NorthNet Library System White Paper
Regarding the CalPERS obligations
of the three NorthNet Library
Legacy Systems:

North Bay Cooperative Library System
Mountain Valley Library System
North State Cooperative Library System

Prepared by Jane Light, consultant for Pacific Library Partnership and NorthNet Library System
December 26, 2016
Revised April 18, 2017
Revised May 20, 2017
Information, Options and Questions for NorthNet Library System’s Legacy Systems Regarding Their CalPERS Contracts

1.0 Purpose of this document
This document provides information about each of the legacy systems, including its contract for employee pensions and the current status of CalPERS liabilities. It also identifies options and questions for the Administrative Councils (governing boards) to consider. If NLS or the legacy systems decide to seek legal advice this document can be used as background for that purpose.

1.1 Background about the Systems
1.1.1 The three legacy systems Mountain Valley Library System (MVLS), North Bay Cooperative Library System (NBCLS), and North State Cooperative Library System (NSCLS) formed the NorthNet Library System (NLS) as a Joint Powers Authority (JPA) in 2009. The legacy systems formed NLS in order to increase opportunities for resource sharing and reduce expenses. NLS then became the cooperative library system funded in part by the California Library Services Act administered by the California State Library. NLS has no employees and contracts for administrative services, currently with the Pacific Library Partnership (PLP).

MVLS and NSCLS have not had employees since 2009. NBCLS had staff until 2012; it provided administrative services to NLS from 2009 until 2012. NLS contracted with the Peninsula Library System for administrative services from July 2012 through June 2015.

1.2 Why was this document prepared?
The chair of NLS, Sonoma County Library Director Brett Lear, asked PLP to prepare this document to provide information and identify questions for each of the legacy systems and for NLS. The library directors of the member jurisdictions serve as the governing boards. Many of them are relatively new to their positions and have requested more information about the situation and the options for each of the legacy systems. Each has its own CalPERS contract and its Administrative Council (governing board) makes decisions about its assets and liabilities.
1.3 Questions regarding NLS for legal counsel:

1.3.1 If one, two or all three of the legacy systems cease to exist, does that have any effect on the status of NLS as a joint powers agency created by the legacy systems?

1.3.2 Does NLS have any liability for the liabilities of the three agencies that created it? (JPA: http://northnetlibs.org/wp-content/uploads/2013/05/NorthNet-JPA-with-First-Amendment.pdf Bylaws: http://northnetlibs.org/wp-content/uploads/2013/05/NorthNet-JPA-with-First-Amendment.pdf)

1.3.3 If NLS funds from its fund balance (not state funding) are used to pay for legal advice about the legacy systems’ CalPERS liabilities, would that have any impact on NLS’s responsibility for those liabilities?
2.0 Mountain Valley Library System (MVLS)

2.1 Brief history of System
According to a May 1990 document titled “MVLS, A Brief History” (http://northnetlibs.org/wp-content/uploads/2013/05/Mountain-Valley-Library-System-short-version.pdf), MVLS was established in March 1969 when members of the Mother Lode Library System (Auburn-Placer County, El Dorado County, and the cities of Roseville and Lincoln City) merged with the Sacramento City-County Library Systems and also included Sutter County and the City of Marysville. It was created and funded under the Public Library Services Act. The document includes a spreadsheet that lists members, year joined, and Resolution number for the public library members. Between 1969 and 1972 Alpine, Yolo, Nevada and Yuba Counties joined. Mono County joined in 1974.

In 1973/74 MVLS received a Library Services and Construction Act grant (federal funds administered by the State Library) that “enabled UCD, CSUS, and Sacramento City College, Cosumnes River College, Sierra College and Yuba College to join in the reference network.” Dixon Public Library, Roseville Hospital, and Folsom Prison, and Lake Tahoe Community College joined between 1974 and 1985. They are listed as “former member affiliate libraries” on a spreadsheet that is part of the 1990 history document. From this, it would appear that the affiliate members may have been a different type of member that did not join through an action of their governing boards and may not have been voting members of the MVLS Administrative Council.

Membership in MVLS was created by resolutions passed by jurisdictions operating public libraries. Copies of these resolutions, with a few exceptions, are available.

2.2 As of June 30, 2016 the MVLS fund balance was $186,147.

2.3 History of its CalPERS contract (CalPERS ID: 1035483646)
MVLS contracted with CalPERS on March 21, 1992 for its employees to receive service credit going forward from that date for a pension benefit of 2% @ 60, final/highest 3 years compensation. MVLS has not modified that contract to increase benefits.

2.4 Current Status of CalPERS contract
2.4.1 Inactive (no current employees);
2.4.2 FY2016/17 required contribution of $12,955 (for unfunded liability) has been paid;
2.4.3 FY2017/2018 required contribution is $22,786 and in FY18/19 is projected to be $23,997, rising to a projected $28,841 is FY22/23. Based on current assumptions regarding rate of return on assets the required contribution is projected to rise by FY2021/22 to $23,214.
2.4.4 Unfunded liability as of June 30, 2014 was $198,148
Note: After the Annual Valuation Report was prepared the CalPERS Board lowered its expected discount rate (rate of return on current assets). Therefore, the required contributions in future years will be higher.

### 2.5 Current retirees and monthly pensions derived from MVLS service.*

<table>
<thead>
<tr>
<th>Retiree</th>
<th>Birth Year</th>
<th>MVLS Service Credit Years</th>
<th>Current Pension derived from MVLS Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>1936</td>
<td>6.85</td>
<td>634.10</td>
</tr>
<tr>
<td>#2</td>
<td>1952</td>
<td>14.25</td>
<td>922.28</td>
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<td>1944</td>
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</tr>
<tr>
<td>#4</td>
<td>1942</td>
<td>2.56</td>
<td>305.90</td>
</tr>
<tr>
<td>#5</td>
<td>1944</td>
<td>13.72</td>
<td>763.29</td>
</tr>
</tbody>
</table>

*Retirees may have additional service credit earned from other employers that increase their total pensions. The amount shown here is only the amount attributable to MVLS service.

### 2.6 MVLS Member Data as of June 30, 2015

<table>
<thead>
<tr>
<th>Number of Members</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired</td>
<td>5</td>
</tr>
<tr>
<td>Not Retired</td>
<td>1</td>
</tr>
</tbody>
</table>

### 2.7 Contract termination process and unfunded termination liability

The Annual Valuation Report cited in section 2.4 shows that the current estimated termination cost if MVLS were to withdraw from CalPERS and pay its unfunded termination liability, is as much as $986,205, depending on the U.S. Treasury bond yields at the time of termination. If MVLS were unable to pay all or part of this liability, pensions for current and future retirees derived from MVLS service would be reduced proportionally, potentially by 50% or more.

The actual termination costs are calculated only when an agency begins the termination process or fails to make required annual contributions leading to CalPERS taking legal action to terminate.

Termination liability is based on CalPERS policy that the assets of terminated accounts will be invested in U.S. Treasuries and earn substantially less than the 7.5% earnings that members’ accounts are projected to earn and is therefore much larger than the unfunded liability shown above.
If MVLS were to decide to terminate its contract with CalPERS, it would need to work closely with CalPERS staff to determine and carry out the steps to do so. The process takes a minimum of a year and requires that the CalPERS Board approve the termination.

2.8 CalPERS Actuary for MVLS: May Shuang Yu, ASA, MAAA, Senior Pension Actuary

2.9 Options for MVLS Administrative Council – Consultation with CalPERS is recommended for options C & D (see also 2.3 Question for CalPERS).
A. Continue using its fund balance to pay annual contribution and defer making a decision/planning for long term.

B. Continue using its fund balance to pay annual contribution and develop a plan for funding/paying for the annual contribution when the fund balance is exhausted.

C. Continue using the fund balance to pay annual contribution and plan to terminate the contract when the fund balance is exhausted.

D. Terminate the contract and use the remaining fund balance to pay a portion of the unfunded termination liability, which would lesson to some degree the reduction in pensions for current and future retirees.

E. Dissolve MVLS and deal with its liability through that process.

2.10 Question for CalPERS Actuary
2.10.1 Page 9 of the annual report cited above shows accelerated payment of unfunded liability over a 20 or 15 year period – is there an option to make an immediate payment of the entire current liability of $230,479 and remain in the inactive category of members?
2.10.2 If so, and if the liability were to ultimately be less or more than $230,479 would a refund be received or additional payment be required?

2.11 Questions for legal counsel
2.11.1 Are member jurisdictions that joined via resolution legally responsible for the MVLS CalPERS liability?
2.11.2 Are jurisdictions formerly members that joined via resolution legally responsible for it or any part of it?
2.11.3 Some libraries that are not public libraries (e.g., community college libraries) became “members” without a resolution by their governing bodies; do they have any legal responsibility for the CalPERS liability?
2.11.4 If member jurisdictions have liability, is there a commonly used or accepted method of calculating each jurisdiction’s share?
2.11.5 If the governing bodies of current or past members have liability, does that apply only upon dissolution of MVLS?
2.11.6 What is the process for dissolution of an agency created by joint resolutions?
3.0 North Bay Cooperative Library System (NBCLS)

3.1 Brief history of System
In 1960, the North Bay Cooperative Library System was formed for the joint exercise of the participating libraries' common power to provide library service. The libraries included the following public agencies: Marin County, Napa County, Sonoma County, Solano County, Benicia Public Library, Vallejo Public Library, The Goodman Library of Napa, St. Helena Public Library, Sonoma City, Santa Rosa Public Library, Ukiah Municipal Library, Petaluma City, Cloverdale Public Library, Sebastopol City, and the Union High School District of Vacaville.

On May 13, 1964 the North Bay Cooperative Library System was deemed by its members to have 'operated successfully... and that the system should now be established as a separate and permanent agency, as outlined in the "Supplement to Agreement of 1960 entitled "In RE North Bay Cooperative Library System" containing a Further Agreement for Joint Exercise of the Powers of the Contracting Parties and the Establishment of the North Bay Cooperative Library System as a Separate Agency for the Exercise of Such Powers. A Board of Directors ("Council") was formed and allowed NBCLS to a) make and enter contracts, b) employ agents and employees, c) acquire, construct, manage, maintain or operate any buildings or improvements; d) acquire, hold or dispose of property, e) incur debts, liabilities or obligation which to not constitute the debt, liability or obligations of any of the parties, and f) sue and be sued. Members included: Lakeport Public Library, Napa City-County Library, County of Marin, Mendocino County Library Demonstration, Mill Valley Public Library, City of Petaluma Public Library, St. Helena Public Library, Santa Rosa Public Library, Sausalito Public Library, City of Sebastopol Public Library, County of Solano, City of Sonoma, County of Sonoma, Ukiah Public Library, Vacaville Union High School Library District of Solano, Vallejo Public Library.

A list of members and the date of joining is a document available on the NLS website in the NBCLS section. It has been compiled by PLP staff but may not be complete.

3.2 Fund balance as of 6/30/16 is $267,850.

3.3 History of its CalPERS contract (CalPERS ID 2429114785)
CalPERS pension contract was effective 1/1/1965. In 2002 the contract was amended to provide a benefit of 2% @55, highest/final salary instead of the previous 2%@ 60.

NBCLS provides Medicare supplemental health insurance for two retirees from a source other than CalPERS at the cost of $14,000 in FY2016/17; Administrative Council decides annually whether to continue to provide.
3.4 Current Status of CalPERS contract
3.4.1 Inactive (no current employees);
3.4.2 FY2016/2017 required payment $11,945 (with lump sum prepayment discount) has been made;
3.4.3 FY2017/18 required contribution is $20,584.
3.4.4 Based on current assumptions regarding rate of return on assets the required contribution is projected to rise to $32,432 in FY2018/19 and to $59,031 FY2022/23.
3.4.5 Unfunded liability as of June 30, 2014 was $461,009.

(MISCELLANEOUS PLAN OF THE NORTH BAY COOPERATIVE LIBRARY SYSTEM
(CalPERS ID: 2429114785) Annual Valuation Report as of June 30, 2015)
- Note: After the Annual Valuation Report was prepared the CalPERS Board lowered its expected discount rate (rate of return on current assets). Therefore, the required contributions in future years will be higher.

3.5 Current retirees and monthly pensions derived from NBCLS service*

<table>
<thead>
<tr>
<th>Retiree</th>
<th>Birth Year</th>
<th>NBCLS Service Credit Years</th>
<th>Current Pension derived from NBCLS Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>1948</td>
<td>0.83</td>
<td>134.00</td>
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<tr>
<td>#2</td>
<td>1944</td>
<td>6.80</td>
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<td>1946</td>
<td>8.84</td>
<td>345.75</td>
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<td>#4</td>
<td>1951</td>
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<td>0</td>
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<td>1931</td>
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<td>69.79</td>
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<tr>
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<td>1947</td>
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<td>7263.72</td>
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<td>1935</td>
<td>8.17</td>
<td>179.61</td>
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<td>1933</td>
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<td>#10</td>
<td>1946</td>
<td>1.67</td>
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<td>1940</td>
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<td>#19</td>
<td>1940</td>
<td>0.68</td>
<td>102.14</td>
</tr>
</tbody>
</table>

*Retirees may have additional service credit earned from other employers that increased their total pensions. The amount shown here is only the amount attributable to NBCLS service.
3.6 NBCLS Member Data as of June 30, 2015

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Members</td>
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<tr>
<td>Retired</td>
<td>19</td>
</tr>
<tr>
<td>Not Retired</td>
<td>10</td>
</tr>
</tbody>
</table>

3.7 Contract termination process and unfunded liability in that event

The current estimated termination cost, if NBCLS were to withdraw from CalPERS and pay its unfunded termination liability is as much as $2,747,609 depending on the U.S. Treasury bond yields at the time of termination. If NBCLS were unable to pay all or part of this liability, pensions based on NBCLS service for current and future retirees would be reduced proportionally, potentially by 50% or more.

The actual termination costs are calculated only when an agency begins the termination process or fails to make required annual contributions for several years leading to CalPERS taking legal action to terminate. Termination liability is based on CalPERS policy that the assets of terminated accounts will be invested in US Treasuries and will earn substantially less than the 7.5% earnings that members’ accounts are projected to earn and is therefore much larger than the unfunded liability shown above.

If NBCLS were to decide to terminate its contract with CalPERS, it would need to work closely with CalPERS staff to determine and carry out the steps to do so. The process takes a minimum of a year and requires that the CalPERS Board approve the termination.

3.8 CalPERS actuary for NBCLS: Jean Fannjiang, ASA, MAAA, Senior Pension Actuary

3.9 Options for NBCLS Administrative Council – Consultation with CalPERS is recommended for options C & D.

A. Continue using the fund balance to pay annual contribution and defer decision/planning for long term.

B. Continue using fund balance to pay annual contribution and develop a plan for funding/paying for the annual contribution when the fund balance is exhausted.

C. Continue using the fund balance to pay annual contribution and plan to terminate the contract when the fund balance is exhausted.

D. Terminate the contract and use the remaining fund balance to pay a portion of the unfunded termination liability, which would lessen to some degree the reduction in pensions for current and future retirees.
E. Dissolve the JPA and deal with its liability through that process.

3.10 Questions for legal counsel
3.10.1 Are current member jurisdictions that joined the JPA legally responsible for the NBCLS CalPERS liability?
3.10.2 Are jurisdictions formerly members (JPA signatories) legally responsible for its liability (there may be none in this category)?
3.10.3 Some libraries that are not public libraries (e.g., community college libraries) may have become members (perhaps without having voting rights on the Administrative Council) without action by their governing bodies to join as the JPA; do they have any legal responsibility for the CalPERS liability?
3.10.4 Is there a commonly used or accepted method of calculating each jurisdiction’s share of a liability?
3.10.5 If the governing bodies of current or past members have liability, does that apply only upon dissolution of NBCLS?
3.10.6 What is the dissolution process for a JPA?
4.0 North State Cooperative Library System (NSCLS)

4.1 Background information
NSCLS is a Joint Resolution Agency which means that member jurisdiction joined through passing a resolution. Therefore, no single document exists that shows the date joined and jurisdictions involved. The member jurisdictions are the holders of records of their actions and NSCLS has few if any copies of the resolutions.

The North Sacramento Valley Library Cooperative (NSVLC) existed in the 1960s. (the date of origin and membership is not clear). In December 1967 they began discussion to become a California cooperative library system. In March 1968, a Plan of Service was drafted for the new system. In 1969, a budget exists for the North State Cooperative Library System (NSCLS). There were 12 council members at that time, and the exact original members are not known. The few minutes which can be found for these meetings indicate that there were NSCLS staff.

The “California Library Statistics and Directory 1979” includes data from 1977/78 about NSCLS, and lists the following thirteen library members: Butte County, Colusa County, Del Norte County Library District, Eureka-Humboldt County Library, Lassen County Library, Modoc County Library, Orland Public Library, Plumas County, Shasta County, Siskiyou County, Tehama County, Trinity County, and Willows Public Library. There is a hand-written note on this document which indicates that Colusa County moved to Mountain Valley Cooperative Library System (no date indicated).

An “Agreement for Library Services” from 1984 indicates that NSCLS has been formed as a joint resolution between its members, and includes all the libraries of Butte County, Colusa County, Del Norte County Library District, Glenn, Humboldt County Library, Lassen County Library, Modoc County Library, Plumas County, Shasta County, Sierra, Siskiyou County, Tehama County, Trinity County.

4.2 History of its CalPERS contract (CalPERS ID: 1897174550)
NSCLS contract with CalPERS was effective 1/1/1978. In 2011 the Administrative Council passed a resolution making employee contributions tax deferred.

NSCLS first signed an agreement with CalPERS effective January 1, 1978., and it was amended on June 26, 1992. A letter between the NSCLS Coordinator and CalPERS from June 8, 1992 indicates that NSCLS amended its contract to reflect a change in the normal retirement age from 60 to 55, with 2% at 55, and final/highest single year salary.
### 4.3 Number of Retirees and Monthly Pension Amounts Derived from NSCLS Service*

<table>
<thead>
<tr>
<th>Retiree</th>
<th>Birth Year</th>
<th>NSCLS Service Credit Years</th>
<th>Current Pension derived from NSCLS Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>1949</td>
<td>5.63</td>
<td>$813.56</td>
</tr>
<tr>
<td>#2</td>
<td>1936</td>
<td>10.13</td>
<td>$1,283.69</td>
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<tr>
<td>#3</td>
<td>1955</td>
<td>1.23</td>
<td>$239.97</td>
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<td>#4</td>
<td>1952</td>
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<td>#8</td>
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<td>1949</td>
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<td>$1,971.08</td>
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<td>1937</td>
<td>5.25</td>
<td>$172.14</td>
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<td>1962</td>
<td>6.43</td>
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<td>1946</td>
<td>4.46</td>
<td>$73.42</td>
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<td>#16</td>
<td>1950</td>
<td>20.58</td>
<td>$1,435.38</td>
</tr>
</tbody>
</table>

*Retirees may have additional service credit earned from other employers that increase their total pensions. The amount shown here is only the amount attributable to NSCLS service.

**Beneficiary receives pension—Service Years are for former employee

### 4.4 NSCLS Member Data as of June 30, 2015

<table>
<thead>
<tr>
<th>Number of Members</th>
<th>Retired</th>
<th>Not Retired</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25</td>
<td>16</td>
</tr>
</tbody>
</table>

### 4.5 Current Status of CalPERS Contract

4.5.1 Inactive (no current employees);
4.5.2 FY2016/2017 required payment $30,751 has been paid in full.
4.5.3 FY2017/18 required payment is $36,973.
4.5.4 Based on current assumptions about the rate of return on assets the required contribution is projected to rise to $45,995 by FY2018/19 and by FY2021/2022 to $66,495.*
4.5.5 Unfunded liability as of June 30, 2015 was $508,768.

*MISCELLANEOUS PLAN OF THE NORTH STATE COOPERATIVE LIBRARY SYSTEM*
4.5.6 FY 2015/2016 required contribution had been paid but payment was late and made in FY 2016/17. Through considerable effort and coordination on the part of NSCLS Chair, members, and PLP administration, NSCLS FY 2016/17 required contribution has been paid in full, bringing NSCLS current in payments at this time. 4.5.7 NSCLS used its fund balance to pay its CalPERS annual required contribution until those funds were depleted. Since that time the Administrative Council has assessed an annual membership fee using a formula it voted to accept to pay its CalPERS contribution. Some members have paid the membership fee long after being invoiced. Two members have not paid because the jurisdiction cannot locate a record of its joining NSCLS via a resolution. This has resulted in late payments to CalPERS.

- Note: After the Annual Valuation Report was prepared the CalPERS Board lowered its expected discount rate (rate of return on current assets). Therefore, the required contributions in future years will be higher.

4.6 Contract termination process and unfunded liability in that event
The current estimated termination cost, if NSCLS were to withdraw from CalPERS and pay its unfunded termination liability, could be as much as $2,213,352 depending on the U.S. Treasury bond yields at the time of termination. If NSCLS were unable to pay all or part of this liability, pensions for current and future retirees based on NSCLS would be reduced proportionally, potentially by 50% or more.

The actual termination costs are calculated only when an agency begins the termination process or fails to make required annual contributions for several years leading to CalPERS taking legal action to terminate. Termination liability is based on CalPERS policy that the assets of terminated accounts will be invested in U.S. Treasuries and will earn substantially less than the 7.5% earnings that active accounts are projected to earn.

If NSCLS were to decide to terminate its contract with CalPERS, it would need to work closely with CalPERS staff to determine and carry out the steps to do so. The process takes a minimum of a year and requires that the CalPERS Board approve the termination.

4.7 CalPERS Actuary for NSCLS: Jean Fannjiang, ASA, CERA, MAAA, Senior Pension Actuary

4.8 Options for NSCLS Administrative Council – Consultation with CalPERS is recommended.
A. Continue assessing a membership fee to pay annual contribution.
B. Terminate the contract without paying the termination liability, resulting in reduction in retiree pensions.

C. Dissolve NBCLS and deal with its liability through that process.

4.9 Questions for legal counsel
4.9.1 Are current member jurisdictions that joined via resolution legally responsible for the NSCLS CalPERS liability?
4.9.2 Are jurisdictions formerly members that joined via resolution legally responsible for it or a portion of it?
4.9.3 Some libraries that are not public libraries (e.g., community college libraries) may have become members without a resolution by their governing body and may not have been full, voting members of the Administrative Council; do they have any legal responsibility for the CalPERS liability?
4.9.4 Is there a commonly used or accepted method of calculating each jurisdiction’s share of a liability?
4.9.5 If the governing bodies of current or past members have liability, does that apply only upon dissolution of NSCLS?