS lowered the assumed ROI from 7.75% to 7.5% at a March 14, 2012 meeting. Last year this same recommendation was rejected. This year, a 0.5% change was recommended and only a 0.25% change was approved. Table 2 below is excerpted from "Pension Math: How California's Retirement Spending is Squeezing the State Budget" written by Joe Nation from Stanford Institute for Economic Policy Research.

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[17] DJIA is calendar year and other data are fiscal year

Table 2: CalPERS Return on Investment Analysis

Investment rate	Probability of meeting or exceeding rate	CalPERS funded ratio[18]
9.5%	21.7%	95.1%
7.75%	42.1%	73.5%
7.1%	50.7%	66.7%
6.2%	62.6%	58.3%
4.5%	80.9%	45.1%

Two key points in Table 2 are:

- According to this analysis, there is only a 42.1% chance of meeting or exceeding an assumed investment rate of 7.75% as highlighted in the table. It should be noted that the ROI assumption was recently reduced to 7.5%.

- Dropping down to a more conservative 6.2% investment rate (still higher than the 6.1% average for the last ten years) is recommended by many leading economists and recognized financial experts. The corresponding funded ratio reduction would result in increases to unfunded liabilities and significantly higher ARC costs.

Sunnyvale projects this modest CalPERS-approved reduction of 0.25% in assumed ROI will increase its ARC by 2.3% of payroll for MISC employees and 3.8% of payroll for Public Safety employees, totaling nearly a $3M increase per year in ARC payments. As shown in Table 3, Sunnyvale's pension cost was just over $25M. So, a $3M increase represents a 12% increase. CalPERS and pension experts we spoke with asserted that the cost of each additional 0.25% reduction in assumed ROI is not linear and warned extrapolating this cost increase would result in underestimating the total cost impact.

Unfunded Liability & Funded Ratio

Unfunded Liability is the unfunded obligation for prior benefits, measured as the difference between the accrued liability and plan assets. When using the actuarial value of plan assets, it is also referred to as the Unfunded Actuarial Accrued Liability (UAAL). In everyday language, it is the difference between the cost of the benefits already earned and the amount currently paid; it is the amount due.

[18] As of June 30, 2011

Table 3: Unfunded liability for pension and OPEB for all large cities shows the total for these nine cities is nearly $7B

FY 2010 Unfunded Liabilities (Not in Risk Pool)[19]				Debt per Resident
City	**Pension**	**OPEB**	**Total**	
Santa Clara County	$1,455,835,322	$1,300,000,000	$2,755,835,322	$1,547
Cupertino	$18,581,728	$18,069,366	$36,651,094	$629
Gilroy	$35,100,000	$4,900,000	$40,000,000	$819
Milpitas	$70,166,975	$31,230,798	$101,397,773	$1,518
Mountain View	$104,121,296	$29,396,467	$133,517,763	$1,803
Palo Alto	$153,941,000	$105,045,000	$258,986,000	$4,021
San Jose[20]	$1,434,696,471	$1,706,081,881	$3,140,778,352	$3,320
Santa Clara	$223,667,947	$23,855,000	$247,522,947	$2,125
Sunnyvale	$149,300,000	$92,800,000	$242,100,000	$1,728
Total	**$3,645,410,739**	**$3,311,378,512**	**$6,956,789,251**	

The Funded ratio is the market value of assets at a specified date, over the accrued actuarial liability as of the same date. While technically accurate, these definitions provide no insight into the causes of what have become large unfunded liabilities and correspondingly low-funded ratios. The Grand Jury learned from CalPERS that the three primary reasons for unfunded liabilities are the following:

- 70% of the unfunded liabilities is attributable to market performance
- 15% of the unfunded liabilities is attributable to retroactive benefit enhancements
- 15% of the unfunded liabilities is attributable to other actuarial assumption changes.

The percentages shown above are “rule of thumb” values according to the CalPERS representatives; individual City percentages will vary.

Key Survey Results

With the basic concepts of public pension benefits understood, the Grand Jury prepared a survey to gather information from the Cities. Survey responses and all supplemental data provided by the Cities were analyzed to answer the following questions:

[19] Numbers reflect data provided in survey responses.

[20] Excluding Mayor and Council Member Plan.

- What is the total amount of unfunded liabilities?

- What is the total cost each year to provide Benefits and at what rate is the cost going up per year?

- Why are OPEB funded ratios so low?

- When were Benefit enhancements enacted and how do they impact unfunded liability?

- What progress is being made to control escalating costs?

- Why are public Benefits so different from private sector Benefits?

- Do vacation, holiday and sick leave policies in the public sector differ from those that are commonly found in the private sector?

Unfunded Liability (Large Debts)

Table 3 tabulates the unfunded liability for both pension and OPEB for all large cities not belonging to a risk pool and shows the total unfunded liability for these nine cities is nearly $7B. Cities having fewer than 100 employees in a given pension plan (Campbell, Los Altos, Los Altos Hills, Los Gatos, Monte Sereno, Morgan Hill, and Saratoga) are not included because they belong either entirely or in part to a risk pool. CalPERS currently does not provide this information to the Cities in the risk pool. Los Gatos and Morgan Hill, for instance, do not know their portion of a $3,515,314,403 unfunded liability associated with the Public Safety risk pool to which they belong. While Monte Sereno and Los Altos Hills did offer an approximation of their portion of the risk pool liability, CalPERS representatives recommended against using the estimation and as a result are not included in Table 3. The Grand Jury has learned the Government Accounting Standard Board (GASB) is considering a policy change to require the Cities in the risk pool[21] to report individual unfunded liability. Many Cities surveyed focused primarily on minimizing the ARC payments, the short-term cost due, as opposed to addressing the larger, endemic problem of its unfunded liability. This is problematic because minimizing ARC payments today at the expense of addressing the growing unfunded liability means shifting the costs to the future, hoping market improvements will solve the problem. If the market does not improve, taxpayers may face increased taxes or reduced services in the future.

Using 2010 census data obtained from http://www.sccgov.org together with the data in Table 3, it is possible to estimate the amount owed by each resident to pay down current Benefit debts in the Cities. For example, each resident of San Jose owes $3,320 to the city. As residents of the County, they also owe an additional $1,547 to the

[21] See Appendix C Glossary for definition.

County.[22] But while this would pay down the current debt and significantly reduce ARC payments, it does not guarantee staying out of debt going forward.

High Cost of Benefits (ARC) . . . and Getting Higher

The accumulated City cost of providing annual Benefits in FY2010 was $667,215,205 as shown in Table 4. While it is useful to know the annual cost of providing Benefits it is not possible to judge whether or not any City is paying a disproportionate cost due to the size variance of the Cites (large Cities are expected to pay more because they have more employees). For this reason, the Grand Jury chose to compare the Cities by expressing the ARC as a percent of payroll. Cities and pension experts agreed the Grand Jury's method of making this calculation was correct. That said, the same values shown in Table 4 are also shown in Figure 2 expressed as percent of payroll separating pension, OPEB and Social Security as applicable.

Table 4: Countywide total cost of providing annual Benefits in FY2010 is $667,215,205

City	Pension Cost[23]	OPEB Cost[24]	Social Security Cost[25]	Total
Santa Clara County	$235,630,042	$90,000,000	$65,136,430	$390,766,472
Campbell	$2,728,302	$206,220		$2,934,522
Cupertino	$1,841,350	$7,616,760		$9,458,110
Gilroy	$4,900,000	$186,334		$5,086,334
Los Altos	$1,842,949	$19,505		$1,862,454
Los Altos Hills	$190,021	$203,000		$393,021
Los Gatos	$2,958,209	$949,845		$3,908,054
Milpitas	$7,164,473	$3,356,836		$10,521,309
Monte Sereno	$125,713	$0	$37,863	$163,576
Morgan Hill	$2,763,818	$15,119		$2,778,937
Mountain View	$8,929,685	$4,376,387		$13,306,072
Palo Alto	$19,964,080	$9,019,000		$28,983,080
San Jose	$106,881,000	$34,147,000		$141,028,000
Santa Clara	$20,257,754	$2,115,643	$3,494,639	$25,868,036
Saratoga	$917,228	NA		$917,228
Sunnyvale	$25,300,000	$3,940,000		$29,240,000
Total	$442,394,624	$156,151,649	$68,668,932	$667,215,205

[22] Note these figures are per resident, not per household, and exclude an additional state pension liability all California residents bear, which is outside the scope of this report.

[23] Many Cities, but not all, provided separable "sidefund" expenditures from ARC.

[24] May include money spent over and above ARC payment.

[25] Only MISC employees in Santa Clara County, Monte Sereno and Santa Clara participate in Social Security.

As shown in Figure 2, the cities of Campbell, Los Altos, Monte Sereno, Morgan Hill and Saratoga pay less than 20% of payroll towards Benefits while the remaining cities pay more than 20%. Cupertino, Palo Alto and Sunnyvale pay in excess of 30% of payroll towards Benefits. The survey results further indicated that Mountain View is noteworthy because it offers similar plans as Cupertino, Palo Alto and Sunnyvale but at lower cost to the city through cost sharing with employees who pay the entire employee contribution (8% for MISC and 9% for Public Safety) plus some negotiated portion of that city's cost in the range of 1.5% to 6.8% depending on job type. Cupertino, Palo Alto and Sunnyvale in contrast to Mountain View, pay some portion of the employee contribution with Sunnyvale contributing the most (7% of the required 8% for MISC employees and 8% of the 9% for Public Safety employees).

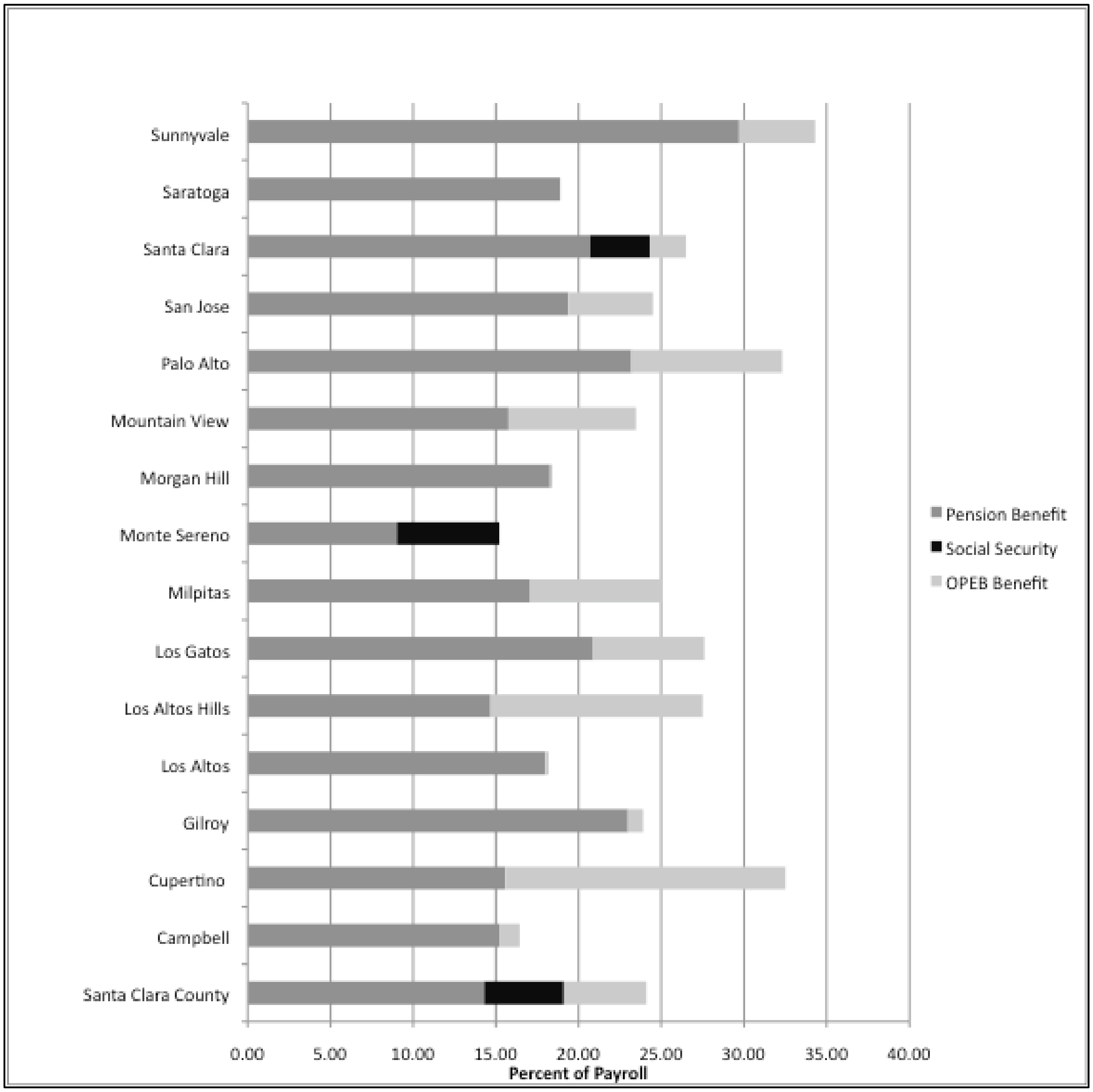

Figure 2: FY 2010 Benefit Ranking by Percent of Payroll

Comparing the Sunnyvale pension costs expressed in percent of payroll to Mountain View (same plans) demonstrates that employee contributions toward the cost of pensions is just as effective at keeping the cost under control as curtailing the level of pension benefits being offered. Mountain View actually compares favorably to other cities offering lower benefits. Table 5 summarizes the Cities' plan(s) and the amount contributed by employees.

For those Cities that elected to participate in Social Security (MISC employees in the City of Santa Clara, Santa Clara County and Monte Sereno), the cost to the city has been added to reflect the total amount the city is paying toward employee Benefits.

The survey responses conveyed how much pension and OPEB were expected to rise during the next five to ten years. Most Cities responded using projections from the latest actuarial valuations, which estimate contributions as a percentage of payroll rather than in dollars. In the case of pension, these valuations are performed by CalPERS and in the case of OPEB, the valuations are performed by an actuary firm under contract to the City. All Cities' Benefits costs are trending up, in spite of optimistic assumptions regarding the ROI that has been shown to be of paramount importance. Projected San Jose cost increases are discussed separately in subsequent sections.

<u>Unfunded Retroactive Pension Benefit Enhancements</u>

When a City amends its contract with labor unions to increase the pension formula (e.g., 2% @ 55 to 2.5% @ 55) the increased benefits apply retroactively to all prior years of service. The retroactive application of the increase results in an increase in the unfunded liability and requires an increase in ARC payments by the City. The reason for the increase in ARC payments can be illustrated by this example:

> Assume an employee has worked for twenty-five years and has paid into the system all those years. The City leaders now approve a retroactive benefit enhancement without funding the retroactive period. Immediately the employee and employer have effectively underpaid for the enhanced unfunded benefits portion for the previous twenty-five years. The difference between what was actually paid and what should have been paid to provide the enhanced benefit adds to unfunded liability, which increases ARC payments. This is now a new liability to the taxpayer.

In question three of the Grand Jury questionnaire (Appendix B), Cities were asked to list any significant pension benefit changes that have been made over the past ten years. Table 5 summarizes the responses received by the Grand Jury. As the table shows, most Cities have increased pension benefits within the last ten years. When asked how much these benefit increases changed Unfunded Liability, most cities provided the CalPERS provided answer of 15%. However, Cupertino stated that benefit changes are responsible for 26% of their Unfunded Liability and the City of Santa Clara cited 24.6%.

Table 5: Pension Benefit Plan Changes

Name of City/ County	1st Tier Plan				2nd Tier Plan		
	Year of increase	Original Plan	Benefit Increase	Employee Paid Contribution FY 2011 (Per Survey Responses)	Plan Name	Year Adopted	Employee Paid Contribution
County of Santa Clara	2007	MISC 2%@55	MISC to 2.5%@55	3.931 to 5%	None		
County of Santa Clara	2001	Public Safety 2%@50	Public Safety to 3%@50	0.5 to 9%	None		
Campbell	2002	MISC 2%@55	MISC to 2.5%@55	7%	MISC 2%@60	2011	7%
Campbell	2001	Public Safety 2%@50	Public Safety to 3%@50	8%	Public Safety 2%@50	2010	9%
Cupertino	2007	MISC 2%@55	MISC to 2.7%@55	2%	None		
Gilroy	2006	MISC 2%@55	MISC to 2.5%@55	8%	None		
Gilroy	2002	Police 2%@50	Police to 3%@50	9%	Police 2%@50	2011	9%
Gilroy	2007	Fire 2%@50	Fire to 3%@55	9%	Fire 2%@55	2011	7%
Los Altos	2004	MISC 2%@55	MISC to 2.7%@55	1%	None		
Los Altos	2003	Public Safety 2%@50	Public Safety to 3%@50	1%	None		
Los Altos Hills*		MISC 2%@55	None	0%	MISC 2%@60	2011	7%
Los Gatos	2008	MISC 2%@55	MISC to 2.5%@55	8%	2%@60	2012	7%
Los Gatos	2001	Public Safety 2.5%@55	Public Safety to 3%@60	9%	None		
Milpitas	2002	MISC 2%@55	MISC to 2.7%@55	8%	2%@60	2011	9%
Milpitas	2000	Public Safety 2%@50	Public Safety to 3%@50	9%	None		
Monte Sereno*		MISC 2%@55	No pension benefit changes	0%	None		
Morgan Hill	2006	MISC 2%@55	MISC to 2.5%@55	1-8%	None		
Morgan Hill	2002	Public Safety 2%@50	Public Safety increase to 3%@50	9%	None		
Mountain View	2007	MISC 2%@55	MISC increase to 2.7%@55	8%+	None		
Mountain View	2001	Public Safety 2%@50	Public Safety increase to 3%@50	9%+	None		
Palo Alto	2007	MISC 2%@55	MISC increase to 2.7%@55	2%-5.7%	2%@60	2010	2%
Palo Alto	2002	Public Safety 2%@50	Public Safety increase to 3%@50	0%-9%	None		
San Jose		Federated 2.5%@55		4.68%	None		
San Jose		Public Safety 3%@50		10.50%	None		
Santa Clara	2006	MISC 2%@55	MISC increase to 2.7%@55	8%	None		
Santa Clara	2000	Public Safety 2%@50	Public Safety to 3%@50	9%-11.25%	None		
Saratoga*		2%@55	No pension benefit changes	7%	None		
Sunnyvale	2007	MISC 2%@55	MISC increase to 2.7%@55	1%	None		
Sunnyvale	2001	Public Safety 2%@50	Public Safety increase to 3%@50	1%-3%	None		

* These cities contract out for public safety services, avoiding a direct benefit liability.

Cities told the Grand Jury that as recently as 2003, and in 2007 for Campbell and Los Altos Hills, their plans were over funded. Assuming this trend would continue, Cities thought they could enhance Benefits without significantly increasing their costs. Analysis was performed to prove the enhancements could be funded. In hindsight, this did not prove to be the case because the analysis assumed the optimistic ROI would be achieved.

The County and a few of the cities attempted to recover some of the increased cost by increasing the employee paid contributions and by eliminating previously enhanced menu options. The Grand Jury learned that in some cases adequate funding was not in place to pay for the enhanced pension benefits at the time they were granted. Without solid plans to fund increases in pension benefit plans, Cities pushed the impact of these increases to future generations of taxpayers.

Nearly every City demonstrated an historical pattern of granting unfunded benefit enhancements as discussed here. This practice is beginning to change with the adoption by a few cities of second tier[26] plans that extend retirement age and reduce Benefit costs.

Table 5 shows that eight cities have adopted second tier plans. Other Cities may be in the process of adopting second tier plans but cannot report this fact because of ongoing union negotiations. Note that all new second tier plans continue to be the defined benefit type; none have adopted any form of defined contribution elements. While the creation of second tier plans will reduce the cost of providing pension benefits,[27] these savings will not materialize for many years. All risks associated with market losses remain with the Cities, and ultimately the taxpayers. Increasing employee contribution rates, subject to labor agreements, is the most effective method of controlling cost in the shortest amount of time.

Low OPEB Funded Ratios

As shown in Table 6, OPEB-funded ratios are low. These OPEB low-funded ratios and corresponding high unfunded liabilities are of concern to the Grand Jury. Cities are required to “pay forward”[28] for pensions, but not for OPEB. As a result, many cities only pay the minimum required to cover the current annual OPEB cost; no extra is paid to defray the cost of all current employees when they retire. The Cities referred to this as the “pay-as-you-go” strategy and results in very low-funded ratios—even zero percent. This strategy has resulted in San Jose’s OPEB being $1,706,081,881 underfunded (refer back to Figure 2 for a comparison of San Jose’s underfunded status relative to other cities and the County)

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[26] See Appendix C Glossary for definition.

[27] At the time of this report, the Grand Jury is not aware that Cities are considering OPEB changes in second tier plans.

[28] See Appendix C Glossary for definition.

Table 6: OPEB Funded Ratio

City	FY 2010 OPEB Funded Ratio[29]
Santa Clara County	10.10%
Campbell	4.00%
Cupertino[30]	0%
Gilroy	0%
Los Altos	0%
Los Altos Hills	23.40%
Los Gatos	2.70%
Milpitas	24.13%
Monte Sereno	0%
Morgan Hill	0%
Mountain View	55.90%
Palo Alto	19.00%
San Jose[31]	12.00%/6.00%
Santa Clara	22.80%
Saratoga	N/A
Sunnyvale[32]	0%

Mountain View, Sunnyvale and Cupertino are commended for having begun to implement a "pay forward" strategy, which demonstrates fiscal responsibility. One San Jose public official interviewed stated that the reason San Jose was not fully funding OPEB is that it could not be done without significant curtailment of services, effectively shifting the burden of payment to future generations.

Public Benefit Comparison to Private Sector Benefits

To put pubic employee Benefits into perspective, consider the average pension for Public Safety employees in Palo Alto retiring between the ages of 51 and 54 with 30 years of service is $108,000. In Sunnyvale, the same employee receives almost $102,000 per year. The most common pension plans offered to public employees who spend their entire career in the public sector not only discourage employees from

[29] Some 2010 data is derived from 2009 Actuarial Valuations

[30] In 2010 and 2011 the city made payments of nearly $6.5M in excess of ARC to bring this up to 35.6%

[31] San Jose has separate OPEB funds for its employees

[32] In 2011 the city paid $32M in excess of ARC but impact on funded ratio has not yet been determined via actuarial evaluation

continuing to work beyond the age of 50 or 55, they penalize them for doing so. The CalPERS reported average pension of under $30,000 per year is misleading because it fails to recognize persons who receive multiple pensions. The Grand Jury learned that some employees actually earn more in retirement than they did while employed. Further, the ratio of active employees to retirees was found to be three to two.[33] With budget constraints leading to staffing reductions and as the baby boom generation approaches retirement age, this ratio is expected to continue downward, placing additional financial burdens on the Cities.

Public benefits are overwhelmingly of the defined benefit type (refer to Appendix C for the differences between defined benefits and defined contributions). While some private sector companies continue to offer defined benefits, the clear trend in the private sector is to transition away from defined benefits in favor of defined contributions, thereby transferring the risks associated with market performance from the employer to the employee. An additional advantage of the defined contribution is that it leads to less volatile City budgets over time because the cost of providing benefits is constant, not varying over time to compensate for market performance.

Determining in any meaningful way what might be considered “standard” private sector benefits for the purposes of comparing to public sector was clearly outside the scope of this investigation. That said, Bureau of Labor Statistics surveys show the majority of private pensions include participation in Social Security and a defined contribution plan such as a 401k. The employee and employer each contribute 6.2% of salary (currently up to $110,100 in salary) per year, to pay for Social Security benefits.

While the particulars of 401k plans vary widely, the surveys show that the majority of employees receive some form of matched savings plan described as follows. For every dollar the employee contributes to their own 401k, the employer will contribute some amount: 50 cents or less for most employees. Employees may be limited to the amount they can contribute and employers limit the amount they contribute by specifying that employer contributions cannot exceed a set percent of salary: four percent or less for most employees. As described, the majority of private sector employees contribute more than 50% of the total cost toward their own pensions (exactly 50% in the case of Social Security and greater than 50% of the 401k since an employer only contributes a portion of every dollar the employee contributes). Using 65 as a traditional retirement age, the differences between public and private benefits are summarized in Table 7.

The Grand Jury reviewed the survey results and observed the following for all first tier plan employees:

- All Public Safety employees, except Gilroy fire,[34] qualify for full retirement benefits no later than age fifty (assuming at least five years of service)

[33] Half the Cities surveyed currently have more retirees than employees.

[34] Gilroy fire receives the same at age fifty-five rather than age fifty.

- All Public Safety employees, except Gilroy fire,[35] with thirty years of service credit receive no less than 90% of their salary in retirement, not considering annual COLA increases

- All MISC employees qualify for retirement benefits no later than age fifty-five (assuming at least five years of service)

Table 7: Sample comparison of MISC Public versus Private Benefits[36]

Attributes	Public[37]	Private[38]
Percent of salary contributed by employee toward Benefits	7 - 8%	14 - 16%
Age pension may be drawn without an age-related reduction in eligible amount	55	65
Employee contribution for every dollar of employer contribution	50¢[39]	$1.40[40]
Retirement Income expressed as a percent of salary (assuming the retiree reaches full plan benefit age and works 35 or 45 years, respectively)	87.5%	66%[41]
Who bears the risk if market underperforms?	Taxpayer	Employee
Is subsidized retiree healthcare available?	Generally Yes	Generally No

- The majority[42] of MISC employees who work 35 years receive 87.5% of their salary in retirement before annual COLA increases.

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[35] Gilroy fire receives the same benefits at thirty-five years service rather than thirty years.

[36] The table is intended for comparison; it is not representative of all situations.

[37] Represented by participant in 2.5%@55.

[38] Represented by participant in Social Security and 401k Savings plan where employee contributes 8% salary and employer matches 50 cents per dollar.

[39] Based on CalPERS data for 2011. Actual varies by city; can be as high as 50¢ or as low as 5¢.

[40] Based on the Bureau of Labor statistics.

[41] This number assumes a $750K in retirement savings.

[42] Los Altos Hills, Monte Sereno and Saratoga are exceptions receiving 70% of salary.

In consideration of these statistics, and as shown in Table 7, the Grand Jury concludes:

- Full pension is attained at an earlier age in the public sector than in the private sector – some by ten years or more

- Pension earned, expressed as a percentage of salary, is greater in the public sector than in the private sector even after adjustment to account for non-participation in Social Security

- Employees in the public sector contribute less towards their pension plans than their private-sector counterparts

- Taxpayers in the public sector bear the risk of ROI and actuarial assumptions associated with the pension plan, whereas employees in the private sector bear the risk of market performance.

The Grand Jury acknowledges wages and salaries are a large portion of Cities' budgets, and when salaries escalate this further exacerbates budget shortfalls. It may be asserted that public sector salaries are lower than their private sector counterparts, thus, justifying more generous public benefits. Readers can explore whether this assertion is true by accessing publically available salary data.

Accrued Sick Leave Can Be Reimbursed

In general, the survey revealed no significant differences between the Cities in regard to holiday, vacation and sick leave policies. However, it is noted that all Cities surveyed except Gilroy, Monte Sereno, and Sunnyvale either reimburse for accrued unused sick time or permit it to be converted into service time for purposes of determining pension. Often reimbursement is at discounted rates and other times the amount of sick time that can be accrued is capped. Gilroy, Monte Sereno and Sunnyvale responded "No" to the survey question asking if accrued sick time is paid upon retirement, without proffering whether or not it could be converted into service time. However, the Grand Jury learned that sick time conversion to service credit is a common CalPERS benefit for all members of risk pools.

The survey revealed that the City of Santa Clara grants fire personnel on 24-hour shifts 288 hours of sick leave per year. Up to 96 hours per year can be accrued and paid (discounted to 75% of their hourly wage equivalent) for employees with 25 or more years of service.

San Jose's Plan

San Jose is the only city that does not use CalPERS to provide pension benefits (with the exception of the Mayor and Council members who get benefits in accordance with CalPERS 2%@55 plan). San Jose public employees have two independent plans: Federated and Public Safety. Federated Plan members are equivalent to those in a CalPERS Miscellaneous Plan. Public Safety members (police and fire) in San Jose are identical to Public Safety members in other Cities. The San Jose Federated and Public Safety plans share commonality with CalPERS 2.5%@55 and 3.0%@50 respectively with the following key differences:

- COLA is a guaranteed 3% compared to CalPERS' not-to-exceed 2%
- Employee-to-employer contribution ratio of three to eight (3:8)
- Money is invested and managed by the two governing Boards (the Federated Plan Retirement Board and the Public Safety Retirement Board) rather than by CalPERS, and San Jose performs its actuarial valuations independent of CalPERS
- San Jose participates in a Supplemental Retiree Benefit Reserve (SRBR) program.

Each of the major differences cited above is discussed in more detail below.

3% Guaranteed COLA

San Jose provides a guaranteed 3% COLA increase every year compared to a CalPERS base COLA which is "not to exceed an accumulated 2% per year".[43] The Grand Jury is unable to quantify the additional cost of increasing COLA. As mentioned previously, CalPERS does provide menu options for increased COLA (including 3%), but no other Cities have opted for this increase, citing cost as a reason.

Three-to-Eight (3:8) Employee Contribution Ratio

For every eight dollars San Jose spends on the Normal Cost of providing benefits (excluding the Past Service Cost portion of benefits that the employer pays entirely[44]) employees contribute $3-dollars. This differs substantially from CalPERS, which sets employee contribution as a percent of salary between 7% and 9% depending on the plan. As noted in Table 5, many Cities pay much of the employee contribution on behalf of the employees, further complicating any comparison. As noted in *Methodology,* the Grand Jury is reluctant to interpolate the data provided. The San Jose survey response shows that Federated employees pay 4.68% (of payroll) toward pension, which compares to CalPERS' MISC plan at 8%. San Jose's Public Safety employees pay approximately 10.5% (of payroll) toward pension, which compares to CalPERS' Public Safety plan at 9%.

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[43] As a function of inflation, CalPERS COLA has a clause protecting retirees from losing more than 20% of their buying power in retirement which could result in increases greater than 2%. When CPI is less than the 2% promised, CalPERS COLA also entails "banking" of COLA as unneeded credits that can be applied when CPI is greater than 2%. This results in annual COLA increase in excess of 2% when the CPI exceeds 2%.

[44] The ratio of Past Service Cost to Normal Cost (expressed in Percent Payroll) for Federated and Public Safety are: 15.58/12.76 and 22/27 respectively

From a cost perspective, there is insufficient data to determine if the 3:8 ratio results in net savings or increased cost to San Jose, compared to the CalPERS plan. However, excluding Past Service Cost from any form of employee cost sharing does result in San Jose paying a higher portion of the cost of providing Benefits.

Self-Managed Investing

The Federated and Public Safety Boards independently manage approximately $2B in assets each (approximately $4B total). Both currently assume a 7.5% ROI, similar to the recently adopted CalPERS ROI. As with CalPERS, these investment returns are expected to pay the majority of the costs for providing benefits. It is critical, therefore, to compare the actual investment performance to what is actuarially assumed, and it is useful to compare San Jose's investment performance to CalPERS.

As was shown in Figure 1, both Federated and Public Safety ROI for the last ten years has been below the actuarial assumptions but slightly better than what CalPERS did in the same time period. San Jose did not provide ROI data for 2011. The DJIA is shown in the figure for comparison purposes and is intended to show that both San Jose and CalPERS outperformed the general market (represented by DJIA) by a wide margin, yet still fell below the optimistic actuarial assumptions so critical to economic viability.

The largest advantage of managing one's own plans would seem to be the added flexibility it affords the city in tailoring retirement formulas to meet the needs and means of the city. Although there is little evidence the city is using this advantage in the current first tier plans (as noted, San Jose plans are both very similar to CalPERS plans offered), this advantage may be utilized if and when second tier plans are developed.

Supplemental Retiree Benefit Reserve (SRBR)

Recall from Table 3 that the combined pension unfunded liability for both the Federated Plan and the Public Safety Plan is $1,434,696,471. As has already been discussed and demonstrated, the largest single contributor to this is when the achieved ROI falls short of the actuarially assumed ROI. With this in mind, it is difficult to comprehend how responsible financial management would allow withdrawal of any portion of excess ROI whenever the market actually does out-perform the expected rate to be used to pay dividends in the form of an additional "thirteenth check"[45] to retirees. But this is exactly what the SRBR does. In the case of the Federated Plan, the market must only exceed the expected rate in a single year to permit withdrawal of a portion of the excess ROI for that year. For the same thing to happen in the Public Safety plan, the running five-year average must exceed the expected return rate to permit withdrawal.

[45] Generally, a windfall dividend payment.

It should be noted that San Jose has temporarily suspended the SRBR payouts. Although San Jose has suspended payouts, the funds remain in the account and San Jose has not used the payout to pay down its underfunded liability. In fact, the suspension merely delays eventual payment to retirees in the form of even larger "thirteenth checks." A better use for these excess funds might be to retain them to pay down the underfunded Benefits, as long as an underfunded liability exists.

Why Such Variance with Estimated Future Benefit Costs?

Much has been written regarding the predicted ARC cost for San Jose in FY 2015/2016. Published estimates vary in the range of $400M to as much as $650M. The latter figure represents a more than doubling of the current ARC of $245M per year—a rate of increase not seen in any of the other Cities.

The Grand Jury interviewed several key personnel associated closely with these predictions to determine why there is so much variability in the estimates. In particular, the Grand Jury wanted to answer the following questions:

- Were these predictions based on sound, factual data?
- Does $650M represent a worst case number or could it be higher?

The Grand Jury learned that a large set of assumptions factor into any actuarial valuation and many of these assumptions have complex interdependencies with one another. The actuarial valuation itself is a rigorous, precise mathematical calculation based upon these assumptions.

The ARC value can vary, from 400M to $650M or higher, when assumptions are adjusted. Just two of those actuarial assumption changes, by themselves, account for $120M of the $250M difference between the high and low estimate. These two assumption changes are:

- Longer life expectancy of Public Safety employees[46] than previously assumed
- Lower ROI rate.

Key personnel associated with making actuarial predictions gave an example where increasing the life expectancy of police and fire to be closer to the life expectancy of miscellaneous employees would increase the cost by approximately $40M. This is a reasonable assumption change to consider since it reflects demographic changes that CalPERS also has begun to reflect. In another assumption query, if the ROI were

[46] CalPERS has been recognizing this trend and several Cities cited this as being a contributor to unfunded liability

lowered by a whole percentage point to 6.5%, more in line with actual ROI for the last ten years, this would contribute an additional $80M to the cost of ARC. Importantly, the rationale for exploring a lower ROI was not to bring it into agreement with recent earnings history, but to move San Jose's portfolio from one of high risk and high volatility to a position of low risk and low volatility.

The $650M per year cost estimate is not a worst case number. Pension experts the Grand Jury interviewed stated that other actuarial assumption changes, within reason and easily justified, would result in ARC costs even higher than $650M per year. The Grand Jury understands that exploring these actuarial assumptions is justified. They help bring attention to the severity of the Benefits crisis and abate the trend of pushing financial problems to future generations of taxpayers.

Conclusions

Very optimistic actuarial assumptions result in lower ARC costs, leading to insufficient funding and causing unfunded liabilities. The most critical of these is the ROI, which is generally assumed to be 7.5%[47]. The actual ROI for the last ten years has been 6.1%. This underperformance is the largest contributor to the Cities' combined unfunded liability of over $7B. Future taxpayers are responsible for paying benefits that are being earned and collected today. Lowering the expected ROI—as recommended by leading economists and recognized financial experts—significantly increases ARC and further exacerbates attainment of balanced budgets. Public employee Benefits, especially after being enhanced retroactively, have been shown to be more generous than those found in the private sector and at an earlier retirement age. The amount a public employee contributes toward benefits is shown to generally be less than an employee in the private sector. As a result of lower public employee contribution rates toward their retirement, increasingly large ARC costs must be funded by taxpayer dollars. Ignoring this largesse will result in increased taxes combined with reduced services.

Average pensions are often cited in the range of $30,000, but these statistics can be misleading. For instance, they include persons whose careers lasted five years or part-time employees with longer service periods. Likewise, it can include employees who work an entire career in the public sector but for different public entities over the course of their careers. Each city that the employee worked for pays only its pro-rated portion of the retirees pension. Thus, the employee's actual pension is larger than the portion attributable to each public entity.

Tier 2 plans that Cities are implementing offer a modest reduction to the future liability, but do not significantly impact the unfunded liability in the short term. To address the short-term cost of the public Benefit crisis, possible solutions may be found in two

[47] Some OPEB ROI are at lower values.

elements of private sector benefits. The first is the need to reduce the level of benefits to be more comparable to those found in the private sector, inclusive of extending retirement age. Second, public employees must contribute a greater share towards their Benefits, particularly those employees who receive enhanced Benefits. Such solutions will reduce the burden the unfunded Benefits have placed upon current and future taxpayers.

As to the question of defined benefits versus defined contributions, public Benefits continue to be based on a defined benefit model versus the defined contribution model that private industry has moved toward. The defined contribution model works well in the public sector. It offers a working solution to the public sector as a means of reducing the risk of high-cost defined benefit plans. Benefit plans are heavily subsidized by pubic sector employers compared to the contributions of private sector employers.

The Grand Jury concludes that until significant modifications are enacted, there is no doubt that the escalating cost of providing Benefits at the current level is interfering with the delivery of essential City services and the ultimate cost to the taxpayers is an unbearable burden. These costs are already impacting delivery of essential services as demonstrated by San Jose reducing police and fire department staffing levels, closing libraries or not opening those newly built, curtailing hours of community centers, and not repairing pot-holed city streets. Other cities in the County are likely to face similar challenges as long as high cost benefit plans face an underfunding liability. Understanding how Cities created this problem through unfunded retroactive benefit enhancements, compounded by poor ROI, helps taxpayers understand that the problem will not go away on its own.

Findings and Recommendations

When the term Cities is used below, it includes the following: Santa Clara County; the cities of Campbell, Cupertino, Gilroy, Los Altos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose , Santa Clara, Saratoga, Sunnyvale; and the towns of Los Altos Hills and Los Gatos.

Finding 1

Public sector employees are eligible for retirement at least 10 years earlier than is common for private sector employees.

Recommendation 1

The Cities should adopt pension plans to extend the retirement age beyond current retirement plan ages.

Finding 2

Campbell, Gilroy, Los Altos Hills, Los Gatos, Milpitas and Palo Alto have adopted second tier plans that offer reduced Benefits, which help reduce future costs, but further changes are needed to address today's unfunded liability. Santa Clara County and the cities of Cupertino, Los Altos, Monte Sereno, Morgan Hill, Mountain View, San Jose, Santa Clara, Saratoga and Sunnyvale have not adopted second tier plans.

Recommendation 2A

Santa Clara County and the cities of Cupertino, Los Altos, Monte Sereno, Morgan Hill, Mountain View, San Jose, Santa Clara, Saratoga and Sunnyvale should work to implement second tier plans.

Recommendation 2B

For Gilroy, Los Gatos, Milpitas and Palo Alto, which have not implemented second tier plans for MISC and Public Safety second tier plans should be implemented for both plans.

Recommendation 2C

All Cities' new tier of plans should close the unfunded liability burden they have pushed to future generations. The new tier should include raising the retirement age, increasing employee contributions, and adopting pension plan caps that ensure pensions do not exceed salary at retirement.

Finding 3

Retroactive Benefit enhancements were enacted by Cities using overly optimistic ROI and actuarial assumptions without adequate funding in place to pay for them.

Recommendation 3

The Cities should adopt policies that do not permit Benefit enhancements unless sufficient monies are deposited, such as in an irrevocable trust, concurrent with enacting the enhancement, to prevent an increase in unfunded liability.

Finding 4

The Cities are making an overly generous contribution toward the cost of providing Benefits.

Recommendation 4A

The Cities should require all employees to pay the maximum employee contribution rate of a given plan.

Recommendation 4B

The Cities should require employees to pay some portion of the Past Service Cost associated with the unfunded liability, in proportion to the Benefits being offered.

Finding 5

The Cities are not fully funding OPEB benefits as evidenced by large unfunded liabilities and small funded ratios.

Recommendation 5

The Cities, should immediately work toward implementing policy changes and adopting measures aimed at making full OPEB ARC payments as soon as possible.

Finding 6

The City of San Jose permits the transfer of pension trust fund money, when ROI exceeds expectations, to the SRBR, despite the fact that the pension trust funds are underfunded.

Recommendation 6

The City of San Jose should eliminate the SRBR program or amend the SRBR program to prevent withdrawal of pension trust money whenever the pension-funded ratio is less than 100%.

Finding 7

The Cities' defined benefit pension plan costs are volatile. Defined contribution plan costs are predictable and therefore more manageable by the Cities.

Recommendation 7

The Cities should transition from defined benefit plans to defined contribution plans as the new tier plans are implemented.

Appendix A: Documents Reviewed

Report Name	Report Date	Document Source
Santa Clara County Comprehensive Annual Financial Report (CAFR)	30-Jun-10	www.sccgov.org/
Santa Clara County Comprehensive Annual Financial Report (CAFR)	30-Jun-11	www.sccgov.org/
City of Campbell CAFR	30-Jun-10	www.ci.campbell.ca.us/
City of Campbell CAFR	30-Jun-11	www.ci.campbell.ca.us/
City of Cupertino CAFR	30-Jun-10	www.cupertino.org/
City of Cupertino CAFR	30-Jun-11	www.cupertino.org/
City of Gilroy CAFR	30-Jun-10	www.cityofgilroy.org/
City of Gilroy CAFR	30-Jun-11	www.cityofgilroy.org/
City of Los Altos CAFR	30-Jun-10	www.ci.los-altos.ca.us/
City of Los Altos CAFR	30-Jun-11	www.ci.los-altos.ca.us/
Town of Los Altos Hills CAFR	30-Jun-10	www.losaltoshills.ca.gov/
Town of Los Gatos CAFR	30-Jun-10	www.town.los-gatos.ca.us/
City of Milpitas CAFR	30-Jun-10	www.ci.milpitas.ca.gov/
City of Monte Sereno CAFR	30-Jun-10	Monte Sereno city hall
City of Morgan Hill CAFR	30-Jun-10	www.morgan-hill.ca.gov/
City of Morgan Hill CAFR	30-Jun-11	www.morgan-hill.ca.gov/
City of Mountain View CAFR	30-Jun-10	www.ci.mtnview.ca.us/
City of Mountain View CAFR	30-Jun-11	www.ci.mtnview.ca.us/
City of Palo Alto CAFR (Revised December 21, 2010)	30-Jun-10	www.cityofpaloalto.org/
City of San Jose CAFR	30-Jun-10	www.sanjoseca.gov/
City of Santa Clara CAFR	30-Jun-10	www.santaclaraca.gov/
City of Saratoga CAFR	30-Jun-10	www.saratoga.ca.us/
City of Sunnyvale CAFR	30-Jun-10	www.sunnyvale.ca.gov/
Pension Sustainability: Rising Pension Costs Threaten the City's Ability to Maintain Service Levels - Alternatives For A Sustainable Future	29-Sep-10	www.sanjoseca.gov/auditor
Cities Must Rein in Unsustainable Employee Costs (Santa Clara County Grand Jury Report)	30-Jun-10	http://www.scscourt.org/court_divisions/civil/cgj/grand_jury.shtml
Running on Empty (San Mateo County Grand Jury Report)	30-Jun-11	www.sanmateocourt.org/court_divisions/grand_jury/
National Compensation Survey: Employee Benefits in Private Industry in the Untited States, 2005	1-May-07	www.bls.gov/ncs/home.htm
A Preliminary Analysis of Governor Brown's Twelve Point Pension Reform Plan (Prepared by CalPERS)	30-Nov-11	www.calpers.ca.gov/eip-docs/preliminary-analysis.pdf
CalPers Pension Benefit Primer	1-Oct-09	www.calpersresponds.com/downloads/Pension_Primer.pdf
More Pension Math: Funded Status, Benefits, and Spending Trends for California's Largest Independent Public Employee Pension Systems	21-Feb-12	www.cacs.org/images/dynamic/articleAttachments/7.pdf
Statement No. 45 of the Governmental Accounting Standards Board	30-Jun-04	Santa Clara County Finance Agency

Appendix B: Grand Jury Survey

Instructions: Please complete the questions below. The questionnaire consists of three sections: Section 1 covers questions regarding Pension Benefits, Section 2 covers questions regarding Other Post Employment Benefits and Section 3 covers questions regarding vacation and sick leave payout policy at time of retirement. Insert your responses directly into this file and return it in your email reply.

Please respond by Dec 19th to this questionnaire for both the fiscal year ending 6-30-2010 and the fiscal year ending 6-30-2011. If you have questions or require additional time, please reply via email as quickly as possible to allow sufficient time to resolve issues. Thank you.

Section 1: PENSION

1. **How many defined pension plans do you have? Please identify them by name and answer all subsequent questions for each identified plan name.**
2. **Does CalPERS administer your pension fund? If not, please identify and describe the manner in which the pension plan is being administered.**
3. **Please provide a description of each defined pension plan that you provide to your employees.**
   - **At what age is an employee eligible for a pension?**
   - **How many years must an employee work to be vested for a pension?**
   - **Are employees required to make contributions to their own accounts? If so, what percent of their salary is paid toward their pension? Is there any annual or lifetime employee contribution cap?**
   - **Does the plan include cost-of-living allowance increases post retirement?**
4. **For each identified plan, what percent of an employee's income is earned toward retirement each year of employment?**
   - **For each identified plan, is there an identified maximum salary percent cap that can be earned in retirement?**
5. **Do plan participants contribute to Social Security?**
6. **For each identified plan, describe the formula for determining final compensation used in factoring a retiree's pension. Include number of months that income is averaged, whether or not overtime is included or excluded from this calculation, and whether or not any other form of employee payments other than base salary are included in the formula (awards, bonuses, travel compensation, etc.).**
7. **How much money was contributed in each of the last two fiscal years toward pensions (not including employee contributions)?**
   - **What percent was this of total payroll?**
8. **How much pension money was paid out in each of the last two fiscal years to retirees?**
   - **How many retired employees are currently collecting benefits?**
   - **How many active employees are there currently?**
   - **How many employees are within five years of being eligible for retirement?**
9. **For each plan, please identify and quantify all significant actuarial assumptions used in evaluation of ARC to include:**
   a) **Amortization period**
   b) **Investment rate of return**
   c) **Projected salary increases**
   d) **Overall payroll growth**
   e) **Inflation factor**
   f) **Smoothing duration**
   g) **Other, if applicable**
10. **What is the unfunded liability of each identified plan for the fiscal years 2010 and 2011?**
11. **Please indicate the major reasons for the unfunded liability. For each reason provided, indicate the approximate percentage of contribution to total unfunded liability.**
12. **What is the funded ratio of each identified plan for the fiscal years 2010 and 2011?**
13. **When was the last time the funds have been funded at the level of 100% or higher?**
14. **Have pension contributions ever been reduced from calculated ARC payments?**
    - **What year was the last time this happened?**
15. **Please summarize any significant changes to pension benefits over the last ten years for each plan.**
    - **For each, indicate if this was a pension benefit enhancement or reduction.**
16. **Please provide any evidence that indicates how projected pension costs are expected to change in the next 5 to 10 years. (Page referencing within an included URL or separate attachment with appropriate material is an acceptable response.)**

Appendix B: Grand Jury Survey - continued

17. **Please provide any evidence of the strategies that are in work to reduce the rate of pension escalation. (Page referencing within an included URL or separate attachment with appropriate material is an acceptable response.)**
18. **For each plan, please provide evidence as to how pension fund past performance is doing relative to assumed performance for the last ten years. (Page referencing within an included URL or separate attachment with appropriate material is an acceptable response.)**

Section 2: OTHER POST EMPLOYMENT BENEFITS

1. **How many defined benefit plans do you have? Please identify them by name and answer all subsequent questions for each identified plan name.**
2. **Does CalPERS administer your OPEB fund? If not, please identify and describe the nature of the OPEB benefit plan being used.**
3. **Please provide a description of the OPEB benefits to include:**
   - **At what age is an employee eligible for a OPEB benefits?**
   - **How many years must an employee work to be vested for a OPEB benefits?**
   - **Are employees required to make contributions to their own OPEB benefits? If so, how much?**
   - **Are OPEB benefits limited to employees only or do they include additional family members? Identify any additional family members qualifying for OPEB benefits.**
4. **Is OPEB generally offering health care benefits (defined benefit) or is it making contributions (defined contribution) toward health care?**
   - **Are there caps in what is paid?**
   - **Who is at risk for escalating health costs; the employee or the employer?**
5. **How much money was contributed in each of the last two fiscal years to OPEB (not including any employee contribution)?**
   - **What percent of total payroll cost was this?**
6. **How much money was paid out in each of the last two fiscal years in OPEB benefits?**
   - **How many retired employees are currently collecting OPEB benefits?**
   - **How many current employees are there? (If the number of current employees is different here than provided above, please explain the difference.)**
7. **Please identify and quantify all significant actuarial assumptions used in evaluation of ARC to include:**
   a) **Amortization period**
   b) **Investment rate of return**
   c) **Projected health care increases**
   d) **Inflation factor**
   e) **Smoothing duration**
   f) **Other, if applicable**
8. **What is the OPEB unfunded liability of each identified plan for the fiscal years 2010 and 2011?**
9. **Please indicate the major reasons for the unfunded liability. For each reason provided, indicate the approximate percentage of contribution to total unfunded liability.**
10. **What is the funded ratio of each identified OPEB plan for the fiscal years 2010 and 2011?**
11. **When was the last time the funds have been funded at the level of 100% or higher?**
12. **Have OPEB contributions ever been reduced from calculated ARC payments?**
    - **What year was the last time this happened?**
13. **Please summarize any significant changes to OPEB benefits over the last ten years. For each, indicate if this was a benefit enhancement or reduction.**
14. **Please provide any evidence that indicates how much OPEB benefit costs are expected to rise in the next 5 to 10 years. (Page referencing within an included URL or separate attachment with appropriate material is an acceptable response.)**
15. **Please provide any evidence of plans that are in work to reduce future OPEB costs? (Page referencing within an included URL or separate attachment with appropriate material is an acceptable response.)**
16. **Please provide any evidence as to how OPEB fund past performance is doing relative to assumed performance? (Page referencing within an included URL or separate attachment with appropriate material is an acceptable response.)**

Appendix B: Grand Jury Survey - continued

Section 3: VACATION AND SICK LEAVE ACCRUAL POLICIES

1. **Please describe vacation policy to include:**
   - **How many vacation days are granted at what seniority levels?**
   - **Is there any limit to the amount of vacation time that can be accrued?**
   - **Is unused vacation paid upon retirement?**
2. **Please describe sick leave policy to include:**
   - **Is there any limit to the number of sick days allowed per year?**
   - **Is there any limit to the amount of sick days that can be accrued?**
   - **Are unused sick days paid upon retirement?**

Appendix C: Glossary of Terms & Acronyms

Actuarial Assumptions: Assumptions representing expectations about future events (e.g. expected investment returns on plan assets, member retirement and mortality rates, future salary increases, or inflation) which are used by actuaries to calculate pension liabilities and contribution rates.

Actuarial Valuation: Technical reports conducted by actuaries that measure retirement plans' assets and liabilities to determine funding progress. They also measure current costs and contribution requirements to determine how much employers and employees should contribute to maintain appropriate benefit funding progress.

Actuary: Professionals who analyze the financial consequences of risk by using mathematics, statistics, and financial theory to study uncertain future events, particularly those of concern to insurance and pension programs. Pension actuaries analyze probabilities related to the demographics of the members in a pension plan (e.g., the likelihood of retirement, disability, and death) and economic factors that may affect the value of benefits or the value of assets held in a pension plan's trust (e.g., investment return rate, inflation rate, rate of salary increases).

Actuarial Accrued Liability (AAL): The value of benefits promised to employees and retirees for services already provided. This concept applies to both the pension liability and retiree health care liabilities.

Annual Required Contribution (ARC): The amount of money that actuaries calculate the employer needs to contribute to the retirement plan during the current year for benefits to be fully funded over time. Generally CalPERS uses a 30 year period.

CAFR: Acronym for Comprehensive Annual Financial Report

CalPERS: Acronym for California Public Employees' Retirement System

Defined Benefit: Promised fixed sum paid or service rendered. The assets in a defined benefit plan are held by the employer who incurs all investments risks. See also defined contribution.

Defined Contribution: Contributions made by an employer to an individual employees investment account such as a 401k. All investment gains or losses are those of the employee, not the employer. See also defined benefit.

Employer Paid Member Contribution (EPMC): A program whereby the city pays employee contribution in a manner in which the amount paid is considered income for the purposes of determining pension. As exemplified by one city, "For example, an employee with a $100K income and a 7% EPMC retires using a salary of $107K per year rather than $100K per year."

Experience Gains/Losses: Gains or losses that arise from the difference between actuarial assumptions about the future and actual outcomes in an organization's pension plan.

First tier (1st tier) plans: Benefits promised to all employees prior to the implementation of a second tier plan. First tier plans have generally been enhanced; contributing to the cost escalation. See also "second tier" in the Glossary.

Appendix C: Glossary of Terms & Acronyms - continued

Funded Ratio: The market value of assets divided by the accrued liability. Funded ratio is a measure of the economic soundness of a fund.

Market Gains/Losses: Gains or losses that arise from an increase or decrease in the market value of a plan's assets, including stock, real property, and investments.

Miscellaneous (MISC) employee/plan: Public employees who are not sworn police or fire. The term MISC generally is used to describe a pension plan. The city of San Jose refers to these employees as belonging to a Federated plan rather than a MISC plan.

Normal Cost: That portion of the ARC (see above) which is based solely on the value of the benefits being offered.

OPEB: Acronym for Other Post Employment Benefits. OPEB benefits are primarily health care benefits but can include other benefits such as life insurance.

Opt In Plan: Term used to designate an employee elective benefit plan; employees choose between maintaining current benefits but at an increased employee contribution rate or elect to receive lower benefits and avoid increases to employee contribution rates.

Risk Pool: In 2005 CalPERS created risk pools to aggregate small cities (generally defined as having less than 100 employees) into large pools to eliminate statistical anomalies associated with small sample sizes and gain reporting efficiencies.

ROI: Acronym for Return on Investment. See also Market Gains/Losses.

Public Safety Employees: Most police and fire personnel. Other public employees are generally referred to as miscellaneous employees (see above) and may include some members of police and fire departments.

Second tier (2nd tier) plans: Benefits promised to all employees hired after the date of implementing a plan with reduced benefits. Second tier plans generally have reduced benefits and lower costs. See also "first tier" in the Glossary.

Sidefund: Generally the unfunded liability that existed prior to entering a risk pool. A city is responsible for their entire sidefund plus their portion of the risk pool. Sidefund repayment can be accelerated. Some cities did not separate sidefund monies from ARC while others did.

Smoothing of Gains/Losses: Actuarial method of spreading, or smoothing, market gains and losses over a period of time. The purpose of smoothing is to minimize short-term, year-to-year contribution rate fluctuations which may result from market swings. The smoothed asset value is also known as the actuarial value of assets.

Unfunded Liability: This is the unfunded obligation for prior benefit costs, measured as the difference between the accrued liability and plan assets. When using the actuarial value of plan assets, it is also referred to as the Unfunded Actuarial Accrued Liability (UAAL).

This report was **PASSED** and **ADOPTED** with a concurrence of at least 12 grand jurors on this 17th day of May, 2012.

Kathryn G. Janoff
Foreperson

Alfred P. Bicho
Foreperson pro tem

James T. Messano
Secretary