CITIZENS' ADVISORY COMMITTEE ON *MEASURE Z* EXPENDITURES

(Advisory Committee will make recommendations to the Humboldt County Board of Supervisors as to expenditure of funds derived from *Measure Z*.)

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APPLICATION FOR FUNDING

Agency Name: County of Humboldt – County Administrative Office

Mailing Address: 825 Fifth Street, Room 111, Eureka, CA 95501

Contact Person: Phillip Smith-Hanes Title: County Administrative Officer

Telephone: (707) 445-7266 E-mail address: cao@co.humboldt.ca.us

1. AMOUNT OF MEASURE Z FUNDING REQUESTED FOR FY 2015-16: $1,000,000

2. ENTITY TYPE -- Please check appropriate box.

   a. Humboldt County Department X

   b. Contract Service Provider to Humboldt County ☐

   c. Local Government Entity ☐

   d. Private Service Provider ☐

   e. Non-Profit Service Provider ☐

   f. Other ☐

3. Please provide brief description of proposal for which you are seeking funding.

The County Administrative Office is requesting $1 million to pay-down the California Public Employees Retirement System (CalPERS) accrued unfunded liability. Over the past five fiscal years, the pension contribution rate for public safety employees has increased by 38.6 percent. These rates are projected to continue to increase through at least 2020. Nearly half of what the county pays in CalPERS contributions is dedicated to paying off an accrued unfunded liability (largely the results of benefit increases and investment losses). CalPERS has recently begun encouraging jurisdictions that have available resources to make additional contributions to stop these unfunded liabilities from growing. Doing so will reduce cost increases in future years.

Paying down the accrued unfunded liability can done two ways, either through a direct contribution to CalPERS or by the county setting up a pension funding trust.

4. *Measure Z* funding is scheduled to "sunset" in 2020. How are you developing a plan for sustainability, including diversification of funding sources, in order for your proposal to carry on without reliance on future *Measure Z* funds?

Paying down the unfunded CalPERS liability provides for the biggest return on investment with Measure Z dollars. By "pre-funding" this CalPERS liability this will reduce pension costs in future years, thereby freeing up General Fund dollars to be spent on essential services such as public safety.

5. If this request is for the continuation, or expansion, of an existing program/service, what is the current source of funding for that program/service?

This is not a request for continuation or expansion of a program or service. This is an opportunity to pay-down debt that will lead to future savings in the General Fund, thereby benefiting public safety, as theoretically more dollars will be available for public safety services in the future.

6. If you are awarded *Measure Z* funds, how will you use them to leverage additional grants, contributions, or community support?

If this proposal was awarded Measure Z funds, these funds would be used to pay-down the county's unfunded CalPERS liability. By doing this, the county will save money in the future. This unfunded liability is similar to a second mortgage on a house. The county is continuing to pay interest on the second mortgage. By buying-down the mortgage, the county will pay less interest on pension costs in the future.

7. Will this proposal require new or expanded activity on the part of another entity to be fully functional and effective? If so, please describe.

No, this proposal stands on its own.

Proposal Narrative: Brief description of your request for *Measure Z* funds – Please explain how it is an essential service or for public safety. *(one page maximum)*

The pension system for county employees is operated by the California Public Employees Retirement System (CalPERS). The rate of pay charged by CalPERS to fund pension benefits has increased dramatically in recent years. These increases are expected to continue in the coming years, and because CalPERS sets the rates, it is difficult to project what those increases will be. However, with funding from Measure Z, the county can help flatten the rate of these increases and bring more predictability to the amount of the charges, and therefore the county's budget, by making supplemental payments to the retirement system.

Over the past five fiscal years, the pension contribution rate for public safety employees has increased by 38.6 percent and the rate for miscellaneous (non-safety) employees has increased by 25.8 percent. These rates are projected to continue to increase through at least 2020. There are multiple reasons for these increases, including changes in the expected number of years that retirees will draw pensions, significant investment losses suffered by CalPERS during the recession, changes to the assumed rate of investment return over the long term, and pension benefit enhancements adopted several years ago. In response to this growing liability, the county negotiated a reduced pension benefit for new hires and the state adopted the Public Employee Pension Reform Act. While these actions are expected to gradually slow the rate of growth in pension costs, these costs are anticipated to continue to increase for the foreseeable future.

Nearly half of what the county pays in CalPERS contributions is dedicated to paying off an accrued unfunded liability (largely the results of benefit increases and investment losses). One of the reasons that CalPERS rates continue to rise for Humboldt County is that the county's payments against this unfunded liability have been consistently less than CalPERS projections. This is because CalPERS apportions the unfunded liability against our current payroll and projects that out into the future, making assumptions about number of employees on the payroll in future years and their growth in compensation – if those assumptions pan out, the unfunded liability is reduced according to CalPERS' amortization schedule; if the assumptions are overly optimistic, there is not enough paid to reduce the liability and the underfunding is added to future years' liability (i.e., the unfunded liability grows). This has been the situation facing Humboldt County for several years – the county has hired fewer people and paid them less than CalPERS assumed, meaning the payroll rates CalPERS has charged the county have been insufficient to pay down the unfunded liability. So, for example, over the past five years the rate of pay charged for public safety pensions has grown from 20.997% to 29.097%. However, the portion of this used to cover the "normal cost" of the pension obligation has grown only slightly – from 15.956% to 16.892%. The rate to cover the county's unfunded liability for safety pensions has skyrocketed from 5.041% to 12.205%. As of June 30, 2013 (the most recent figures available from CalPERS), the county's total unfunded liability for pensions was $213.1 million – almost double the liability that had existed as of June 30, 2008.

Humboldt County is far from unique in this situation – many local governments as well as the state face similar (or worse) challenges. Because of this, CalPERS has recently begun encouraging jurisdictions that have available resources to make additional contributions to stop these unfunded liabilities from growing. Doing so will reduce cost increases in future years, and is consistent with responsible fiscal choices that the Board of Supervisors has made in the past to reduce future pension costs. While the county cannot fully pay off the unfunded liability of nearly $213 million within one fiscal year, a supplemental payment of $1,000,000 would reduce CalPERS rates by roughly 0.132%.

Program Budget

Expenses:

CalPERS Accrued Liability	$1,000,000	
	$1,000,000	Total Expenses

I declare under penalty of perjury under the laws of the State of California that the above statements and all attachments are true and correct

DATE: 3/17/15 SIGNATURE: Phillip Smith Hanes

SUBMIT THIS APPLICATION TO:

Humboldt County Citizens' Advisory Committee on *Measure Z* Expenditures
c/o County Administrative Office
825 Fifth Street, Suite 111
Eureka, CA 95501-1153.