



2471 Flores Street, San Mateo, CA 94403
650-349-5538 Fax: 650-349-5089

www.northnetlibs.org

October 19, 2017

North State Cooperative Library System
2471 Flores Street
San Mateo, CA 94403

Dear Michael,

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”). North State Cooperative Library System (“North State”), a legacy system, contracted with CalPERS effective January 1, 1965. North State has an annual unfunded liability obligation to CalPERS, which is equal to \$20,584 for fiscal year 2017-2018. This letter serves as notification of North State’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. However, special legal counsel has concluded that North State’s constituent library members are legally obligated to fund North State’s CalPERS obligations under its operative documents and applicable law, since North State’s bylaws subject it and its members to the shared liability provisions of Section 6508.1 of the California Joint Exercise of Powers Act. Government Code §6508.1 provides, “the debts, liabilities, and obligations of the agency shall be debts, liabilities, and obligations of the parties to the agreement, ***unless the agreement specifies otherwise.***” (Emphasis added). Despite the aforementioned language subjecting North State and its members to Section 6508.1, there are no provisions in the formative resolutions or the bylaws for North State that specify that its constituent library members are not responsible for its debts, liabilities, and obligations. Therefore, pursuant to its bylaws and Government Code §6508.1, North State’s constituent library members are responsible for North State’s CalPERS obligations. This is an unusual outcome since most public entities subject to Section 6508.1 include language in their formative documents that provide that members are not responsible for its liabilities. This outcome does not apply to the other legacy systems because North Bay Cooperative Library System, which is subject to Section 6508.1, excludes such exclusionary language in its agreement, and Mountain-Valley Library System, which is not a joint powers agency, is not subject to Section 6508.1.

Should North State default on its CalPERS obligations to pay its annual amortized unfunded liability payment, CalPERS has the option to involuntarily terminate North State’s CalPERS



2471 Flores Street, San Mateo, CA 94403
650-349-5538 Fax: 650-349-5089

www.northnetlibs.org

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 North State'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 North State to recover any unpaid liabilities.

If you have any questions, please contact the undersigned.

Sincerely,

Mel Lightbody, Chair
NorthNet Library System