



A Tradition of Stewardship
A Commitment to Service

NAPA COUNTY GRAND JURY 2013-2014

APRIL 3, 2014

FINAL REPORT

**A REVIEW OF PUBLIC EMPLOYEE
RETIREMENT BENEFITS FOR EACH
NAPA COUNTY JURISDICTION**

**WORKING TOGETHER FOR A
SUSTAINABLE FUTURE**

SUMMARY

The 2012-2013 Napa County Grand Jury issued a report, “A Review of Napa County Public Employee Retirement Benefits.” This report described the history and the current status of the County’s retirement benefit funding levels. It noted that as of June 2011, then the latest date of available data, the County’s funding level stood at 73.8%. Although the report found that the County was on a reasonably sustainable track toward reducing its unfunded pension liabilities, it also noted that significant risks continued to exist. In particular, the California Public Employees Retirement System (CalPERS) financial management performance remained a variability that needs to be carefully monitored and addressed on an ongoing basis. Frequent recent news about communities in California and in other states facing pension-based financial difficulties prompted the 2013-2014 Grand Jury to investigate and report upon the status of public pensions and other post-employment benefits (OPEB) for each Napa County incorporated jurisdiction that employs and is responsible for public employees. Those jurisdictions are American Canyon, Napa, Yountville, St. Helena and Calistoga. It was also decided to obtain a status update on Napa County.

During the course of the investigation, the 2013-2014 Grand Jury found that, although no jurisdiction is facing an imminent fiscal crisis due to pension fund liabilities, some jurisdictions are in better shape than others. An examination of each jurisdiction’s pension/OPEB funding status demonstrated that some jurisdictions have been able to take a stronger position in reducing, with the goal of ultimately eliminating, their unfunded liabilities. As detailed in this report, the 2013-2014 Grand Jury recommends that Napa County and each of its jurisdictions, many of which share county public employee services, work collaboratively on insights, methods and other tactics to expedite the long term goal of eliminating unfunded pension/OPEB liabilities county-wide.

BACKGROUND

Many California jurisdictions made unprecedented and retroactive increases in public pensions, allowed by the California Legislature Senate Bill 400 enacted in 1999 during the stock market and real estate boom. Prior to (as it is now often called) the Great Recession, many counties and jurisdictions did not set aside funds to address their long term accrued pension fund obligations as dictated by CalPERS, the State’s manager of pensions, and OPEB which includes health care. Some of those increased obligations resulted in a debt crisis for cities such as Vallejo, Stockton and San Bernardino. Public pension liabilities have been linked

to other cities in crisis around the country, with Detroit as the outstanding example. Vallejo spent three years in bankruptcy and emerged in 2011 without making any pension adjustments. Unfortunately, Vallejo is now again in a budget crisis that it is blaming specifically on public pensions, its largest creditor. On October 1, 2013, Reuters News Service stated that Vallejo's situation "should be a lesson to Detroit." In Stockton's recent bankruptcy, creditor Franklin Templeton Investments has warned that no bankruptcy plan could be "fair and equitable" if CalPERS were paid in full while Franklin received less than a cent on the dollar. San Bernardino wants to reduce its pension obligations, and the bankruptcy judge in its case has ruled against CalPERS, refusing to grant it an expedited appeal to the United States Court of Appeals for the Ninth Circuit. Another city, Desert Hot Springs, has recently announced that its pension costs were unaffordable and that it might have to declare bankruptcy. Ultimately, court rulings emanating from these difficult cases may clarify the authority of public entities in addressing their unfunded pension liabilities and enable affected parties to negotiate changes that result in funded and affordable pensions for public employees.

CalPERS is an independent agency that was created in 1932, and is the largest U.S. public-sector pension system. By state law, CalPERS administers public employee benefits under rules set by the State. Unfortunately, CalPERS' portfolio's return on investment (ROI) experienced a drastic decline during the Great Recession and was a major contributor to the current fiscal problems where communities had to increase their annual required contributions (ARC) to offset CalPERS losses. In some areas of the country, annual pension fund contributions are actually higher than salaries, particularly where drastic layoffs have occurred in communities with low economic growth. In light of the above instances where public pensions are being cited as one of the primary causes of financial crisis, the pressure is mounting for changes in pension and OPEB co-pay percentages as communities grapple with planning their budgets for long term sustainability. The goal is to provide competitive benefits to assure attracting the best talent for public services, while making sure those benefits are financially sustainable.

For Napa County, the public pension benefit plan funded level was only at 60% in 2009 versus the 80% that is considered necessary for sustainable solvency. Napa County was able to improve funding to 73.8% by 2011. In 2012 the Public Employee Pension Reform Act of 2013 (PEPRA), SB340 was passed mandating certain pension modifications, but it fell short of a full reform. Napa County implemented employee cost-sharing and pre-funding of OPEB on a more aggressive scale prior to the passing of SB340. At the end of fiscal year 2013 the County's PERS funding level for "Miscellaneous" (non-safety) employees stood at

83.8% and at about 90% for safety employees. However, the County's unfunded pension liability continues to be one of its largest liabilities and concerns center around the sustainability of healthcare premiums.

The County's FY 2012/2013 budget included approximately \$19 million for the County's share of pension costs, approximately four percent (4%) of the overall County budget. County employees contribute over 20% of the overall cost of retirement benefits with their retirement formula based on their date of hire. In 2013 Napa County adopted a strategy of fully funding shortfalls versus phasing in cost increases over time. This strategy will ultimately result in significant long term savings and stronger overall budget financial health. Also in place is a budget policy mandating that OPEB be fully funded by 2028. However, risk continues to be present based primarily on the variables of CalPERS' financial performance and rising health care costs.

The goal of this investigation is to provide clarity on the status of each Napa County jurisdiction's public pension and OPEB funding liabilities. We see the potential benefit for a countywide "scorecard" that can easily be understood by the county's taxpayers and used as a means for collaborative management and annual progress reporting to the community at large.

METHODOLOGY

Interviews conducted:

- Financial staff at American Canyon, Napa, Yountville, St. Helena and Calistoga
- The office of the Napa County Auditor Controller

Documents reviewed:

- CalPERS Annual Audits
- Publications of grand juries, commissions, news media outlets

DISCUSSION

Financial data was collected from each jurisdiction's financial manager to create a "scorecard" to evaluate and compare Public Pension/OPEB funding and the

estimated unfunded liability for each jurisdiction. Each jurisdiction supplied, reviewed, and verified its information.

Each jurisdiction has in place a plan to have retirement pension liabilities funded to the 80% threshold that is considered by financial experts to be necessary for sustainable solvency over a 20-year amortization period. OPEB benefits vary significantly by jurisdiction, but for those with significant OPEB liabilities, a plan is in place to achieve full funding by or prior to 2040.

Napa County has made good progress with its funded PERS ratios as well as the OPEB funded ratio over the past year since the 2012/2013 Grand Jury report was published.

The Grand Jury appreciates the effort and assistance by each jurisdiction in providing its pension and OPEB data. We realize that in many, if not most, this required additional time and research to extract the information so that it could be compared uniformly.

Jurisdiction Snapshots:

- American Canyon contracts with Napa County for public safety (fire and police) employees.
- Yountville contracts with Napa County for public safety employees.
- The City of Napa has more than 400 employees, of whom over 100 are public safety employees.
- St. Helena employees pay for their OPEB via rolled over sick leave benefits.
- Calistoga has only seven retirees at the present time, and fully pays their OPEB benefits of \$51.75 / month each (\$4,347 annual cost)

Jurisdiction Scorecard:

This chart is a simplified ‘Scorecard’ summary of the findings. Attached in Appendix A – F are the detailed data from each jurisdiction.

Napa County Jurisdictions: Public Pension/Post Employment Benefits Fund Scorecard
Fiscal Year Ending June 30, 2013

JURISDICTION:	Napa County		American Canyon
2012/2013 ACTUAL	Miscellaneous	Safety	Miscellaneous
Total Budget (All Funds)	\$448,691,671		\$38,447,624
Total Payroll	84,705,689	11,578,557	\$7,736,600
PERS % of Total Budget	3.3%	0.7%	1.7%
# of Employees	1,213	107	73
Funded PERS Ratio AVA	83.8%	88.0% 90.20%	83.2%
% of Payroll OPEB - Employer Rate	6.6%		14.0%
OPEB % of Total Budget	1.4%		2.2%
Funded OPEB to AVA	46.6%		Not provided

JURISDICTION:	Napa		Yountville
2012/2013 ACTUAL	Miscellaneous	Safety	Miscellaneous
Total Budget (All Funds)	\$172,138,444		\$11,987,309
Total Payroll	\$21,174,429	\$14,320,363	\$3,377,385
PERS % of Total Budget	2.6%	2.7%	3.0%
# of Employees	299	129	24
Funded PERS Ratio AVA	74.4%	76.6%	79.5%
% of Payroll OPEB - Employer Rate	3.0%	3.0%	9.6%
OPEB % of Total Budget	0.4%	0.2%	2.7%
Funded OPEB to AVA	27.8% (Est at 6/30/13)		35.0%

JURISDICTION:	St. Helena		Calistoga	
2012/2013 ACTUAL	Miscellaneous	Safety	Miscellaneous	Safety
Total Budget (All Funds)	\$21,655,771		\$14,091,011	
Total Payroll	\$ 4,985,945	\$ 2,469,987	\$ 2,339,294	\$ 1,206,006
PERS % of Total Budget	1.9%	1.9%	1.3%	
# of Employees	66	17	43	
Funded PERS Ratio AVA	84.3%	80.4%	70.3%	72.1%
% of Payroll OPEB - Employer Rate	0.0%	0.0%	23.9%	
OPEB % of Total Budget	0.0%	0.0%	5.2%	
Funded OPEB to AVA	Not provided		33% estimated	

FINDINGS

F1. Pension and OPEB benefits amount to less than 10% of Napa County and its jurisdictions' total annual budgets.

- F2. Napa County jurisdictions had pension liability funding levels that ranged from 70.3% in Calistoga to 84.3% in St. Helena for the 2012/2013 fiscal year.
- F3. All jurisdictions have introduced employee sharing of pension (PERS) costs, although many of those plans only apply to future employees.
- F4. Some jurisdictions are phasing in employee share for OPEB where possible via memorandums of understanding but will only apply to new employees.
- F5. Jurisdiction OPEB funded ratios are estimated to range from 27.8% to 35%.
- F6. Napa County was able to bring its OPEB funded ratio up to 46.6% in the fiscal year ending in 2013.
- F7. Most Napa County jurisdictions are trying to achieve full funding of their OPEB liability well before 2040, the 30 year amortization rate recommended by the Government Finance Officers Association in March, 2013.

RECOMMENDATIONS

- R1. Napa County Board of Supervisors and the incorporated Napa jurisdictions form a pension/OPEB committee with appropriate financial and human resource management to establish a communication process and a planning best practices platform to share insights and collaborate on strategies for addressing and managing pension/OPEB funding,
- R2. Napa County Board of Supervisors and the incorporated Napa jurisdictions through the pension/OPEB committee issue an annual report that summarizes each entity's pension/OPEB funding status at the end of each fiscal year.

REQUEST FOR RESPONSES

Pursuant to Penal Code 933.05, the Grand Jury requests responses to recommendations from the following governing bodies:

- Napa County Board of Supervisors: **R1, R2**
- City and Town Councils for American Canyon, Napa, Yountville, St. Helena and Calistoga: **R1, R2**

It is requested that each person responding to the foregoing recommendations certify above his or her signature that the responses conform to the requirements of section 933.05 of the Penal Code.

The foregoing final report was approved by the 2013-2014 Grand Jury in regular session on April 1, 2014

/s/

Alan Galbraith

Foreperson, 2013-2014 Grand Jury

APPENDIX A: NAPA COUNTY

JURISDICTION:	Napa County									
Category:										
2013/2014 BUDGET	Miscellaneous				Safety					
Retirement Tier	Tier 1	Tier 2	PEPRA	PEPRA - Mgmt	Tiers 1 & 2	Tiers 1&2 Mgmt	Tier 3	Tier 3 Mgmt	PEPRA	PEPRA-Mgmt
Retirement Formula	2.5%@55	2%@60	2%@62	2%@62	3%@50	3%@50	3%@55	3%@55	2.7%@55	2.7%@55
Total Budget (All Funds)	\$454,065,478									
Total Payroll	\$91,867,554				\$11,997,484					
PERS Contribution - Employer	17,168,367				3,217,996					
Employee PERS Contribution	5.88%	5.88%	5.88%	6.25%	8.70%	5.88%	8.70%	5.88%	8.70%	11.50%
% of Payroll (PERSable) Employer rate	18.78%	17.78%	6.62%	6.25%	26.50%	29.32%	21.97%	24.79%	14.30%	11.50%
PERS % of Total Budget										
OPEB Contribution - Employer	\$6,473,000									
OPEB Contribution - Employee	\$0									
% of Payroll OPEB - Employer rate	6.23%									
OPEB % of Total Budget	1.43%									
2012/2013 ACTUAL										
Total Budget (All Funds)	\$448,691,671									
Total Payroll	84,705,689				11,578,557					
PERS Contribution - Employer	16,571,059				3,103,655					
Employee PERS Contribution	4,649,056				866,031					
% of Payroll (PERSable) Employer Rate	20.2% ⁽¹⁾				23.7%					
PERS % of Total Budget	3.3%				0.7%					
# of Employees	1,213				107					
Funded PERS Ratio AVA	83.8%		N/A	N/A	88.0%		90.20%		N/A	
Funded PERS Ratio MVA	70.3%		N/A	N/A	73.7%		75.8%		N/A	
OPEB Contribution - Employer	\$6,384,000									
OPEB Contribution - Employee	0%									
% of Payroll OPEB - Employer rate	6.63% ⁽²⁾									
OPEB % of Total Budget	1.4%									
Funded OPEB to AVA	46.6% ⁽³⁾									

Following notes provided by Napa County:

- (1) The Employer Contribution was made on a prepaid basis to reduce the effective rate of funding. Prepayment was based on an actuarial estimated payroll of \$98.2 million resulting in an additional \$1.5 million being applied to unfunded liability.
- (2) Percentages from the County most recent actuarial valuation dated Jun 30, 2011.
- (3) Ratio calculated using the projected 2012/13 Actuarial Accrued Liability from the June 30, 2011 valuation divided by the actual MVA at June 30, 2013. Plan assets have increased to \$32.8 million as of December 31, 2013 bringing the funded level of AAL to MVA to 53.2%.

APPENDIX B: CITY OF AMERICAN CANYON

Public Pension/Post Employment Benefits Fund Evaluation: City of American Canyon

JURISDICTION:		American Canyon	
Category:		Notes below supplied by American Canyon regarding sources of data.	
2013/2014 BUDGET	Miscellaneous	Safety*	
Retirement Tier	2 % at 62	N/A	
Retirement Formula	2% at 55		
Total Budget (All Funds)	\$ 31,220,136		
Total Payroll	\$ 8,405,800		
PERS Contribution - Employer	\$ 787,160	Acct 41250 (PERS Budget) \$787,160/14.904% PERS Rate = \$5,281,535 Persable salary x 14.904%	
Employee PERS Contribution	\$ 369,707		
% of Payroll (PERSable) Employer rate	10%		
PERS % of Total Budget	3%		
OPEB Contribution - Employer	\$ 826,339	page 4 of CALPERS Actuarial Valuation Report - Total Employer Contribution	
OPEB Contribution - Employee	\$ -		
% of Payroll OPEB - Employer rate	14.9%	page 4 of the CALPERS Actuarial Valuation - Net Employer Contribution	
OPEB % of Total Budget	2.6%		
2012/2013 ACTUAL		Miscellaneous	Safety
Total Budget (All Funds)	\$ 38,447,624	N/A	
Total Payroll	\$ 7,736,600		
PERS Contribution - Employer	\$ 667,351	Springbrook Retirement Report - City Contribution 7/1/2012 - 6/30/2013	
Employee PERS Contribution	\$ 334,384		
% of Payroll (PERSable) Employer Rate	10.9%	Springbrook Retirement report - Member Contribution 7/1/2012 6/30/2013	
PERS % of Total Budget	1.7%		
# of Employees	73		
Funded PERS Ratio AVA	83.2%	page 5 of the CALPERS Annual Valuation Report	
Funded PERS Ratio MVA	74.5%	page 5 of the CALPERS Annual Valuation Report	
OPEB Contribution - Employer	\$ 840,693		
OPEB Contribution - Employee	\$ -		
% of Payroll OPEB - Employer rate	14.0%	page 4 CALPERS Annual Valuation Report	
OPEB % of Total Budget	2.2%		
Funded OPEB to AVA			

*Note: Safety Employees are contracted from Napa County

APPENDIX C: CITY OF NAPA

Public Pension/Post Employment Benefits Fund Evaluation: City of Napa

JURISDICTION:	Napa					
Category:						
2013/2014 BUDGET	Miscellaneous			Safety		
Retirement Tier	Tier 1	Tier 2	PEPRA	Tier 1	Tier 2	PEPRA
Retirement Formula	2.7% @ 55	2% @ 60	2% @ 62	3% @ 50	3% @ 55	2.7% @ 55
Total Budget (All Funds)	\$181,734,554					
Total Payroll	\$21,768,946			\$14,999,878		
PERS Contribution - Employer	\$5,416,421			\$5,282,683		
Employee PERS Contribution	8%	7%	6.25%	9%	9%	11.25%
% of Payroll (PERSable) Employer rate	23.1%			34.3%		
PERS % of Total Budget	3.0%			2.9%		
OPEB Contribution - Employer	\$616,073			\$421,167		
OPEB Contribution - Employee	\$ -			\$ -		
% of Payroll OPEB - Employer rate	2.7%			2.7%		
OPEB % of Total Budget	0.3%			0.2%		
2012/2013 ACTUAL	Miscellaneous			Safety		
Total Budget (All Funds)	\$172,138,444					
Total Payroll	\$21,174,429			\$14,320,363		
PERS Contribution - Employer	\$4,370,366	\$12,061	\$41,065	\$4,425,571	\$176,189	
Employee PERS Contribution	\$1,648,961	\$3,982	\$12,105	\$1,236,385	\$49,222	
% of Payroll (PERSable) Employer Rate	21.2%			32.2%		
PERS % of Total Budget	2.6%			2.7%		
# of Employees	285	4	10	122	7	0
Funded PERS Ratio AVA	74.4%	N/A	N/A	76.6%	N/A	N/A
Funded PERS Ratio MVA	68.7%	N/A	N/A	68.7%	N/A	N/A
OPEB Contribution - Employer	\$619,941			\$393,900		
OPEB Contribution - Employee	\$ -			\$ -		
% of Payroll OPEB - Employer rate	3.0%			3.0%		
OPEB % of Total Budget	0.4%			0.2%		
Funded OPEB to AVA	27.8% (Estimated at 6/30/13)					

APPENDIX D: TOWN OF YOUNTVILLE

Public Pension/Post Employment Benefits Fund Evaluation: Town of Yountville

JURISDICTION:	Yountville		
Category:			
2013/2014 BUDGET	Miscellaneous		Safety*
Retirement Tier	Tier 1	Tier 2	PEPRA
Retirement Formula	2.7% @ 55	2% @ 55	2% @ 62
Total Budget (All Funds)	\$17,071,127		
Total Payroll	\$3,579,165		
PERS Contribution - Employer	\$396,050		
Employee PERS Contribution	8%	7%	6.25%
% of Payroll (PERSable) Employer rate	20.1%	10.8%	6.25%
PERS % of Total Budget	2.3%		
OPEB Contribution - Employer	\$301,997		
OPEB Contribution - Employee	\$ -		
% of Payroll OPEB - Employer rate	8.4%		
OPEB % of Total Budget	1.8%		
2012/2013 ACTUAL	Miscellaneous		Safety
Total Budget (All Funds)	\$11,987,309		N/A
Total Payroll	\$3,377,385		
PERS Contribution - Employer	\$361,682		
Employee PERS Contribution	\$166,529		
% of Payroll (PERSable) Employer Rate	19.6%	10.2%	6.25%
PERS % of Total Budget	3.0%		
# of Employees	24		
Funded PERS Ratio AVA	79.5%		
Funded PERS Ratio MVA	71.7%		
OPEB Contribution - Employer	\$325,347		
OPEB Contribution - Employee	\$ -		
% of Payroll OPEB - Employer rate	9.6%		
OPEB % of Total Budget	2.7%		
Funded OPEB to AVA	35.0%		

*Note: Safety Employees are contracted from Napa County

APPENDIX E: ST. HELENA

Public Pension/Post Employment Benefits Fund Evaluation: St. Helena

JURISDICTION:	St. Helena	
Category:		
2013/2014 BUDGET	Miscellaneous	Safety*
Retirement Tier	Tier 1	Tier 1
Retirement Formula	2% @ 55	3% @ 50
Total Budget (All Funds)	\$16,409,070	
Total Payroll	\$ 4,826,683	\$ 2,615,498
PERS Contribution - Employer	\$ 418,865	\$ 439,743
Employee PERS Contribution	\$ 162,036	\$ 108,567
% of Payroll (PERSable) Employer rate	8.7%	16.8%
PERS % of Total Budget	2.6%	2.7%
OPEB Contribution - Employer	\$ -	\$ -
OPEB Contribution - Employee	\$ 242,545	\$ 2,875
% of Payroll OPEB - Employer rate	0.0%	0.0%
OPEB % of Total Budget	0.0%	0.0%
2012/2013 ACTUAL	Miscellaneous	Safety
Total Budget (All Funds)	\$21,655,771	
Total Payroll	\$ 4,985,945	\$ 2,469,987
PERS Contribution - Employer	\$ 417,186	\$ 401,108
Employee PERS Contribution	\$ 177,138	\$ 98,672
% of Payroll (PERSable) Employer Rate	8.4%	16.2%
PERS % of Total Budget	1.9%	1.9%
# of Employees	66	17
Funded PERS Ratio AVA	84.3%	80.4%
Funded PERS Ratio MVA	75.5%	71.8%
OPEB Contribution - Employer	\$ -	\$ -
OPEB Contribution - Employee	\$ 327,241	\$ 11,934
% of Payroll OPEB - Employer rate	0.0%	0.0%
OPEB % of Total Budget	0.0%	0.0%
Funded OPEB to AVA		

*Note: St. Helena maintains an all-volunteer Fire Department

APPENDIX F: CITY OF CALISTOGA

Public Pension/Post Employment Benefits Fund Evaluation: City of Calistoga

JURISDICTION:	Calistoga	
Category:		
2013/2014 BUDGET	Miscellaneous	Safety
Retirement Tier		
Retirement Formula		
Total Budget (All Funds)	\$17,250,888	
Total Payroll	\$ 2,421,026	\$ 1,195,929
PERS Contribution - Employer		
Employee PERS Contribution	8.0%	9.0%
% of Payroll (PERSable) Employer rate	21.6%	32.8%
PERS % of Total Budget	1.2%	0.0%
OPEB Contribution - Employer	\$206,923	
OPEB Contribution - Employee	\$ -	
% of Payroll OPEB - Employer rate	5.7%	
OPEB % of Total Budget	1.2%	
2012/2013 ACTUAL	Miscellaneous	Safety
Total Budget (All Funds)	\$14,091,011	
Total Payroll	\$ 2,339,294	\$ 1,206,006
PERS Contribution - Employer	\$ 402,888	\$ 371,252
Employee PERS Contribution	\$ 156,436	\$ 108,198
% of Payroll (PERSable) Employer Rate	7.9%	
PERS % of Total Budget	1.3%	
# of Employees	43	
Funded PERS Ratio AVA	70.3%	72.1%
Funded PERS Ratio MVA	62.9%	64.6%
OPEB Contribution - Employer	\$185,227	
OPEB Contribution - Employee	0%	
% of Payroll OPEB - Employer rate	23.9%	
OPEB % of Total Budget	5.2%	
Funded OPEB to AVA	33% estimated	