BEST BEST & KRIEGER LLP
ATTORNEYS AT LAW

MEMORANDUM

To: Board of Directors, NorthNet Library System

From: Isabel C. Safie

Date: January 17, 2018

Re: Accrued Pension Liability

Our final task is to provide NorthNet with a report of the present value of benefits for each (a) current retiree, (b) future retiree and (c) beneficiary for each of the legacy systems. The purpose of having this report is so that NorthNet can determine its total pension liability with regard to the former employees of the legacy systems.

Although the information available from CalPERS permit us to provide NorthNet with present value calculations, such information could be misleading for NorthNet as it incorrectly suggests that the total liability for the legacy systems can be dispensed by fully funding the present value with no further liability. That is not the case. Rather, as ongoing members of CalPERS (albeit with inactive contracts), the legacy systems will be subject to variations in funded status on the basis of investment earnings and variations in actuarial assumptions (e.g., mortality, cost of living adjustments). Further, as discussed below, when a contracting agency exits CalPERS it must pay a termination cost known as withdrawal liability.

The data available from CalPERS allowed us to determine the total accrued liability of each legacy system. Please note that the data presented in connection with this Memorandum is based on the member and financial data as of June 30, 2016. This is the most recent data made available by CalPERS. Data for the June 30, 2017 date will not be available until the annual valuation is issued later this year between August and November.

The enclosed spreadsheets provide NorthNet with detail on its pension liability per member. The spreadsheets have separate sections for current retirees, deceased members, and future retirees (terminated or transferred employees). The definitions of each term are included in the documents. Each section includes a breakdown of the accrued liability associated with the particular group of employees.

In summary, the total liability, value of plan assets and unfunded liability of each legacy system as of June 30, 2016 is as follows:

	Present Value of Projected Benefits	**Market Value of Plan Assets**	**Unfunded Liability**
North Bay:	$2,621,543	$1,970,346	$651,197
North State:	$2,163,506	$1,517,446	$646,060

Mountain Valley:	$ 935,937	$ 645,445	$290,492

The key figures are the unfunded liability amounts as these are the amounts by which the plans were underfunded as of June 30, 2016 assuming that they continued as inactive contracting agencies.

To the extent that NorthNet is interested in exploring terminating the legacy systems' contracts with CalPERS, the liability in that scenario would be much higher than the legacy systems' liability as inactive contracting agencies reflected above. That is, when an agency terminates it contract with CalPERS, CalPERS will calculate the cost to exit the system using a variable rate of return that is much lower than the rate of return used to calculate ongoing liability. This variable rate, or discount rate as referred to by CalPERS, has hovered between 2.25% and 2.75% for the last few years which is a significant reduction from the 7.375% used to calculate ongoing liabilities.

The most recent actuarial reports for each legacy system provides us with a rough idea of what the withdrawal liability could be. This hypothetical termination liability is an estimate of the financial position of the plans had the contracts with CalPERS been terminated as of June 30, 2016 (again this is the most recent valuation date).

	Unfunded Termination Liability @1.75%	**Unfunded Termination Liability @3.00%**
North Bay:	$2,850,007	$2,341,757
North State:	$2,197,071	$1,869,584
Mountain Valley:	$ 965,361	$ 821,844

The preceding amounts are what each legacy system would have had to pay to CalPERS had it terminated its contract with CalPERS effective June 30, 2016 assuming the discount rate was the percentage reflected in the hypothetical. Please note that a voluntary termination cannot be effective until at least 1 year after a "Resolution of Intent to Terminate" is adopted. Since the discount rate (i.e., assumed rate of return) used by CalPERS to calculate the withdrawal liability is variable (mostly based on the 30 Year Treasury Yield), the actual unfunded withdrawal liability (which is not fixed until after the termination is effective) is a moving target.