NEVADA COUNTY BOARD OF SUPERVISORS RESPONSES TO

2018 Nevada County Civil Grand Jury Report

Will the Public Suffer Because of Unfunded Pension Liabilities?

DATED June 10, 2018

Responses to findings and recommendations are based on either personal knowledge, examination of official county records, review of the responses by the County Executive Officer, Chief Fiscal Officer or testimony from the Board of Supervisors and county staff members.

A. RESPONSES TO FINDINGS

F1. Nearly every Nevada County agency has a Net Pension Liability.

Agree

Responding only for the County of Nevada agencies.

F2. Many Nevada County agencies, especially schools, lack a sufficient Net Position to successfully comply with the requirement to reduce their Net Pension Liability.

Disagree.

Responding only for County of Nevada agencies. Annual required contributions (ARC) set by CalPERS are intended to pay down the Net Pension Liability over a period of time. The County has always met the ARC and expects to do so in the future.

F3. Some Nevada County agencies, especially schools, have a negative Net Position.

Disagree.

Responding only for the County of Nevada agencies. The County's total net position as of June 30, 2017 was positive $270 million.

F5. The strain on Nevada County agency budgets is likely to require cutbacks in services to balance the pension contributions increases.

Partially Disagree.

The County of Nevada takes this matter very seriously and has taken numerous proactive measures to mitigate the impact of rising pension costs and manage Net Pension Liability impacts. The County maximizes revenue opportunities and has accumulated fund balance to help address rising pension costs. If the economy and revenues drop significantly for a sustained period of time, or there are additional changes from CalPERS requiring higher contributions than are currently known, there may be impacts to services.

F6. Many agencies may spend down their reserves to avoid cutbacks in services.

Partially Disagree.

Responding only for County of Nevada agencies. Nevada County has a budget policy, which states that the "budget will only use reserve funds for emergency and one-time expenditures or for purposes that the reserve is designated to fund. Every effort will be used to preserve funds."

This policy has been in place since just after the Great Recession and has led to the County generally maintaining or building reserves in recent years. In addition, the County Board of Supervisors has adopted a Fund Balance Policy, which guides decisions on use of fund balances, generally for emergencies or economic uncertainties or targeted priority expenditures. Every economic downturn causes the consideration of spending reserves to avoid cutbacks in services. This finding is not specific to the pension liability issue.

F7. New sources of revenue may be requested by many agencies to avoid cutbacks in services or reduction of reserves.

Agree.

Responding only for County of Nevada agencies. The County of Nevada agencies continuously seek new sources of revenue to fund services. Most of these revenues are from State and Federal sources for specific programs.

F8. The public bears most of the risk if CalPERS and CalSTRS investments continue to underperform.

Partially Disagree.

Responding only for County of Nevada agencies. The County of Nevada is unable to respond to this finding as we have no way of knowing how CalPERS and CalSTRS

will mitigate the risk of underperforming investments or how much risk will be passed on and to whom.

B. RESPONSES TO RECOMMENDATIONS

R1: The Nevada County Chief Executive Officer should provide a separate presentation to the Board of Supervisors describing the County's current Net Pension Liability and providing a plan for addressing the problem. The presentation should not be hidden in the annual budget report presentation.

This recommendation will not be implemented because it is unwarranted. The County Executive Office already reports specifically on the Net Pension Liability issue multiple times during the year. It is presented in depth during the budget hearings, at the Board of Supervisors Annual Workshop and throughout the year as Board actions are recommended by the County Executive Office. Pension costs have been highlighted in the last twelve budget messages delivered by the CEO and CFO.

R2. Public agencies and public employee unions should explore how increasing employee pension contributions can reduce non-funded pension liabilities.

This recommendation will not be implemented because it is not reasonable. Employee pension contributions are determined by the Public Employees' Pension Reform Act of 2013 (PEPRA). County staff currently share in pension contributions by the amount specified in the PEPRA.

R4. Public agencies should consider implementing the suggestions from the League of California Cities.

This recommendation will be implemented in part. In reviewing the six stated suggestions from the League of California Cities, the County responds with the following:

1. **The recommendation has been partially implemented. The County has funded an irrevocable trust to assist in paying increased pension costs; the County maintains a Pension Contributions assignment in the General Fund to prioritize pension stability; the County pre-pays the Safety UAL; in FY 18/19 the County will consider a Pension Management Policy to provide further direction on managing the pension liability.**
2. **The recommendation will not be implemented. The foreseeable situation does not warrant the County seeking additional taxes to fund the pension liability.**

3. **The recommendation has been implemented. The County participates in the PARS Section 115 Pension Trust program.**
4. **The recommendation has been implemented. The County's budget policies require departments and programs to streamline resources where needed in an effort to provide the same level of service each year; streamlining has included major department restructuring and consolidation and investment in technology. The County also contracts with community based service providers where possible to maximize service delivery, efficiency and effectiveness.**
5. **The recommendation has been implemented. Employee organizations contribute their full share of employee contribution costs to the annual required contributions.**
6. **The recommendation will not be implemented. The County will not issue Pension Obligation Bonds. The League of Cities report referenced recommends *against* issuing pension obligation bonds.**