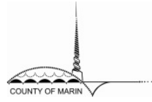

COUNTY OF MARIN RESPONSE TO GRAND JURY REPORT

Report Title: "The Budget Squeeze - How Will Marin Fund Its Public Employee Pensions?"

Report Date: May 25**,** 2017

Response by: Marin County Board of Supervisors

FINDINGS

- We agree with the findings numbered: 1, 3-4, and 7-9.
- We disagree wholly or partially with the findings numbered: 2, 5-6, and 10.

RECOMMENDATIONS

- Recommendations numbered 3-4 have been implemented.
- Recommendations numbered 1 and 8 will not be implemented because they are not warranted or are not reasonable.

Date: TBD Signed: ______________________________

Number of pages attached: 5

FINDINGS

F1. All of the agencies investigated in this report had pension liabilities in excess of pension assets as of FY 2016.

Response: Agree. The Marin County Employees Retirement Association's (MCERA) most recent actuarial valuation (March 2017) reflected a County funded ratio of 84.1%. The County of Marin cannot agree or disagree with findings regarding the pension liabilities of other agencies.

F2. A prolonged period of declining global investment returns has led pension plan assets to underperform their targeted expected returns.

Response: Disagree partially. Global investment markets since the Great Recession have been more volatile, with earnings both above and below the assumed earnings rate.

Per MCERA, investment returns have been as high as 23.7% (June 30, 2011) and as low as -20.0% (June 30, 2009). Per the 2015 MCERA PAFR, the 5-year return is 12.4%. The 10-year return is 6.76% (inclusive of the -20.0% return at the beginning of the Great Recession). The 20-year return is 7.76%. The current assumed earnings rate is 7.25%.

F3. MCERA, CalPERS and CalSTRS have lowered their discount rates, which will result in significantly higher required contributions by Marin County agencies in the next few years.

Response: Agree. MCERA has lowered its discount rate by 100 basis points since 2005, from 8.25% to 7.25%.

F4. If pension plan administrators discounted net pension liabilities according to accounting rules used for the private sector, increases in required contributions would be vastly larger than those required by the recent lowering of discount rates.

Response: Agree.

F5. Most Marin County school districts have a negative net position due in part to the addition of net pension liabilities to their balance sheets.

Response: The County of Marin cannot agree or disagree with findings regarding the pension liabilities of other agencies.

F6. The required contributions of Marin school districts to CalSTRS and CalPERS will nearly double within the next five to six years due to legislatively (CalSTRS) and administratively (CalPERS) mandated contribution increases.

Response: The County of Marin cannot agree or disagree with findings regarding the pension liabilities of other agencies.

F7. Pension contribution increases will strain Marin County agency budgets, requiring either cutbacks in services, new sources of revenue or both.

Response: Agree. As the Grand Jury notes, however, "The County is in a strong financial position, spending 7.9% of its revenues on pension contributions. When viewed in the context of its ample financial resources, the County does not currently appear to be financially strained by its pension obligations. Furthermore, the county's significant assets and ample cash cushion should protect it from further pressure caused by increasing pension contributions."

F8. The private sector has largely moved away from defined benefit plans primarily due to the risk of underfunding, offering instead defined contribution plans to its employees.

Response: Agree. We agree that the private sector has largely moved away from defined benefit plans in favor of defined contribution plans, but there may be a number of reasons for this – including changes in federal regulations.

F9. Taxpayers bear most of the risk of Marin County employee pension plan assets underperforming their expected targets.

Response: Agree.

F10. Retirees' pension benefits would be reduced if an agency was unable to meet its contribution obligations.

Response: Partially Disagree. Given the vested nature of pension benefits it is unclear what would happen if an agency was unable to meet its obligations. In the Stockton and Vallejo bankruptcy cases, pension benefits have been maintained while other expenses have been reduced.

RECOMMENDATIONS

The 2016-2017 Marin County Civil Grand Jury recommends that:

R1. The Marin Board of Supervisors should empanel a commission to investigate methods to reduce pension debt and to find ways to keep the public informed. The panel should be comprised of Marin citizens with no financial interest in any public employee pension plan and should be allowed to engage legal and actuarial consultants to develop and propose alternatives to the current system.

Response: This recommendation will not be implemented because it is not warranted or is not reasonable. The Board of Supervisors only has authority and jurisdiction regarding unincorporated Marin County; cities, towns, schools and independent special districts are legally separate entities and a Board of Supervisor's commission would have no authority to advise or implement recommendations beyond its own jurisdiction or authority. Pensions have been and should still remain an area of focus for the Marin County Financial Audit Advisory Committee, which includes representatives from the Board of Supervisors, County staff, County residents at-large, Schools, Cities and Towns, and Special Districts.

The County of Marin has taken many steps to reduce its exposure to the potential risks of unfunded pension obligations, and remains in a strong

financial position. These steps include: capping pension COLAs to 2% annually; requiring employees to pay 50% of the cost for any pension COLA's and 50% of the cost for enhanced pension benefit formulas; using the average of the highest three years' earnings for pension calculations; eliminating the County's contribution to the employee's share of cost; and also contributing $32 million in one-time reserves to pay down our unfunded pension liability.

R3. Agencies should publish long-term budgets (i.e., covering at least five years), update them at least every other year and report what percent of total revenue they anticipate spending on pension contributions.

Response: This recommendation has been implemented. The County of Marin transitioned to a two-year budget in FY 2014-16. As part of our budget planning process and public budget workshops, we also prepare multi-year projections of our revenues and expenses, including retirement obligations. We have found these multi-year projections to be helpful and informative when considering ongoing or structural reforms to save costs while delivering important services to our community - most notably including our five-year *Long-Term Restructuring Plan: A Blueprint for Financial Sustainability* in 2010, leading the County out of the Great Recession.

R4. Each agency should provide 10 years of audited financial statements and summary pension data for the same period (or links to them) on the financial page of its public website.

Response: This recommendation has been implemented. Financial Statements are available at: http://www.marincounty.org/depts/df/financial-reports. Summary pension data for the most recent actuarial valuation is available at: http://www.marincounty.org/depts/df/pension-and-opeb. We do not separately publish multiple years of summary pension data, as this data is already available either in our financial reports or directly from MCERA at: https://www.mcera.org/reports/actuarial.

R8. Public agencies and public employee unions should begin to explore how introduction of defined contribution programs can reduce unfunded liabilities for public pensions.

Response: This recommendation will not be implemented because it is not warranted or is not reasonable. The County participates in a defined benefits pension plan that is established by State law. State law does not allow the County to opt out of the defined benefits program and introduce a defined contribution program. Nonetheless, the County will continue to explore ways to have a financially sustainable retiree benefits plan going forward.