Marin County Council of Mayors and Councilmembers:

Marin County Local Government Reform of Pensions and Other Post-Employment Benefits

Revisiting the Problem & Scope of Local Solutions

September 13, 2019

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Executive Summary

This report on the reform of pensions and other post-employment benefits (OPEBs) is commissioned by the Marin County Council of Mayors and Councilmembers (MCCMC)[1]. The MCCMC first studied this problem in June 2011, concentrating on pensions and is now revisiting the issue based on the changes in the financial, legislative, and legal environments[2].

Marin cities generally offer two promises to employees in addition to compensation: a pension and OPEBs in the form of retiree health care.

Except for San Rafael, all Marin cities participate in a state-run pension plan in the California Public Employees' Retirement System (CalPERS). San Rafael participates with a number of other Marin County entities in a plan run by the Marin County Employees' Retirement Association (MCERA).

Details of how the plans work are in Appendix B of this report. Basically, it is a percentage (e.g. 2.0%-3%), which varies by age, of final average pay multiplied by years of service. As a result of state legislation which went into effect in 2013, new employees have a less costly benefit promised than the older "Classic" employees.

Most public employers do not participate in federal Social Security. As with Social Security, both employers and employees contribute a percentage of salary to the pension plan. Any shortfall in assets accumulated to pay the benefit are wholly the responsibility of the employer, i.e. the cities. Cities receive a bill from CalPERS or MCERA for their share of Actuarially Determined Contributions (ADCs) each year.

According to the Bureau of Labor Statistics, traditional pension plans have become rare outside of the public sector or unions. Among all workers, only 4% have access to pension plans where investment risk remains entirely with the employer.

Another 13% have access to both a pension and Defined Contribution (DC) 401(k) type plan where some or all of the investment risk shifts to the employee. Beginning in the mid-1980s, corporations recognized the result of higher costs associated with people living longer and the volatility of investment returns. They started to freeze future pension benefit accruals and limited the vested benefit to that based on prior service. Many plans were then converted to a 401(k) defined contribution (DC) plan model. In the case of the 13% where workers have both a pension and DC plan, the pension element has frequently become a smaller frozen part of the total overall benefit.

In all, 51% of all workers rely on DC plans, but only 17% have some portion of retirement funded by a pension plan. In Marin, all full-time public employees enjoy full pension plan benefits.

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[1] See Appendix A for more information about the MCCMC and a list of the committee members.

[2] Marin County Local Government Reform of Pensions and Other Post-Employment Benefits: Defining the Problem & Scope of Local Solutions (6/20/11) - http://mccmc.org/wp-content/uploads/Pension-OPEB-Committee-Report-Final-6-20-11.pdf.

In 1999 when the stock market was high, pension benefits were expanded retroactively. Subsequently, the market declined, assumptions about future return were not met, and the result has been a large shortfall in accumulated assets.

Today, the Marin cities have a cumulative net pension liability to CalPERS of $179.0 million and $120.6 million for San Rafael to MCERA[3]. On the OPEB side, it is $67.8 million and $33.7 million, liability respectively.

In response to this significant pension funding shortfall, CalPERS has taken a number of steps. They have lowered their assumed rate of return on plan assets, moved to a more conservative investment policy in recognition of the aging population of employees, and have raised the ADC that the cities must pay over a 5-year ramp-up period. As a result of these changes, the contributions to CalPERS have and will continue to increase significantly and the shortfall listed above will grow larger.

The League of California Cities commissioned an actuarial report in January of 2018 with Bartel Associates[4], a leading California actuarial firm serving only public sector agencies, to analyze anticipated pension contribution rates for cities as a percentage of payroll and to determine how those future contribution rates would impact General Funds of cities.

The report reached the following conclusions:

1. *Rising pension costs will require cities over the next seven years to nearly double the percentage of their General Fund dollars they pay to CalPERS;*
2. *For many cities, pension costs will dramatically increase; and*
3. *The impacts of increasing pension costs as a percentage of General Fund spending will affect cities even more than the state. Employee costs, including police, fire and other municipal services, are a larger proportion of spending for cities.*

Several Marin cities have also already completed detailed studies reaching similar conclusions about projected CalPERS contributions as shown in Appendix E.

Over many years, cities and towns gave increasingly generous post-employment health care benefits using defined benefits plans. In many cases, the employee need only retire from that agency and/or provide only minimal service to qualify for OPEB. In these cases, years of OPEB payout can vastly exceed the years of service actually provided to the agency. Like pension benefits, the cost of those benefits has ballooned. Unlike pensions, OPEBs may be changed during periodic labor negotiations with fewer constraints.

In response to increased accounting disclosure requirements, some jurisdictions have negotiated with their respective labor groups to reign in OPEB benefits using a variety of strategies, including reducing benefits, increasing employee contributions, and/or funding the costs over the employees' working life. Other cities have allowed a growing OPEB liability to continue to build up.

[3] Based on a 7.15% discount rate for valuations as of 6/30/17 for CalPERS cities. San Rafael was based on a 7.00% discount rate as of 6/30/17 – See Appendix E

[4] League of California Cities Retirement System Sustainability Study and Findings (January 2018) - https://www.cacities.org/Resources-Documents/Policy-Advocacy-Section/Hot-Issues/Retirement-System-Sustainability/League-Pension-Survey-(web)-FINAL.aspx.

In the long run, there are only a few theoretical ways that cities can address the challenge of underfunded pension and OPEB costs:

1. Raise taxes and fees;
2. Reduce benefits or the number of employees;
3. Use existing reserves or borrow to pay higher contributions; and/or
4. Reduce services provided to their residents.

Subsequent chapters address the challenges or even the possibility of executing each of these theoretical approaches.

This committee encourages all cities to immediately take these actions:

1. **Develop a long-range financial plan** to measure their exposure to increased pension costs and begin addressing which combination of strategies is appropriate for the city. Such a 5-year or 10-year long-range plan must consider hard choices about taxation, benefits, number of employees, and services provided as discussed in subsequent chapters.
2. **Be more transparent about benefit costs.** As discussed in a subsequent chapter, city financial statements are aggregated by function (e.g. Fire, Police, or Library) rather than by costs (e.g. payroll, benefits, and purchases). We support specific disclosure of payroll and benefit costs so that citizens can see how their tax dollars are spent.
3. **Make OPEB obligations more sustainable.** Unlike pension costs, cities may have more control over their OPEB obligations. The level of benefits varies by city. In addition, those with costly plans vary as to the level of funding currently put aside to fund the benefit. We support curtailment of this benefit for future employees when legally allowed and for agencies using the CalPERS medical benefit plan only to fund at the legally allowed minimum under the Public Employees' Medical & Hospital Care Act (PEMHCA). We support all agencies fully funding the ADC for current employees so employees can better count on receiving the benefit when due. Whatever each city decides, the impact of these costs should be considered as part of any long-range financial plan.

This report will attempt to address the following questions:

- How will cities respond to the challenge of meeting their obligation to pay the shortfall in pension and OPEB costs?
- What solutions exist to mitigate this coming challenge?
- How can cities provide more transparency in reporting these obligations?

Defining the Problem

When former State Senator Joe Nation made his presentation to the Committee in 2018, he estimated that up to 25% of cities could go bankrupt in the next 5 years. Even if this estimate is too high by orders of magnitude, it is apparent that many cities face a crisis.

Presuming that the bottom quartile of the cities do approach insolvency or become bankrupt, dramatic statewide reforms would have to follow. Any city positioned in the top tier of fiscally sustainable jurisdictions – perhaps the top quartile – is likely to emerge more financially healthy.

This crisis is examined from a fiscal perspective, focusing on annual cash flow and funds available for unforeseen events (rainy-day fund).

This fiscal problem has developed over many years and it will take cities and towns many years to resolve this issue to fiscal sustainability. Our last report details the history of how the plans became so underfunded.

So, what strategies should cities and towns adopt?

The Pension Problem

Since our last report, there have been several key changes in the pension system:

1. The California Public Employees' Pension Reform Act (PEPRA) went into effect in 2013, closing existing pension plans ("Classic") to new hires, and entering new employees into less generous plans.
2. CalPERS' intent was to manage contributions for PEPRA Employees such that no new Unfunded Actuarial Accrued Liability (UAAL) or shortfall in contributions could develop within PEPRA plans.
3. CalPERS set a 30-year amortization period to pay off the UAAL or funding shortfall from the Classic plans with a ramp-up period of 5 years. During that ramp-up period, it was to be expected that each plan's unfunded liability would grow, then slowly decrease, ignoring market volatility and/or any other increases in the liability to unfavorable plan experience. Rolling amortization was eliminated.
4. Over the last 4 years, CalPERS has increased the mortality assumptions and moved to a more conservative investment mix. Both of these changes resulted in higher liabilities with the mortality change having the biggest impact.
5. CalPERS also shortened the amortization period for future changes in the UAAL to 20 years and began a process of lowering the discount rate to 7% over 3 years. The discount rate change has resulted in significant and accelerated projected growth in the annual CalPERS payment each city and town faces.

Appendix B to this report goes into further detail about how pension benefits are earned, and the impacts of changing the discount rate and amortization period. Years of underperforming investment results compared to expectations have resulted in a significant shortfall in plan assets to occur. CalPERS lowered its expectation of future investment performance to reflect its expectation that future returns will be less over time than they have been historically. The changes described above will increase costs to each city. As a result, pension costs will continue to increase significantly, crowding out cities ability to pay for other expenditures.

Every year, CalPERS sends each member jurisdictions a statement of its required contribution, comprised of total normal cost (the amount to cover that years' service cost), and an amount to cover a part of amortization of the shortfall (called prior service cost). The statement also includes the UAAL or remaining shortfall for each pension plan. Six-year projections of the UAAL and normal cost percentage figures are also provided along with the current amortization schedule and alternative amortization schedules which assists for medium- to long-term planning. Some agencies work with an independent actuarial consultant to obtain an actuarial analysis of the future liabilities.

In such an analysis, using a jurisdiction's specific plan demographics, the type of employee, benefit levels, CalPERS policies, and financial assumptions, an actuarial model can be developed to project a probabilistic distribution of future payments to CalPERS. The most likely outcome (the 50% projection) or perhaps something more conservative could be then used for medium- and long-range fiscal planning. Given the long amortization planned for funding the CalPERS shortfall, a 10-year projection may be prudent.

The League of California Cities has commissioned a statewide study projecting pension cost. Several Marin cities have also conducted actuarial studies based on their specific conditions (see Appendix E).

Individual city results are impacted by prior financing decisions (e.g. using debt in the form of "side funds" or pension obligation bonds) and their specific demographics, but both city studies and the statewide study tell similar stories. Some of the League of California Cities conclusions follow.

> *Between FY 2018–19 and FY 2024–25, the cities' dollar contributions will increase by more than 50%. For example, if a city is required to pay $5 million in FY 2018–19, the League expects that it will pay more than $7.5 million in FY 2024–25.*
>
> *Miscellaneous Employees: In FY 2024–25, half of cities are anticipated to pay over 30.8% of their payroll towards Miscellaneous employee pension costs, with 25% of cities anticipated to pay over 37.7% of payroll. This means that for every $100 in pensionable wages (generally base salary), the majority of cities would pay an additional $31 or more to CalPERS for pensions alone. This amount does not include active or retiree health care.*
>
> *Safety Employees: Contributions are projected to be much higher for cities that employ Safety personnel (police officers and firefighters). By FY 2024–25, a majority of these cities are anticipated to pay 54% or more of payroll, with 25% of cities anticipated to pay over 63.8% of payroll. In other words, for every $100 in salary, the majority of cities would pay an additional $54 or more to CalPERS for pensions alone. As with Miscellaneous employees, for cities with a large number of retirees, these percentages are even higher. The cities paying the highest percentages of payroll are spread throughout the State.*
>
> *On average, from FY 2006–07 to FY 2024–25, cities will nearly double the percentage of the General Fund dollars that goes to CalPERS. In FY 2006–07, the average city spent 8.3% of its General Fund budget on CalPERS pension costs. That average increased to 11.2% in FY 2017–18 and it is anticipated to increase to 15.8% in FY 2024–25. In FY 2024–25, 25% of cities are anticipated to spend more than 18% of their General Fund on CalPERS pension costs with 10% anticipated to spend 21.5% or more. These cities are located throughout the state.*

All of our cities and towns face a significant growth in their future payments to CalPERS of varying magnitudes and with differing growth curve characteristics. Such a high growth rate in such a significant component of any jurisdiction's cash flow needs could lead to significant structural imbalance because revenues are growing at a much more modest pace. Rainy-day funds would evaporate and eventually there may not be the funds to pay for the current level of services.

Profound Impacts on City Budgets

The impacts on cities of both lowering the discount rate and accelerating the amortization period may be profound. While protecting the ability of CalPERS to ultimately meet its obligations, large increases in payments by cities could have a severe impact on city budgets.

We recommend that all cities study the impacts that changes in CalPERS funding will have on their budgets. After completing an actuarial analysis, each city and town should evaluate its particular circumstance once a realistic projection of future CalPERS payments are factored in.

The most significant sources of city revenues are property and sales taxes. Property taxes are capped by Proposition 13, except to the extent that home turnover and remodeling activity allow reassessment. A long-range financial plan should consider all city costs such as salaries, benefits, contract costs, and other expenses of operating a city including costs for maintenance and improvement of infrastructure, and an estimate of revenues.

Should we experience another significant recession with a prolonged low rate of return on investments, future CalPERS payments would then need to be even higher and revenues would be lower, thus putting even more strain on cash flows. A long-range plan should be done with a sensitivity analysis presuming some level of financial difficulty over the projection period. Given that there have been 12 recessions since 1945, it is reasonable to expect some economic difficulty over a 10-year projection period.

Some cities will be unable to accommodate these future CalPERS payments without a serious attempt to restructure their cash flows. Others that are more fortunate may be able to effect rate stabilization of the peak years by funding some costs in the early years. Factors include the percentage of revenues provided by property taxes, the turnover of homes that allow these revenues to grow faster, and the percentage of revenues provided by sales tax which is more variable. The ability of a city to address the funding challenge is impacted by the stability and rate of growth of revenues.

Pension Specific Solutions

There are limited pension-specific actions that cities can take to mitigate the cost increases on the horizon. Cities can level out the rising costs by prepaying some of the liability or they can restructure the liability by taking on debt. Each of these options are described below, but first let's contrast public plans and those in private industry.

Public and Private Industry Plans

In the private sector, there are two important aspects to defined benefit pension benefits: "accrual" refers to the amount of future monthly benefits earned with each year of service; "vesting" refers only to the employee's right to keep benefits already accrued once they leave that employment. Employee benefits are considered "vested" only with respect to service already provided. A company can decide to discontinue providing future pension benefit accruals to employees for future service at any time.

Beginning in the mid-1980s, corporations recognized the result of higher costs associated with people living longer and the volatility of investment returns. They started to freeze future benefit accruals and limited the vested benefit to that based on prior service; many plans were then converted to a 401(k) defined contribution (DC) plan model. Because the likelihood of an employee remaining at one company or within one pension plan had also diminished, the portability of 401(k) plans began to have more appeal to employees.

In a Defined Benefit (DB) plan, retirement payments are guaranteed no matter how the assets in the plan perform over time and regardless of whether the actuary's other assumptions accurately project the cost of those future lifetime benefits. The employer makes up any shortfall. In a DC plan, the employer's funding commitment ends with the contribution into the individual's account. Investment decisions are made by the employee and the ultimate account balance and potential payout of that account are risks borne by the employee.

DC plans are also portable. If an employee leaves a company, the funds in the plan remain with the employee. If an employee leaves a company, their DB plans are lost unless the employee has worked for the company for a defined period of time and the rights have vested. In the public sector, employees bring their DB benefit with them if they move to another or reciprocal agency in the same or reciprocal pension system[5].

In the public sector, the employer (i.e. city) has the burden of investment risk. When benefits were increased in the late 1990's and early 2000's investment rate of returns were set very optimistically high at 8.25% and soon thereafter, a large shortfall in funding developed[6]. Any shortfalls are now fully the responsibility of the public employers, and ultimately the taxpayers.

The investment risk for public plans could be shared by both the employers and the employees in the form of a hybrid DB/DC plan like those developed in the private sector. Although this solution was

[5] Many of the public pension systems in California have reciprocity agreements with one another, meaning the employee's DB benefit from earlier public employment may be enhanced when they move to another agency without a significant break in service and that agency's pension system has reciprocity with their prior employer's system.

[6] The origins of Senate Bill 400 are discussed in the first report and an overview of the discount rate is in Appendix B.

proposed by Governor Jerry Brown in 2011, it was not included in the PEPRA legislation (See Appendix C).

According to the Bureau of Labor Statistics, DB plans have become rare outside of the public sector or unions. Among all workers, only 4% have access to DB plans where investment risk remains entirely with the employer. Another 13% have access to both a DB and DC plan where some of the investment risk shifts to the employee. In the case of the 13% where workers have both a pension and DC plan, the pension element has frequently become a smaller frozen part of the total overall benefit.

In all, 51% of all workers rely on DC plans, but only 17% have some portion of retirement funded by a DB plan[7]. In Marin, all full-time public employees enjoy full DB plans

In 2015, the General Accounting Office (GAO) published a study on retirement savings. Among those with some retirement savings, the median amount of those savings is about $104,000 for households age 55-64 and $148,000 for households age 65-74. This is equivalent to an inflation-protected monthly annuity of $310 and $649, respectively. Social Security provides most of the income for about half of households age 65 and older[8].

Comparing union workers, both in the public and private sectors, to non-union workers, the picture is very different. Union workers have greater access to either a DB plan (34% instead of 4%) or both DB and DC plans (68% instead of 17%).

In the public sector in California, employers must abide by the “California Rule”, which requires that the pension benefits granted as part of the terms and conditions of employment cannot be impaired unless replaced with a benefit of equal value. Cities cannot just preserve benefits for past service, while converting pension plans to more cost effective and predictable DC plans for future service, like in the private sector. Until recently, Courts have generally concluded that the right that is “vested” upon employment includes a right to continue to accrue benefits under terms as favorable as vested rights granted at the initiation of employment.

This policy is currently being tested by several cases pending before the California Supreme Court. Unless California’s 1955 interpretation of the Federal and California constitutional protections for vested rights in the terms and conditions of public employment are abrogated, cities have little ability to manage pension costs by reducing benefits. The California Rule is discussed further in Appendix C.

While the debate about public pension plans tends to focus on level of promise and fairness to the taxpayer, there is a more nuanced way to look at the benefit. Public employers and employees do not generally pay into Social Security, and a part of the public pension replaces this coverage enjoyed by employees and taxpayers in the private sector. Public pension plans typically offer a benefit that is more than Social Security over the course of the employee’s retirement lifetime once in the same plan for about 15+ years and can be substantially more for employees with more years of service.

[7] 51% or Private Industry Workers Had Access to Only Defined Contribution Retirement Plans (10/2/18) - https://www.bls.gov/opub/ted/2018/51-percent-of-private-industry-workers-had-access-to-only-defined-contribution-retirement-plans-march-2018.htm

[8] Most Households Approaching Retirement Savings Have Low Savings (5/12/15) – https://www.gao.gov/products/GAO-15-419

The average Social Security payment in January 2019 was $1,461. The maximum possible benefit for someone earning the maximum taxable amount of $132,900 and retiring at full retirement age in 2019 is $2,861.

A Miscellaneous employee in Marin retiring with 15 years, a 2.5% benefit factor, and a $60,000 final compensation would get $1,875 per month. A Miscellaneous employee working 40 years with a 2.5% benefit factor and a $132,900 final compensation would get $11,075 per month, substantially more than a private industry citizen would receive from social security.

The debate between public sector pensions and private company post-employment offerings should focus both on where investment risk lies as with the level of benefit offered.

Most private sector employees rely on 401(k) plans and after-tax saving for retirement. Although a small subset of them enjoy the guaranteed payment of a pension, the employee bears the long-term investment performance risk in a DC plan. Many people in the private sector do not have significant resources beyond Social Security to draw upon in retirement.

If the California Rule were overturned, the conversation could turn to both the ultimate level of benefit offered and the level of investment risk sharing between employers and employees. Given the profound costs associated with continuing to cover public sector employees in the existing pension scheme, the court cases are receiving significant attention. The bottom line is that unless the California Rule is overturned, individual cities have a limited ability to control the pension benefit.

Leveling Out the Costs

If cities have a limited ability to control the level of benefit and related costs, what else can they do? We cover general actions such as increasing taxes, incurring debt, and reducing expense in a later section. But one thing a city may decide to do is adjust budgets and services by a smaller amount now, and put those savings aside to be available to pay the future increased costs. Financially stronger cities may decide to make a smaller course correction now in order to avoid a larger one later.

There are three ways that this can be accomplished. The city can simply pay more than their ADC to CalPERS in years when surplus funds are available. These excess funds will be credited with a rate of return equivalent to the overall CalPERS trust return and will diminish the amount due in later years as the overall shortfall is amortized. While the rate of return may be more attractive than the other techniques, the money used to prepay future years cannot be returned if there is a fiscal emergency and additional funds are needed.

The second option is to create a trust under Internal Revenue Code Section 115. Money is set aside from the General Fund to meet future contributions or liabilities. These funds are irrevocably committed. There is a little more flexibility with this approach as compared to simply paying CalPERS. Jurisdictions may pay their ADC from the 115 Trust in financially difficult years and thus free up General Fund monies, but only to the limit of that year's ADC. Also, the city would have to take on the responsibility to invest the funds for a decent return with a risk of capital loss depending on the investments selected.

CalPERS implemented a new 115 trust fund in 2019 to assist with the second option implementation that allows public employers to prefund their future pension costs. The new program, known as the California Employers' Pension Prefunding Trust (CEPPT), provides the state and public agencies an additional investment vehicle to accumulate assets over time to help manage long-term costs.

Finally, the City Council could simply create a Governmental Fund which would emulate the intent of a 115 Trust, but without the restrictions. In the event of a financial difficulty, the City Council would have the flexibility to redirect these funds to other purposes at a future date rather than paying any future pension obligations to CalPERS.

However, due to State level restrictions under California Government Code Sections 53601 and 53635 on investments by local agencies, the investment returns would be lower than the other options. The investment objectives focus on capital preservation, liquidity, and safety as opposed to long-term capital appreciation.

These advance payments act as a rate-stabilization strategy to offset future volatility of payments to CalPERS. In using either one-time money or periodic transfers from the General Fund during times when there is a General Fund surplus, dedicated funds can be set aside to “save for a rainy day.”

It would seem to be important that the financial goals of such dedicated funds and policies for their use should be aligned with the long-term needs and financial projection that the actuarial analysis discussed above demands. However, in the end, the goals and policies will be driven in large measure by the fiscal structure and flexibility of the jurisdiction. You have to have the positive cash flow to make advance payments!

The following table summarizes how some cities have set aside money to reduce their UAAL:

City	Section 115 Trust	Advance Payment to CalPERS	Pension Reserve Fund
Belvedere		$3,600,000	Yes
Corte Madera	$1,363,364		
Fairfax	$150,000		
Larkspur			
Mill Valley			$1,200,000
Novato			
Ross	$200,000	$2,020,394	
San Anselmo			
San Rafael			
Sausalito	$752,266		
Tiburon		$590,000	

The following table summarized the general reserve policies of each city, i.e. how large their "rainy day fund" goal is:

City	Reserve Policies
Belvedere	6 month General Fund expenses
Corte Madera	10% of General Fund expenditures and transfers out
Fairfax	20% General Fund expenses; 5% emergency
Larkspur	15% General Fund expenses catastrophic; 10% budget stabilization
Mill Valley	15% of prior year General Fund Budget, plus 10% by Council direction
Novato	15% General Fund expenses
Ross	$1.5 million Emergency Fund, plus practice of 25% of General Fund expenses
San Anselmo	10% General Fund expenses with a 20% goal
San Rafael	10% General Fund expenses
Sausalito	5% budget stabilization; 10% General Fund expenses emergencies
Tiburon	25% General Fund expenses

Restructuring Liabilities

Pension Obligation Bonds (POB) are used as a means to address pension obligations (i.e. the UAAL), typically through borrowing money and issuing General Obligation Bonds. POBs can be used to provide financial relief when there are budget deficits. A cost savings can be achieved when the bond interest rate is lower than the pension fund discount rate. To protect from rising interest rates, the bond interest rate should be fixed. Should interest rates drop or there is the opportunity to pay down the principle before the bond matures, the bond should be callable.

Another approach is to invest the bond proceeds at a higher rate of return than the interest rate owed over the term of the bonds, but this approach has significant risks for the city. An inversion in spread between the POB interest rate and the rate on the UAAL could cause significant losses to the city. While the discount rate set for contributions is fixed at a point in time, the ultimate contribution required is variable and based on asset performance. Therefore, a POB with a fixed rate is used to finance a pension shortfall cost with a variable return.

This is analogous to an individual borrowing on a line of credit against their homes equity and using the proceeds to invest in the stock market. The homeowner wins or loses depending whether the stock market return outperforms the cost of the line of credit or not. Another analogy to a POB is to swap a fixed rate mortgage for a lower variable rate mortgage that has the ability to rise to a higher rate in the future. You win or lose based on how the market moves. The lower the rate obtained for the POB, the lower the opportunity cost associated with the future performance of CalPERS assets and related ADC requirements.

In 2003, CalPERS pooled all employers with fewer than 100 active employees. With each city having different contribution rates, a "true up" was required based on the actuarial value of the assets and liabilities in their individual plan. Cities with higher unfunded liability in their individual plans than their proportion in the pooled plan were required to pay the difference. If a cash payment was not made to CalPERS, a Side Fund was created.

Cities have also found other opportunities to restructure their CalPERS obligations by using cash that has a cost lower than the discount rate. The City of Belvedere did a lease-leaseback of their corporation yard and parking lot. The $2.6 million in net proceeds of the transaction was used to make an advanced payment to CalPERS. The City of Larkspur used idle cash in the Bon Air Bridge Fund to pay off its Side Fund balance. Annual repayments are made back into the Bon Air Bridge Fund.

City	CalPERS Side Fund	Pension Obligation Bond	Internal Financing
Belvedere			$2,600,000
Corte Madera	$444,097		
Fairfax	$585,815		
Larkspur			$1,789,037
Mill Valley		$3,170,000	
Novato		$18,269,748	
Ross			
San Anselmo		$1,412,000	
San Rafael		$4,185,000	
Sausalito	Yes		
Tiburon			

Other Post-Employment Benefits Problem

The last Pension Reform Report issued by MCCMC did not include an analysis of another looming unfunded challenge: Other Post-Employment Benefits (OPEBs). OPEBs are any benefits, other than pensions, that a retiree receives that have a monetary value. Typically, it is health insurance, but could also include dental or vision benefits, life insurance, contributions to a Health Savings Account, or just access to the employer's health insurance plan without the employer contributing. Benefits may also be extended to the retiree's spouse, registered domestic partner, or dependents.

Years ago, family healthcare coverage in retirement was a relatively nominal cost and the difference between retiree-only and family coverage was low. Most agencies stuck with family coverage for years. The cost of those benefits have now ballooned. Over time, jurisdictions have amassed a significant unfunded liability in these plans. The status of each Marin city's OPEB status is summarized in Appendix E.

Unlike pensions, OPEBs may be changed during periodic labor negotiations with fewer constraints. However, this is not to suggest that there are no constraints on changes to OPEBs. The language of the grant and the circumstances must be reviewed carefully. OPEBs can include vested rights. Transitory benefits and those subject to expiration and renegotiation in a labor agreement are less likely to be vested. Those involving a clear legislative body intent to grant, for example, fully paid lifetime medical are more likely to have a vested element[9].

In recent years, jurisdictions have negotiated with their respective labor groups to reign in OPEB benefits using a variety of strategies, including reducing benefits, increasing employee contributions, increasing the age or service requirements to qualify for benefits and/or shortening the time such benefits will be provided. There have been a number of studies published in recent years that describe the OPEB problem:

- Marin Grand Jury report: "The Big Picture: Funding Marin's Public Employee Pensions & Retirement Health Care Benefits" (June 19, 2017)
- League of California Cities report: "Retiree Health Care: A Cost Containment How-To Guide" (September 2016)
- County of Alameda Grand Jury report: "Oakland's $860 Million Crisis: Unfunded Retiree Healthcare" (2017-18)

Years ago, employers simply paid the insurance bill each month for coverage to active employees and retirees, and didn't worry about setting aside money for future costs for health care from the age of retirement until passing away. This pay-as-you-go (or "pay-go") approach was common when health care costs were low.

As insurance costs rose, governmental accounting rules changed and agencies are now required to record the liability sooner. For about 10 years (from 2008 through 2017), the recorded liability was simply the accumulated shortfall (if any) of the agency's OPEB funding relative to each year's OPEB ARC.

[9] See Retired Employees Association of Orange County vs. County of Orange, 52 Cal. 4th 1171 (2011).

Now, the liability to be reported is based on the present value of the benefits over the active service of the employee from when he/she started through the assumed age of exit from active service (Entry Age).

An example may be helpful. Consider an employee hired at age 30, retiring at age 60, and enjoying retirement until age 91. If the accounting rule change occurred when the employee was 40, the expense for that year would still include an allocation of part of the future costs to be paid for age 60-91 for services provided and essentially earned that year (Normal Cost). But now, there is an allocation to help catch up for the prior service costs earned from age 30-39 which were not previously accrued.

The amounts are estimated using a rational allocation approach determined by an actuary. They consider such things as the anticipated employee turnover, mortality, health care cost trends, and earnings on any invested funds to determine the ADC.

Each year, agencies will still pay the bills for providing health care to current and retired employees (pay-go expense). Agencies are not required to put cash into a trust. However, recognize that that the liability on the books will continue to increase each year the ADC is not fully paid. As retirees live longer, it is likely that new retirements will occur faster than existing retirees will pass away. This combined with accelerating health care costs may result in future annual pay-go benefit costs that are unsustainable. Furthermore, by paying benefits for retirees whose services for the agency and its taxpayers has ended, the agency is diverting resources (and services) from the current taxpayers to cover costs to pay for costs of an earlier generation of employees. The goal should be to have the cost of providing health insurance in retirement fully funded by the time the employee retires. To the extent that a city pays its ADC into a trust[10], this is called “pre-funding”. This is a bit of a misnomer since it’s really paying for OPEB costs as the service is provided by the employee.

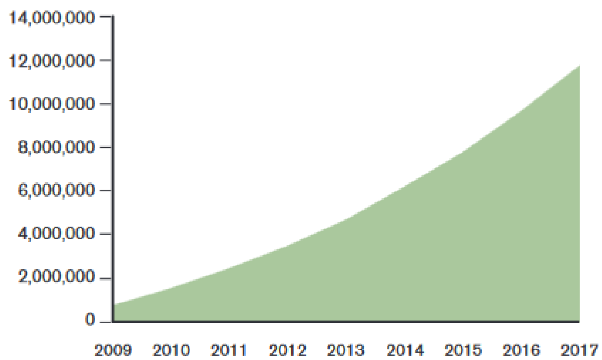
To complete our example from above, if at the employee’s age 40, the city begins funding their full ADC, the contribution will include an amount for the OPEB “earned” for that years’ service plus a payment toward the prior service not previously funded. These contributions, invested in a trust, will earn some rate of return thereby reducing the need for additional funds later.

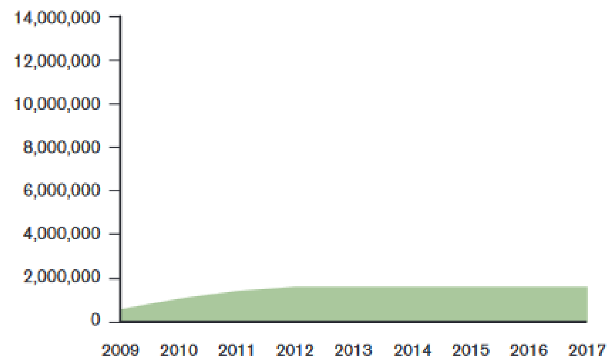
In this example, by the time the employee retires at age 60, the city will have contributed enough funds and earned enough income such that, if the actuary’s assumptions are met, there should be adequate funds with subsequent earnings to pay the remaining OPEB costs until the person reaches 91. By funding the ADC, the city is committing to catching up for the underfunding in prior years and to reflect the full cost of an employee’s service each year as the service is provided. By the time the employee retires and no longer provides services to the city, their full costs have been paid for, making intergenerational costs for taxpayers fairer.

The diagram below illustrates the advantages of paying the annual ADC into an OPEB trust vs. Pay-As-You-Go[11]. By making regular pre-funding contributions, the net long-term obligation remains low or zero. The dollar amounts of cumulative obligation are illustrative and not specific to any employer.

[10] Section 115 of the Internal Revenue Code permits a government entity to segregate funds from the General Fund for the purpose of funding an essential function. This mechanism allows for the creation of a trust to meet future pension and OPEB obligations.

[11] Milliman OPEB Consulting Services: Establishing an OPEB Trust Fund (2014)





5-year phase-in strategy being used to ease into full prefunding

Benefits

Unlike pension benefits, the level of OPEBs offered by each city varies based on what has been negotiated in a Memorandum of Understanding (MOU) with employee labor groups. These can be legally modified with each city's collective bargaining units and determined by City Council for at-will employees by either changing the benefit level for current active employees or eliminating the benefit for new employees.

Some cities offer a plan with a private health care provider, such as Kaiser Permanente. Benefits may include the employee only, the employee and spouse and/or dependent children. The spouse may or may not get survivors benefits. The level of payment provided by the city and employee will vary based on negotiation. Costs decline when the employee is eligible for Medicare.

Under California law, if the employer is using CalPERS as their employee medical benefit plan provider for active employees, employers are also required to provide a lifetime benefit for any employee who retires from the agency. The required contribution for the retiree is dependent on the type of PEMHCA resolution adopted by the agency, however, the benefit may not be less than a statutory minimum level of medical benefit ($136 per month in 2019). This is most likely the least costly benefit level for a city providing a benefit. Many agencies find CalPERS medical coverage appealing as they may have better buying power, more options, and broader individual coverage.

Additionally, there is the challenge of dealing with what coverage was promised to retirees. Cities still have retirees that are at levels above the PEMHCA minimum and there may still be active employees who are entitled to more the PEMHCA minimum if they achieved the qualifying requirement.

San Anselmo fixed its monthly contribution years ago and this is reflected in a modest OPEB liability. Ross has never been above the PEMHCA minimum. Along with other cities like Corte Madera, Larkspur, San Rafael, Sausalito, and Tiburon who now provide the Minimum Employer Contribution, this will help lower and smooth their OPEB liability over time. Detailed descriptions of each city's OPEB benefit is disclosed in in Appendix E.

The following is an example of a variety of annual employer costs based on one city's experience:

Kaiser premium employee under 65	$8,652
Kaiser premium employee Medicare advantage 65 and over	$3,904

Kaiser premium employee and spouse under 65	$17,304
Kaiser premium employee and spouse Medicare advantage	$7,328
Minimum PEMHCA premium CalPERS	$1,632

Not all agencies pay the full premium for active employees. Employers can negotiate with their employees to share the cost or to cap the employer's contribution at a specific dollar amount.

Safety pension plans such as 3% @ 50 years or 55 years encourage those employees to retire early. Earlier retirement results in more years of health care benefits being provided by the city. The costs of benefits decline as employees reach 65 and become eligible for Medicare, but those who retire at an early age accrue a more significant OPEB cost.

Health care benefits are not salary-dependent and do not increase over time like a pension. Under the PEMHCA minimum, there is no encouragement to retire early given that the payments are only a small fraction of the costs.

OPEBs Specific Solutions

One of the pension reforms in PEPRA was to increase the retirement age. A new DB formula for Miscellaneous employees puts the early retirement age at 52 years (from 50), a normal retirement age at 62 years (from 55 or 60), and a maximum benefit factor would be achieved at age 67 (from 60-67 depending on the plan). For Safety, the normal retirement age is still 50 years and the maximum benefit factor is at age 57 (from 55-70 depending on the plan). In many plans, OPEB eligibility continues to be any eligible retirement, which means that a PEPRA employee could still retire at age 52 and safety at age 50. However, the later normal retirement age for pension benefits discourages earlier retirements which in turn has the effect of lowering OPEB costs to varying degrees depending on the DB available.

It is clear that most cities and towns are encountering increased annual OPEB costs, which together with their pension obligations, is adding significant pressure to achieving medium-term structural balance in their General Funds. Pre-funding the ADC was discussed above.

Another significant change that a city or town can make is to eliminate OPEBs entirely for new employees or, for agencies obtaining medical coverage through CalPERS, reducing the benefit to the PEMHCA minimum level, or whatever other benefit level can be sustained by prefunding 100% or more of each year's ADC.

In 2012, the City of Sausalito was successful in negotiating the PEMHCA minimum for all new employees and for all current employees with less than 3 years of service. Existing employees with greater than 3 years of service were also given the option of converting from a DB plan to a DC plan which further reduced the exposure to future unfunded liability. Although their OPEB liability has not been eliminated, it should stabilize significantly.

In 2016, the City of Mill Valley eliminated OPEB for new employees. Like Mill Valley, Fairfax is also fully funding its ADC and is realizing a reduction in the OPEB liability over time.

San Rafael also contributes the minimum of the ADC. Other cities are starting to pre-fund at some level and working towards getting to the ADC.

The table below describes each city's benefits and funding method. Pay-As-You Go indicates no current funding of benefits for future costs in retirement of current employees. Some prefunding indicates that an elective amount is set aside periodically based on affordability and other considerations. If a city funds the ADC, they are paying current benefits and fully funding the cost of providing health insurance in retirement.

If Pay-As-You-Go continues, future taxpayers will bear the OPEB costs after the employee retires while current taxpayers receive the benefit the employee's services today. Today's employees are also more at risk since they have to rely on their employer being solvent when the insurance bills come due in retirement.

City	Funding Method	Retiree Benefits
Belvedere	Pay-As-You-Go	PEMHCA min or Kaiser; Eligible at 50 yrs old, 5 yrs

Corte Madera	Projected Pay-As-You-Go plus some prefunding (CERBT)	May be limited to dual coverage; Tier 1 - up to a Kaiser cap for retirees and dependents; Tier 2 PEMHCA min for retirees only; No dental or vision
Fairfax	Cost of annual benefits and Annual Required Contribution (CERBT)	One-party Kaiser Basis and Medicare coordinated premiums; Full benefits with 25 yrs (20 yrs in mgmt); Partial with 10 yrs; PEPRA Safety 25% with 10 yrs, 50% with 20 yrs; PEMHCA min for PEPRA Misc
Larkspur	Projected Pay-As-You-Go plus some prefunding (CERBT)	PEMHCA min (5-10 yrs); 100% up to Kaiser Bay Area rate (10-15 yrs, hired before 1/1/15 misc or 4/1/15 fire); Include spouse (15+ yrs hired before 7/1/07 or before 9/1/08 fire)
Mill Valley	Cost of annual benefits and Annual Required Contribution (CERBT)	Premium up to Kaiser +1 with 15 yrs (pre-2013); Up to 2/3 Kaiser employee only with 20 yrs (2013-2016); None (2017 and later)
Novato	Pay-As-You-Go plus some Prefunding determined annually (PARS)	Blue Shield, Kaiser, CalPERS, PORAC; Eligible at 50 yrs old
Ross	Prefunding some benefits into an irrevocable trust (CERBT)	PEMHCA min (Eligible at 50 yrs old, 5+ yrs)
San Anselmo	Pay-As-You-Go	$225/month (Eligible at 50 yrs old, 5+ yrs); Continues for life of the retiree or the surviving spouse as applicable
San Rafael	Pay-As-You-Go; No CERBT account reimbursement; Minimum of the Actuarial Determined Contribution	Eligible at (1) 50 yrs old if before 7/1/11 otherwise 55 years, 10+ yrs, (2) 30 yrs misc, 20 yrs safety (3) 70 yrs old; Full premium, but capped for electeds and mgmt (pre 2009); Up to cap for bargaining units (pre-2010); PEMHCA min after 2009 and 2010, respectively; No dental, vision, or life
Sausalito	Pay-As-You-Go plus some prefunding	PEMHCA min (Eligible at 50 yrs old or 52 yrs old for PEPRA misc, 5+ yrs); For safety 50 yrs old or misc 55 yrs old and 20 yrs, any PEMHCA plan of prior to 7/1/07 and otherwise up to Kaiser Bay Area Basic; PEMHCA min for surviving spouse if eligible
Tiburon	Pay-As-You-Go plus some prefunding	PEMHCA min (Eligible at 50 yrs old, 5+ yrs); Continues for life of the retiree or the surviving spouse; Kaiser single person (15+ yrs), but not for mgmt hired after 7/1/09, police after 7/1/10, and misc after 7/1/14

Broad Actions to Address the Problem

To summarize, these are the challenges cities and towns in Marin and throughout California face:

- The pension ADC continues to increase due to a combination of insufficient market returns (and therefore reductions in the discount rate) and a reduction in the amortization period. OPEB costs continue to increase with increases in health care costs.
- Reported pension and OPEB liabilities are also increasing due to changes in governmental accounting standards. The obligations can be reduced, but it requires large amounts of cash to pre-fund.
- The two biggest sources of income are property taxes and sales taxes. As with market returns, both are dependent on a strong economy. While the economy remains strong at the present, any downturn negatively impacts cash and will also increase pension and OPEB liabilities as investment returns decline.
- Indications are that the California legislature believes it has addressed pension and OPEB reform with PEPRA. There may not be significant additional reform unless the California Supreme Court allows for a prospective reduction of benefits or perhaps a crisis develops and the legislature reacts.
- The majority of CalPERS retirement system boards are retirees or those who will be recipients when they become retirees. The board members that are elected or appointed still do not have the financial expertise that is found on the board of investment management firms in the private sector. Despite efforts to change its investment strategy and to reduce management costs, CalPERS continues to underperform a majority of its peers.

All these factors place a greater burden on the employer to devote a larger proportion of the budget into servicing post-employment benefits. It is clear from the previous discussions that cities and towns face significant pressure to maintain a structural balance in their General Funds due to rapidly growing pension and OPEB costs. The inability to offset these increases may result in future reductions of programs and services. Once a city is unable to sustain adequate levels for essential services like police, fire, public works, and other safety and health functions, it faces service-delivery insolvency.

Many jurisdictions are therefore seeking ways to increase revenues and/or slow the growth of expenses. In the long run, there are only a few ways that cities can address this challenge.

- Some limited ability to raise taxes and fees
- Reduce benefits or the number of employees
- Reduce services provided to residents.

Funding additional expenses for employee benefits still comes out of the General Fund. But raising revenues designated for a specific purpose can free up the dollars normally spent on that function to be used instead for the increase in the ADCs.

Funding sources for capital projects can leverage local dollars through matching grants. However, when it comes to raising taxes or incurring some forms of debt, it will ultimately be the voters that determine the outcome and not a city’s financial capacity. Voters in Marin have demonstrated an acceptance for worthy projects. But competing interest between agencies (e.g., school districts, the County of Marin, or special districts), voter fatigue, and a resistance to tax increases are factors that the cities cannot control.

This committee encourages all cities to immediately develop a long-range plan to measure their exposure to the increased costs of employee benefits and begin addressing the gap with a combination of strategies that is appropriate for their unique circumstances. Such a long-range plan must consider hard choices about taxation, benefits, number of employees, and services provided.

Increasing Revenues

A tax is money collected for general government services. A fee is money collected from a person or groups of people for a specific service that is provided for the benefit to those individuals.

Although fees are revenue, it is really more about cost recovery. For example, property owners pay for permits to offset some of the costs associated with plan reviews and building inspections. Road impact fees may be imposed for a disproportionate wear and tear on local streets. Users pay for renting recreational facilities or participation in events and programs.

Under Proposition 13, a special tax (i.e. designated for a specific purpose) requires a two-thirds approval of the voters in that jurisdiction. A general tax requires a majority vote.

One exception under Proposition 39 is the 55% threshold for local school bonds for capital projects. An Assembly Constitutional Amendment (ACA 4) was introduced in 2017 (and still under consideration) to do the same for public infrastructure or affordable housing projects.

Each city is unique in its ability to increase revenues. Each has differing contributions from the various revenue source. Voter fatigue has to be taken into consideration when raising taxes. Cities compete with school districts and other agencies when attempting to raise revenues. Under the Tax Cut and Jobs Act, there is a cap of $10,000 on state and local taxes for those who itemize deductions on their Federal tax returns.

Below is a description of each source of city revenue and a commentary on how to change the receipts.

Property Tax

The base property tax in California, as defined under Proposition 13, is 1% of the assessed value of the property (ad valorem). The assessed value cannot increase by more than 2% per year. The average share of the base property tax to the Marin cities and towns is 13.7%, but can widely vary based on the original historical share of property taxes prior to the passage of Proposition 13[12]. Cities rely on housing sales and remodeling projects to increase property tax assessed value. These activities are tied to the general economy.

Additional assessments may still be levied upon a property in the form of a parcel tax. These additional assessments typically fund infrastructure projects, and services. It requires a two-thirds vote of the jurisdiction's voters and is a difficult hurdle to achieve. The amount is generally fixed and should be the same for each parcel or be based on special benefit despite differences in the value of each parcel, but

[12] County of Marin: Where Do Your Tax Dollars Go? – Belvedere (20.7%); Corte Madera (13.7%); Fairfax (17.6%); Larkspur (14.8%); Mill Valley (25.7%); Novato (5.1%); Ross (18.8%); San Anselmo (21.3%); San Rafael (8.8%); Sausalito (11.4%); Tiburon (4.9%)

can still have an annual inflation adjustment[13]. Cities compete with school districts for the voter's willingness to increase their property taxes with a parcel tax.

Despite a two-thirds threshold, jurisdictions have found success in getting parcel tax measures passed, especially for essential services. In November 2018, the residents of Corte Madera, Fairfax, Larkspur, Ross, and San Anselmo approved a continuation of a parcel tax for funding the Ross Valley Paramedic Authority. In November 2016, Mill Valley succeeded in getting an assessment per residential parcel for a Municipal Service Tax to cover fire safety, street maintenance, and road repairs. In the same election, Ross residents passed a tax on residential and non-residential parcels for public safety services.

Sales Tax/Use Tax

The base sales tax rate in California is 7.25%. Of that, the State gets 6%, a county gets 0.25%, and a city gets 1%. There is a statutory restriction limiting any additional local sales tax to 2% above the base sales tax rate, but an additional 1% can be levied locally through the adoption of separate state legislation.

In California, 23 cities and 1 county exceed 9.25%[14]. In Marin, there is an additional 0.5% for the Transportation Authority of Marin, 0.25% for Sonoma Marin Area Rail Transit, and 0.25% to Marin County for maintaining open space, parks, and farmland.

That currently leaves an additional 1% for a municipal sales tax without state legislation. Seven of the cities in Marin currently have a general municipal sales tax ranging from 0.25% to 0.75%[15].

Sales tax measures require a two-thirds vote if the proceeds are for a specific purpose. But only a simple majority is required for a general purpose. Cities have preferred a general sales tax due to the lower threshold[16]. In November 2017, Larkspur residents approved a sales tax increase from 0.5% to 0.75% for Essential City Services. In November 2016, Fairfax residents increases their retail transaction and use tax from 0.5% to 0.75%.

Transient Occupancy Tax (TOT)

A hotel tax or bed tax is paid by guest who rent accommodations in some form of lodging, including but not limited to campgrounds, recreational vehicle parks, or homes, for a period of 30 consecutive days or less. It is imposed on guests to compensate for local services.

Depending on the number of accommodations, TOT is a more significant percentage of total general fund revenue for some cities and towns than it is for others. Invariably, the tax is imposed on non-residents. There must be a rational relationship and the burden must be reasonable.

Opponents are usually the owners and operators of short-term accommodations. The County of Marin has a 10% TOT rate with the rate being 14% in West Marin. Cities in Marin generally have a TOT rate of

[13] Some parcel taxes do have the assessment vary by some other factor. But as in a 2012 appellate ruling against the Alameda Unified School District, courts have upheld California law requiring uniformity within each category of taxpayer with exceptions permitted for seniors or low-income disabled.

[14] California Department of Tax and Fee Administration (October 2018)

[15] Corte Madera (0.75%); Fairfax (0.75%); Larkspur (0.75%); Novato (0.25%); San Anselmo (0.5%); San Rafael (0.75%); Sausalito (0.5%)

[16] Online election records with Marin County Registrar of Voters goes back to 2010. Since then, no city in Marin has attempted a sales tax measure requiring a two-thirds threshold.

10% - 12%. But in November 2018, Sausalito residents approved a TOT rate increase from 12% to 14% to address the impacts of tourism.

Some cities have embraced short-term rentals by homeowners as an additional source of revenue. The general requirements are to register as a business and to collect the TOT from their guests. Other cities continue to grapple with the cost-benefit of the compliance, recordkeeping, and complaints from having a commercial business in a residential neighborhood.

Other Taxes and Fees

Cities also receive tax revenue from business licenses, property transfer taxes when properties change title[17], and in the form of franchise fees for the exclusive rights to provide a service (e.g. garbage) or for the placement utilities in the public right-of-way (e.g. electrical or telecommunications). Additional taxes can also be imposed on local businesses. In November 2018, Sausalito residents easily achieved a simple majority which resulted in getting $1-$3 per $1,000 in gross receipts (depending on the type of business) with a minimum tax of $125.

These are other small sources of revenue where a city may be able to realize some incremental improvements. Fees cannot exceed the cost of providing the services. Cost recovery has to have a direct the nexus to the services provided. If the fee schedule has not been updated recently, a competitive analysis may provide an opportunity for rate increases. But from a policy perspective, cities need to evaluate whether traditionally funded or partially subsidized non-essential services will shift towards full-cost recovery.

The passage of Proposition 64 to allow the recreational use of marijuana is an opportunity to significantly increase taxes. At this time, most cities are still considering whether to permit activities such as cultivation, manufacturing, distribution, and retail sales. In June 2018, San Rafael residents approved an 8% tax on the gross receipts of cannabis businesses. It remains unclear whether any new revenues generated will exceed the cost of municipal services to support these businesses or not.

Fines and Penalties

While fines and penalties are punitive actions imposed for infractions of the Municipal Code, they rarely offset the cost of staff time associated with the responding to the complaint, and the subsequent enforcement and adjudication. Even with motor vehicle violations, the public perceives this as a source of revenue. In reality, a city only receives a small fraction[18].

Incurring Debt

The follow are several common financing options to municipal governments. In contrast to a parcel tax which generates additional revenue, these are borrowings that **have to be paid back**.

- **General Obligation Bonds** – Payable from excess portion on property taxes above the amount related to the property value.

[17] $1.10 per $1,000 in property value for the General Law cities and $3.10 per $1,000 in property value in San Rafael.

[18] The Central Marin Police Authority generally receives about 6%-7% of the total fine.

- **Tax Allocation Bonds** – Payable from excess portion on property taxes in redevelopment project areas above the amount related to the property value.
- **Certificates of Participation** – Used for financing a capital asset in a leasing arrangement, with the lessor receiving a portion of the lease payment as tax-exempt interest.
- **Marks-Roos Bonds** – Allows for a Joint Powers Authority (e.g. Central Marin Police Authority) to issue bonds, pooling them across a number of smaller issues to lower the cost of issuance. This option also requires a revenue source.
- **Assessment District Bonds** – Payable from charges imposed upon land that receives a special benefit from a public improvement. Election of a board of directors is also need for oversight of the district.
- **Mello-Roos Bonds** – Levy of a specified tax on the residents of a designated Community Facilities District to finance facilities and services that are necessary due to growth and development.
- **Revenue Bonds** – Used for financing facilities for a revenue producing enterprise and payable from the revenues of that enterprise.

While there are restrictions on the use of proceeds for operations, services, or equipment in some of these financing alternatives, all options allow for land acquisition and capital improvements. However, there is also a different level of approval associated with each alternative.

General obligation and revenue bonds are generic and the easiest to understand, but residents must decide on the issue by a two-thirds vote or a majority, respectively. Mello-Roos bonds require a two-thirds vote and City Council action. The other options require only City Council action.

Reducing Expenses

A pension reform toolbox was provided in our first report. From those options, employees are now making a larger contribution towards their own benefits. The Public Employees' Pension Reform Act of 2013 (PEPRA) achieves some cost reductions (see Appendix C). While new employees in their respective retirement systems have a lower service credit and have to work longer before getting their full benefits, the fundamental system of using DB plans has also not changed.

Cities are still not able to prospectively change the retirement formulas and or shift the retirement benefits from a DB to a DC plan[19]. Since a majority of employers and employees of Marin cities do not contribute into Social Security (a DB plan), the equivalent of that could be retained as a DB plan.

There is also a minimum annual 2% Cost-of-Living Adjustment (COLA). Marin cities in the CalPERS plans are capped at 2%. San Rafael is capped at 2% of 3%,depending on the retirement tier.   Consideration should be given to reducing or suspending the COLA when the system is underfunded.

As described in the Executive Summary and detailed in Appendix C, the California Rule limits the ability for cities to reduce one set of pension benefits without replacing it with another of equal value

[19] See Appendix B for additional information on DB vs. DC plans.

As described above, cities have limited ability to control pension costs, but more flexibility to negotiate lower OPEB costs. The other choice is to eliminate positions and reduce headcount in order to have the funds to pay increasing pension costs due to the UAAL shortfall.

Consolidating Services

As it has been previously stated, the increase in ADCs will reduce what can be spent on other municipal programs and services. If there are inadequate revenues to maintain the status quo, jurisdictions must continue exploring cost-reducing strategies that do not impact service levels.

The cities in Marin are all small, and have lean hard working staff. It will be difficult to decrease headcount in any meaningful way to offset the costs of funding the UAAL shortfall.

Combining resources and sharing services with other agencies has resulted in reducing operating costs and increasing economies of scale. Cities may also want to consider creating public-private partnerships or pursuing opportunities for funding from grants and statewide measures for specific purposes.

Cities may also want to look at longer term solutions to consolidate services. A Special District achieves that with their independent governance, but the formation of a Joint Powers Authority (JPA) allows governance by the participating jurisdictions. Such efforts are very difficult and the likelihood of a larger organization having a flatter more efficient cost structure has to be carefully assessed.

Public safety is a city's biggest expense. The Twin Cities Police Authority (TCPA) was formed in 1980 to provide police services to Corte Madera and Larkspur. In 2013, San Anselmo joined to form the Central Marin Police Authority (CMPA).

The TCPA members were paying 1.8% less for police services in 2012 than they did in 2007 while San Anselmo increased 21.0% in the same period. In San Anselmo's first year in the CMPA, they had already realized a cost reduction of over $0.6 million. By 2017, San Anselmo was paying just a little more for police services than in 2007, much like their former TCPA members.

The following table illustrates the financial benefit realized by each of the CMPA members[20].

Fiscal Year	Corte Madera	Larkspur	San Anselmo
2006-07	$3,071,629	$3,417,660	$3,905,636
2011-12	$3,044,000	$3,325,568	$4,725,561
2012-13	$2,944,881	$3,229,923	$4,173,811
2016-17	$3,095,870	$3,465,854	$3,954,712
2017-18	$3,364,305	$3,746,401	$4,179,691
2018-19	$3,501,237	$3,914,650	$4,373,208

In 2018-19, CalPERS increased the ADC due to the discount rate amortization change discussed above. The costs for all agencies jumped due to this increase.

[20] See the 10-Year Cost of Shares Trends in the CMPA annual budget (http://www.centralmarinpolice.org/227/REPORTS-AND-BUDGETS).

Other than Mill Valley and San Rafael, the cities in Marin are served by a fire protection district or are members of a fire JPA. San Rafael and Mill Valley do participate with other fire agencies in sharing services.

Larkspur, Mill Valley, San Anselmo, San Rafael, Sausalito have municipal libraries. Corte Madera, Fairfax, and Novato are served by the County of Marin. Library services for Belvedere and Tiburon are provided by the Belvedere-Tiburon Library Authority (JPA).

Eliminate Services

With the recent increases in the ADCs, the stark reality is that the cities have to face hard and unpopular decisions by reducing non-essential services such as the Library, Park and Recreation, and general customer support at city facilities. If cuts in quality-of-life services are not adequate to close the funding gap for post-employment benefits, there have to be reductions in essential services that could jeopardize public safety and health functions. Once a city starts reducing essential services, this is the beginning of the service-delivery insolvency.

For now, outsourcing some services to less expensive private sector providers remains an option. However, labor unions are opposed to this idea and want to protect jobs. In 2017, legislation proposed under Assembly Bill 1250 would have required county and municipal employers to clearly demonstrate that the proposed contract would result in actual overall costs savings as well as to show that the contract does not cause the displacement of workers. AB 1250, which was later revised to apply to only county employers, died in the Senate.

Absence of changes at the state level, cities must budget for the long-range (10 years) so they can plan for the increased costs coming their way and to inform the public about the difficult decisions which must be made.

Summary

The picture that is painted in this section is one where every city and town is facing a significant fiscal challenge with underfunded pension and future cost of OPEBs. The extent to which each jurisdiction can overcome this challenge depends upon their structural fiscal status in combination with the actions taken to address this fiscal issue. A challenge evolves into a crisis through a failure to act!

Transparency

The difficulty of obtaining the actual costs expended from the financial statements is one of the challenges to assessing the costs cities devote to employees. Government entities follow the pronouncements of the Government Accounting Standards Board (GASB) when preparing financial statements. The guidance for how to assemble basic financial statements is Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments – or “GASB 34” as it is more commonly known.

GASB 34, Paragraph 87 requires that expenses are grouped by “function.” An example of such groupings may include categories such as Administration, Public Safety (Police and Fire protection), Public Works (Streets and Parks), Library, and Recreation. The total costs of each of these functions are aggregated for disclosure. Examples of these categories include payroll, benefits, materials, vendor, and other costs.

The footnotes to the financial statements disclose specific information on expenditures and liabilities for pension costs, pension obligation bonds, OPEBs, and compensated absences. In general, the financial statements do not separately disclose salaries and wages by function nor aggregate total employee benefit costs by function or in total.

In the interest of providing more transparency, Mill Valley has added an extra table to their financial statements to provide this data. The table is titled Salary and Benefits Supplemental Summary, Government Activities (Supplemental Summary).

The table reveals that total employee payroll costs for salaries and wages were $14,105,000 for the fiscal year ending June 30, 2017. Employee benefit costs totaled $8,213,000, which is 58% of salaries and wages. The sum of total salaries, wages and benefits expenditures was $22,318,000 over the period.

This puts benefit and payroll costs in perspective, but how do these costs compare to a city’s total expenditures? Finding the right measure to compare to can be a challenge using GASB accounting.

For the same period, the Statement of Revenues, Expenditures, and Changes in Fund Balance discloses Mill Valley’s total expenditures of $48,924,000. This figure includes capital outlay expenditures that can vary significantly from year to year due to the timing of major projects. As such, these are best excluded from the total to prevent distortion caused by one-time or occasional large project expenditures.

Total operating expenditures of $34,216,000 and a total salaries and benefits cost of $22,318,000 represents 65% of total net operating costs. This is a good measure of how much of the public’s taxes are spent on personnel.

Note that Mill Valley is paying its full actuarially determined annual required contribution to OPEB costs annually. The city’s OPEB contribution is included in employee benefits in the Supplemental Summary. If a city elects to not pay its full OPEB obligation annually, its liability will increase each year. Cities not paying the full ADC should be adding information on the growth in this liability to any Supplemental Summary they decide to publish in order to provide a clearer disclosure of the ultimate cost of all benefits provided to employees.

We believe that it is in the public interest for all cities in Marin to begin adding the disclosure of total employee payroll and total cost of benefits to their financial statements to aid in understanding of what percentage of each city's tax base is spent on employee costs and what the composition of these costs are.

Appendix A – Marin County Council of Mayors and Councilmembers

The Marin County Council of Mayors and Councilmembers (MCCMC) consists of the mayors and councilmembers from the 11 incorporated cities and towns[21] in the County of Marin ("Cities"). One of its purposes is to promote inter-city cooperation by assembling information to help in the solution of mutual problems.[22]

In response to mounting concerns about rising costs and future liabilities associated with pensions and other post-employment benefits (OPEB) burdening the Cities – and the need for elected officials and residents to be more informed and versed on the issues and range of solutions – an ad-hoc committee was formed in October 2010 and subsequently published its report in June 2011.[23]

In October 2017, the MCCMC approved reformation of the ad-hoc committee in response to changes in policies by the retirement systems that would shift a greater financial burden onto the Cities. By lowering the discount rate and shortening the amortization period, the Actuarially Determined Contribution (ADC) and the future liabilities increases substantially for the employer, but not for the retirement systems or the employees.

Governance

A municipal corporation is a self-governing entity established under the California Government Code. San Rafael has a municipal charter adopted by their voters which grants supreme authority over municipal affairs. The other 10 cities are bound by the general laws of the State of California for municipal affairs.[24]

The voters in San Rafael elect a Mayor and 4 councilmembers for 4-year terms. The voters in the General Law cities elect 5 councilmembers for 4-year terms and the City Councils elect one person from among them to serve a 1-year term as the Mayor.

The Cities all operate in a Council-Manager system whereby a City Council is elected as the legislative and policy-making body. A City Manager is appointed by the Council to manage the daily operations of the city, to advise on policy, and to implement policies approved by the Council.

Committee Members

Each city was allowed to appoint up to two committee members and an alternate. Alternates were only allowed to participate so long as there was not a majority of their Council present at the meeting

There were no specific selection criteria other than a strong interest and a sincere willingness to look at the issues with an open mind. To the extent possible, it was desirable to appoint someone with a

[21] Belvedere, Corte Madera, Fairfax, Larkspur, Mill Valley, Novato, Ross, San Anselmo, San Rafael, Sausalito, and Tiburon. In California, there is no distinction between a city and a town.

[22] A full description of the MCCMC's purpose can be found at http://mccmc.org/about/.

[23] Marin County Local Government Reform of Pensions and Other Post-Employments: Defining the Problem & Scope of Local Solutions (http://mccmc.org/wp-content/Pensions/Report%20-%20Final%206-22-11.pdf).

[24] For the key differences between a Charter City and a General Law City, refer to the summary provided by the League of California Cities at https://www.cacities.org/Resources-Documents/Resources-Section/Charter-Cities/Chart_General_Law_v-_Charter_Cities-07-26-11.

financial or investment background to minimize the amount of meeting time spent on learning basic concepts.

To avoid violating the Brown Act, each city could appoint up to two representatives to attend the meetings. A city could also appoint an alternate to attend in the absence of one of the two committee members.

The following is a list of representatives and alternates from each of the Cities. Those highlighted also served on a subcommittee to review the content and organize the format of the report.

- Belvedere – Marty Winter, Bob McCaskill; Claire McAuliffe (alternate)
- Corte Madera – Jim Andrews; Diane Furst (alternate)
- Fairfax – **Bruce Ackerman**
- Larkspur – **Larry Chu (Chair)**, Kevin Haroff; Ann Morrison (alternate)
- Mill Valley – **John McCauley**, **Sashi McEntee**
- Novato – Pat Eklund, Pam Drew
- Ross – Elizabeth Robbins
- San Anselmo – Matt Brown; John Wright (alternate)
- San Rafael – Andrew McCullough; Gary Phillips (alternate)
- Sausalito – **Ray Withy**; Joan Cox, Jill Hoffman (alternates)
- Tiburon – David Kulik, Holli Thier; Jim Fraser (alternate)

The Marin Managers Association (MMA) was invited to participate on an *ex-officio* basis and to share their expertise on the impact of retirement system policy changes on municipal finances. The MMA appointed Dan Schwarz (Larkspur) and Joe Chinn (Ross) to the committee. Todd Cusimano (Corte Madera) was the alternate.

Appendix B – Retirement Systems

The California Public Employees' Retirement System (CalPERS) is the state agency that manages the pension and health benefits for California state employees, retirees, and their families. It also manages pension benefits for contracting local public agencies and for public agencies that elect to become subject to the Public Employees' Medical and Hospital Care Act. The 10 General Law Cities in Marin are contracting agencies of CalPERS for pension benefits.

San Rafael is a member of the Marin County Employees' Retirement Association (MCERA). MCERA was established by the County of Marin under the County Employees Retirement Law of 1937. MCERA is governed by the State Constitution, but regulations and policies are set by the MCERA Retirement Board and the Marin County Board of Supervisors.

Benefits

In 1930, voters approved an amendment to the State Constitution allowing state employees to receive a pension. That was expanded by the Legislature to include municipal employees in 1939.

Pensions, also known as Defined Benefit (DB) Plans, provide a fixed, pre-established benefit for employees at retirement. Pension benefits are calculated as a formula based on service credit, benefit factor, and final compensation. These benefits are guaranteed. When investment returns are inadequate, the employer must make up the full shortfall.

In contrast are Defined Contribution (DC) Plans. Employers elect to pay annual contributions to the employees. These contributions are guaranteed, but the future benefits were not. The risk and responsibility of investing for retirement savings is shifted to the employee.

The service credit is the number of years or partial years worked for the employer. The benefit factor is the percentage of pay for each year of service. The final compensation is highest annual compensation earned for either 12 or 36 consecutive months.

Defined benefit pension plans are designed to incent and reward employees for remaining employed in the system over time. Salaries rise and the number of years' salary included in the benefit calculation increases with each year of service, making the retirement benefit larger.

Employees retiring at 55 years with 30 years of service in a pension plan with a formula expressed as 2.5% @ 55 will receive 75% of their final compensation[25]. Employees in this plan can retire at 50 years, but the benefit factor is discounted. The benefit factor remains at 2.5% for employees retiring older than 55 years, but the benefit factor of any 2% plan can increase up to 2.5% when retiring at an older age.

In a perfect world, employers and employees would each year of service contribute adequate funds to fully fund retirement of each worker[26]. Funding would be based on estimates of lifetime earnings, longevity, the long term expected rate of return on contributions to date and other factors.

[25] Benefit factor is 2.5% of salary for each year of service. For 30 years of service, the formula is 2.5% x 30 which equates to 75%.

[26] Since retirement systems have set the discount rate is set at the expected long-term rate of return on plan assets, the plans should be fully funded. Only when the discount rate is lower than the expected long-term rate of return on plan assets would it be appropriate to not be fully funded.

When there is a shortfall or excess, the question becomes how quickly to change future contributions. If adjustments were made annually to “true up” expectations and actual results contributions would be quite volatile. In good times when asset returns are excessive and city budgets are not strained subsequent contributions would decline or even stop. In bad times, when city budgets are already constrained, if returns are inadequate subsequent contributions would jump to cover the shortfall.

Given the long-term nature of pensions, the practice has been to amortize unfunded liabilities over a relatively long period. The two key assumptions to consider are return on plan assets (discount rate), and amortization period. Each are discussed below.

Discount Rate

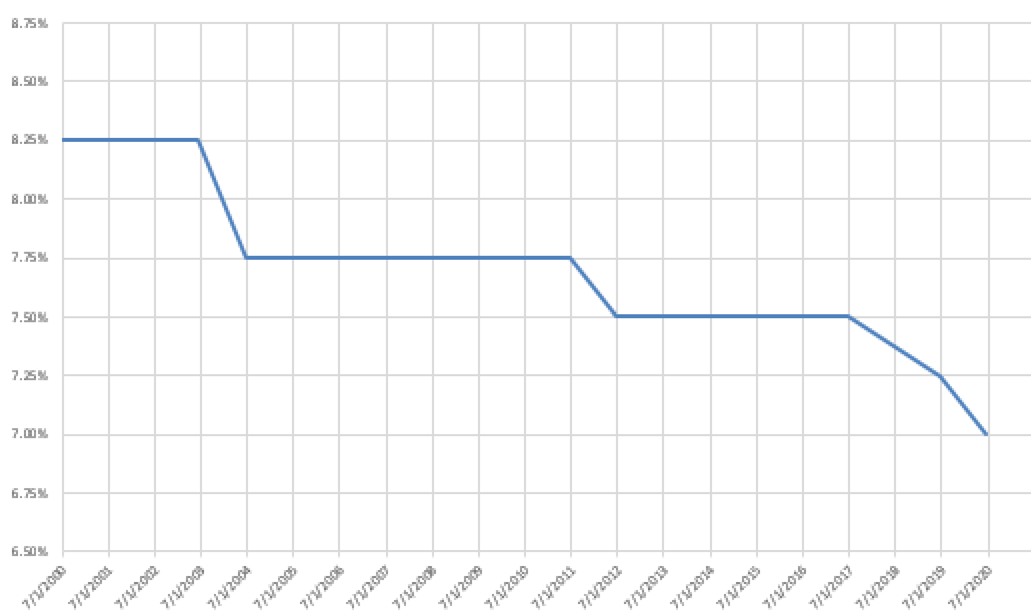
In estimating pension liabilities, the discount rate is the assumed rate of return for what investments are expected to earn each year. When SB 400 was written, it was predicated on an 8.25% discount rate.

SB 400 went into effect on January 1, 2000. If the S&P 500 Index is used as an indicator of the US domestic equities market, an 8.25% annual return over 20 years would equate to an index value of 7,172.22 at the beginning of 2020. On August 30, 2019, the S&P 500 closed at 2,926.46.

When investment returns are inadequate, the effect of lowering the discount rate results in a higher Annual Required Contribution (ADC) for the employer in order to reduce the gap between the Actuarial Value of Assets and the Actuarial Accrued Liability, i.e., the UAAL.

With hindsight, the large current shortfall in CalPERS assets can be attributed to overly optimistic historical assumptions about long-term plan asset returns. CalPERS is reacting to this issue.

The following chart illustrates the changes in the assumed discount rate since SB 400 was implemented. It starts with 8.25% in 2000, is reduced to 7.75% in 2004, then to 7.5% in 2012, and now to 7.375%, 7.25%, and 7% in one-year increments from 2018 to 2020.



The most recent discount rate change from 7.5% to 7% was announced at the end of 2016. CalPERS elected to phase it in over 3 years to give employers more time to prepare for the additional costs. The average employer is expected to see rate increases of 1% - 3% of the normal cost as a percent of payroll for Miscellaneous plans and 2% - 5% for Public Safety plans. The contribution by employees will not change.

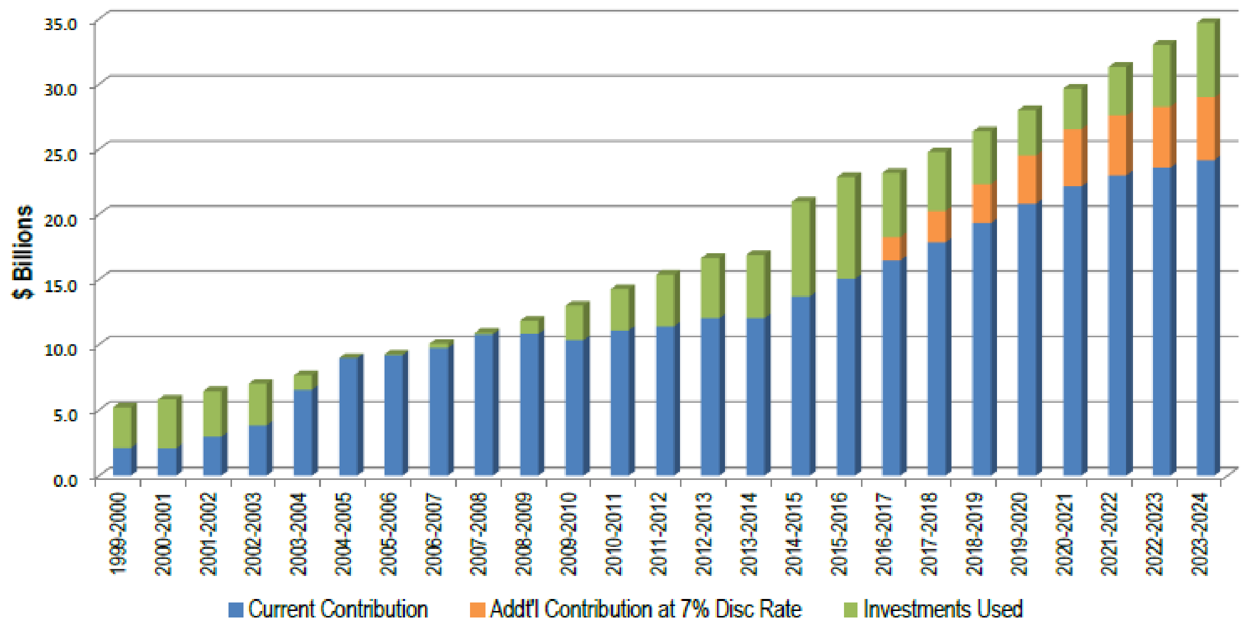
Prior to this most recent discount rate change, the payments towards the UAAL was increasing about 2% - 3% annually for both Miscellaneous plans and Safety plans. In fiscal year 2017-18, payments towards the UAAL increased by 10% - 15%. By fiscal year 2021-22, it is estimated UAAL payments will be increasing by 30% - 40%. Ultimately, these payments will allow for unfunded liability to be amortized over only 20 years and to achieve a fully funded status over the long-term[27].

The following table was taken from a February 5, 2017 CalPERS presentation which illustrates the impact on employer contributions due to the reduction in the discount rate from 7.5% to 7%.

		Normal Cost		UAL Payments	
Valuation Date	FY Impact	Misc. Plans	Safety Plans	Misc. Plans	Safety Plans
6/30/2016	2018-19	0.25% - 0.75%	0.5% - 1.25%	2% - 3%	2% - 3%
6/30/2017	2019-20	0.5% - 1.5%	1.0% - 2.5%	4% - 6%	4% - 6%
6/30/2018	2020-21	1.0% - 3.0%	2.0% - 5.0%	10% - 15%	10% - 15%
6/30/2019	2021-22	1.0% - 3.0%	2.0% - 5.0%	15% - 20%	15% - 20%
6/30/2020	2022-23	1.0% - 3.0%	2.0% - 5.0%	20% - 25%	20% - 25%
6/30/2021	2023-24	1.0% - 3.0%	2.0% - 5.0%	25% - 30%	25% - 30%
6/30/2022	2024-25	1.0% - 3.0%	2.0% - 5.0%	30% - 40%	30% - 40%

In the same presentation, the following graph illustrates the historical contribution from fiscal years 1999-2000 to 2015-2016 made by employers into the Public Employees' Retirement Fund (blue) and the investment income (green) prior. Following discount rate reduction from 7.5% to 7% beginning in fiscal year 2016-2017, annual projected employer contributions go up, investment returns are stable, and the orange bars show the additional employer contributions. In total, the funding for the payment of benefits is increasing each year.

[27] CalPERS to Lower Discount Rate to Seven Percent Over the Next Three Years (CalPERS Communications & Stakeholder Relations, 12/21/16)



The reduction of the discount rate used by MCERA has closely mirrored what CalPERS has done up until 2014, when MCERA went from 7.5% to 7.25% followed by the most recent reduction approved in 2017 to go from 7.25% to 7%.

It is was not in the scope of the first committee to study and recommend the appropriate discount rate nor will it be in the scope of this committee to do so.

Amortization Period

The length of time in which a borrower pays off a debt is the amortization period. As it relates to pension, the concept of amortization is used for smoothing financial numbers over a period of time. Longer amortization periods have lower annual contributions than short periods, but a greater overall contribution because of the additional compound interest.

Employers have the option of 15-year, 20-year, or 30-year amortization periods. Most elect for the 30-year since that produces the lowest annual contribution.

When SB 400 went into effect, excess PERS assets were amortized over 20 years. In 2013, the amortization period was increased to 30 years for certain unfunded liability bases. This was done as a way to address the concern that the payments on the liabilities would not cover the accrued interest (i.e., negative amortization).

Effective for fiscal year 2021-22, which uses the actuarial valuations as of June 30, 2019, the amortization period will be reduced to 20 years for any gains or losses after this date. The shorter amortization period will increase the funding ratios thereby reducing the unfunded liability sooner. Although this saves money for employers in the long term, the higher annual contributions will also create an additional burden for employers.

Based on an actuarial study, one city expects that their contribution to Safety employees will go from around 40% to 65% of salary. The contribution to Miscellaneous employees will go from around 25% to 35% of salary. That city projects that its payments to CalPERS over the next 10 years will double from $4 million currently to over $8 million. Employee salaries are a very significant proportion of total city expenditures, so this massive increase in costs will have a major impact on each city's financial health and their ability to sustain its programs and services.

It is important to consider that using an amortization period for gains and losses to set the ADC balances the funding adequacy risk and stability of the funding requirement. This approach considers the long-term nature of funding pensions, normal market volatility, and the need for cities to budget costs annually.

For many years, CalPERS investment portfolio has underperformed the expectations they set when determining the ADC. All this bad news is baked into the expectation of the ADC rising substantially in the future as has been discussed throughout this report. If CalPERS experiences a period of actual returns exceeding expectations, this will also be amortized into the ADC over time. No matter what happens, a city will not "earn their way" out of the pension shortfall problem quickly.

With exceptions for periods of extraordinary losses, MCERA has been amortizing the Unfunded Actuarial Accrued Liability (UAAL) over 17 years since June 30, 2013. For example, losses from 2008-09 are amortized over 21 years. Any unexpected changes after June 30, 2013 will be amortized over 24 years (or 22 years for changes in assumptions.

It is not in the scope of this committee to study and evaluate the appropriate amortization periods.

Appendix C – Changes Since June 2011

The following topics highlight the efforts to reform the pension system through legislation, legal challenges, and referendums since the MCCMC published its first report in 2011. In this same period, there have also been significant changes in reporting requirements. As predicted in 2011, some employers were forced to default on their payments to retirees.

Public Employees' Pension Reform Act of 2013

In October 2011, Governor Jerry Brown introduced a 12-point plan in an attempt to reform pensions and OPEBs. Legislation crafted under AB 340, and dubbed the Public Employees' Pension Reform Act of 2013 (PEPRA), went into effect on January 1, 2013. The key elements of PEPRA corresponding to Governor Brown's 12-point plan are summarized as follows:

1. Equal Sharing of Pension Costs (All Employees and Employers) – The initial contribution rate will be at least 50% of the total normal cost rate for new employees. In addition, Employer Paid Member Contributions are now prohibited. For classic employees, when the existing MOU is amended, extended, renewed, or expires, the same requirements will apply[28].
2. "Hybrid" Risk-Sharing Pension Plan (New Employees) – It was proposed to have one-third of the current Defined Benefit Plan transferred to a Defined Contribution Plan to transfer some of the investment risk from employer to the employee. This was not implemented in PEPRA.
3. Increase Retirement Ages (New Employees) – For new Public Safety employees, the minimum retirement age remains at age 50, but minimum age to receive the benefit factor was raised from 50 to 57. For new Miscellaneous employees, the minimum retirement age was increased from age 50 to 52 and the minimum age to receive the benefit factor was raise from 55 to 62.
4. Require 3-Year Final Compensation to Stop Spiking (New Employees) – For any employer that uses the highest average annual compensation earnable for 12 consecutive month to determine the final compensations, the formula will use 36 consecutive months for new employees.
5. Calculate Benefits Based on Regular Recurring Pay to Stop Spiking (New Employees) – Pensionable Compensation for new employees will be the normal rate of pay or base pay for services rendered on a full-time basis during normal working hours. Certain types of pay, such as bonuses, overtime, pay for service outside of normal working hours, cash payouts for unused leave, and severance, are not to be included in Pensionable Compensation.
6. Limit Post-Retirement Employment (All Employees) – With the exception of certain emergencies and limited to 960 hours per fiscal year, a retiree cannot be employed by a CalPERS employer. Except for public safety officers or firefighters, there is also a 180-day waiting period before the retiree can return to work for a CalPERS employer without being reinstated from retirement.
7. Felons Forfeit Pension Benefits (All Employees) – Any employee convicted of a felony in carrying out their official duties will be required to forfeit certain pension and related benefits.
8. Prohibit Retroactive Pension Increases (All Employees) – Enhancing pension benefits for service performed prior to the date of the enhancement will no longer be permitted. If an employee changes jobs into a higher classification, the enhancement applies only from the time of the operative date of the change.

[28] PEPRA only applied the mandatory 50% of normal cost contribution and prohibition of Employer Paid Member Contributions to New Employees (as defined under PEPRA).

9. Prohibit Pension Holidays (All Employees and Employers) – The combined contribution of the employer and the employees cannot be lower than the total normal cost in any fiscal year.
10. Prohibit Purchases of Service Credit (All Employees) – Can no longer purchase additional retirement service credit. This is also known as "airtime".
11. Increase Pension Board Independence and Expertise – Two new positions on the CalPERS Board of Administration were created. The Governor can now appointment a representative from the insurance industry and also appoint someone who is an elected local government official. Of the 13 members, 6 are elected by CalPERS members, 4 are ex-officio members of State government, and 1 is appointed by the Speaker of the Assembly and the Senate Rules Committee to represent the public.
12. Reduce Retiree Health Care Costs (State Employees) – Bargaining units affect the State's vesting requirements. It was proposed that new State employees would be required to work for 15 years to become eligible for the State to pay a portion of the retiree health care premiums. They would also be required to work for 25 years to receive the maximum contribution by the State. It was recommended that local governments make similar changes.

It was also proposed that the rules to enroll in Medicare be enforced to the fullest extent. Currently, retirees who are eligible for Medicare Part A (hospital) and Part B (medical) should enroll and transfer to a CalPERS Medicare health plan to continue CalPERS health coverage.

PEPRA also included some provisions that were not in Governor Brown's 12-point plan.

- The compensation limit in 2018 is $275,000 for Classic employees. Except for judges, new employees participating in Social Security, the annual salary will be capped at $121,388. If an employee does not participate in Social Security, the cap would be $145,666. The cap is based on the 2013 Social Security Contribution and Benefit Base and is adjusted annually with the Consumer Price Index for All Urban Consumers.
- Prohibits an employer from offering a replacement benefit plan for new employees who are subject to the Federal benefit limitations. This would also apply to any employee if the employer did not have such a plan prior to PEPRA.
- Public Safety employees can qualify for Industrial Disability Retirement benefits. This may result in a higher benefit than 50% of salary. This was eliminated at the end of 2017, but can be extended by statute.
- The Legislators' Retirement System was closed to new employees. Now they will be eligible for optional membership in CalPERS.
- Prohibits employers from providing a more advantageous health benefit vesting schedule to certain employees (e.g. elected officials, appointed trustees, managers) than it does for other employees of the same employer.
- Requires CalPERS to define a "significant increase" in liability due to excessive compensation thereby ensuring that a public agency that creates such an increase bears the additional costs associated with that liability.

- New members will not be able to participate in an Alternate Retirement Programs. Certain State employees were automatically enrolled for 2 years from their initial hire date.

A New Member is an employee who is a:

- member who first established CalPERS membership prior to January 1, 2013, and is rehired by a different CalPERS employer after a break in service of greater than six months
- new hire who is brought into CalPERS membership for the first time on or after January 1, 2013 and has no prior membership in any California public retirement system
- new hire who is brought into CalPERS membership for the first time on or after January 1, 2013 and is not eligible for reciprocity with another California public retirement system

Any employees not falling into one of these conditions are Classic Members.

Although PEPRA was a necessary piece of legislation, it has not done much to reduce the costs and risks associated with pensions and OPEBs. It only applies to new employees, does not use Defined Contribution Plans, and the governing boards are still dominated by retirees or eligible for the same benefits when they retire.

The CalPERS valuations as of June 30, 2015 estimates the cost savings for the State to range from 1.2% of payroll for Miscellaneous plans and up to 5.1% of payroll for Safety plans.[29] Employers have been seeing costs increase at higher percentages.

California Rule

Within the US Constitution, there is a clause that prohibits states from impairing the obligations of contracts.[30] In a 1955 case involving the City of Long Beach[31], the California Supreme Court acknowledged the need for changes in public employee pensions for the purpose of keeping the system flexible as economic conditions change. However, to maintain the integrity of the system, the application of the Contract Clause would have to pass the following tests:

- Modifications must be reasonable
- Must bear some material relation to the theory of a pension system and its successful operation
- Any disadvantage to employees should be accompanied by a comparable new advantage

This became known as the California Rule.

In other states, benefits can be change prospectively. Since all vested benefits would still be paid under the previous arrangement, there is no impairment. As future benefits are vested, they are earned on a prorated basis.

Historically, the courts have sided with the California Rule, but that may be changing. In August 2016, the Second Division of the First District Court of Appeals upheld a Marin County Superior Court ruling on

[29] Pension Reform Nets Savings for CalPERS Employers (CalPERS Communications & Stakeholder Relations, 6/16/16)

[30] Article I, Section 10, Clause 1

[31] Manning T. Allen vs. City of Long Beach and Elwin L. Alger vs. City of Long Beach (9/23/55)

the PEPRA provision to prohibit pension spiking.[32] In the appeal, it was stated (1) the modification of pension benefits was not required to be replaced by a comparable benefit and (2) a vested right to a pension is not fixed or definite, but reasonable.

Later that year, the Third Division of the First District Court of Appeals upheld an Alameda County Superior Court ruling on the PEPRA provision to prohibit purchasing airtime.[33] They agreed with the MCERA case and also stated Classic Employees had no vested right under PEPRA to purchase airtime on a prospective basis.

However, the Fourth Division of the First District Court of Appeals declined to follow the Marin County ruling in a case involving the elimination of certain categories of compensation from being included in the calculation of benefits for Classic Employees under PEPRA.[34] Although the Contra Costa Superior Court ruled that the pay items were lawfully excluded, it was determined on appeal that these exclusion did impair the vested benefits.

The issue of whether a change in benefits resulting in a disadvantage "must" or simply "should" require comparable new benefits will now have to be decided by the California Supreme Court. Related to this is the question of whether the rights that participants have is to a fixed or definite benefit or to a less demanding substantial or reasonable pension. In March 2019, the Supreme Court ruled that airtime was not a vested right protected by the California Rule, declining to address the more difficult pension issues. The Court stated: "Because we conclude that the opportunity to purchase [airtime] was not a term and condition of public employment protected from impairment by the contract clause, its elimination does not implicate the Constitution. For that reason, we have no occasion in this decision to address, let alone to alter, the continued application of the California Rule."

The Supreme Court still has four PEPRA/vested rights cases pending, with the Alameda County case schedule to be heard next. That case could provide a platform for a re-examination of the California Rule, if the Supreme Court chooses to undertake that analysis. Lacking a favorable Court decision, legislation or ballot measures will then be required to make it possible to alter benefits for future work.

Defaults by Employers

One question raised by the first committee was: What happens when an employer no longer has enough money to pay its ADC? What started as a hypothetical discussion was already an unprecedented reality in Pritchard, AL in 2009. The City just stopped making its pension payments to its retirees. Many retirees had to return to lower paying jobs, some had to file for bankruptcy, and some were even left living in destitute.

Under a settlement agreement 2 years later, about 140 retirees ended up splitting $50,000 a month or about a third of what they were supposed to receive. The same year, Central Falls, RI went into bankruptcy with retirees losing up to 55% of their benefits. In 2014, Detroit went into bankruptcy, but retirees only lost 4.5% of their benefits.

[32] Marin Association of Public Employees v. Marin County Employees' Retirement Association (8/17/16)

[33] Cal Fire Local 2881 v. California Public Employees' Retirement System (12/30/16)

[34] Alameda County Deputy Sheriff's Association v. Alameda County Employees' Retirement Association (1/1/18)

In California, some CalPERS members have recently experienced financial distress. These agencies and the percentage of benefits that were lost include:

- City of Loyalton (2016) – 60%
- East San Gabriel Valley Health Consortium (2017) – up to 63%
- Trinity County Waterworks District #1 (2017) – 70%
- Niland Sanitary District (2017) – 92% to 100%

There are over a dozen other agencies that at risk of default and are being monitored by CalPERS. The number will continue to rise as the ADCs increase at a faster rate than revenues.

The Ballot Box

Prior to PEPRA, there was no legislative solution. Dozens of charter cities tried to address the escalating costs of post-employment benefits through their own local initiatives and were successful in getting overwhelming support for reducing benefits for new employees.

However, Pacific Grove (Measure R, November 2010) attempted to put a 10% cap on contributions to all employee pensions. Court ruled it unconstitutional in 2013 since it violated city contracts and state bargaining law. The ballot measure also violated a charter provision that prohibits employee compensation from being decided by a voter initiative.

Likewise, San Jose (Measure B, June 2012) successfully passed an initiative to have current employees opt to a lower pension or staying in the current plan and increasing employee contributions up to 16% or half the cost of the debt. Although there were benefit limitations for new employees, there were also provisions to temporarily suspend retiree Cost of Living Adjustments, eliminate extra pension checks when retirement funds had high earnings, eliminate disability retirements for police and firefighters injured on the job and unable to perform their previous duties, and lower health insurance subsidies. In 2013, the main provisions were declared in violation of vested rights and the rest were repealed through a court ruling and a council resolution in 2016.

In a compromise with employees, San Jose (Measure F, November 2016) voters approved the elimination of retiree health care benefits for new employees, but reinstated the disability retirement provisions for first responders.

In San Diego (Proposition B, June 2012), a measure was passed where new workers would get a Defined Contribution Plan instead of the Defined Benefit Plan. The cap on benefits was reduced from 90% of salary to 80% for new Safety workers and a provision requiring a majority vote of employees to approve changes in retirement benefits was eliminated. In 2018, the California Supreme Court sided with the claims of employees that the involvement of the Mayor in the initiative constituted an unfair labor practice since he was legally required to participate in labor negotiations before supporting Proposition B.

There have been several failed attempts to put a pension reform measure before the California voters. The most notable was orchestrated by former San Jose Mayor Chuck Reed and former San Diego Councilmember Carl DeMaio. In following the 2012 success with voters in their respective cities, an attempt was made in 2014 to allow for local governments to be able to reduce benefits prospectively for current employees.

By law, ballot language has to be true and impartial and cannot create prejudice for or against the proposed measure. California Attorney General Kamala Harris did not agree this was the case with the title and summary that was submitted. Ironically, the wording she chose had already polled to create visceral negative reactions from voters. Her language stated that the initiative "Eliminates constitutional protections for vested pension and retiree healthcare benefits for current public employees, including teachers, nurses, and peace officers, for future work performed."

The modified language was not going to win. The legal challenges describing future benefits as vested became moot since the appeals could not be heard before filing deadline. Attempts to get another version on the ballot in 2016 and 2018 have fallen short, in large part, due to a lack of funding.

GASB Reporting Requirements

The Governmental Accounting Standards Board (GASB) is an independent private sector organization that establishes accounting and financial reporting standards for state and local governments to provide useful information and transparency to users of financial reports. These requirements provide a policy approach for how government should fund their benefits, but does not establish requirements for doing so.

Under the GASB Statement #25 (Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans) and GASB Statement #27 (Accounting for Pensions by State and Local Governmental Employers) reporting requirements, reports on pension plan liabilities could be misleading or excluded.

On the OPEB side, GASB issued Statement #74 (Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans) and Statement #75 (Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions) in June 2015. These were done so that OPEB accounting and terminology would to be consistent with the new pension accounting that was implemented in Statements #67 and #68.

GASB Statement #74 replaced GASB Statement #43 (Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans) and GASB Statement #57 (OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans). GASB Statement #74 also replaced requirements in Statement #25, Statement #43, and Statement #50 (Pension Disclosures) pertaining to defined contribution OPEB plans. This was adopted in fiscal year 2016-17.

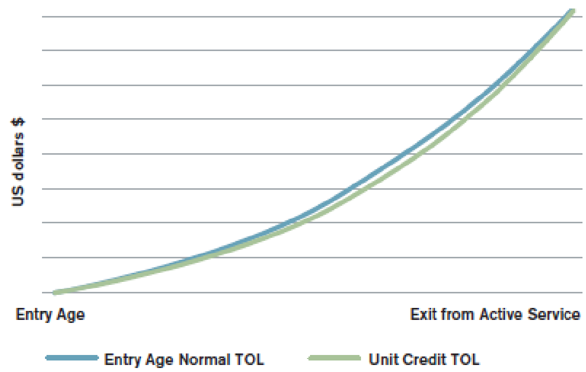
GASB Statement #75 replaced requirements for OPEBs in Statement #45 (Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions) and Statement #57. This was adopted in fiscal year 2017-18.

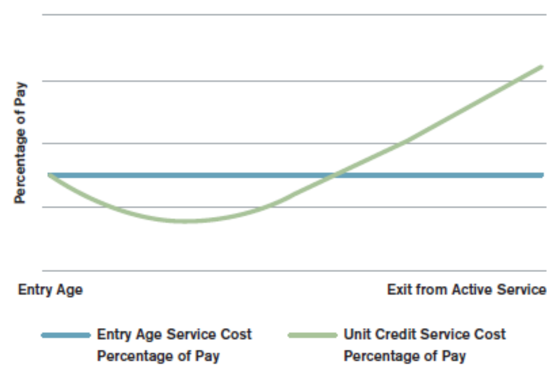
Fundamental change in the financial reporting of pension and OPEB liabilities came from switching from booking the accumulated shortfall in the agency's contributions relative to each year's ARC to a method which requires the recognition of the full unfunded actuarial accrued liability (UAAL, also called the Net OPEB Liability under GASB 74/75) determined using an entry age normal valuation method.

The entry age normal valuation method provides a level cost of the benefits over time as a percentage of pay while it understated in the earlier years of employment and overstated in the later years.[35]

fundamental change in the valuation of pension and OPEB liabilities came from switching to a unit credit valuation method to an entry age normal valuation method. Unit credit uses the present value of accrued benefits as of the valuation date whereas entry age normal uses the present value of the benefits from the employee's start date to his/her assumed retirement age.

The Total Pension Liability or the Total OPEB Liability (TOL) in dollars was generally the same over the lifetime of service for both methods. However, the entry age normal valuation method provides a level cost of the benefits over time as a percentage of pay while it understated in the earlier years of employment and overstated in the later years.[36]





Although there are other GASB statements which address some of the unique characteristics of some pension and OPEB plans, the ones highlighted here are common to all employers. The implementation of these new requirements will show an increase in liabilities and a decrease in funding ratios. The value of the assets will be higher in an up market and lower in a down market.

League of California Cities Reports

When the first MCCMC committee reviewed reforms to pensions and OPEBs back in 2010-11, this was at the forefront of the issues coming to light. Other than a report by the Stanford Institute for Economic Policy Research[37], there was little other guidance available to the committee.

Since then, there has been much more attention and scrutiny placed upon these issues in the media, in financial and academic research, and by citizen groups, all concerned about the increase in cost, the reduction in services, and the unsustainability of the current model.

[35] The graphs illustrating the two methods in dollars and percentage of pay taken from the May 2016 issue of Milliman PERiScope, GASB 75/75: Calculation Specifics on Individual Entry Age Normal by Michael Caparoso

[36] The graphs illustrating the two methods in dollars and percentage of pay taken from the May 2016 issue of Milliman PERiScope, GASB 75/75: Calculation Specifics on Individual Entry Age Normal by Michael Caparoso

[37] Going For Broke: Reforming California's Public Employee Pension Systems; April 2010; Howard, Bornstein, Stan Markuze, Cameron Percy, Lisha Wong, and Moritz Zander with Faculty Advisor Joe Nation

In particular, this second committee has had the benefit of the research conducted by an OPEB task force made up of city managers from around the state[38]. While this MCCMC report was a work-in-progress, another working group of city managers published a white paper on pension sustainability[39].

[38] Retiree Health Care: A Cost Containment How-To Guide; September 2016; League of California Cities, City Managers Department

[39] City Managers Department Pension Sustainability Working Group – White Paper (January 2019)

Appendix D – Glossary

Actuarial Accrued Liability – The present value of projected benefits for retirees plus the portion for active members that have been earned, but are not going to be paid in the current year.

Actuarial Value of Assets – The projected value of the assets based on assumptions for contributions made by the employees and employers, and the return on investments.

Amortization Payment – The catch-up payment for past service costs to fund the Unfunded Actuarial Accrued Liability over some amortization schedule.

Amortization Schedule – Amount of time to defer pension account gains or losses resulting from differences in return expectations or changes in actuarial assumptions.

Annual Required Contribution – Normal cost plus the amortization payment.

Benefit Factor – The percentage of pay for each year of service.

Charter City – A city in which its authority and governing powers are defined by its own formation document as a municipal corporation.

Discount Rate – The assumed rate of return needed on investments to cover the current cost of future pension obligations.

Entry Age Normal Cost – Present value of future benefits based on a percentage of pay from when they enter the system to retirement.

Final Average Compensation – The highest average annual compensation earnable for either 12 or 36 consecutive months.

Fiduciary Net Position – Assets accumulated to pay benefits.

General Law City – A city in which its authority and governing powers are defined by the general laws of the state.

Normal Cost – Cost of the benefits attributable to the current year of service for employees.

Unit Credit Normal Cost – Present value of projected benefits accrued by employees as of the valuation date.

Service Credit – Each year or partial year working for an employer.

Unfunded Actuarial Accrued Liability – The difference between the actuarial accrued liability and the actuarial value of assets accumulated to finance that obligation.

Appendix E – Post-Employment Benefits Data

Pensions

For each Marin municipality, the following chart shows the net pension liability and sensitivity based on a 1% reduction of the discount rate. The information is from the Comprehensive Annual Financial Reports for the fiscal year ending June 30, 2018. The respective valuations are as of June 30, 2017.

City	System	Employee Class	Discount Rate	Net Pension Liability	With 1% Rate Reduction
Belvedere	CalPers	Misc	7.15%	$2,698,048	$4,417,069
		Safety		$1,772,636	$2,947,759
	PARS	REP	6.50%	$175,314	$285,174
				$4,645,998	$7,650,002
Corte Madera	CalPers	Misc	7.15%	$19,180,989	$28,261,304
		Safety			
				$19,180,989	$28,261,304
Fairfax	CalPers	Misc	7.15%	$2,045,987	$3,808,849
		Safety		$3,272,224	$5,990,511
				$5,318,211	$9,799,360
Larkspur	CalPers	Misc	7.15%	$7,339,658	$10,907,019
		Safety		$8,399,899	$13,141,812
				$15,739,557	$24,048,831
Mill Valley	CalPers	Misc	7.15%	$20,809,497	$30,944,300
		Safety		$17,411,589	$27,491,261
				$38,221,086	$58,435,561
Novato	CalPERS	Misc	7.15%	$22,413,788	$34,533,195
		Safety		$25,076,158	$38,799,838
				$47,489,946	$73,333,033
Ross	CalPERS	Misc	7.15%	$782,895	$1,387,752
		Safety		$3,527,483	$6,099,570
				$4,310,378	$7,487,322
San Anselmo	CalPERS	Misc	7.15%	$7,789,536	$11,552,305
		Safety			

				$7,789,536	$11,552,305
San Rafael	MCERA	Misc Safety	7.00%	$120,649,687	$236,285,265
				$120,649,687	$236,285,265
Sausalito	CalPERS	Misc	7.15%	$10,215,969	$15,235,565
		Safety		$17,899,117	$26,467,875
				$28,115,086	$41,703,440
Tiburon	CalPERS	Misc Safety	7.15%	$8,168,481	$13,029,724
				$8,168,481	$13,029,724
			CalPERS Total	$178,979,268	$227,939,687
			MCERA Total	$120,649,687	$236,285,265
			Total	$299,628,955	$511,586,147

For each Marin municipality, the following chart shows the estimated total employer contribution (normal cost plus UAAL payment) and projected payroll for the fiscal year ending June 30, 2020. The information is from the CalPERS Annual Valuation Report for the fiscal year ending June 30, 2017 which as published in August 2018. For San Rafael, MCERA provides summary information for the fiscal year ending June 30, 2018 which was published in February 2019. The total for all plans in the aggregate and not by each individual plan.

System	City	Employee Class	Plan	Members	Benefit Formula / FAC Years	Expected Employee Cont Rate	Employer Normal Cost Rate	Projected Payroll	Est Total Employer Cont	% of Projected Payroll
CalPers	Belvedere	Misc	Classic	47	2.0% @ 55 / 1	6.906%	10.221%	$893,605	$132,435	14.820%
			PEPRA	5	2.0% @ 62 / 3	6.750%	6.985%	$456,913	$32,654	7.147%
		Safety	Classic	37	2.0% @ 50 / 3	8.939%	16.636%	$676,090	$142,718	21.109%
			PEPRA	2	2.7% @ 57 / 3	12.000%	13.034%	$209,381	$27,678	13.219%
				91		7.966%	11.763%	$2,235,989	$335,485	15.004%
CalPers	Corte Madera	Misc	Classic	147	2.5% @ 55 / 1	7.951%	12.142%	$2,274,071	$1,079,221	47.458%
			PEPRA	10	2.0% @ 62 / 3	7.250%	7.072%	$734,205	$52,634	7.169%
		Safety	Classic	95	3.0% @ 50 / 1	8.989%	23.654%	$1,775,964	$1,056,566	59.493%
			PEPRA	4	2.7% @ 57 / 3	12.750%	13.786%	$374,753	$52,737	14.072%
				256		8.557%	15.503%	$5,158,993	$2,241,158	43.442%
CalPers	Fairfax	Misc	Classic I	77	2.5% @ 55 / 3	7.951%	11.533%	$807,498	$211,888	26.240%
			Classic II	7	2.0% @ 55 / 3	6.906%	10.327%	$333,063	$35,876	10.772%
			PEPRA	7	2.0% @ 62 / 3	7.250%	7.072%	$241,389	$17,573	7.280%
		Safety	Classic I	53	3.0% @ 50 / 3	8.989%	22.434%	$345,812	$254,492	73.593%
			Classic II	5	3.0% @ 55 / 3	89.860%	20.603%	$269,236	$64,368	23.908%
			PEPRA	7	2.7% @ 57 / 3	12.750%	13.786%	$561,990	$78,583	13.983%
				156		17.561%	13.877%	$2,558,988	$662,780	25.900%
CalPers	Larkspur	Misc	Classic I	109	2.5% @ 55 / 1	7.951%	11.432%	$1,601,064	$675,537	42.193%
			Classic II	6	2.0% @ 55 / 3	6.906%	9.680%	$411,125	$41,488	10.091%
			PEPRA	24	2.0% @ 62 / 3	6.750%	6.842%	$1,085,954	$77,304	7.119%
		Safety	Classic I	51	3.0% @ 55 / 1	9.860%	21.748%	$1,921,081	$972,292	50.612%
			Classic II	1	3.0% @ 55 / 3	8.986%	20.603%	$135,216	$28,606	21.156%

			PEPRA	2	2.7% @ 57 / 3	12.750%	13.786%	$227,815	$32,369	14.208%
				193		8.539%	14.384%	$5,382,255	$1,827,596	33.956%
CalPers	Mill Valley	Misc	Classic I	286	2.5% @ 55 / 1	7.948%	12.142%	$4,701,610	$1,696,093	36.075%
			Classic II	30	2.0% @ 55 / 3	6.906%	10.327%	$1,936,718	$205,211	10.596%
			PEPRA	66	2.0% @ 62 / 3	7.250%	7.072%	$3,122,205	$225,396	7.219%
		Safety	Classic I	51	3.0% @ 55 / 1	0.000%	0.000%	$0	$933,510	n/a
			Classic II	117	3.0% @ 55 / 3	8.986%	18.928%	$4,165,025	$1,313,359	31.533%
			PEPRA Police	7	2.7% @ 57 / 3	12.000%	13.034%	$356,540	$46,790	13.123%
			PEPRA Fire	14	2.7% @ 57 / 3	12.000%	13.034%	$672,111	$89,105	13.257%
				571		8.235%	12.800%	$14,954,209	$4,509,464	30.155%
CalPERS	Novato	Misc	Classic I	568	2.0% @ 55 / 1	6.740%	9.679%	$11,090,909	$2,607,558	23.511%
			Classic II		2.0% @ 55 / 3					
			PEPRA		2.0% @ 62 / 3					
		Safety	Classic I	193	3.0% @ 55 / 1	8.986%	20.073%	$2,581,103	$2,173,074	84.192%
			Tier 2	17	3.0% @ 55 / 3	8.986%	18.928%	$1,245,474	$238,050	19.113%
			PEPRA	33	2.7% @ 57 / 3	12.000%	13.034%	$2,227,781	$294,697	13.228%
				811		7.925%	12.352%	$17,145,267	$5,313,379	30.990%
CalPERS	Ross	Misc	Classic I	16	2.0% @ 55 / 3	6.906%	9.680%	$253,560	$76,382	30.124%
			Classic II	6	2.0% @ 60 / 3	6.915%	8.081%	$541,779	$44,091	8.138%
			PEPRA	4	2.0% @ 62 / 3	6.750%	6.985%	$194,024	$14,384	7.414%
		Safety	Classic	52	3.0% @ 55 / 1	8.986%	20.073%	$971,266	$434,290	44.714%
				78		7.923%	14.120%	$1,960,629	$569,147	29.029%
CalPERS	San Anselmo	Misc	Classic I	124	2.7% @ 55 / 1	7.954%	13.182%	$658,848	$589,251	89.437%
			Classic II	30	2.0% @ 55 / 1	6.906%	10.221%	$1,669,868	$192,575	11.532%
			PEPRA	15	2.0% @ 62 / 3	6.750%	6.985%	$520,253	$37,059	7.123%
		Safety	Classic I	79	3.0% @ 50 / 1	0.000%	0.000%	$0	$647,514	n/a
			Classic II	10	3.0% @ 55 / 1	0.000%	0.000%	$0	$12,185	n/a

				258		7.120%	10.315%	$2,848,969	$1,478,584	51.899%
MCERA	San Rafael	Misc	Tier 1	510	2.7% @ 55 / 1	0%-16.82%				52.670%
			Tier 2	25	2.0% @ 55 / 3	7.89%-12.57%				50.020%
			PEPRA	96	2.0% @ 62 / 3	9.18%-10.18%				44.190%
		Police	Tier 1	201	3.0% @ 55 / 1	0%-19.79%				73.310%
			Tier 2	6	3.0% @ 55 / 3	11.34%-17.69%				73.750%
		Fire	Tier 1	173	3.0% @ 55 / 1	0%-19.79%				74.120%
			Tier 2	15	3.0% @ 55 / 3	11.34%-17.69%				71.400%
		Safety	PEPRA	42	2.7% @ 57 / 3	14.53%				62.820%
				1,032		12.480%		$35,580,371	$20,519,200	57.670%
CalPERS	Sausalito	Misc	Classic I	197	2.5% @ 55 / 1	7.951%	12.142%	$3,080,089	$1,058,117	34.353%
			Classic II	4	2.0% @ 55 / 3	6.906%	10.327%	$291,870	$31,106	10.657%
			PEPRA	24	2.0% @ 62 / 3	7.250%	7.072%	$1,200,330	$86,564	7.212%
		Safety	Classic Fire	57	3.0% @ 55 / 1	0.000%	0.000%	$0	$537,977	n/a
			Classic I Police	102	3.0% @ 55 / 1	8.986%	21.748%	$1,694,816	$1,317,872	77.759%
			Classic II Police	1	2.0% @ 50 / 3	8.939%	18.183%	$0	$0	n/a
			PEPRA Police	7	2.7% @ 57 / 3	12.750%	13.786%	$575,837	$80,226	13.932%
				392		8.444%	13.693%	$6,842,942	$3,111,862	45.475%
CalPERS	Tiburon	Misc	Classic	76	2.0% @ 55 / 1	6.906%	10.221%	$823,841	$347,284	42.154%
			PEPRA	22	2.0% @ 62 / 3	6.750%	6.985%	$1,503,861	$106,940	7.111%
		Safety	Classic	59	3.0% @ 55 / 3	8.986%	18.928%	$1,149,713	$474,791	41.296%
			PEPRA	4	2.7% @ 57 / 3	12.000%	13.034%	$284,001	$38,161	13.437%
				161		7.864%	11.801%	$3,761,416	$967,176	25.713%

For each Marin municipality, the following chart shows the projected annual employer contribution (before cost sharing) on the amortization bases (i.e. UAAL payment) for the next six years from the fiscal year ending June 30, 2020 based on the return rate for the fiscal year ending June 30, 2018. The information is from the CalPERS Annual Valuation Report for the fiscal year ending June 30, 2017 which was published in August 2018. For San Rafael, MCERA does not provide this information.

System	City	Employee Class	Plan	Benefit Formula / FAC Years	Estimated Return @ 7.25%	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
CalPers	Belvedere	Misc	Classic	2.0% @ 55 / 1	10.900%	$41,100	$48,000	$56,000	$64,000	$73,000	$83,000
			PEPRA	2.0% @ 62 / 3	7.500%	$739	$1,300	$1,900	$2,500	$3,000	$3,300
		Safety	Classic	2.0% @ 50 / 3	17.700%	$30,244	$36,000	$43,000	$50,000	$58,000	$65,000
			PEPRA	2.7% @ 57 / 3	13.100%	$387	$790	$1,200	$1,600	$2,000	$2,200
						$72,470	$86,090	$102,100	$118,100	$136,000	$153,500
CalPers	Corte Madera	Misc	Classic	2.5% @ 55 / 1	13.000%	$803,103	$632,000	$714,000	$783,000	$822,000	$865,000
			PEPRA	2.0% @ 62 / 3	7.600%	$711	$1,400	$2,200	$2,900	$3,500	$4,000
		Safety	Classic	3.0% @ 50 / 1	25.100%	$636,479	$725,000	$829,000	$914,000	$965,000	$1,017,000
			PEPRA	2.7% @ 57 / 3	13.900%	$1,073	$1,300	$1,600	$1,900	$2,100	$2,500
						$1,441,366	$1,359,700	$1,546,800	$1,701,800	$1,792,600	$1,888,500
CalPers	Fairfax	Misc	Classic I	2.5% @ 55 / 3	12.300%	$118,759	$144,000	$174,000	$198,000	$210,000	$224,000
			Classic II	2.0% @ 55 / 3	11.000%	$1,481	$1,800	$2,200	$2,700	$3,100	$3,500
			PEPRA	2.0% @ 62 / 3	7.600%	$502	$920	$1,400	$1,800	$2,000	$2,300
		Safety	Classic I	3.0% @ 50 / 3	23.800%	$176,913	$216,000	$260,000	$295,000	$314,000	$335,000
			Classic II	3.0% @ 55 / 3	21.800%	$8,897	$13,000	$17,000	$22,000	$24,000	$26,000
			PEPRA	2.7% @ 57 / 3	13.900%	$1,107	$2,200	$3,400	$4,500	$5,400	$6,100
						$307,659	$377,920	$458,000	$524,000	$558,500	$596,900
CalPers	Larkspur	Misc	Classic I	2.5% @ 55 / 1	12.200%	$492,503	$550,000	$620,000	$678,000	$712,000	$747,000
			Classic II	2.0% @ 55 / 3	10.300%	$1,691	$2,000	$2,400	$2,700	$3,100	$3,500
			PEPRA	2.0% @ 62 / 3	7.500%	$1,450	$2,700	$4,100	$5,400	$6,300	$7,000
		Safety	Classic I	3.0% @ 55 / 1	23.000%	$554,495	$638,000	$736,000	$817,000	$864,000	$912,000
			Classic II	3.0% @ 55 / 3	21.800%	$747	$1,600	$1,300	$1,100	$950	$790
			PEPRA	2.7% @ 57 / 3	13.900%	$962	$1,100	$1,300	$1,500	$1,700	$2,000

						$1,051,848	$1,195,400	$1,365,100	$1,505,700	$1,588,050	$1,672,290
CalPers	Mill Valley	Misc	Classic I	2.5% @ 55 / 1	13.000%	$1,390,253	$1,552,000	$1,750,000	$1,913,000	$2,008,000	$2,109,000
			Classic II	2.0% @ 55 / 3	11.000%	$5,206	$9,100	$13,000	$18,000	$20,000	$22,000
			PEPRA	2.0% @ 62 / 3	7.600%	$4,594	$8,500	$13,000	$17,000	$20,000	$22,000
		Safety	Classic I	3.0% @ 55 / 1	0.000%	$933,510	$1,024,000	$1,024,000	$1,024,000	$1,024,000	$1,024,000
			Classic II	3.0% @ 55 / 3	20.100%	$525,003	$623,000	$737,000	$830,000	$883,000	$936,000
			PEPRA Police	2.7% @ 57 / 3	13.100%	$319	$800	$1,300	$1,800	$2,300	$2,700
			PEPRA Fire	2.7% @ 57 / 3	13.100%	$1,502	$2,900	$4,300	$5,900	$7,000	$7,800
						$2,860,387	$3,220,300	$3,542,600	$3,809,700	$3,964,300	$4,123,500
CalPERS	Novato	Misc	Classic I	2.0% @ 55 / 1	10.300%	$1,534,069	$1,710,000	$1,947,000	$2,149,000	$2,258,000	$2,382,000
			Classic II	2.0% @ 55 / 3							
			PEPRA	2.0% @ 62 / 3							
		Safety	Classic I	3.0% @ 55 / 1	21.300%	$1,654,969	$1,892,000	$2,174,000	$2,403,000	$2,536,000	$2,671,000
			Tier 2	3.0% @ 55 / 3	20.100%	$2,307	$5,300	$8,400	$12,000	$14,000	$16,000
			PEPRA	2.7% @ 57 / 3	13.100%	$4,328	$8,800	$14,000	$18,000	$22,000	$25,000
						$3,195,673	$3,616,100	$4,143,400	$4,582,000	$4,830,000	$5,094,000
CalPERS	Ross	Misc	Classic I	2.0% @ 55 / 3	10.300%	$51,837	$55,000	$59,000	$63,000	$68,000	$73,000
			Classic II	2.0% @ 60 / 3	8.700%	$310	$570	$850	$1,100	$1,500	$1,800
			PEPRA	2.0% @ 62 / 3	7.500%	$831	$1,400	$1,100	$960	$800	$670
		Safety	Classic	3.0% @ 55 / 1	21.300%	$239,328	$255,000	$274,000	$293,000	$314,000	$336,000
						$292,306	$311,970	$334,950	$358,060	$384,300	$411,470
CalPERS	San Anselmo	Misc	Classic I	2.7% @ 55 / 1	14.000%	$502,402	$558,000	$627,000	$683,000	$716,000	$751,000
			Classic II	2.0% @ 55 / 1	10.900%	$21,898	$28,000	$36,000	$42,000	$46,000	$49,000
			PEPRA	2.0% @ 62 / 3	7.500%	$719	$1,400	$2,000	$2,700	$3,100	$3,500
		Safety	Classic I	3.0% @ 50 / 1	0.000%	$647,514	$711,000	$711,000	$711,000	$711,000	$711,000
			Classic II	3.0% @ 55 / 1	0.000%	$12,185	$14,000	$14,000	$14,000	$14,000	$14,000
						$1,184,718	$1,312,400	$1,390,000	$1,452,700	$1,490,100	$1,528,500
MCERA		Misc	Tier 1	2.7% @ 55 / 1							

	San Rafael		Tier 2	2.0% @ 55 / 3						
			PEPRA	2.0% @ 62 / 3						
		Police	Tier 1	3.0% @ 55 / 1						
			Tier 2	3.0% @ 55 / 3						
		Fire	Tier 1	3.0% @ 55 / 1						
			Tier 2	3.0% @ 55 / 3						
		Safety	PEPRA	2.7% @ 57 / 3						
						$0	$0	$0	$0	$0	$0
CalPERS	Sausalito	Misc	Classic I	2.5% @ 55 / 1	13.000%	$684,133	$767,000	$868,000	$951,000	$999,000	$1,051,000
			Classic II	2.0% @ 55 / 3	11.000%	$965	$1,100	$1,300	$1,500	$1,600	$1,800
			PEPRA	2.0% @ 62 / 3	7.600%	$1,677	$3,100	$4,600	$6,000	$7,000	$7,800
		Safety	Classic Fire	3.0% @ 55 / 1	0.000%	$537,977	$590,000	$660,000	$710,000	$728,000	$746,000
			Classic I Police	3.0% @ 55 / 1	23.000%	$949,284	$1,046,000	$1,158,000	$1,253,000	$1,314,000	$941,000
			Classic II Police	2.0% @ 50 / 3	19.300%	$0	$7	$6	$5	$4	$3
			PEPRA Police	2.7% @ 57 / 3	13.900%	$841	$1,800	$2,800	$3,700	$4,600	$5,200
						$2,174,877	$2,409,007	$2,694,706	$2,925,205	$3,054,204	$2,752,803
CalPERS	Tiburon	Misc	Classic	2.0% @ 55 / 1	10.900%	$263,079	$302,000	$349,000	$387,000	$408,000	$430,000
			PEPRA	2.0% @ 62 / 3	7.500%	$1,895	$2,600	$3,400	$4,200	$5,100	$6,000
		Safety	Classic	3.0% @ 55 / 3	20.100%	$257,173	$297,000	$344,000	$382,000	$405,000	$428,000
			PEPRA	2.7% @ 57 / 3	13.100%	$1,144	$1,400	$1,800	$2,100	$2,400	$1,500
						$523,291	$603,000	$698,200	$775,300	$820,500	$865,500

Other Post-Employment Benefits

For each Marin municipality, the following chart shows the net OPEB obligation, and the sensitivity based on a 1% reduction of the discount rate and a 1% increase in the trend rate for health care cost. The information is from the Comprehensive Annual Financial Reports for the fiscal year ending June 30, 2018. The respective valuations are as of June 30, 2017.

System	City	Members	Net OPEB Obligation	Discount Rate	With 1% Discount Rate Decrease	Trend Rate	With 1% Health Care Cost Increase
CalPERS	Belvedere	34	$1,229,000	3.58%	$1,407,000	8.00%	$1,423,000
CalPERS	Corte Madera	110	$9,522,000	6.75%	$10,942,000	7.00%	$11,067,000
CalPERS	Fairfax	55	$1,524,756	7.28%	$1,820,523	7.00%	$1,841,449
CalPERS	Larkspur	104	$17,961,393	3.56%	$20,765,110	6.50%	$21,571,372
CalPERS	Mill Valley	204	$23,111,051	6.00%	$28,230,313	6.00%	$29,580,838
CalPERS	Novato	373	$3,681,000	6.25%	$4,299,000		$4,469,000
CalPERS	Ross	26	($129,265)	7.00%	($89,880)	4.00%	($89,749)
CalPERS	San Anselmo		$2,833,554	3.13%	$3,255,345	7.50%	$3,423,258
MCERA	San Rafael	703	$33,696,000	6.75%	$39,904,000	7.50%	$38,007,000
CalPERS	Sausalito	141	$5,999,344	5.00%	$7,068,387	7.50%	$7,553,628
CalPERS	Tiburon	58	$2,128,177	6.66%	$2,571,330	6.66%	$2,443,882
	CalPERS		$67,861,010		$80,269,128		$83,283,678
	MCERA		$33,696,000		$39,904,000		$38,007,000
	Total		$101,557,010		$120,173,128		$121,290,678

For each Marin municipality, the following chart shows some of the costs associated with OPEBs and how much has been pre-funded to meet future obligations. The information is from the Comprehensive Annual Financial Reports for the fiscal year ending June 30, 2018. The respective valuations are as of June 30, 2017.

System	City	Members	Employer Contribution	Benefit Payments	Increase in OPEB Obligation	Fiduciary Net Position	Net OPEB Obligation	Funded Ratio
CalPERS	Belvedere	34	$0	$29,000	($45,000)	$0	$1,229,000	0.00%
CalPERS	Corte Madera	110	$1,019,000	$519,000	($187,000)	$1,777,000	$9,522,000	15.73%
CalPERS	Fairfax	55	$160,109	$40,109	$214,045	$776,907	$1,524,756	33.75%
CalPERS	Larkspur	104	$800,864	$550,864	($1,311,121)	$357,656	$17,961,393	1.95%
CalPERS	Mill Valley	204	$2,344,418	$1,168,171	($264,504)	$9,887,628	$23,111,051	29.96%
CalPERS	Novato	373	$397,000	$213,000	$3,000	$978,000	$3,681,000	20.99%
CalPERS	Ross	26	$63,534	$15,534	($73,956)	$452,071	($129,265)	140.04%
CalPERS	San Anselmo		$146,144	$146,144	($111,289)	$0	$2,833,554	0.00%
MCERA	San Rafael	703	$3,475,000	$3,015,000	($89,000)	$17,885,000	$33,696,000	34.67%
CalPERS	Sausalito	141	$273,223	$273,223	$272,141	$875,492	$5,999,344	12.73%
CalPERS	Tiburon	58	$178,272	$178,272	$1,323,611	$1,386,481	$2,128,177	39.45%

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