

To: MCCMC Pension & OPEB Reform Committee

From: Larry Chu

Date: November 23, 2010

RE: Summary of Business Items for November 29, 2010 Meeting

1. Consider the inclusion of elected representatives from other jurisdictions on the Committee

In my initial discussions on pension reform with other elected officials, it was not limited to just MCCMC members. In the past week, I have received e-mails from representatives of the Marin Municipal Water District, the Novato Sanitary District, and the Marin Energy Authority expressing interest in actively participating on our committee.

I have no objections to including other elected officials around the table. The fiscal issues and impacts associated with the costs and risks of pensions and Other Post-Employment Benefits is equally challenging to all local public entities. Broader participation could result in ideas not considered by our group and the collaboration on this topic could open the doors to other efforts of mutual interest in the future.

MCCMC President Shawn Marshall has also endorsed the inclusion of representatives from other public agencies.

2. Discussion of the scope of work and objectives for the Committee

Since the Stanford Institute for Economic Policy Research issued their report on the unfunded liabilities in California's three largest pension funds in April 2010, there has been a steady debate about the actuarial methods used in this study. SIEPR has just release another report this month on the unfunded liabilities for the independent pension funds formed under the County Employment Retirement Law of 1937.

This role of the committee is not to get into the debate on the merits or shortcomings of which discount rate to use. Regardless of whether it is the risk-free rate or the assumed target rate of return, CalPERS is still underfunded by hundred of billions of dollars and MCERA is still underfunded by hundreds of millions of dollars. This does not include the unfunded liabilities associated with OPEBs.

This is also not about whether we value our public employees or not. We need to look at this from the standpoint of our respective financial sustainability as a going concern.

How and when the economy emerges from the Great Recession is speculative. But as long as local agencies are strapped with the obligation of making up the actuarial shortfalls, at best we have a cash flow problem as dollars normally used for public programs and services are redirected to higher payments for retiree benefits.

In addressing the MCCMC Mayors Select Committee on October 27th, I outlined the following task to be performed by our committee:

- A recognition and acceptance that the current system as structured is not sustainable;
- A recognition and acceptance that the current regulatory actuarial requirements are understated;
- Get a true and realistic assessment of the cost and risks associated with the unfunded liabilities and assess the vulnerabilities and impacts to our finances and budgets;
- Come up with a set of alternatives that are in our local control that achieves lowering the costs as well as lowering the risks, but to still document alternatives and policies that have dependencies beyond our immediate control;
- Create a document (a “toolkit” of sorts) that identifies the various alternatives and policies, the time frame in which it can be implemented, the qualitative impact to the members, the qualitative impact to employees, and the dependencies associated with implementation;
- Create policy statements that address the above and identifies where we want to be, even if some measure may take decades to achieve or realize;
- Expanding the discussion to a regional level and eventually to the state level.

Some MCCMC members are already feeling like they need our analysis completed for the mid-year review of their 2010-11 budgets. The timing of creating the “toolkit” is critical. If it is to be useful in the 2011-12 budget cycle, we need to set an objective for a draft to be completed by March 23, 2011.

3. Identify specific areas of research and analysis and create subcommittees as required

This committee should leverage the work done by other organizations. The Marin Managers Association made a presentation to the MCCMC on October 28, 2009 and introduced a set of regional city and county pension standards. This document has reference materials, and a set of guiding principles and recommendations.

The report was then submitted to the League of California Cities, the California State Association of Counties, and the Association of California Water Agencies. I was told that no response came from these organizations. Upon further inquiry to the LCC back in April, it was stated there would not be interest in dealing with this issue until after the November 2nd elections and that the LCC would maintain a neutral position on reform proposals.

If we start with where the MMA left off, we can build upon their work with other source materials. For example, the LCC has a white paper from last November, Alameda's and Contra Costa's managers associations have a joint report from February, there are Grand Jury reports from San Francisco and Santa Clara from last June, and several academic studies besides the one from Stanford. Locally among the MCCMC members, the City of Novato's Pension Study Group released a supplemental report in January to update a previous study done in May 2007.

We will need a subcommittee to review these documents, analyze the findings, do additional research into what is already being done and the outcomes, and to compile a comprehensive summary of solutions.

Up to now, I have only been focused on pensions. Another subcommittee will need to begin doing the same thing for Other Post-Employment Benefits. These would be benefits such as health, dental, vision, life insurance, prescriptions, hearing, long-term disability, but not deferred compensation.

Last, there has been interest expressed in having a paid independent assessment (i.e. not by CalPERS or MCERA) of the unfunded liability for an individual participant in their respective plan. This is necessary for budgeting and analyzing the cash flow impacts in the short and long term future.

A subcommittee will be needed to compile information from the various plans and risk pools, define a scope of work for the study, and to use this information in requesting and evaluating proposals.

4. Schedule for future meetings

Most of the initial work will be working in smaller groups and compiling information. With the holidays coming up, it is not likely we will have enough interest or information to meet in December.

Taking all Regular council meetings and monthly recurring meetings of the MCCMC and other boards or committees such as the Transportation Authority of Marin, the Marin Energy Authority, the Marin Telecommunications Agency, and the Joint Services Oversight Committee, it leaves the second and fourth Monday of the month as possible meeting dates.

To have adequate time to prepare for the next meeting, I would suggest January 24, 2011.