NEVADA COUNTY BOARD OF SUPERVISORS RESPONSES TO

2024 Nevada County Civil Grand Jury Report

Report on responses to the 2023-2024 Grand Jury Report: Nevada County's Ability to Meet Future Pension Obligations

DATED June 3, 2024

In accordance with California Penal Code § 933.05(b), the Nevada County Board of Supervisors is responding to the Nevada County Civil Grand Jury FY 2023/24 Report entitled *"Nevada County's Ability to Meet Future Pension Obligations."* The responses to findings and recommendations are based on examination of official County records, review of the responses by the County Executive Officer, County Counsel, and County staff.

A. RESPONSES TO FINDINGS

Finding 1: The county pension plan currently lacks the funds to meet foreseeable pension-payment obligations, having only about 68% of the necessary funds.

Disagree.

The Unfunded Accrued Liability ratio is just one indicator of the overall health of the County's Pension Plan. Pension obligations are contributed to as part of the employee's compensation and intended to be funded over the tenure of the employee. The annual payment of the unfunded liability is an amortized plan developed by professional actuaries to bring the County to fully funded status over time. This plan fluctuates each year based on a variety of factors outside of the County's control such as investment returns. The county is able to make its annual pension obligations and plans for such during the budget development process each year.

Finding 2: If unfunded liabilities continue to rise, the county will have to increase revenues by increasing taxes, reduce expenses and the operations they fund (or a combination of the two), or become unable to make pension payments.

Partially disagree.

The County plans for pension costs as part of its overall budget strategy and planning process. It is during this planning process we review revenue and expenditure trends and allocate resources accordingly. This planning process may result in recognizing increased revenues that come from existing taxes, such as property tax, and may also result in reduction of expenses or operations, based on need and policy direction of the Board of Supervisors. To that end there are additional resources available to manage pension

payments. In addition, the County has several tools specifically designed to support pension obligations: an Assignment within the General Fund Balance, and an established Section 115 Pension Trust Fund.

Finding 3: Because of economic fluctuations and existing unfunded liabilities, the county has decided that issuing bonds is not a good way to address the problem.

Agree.

Issuing bonds would provide one-time funding for a point in time; however, funding pensions is an ongoing obligation based upon current payroll and staffing. The issuance of bonds provides one-time proceeds which must be repaid over a set period of time, usually 20-30 years, and this repayment would be in addition to the ongoing pension payments to CalPERS, which cannot be prepaid. The County evaluates its pension obligations in concert with the annual budget process and sets aside sufficient resources to meet the current needs based upon actuarial reports provided by CalPERS.

Issuing a Pension Obligation Bond will produce near-term savings, however it is impossible to predict the long term savings in comparison to ongoing investment with CalPERS. By continuing to utilize the tools of our Pension Policy, such as the Section 115 Pension Trust and prepaying our amortization payments thereby saving on interest costs, the County maintains some level of control and ability to flex its resources that a bond would not support.

Finding 4: The constant rise in CalPERS's-required annual amortization payments shows that CalPERS predictions of financial recovery are highly questionable.

Partially disagree.

The CalPERS required annual payments change based on a variety of factors and calculations, including number of active staff, number of retirees, percentage of payroll, employee contributions, prior year rate of return on investments, and expected rate of return on future investments, among others. As with any type of investment, there are risks to predictions made, and without any investment, the amount of the County's obligation would be much higher.

Beginning in 2016, CalPERS made a series of adjustments with phased-in impacts which materialize in the required annual payments over time. Some of these adjustments were in recognition of demographic changes such as life expectancy and cost of care, and others were in recognition that the investment returns fluctuate and the discount rate needed to

be adjusted. The resulting cost increases are not so much indictments of CalPERS' ability to forecast investment returns, and more a recognition of the need to modify plans in accordance with evolving realities.

Finding 5: The county does not appear to have any realistic plan to address the steady increases in the total amount of unfunded debt the county and its taxpayers will owe its retirees.

Disagree.

The County benchmarks its plans with the recommendations of the Government Finance Officers Association (GFOA) which reflects best practices for county financial management. The County sets aside funds for this very purpose in two different instruments – the PARS Section 115 Pension Trust and the General Fund assignment, in accordance with our Pension Policy.

The County has been recognized by GFOA for the last 11 years as adopting a best practice budget which incorporates policy, operations, a financial plan and a communication device. The Pension policy is included in this document as a guiding principle and the County's annual required contributions are budgeted. During the budget development process, staff uses forecasting tools to inform budget decisions, which includes the anticipated unfunded debt in addition to other expenditures and revenues.

B. RESPONSES TO RECOMMENDATIONS

Recommendation 1: The county should consider offering voters the opportunity to approve a special tax to resolve the unfunded-liabilities problem.

The recommendation will not be implemented.

As mentioned above, an additional tax would not resolve the unfunded liability primarily because the unfunded liability is an ongoing obligation that evolves each year based upon a variety of factors and a special tax would not be able to be as flexible.

Recommendation 2: If the county decides not to approach the problem through a special tax, it should, within six months, produce a comprehensive plan to eliminate the unfunded pension liabilities.

This recommendation has not yet been implemented, but will be implemented over the next year.

The County will analyze its current Pension Policy over the next six months and recommend changes to the Board of Supervisors at its January 2025 Board Workshop. Board policy direction will inform the development of the FY 2025-26 budget and serve as a comprehensive plan to address unfunded pension liabilities. Several other governmental agencies have implemented a variety of strategies to address the unfunded liability, including making additional payments above and beyond the required contributions, using local investment proceeds as a financing tool.

Recommendation 3: The county should consider withdrawing from CalPERS and employing an institutional investment advisor with a better performance record than CalPERS achieves.

This recommendation will not be implemented.

Withdrawing from CalPERS is a complex process and would come at a considerable expense over a number of years. At its base, withdrawing from CalPERS would require the County to render payment of its existing obligation in full. In addition, the County would need to have a new pension administrator and renegotiate with its bargaining units. Not having a CalPERS pension would change the County's compensation package and potentially have significant impacts on its ability to attract and retain quality staff.

In lieu of withdrawing from CalPERS, several other governmental agencies have implemented a variety of strategies to address the unfunded liability, including making additional payments above and beyond the required contributions, using local investment proceeds as a financing tool. However, the only agencies considering leaving CalPERS are much smaller than Nevada County and it is usually a last resort decision because of the considerable cost to the agency.