

PLUMAS COUNTY AND UNFUNDED PENSION LIABILITY: DEER IN THE HEADLIGHTS?

SUMMARY

Plumas County's unfunded employee pension liability and pension costs have been rising for most of the past eight years and now represent a significant, and still growing, expense component in the annual budget. "Unfunded pension liability" is the amount by which pension benefits promised to current and future retirees exceed pension plan assets. It represents a liability of Plumas County, as employer.

Funding public employee pensions is not a challenge unique to Plumas County, of course, but the current unfunded pension liability problem will not go away any time soon and will almost certainly worsen over the next decade. The State is under no obligation to provide assistance to the County in this regard and none should be anticipated.

The 2019-20 Plumas County Grand Jury ("Grand Jury") believes it is important for County residents to understand the fiscal challenges posed by unfunded pension liabilities, the circumstances under which they may become even worse, what County government is doing, and what it might be required to do in the future to manage the issue.

The Grand Jury, based on a six-month investigation, found that Plumas County's unfunded accrued pension liability in 2018 amounted to almost 60% of the County's total liabilities, and had increased by 78% between 2011 and 2018, or at a pace of almost 9% per year. CalPERS has imposed yearly "catch-up" payments on the County, which are also projected to increase by about 8.5% per year through 2026, reaching a near-term peak level of almost \$6 million that would be due to CalPERS in 2025. The most recent "catch-up" payment exceeded 20% of the entire general fund balance for the County.

These liabilities and obligations are already imposing significant fiscal strains on the County, and if investment returns fail to match projected levels or if the discount rate used to calculate unfunded accrued liability is reduced (such as due to a severe or lengthy recession), those strains will increase even more over the next decade, beyond projected levels.

Although this problem has not arisen suddenly or unexpectedly, the Board of Supervisors has yet to adopt a concrete plan or process for dealing with it. Other local government agencies have considered, and in some cases adopted, various methods of coping with unfunded pension liability. The Grand Jury recommends, among other things, that the Board of Supervisors begin by appointing a special pension advisory committee and exploring alternative measures that may warrant further attention.

Presenting public employee pension plans and their related liabilities, even at the high level of generality this report will adopt, is not an easy task. For one, it involves the use of a technical and complex vocabulary. Some of the key terms are presented in the Glossary near the end of

this report. The Grand Jury, however, feels that this topic is an important one, especially for local government agencies in California such as Plumas County. Many observers believe that unfunded pension liability is *the* most important issue in local government finance at this time.

BACKGROUND

This report begins with a background overview of California public employee pensions and public employer pension liability. It then turns to a discussion of the specific circumstances of Plumas County.

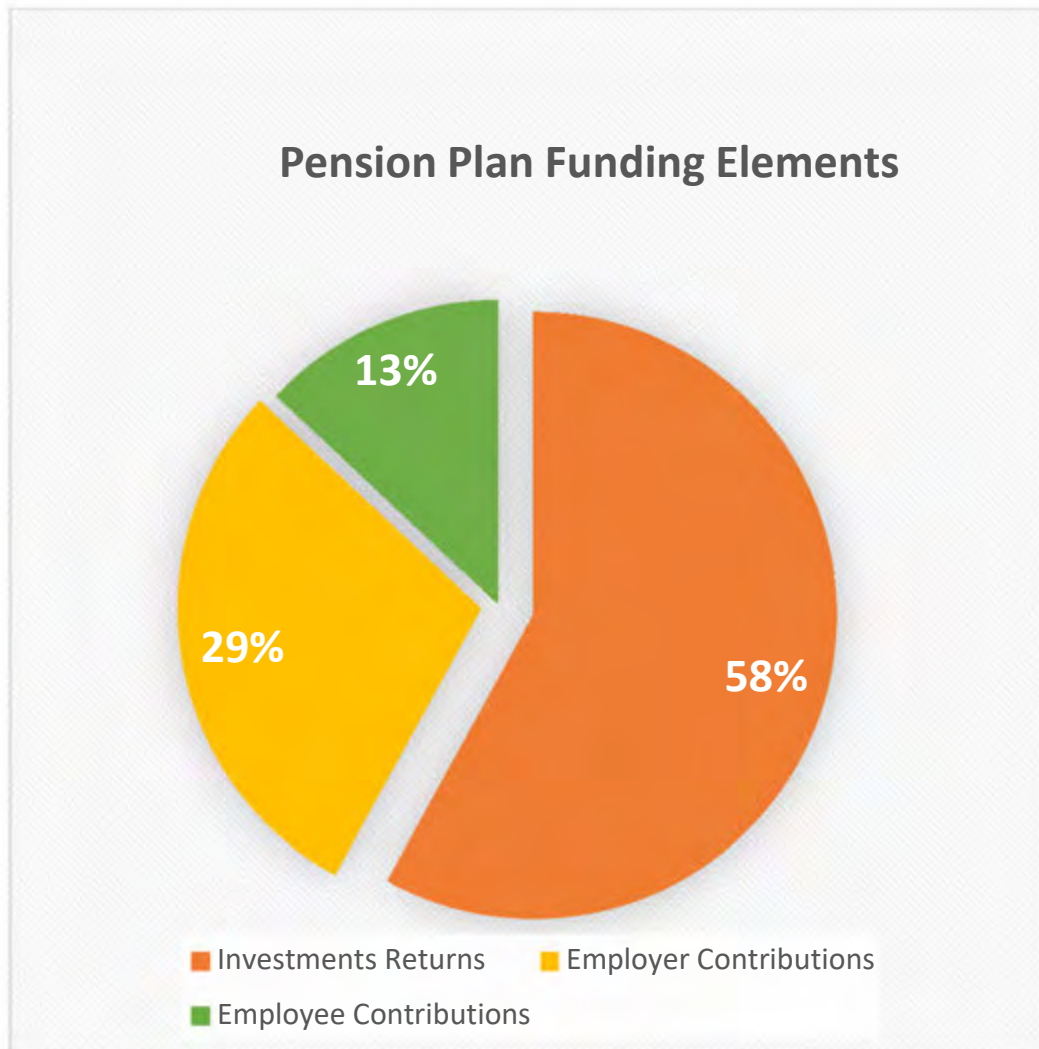
Public Employee Pension Plans and their Funding

There are two types of retirement plans offered by employers in the private and public sectors – *defined benefit plans* and *defined contribution plans*. Defined contribution plans include the familiar 401(k) and 403(b) plans, and are not the focus of this report, as they raise no significant long-term funding liabilities for the employer. Defined benefit plans, however, do create such liabilities. [fn 1] For this reason, few private employers still offer such plans to new employees.[fn 2] However, state and local government agencies have long offered them and continue to do so, even to newly-hired employees.

Defined benefit plans provide a lifetime series of regular payments to the retiree. These payments are of a *guaranteed, fixed* amount, which is established in the pension plan or labor contract terms agreed to during the employee’s tenure. Pension benefits vary, depending on several factors-- the number of years of service, the base salary amount used to calculate the pension payments, and the employee’s age at retirement. [fn 3] The benefits may have a cost of living adjustment, but do not otherwise vary.[fn 4]

Defined benefit plans (or simply, “pension plans”) have three funding elements: (1) employee contributions, (2) employer contributions, and (3) investment returns on invested plan assets. *Figure 1* shows the relative percentage of support provided by each of the three funding elements for plans administered by the California Public Employees’ Retirement System (CalPERS). [fn 5]

Figure 1



A few things about these funding elements should be noted:

- First, investment returns are clearly the predominant factor in the equation, at nearly 60% of the total.
- Second, investment returns are determined by the stock, bond and other asset markets, and by the investment choices made by the firm that is managing the plan assets (here, CalPERS).
- Third, employee contributions are essentially fixed, since they are set by multi-year labor or management contracts, and CalPERS terms.[fn 6]
- Fourth, and most importantly, if a plan's total assets are not sufficient to cover present and future pension obligations, the *employer* is the one solely responsible for making up the deficit.

Employer contribution rates for California local public agencies have increased significantly in recent years, especially as compared to the modest growth in employee contributions. The amount contributed annually by all employers in the CalPERS system went from \$6.9 billion in 2009 to \$19.9 billion in 2018, almost a three-fold increase. Meanwhile, in that same period employee contributions increased from \$3.9 billion to \$4.4 billion. [fn 7]

CalPERS

For Plumas County, as well as for a majority of the other 57 counties in California, the periodic pension contributions made by the public employee and the employer are pooled, invested and managed by the state pension system— CalPERS. The remaining counties developed and use independent pension agencies. All pension-eligible Plumas County employees and former employees are members of CalPERS. Public employees and their employers are required to make contributions to CalPERS over the course of the employee’s employment. [fn 8]

CalPERS acts as a common investment and administrative agent for the employees and employers. It establishes the key parameters of the plan benefits, collects the contributions of employers and employees, pools them in investment accounts, selects the investments for those pools, and manages the eventual payouts. Upon retirement, CalPERS makes the pension benefit payments to the retired member on behalf of the participating employer. It is important to note, however, that CalPERS is *not* legally responsible for Plumas County’s pension liability, nor is any other State agency or office. The County, as the employer, remains solely liable for any shortfalls.

Unfunded Accrued Pension Liability and the Discount Rate

Prior to the early 2000’s, public employee pension plans administered by CalPERS were fully funded, or nearly so. [fn 9] This means that the sum of (1) employee contributions, (2) employer contributions and (3) investment returns, was equal to or greater than the present value of future pension payments that had been promised to retirees under those plans. It also meant that government employers felt they could be generous in their dealings with labor unions and management when offering pension terms. This no doubt contributed to the pension funding problems many local government agencies in California are now facing.

Employee contributions are fixed at the time of hire or negotiation of a labor contract. CalPERS sets the amount of employer contributions based in part on its projected investment returns on pension assets. These return projections have been reduced on several occasions by CalPERS since the year 2000, dropping from 8.25% to 7.75% (in 2003), later to 7.5% (in 2011), and more recently to 7%. [fn 10] However, actual investment returns fell considerably short of these levels, especially in the 2000- 2009 decade. Due to the 2001-02 tech recession and the 2008-09 “great recession”, CalPERS’ actual investment returns for that decade averaged only 3.1%. [fn 11]

As investment returns sank in the early years of this century, while pension entitlements remained fixed, the result was the emergence of a new phenomenon-- “unfunded accrued

pension liability”. This term refers to the amount by which accrued pension liability (the amount of promised retirement benefit payments) is greater than the value of the plan’s assets. That amount becomes an additional obligation of the employer.

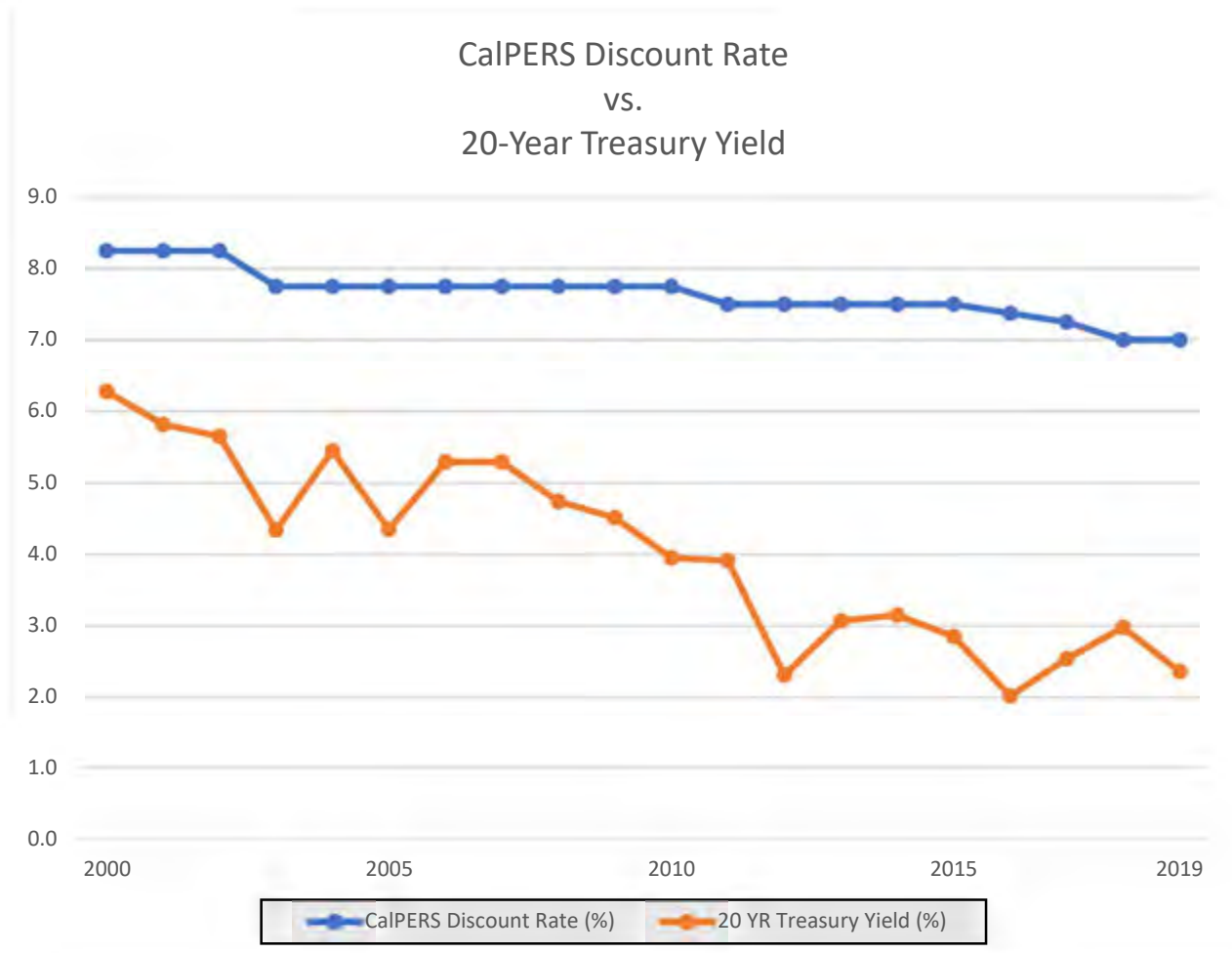
Total accrued pension liability reflects estimated *future* payment obligations to current and future retired employees. These future payment amounts need to be reduced to today’s dollars (or “present value”), which is done using a “*discount rate*”.

Importantly, CalPERS sets the discount rate that it uses to calculate accrued pension liability at a level equal to its anticipated rate of investment returns on plan assets. That rate is currently 7%. This particular discount rate is an element of what is sometimes called the “*actuarial*” method of determining accrued pension liability, although this report will generally refer to it as the “CalPERS method”. [fn 12]

The most common alternative approach to calculating accrued pension liability is sometimes called the “*market*” method; it relies on a discount rate equal to the yield on a risk-free market instrument, such as the 20-year Treasury rate. As of mid-2019, that yield was about 2.5% per annum. [fn 13] Because the market method uses a lower discount rate than the CalPERS method, it produces a substantially *higher* amount of accrued pension liability. [fn 14]

Figure 2(a) shows the historical relationship between the 20-year Treasury rate and the CalPERS discount rate.

Figure 2a



As can be seen, in 2000, the two rates did not differ greatly, but since then the Treasury rate has dropped steadily and significantly while the CalPERS discount rate has declined only slightly, creating a significant difference, or “spread”, between the two. This spread means that the market and actuarial methods of calculating unfunded accrued pension liability now produce widely differing results. It also suggests that the risk that the CalPERS discount rate will need to be further reduced in future years has increased. [fn 15]

Many observers believe that CalPERS’ projection of a 7% rate of return on its investment portfolio is unrealistic over the next decade, and that the discount rate used to derive their actuarial pension liability numbers will therefore need to be lowered. [fn 16] CalPERS has not been particularly accurate in its investment return projections in the past. For example, its investment earnings averaged only 5.8% over the 20-year period ending June 30, 2019, versus discount rates ranging between 8.25% and 7.0% for this period. [fn 17] When viewed on a year-to-year basis, its investment returns fell short of their target in 9 out of the past 20 years.

Figure 2b

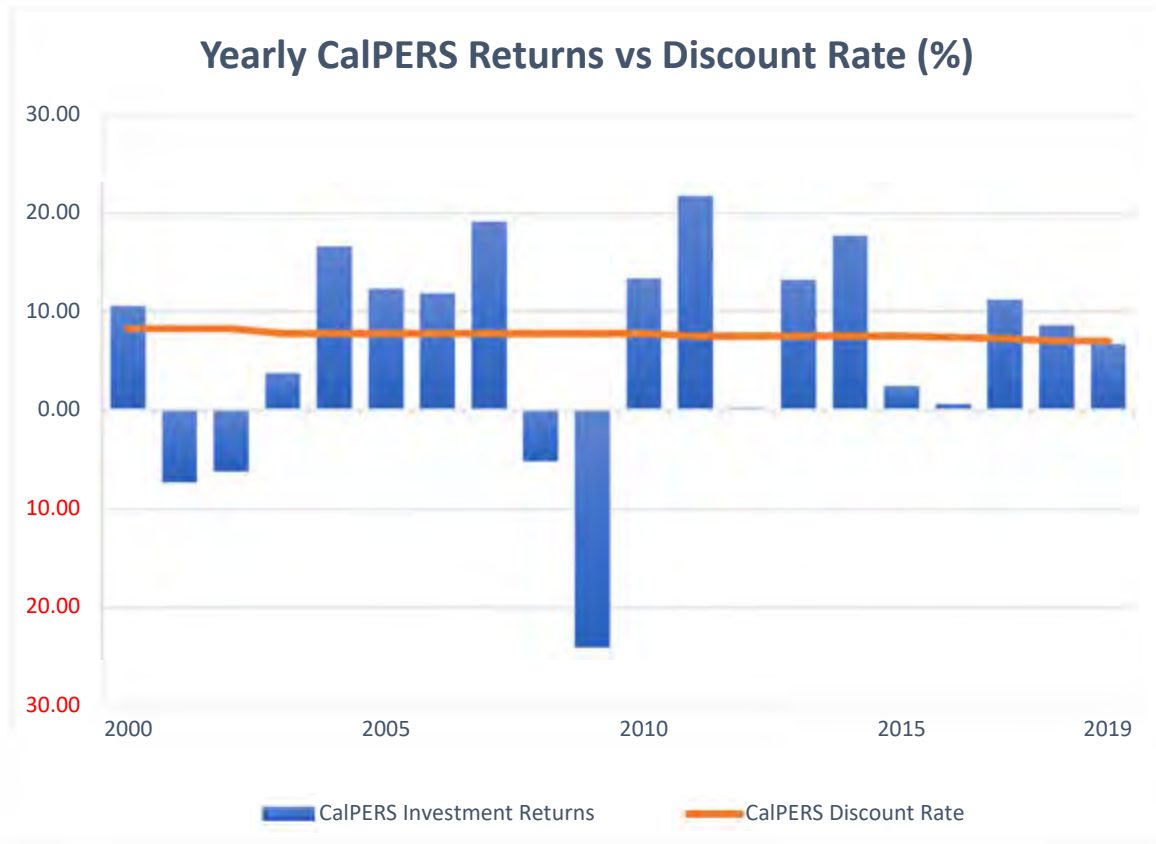


Figure 2b depicts the relationship between the annual CalPERS investment returns and the CalPERS discount rate, over the past 20 years. A quick glance shows that the periods in which investment returns dropped below the discount rate tended to be during or shortly after economic recessions. Recessions also tended to be followed by reductions in the CalPERS discount rate.

Because CalPERS sets the discount rate at its anticipated rate of investment returns, there is potentially a “double whammy” effect if actual investment returns prove to be lower than the CalPERS anticipated rate, over a multi-year period:

- (1) Since the investments have produced lower returns for the pension asset portfolio, under the three-element funding formula discussed above, employer contributions must increase to make up the difference, in order to keep the system in balance, and
- (2) lower investment returns over time will tend to drive reductions in the CalPERS discount rate, which in turn causes potentially significant increases in the amount of total accrued pension liabilities, under the present value formula. [fn 18]

In short, under these circumstances, employers are forced to cover a larger share of the pie, while at the same time the size of the pie is growing. This is effectively what has been occurring over much of the past two decades—investment returns have generally failed to meet the projected

returns linked to the discount rate, prompting CalPERS to make successive cuts in its discount rate.

Impact of the Last Recession and Ensuing Events

In 2008 and 2009, the “great recession” hit the US economy, causing investment returns for pension funds to decline substantially. This caused unfunded pension liability amounts to increase at an alarming rate. In the years immediately following, this became an issue of major concern for many California government employers, as well as current and former employees, CalPERS, and the voting public.

Four important financial and legal developments occurred in the wake of these events:

- In 2012, the State legislature passed the California Public Employees’ Pension Reform Act (PEPRA), discussed below, which provided for less generous pension terms for employees hired after January 1, 2013, in an effort to lessen the pension burden on government employers in future years.
- CalPERS announced reductions in its discount rate (as of 2011, and again as phased in from 2015- 2020), prompted by concerns that investment returns for the foreseeable future would be lower than those experienced in the past. [fn 19]
- In 2012, the Government Accounting Standards Board (GASB) established GASB Standard No. 68, which provides comprehensive accounting frameworks for pension plans, requiring more comprehensive disclosure of pension liability, applicable as to Plumas County for fiscal year 2014-15 and thereafter.
- CalPERS announced that it would begin assessing governmental employers with annual “catch-up” payment requirements, linked to the calculated amount of unfunded accrued pension liability, beginning no later than 2017. [fn 20]

PEPRA

On September 12, 2012, Governor Jerry Brown signed into law the California Public Employees’ Pension Reform Act (PEPRA). It took effect January 1, 2013. PEPRA was adopted to address widespread concerns that existing pension benefits offered to many public employees were overly generous and created an unsustainable funding situation for their employers. PEPRA provided for new pension benefit formulas, although they only applied to employees hired after January 1, 2013. PEPRA will not, therefore, deliver material savings to local government employers in the near term, although it will certainly produce savings in the long run, as new employees are hired and ultimately retire under PEPRA pension terms.

PEPRA made the following changes, as applied to new employees: [fn 21]:

- Employees are required to pay 50% of the cost of their pensions;
- The age at which employees can claim pension benefits was increased;

- A cap was set on the total compensation on which an employee’s pension benefits could be based; and
- The annual compensation that serves as the base for the pension benefit became an average of 3 years, rather than a single year.

With limited exceptions, PEPRA did not alter the terms applicable to pension plans for employees who had been hired before January 1, 2013. The likely reason for this is the so-called “California rule” governing public employee pension entitlements under California State law. This rule, which is based on a line of California Supreme Court decisions, provides that public employee pension entitlements are a form of deferred compensation, that the rights to them arise at the time of hiring of the employee, and that these rights generally cannot later be altered, even by the legislature.[*fn 22*] In other words, the ability of the government to adversely modify public employee pension rights as to existing employees is severely constrained by law in California.

As discussed below, PEPRA gave rise to a separate set of pension plans, known as “PEPRA plans.” Employees who were hired before January 1, 2013, however, continued to receive the benefit of their prior pension plans, now dubbed “classic plans.” [*fn 23*]

CalPERS Annual Assessments

As noted, several years ago CalPERS announced that it would begin assessing participating employers (including Plumas County) annual payment amounts in respect of their unfunded accrued pension liabilities. This amount, known as an amortized unfunded accrued liability payment (or “UAL Payment”), and sometimes referred to as the “catch-up payment”, would be in addition to the so-called “normal cost” payments that had been assessed all employers from the beginning.

“Normal cost” is based on the employer’s current payroll and is expressed as a percentage of that payroll. It represents the ordinary employer pay-as-you-go contributions to pensions for then-existing employees. The UAL Payment, on the other hand, is a special, annual payment. It is calculated by CalPERS, based on its financial and actuarial assumptions, and represents the unfunded accrued liability of the employer, amortized (as with a mortgage) over a 20 or 30 year period.[*fn 24*]

Employers are required to submit the UAL Payment to CalPERS by July 31 of each year, and they will continue to be required to do so presumably until no further unfunded pension liabilities are projected, which for many counties appears unlikely to occur for at least another 20 years.[*fn 25*] Much like a home insurance policy, CalPERS permits employers to elect to make monthly installments on the UAL Payment, in lieu of a single annual payment. However, if this option is selected by the employer, it will also be assessed an implicit interest rate on the payments.

Each year, CalPERS prepares an “Actuarial Valuation Report” for each plan maintained by each participating employer. In addition to calculating the unfunded status of that plan, the report specifies the amount of the upcoming UAL Payment, and also provides certain projected amounts, including projected future UAL Payments. While these projections undoubtedly assist counties and other employers in planning for future fiscal periods, these numbers are only projections. They are based on assumptions as to investment performance, future payroll, discount rate, amortization period, and other factors. If circumstances force a change in the assumptions, the resulting liability and payment numbers will also change. [fn 26]

Future Changes in Key Assumptions

CalPERS has stated publicly that the next decade (2020- 2029) will be the critical period for California’s public employer pension plans. [fn 27] Unfunded accrued pension liability and UAL Payments are both projected to plateau for many employers during this timeframe. [fn 28]

To assess the potential impact of pension liabilities over this timeframe, the following two questions should be considered:

- Can local government agencies continue to fund their pension liabilities, as those liabilities are currently projected?
- What effect will it have on the agencies’ ability to continue to fund these liabilities if the assumptions on which the liability projections were based prove incorrect?

As to the latter, the future level of unfunded accrued pension liabilities in the CalPERS system, and whether they increase beyond the levels now projected, depend mainly on the following:

- *Investment Returns:* Whether future investment returns for CalPERS average out to a level at or above the current 7% projected return figure. If not, then unfunded pension liability will increase beyond currently projected levels, which means more contributions by employers. As shown in *Figure 2b*, during the last recession, the CalPERS investment return was negative in both 2008 and 2009.
- *Discount Rate:* Whether the 7% discount rate is determined to be overly-optimistic and needing to be further reduced, to perhaps 6%, or even lower. If so, then the present value of total accrued pension liabilities will increase, significantly.
- *Employee Actuarial Factors and Payroll:* Pension liabilities can also change as a result of shifting demographics; for example, employees retiring earlier than projected, retired employees not being replaced, and retirees living to an older age than projected by CalPERS actuaries. To the extent employees retire sooner and live longer, lifetime benefit payments will increase, along with total accrued pension liability. Similarly, if the employer’s payroll declines (for demographic or other reasons), fewer dollars will be contributed to CalPERS through regular normal cost payments, potentially resulting in more being required as payment on unfunded pension liability.

The most worrisome scenario in this regard is an economic downturn occurring during the next several years, similar to or even worse than the 2008-09 “great recession”. Such an event would likely have an adverse impact on all three factors outlined above. [fn 29]

Many local governmental agencies, particularly those that have not otherwise taken material steps to address the unfunded pension liability issue, might then find themselves considering the prospect of Chapter 9 bankruptcy, following in the wake of the Cities of Vallejo, Stockton and San Bernardino. [fn 30] Bankruptcy proceedings are usually powerful devices, allowing debtors to adjust the terms of their indebtedness and to “reject” certain contracts that are overly burdensome to them. As applied in the context of California pension entitlements, however, the legal picture is still murky. It is unclear, for example, whether a local government agency debtor is legally able to reject its pension contracts with current and former employees and renegotiate them in a Chapter 9 bankruptcy, consistent with the “California rule.”[fn 31]

METHODOLOGY

The Grand Jury conducted a six-month investigation of this topic, from September 2019 thru February 2020. It reviewed numerous online and other resource materials, including Actuarial Valuation Reports issued by CalPERS, Plumas County audited financial statements, and other sources listed in the Bibliography and in the various endnotes to this report.

The Grand Jury conducted interviews of Plumas County employees and officers, including persons in the following areas, among others:

- County Administration
- Auditor/Controller
- Human Resources
- Treasury
- Board of Supervisors

In addition, the Grand Jury interviewed current and former outside advisors having knowledge of the matters under investigation, and a CalPERS representative.

The Grand Jury also reviewed several reports on different aspects of public pension liability that were produced within the past few years by grand juries in other California counties, including those of Orange, San Mateo, Santa Clara, Shasta, and Sonoma Counties, as set forth in the Bibliography.

DISCUSSION

County Pension Plan Types

Before grappling with Plumas County’s overall pension liability situation, it must be noted that the County has in place multiple plans, which are categorized according to (i) the role performed by the employee, [fn 32] and (ii) when the employee first became a County employee.[fn 33] For purposes of this report, the latter categorization is the more important.

Those employed by Plumas County (or another CalPERS employer) prior to January 1, 2013 participate in a “classic” pension plan, while those arriving after that date are under a “PEPRA” plan. The classic plans, which have more generous terms for employees than the PEPRA plans, are the ones that pose significantly greater risk to the fiscal well-being of the County. Presently, PEPRA plans are nearly fully-funded, although this certainly could change in the future, given the right set of adverse circumstances. [fn 34] The classic plans are therefore the primary source of unfunded accrued pension liability for the County.

Plumas County’s pension liability exposure to CalPERS includes two elements, as presented above--(1) the employer share of “normal cost”, and (2) unfunded accrued liability. For Plumas County, both amounts have been increasing over the past several years and are projected to continue to increase. [fn 35]

Plumas County’s Unfunded Pension Liability and “Normal Cost” Burden

As shown in *Figure 3*, below, the County’s unfunded pension liability numbers (both CalPERS and market methods) have increased steadily and substantially, over the past eight years, or more. [fn 36]

Figure 3

**Unfunded Pension Liability and Funded Ratios
(Plumas County) – Historical**

Year	Total (CalPERS) Unfunded Accrued Pension Liability (\$000)	Total (Market) Unfunded Accrued Pension Liability (\$000)	Combined Funded Ratio (CalPERS)	Combined Funded Ratio (Market)
2011	\$33,285	\$81,372	74.9%	55.0%
2012	\$40,359	\$141,555	70.6%	40.7%
2013	\$35,818	\$115,213	75.0%	48.2%
2014	\$33,834	\$114,541	78.2%	51.5%
2015	\$39,522	\$141,514	75.3%	46.0%
2016	\$50,293	\$149,059	70.0%	44.1%
2017	\$51,894	\$176,864	71.0%	41.8%
2018	\$59,356	\$191,800*	68.9%	42.6%*

***Estimated**

In 2011, the County had total unfunded pension liability of approximately \$33.2 million, using the CalPERS method. By 2018, that had grown to roughly \$59.3 million. This represented an overall increase of about 78% for that 7-year period, or an annualized increase of almost 9%.

Based on Plumas County’s 2017-18 Financial Statements, net pension liability equated to 69.7% of total net long term debt, and 59.4% of total liabilities. [fn 37]

The CalPERS Actuarial Valuation Reports indicate that the primary factors driving the increase in the County’s unfunded accrued pension liability in the recent past were changes in actuarial “methods and assumptions”, of which the lowering of the discount rate appears the largest contributor.

The *funded ratio* is the ratio of the value of pension plan assets to total accrued pension liability. It shows the extent to which accrued pension liability is covered by current pension assets. Higher funded ratios are obviously better than lower, but there is no clear line separating acceptable from unacceptable ratios in all instances. However, the Government Finance Officers Association recommends that public employers aim to achieve a funded ratio that approaches 100%, while other observers view 80% as the lower level of reasonably acceptable funded ratios. [fn 38]

As shown in *Figure 3*, above, the estimated combined funded ratio for the County’s plans has dropped steadily and substantially since 2011.[fn 39] It is now (as of 2018) below 70%, even based on the CalPERS method.[fn 40] On a comparative basis, looking at the group of California counties with populations between 10,000 and 50,000, Plumas County’s overall funded ratio (as of 2017) was roughly in the middle, as indicated in *Figure 4*. [fn 41]

Figure 4

County Pension Statistics—Comparison (2017 data)

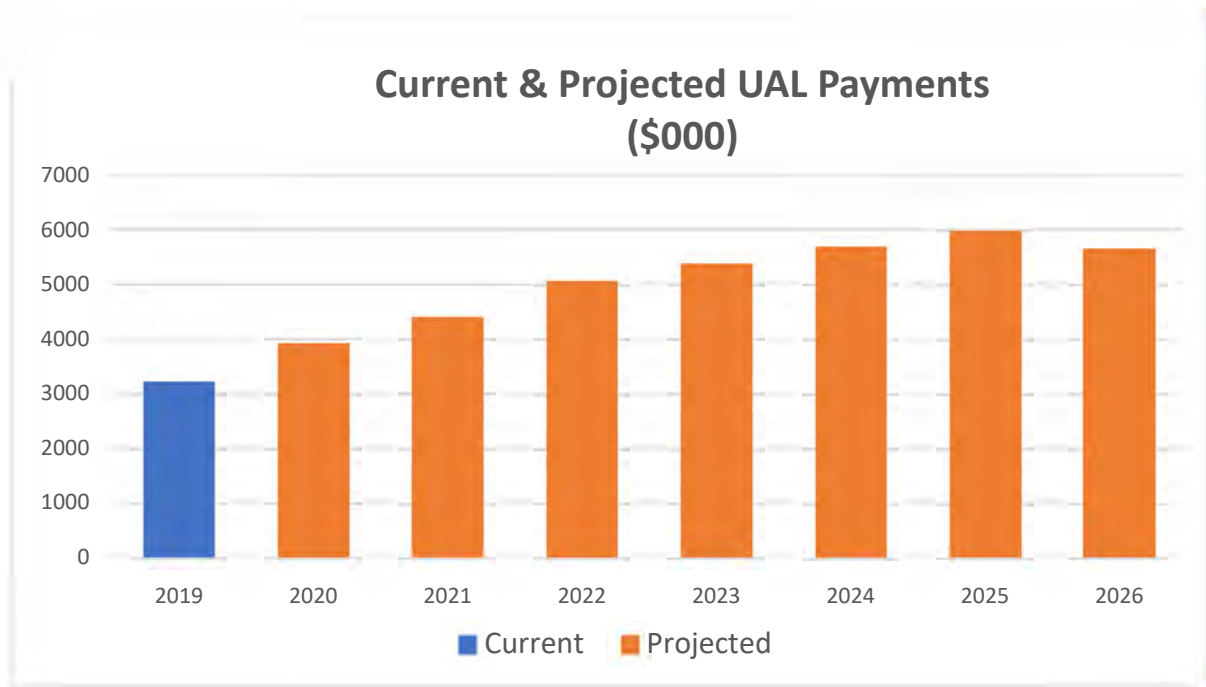
County	Unfunded Accrued Pension Liability per Household (CalPERS method)	Funded Ratio (CalPERS method)	Total Employer Pension Contrib. / Operating Expenditures
Calaveras	\$3,704	72.0%	5.0%
Lassen	\$4,659	74.3%	4.4%
Del Norte	\$4,677	70.3%	4.7%
Amador	\$4,710	69.9%	4.5%
Siskiyou	\$5,412	69.1%	7.0%
PLUMAS	\$6,070	71%	6.3% %
Mariposa	\$6,398	71.1%	6.5%
Glenn	\$7,542	63.3%	6.4%
Inyo	\$9,070	69.8%	6.0%
Mono	\$9,310	71.2%	6.5%
Trinity	\$9,886	59.6%	8.1%
Colusa	\$10,103	64.4%	1.0%

Perhaps a better sense of the burden of the County’s unfunded accrued pension liability can be obtained by viewing it on a per household basis. Dividing the most recent, 2018 CalPERS unfunded pension liability by the number of households in Plumas County yields \$7,375 per household.[fn 42] If one uses instead the *market* unfunded liability figure (for 2017), the per household burden is \$20,683 [fn 43]

As shown in *Figure 4*, Plumas County’s per household unfunded pension liability ranks near the middle for California counties with populations between 10,000 and 50,000. However, it is higher than a number of much larger and more prosperous metropolitan counties, such as Alameda County. [fn 44]

A final important piece of the pension liability picture is the UAL Payment, which must be paid by the County annually to CalPERS. As mentioned above, this is an amount calculated by CalPERS, as an installment, or “catch up” payment, on Plumas County’s amortized unfunded accrued pension liability. For at least three years now, Plumas County has been required to make UAL Payments in respect of all of its plans.

Figure 5



As shown in *Figure 5*, the County’s total UAL Payment obligation was about \$3.2 million in 2019, and is projected to grow to roughly \$5.6 million in 2026 (after hitting a near-term high of \$5.9 million in 2025).[fn 45] This represents a projected increase of about 75% over that 7 year period, or about 8.5% on an annualized basis. To place these dollar amounts in perspective, Plumas County’s current reserve is only \$2 million, and has been considerably lower than that in the past decade. [fn 46]

Based on the County's 2017-18 Financial Statements, as of 2018, the UAL Payment amounted to 22.4% of the entire general fund, and 37.3% of the unassigned balance of that fund. The 8.5% rate of increase for these annual payments is more than double the rate of revenue increases experienced by the County. For the five-year period ending June 30, 2018, Plumas County's tax revenues increased at an average annual rate of 3.58%, while total revenues for the County averaged a 4.18% per year increase.[fn 47]

UAL Payments can also be compared to the County's total operating expenditures. This comparison helps provide a perspective on the extent to which, barring future revenue increases or other measures, UAL Payments may tend to "crowd out", or displace, other expenses and services. [fn 48] Since Plumas County is only paying the required minimum UAL Payment each year (setting aside modest amounts being placed in a PARS trust, discussed below), a relatively high percentage of operating expenditures tends to suggest greater stress in the system in making those payments, and, absent increased revenues, greater potential for "crowding out" of other services or obligations. Interviews with County officials indicate that County services are already suffering as a result of accrued pension liabilities.

Based on Pension Tracker 2017 data, the percentage of total operating expenditures represented by pension liability payments for Plumas County was approximately 6%.[fn 49] This number was roughly in the middle, when compared to other counties having between 10,000 and 50,000 population, but significantly higher than some counties in that group, such as Colusa (1%), Lassen (4.4%), Amador (4.5%) and Del Norte (4.7%).

Plumas County's "normal cost" payments, meanwhile, run at more than 10% of a projected payroll of \$21.9 million, or roughly \$2.23 million per year. These CalPERS-based figures are understated, in that for 5 of the 8 existing labor contracts (Memoranda of Understanding), the County also pays (to some extent) the *employee's* pension contribution payment. Unfortunately, the Grand Jury was unable to obtain information as to the aggregate dollar amount of these payments by the County. [fn 50]

The County's Response to the Problem So Far

By several measures, Plumas County's unfunded pension liability problem is significant, and worsening, even under the optimistic methods and assumptions used by CalPERS. There is an appreciable risk that the County's liability situation could become far worse, particularly if a severe or lengthy recession occurs over the next several years. What has the County done, both procedurally and substantively, in recognition of this growing problem?

In investigating this topic, the Grand Jury found that this important issue has not been discussed in detail in County Board of Supervisor meetings. There were no Board sessions with an agenda item focused specifically on the topic of unfunded pension liability during the 2016- February 2020 period reviewed by the Grand Jury. The only time the subject appears to have been discussed in Board meetings was in connection with (i) the approval of the annual budget, (ii) the

annual financial statements, and (iii) the decision in 2018 to make PARS accounts available for pension funds (see below). In each instance, brief attention was devoted to the pension liability topic.

Unlike other local government agencies, Plumas County's Board of Supervisors has not appointed any special, *ad hoc* pension advisory committee, charged with looking into the pension liability issue as it affects the County, and presenting alternative courses of action to address it. Moreover, none of the existing Board committees, sub-committees or working groups, such as the Budget Subcommittee, the Treasury Oversight Committee, or the Debt Advisory Committee, has taken on this issue, and none appears to provide an effective platform for doing so, for varying reasons. The Budget Subcommittee, for example, meets only for a limited period each year and is focused entirely on addressing the next budget. It also does not include the Treasurer as a member. The Treasury Oversight and Debt Advisory Committees do not have this subject in their mandate and in any event appear inactive for the moment; they have not met recently nor scheduled any meetings as of this writing.

There is a need for an advisory committee that has the knowledge and time to focus on this problem, present it in all its facets to the Board of Supervisors, and offer suggestions as to potential courses of action. Some local agencies have appointed pension advisory committees that include both local citizens and pension retirees. [fn 51]

Neither the Board of Supervisors nor any of the involved County offices has developed any written plan or policy for attacking this problem. Unfunded pension liability took decades to develop and will require at least years to resolve, suggesting the need for long-term planning and an enduring statement of policy. However, there has not been any articulation by the Board of Supervisors of the relative importance or priority of the unfunded pension liability problem, as compared with other priorities. This has meant that the pension problem has tended to receive attention only for a short period of time each year, as part of the annual budget or financial statement approval process. The budget approval context is not one that is conducive to a thorough analysis of complex issues such as this.

Notably, Plumas County lacked a County Administrator (CA) (formerly known as the County Administrative Officer) from 2012 until early 2019, when the position was filled. [fn 52] The CA has historically been viewed by some as the chief advisor to the Board of Supervisors on budget and financial matters. The County has also been without a dedicated financial analyst since about 2012, until present. This position reported to the CA and was considered by some as functionally a chief financial officer.

Putting aside the question of whether the County was able to afford these positions in the 2012-2019 timeframe, given the severe budget constraints existing for much of that time, it is clear that the County lacked personnel in key financial advisory positions during the years in which unfunded pension liability was developing into a major financial issue.

Despite these deficiencies and challenges, some constructive steps have been taken by the County to address the growth in unfunded pension liabilities; specifically:

- The County's Human Resources Department implemented PEPRAs for employees hired after January 1, 2013, thereby securing pension terms more favorable to the County than had been previously offered under the classic plans. [fn 53]
- The County has for at least three years paid the CalPERS UAL Payment amount as a single annual payment, rather than on a monthly installment basis. For 2019-20, for example, the County saved approximately \$112,000 in avoided interest payments by not opting for the monthly payment option.
- The County set aside approximately \$250,000 in a PARS trust account in 2019, as a prefunding of pension obligations. PARS accounts allow the County to access a broader array of investments for its cash, potentially enhancing return on such monies, while achieving certain financial statement benefits. [fn 54] The County hopes to be able to continue to fund this account on an annual basis. However, \$250,000 represents less than 10% of a single annual UAL Payment.
- There has been improvement in labor contract terms involving pension entitlements, in addition to the advent of the PEPRAs. [fn 55]

All of these steps are commendable and do help mitigate the problem. However, other counties and local government agencies have taken or considered other substantive steps, including the following:

- Identifying or creating additional revenue sources that can be dedicated to covering unfunded pension liability. [fn 56]
- Taking advantage of favorable debt market conditions to incur debt (pension obligation bonds), used solely to service or prepay pension obligations. [fn 57]
- Declaring the prepayment of pension liabilities as a priority and budgeting for such prepayments. [fn 58].
- Making more aggressive usage of PARS trusts as a means of prepaying pension obligations.
- Considering accelerating the payment of unfunded pension liabilities, and reducing total interest paid, by substituting a shorter amortization period for the 20-year standard period used by CalPERS in generating its UAL Payment amounts.

There are no doubt advantages and disadvantages associated with each of these alternative measures, which is all the more reason to assess them in a careful and deliberate manner. [fn 59]

On the other hand, delay in taking action has forced some local government agencies to cut basic services in order to be able to continue to make required pension payments. An example is the City of Richmond, which found itself forced to cut jobs, street repairs and library services due to its pension liabilities. [fn 60]

The Threat of the “Double Whammy”

As discussed, the unfunded accrued pension liability and future UAL Payment numbers are projections, based on certain assumptions, including investment returns, discount rate, future payroll, and other actuarial factors. The most important assumptions are the investment returns on the CalPERS portfolio and the discount rate used by CalPERS—the “double whammy” discussed above. What impact would adverse changes in either or both of these factors have on Plumas County’s pension liabilities?

CalPERS provides a perspective on this in its Actuarial Valuation Reports. For Plumas County, it projects that if investment returns over the next several years average only 4% per year (vs 7% currently projected), the annual UAL Payment required in 2025 would increase from \$5.9 million to \$7.0 million. This is roughly an 18% increase. If, however, average investment returns drop to 1% for this period, the annual UAL Payment would go up by 35%, to nearly \$8 million.

If there is such a shortfall in investment returns over a multi-year period, it is likely that CalPERS will be forced to further reduce its discount rate, bringing the “double whammy” into full play. *Figure 6* shows the effect of reductions in the CalPERS discount rate from the current 7% to 6% and further to 2.5%, using the County’s June 2018 liability numbers. [fn 61]

Figure 6

Discount Rate Sensitivity (2018)

Assumed Discount Rate	2018 Plumas County Total Unfunded Accrued Liability (\$000)	2018 Plumas County Funded Ratio
7% (current)	\$59,356 (actual)	69.0% (actual)
6%	\$83,352	61.6%
2.5%	\$326,683	41.2%

The change in the unfunded accrued liability number due to even a one percentage point reduction in the discount rate (to 6%) is dramatic—causing a 40% increase in total unfunded accrued liability. A reduction in the discount rate to the 20-year Treasury yield (2.5%) appears catastrophic—resulting in more than a 500% increase in unfunded accrued liability. The funded ratio percentages decline commensurately—from the most recent level of 69% (assuming a 7% discount rate) to less than 62% (assuming a 6% discount rate) and to about 41% (under a 2.5% discount rate). [fn 62]

Given especially recent market and economic developments surrounding the Covid-19 virus (which have come into view only after the bulk of this report was written), these risks appear by no means remote or inconsequential.

Possible Future Responses by the County

What might Plumas County do in the future, to reduce or better manage its unfunded accrued pension liability and to prepare for possible further increases in such liability, driven by the factors described above? The answer may depend on when the measures are implemented.

If the County waits until there is a severe economic downturn before taking action, it will likely find that its options are greatly limited. For example:

- Revenue increases (tax or fee income) will likely be impracticable to implement during a recession.
- Addressing the problem through debt financing (pension obligation bonds) in a recession will be more difficult, if not impossible, with interest rates and other debt terms being less favorable to the County, particularly since the County's credit rating will likely decline in such circumstances. [fn 63]
- Cutting salaried positions to solve the problem will be partially counter-productive, in that the more payroll is reduced by job elimination, the less able the County will be to fund accrued pension liabilities through employer payroll contributions on a pay-as-you-go basis, with the result that unfunded pension liability may actually increase.

Chapter 9 bankruptcy, of course, is an option in such times, with the prospect of restructuring the County's various debts. However, given the legal uncertainty as to whether it would be possible for the County to modify vested pension rights in a federal bankruptcy proceeding, this alternative is not necessarily a cure-all. Even if it were legally possible, any local government agency seeking to go this route must consider the possible practical consequences, including having to arrange for a pension administrator to replace CalPERS, and the potential loss of existing employees, plus additional difficulty in hiring new personnel. [fn 64]

It should also be noted that pension liabilities are not the only long-term liabilities that Plumas County bears in relation to its retirees. There are also substantial amounts of "Other Post-Employment Benefits" (OPEB) that will need to be paid, particularly retiree healthcare benefits. [fn 65]

Although the problem of managing unfunded public pension liabilities is not an easy one under any circumstances, the County will have greater leeway in designing and implementing a plan of attack before a major recession occurs. Time is therefore of the essence.

It bears watching to see which tools the Board of Supervisors and County officers will decide to rely on, and in what sequence.

- Will they cut “soft services” (library, health, social services, etc.), some of which have not yet recovered from the last recession?
- Will they take on debt, converting some portion of the problem to financial indebtedness, potentially reducing current year budget impacts, but also adding an interest payment component to the final tab?
- Will they seek to increase fees or taxes, or find other sources of revenue?

While the specific answers to these questions are not yet evident, what is clear is that simply trusting to luck that the CalPERS investment portfolio finds a way to maintain average returns above 7% throughout the next decade, avoiding the “double whammy”, is not a strategy. The County must act, or risk becoming the proverbial deer, standing in the middle of the road, transfixed by the headlights of an oncoming vehicle. [fn 66]

FINDINGS

F-1. Plumas County’s aggregate unfunded accrued pension liability has increased substantially in recent years, and now makes up over half of the County’s total liabilities and more than two-thirds of its total net long term debt.

F-2. The failure of CalPERS investments to achieve projected returns, and the related reductions in the CalPERS discount rate, have been the principal causes of the deterioration in Plumas County’s unfunded accrued pension liability position.

F-3. Plumas County’s pension funded ratio has declined steadily, to a point that is considerably below desirable levels.

F-4. The UAL Payment (or “catch-up” pension liability payment) now required to be made by Plumas County to CalPERS on an annual basis (i) represents a sizeable percentage of the County’s operating expenditures, (ii) comprises over a third of the unassigned balance of the general fund, and (iii) is projected to increase substantially over the next several years, at a rate considerably beyond historic revenue growth rates.

F-5. The Board of Supervisors has not discussed the County’s unfunded pension liability problem in detail, and no concrete measures have been adopted to develop an effective policy, plan or process for addressing it, although some mitigating steps have been taken without the benefit of such a policy, plan or process.

F-6. Plumas County’s ability to respond effectively to the significant increase in unfunded accrued pension liabilities has been hampered by the absence of certain key financial personnel.

F-7. The need to fund existing accrued pension liabilities is already “crowding out” the provision of certain services by the County. This trend is projected to worsen significantly over the next several years.

F-8. A severe or lengthy recession during the next several years would materially increase the amount of Plumas County’s unfunded accrued pension liability, and significantly reduce its funded ratio, while also impairing the County’s ability to manage and fund that liability.

RECOMMENDATIONS

Based on the foregoing, the Grand Jury recommends:

R-1. The Board of Supervisors, by September 30, 2020, confirm that it has available to it sufficient subject matter expertise and resources in respect of pension liability matters and, if not, that it authorize the retention of such expertise.

R-2. The Board of Supervisors, by September 30, 2020, appoint an *ad hoc* pension advisory committee (“pension committee”), including relevant County officials, as well as members of the public and current and former County employees, to investigate and report back on the County’s pension liability problem and its various facets, and propose one or more multi-year mitigation plans.

R-3. The Board of Supervisors, by September 30, 2020, request the pension committee to deliver to it by April 6, 2021 a detailed report containing the results of the committee’s review.

R-4. The Board of Supervisors, by June 1, 2021, hold an open meeting to receive and discuss the findings and proposals of the pension committee.

R-5. The Board of Supervisors, by September 7, 2021, adopt a practical and effective, comprehensive policy and 10-year plan for remediation of unfunded accrued pension liabilities.

R-6. The Board of Supervisors, by September 10 of each year, beginning in 2021 and continuing through at least 2025, provide up-to-date annual reports to the public regarding the status of Plumas County’s unfunded accrued pension liabilities and efforts to better manage those liabilities, reflecting the most recent CalPERS Actuarial Valuation Reports and County financial statements.

REQUIRED RESPONSES

Pursuant to Penal Code section 933.05, the following responses are required:

From the following Plumas County governing bodies (within 90 days):

- Board of Supervisors: **F-1 through F-8, and R-1 through R-6**

INVITED RESPONSES

The Grand Jury invites the following responses:

From the following Plumas County officials (requested within 60 days):

- County Administrator: **F-1 through F-8**

- Auditor/Controller: **F-1 through F-8**

GLOSSARY

Inevitably, any substantive discussion of public employee pension liabilities requires the use of technical and trade terms. While this report has attempted to limit that usage, in the interest of reaching a broader potential audience, it does reference the following:

Accrued pension liability: The total dollar amount needed as of a valuation date to fund all pension benefits already earned by eligible County employees and former employees.

Actuarial method (or CalPERS method): The method of determining accrued pension liability and normal cost, based on certain actuarial assumptions, including a discount rate equal to the anticipated return on pension assets.

Actuarial Valuation Report: A statement issued annually by CalPERS in respect of each member plan, setting forth the assets and accrued pension liabilities of the plan, minimum required contributions for the employer (including the UAL Payment and normal cost), and providing certain actuarial information in relation thereto.

CalPERS: California Public Employees' Retirement System.

CalPERS members: All public employees, and former public employees, eligible to participate in one or more pension plans administered by CalPERS.

California rule: A rule of law, established in California Supreme Court decisions, holding that public employee pension rights are a form of deferred compensation, the rights to which arise upon the commencement of employment, and which are protected from impairment under the constitutional contracts clause.

Chapter 9 bankruptcy: Proceedings under Chapter 9 of the Federal Bankruptcy Code, applicable to counties, cities and certain other local governmental agencies, as bankruptcy debtors.

Classic plans: Public employee pension plans held by persons who joined CalPERS prior to January 1, 2013.

County: The County of Plumas.

Defined benefit plan (or pension plan): An employer-offered plan that provides lifetime pension payments to retirees, determined according to the employee's length of service, age of retirement and a determined base salary.

Discount rate: The rate of interest used to reduce (or discount) a stream of future payments to present value terms.

Fiscal year: For Plumas County and other California counties, July 1 to June 30 of each calendar year.

Funded ratio: The ratio of a fund's assets to its accrued pension liabilities. A ratio of more than 100% indicates that the fund has more assets than liabilities; one that is less than 100% indicates that it has fewer assets than liabilities.

GASB: Governmental Accounting Standards Board, the entity setting accounting standards for most governmental entities.

General fund: The chief operating fund of the County.

Miscellaneous plans: Classic or PEPRA plans relating to CalPERS members who are not under Safety plans or the Peace Officer plan.

Market method: The method of determining accrued pension liability, based on market assumptions, including a discount rate equal to a risk-free rate of return.

Net pension liability: An accounting term used in GASB Standard No. 68, but essentially the same as unfunded accrued pension liability, using the actuarial method.

Normal cost: The annual cost of service accrual for the upcoming fiscal year for the pension entitlements of active employees.

Other Post-Employment Benefits (OPEB): Medical, dental and vision benefits provided on a post-employment basis to eligible employees and former employees of the County.

PARS trust: A Section 115 trust, administered by the Public Agency Retirement Services (PARS), used to prefund pension benefit payments.

Peace Officer plan: The classic plan held by one or more former employees in the County District Attorney's office.

PEPRA: The California Public Employees' Pension Reform Act of 2013.

PEPRA plans: Public employee pension plans held by persons who joined CalPERS on or after January 1, 2013.

Present value: The current value of future payments or receipts, calculated using a discount rate.

Safety plans: Classic and PEPRA plans held by persons engaged or formerly engaged in law enforcement or fire suppression.

UAL Payment: A payment assessed annually by CalPERS of certain employers, reflecting the amortized portion of unfunded pension liability, with certain adjustments made, as described in the relevant Actuarial Valuation Report.

Unfunded accrued pension liability: The amount of accrued pension liability for a given plan or plans that is in excess of the amount of assets held by such plan (or all such plans).

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END NOTES

1. The American Express Company was the first U.S. employer to offer a defined benefit plan, in 1875. See “History of PBGC”, *PBGC website*.
2. Between 1998 and 2017, the number of Fortune 500 companies offering new hires a traditional defined benefit plan declined from 238 to 16. See Willis Towers Watson, *Insider*, Vol. 28, No. 2 (February 2018).
3. Typical pension terms under certain “classic” plans may be summarized as “2% at 55”, which is shorthand for the following formula: At the age of 55, the employee, having a minimum number of years of service, may retire and will receive an annual benefit equal to $2\% \times (\text{number of years of service}) \times (\text{annual salary used to calculate benefits})$. For example, an individual retiring with 25 years of service and an annual salary of \$60,000 would receive \$30,000 per year in pension benefits.
4. A 2% per annum cost of living adjustment (COLA) is offered in most or all CalPERS plans.
5. See CalPERS website, as of 2/20/20.
6. They are also of limited duration, in that as employees retire, they cease making employee contributions. An aging workforce therefore can present a problem to employers offering defined benefit plans.
7. Mendel, Ed, “CalPERS gets candid about ‘critical’ decade ahead”, *Capitol Weekly*, August 27, 2019.
8. However, in some cases, employers agree to make some or all of the employee contribution on behalf of the employee. This may be agreed as part of a labor contract negotiation, in return for lower overall salary, for example.
9. For example, CalPERS plans in the aggregate were 128% funded in 1999, in the midst of the tech market boom. That figure dropped to 87% in 2004, and as of 2018, was about 71%. (CalPERS website)
10. See *Figure 2a*. See also CalPERS website
11. See Actuarial Valuation Report (June 30, 2018) (Plumas County).
12. GASB Standard No. 68 also endorses using a discount rate based on the expected rate of return on plan assets. One way to think about the discount rate and its role is to recall that CalPERS must calculate the amount of funds required to have on hand at present such that when the funds are invested, the returns will ensure sufficient future funds to meet future pension payment obligations. If a lower discount rate is used (and assuming a lower investment return), then a higher amount of present funds is required to satisfy those future payment requirements. On the other hand, if a higher discount rate is used (with a higher anticipated investment rate of return), then fewer current funds are required. This aligns with present value formulas, under which future payments that are discounted using a *lower* discount rate will result in *higher* present values than will the same future payments that are discounted at a higher discount rate. In other words, if the discount rate is *reduced*, the corresponding present value of accrued pension liability will *increase*. Indeed, this relationship can be viewed as similar to a multiplier, in that relatively small changes in the discount rate can result in large changes in the present value of future pension liabilities.
13. The *Pension Tracker* website, for example, uses “market” liability and assets as descriptors, which we’ve chosen to describe together as the “market method”. The 20-year Treasury bond has not been issued for over 30 years, although it is being reinstated in 2020. During this time, the

20-year rate continued to be calculated, and has been used for various purposes, by interpolating the yields of the 10 and 30 year bonds. As of mid-2019, that rate was quoted as around 2.5%, on the US Treasury's website. (www.treasury.gov) More recently, it has dropped even further, to less than 2%.

14. The actuarial and market methods are in effect two different ways of looking at accrued pension liabilities. The subject is complex, but in essence, the market method is more conservative than the actuarial, and potentially more reliable in the event of severe or protracted economic downturns. CalPERS itself uses a method similar to the market method when calculating an employer's pension liability for one specific purpose-- in connection with a hypothetical termination of the contract between that employer and CalPERS.
15. This is the case for at least two reasons. First, Treasury bonds represent a sizeable part of the CalPERS investment portfolio, and therefore, reductions in the return of that component tend to lower the overall level of return on the entire portfolio. Second, Treasury bond rates express the view of the Treasury bond market (a vast global market) as to future returns on risk-free investments. Lower interest rates tend to foreshadow slower rates of economic growth, which in turn suggest lower overall returns on future investment portfolios.
16. Wilshire Associates, for example, recently forecast CalPERS to earn only 5.9% over the next 10 years, while the Pew Charitable Trust anticipates pension returns on a national basis to be a full percentage point lower than in the past. In addition, when CalPERS was considering in 2016 the reduction of the discount rate to 7%, it was reported that CalPERS consultants recommended an assumed rate of 6.2% for the next decade. See *CalMatters website*. Economists generally anticipate overall economic (GDP) growth rates for the next decade at levels below those of the past, with bond yields remaining considerably lower than those of the last 20 years. For example, the Congressional Budget Office projects a 1.7% real GDP growth rate from 2020 to 2030.
17. CalPERS website, as of February 21, 2020. The ten-year average annual return as of June 30, 2019 was 9.1%, but this is skewed by the fact that the beginning point was near the bottom of the 2008-09 recession and market drop.
18. The decision by CalPERS to adjust its discount rate for the future is essentially a policy decision, based on actuarial and financial input. However, it is a decision that must be made with an eye both to economic circumstances as they may drive future investment returns, and to the potential impact on public employers who must continue to service pension liabilities. Failing to reduce the discount rate when macroeconomic circumstances would otherwise suggest may create a funding shortfall in the future as a result of investment returns not reaching the needed level. On the other hand, reducing the discount rate causes the amount of unfunded accrued pension liability to increase immediately, which forces additional payment requirements on public employers, which they may not be capable of bearing.
19. The most recent round of discount rate reductions was implemented by CalPERS in a staged fashion, intended to create a smoother transition to the new, lower rates.
20. This may have been prompted in part by two or more instances in which local government agency employers defaulted in their payments to CalPERS, forcing CalPERS to reduce or suspend benefit payments to certain retirees. Two such instances that have come to the attention of the Grand Jury are (1) our neighboring city of Loyalton, and (2) the East San Gabriel Valley Human Resources consortium. In the Loyalton case, the City Council voted in 2013 to exit the CalPERS fund, in response to which CalPERS assessed it with a "termination fee" of \$1.66 million. See "Huge Pension Fund Makes Example of Tiny California City", *Reason* website (August 25, 2017).

21. See discussion in Cal Fire Local 2881, et al v. California Public Employees' Retirement System, 435 P.3d 433 (Cal. 2019)
22. See *id.* Under the California rule, public employee pension rights are deemed protected against unilateral modification by the constitutional contract clause.
23. PEPRAs funds were intended to be separate from classic funds. For example, employee contributions from one do not support the other.
24. See CalPERS Actuarial Valuation Reports (Plumas County). Until recently, CalPERS used a 30 year amortization period for this purpose. It is now set at 20 years. Reducing the amortization period for UAL Payments has the result of increasing the amount of each periodic payment, but lowering the total aggregate amount of payments, as the obligation is paid off earlier and the employer therefore saves on future interest.
25. See CalPERS Actuarial Valuation Reports (Plumas County).
26. The CalPERS Actuarial Valuation Reports include the following standard disclaimer: "Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; changes in actuarial policies; and changes in plan provisions or applicable law."
27. See Mendel, Ed, "CalPERS gets candid about 'critical' decade ahead", *Capitol Weekly*, August 27, 2019.
28. See CalPERS, Actuarial Valuation Report (Plumas County Miscellaneous Plan), as of June 30, 2018.
29. It would of course reduce investment returns, creating greater unfunded pension liability that would need to be covered by the employer. It would also likely lead to a decision by CalPERS to further reduce the discount rate, which would in turn increase total accrued pension liability and unfunded liability numbers considerably. And, it could even impact actuarial employee assumptions, by prompting earlier (forced) retirement, leading to a declining workforce, as local governments struggle to find ways to cut their way to making ongoing pension payments.
30. The Cities of Vallejo, Stockton and San Bernardino all filed Chapter 9 bankruptcy partly in response to their unmanageable pension liabilities. The City of Stockton, for example, had seen its pension contributions rise from \$6.8 million in 2002 to \$41.5 million in 2017. See Public Policy Institute of California website.
31. See note 64, below.
32. Based on the employee's role, Plumas County has three types of plans: (1) *Safety plans*, covering employees engaged in "safety" functions (law enforcement and fire suppression); (2) *Peace Officer plan*, which included one or more former employees in the District Attorney's office; and (3) *Miscellaneous plans*, covering employees performing all other roles. The miscellaneous plan is considerably larger, in terms of number of persons covered, and potential liability, than are the "safety" and "peace officer" plans. Typical classic terms for Plumas County miscellaneous employees are "2% at 55", while PEPRAs terms for miscellaneous employees are "2% at 62". For safety employees, typical retirement terms are "2% at 50" for classic plans and "2% at 57" for PEPRAs plans. See Plumas County Memoranda of Understanding. See also note 3, above.
33. This report addresses solely pension liability faced by the County of Plumas. In addition, several service districts and one city (Portola) operating within Plumas County have their own pension plans with CalPERS and must address their own pension liability issues. See CalPERS website. Plumas County also offers its employees defined contribution plans.

34. See CalPERS Actuarial Valuation Reports (Plumas County) (2018). Note that employees who began their careers in other counties, or cities under classic plans carry their classic plan status to their employment in Plumas County.
35. See *id.*
36. See *id.*
37. Consistent with GASB Standard #68, the County uses “net pension liability” instead of “unfunded accrued pension liability” in its financial statements. The terms are for present purposes essentially the same, however.
38. See GFOA website.
39. The Grand Jury calculated aggregate numbers for the several plans, using a weighted average approach for the funded ratio. When viewed at the level of each individual plan, the County’s Miscellaneous plan was 75.8% funded in 2011, but only 69.8% funded in 2018, a drop of nearly 6 percentage points. The Safety classic plan funded ratio decreased from 74.5% in 2011, to 71.7% in 2018, and the Peace Officer classic plan went from 68.3% funded to 57.7%. See CalPERS Plumas County Actuarial Valuation Reports (Plumas County).
40. The funded ratio determined using market assumptions is considerably lower, at approximately 40%. See CalPERS Actuarial Valuation Reports (Plumas County).
41. See *Pension Tracker* website.
42. Based on U.S. Census data for households, as of 2018.
43. Although the comparison is between the total unfunded pension liability amount and the annual median household income, this does not imply that households would under any scenario be required to pay this amount *each year*. The purpose is simply to provide a relative scale against which to view the pension liability number.
44. See Nation, Joseph, Pension Math.
45. Figure 5 source: CalPERS Actuarial Valuation Reports (Plumas County).
46. Plumas County 2017- 2018 Financial Statements. Reserves are amounts set aside for certain contingencies, including emergencies and economic downturns.
47. See Plumas County Financial Statements. Unlike most of the State of California, Plumas County’s real estate values have not yet fully recovered from the “great recession”.
48. See Nation, Pension Math (2018)
49. See *Pension Tracker* website.
50. When this practice began, all or almost all Plumas County employees had their pension contributions paid for them by the County. At present, five of the eight Memoranda of Understanding currently in effect continue to provide this benefit, to some extent. For the County’s miscellaneous plan, CalPERS projects normal cost payments to increase from 8.044% of payroll in 2018, to 9.185% in 2021. (CalPERS Actuarial Valuation Report (Plumas County Miscellaneous Plan) (2019))
51. For example, the City of Santa Monica reportedly created an 11-person pension advisory committee, comprised of 7 members of the public and 4 persons from the workforce.
52. The primary reason for not replacing the County Administrator prior to 2019 appears to have been budgetary constraints. It is unclear to the Grand Jury why the financial analyst has not been replaced even today.
53. This step was mandated by PEPRA.
54. PARS accounts are IRC Section 115 irrevocable exclusive benefit trusts, created for the sole purpose of prefunding OPEB or pension obligations.
55. See note 50, above.

56. For example, Mariposa County, which reportedly increased its tourism tax to support pension obligations.
57. There is a relatively long list of counties and other local government agencies that have availed themselves of pension obligation bonds to help fund pension liabilities, including Sierra County, Mendocino County, Merced County, Sonoma County, and Imperial County, as well as cities, including Fresno, Oakland, Pasadena and Richmond. A discussion of the advantages and disadvantages of using debt to fund such obligations is beyond the scope of this report.
58. For example, Shasta County and Redwood City.
59. Certain local government agencies are reportedly approaching the State Controller's Office, arguing that the State should be required to reimburse prepayments made on pension liabilities, to the extent allocated to government agencies otherwise funded in part by the State. This alternative may warrant further examination by a pension advisory committee as to its viability.
60. See article, Los Angeles Times website (February 6, 2017)
61. Figure 6 source: CalPERS Actuarial Valuation Reports (Plumas County). The 2.5% discount rate resembles the rate used to develop the market method of calculating accrued pension liability.
62. CalPERS has not provided similar sensitivity analyses showing the impact of discount rate changes on UAL Payments, but it seems logical to expect that they would increase proportionately to the increases in the accrued liability numbers.
63. It is foreseeable that the County's credit rating would suffer in a severe or protracted recession. Apart from the usual factors, this would be driven in part by the anticipated increase in the County's unfunded pension liability and greater difficulty in servicing that liability in the ordinary course. For accounting purposes, unfunded pension liability is viewed as a form of debt.
64. There is no appellate-level legal precedent in California as to whether a local government may modify pension entitlements in a bankruptcy. In the Chapter 9 cases filed by the Cities of Vallejo, Stockton and San Bernardino, none of those debtors decided to attempt to alter the existing pension rights of their employees or retirees as part of their final plans. However, one bankruptcy judge did opine that the City of Stockton could reject its pension contracts with CalPERS and modify the terms of existing pensions. *See In re City of Stockton*, 526 B.R. 35 (Bankr. E.D. Cal. 2015). *See generally* Glassman, P. and Saenz, G., "A Guide to Municipal Bankruptcy for City Attorneys", *League of California Cities Annual Conference* (September 2018).
65. Based on the County's 2017-2018 Financial Statements, Plumas County is currently supporting \$7.19 million in net OPEB liability. A detailed consideration of this liability is beyond the scope of this report.
66. This report was substantially written prior to the March 2020 coronavirus stock market crash, with final edits being made at that time. For reasons detailed in this report, these recent developments do not bode well for the pension liability prospects of Plumas County.

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury not contain the name of any person or any facts leading to the identity of any person who provides information to the Grand Jury.