AGENDA

NSCLS COUNCIL OF LIBRARIANS

Tuesday, April 16, 2019
2:00 p.m. – 3:00 p.m.

CONFERENCE CALL INFORMATION
Phone Number: 1-877-216-1555
Participant Code: 907394

1.	Call to Order: Michael Perry, Chair	
2.	Roll Call	
3.	Public Invited to Address the Council	
4.	Approval of Agenda (ACTION ITEM)	
5.	Approval of March 21, 2018 Annual Meeting Minutes (ACTION ITEM)	Attachment 1
6.	Discussion of NSCLS CalPERS Actuarial Valuation Report	Attachment 2
7.	Approval of NSCLS CalPERS FY 2019/20 Payment (ACTION ITEM)	Attachment 3
8.	Discussion on Obligations for Past North State Libraries Who Are No Longer Part of the Consortia	Attachment 4
9.	Adjournment	

Brown Act: The legislative body of a local agency may use teleconferencing in connection with any meeting or proceeding authorized by law. Cal. Gov't Code § 54953(b)(1). A "teleconference" is "a meeting of a legislative body, the members of which are in different locations, connected by electronic means, through either audio or video, or both." Cal. Gov't Code § 54953(b)(4). A local agency may provide the public with additional teleconference locations. Cal. Gov't Code § 54953(b)(4).

The teleconferenced meeting must meet the following requirements:

(1) it must comply with all of the Act's requirements applicable to other meetings;

(2) all votes must be taken by roll call;

(3) agendas must be posted at all teleconference locations and the meeting must be conducted in a manner that protects the statutory and constitutional rights of the parties or public appearing before the body;

(4) each teleconference location must be identified in the notice and agenda and each location must be accessible to the public;

(5) during the teleconferenced meeting, at least a quorum of the members of the legislative body must participate from locations within the boundaries of the body's jurisdiction; and

(6) the agenda must provide the public with an opportunity to address the legislative body at each teleconference location. Cal. Gov't Code § 54953(b).

Meeting Locations

Butte County Library, 1820 Mitchell Avenue, Oroville, CA 95966
Del Norte County Library District, 190 Price Mall, Crescent City, CA 95531
Humboldt County Library, 1313 Third Street, Eureka, CA 95501
Lassen Library District, 1618 Main Street, Susanville, CA 96130
Modoc County Library, 212 W. 3rd Street, Alturas, CA 96101
NorthNet Library System, 2471 Flores Street, San Mateo, CA 94403
Orland Free Library, 333 Mill Street, Orland, CA 95963
Plumas County Library, 455 Jackson Street, Quincy, CA 95971
Shasta Public Libraries, 1100 Parkview Avenue, Redding, CA 96001
Siskiyou County Library, 719 4th Street, Yreka, CA 96097
Tehama County Library, 645 Madison Street, Red Bluff, CA 96080
Trinity County Library, 211 N. Main Street, Weaverville, CA 96093
Willows Public Library, 201 N. Lassen Street, Willows, CA 95988

NorthState Cooperative Library System
Administrative Council Meeting

March 21, 2018

1. Chair Perry called meeting to order at 11:02 a.m.
2. Roll call taken

PRESENT	ABSENT	PUBLIC LIBRARY	NAME
	x	Butte County Library	Mel Lightbody
	x	Del Norte Co. Library District	Shane Pipinos-Gausepohl
x		Humboldt County Library	Ronda Wittenberg
x		Lassen Library District	Deborah Probst
x		Modoc County Library	Cheryl Baker
x		Orland Free Library	Jody Meza
x		Plumas County Library	Lindsay Fuchs
	x	Shasta Libraries	Anna Tracy
x		Siskiyou County Library	Michael Perry
x		Tehama County Library	Todd Deck
x		Trinity County Library	Kacy Guill
x		Willows Public Library	Jody Meza
x		California State University Chico	Patrick Newell

Also attending, NLS System Chair, Jacquie Brinkley

3. No public in attendance
4. **Motion to approve Agenda.** Meza moved; Newell seconded. **Motion carried.**
5. **Motion to approve meeting Minutes of June 27, 2017**. Probst moved; Deck seconded. **Motion carried.**
6. Perry presented background of OCLC 10 year + contract history with NSCLS. Perry contacted OCLC representative to discuss revised pricing model and reduction in services for Siskiyou County. At that time, Perry asked OCLC rep about individual pricing versus consortia pricing for NSCLS and determined that as consortia, any annual price increase would likely be lower than as individual library contracts would be. There are also certain minimum pricing models for contracted services and smaller systems with fewer services may have to pay higher rate than in consortia pricing model. Perry proposed to discontinue the consortia model and move to individual library systems of NorthState contracting for their OCLC services directly. Perry confirmed that there would be no penalty for libraries who chose to remain as consortia participants, should the NSCLS consortia continue, although he indicated that OCLC may have a break point in what number of members constitutes eligibility for their consortia pricing.
   Discussion ensued. Perry confirmed that an annual contract would be required, as individual library or consortia. Siskiyou has found a viable alternative to OCLC

cataloging services and feels that discontinuing this service with OCLC is not a factor. Probst shared that the Lassen Library Board had asked to discontinue OCLC and cited that there was not sufficient ILL need to continue, and that they could work around the cataloging needs.
Meza commented that Orland and Willows were also leaning in that direction, but asked how others would handle ILL.
Perry reported that while ILL demands are low in Siskiyou County, Zip Books has addressed some of this. Meza agreed that Zip Books will help for Orland and Willows. Meza asked how dropping OCLC contract will impact CLSA funds that had previously covered OCLC fees.
Perry reviewed allowable costs for CLSA, Communications and Delivery, that had included OCLC, but noted that these C&D funds can be diverted to other allowable costs, i.e. delivery, postage for delivery, enki, OverDrive, Zinio, and/or supplement the State-funded Zip Books for participating libraries. Each library can determine & certify their use of CLSA funds, as long as it falls within allowable C&D criteria.
Fuchs asked what the timeframe of getting materials returned once the OCLC contract ends. Perry reported that there is a 60-day notice required to terminate the contract and he can request an extension. He also suggested that members end their OCLC ILL earlier and locate outstanding books to initiate their return before actual contract expiration.
Baker asked what constitutes leaving the consortia and asked what constoria contract advantages would be lost. Perry responded that the current contract ends June 30, 2018. Individual libraries can contact OCLC representative at this time to begin discussion and set up new contract to avoid any disruption in service.
Perry reviewed advantages of consortia pricing model, including (1) Year to year price increase is reduced, and (2) Minimum floor for pricing of $500 for ILL and $1,000 for cataloging is waived in consortia. Perry also noted that for Siskiyou, an advantage to contracting individually is having a single contract direct with OCLC that will save him an additional internal contract required when the library is part of a consortia contract.
Deck commented that he is also required to have an internal contract in order to contract outside services through the consortia.
Perry also noted that contracting individually could provide libraries more flexibility in developing their contracts, possibly giving more leverage in negotiation, and libraries may add exit clauses, or other specific language particular to individual library needs.

Perry recommended a motion that the OCLC and NSCLC consortia contract not be renewed for FY 2018/19 and to disband the consortia as it relates to contract services with OCLC.

Probst commented that Lassen may not meet the floor minimums and asked if they would see price increases and would that depend on how many remained in the consortia.

Perry reported that generally, within a consortia, annual price increases were held to 3%, whereas as individual library contracts would see a 5% increase.

Perry offered to assist Modoc and any other library to negotiate their OCLC contracts and to minimize or eliminate any “floor” costs currently waived in consortia pricing.

Wittenberg reported that Humboldt would have to abstain from this vote, as they are between directors at this time and she did not have the authority to make this decision.

Newell said he would also abstain, as he is not a member of this consortia with OCLC.

Motion to not renew the FY 2018/19 contract and discontinue any further NSCLS consortia level contracting with OCLC.

Perry moved; Fuchs seconded.
Baker – No. Wittenberg and Newell abstained.
Motion carried.

Perry will contact OCLC and send out contact information to NSCLS consortia members.

7. Perry reviewed the NSCLS consortia employee history with regard to pension benefits and presented the CalPERS Actuarial Valuation Report. He reviewed the current year’s obligation and noted the increase projected in future years due to CalPER’s expected decrease in rate of return on investments and increased cost of meeting pension obligations. Perry referred to the report’s amortization chart and noted the total amount required for payout of the NSCLS’ 30-year obligation at nearly $2 million dollars.

8. Perry reviewed the current NSCLS allocation for CalPERS annual payment and noted that this payment plan is based on a model used since 2012. Perry also noted that FY 15/16 budget figures were used to calculate current allocation as this was most recent data available from the CA State Library’s reporting portal. Perry requested and did receive from most all NSCLS members, however, will use the 15/16 historical data for the 18/19 allocation.

   Motion to approve FY 2018/19 NSCLS CalPERS payment allocation as submitted (Attachment 4).
   Deck moved; Meza seconded.
   Newell abstained.
   Motion carried.

9. Perry invited discussion of future CalPERS payments and presented a revised model of allocating payment obligations, using a broader base rate that factored in current library budgets.
   Fuchs agreed that, although Plumas would see an increase in payment obligation, she felt that this was fairer way to allocate the obligation.
   Perry explained that this revision was intended as a draft proposal for next year’s planning and it will reflect more recent and accurate budget figures.
   Baker commented that Modoc’s budget has decreased since FY 2015/16 and she will appreciate seeing that reflected in new allocation formula.

Probst commented that she appreciated the revised sizing to reflect her current (15/16) budget, but also noted that if the parcel tax initiative for Lassen County passes in June 2018, which will increase the library budget, she would be happy to pay at increased base level.

Fuchs asked if this formula would be reviewed annually.

Perry confirmed that the CalPERs allocation is reviewed annually to ensure the correct and most recent library budgets available are reflected. The formula used to determine the allocation can be re-visited as needed and other changes may depend on requirements of CalPERS and/or how member libraries' budgets are doing. Members can propose other models as circumstances change.

All agreed to use the new model as presented for FY 2019/20 CalPERS payment allocations.

Meeting adjourned at 11:51 a.m.

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942709
Sacramento, CA 94229-2709
TTY: (916) 795-3240
(888) 225-7377 phone – (916) 795-2744 fax
www.calpers.ca.gov

August 2018

Miscellaneous Plan of the North State Cooperative Library System
(CalPERS ID: 1897174550)
Annual Valuation Report as of June 30, 2017

Dear Employer,

As an attachment to this letter, you will find a copy of the June 30, 2017 actuarial valuation report of the pension plan.

Because this plan is in a risk pool, the following valuation report has been separated into two sections:

- Section 1 contains specific information for the plan including the development of the current and projected employer contributions, and
- Section 2 contains the Risk Pool Actuarial Valuation appropriate to the plan as of June 30, 2017.

Section 2 can be found on the CalPERS website at (www.calpers.ca.gov). From the home page, go to "*Forms & Publications*" and select "*View All*". In the search box, enter "*Risk Pool*" and from the results list download the Miscellaneous or Safety Risk Pool Actuarial Valuation Report as appropriate.

Your June 30, 2017 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. Your assigned CalPERS staff actuary, whose signature appears in the Actuarial Certification section on page 1, is available to discuss the report with you after August 1, 2018.

The exhibit below displays the minimum employer contributions, before any cost sharing, for Fiscal Year 2019-20 along with estimates of the required contributions for Fiscal Year 2020-21. Member contributions other than cost sharing (whether paid by the employer or the employee) are in addition to the results shown below. **The employer contributions in this report do not reflect any cost sharing arrangements you may have with your employees**.

Required Contribution

Fiscal Year	Employer Normal Cost Rate	Employer Payment of Unfunded Liability
2019-20	0.000%	$70,036
Projected Results		
2020-21	*0.0%*	*$76,000*

The actual investment return for Fiscal Year 2017-18 was not known at the time this report was prepared. The projections above assume the investment return for that year would be 7.25 percent. ***If the actual investment return for Fiscal Year 2017-18 differs from 7.25 percent, the actual contribution requirements for the projected years will differ from those shown above.***

Moreover, the projected results for Fiscal Year 2020-21 assume that there are no future plan changes, no further changes in assumptions other than those recently approved, and no liability gains or losses. Such changes can have a significant impact on required contributions. Since they cannot be predicted in advance, the projected employer results shown above are estimates. The actual required employer contributions for Fiscal Year 2020-21 will be provided in next year's report.

For additional details regarding the assumptions and methods used for these projections please refer to the "Projected Employer Contributions" in the "Highlights and Executive Summary" section.

The "Risk Analysis" section of the valuation report also contains estimated employer contributions in future years under a variety of investment return scenarios.

Changes since the Prior Year's Valuation

At its December 2016 meeting, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations. The minimum employer contributions for Fiscal Year 2019-20 determined in this valuation were calculated using a discount rate of 7.25 percent. The projected employer contributions on Page 5 are calculated under the assumption that the discount rate will be lowered to 7.00 percent next year as adopted by the Board.

On December 19, 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for Public Agencies. These new assumptions are incorporated in your actuarial valuations and will impact the required contribution for FY 2019-20. In addition, the Board adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of 2.625 percent was used and a rate of 2.50 percent will be used in the following valuation.

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

For inactive employers the new amortization policy imposes a maximum amortization period of 15 years for all unfunded accrued liabilities effective June 30, 2017. Furthermore, the plan actuary has the ability to shorten the amortization period on any valuation date based on the life expectancy of plan members and projected cash flow needs to the plan. The impact of this has been reflected in the current valuation results.

The CalPERS Board of Administration adopted a Risk Mitigation Policy which is designed to reduce funding risk over time. This Policy has been temporarily suspended during the period over which the discount rate is being lowered. More details on the Risk Mitigation Policy can be found on our website.

Besides the above noted changes, there may also be changes specific to the plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the "Highlights and Executive Summary" section and in Appendix A, "Statement of Actuarial Data, Methods and Assumptions" of the Section 2 report.

We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their results, we ask that you wait until after August 1 to contact us with actuarial related questions.

If you have other questions, please call our customer contact center at (888) CalPERS or (**888-225-7377**).

Sincerely,

SCOTT TERANDO
Chief Actuary

CalPERS

Actuarial Valuation as of June 30, 2017

for the Miscellaneous Plan of the North State Cooperative Library System

(CalPERS ID: 1897174550)

Required Contributions for Fiscal Year July 1, 2019 - June 30, 2020

Table of Contents

Section 1

Plan Specific Information
for the
Miscellaneous Plan
of the
North State Cooperative Library System

(CalPERS ID: 1897174550)
(Rate Plan: 1254)

Table of Contents

Actuarial Certification

Section 1 of this report is based on the member and financial data contained in our records as of June 30, 2017 which was provided by your agency and the benefit provisions under your contract with CalPERS. Section 2 of this report is based on the member and financial data as of June 30, 2017 provided by employers participating in the Miscellaneous Risk Pool to which the plan belongs and benefit provisions under the CalPERS contracts for those agencies.

As set forth in Section 2 of this report, the pool actuaries have certified that, in their opinion, the valuation of the risk pool containing your Miscellaneous Plan has been performed in accordance with generally accepted actuarial principles consistent with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for the risk pool as of the date of this valuation and as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Having relied upon the information set forth in Section 2 of this report and based on the census and benefit provision information for the plan, it is my opinion as the plan actuary that Unfunded Accrued Liability amortization bases as of June 30, 2017 and employer contribution as of July 1, 2019, have been properly and accurately determined in accordance with the principles and standards stated above.

The undersigned is an actuary for CalPERS, a member of both the American Academy of Actuaries and Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

JEAN FANNJIANG, ASA, MAAA
Senior Pension Actuary, CalPERS
Plan Actuary

Highlights and Executive Summary

- Introduction
- Purpose of Section 1
- Required Employer Contributions
- Plan's Funded Status
- Projected Employer Contributions
- Changes Since the Prior Year's Valuation
- Subsequent Events

Introduction

This report presents the results of the June 30, 2017 actuarial valuation of the Miscellaneous Plan of the North State Cooperative Library System of the California Public Employees' Retirement System (CalPERS). This actuarial valuation sets the required employer contributions for Fiscal Year 2019-20.

Purpose of Section 1

This Section 1 report for the Miscellaneous Plan of the North State Cooperative Library System of the California Public Employees' Retirement System (CalPERS) was prepared by the plan actuary in order to:

- Set forth the assets and accrued liabilities of this plan as of June 30, 2017;
- Determine the minimum required employer contribution for this plan for the fiscal year July 1, 2019 through June 30, 2020; and
- Provide actuarial information as of June 30, 2017 to the CalPERS Board of Administration and other interested parties.

The pension funding information presented in this report should not be used in financial reports subject to GASB Statement No. 68 for a Cost Sharing Employer Defined Benefit Pension Plan. A separate accounting valuation report for such purposes is available from CalPERS and details for ordering are available on our website.

The measurements shown in this actuarial valuation may not be applicable for other purposes. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

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.

California Actuarial Advisory Panel Recommendations

This report includes all the basic disclosure elements as described in the *Model Disclosure Elements for Actuarial Valuation Reports* recommended in 2011 by the California Actuarial Advisory Panel (CAAP), with the exception of including the original base amounts of the various components of the unfunded liability in the Schedule of Amortization Bases shown on page 9.

Additionally, this report includes the following "Enhanced Risk Disclosures" also recommended by the CAAP in the Model Disclosure Elements document:

- A "Deterministic Stress Test," projecting future results under different investment income scenarios
- A "Sensitivity Analysis," showing the impact on current valuation results using alternative discount rates of 6.0 percent, 7.0 percent and 8.0 percent.

Required Employer Contributions

		Fiscal Year
Required Employer Contributions		**2019-20**
Employer Normal Cost Rate		**0.000%**
Plus, Either		
1) Monthly Employer Dollar UAL Payment	**$**	**5,836.32**
Or		
2) Annual Lump Sum Prepayment Option	**$**	**67,627**

*The total minimum required employer contribution is the **sum** of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) **plus** the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars).*

*Only the UAL portion of the employer contribution can be prepaid **(which must be received in full no later than July 31)**. Plan Normal Cost contributions will be made as part of the payroll reporting process. If there is contractual cost sharing or other change, this amount will change.*

In accordance with Sections 20537 and 20572 of the Public Employees' Retirement Law, if a contracting agency fails to remit the required contributions when due, interest and penalties may apply.

		Fiscal Year 2018-19		Fiscal Year 2019-20
Development of Normal Cost as a Percentage of Payroll[1]				
Base Total Normal Cost for Formula		0.000%		0.000%
Surcharge for Class 1 Benefits[2]				
None		0.000%		0.000%
Phase out of Normal Cost Difference[3]		0.000%		0.000%
Plan's Total Normal Cost		0.000%		0.000%
Formula's Expected Employee Contribution Rate		0.000%		0.000%
Employer Normal Cost Rate		0.000%		0.000%
Projected Payroll for the Contribution Fiscal Year	$	0	$	0
Estimated Employer Contributions Based on Projected Payroll				
Plan's Estimated Employer Normal Cost	$	0	$	0
Plan's Payment on Amortization Bases[4]		45,707		70,036
% of Projected Payroll (illustrative only)		0.000%		0.000%
Estimated Total Employer Contribution	$	45,707	$	70,036
% of Projected Payroll (illustrative only)		0.000%		0.000%

[1] The results shown for Fiscal Year 2018-19 reflect the prior year valuation and may not take into account any lump sum payment, side fund payoff, or rate adjustment made after June 30, 2017.

[2] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

[3] The normal cost difference is phased out over a five-year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year. This is non-zero only for plans that joined a pool within the past 5 years. Most plans joined a pool June 30, 2003, when risk pooling was implemented.

[4] See page 9 for a breakdown of the Amortization Bases.

Plan's Funded Status

		June 30, 2016		June 30, 2017
1. Present Value of Projected Benefits (PVB)	$	2,163,506	$	2,157,894
2. Entry Age Normal Accrued Liability (AL)		2,163,506		2,157,894
3. Plan's Market Value of Assets (MVA)		1,517,446		1,515,694
4. Unfunded Accrued Liability (UAL) [(2) - (3)]		646,060		642,200
5. Funded Ratio [(3) / (2)]		70.1%		70.2%

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows projected employer contributions (before cost sharing) for the next six fiscal years. Projected results reflect the adopted changes to the discount rate described in Appendix A, "Statement of Actuarial Data, Methods and Assumptions" of the Section 2 report. The projections also assume that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period.

	Required Contribution	**Projected Future Employer Contributions (Assumes 7.25% Return for Fiscal Year 2017-18)**				
Fiscal Year	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Normal Cost %	0.000%	0.0%	0.0%	0.0%	0.0%	0.0%
UAL Payment	$70,036	$76,000	$76,000	$76,000	$76,000	$76,000

Changes in the UAL due to actuarial gains or losses as well as changes in actuarial assumptions or methods are amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A of Section 2. This method phases in the impact of unanticipated changes in UAL over a 5-year period and attempts to minimize employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years where there is a large increase in UAL the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

Due to the adopted changes in the discount rate for next year's valuation in combination with the 5-year phase-in ramp, the increases in the required contributions are expected to continue for six years from Fiscal Year 2019-20 through Fiscal Year 2024-25.

For projected contributions under alternate investment return scenarios, please see the "Analysis of Future Investment Return Scenarios" in the "Risk Analysis" section.

Changes since the Prior Year's Valuation

Benefits

None. This valuation generally reflects plan changes by amendments effective before the date of the report. Please refer to the "Plan's Major Benefit Options" and Appendix B of Section 2 for a summary of the plan provisions used in this valuation.

Actuarial Methods and Assumptions

At its December 2016 meeting, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations. The minimum employer contributions for Fiscal Year 2019-20 determined in this valuation were calculated using a discount rate of 7.25 percent. The projected employer contributions on page 5 are calculated assuming that the discount rate will be lowered to 7.00 percent next year as adopted by the Board. The decision to reduce the discount rate was primarily based on reduced capital market assumptions provided by external investment consultants and CalPERS investment staff. The specific decision adopted by the Board reflected recommendations from CalPERS staff and additional input from employer and employee stakeholder groups. Based on the investment allocation adopted by the Board and capital market assumptions, the reduced discount rate assumption provides a more realistic assumption for the long-term investment return of the fund.

On December 19, 2017, the CalPERS Board of Administration adopted new actuarial assumptions based on the recommendations in the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumption for Public Agencies. These new assumptions are incorporated in this actuarial valuation and will impact the required contribution for FY 2019-20. In addition, the Board adopted a new asset portfolio as part of its Asset Liability Management. The new asset mix supports a 7.00 percent discount rate. The reduction of the inflation assumption will be implemented in two steps in conjunction with the decreases in the discount rate. For the June 30, 2017 valuation an inflation rate of 2.625 percent will be used and a rate of 2.50 percent in the following valuation.

Notwithstanding the Board's decision to phase into a 7.0 percent discount rate, subsequent analysis of the expected investment return of CalPERS assets or changes to the investment allocation may result in a change to this three-year discount rate schedule.

Subsequent Events

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

For inactive employers the new amortization policy imposes a maximum amortization period of 15 years for all unfunded accrued liabilities effective June 30, 2017. Furthermore, the plan actuary has the ability to shorten the amortization period on any valuation date based on the life expectancy of plan members and projected cash flow needs to the plan. The impact of this has been reflected in the current valuation results.

The contribution requirements determined in this actuarial valuation report are based on demographic and financial information as of June 30, 2017. Changes in the value of assets subsequent to that date are not reflected. Investment returns below the assumed rate of return will increase the retired contribution, while investment returns above the assumed rate of return will decrease the retired contribution.

This actuarial valuation report reflects statutory changes, regulatory changes and CalPERS Board actions through January 2018. Any subsequent changes or actions are not reflected.

Assets and Liabilities

- **Breakdown of Entry Age Normal Accrued Liability**
- **Allocation of Plan’s Share of Pool’s Experience/Assumption Change**
- **Development of Plan’s Share of Pool’s MVA**
- **Schedule of Plan’s Amortization Bases**
- **Amortization Schedule and Alternatives**
- **Employer Contribution History**
- **Funding History**

Breakdown of Entry Age Normal Accrued Liability

Active Members	$	0
Transferred Members		164,614
Terminated Members		27,373
Members and Beneficiaries Receiving Payments		1,965,907
Total	$	2,157,894

Allocation of Plan's Share of Pool's Experience/Assumption Change

It is the policy of CalPERS to ensure equity within the risk pools by allocating the pool's experience gains/losses and assumption changes in a manner that treats each employer equitably and maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. The Pool's experience gains/losses and impact of assumption/method changes is allocated to the plan as follows:

1.	Plan's Accrued Liability	$	2,157,894
2.	Projected UAL balance at 6/30/17		661,842
3.	Pool's Accrued Liability[1]	$	15,780,998,593
4.	Sum of Pool's Individual Plan UAL Balances at 6/30/17[1]		3,912,002,885
5.	Pool's 2016/17 Investment & Asset (Gain)/Loss		(413,206,167)
6.	Pool's 2016/17 Other (Gain)/Loss		(21,126,605)
7.	Plan's Share of Pool's Asset (Gain)/Loss [(1) - (2)] / [(3) - (4)] * (5)		(52,083)
8.	Plan's Share of Pool's Other (Gain)/Loss [(1)] / [(3)] * (6)		(2,889)
9.	Plan's New (Gain)/Loss as of 6/30/2017 [(7) + (8)]	$	(54,972)
10.	Increase in Pool's Accrued Liability due to Change in Assumptions[1]		258,379,047
11.	Plan's Share of Pool's Change in Assumptions [(1)] / [(3)] * (10)	$	35,331

[1] Does not include plans that transferred to Pool on the valuation date.

Development of the Plan's Share of Pool's Market Value of Assets

12.	Plan's UAL [(2) + (9) + (11)]	$	642,200
13.	Plan's Share of Pool's MVA [(1) - (12)]	$	**1,515,694**

Schedule of Plan's Amortization Bases

There is a two-year lag between the valuation date and the start of the contribution fiscal year.

- The assets, liabilities, and funded status of the plan are measured as of the valuation date: June 30, 2017.
- The employer contribution determined by the valuation is for the fiscal year beginning two years after the valuation date: Fiscal Year 2019-20.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and the need to provide public agencies with their employer contribution well in advance of the start of the fiscal year.

The Unfunded Accrued Liability (UAL) is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The UAL is rolled forward each year by subtracting the payment on the UAL for the fiscal year and adjusting for interest. Additional discretionary payments are reflected in the Expected Payments column in the fiscal year they were made by the agency.

								Amounts for Fiscal 2019-20	
Reason for Base	**Date Established**	**Ramp Up/Down 2019-20**	**Amortization Period**	**Balance 6/30/17**	**Payment 2017-18**	**Balance 6/30/18**	**Payment 2018-19**	**Balance 6/30/19**	**Scheduled Payment for 2019-20**
FRESH START	06/30/17	No Ramp	15	$642,200	$36,974	$650,469	$45,707	$650,293	$70,036
TOTAL				**$642,200**	**$36,974**	**$650,469**	**$45,707**	**$650,293**	**$70,036**

The (gain)/loss bases are the plan's allocated share of the risk pool's (gain)/loss for the fiscal year as disclosed on the previous page. These (gain)/loss bases will be amortized according to Board policy over 30 years with a 5-year ramp-up.

If the total Unfunded Liability is negative (i.e., plan has a surplus), the scheduled payment is $0, because the minimum required contribution under PEPRA must be at least equal to the normal cost.

Amortization Schedule and Alternatives

The amortization schedule on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze the current amortization schedule and illustrate the advantages of accelerating unfunded liability payments.

Shown on the following page are future year amortization payments based on: 1) the current amortization schedule reflecting the individual bases and remaining periods shown on the previous page, and 2) alternate "fresh start" amortization schedules using two sample periods that would both result in interest savings relative to the current amortization schedule. Note that the payments under each alternate scenario increase by 2.875 percent for each year into the future. **The schedules do not attempt to reflect any experience after June 30, 2017 that may deviate from the actuarial assumptions. Therefore, future amortization payments displayed in the Current Amortization Schedule may not match projected amortization payments shown in connection with Projected Employer Contributions provided elsewhere in this report.**

The Current Amortization Schedule typically contains individual bases that are both positive and negative. Positive bases result from plan changes, assumption changes or plan experience that result in increases to unfunded liability. Negative bases result from plan changes, assumption changes or plan experience that result in decreases to unfunded liability. The combination of positive and negative bases within an amortization schedule can result in unusual or problematic circumstances in future years such as:

- A positive total unfunded liability with a negative total payment,
- A negative total unfunded liability with a positive total payment, or
- Total payments that completely amortize the unfunded liability over a very short period of time

In any year where one of the above scenarios occurs, the actuary will consider corrective action such as replacing the existing unfunded liability bases with a single "fresh start" base and amortizing it over a reasonable period.

The Current Amortization Schedule on the following page may appear to show that, based on the current amortization bases, one of the above scenarios will occur at some point in the future. It is impossible to know today whether such a scenario will in fact arise since there will be additional bases added to the amortization schedule in each future year. Should such a scenario arise in any future year, the actuary will take appropriate action based on guidelines in the CalPERS amortization policy.

Amortization Schedule and Alternatives

			Alternate Schedules			
	Current Amortization Schedule		10 Year Amortization		5 Year Amortization	
Date	**Balance**	**Payment**	**Balance**	**Payment**	**Balance**	**Payment**
6/30/2019	650,293	70,036	650,293	90,439	650,293	154,173
6/30/2020	624,909	70,036	603,779	90,439	537,776	154,173
6/30/2021	597,685	70,036	553,893	90,439	417,101	154,173
6/30/2022	568,487	70,036	500,391	90,439	287,677	154,173
6/30/2023	537,172	70,036	443,009	90,439	148,870	154,173
6/30/2024	503,587	70,036	381,467	90,439		
6/30/2025	467,566	70,036	315,464	90,439		
6/30/2026	428,935	70,036	244,675	90,439		
6/30/2027	387,502	70,036	168,754	90,439		
6/30/2028	343,066	70,036	87,329	90,439		
6/30/2029	295,408	70,036				
6/30/2030	244,295	70,036				
6/30/2031	189,476	70,036				
6/30/2032	130,683	70,036				
6/30/2033	67,627	70,036				
6/30/2034						
6/30/2035						
6/30/2036						
6/30/2037						
6/30/2038						
6/30/2039						
6/30/2040						
6/30/2041						
6/30/2042						
6/30/2043						
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
Totals		**1,050,538**		**904,389**		**770,863**
Interest Paid		**400,244**		**254,096**		**120,570**
Estimated Savings				**146,149**		**279,675**

* This schedule does not reflect the impact of adopted discount rate changes that will become effective beyond June 30, 2017. For Projected Employer Contributions, please see page 5.

Employer Contribution History

The table below provides a recent history of the required employer contributions for the plan, as determined by the annual actuarial valuation. It does not account for prepayments or benefit changes made during a fiscal year.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment ($)
2016 - 17	0.000%	$30,751
2017 - 18	0.000%	$36,973
2018 - 19	0.000%	$45,707
2019 - 20	0.000%	$70,036

Funding History

The funding history below shows the plan's actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/2011	$ 2,003,701	$ 1,589,379	$ 414,322	79.3%	$ 0
06/30/2012	1,882,656	1,370,364	512,292	72.8%	0
06/30/2013	1,834,500	1,380,134	454,366	75.2%	0
06/30/2014	2,063,049	1,644,368	418,681	79.7%	0
06/30/2015	2,160,266	1,651,498	508,768	76.4%	0
06/30/2016	2,163,506	1,517,446	646,060	70.1%	0
06/30/2017	2,157,894	1,515,694	642,200	70.2%	0

Risk Analysis

- **Analysis of Future Investment Return Scenarios**
- **Analysis of Discount Rate Sensitivity**
- **Volatility Ratios**
- **Hypothetical Termination Liability**

Analysis of Future Investment Return Scenarios

Analysis was performed to determine the effects of various future investment returns on required employer contributions. The projections below provide a range of results based on five investment return scenarios assumed to occur during the next four fiscal years (2017-18, 2018-19, 2019-20 and 2020-21). The projections also assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Each of the five investment return scenarios assumes a return of 7.25 percent for fiscal year 2017-18. For fiscal years 2018-19, 2019-20, and 2020-21 each scenario assumes an alternate fixed annual return. The fixed return assumptions for the five scenarios are 1.0 percent, 4.0 percent, 7.0 percent, 9.0 percent and 12.0 percent.

The alternate investment returns were chosen based on stochastic analysis of possible future investment returns over the four-year period ending June 30, 2021. Using the expected returns and volatility of the asset classes in which the funds are invested, we produced five thousand stochastic outcomes for this period based on the recently completed Asset Liability Management process. We then selected annual returns that approximate the 5^{th}, 25^{th}, 50^{th}, 75^{th}, and 95^{th} percentiles for these outcomes. For example, of all the 4-year outcomes generated in the stochastic analysis, approximately 25 percent of them had an average annual return of 4.0 percent or less.

Required contributions outside of this range are also possible. In particular, whereas it is unlikely that investment returns will average less than 1.0 percent or greater than 12.0 percent over this four-year period, the possibility of a single investment return less than 1.0 percent or greater than 12.0 percent in any given year is much greater.

Assumed Annual Return From 2018-19 through 2020-21	**Projected Employer Contributions**			
	2020-21	**2021-22**	**2022-23**	**2023-24**
1.0%				
Normal Cost	0.0%	0.0%	0.0%	0.0%
UAL Contribution	$76,000	$88,000	$100,000	$112,000
4.0%				
Normal Cost	0.0%	0.0%	0.0%	0.0%
UAL Contribution	$76,000	$82,000	$88,000	$94,000
7.0%				
Normal Cost	0.0%	0.0%	0.0%	0.0%
UAL Contribution	$76,000	$76,000	$76,000	$76,000
9.0%				
Normal Cost	0.0%	0.0%	0.0%	0.0%
UAL Contribution	$76,000	$73,000	$71,000	$67,000
12.0%				
Normal Cost	0.0%	0.0%	0.0%	0.0%
UAL Contribution	$76,000	$68,000	$58,000	$47,000

Given the temporary suspension of the Risk Mitigation Policy during the period over which the discount rate assumption is being phased down to 7.0 percent, the projections above were performed without reflection of any possible impact of this Policy for Fiscal Year 2020-21. In addition, the projections above do not reflect the recent changes to the new amortization policy effective with the June 30, 2019 valuation but the impact on the results above is expected to be minimal.

Analysis of Discount Rate Sensitivity

Shown below are various valuation results as of June 30, 2017 assuming alternate discount rates. Results are shown using the current discount rate of 7.25 percent as well as alternate discount rates of 6.0 percent, 7.0 percent, and 8.0 percent. The alternate rate of 7.0 percent was selected since the Board has adopted this rate as the final discount rate at the end of the three-year phase-in of the reduction in this assumption. The rates of 6.0 percent and 8.0 percent were selected since they illustrate the impact of a 1 percent increase or decrease to the 7.0 percent assumption. This analysis shows the potential plan impacts if the PERF were to realize investment returns of 6.0 percent, 7.0 percent, or 8.0 percent over the long-term.

This type of analysis gives the reader a sense of the long-term risk to required contributions. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" at the end of this section.

Sensitivity Analysis

As of June 30, 2017	Plan's Total Normal Cost	Accrued Liability	Unfunded Accrued Liability	Funded Status
7.25% (current discount rate)	0.000%	$2,157,894	$642,200	70.2%
6.0%	0.000%	$2,395,768	$880,074	63.3%
7.0%	0.000%	$2,201,132	$685,438	68.9%
8.0%	0.000%	$2,034,743	$519,049	74.5%

Volatility Ratios

Actuarial calculations are based on a number of assumptions about long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise required employer contributions from one year to the next. Therefore, employer contributions will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Plans that have higher asset-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with an asset-to-payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset-to-payroll ratio of 4. Shown below is the asset volatility ratio, a measure of the plan's current contribution volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio (LVR)

Plans that have higher liability-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return and changes in liability. For example, a plan with a liability-to-payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability-to-payroll ratio of 4. The liability volatility ratio is also shown in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility. The asset volatility ratio, described above, will tend to move closer to the liability volatility ratio as the plan matures. Since the liability volatility ratio is a long-term measure, it is shown below at the current discount rate (7.25 percent) as well as the discount rate the Board has adopted to determine the contribution requirement in the June 30, 2018 actuarial valuation (7.00 percent).

Rate Volatility		**As of June 30, 2017**
1. Market Value of Assets	$	1,515,694
2. Payroll		0
3. Asset Volatility Ratio (AVR) [(1) / (2)]		N/A
4. Accrued Liability	$	2,157,894
5. Liability Volatility Ratio (LVR) [(4) / (2)]		N/A
6. Accrued Liability (7.00% discount rate)		2,201,132
7. Projected Liability Volatility Ratio [(6) / (2)]		N/A

Hypothetical Termination Liability

The hypothetical termination liability is an estimate of the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2017. The plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. For the hypothetical termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed. This measure of funded status is not appropriate for assessing the need for future employer contributions in the case of an ongoing plan, that is, for an employer that continues to provide CalPERS retirement benefits to active employees.

A more conservative investment policy and asset allocation strategy was adopted by the CalPERS Board for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefit security for members is increased while funding risk is limited. However, this asset allocation has a lower expected rate of return than the PERF and consequently, a lower discount rate is assumed. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The effective termination discount rate will depend on actual market rates of return for risk-free securities on the date of termination. As market discount rates are variable, the table below shows a range for the hypothetical termination liability based on the lowest and highest interest rates observed during an approximate 2-year period centered around the valuation date.

Market Value of Assets (MVA)	Hypothetical Termination Liability[1,2] @ 1.75%	Funded Status	Unfunded Termination Liability @ 1.75%	Hypothetical Termination Liability[1,2] @ 3.00%	Funded Status	Unfunded Termination Liability @ 3.00%
$1,515,694	$3,602,771	42.1%	$2,087,077	$3,377,173	44.9%	$1,861,479

[1] The hypothetical liabilities calculated above include a 5 percent mortality contingency load in accordance with Board policy. Other actuarial assumptions can be found in Appendix A.

[2] The current discount rate assumption used for termination valuations is a weighted average of the 10-year and 30-year U.S. Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the table are based on 20-year Treasury bonds, rounded to the nearest quarter percentage point, which is a good proxy for most plans. The 20-year Treasury yield was 2.61 percent on June 30, 2017, and was 2.83 percent on January 31, 2018.

In order to terminate the plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to terminate. The completed Resolution will allow the plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of the plan liabilities. CalPERS advises you to consult with the plan actuary before beginning this process.

Participant Data

The table below shows a summary of your plan's member data upon which this valuation is based:

	June 30, 2016	June 30, 2017
Reported Payroll	$ 0	$ 0
Projected Payroll for Contribution Purposes	$ 0	$ 0
Number of Members		
Active	0	0
Transferred	4	4
Separated	3	3
Retired	15	15

List of Class 1 Benefit Provisions

This plan has the additional Class 1 Benefit Provisions:

- None

Plan's Major Benefit Options

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which your agency has contracted. A description of principal standard and optional plan provisions is in Appendix B within Section 2 of this report.

	Contract package		
Benefit Provision	Inactive Misc	Receiving Misc	
Benefit Formula	2.0% @ 55		
Social Security Coverage	Yes		
Full/Modified	Modified		
Employee Contribution Rate			
Final Average Compensation Period	One Year		
Sick Leave Credit	Yes		
Non-Industrial Disability	Standard		
Industrial Disability	No		
Pre-Retirement Death Benefits			
Optional Settlement 2	Yes		
1959 Survivor Benefit Level	No		
Special	No		
Alternate (firefighters)	No	No	
Post-Retirement Death Benefits			
Lump Sum	$500	$500	
Survivor Allowance (PRSA)	No	No	
COLA	2%	2%	

Section 2

Section 2 may be found on the CalPERS website (www.calpers.ca.gov) in the Forms and Publications section

FY 19/20 CalPERS Cost-Share

For FY 19/20, North State's CalPERS obligation is $70,036.

Previous Cost-Share Calculation

In FY 18/19 (and earlier fiscal years), North State Libraries were assigned to a base-rate within a five-tier system, according to their budget size (from the "Local Government Income" data in the California State Library report).

The previous five-tiers were split the following way:

	Base Rate
Budget size under $200,000	$100
Budget size under $400,000	$200
Budget size under $600,000	$300
Budget size under $2,000,000	$400
Budget size over $2,000,000	$500

At the March 21, 2018 meeting, an alternate cost-share arrangement was proposed and there was consensus to move forward with this new cost-share for FY 19/20.

New Cost-Share Calculation for FY 19/20

The new cost-share model would extend the five-tier model to be twelve tiers – essentially assign a base-rate value to each library system, depending on its budget size (again, according to the "Local Government Income" data in the California State Library report).

Cost-share with a Twelve-Tier Base Rate

County	Budget (FY 16/17)	Base Rate	Factor	Total
Lassen Library	$ 117,138	$ 100	8.98	$ 898
Del Norte County	$ 184,483	$ 200	8.98	$ 1,796
Modoc County	$ 235,000	$ 300	8.98	$ 2,694
Willows Public	$ 259,062	$ 400	8.98	$ 3,592
Orland Free Library	$ 320,146	$ 500	8.98	$ 4,489
Trinity County	$ 325,850	$ 600	8.98	$ 5,387
Plumas County Library	$ 389,100	$ 700	8.98	$ 6,285
Tehama County	$ 565,657	$ 800	8.98	$ 7,183
Siskiyou County Library	$ 565,937	$ 900	8.98	$ 8,081
Shasta Public Library	$ 2,109,993	$ 1,000	8.98	$ 8,979
Humboldt County	$ 2,425,764	$ 1,100	8.98	$ 9,877
Butte County	$ 3,559,100	$ 1,200	8.98	$ 10,775
		$ 7,800		$ 70,036

Note: The FY 16/17 budget data is the latest available in the California State Library report.

Calculating the Factor value

The Factor is found by dividing the CalPERS liability amount by the sum of the base rates.

$$\frac{\$70{,}036}{7{,}800} = 8.98$$

Calculating a Library System's Total

To find the amount each system is owed, we take its respective Base Rate and multiply it by the Factor.

So for Modoc, its cost-share for FY 19/20 is

$$\$300\ x\ 8.98 = \$2{,}694$$

Action: Approve this cost-share model to pay North State's CalPERS obligation for FY 19/20.

BEST BEST & KRIEGER LLP
ATTORNEYS AT LAW

MEMORANDUM

To: Board of Directors
NORTHNET LIBRARY SYSTEM
From: Isabel C. Safie
Date: November 29, 2018
Re: Update on AB 1912 and Liability of Legacy Systems

UPDATE ON AB 1912

Since my last presentation to NorthNet Library System ("NorthNet") on June 15, 2018, AB 1912 was amended several more times, and signed into law by Governor Brown. AB 1912 becomes effective on January 1, 2019. The following is a summary of the most significant aspects of the bill:

- Shared Retirement Liabilities of the JPA. The retirement liabilities of a JPA are the debts of the parties to the JPA agreement. This rule applies on a retroactive and prospective basis. However AB 1912 would not apply to members of a JPA whose retirement contract was terminated prior to AB 1912's passage or to members of a JPA that dissolved prior to January 1, 2019.

- Apportionment if JPA Winds Down. Member agencies would only be required to apportion retirement liabilities of a JPA *if* (a) the JPA intends to adopt a resolution of intent to terminate its contract with CalPERS, or (b) CalPERS issues a notice of potential termination following the JPA's default for failure to pay employer contributions or upon its determination that the JPA is no longer in existence, such as in the event of dissolution or cessation of operations. This means that members of a JPA that is not at risk of failing or which is not planning to terminate its CalPERS contract, would not be forced to apportion the JPA's retirement liability among themselves. **This is a significant change since my presentation to NorthNet on AB 1912**.

- Timing of Apportionment Agreement. For any JPA participating in CalPERS, member agencies would need to apportion retirement liabilities of the JPA and submit a copy of the agreement to the CalPERS Board *prior to filing a notice to terminate*. Additionally, any JPA subject to potential termination for failure to pay employer contributions would need to provide the Board with a copy of the apportionment agreement within 60 days' notice.

- CalPERS' Determination of Apportionment. If member agencies are unable to agree as to apportionment, the retirement board (i.e., CalPERS for legacy members) would determine apportionment between member agencies based on the share of service received by each member agency, or the population of each member agency. A member agency may challenge the Board's determination, in which case an arbitrator would make the final and binding determination.

- Member Agencies Always Remain Liable. Terminating JPAs and their member agencies will remain liable to CalPERS if there are still inadequate funds available for the benefits promised (e.g. one member agency defaults on its obligations), even after member agencies agree or the Board apportions 100% of the JPA's retirement liabilities. **This is another significant change from my presentation to NorthNet on AB 1912**.

APPLICATION OF AB 1912 TO LEGACY SYSTEMS

In our previous Memorandum dated June 12, 2018, we concluded that members of North Bay could not be held liable for the JPA's retirement liabilities since North Bay's JPA agreement specifically provided that members would not be responsible for the debts of the JPA. We also concluded that members of Mountain-Valley could not be held liable for the debts of Mountain-Valley because it is not subject to JPA law and the members have not otherwise agreed to be liable for the system's retirement liabilities. With regard to North State, we concluded that members *are* liable, in proportion with the members' respective periods of membership, because North State's Bylaws voluntarily subject North State to the Joint Exercise of Powers Act, including the shared liability provisions of Government Code section 6508.1.

In light of AB 1912 becoming law, our previous conclusion with regard to North Bay changes significantly—North Bay member agencies would now be liable for the JPA's retirement liabilities in the event North Bay intends to adopt a resolution of intent to terminate its contract with CalPERS or CalPERS gives notice of potential termination. Our conclusion for North State remains essentially the same—North State member agencies are liable, however the proportion of liability would be decided by the members themselves or the CalPERS' Board if the members cannot agree. Lastly our conclusion with regard to Mountain-Valley remains the same (i.e., Mountain-Valley member agencies are not liable) since AB 1912 is not applicable. Below we provide further detail regarding how AB 1912 will apply (or not apply) to the legacy systems.

A. North Bay & North State – Shared Liability Among Member Agencies

Members of North Bay and North State will share liability for the retirement obligations of their respective library system. However neither system will be required to allocate liability unless either intends to adopt a resolution of intent to terminate its contract with CalPERS or CalPERS provides either with a notice of a potential termination. Members of North Bay and North State will not be required to apportion liability if their respective systems are not at risk of failing, continue to pay required employer contributions, and do not plan to terminate their CalPERS contract.

In the event either system decides to terminate its contract with CalPERS, the member agencies would need to decide how to allocate retirement liability amongst themselves and provide CalPERS with a copy of the allocation agreement prior to filing a notice to terminate. Since the entire termination process begins with filing a notice to terminate and can generally last up to one (1) year, member agencies should work on the allocation agreement as soon as possible once it is determined that the system is terminating its contract, to avoid further delays.

If member agencies cannot agree on apportioning liability, CalPERS would determine apportionment between the member agencies based on share of service received from the legacy system by each agency, or the population of each member agency. A member agency may challenge the Board's determination, in which case an arbitrator would make the final and binding determination.

Please keep in mind that North State members may be likely to challenge application of AB 1912 since the system was not explicitly formed pursuant to JPA law, but rather a provision in its Bylaws voluntarily subjects North State to JPA law. Moreover, documents previously provided by NorthNet indicate that North State administrators may be under the mistaken impression that the system is not subject to JPA law. However based on our review, we believe the Bylaws are sufficient to show that parties intended for members to be responsible for the debts of North State, given that JPA law imposed joint liability on member agencies of a JPA absent a clear renunciation of liability pursuant to section 6508.1.

B. <u>Mountain-Valley Library System – Member Agencies Not Liable</u>

Since Mountain-Valley is not a JPA and has not elected to be subject to JPA law, its members are not liable for the retirement obligations of the system, regardless of AB 1912's passage.