MARIN COUNTY COUNCIL OF MAYORS & COUNCILMEMBERS
AD-HOC COMMITTEE ON PENSION & OTHER POST-EMPLOYMENT BENEFITS REFORM

MINUTES OF JANUARY 31, 2011 MEETING

PRESENT: Belvedere (John Telischak, Sandy Donnell); Corte Madera (Bob Ravasio/Alexandra Cock); Fairfax (David Weinsoff); Larkspur (Larry Chu, Len Rifkind); Novato (Jeanne MacLeamy, Denise Athas); Ross (Scot Hunter); San Anselmo (Ford Greene); San Rafael (Marc Levine); Sausalito (Mike Kelly); Tiburon (Emmett O'Donnell); Marin Manager Association (Dan Schwarz, Jim Schutz); Marin Municipal Water District (Larry Russell); Novato Sanitary District (Bill Long, Mike Di Giorgio)

Chair Larry Chu opened the meeting at 7:05 PM.

Minutes for the November 29, 2010 meeting were approved unanimously (M/S Levine/Greene) with an amendment to correct a typographical error on the second page, second to the last paragraph to change the word "sustainable" to "unsustainable"

There were no public comments made by members of the audience on any topics not on the agenda.

BUSINESS ITEMS:

Report on Pension Benefits Data – Emmett O'Donnell

The subcommittee started with a spreadsheet containing the data compiled by the MMA in a November 2009 study, added some additional items such as employer vs. employee contributions, surveyed each of the managers to update the data, and filled in new or missing data.

There is a wide range of contribution levels (seventies to teens). All are relatively significant. Some municipalities have employees paying into the system, but many don't.

It was noted that the contribution for Novato does not include the incremental impact pension obligation bonds.

Chair Chu asked that committee members continue to assist in getting any missing data from their managers or finance directors.

Report on Other Post Employment Benefit Data – Mike Kelly

The subcommittee started with a number of different variations and rights for OPEB categories: vesting rights, eligibility, the employer's share of contributions. The form is still work in process and needs to have a lot of information filled in.

A letter from Curt Pringle (former Mayor of Anaheim who served on the State's Public Employee Post-Employment Benefits Commission) was reviewed. Mayor Pringle concluded that his city could not do much about changing the defined benefit plans for pensions, but was able to create defined contribution plans for OPEBs. The subcommittee will continue to look more into what was done.

Chair Chu noted that the GASB 45 requirements will provide additional information on OPEB liabilities for annual audits. He asked that committee members continue to assist in getting any missing data from their managers or finance directors.

Report on a Financial Impact Study and Sample Resolution – Larry Chu

The subcommittee was tasked with evaluating consultants for a study to analyze the unfunded liabilities beyond the actuarial analysis provided by the pension systems, which is a snapshot in time. For risk management purposes, it would be a methodology which uses predictive modeling as a tool for budgeting and cash flow management.

Tom McDonald, a member of a Novato committee on pension policy, provide summary of their work. The work was primarily done two parts: (1) a budget committee compiled the background information and (2) the pension committee looked at potentially workable solutions, which was less on forecasting and more on working within the framework of CalPERS.

Councilemember Kelly reported Sausalito had hired Bartel & Associates to prepare an actuarial report for all programs. CalPERS would not provide unfunded liability information specific to Sausalito, but was only what was in the broader risk pools. To get specific information, Sausalito needed to file for a termination of the plan or to apply for a new plan, but CalPERS would not do an evaluation on a paid consulting basis. It was also noted that going into another tier could take 25+ years to realize any substantial cost reductions since existing employee or retirees are still in the old plan. The benefit of the Bartel study allowed Sausalito to specifically see where they stood, where they would be if nothing changed, and what the cost would be in the future. However, any significant reforms would have to be driven by governance or legislative actions since little could be done as an individual participant in the system.

Chair Chu provided a summary of the scope of a study proposed by Vector Economics as written in the Summary of Business Items for the meeting. He asked the committee to provide feedback on the proposal.

Concern was expressed that the use of Vector Economics would create a credibility problem because of the involvement of Joe Nation in a number of other political issues. Outcome of the study might be overshadowed by who is involved. Other experts or consulting firms should be interviewed.

Any study needs to be understandable by the committee and by the public. It would be desirable if some managers or finance directors reviewed any proposal. Whatever methodology that is selected should be meaningful to decision-makers. Look at different economic scenarios individually and align with individual risk tolerances rather than as a combination of these scenarios expressed as probabilities. Simplify the analysis to use a rate between the CalPERS 7.75% rate and the risk-free rate. Have the study focus on providing more certainty, understanding what is owed, and crafting multiple strategies at both the local level and state level.

Steve Stein (Larkspur) stated the SIEPR report does not take into account inflation and the compounding effect over long periods of time. In addition, there are currently net outflows from the system, so the discount rate needs to come down to something realistic.

Paul Tuttle (Belvedere) provided information from a CalPERS estimate that contribution rate will double in the next 30 years. He suggested whatever methodology is used, the committee should take into account how CalPERS uses Entry Age Normal in their calculation (which assumes a growing workforce) and the assumption that rate of growth in health benefits will decline

Edward Brown (San Rafael) suggested lowering the benefits to match the returns.

Tom McDonald (Novato) suggested rather than doing a study to tell how quickly the money will run out, look at just a 5-year forecast. Focus consulting resources on identifying solutions.

The subcommittee will look at other consulting firms (starting with Bartel & Associates) and to reduce the scope of a study to (1) identifying the current assets and liabilities and (2) analyzing the shortfall to determine the funding status. Other public agencies should be invited to participate in whatever study is approved by the committee.

Report on Toolkit of Actions – Jeanne MacLeamy

The subcommittee presented a draft of the Toolkit. For comparative purposes, examples of new tiers were provided with estimates on what the cost savings might be when expressed as a percentage of salary. More information is still needed on how long before cost saving are realized and what the impact will be on the unfunded liability.

Shifting the Employer Paid Member Contribution back to the employee is one solution that will have an immediate cost reduction realized since it is not a vested benefit and negotiated as compensation.

CalPERS will not allow you to mix a defined benefit plan with a defined contribution plan within their system.

Some abuses can be mitigated by switching from the last year's compensation to an average of the final three years.

The committee will need legal expertise to interpret and advise on all the contractual, legislative, and constitutional issues.

Bob Briare (Marin Professional Firefighters) clarified that overtime does not go into the base calculation for pension benefits.

Carolyn Ford (Sausalito) stated a hybrid systems should be considered as the way to move towards defined contribution plans.

Tom McDonald (Novato) clarified that impact on costs in the Toolkit examples were cumulative in each incremental step. He suggested that a useful tool would also be to integrate the Toolkit scenarios into the model used in the study to determine the funding status. A dashboard format would show the financial projections associated with an action.

Paul Helliker (MMWD) wanted to clarify a previous comment made by Mr. Tuttle. In reference to the CalPERS adjustment (Entry Age Normal), it is not that the number of employees will go up each year, but that there are annual increases in payroll.

A discussion ensued on the question about the long-term financial impact of reducing benefits, and how that affects service levels and the ability to attract a quality labor force into the public sector vs. the unsustainability and lack of accountability in the current systems.

Chair Chu asked the committee and public to keep submitting ideas as possible cost and risk reduction solutions.

Next Meeting: February 28, 2011 at 7:00 PM at a place to be determined.

AJOURN: Meeting was adjourned at 9:05 PM