



2471 Flores Street, San Mateo, CA 94403
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www.northnetlibs.org

October 19, 2017

Mountain-Valley Library System
2471 Flores Street
San Mateo, CA 94403

Dear Greta,

NorthNet Library System recently retained special legal counsel to evaluate the obligations of NorthNet and its three-member library systems (referred to as the "legacy systems") for the liability resulting from each legacy systems' former employees' pension benefits under the California Public Employees' Retirement System ("CalPERS"). Mountain-Valley Library System ("Mountain-Valley"), a legacy system, contracted with CalPERS effective March 21, 1992. Mountain-Valley has an annual unfunded liability obligation to CalPERS, which is equal to \$22,786 for fiscal year 2017-2018. This letter serves as notification of Mountain-Valley's responsibilities with respect to its CalPERS liabilities and the potential consequences of failure to fulfill those responsibilities.

After evaluating the underlying contracts and related documentation, special legal counsel has determined that NorthNet has no legal responsibility for the legacy systems' CalPERS obligations. Rather, each legacy system retains legal responsibility for its CalPERS obligations pursuant to each system's CalPERS contract.

Further, special legal counsel has concluded that Mountain-Valley's constituent library members are not legally obligated to fund Mountain-Valley's CalPERS obligations under its operative documents and applicable law. Mountain-Valley is not a joint powers agency, and the Mountain-Valley bylaws make no reference to the Joint Exercise of Powers Act. Therefore, Mountain-Valley is not subject to Government Code Section 6508.1, which could otherwise require shared liability among the parties to a joint powers agreement. Additionally, neither Mountain-Valley's formative resolutions nor its bylaws include provisions requiring Mountain-Valley's constituent members to be responsible for Mountain-Valley's debts or obligations. Mountain-Valley is thus solely responsible for its CalPERS obligations under PERL. As such, Mountain-Valley may choose to request payment from its constituent members as part of their normal member contributions and dues, but the constituent library members are not legally obligated to agree to such payments.

Should Mountain-Valley default on its CalPERS obligations to pay its annual amortized unfunded liability payment, CalPERS has the option to involuntarily terminate Mountain-Valley's CalPERS contract and assess termination liability. Termination liability is equal to the total funds that CalPERS actuaries determine will be necessary to fully fund the pension benefits accrued under



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Mountain-Valley's CalPERS contract using a very conservative assumed rate of return, and will likely be in the millions of dollars. In the event of a shortfall in the payment of the termination liability, CalPERS has the authority to reduce benefits for retirees by a percentage equal to the unfunded termination liability. Additionally, CalPERS has the statutory authority to initiate litigation against Mountain-Valley to recover any unpaid liabilities.

If you have any questions, please contact the undersigned.

Sincerely,

Mel Lightbody, Chair
NorthNet Library System