County of Sonoma Agenda Item Summary Report

Clerk of the Board
575 Administration Drive
Santa Rosa, CA 95403

Agenda Item Number: 51
(This Section for use by Clerk of the Board Only.)

To: Board of Supervisors

Board Agenda Date: February 21, 2017

Vote Requirement: Majority

Department or Agency Name(s): County Administrator's Office

Staff Name and Phone Number:
Nikolas Klein, 707-565-5312

Supervisorial District(s):
Countywide

Title: Pension Reform Ad Hoc Committee

Recommended Actions:

(A) Approve the scope and charter for the County's 2016 Pension Ad Hoc Committee.
(B) Establish a new 2017 Independent Citizen's Pension Advisory Committee.
(C) Approve the scope and charter for the 2017 Independent Citizen's Pension Advisory Committee.
(D) Delegate to the Pension Ad Hoc Committee co-chairs the ability to recommend Independent Citizen's Pension Advisory Committee appointees. The co-chairs' recommended appointees will be presented to the full Board for approval as a consent item at a future meeting.

Executive Summary:

The Board of Supervisors ("Board") has adopted Pension Reform as one of its key priorities, with a goal of ensuring a fair, equitable, and sustainable pension system for taxpayers and employees alike. The Board has approved three over-arching goals for pension reform: contain costs; maintain market competitiveness and workforce stability; and improve accountability and transparency.
After making progress toward its reform goals, the Board established the Independent Citizens Advisory Committee on Pension Matters ("Independent Citizen's Committee") in September 2015, and charged it with evaluating the County's efforts to date and also proposing new reform strategies and approaches. The Citizen's Committee completed its work in July 2016 with submission of its report to the Board. In response, the Board created a new Pension Ad Hoc Committee (Supervisors Zane and Rabbitt appointed) to lead the next phase of pension reform efforts and address recommendations from the July 2016 Citizen's Committee report.

This item requests approval of the charter and scope for the 2016 Pension Ad Hoc Committee, which will guide the next phase of reform efforts, establish a work plan, and act upon several key recommendations from the July 2016 Citizen's Committee report. The scope of work includes the following: (1) a pension reform work plan; (2) developing new recommendations for paying unfunded liability costs and improving equity; (3) a feasibility analysis and options for implementing a hybrid retirement plan with defined-benefit and defined-contribution components; (4) a communications

program for pension matters, including improved reporting to enhance transparency; (5) new or revised cost containment measures; and (6) an approved charter for a new Independent Citizen's Pension Advisory Committee. To accomplish the last item, this report also requests Board approval of the recommended charter for the 2017 Independent Citizen's Committee.

The report of the 2015 Citizen's Committee recommended establishing an ongoing advisory committee to provide transparency and public accountability on pension matters. In response to this recommendation, the Pension Ad Hoc proposes convening a new Independent Citizen's Advisory Committee. The recommended scope for the 2017 Independent Citizen's Committee is intended to improve accountability and transparency of the County's pension reporting, and provide a way for the County to engage citizens in the process of developing and refining the County's pension reform strategies. This item also asks the Board to delegate to the Pension Ad Hoc Committee co-chairs the ability to recommend Independent Citizen's Pension Advisory Committee appointees. The Pension Ad Hoc co-chairs will seek to balance prior committee experience with diverse perspectives as they come up with their member recommendations. The Pension Ad Hoc co-chairs' recommended appointees will be presented to the full Board for approval as a consent item at a future meeting.

Discussion:

Background

The Board of Supervisors formed the original Pension Ad Hoc Committee (Supervisors David Rabbitt and Shirlee Zane) in February 2011 to address the unsustainable course that Sonoma County pension costs had been on throughout the prior decade. The 2011 Pension Ad Hoc analyzed the County's pension issues and developed a comprehensive report to define the County's pension reform goals. The report highlighted several policy goals and strategies to reduce Sonoma County's pension costs and ensure a fair, equitable, and sustainable pension system. The Board received the Pension Ad Hoc's report in November 2011 and adopted the goals and strategies therein, including: cost containment; maintaining market competitiveness and workforce stability; and improving accountability and transparency.

County staff subsequently worked on implementing the strategies, and presented a progress report to the Board in January 2015 to communicate significant accomplishments achieved since 2012. To date, significant accomplishments include: (1) avoiding an estimated $178 million of costs due to implementation of lower retirement tiers, negotiating with labor groups to eliminate pension spiking, and extending employee supplemental contribution towards unfunded liabilities; (2) increasing employees' contributions towards normal cost; (3) supporting lowering of the pension system discount rate from 8.0% to 7.25%; (4) advancing $3.5 million to pay down unfunded liability; and (5) convening an independent citizen's advisory committee.

Continuing efforts on transparency, an Independent Citizen's Committee was convened in September 2015 to review the County's progress to date, develop a description of the pension system that would be more accessible to the general public, and suggest new pension reform strategies for consideration. The committee completed its work in July 2016. It acknowledged the work that had been done, produced the pension system description, and included a number of findings and recommendations. The committee also added suggestions for further definition, tracking, measurement, and reporting

efforts on some of the Board's existing strategies. The committee submitted its report to the Board of Supervisors in July 2016, which included the following key recommendations:

Short Term Recommendations:

1. Adopt and demonstrate a higher sense of urgency in pension reform efforts by:
   a. Defining an appropriate level of retirement benefits.
   b. Defining the County's level of sustainable pension costs.
   c. Tracking progress toward the goal with specific checkpoints.
   d. Engaging the employee unions in order to achieve mutual goals.
2. Aggressively pursue the sharing of pension costs with employees.
3. Establish an ongoing citizen advisory committee.
4. Establish a robust, well documented, annual reporting process.

Long Term Recommendations:

1. Implement a new tier that is a hybrid plan of defined benefits and defined contributions.
2. Work on efforts to reform pension laws at the state level.

Subsequently, the Board created a new Pension Ad Hoc Committee, appointing the 2011 Ad Hoc Supervisors (Rabbitt and Zane) to provide leadership for the next phase of implementation efforts, including addressing the 2015 Independent Citizen's Committee's suggestions among this work.

Approve the Pension Ad Hoc Committee Work Scope

The recommended scope for the 2016 Pension Ad Hoc is intended to: (1) provide an overall framework for the next phase of reform efforts by defining a work plan; (2) further work under existing goals and strategies (i.e., cost containment and improving accountability and transparency); and (3) address several of the aforementioned recommendations from the Citizen's Committee report. The 2016 Pension Ad Hoc will work on the following deliverables, many of which will be addressed in a final report to the Board of Supervisors planned for December 2017:

1) Create a new work plan for implementing the Board's current high priority pension reform goals and addressing the recommendations of the 2015 Independent Citizen's Committee. The following scope items will inform the work plan:

   a) Recommend approaches for reducing the County's Unfunded Actuarial Accrued Liability (UAAL) associated with pension costs, i.e., advanced payments towards UAAL and/or sharing the UAAL pension cost burden between employer and employees.

   b) Assess the feasibility of, and possible approaches for, creating a hybrid retirement model that consists of defined-benefit and defined-contribution plan components.

   c) Develop community focused resources, including more robust annual reports, to provide transparency to the public surrounding pension matters.

d) Monitor and provide recommendations on legal developments that impact local pension systems.

2) Develop a scope and charter for a new Independent Citizen's Committee.

3) Revisit the County's 10% of total compensation cost containment target.

The full charter for the 2016 Pension Ad Hoc Committee is provided as **Attachment 1** to this summary report. The Ad Hoc Committee would be supported by staff from the County Administrator's Office, Human Resources, County Counsel, and the Auditor-Controller-Treasurer-Tax Collector. It is also anticipated that support will be required from outside consultants with relevant actuarial and legal expertise.

Establish a New Independent Citizen's Pension Advisory Committee

The Board established the 2015 Independent Citizens Advisory Committee on Pension Matters for a limited duration of nine months to accomplish a specific scope of work. The Pension Ad Hoc recognizes the valuable insights, ideas, and contributions of the former Citizen's Committee, and it recommends creating a new committee to support the County's ongoing pension reform efforts. The 2016 Pension Ad Hoc recommends that the Board convene a new Independent Citizen's Committee and charge it with work that will help enhance the County's pension reporting and improve accountability and transparency. The following proposed work for the committee is anticipated to take 20 months to accomplish:

1) Review the County's annual "State of the Retirement System" Report (to be developed by staff). Review and evaluate the report's contents for accuracy and clarity, ask questions of staff, and provide feedback or suggestions for additional content and copy edits to improve readability and transparency. This effort will include reviewing the initial September 2017 report, as well as the September 2018 annual report, and is the primary driver for the anticipated duration of the committee.

2) Review and provide input on any new or revised pension reform strategies and approaches proposed by the Pension Ad Hoc as part of its anticipated December 2017 work plan and report.

As part of the aforementioned review of the Pension Ad Hoc's report and work plan, the Citizen's Committee may also propose new pension reform strategies for consideration. The Pension Ad Hoc will review any additional suggested strategies and incorporate them as appropriate in its report to the Board of Supervisors. The proposed charter for the new Citizen's Committee is provided as **Attachment 2** to this summary report.

The Pension Ad Hoc considered a number of options for the structure and membership of the reconvened 2017 Independent Citizen's Committee. The original 2015 committee included seven members; however, after considering different options, the Pension Ad Hoc decided to reduce it to five members, in order to improve efficiency, ease administrative coordination efforts, and reduce costs—while still allowing for a broad range of ideas and perspectives. The decision to reduce the number of

members to five total is also consistent with one of the options recommended in the July 2016 Citizen's Committee report.

The Pension Ad Hoc also considered different options for the composition of the five members. Due to the steep learning curve and time commitment involved with the work, and in order to preserve historical knowledge and ensure some continuity of effort, the Ad Hoc chairs suggest that at least two members of the 2015 Independent Citizens Advisory Committee on Pension Matters be given priority appointments to the new committee. In response to criticisms that the July 2016 Citizen's Committee report did not present a balanced or diverse perspective, the Ad Hoc chairs are also considering changing the structure of the 2017 Citizen's Committee to add new members from the community. Adding new members also has the benefit of engaging other interested community members, and giving them an opportunity to contribute new ideas and apply their unique perspectives to the pension problem. The next phase of pension reform will focus on items that impact labor negotiations (i.e., assessing hybrid retirement plan approaches and sharing unfunded liability costs); therefore, the Pension Ad Hoc may recommend appointing one or more new members who have knowledge of labor relations and bring a labor perspective to promote balanced discussions. These appointees would not be associated with any of the County's past or present employee labor groups. The Pension Ad Hoc may also consider appointing an early career individual with relevant knowledge, interests, or experience who could bring a fresh perspective to pension reform efforts. All members must be from Sonoma County and possess an aptitude for dealing with complex financial information. To ensure objectivity, members must not be affiliated with, participating in, nor a beneficiary of, the Sonoma County Employees' Retirement Association pension system. By leveraging the knowledge of original committee members and the perspectives of new appointees, the 2017 Independent Citizen's Committee would help ensure that the Pension Ad Hoc and Board continue to develop and pursue creative, practical, fair, and achievable reform solutions.

Based on the committee's scope, it is expected to convene approximately 12 meetings over a period of 20 months. The committee's meetings would be subject to the requirements of the Ralph M. Brown Act for conducting open and public meetings. The Committee may form individual workgroups (of less than a quorum) to address specific work deliverables. The workgroups would not be subject to Brown Act requirements and have the option to meet more frequently. Members will be paid a stipend of $100 per committee meeting attended. The stipend does not apply to individual workgroup meetings when less than a quorum is present. The Citizen's Committee would receive administrative support from the County Administrator's Office, with as-needed analytical support provided by subject matter experts from Human Resources, the County Administrator's Office, Auditor-Controller-Treasurer-Tax Collector, County Counsel, and the Sonoma County Employees' Retirement Association (SCERA). Because the Citizen's Committee would be considered an independent entity under the Board of Supervisors, County staff would not direct its work.

Prior Board Actions:

11-15-2016: Appointed Supervisors Shirlee Zane and David Rabbit to serve as co-chairs of the new Pension Ad Hoc Committee.
07-12-2016: Received the Independent Citizen's Committee's Final Report.
09-22-2015: Approved the Independent Citizen's Committee charter and appointed all seven members.

04-21-2015: Approved formation of the Independent Citizen's Committee and directed staff to start the application and selection process.
01-27-2015: Received a staff update on Pension Reform efforts initiated in November 2011.
11-08-2011: Received a report from the Board's Ad Hoc Committee on Pension Reform, and directed staff to initiate the strategies contained within the report.

Strategic Plan Alignment Goal 4: Civic Services and Engagement

Goal 4: Civic Services and Engagement:
The Citizen's Committee will be comprised of members from the general public who are not County employees, nor connected with the County's pension system in any way. The charter for the committee will give members of the public an opportunity to influence policy decisions affecting the County's retirement system. The committee's work will also improve the County's transparency and accountability with respect to pension matters.

Goal 2: Economic and Environmental Stewardship:
Implementing pension reform, with a goal of ensuring a fair, equitable, and sustainable pension system, will benefit all current and future taxpayers, employees, and retirees.

Fiscal Summary

Expenditures	**FY 16-17 Adopted**	**FY 17-18 Projected**	**FY 18-19 Projected**
Budgeted Expenses	50,000	186,000	4,000
Additional Appropriation Requested	0		
Total Expenditures	50,000	186,000	4,000
Funding Sources			
General Fund	50,000	186,000	4,000
State/Federal	0	0	0
Fees/Other	0	0	0
Use of Fund Balance	0	0	0
Contingencies	0	0	0
Total Sources	50,000	186,000	4,000

Narrative Explanation of Fiscal Impacts:

The total estimated multi-year budget to complete the respective scopes of work detailed in the Pension Ad Hoc and Citizen's Pension Advisory Committee charters is $240,000. Refer to **Attachment 3** for budget details by committee, fiscal year, and line item.

Budget by Committee
The total budget for the Ad Hoc's work effort is estimated to be $218,000 over 12 months, spanning FY 2016-17 and FY 2017-18. The Ad Hoc's budget assumes $100,000 for actuarial support, $46,000 for legal

expenses, and $72,000 for County staff support. The total budget for the Independent Citizen's Committee work is estimated to be $21,000 over 20 months, spanning fiscal years 2016-17 through 2018-19. The committee's budget assumes $6,000 for member stipends, $12,000 for County staff support, and $3,000 for webpage support.

Budget by Fiscal Year

The total estimated budget of $50,000 in FY 2016-17 includes $35,000 of staff support for the Pension Ad Hoc, which would be covered under the County Administrator's baseline salaries and benefits budget. The budget also includes $12,000 for Ad Hoc legal expenses, and $3,000 for Citizen's Committee member stipends and staff support. Both items would be financed by an existing $50,000 budget appropriation in Non-Departmental designated for pension reform committee activities; therefore, no additional budget adjustment is required.

The total estimated budget of $186,000 in FY 2017-18 includes $37,000 of staff support for the Pension Ad Hoc, which would be covered under the County Administrator's baseline salaries and benefits budget. The $186,000 budget also includes $134,000 for Ad Hoc legal expenses and actuarial support, and $15,000 for Citizen's Committee member stipends and staff support. These line items would require General Fund financing of $134,000 to be budgeted in Non-Departmental.

The total estimated cost of $4,000 in FY 2018-19 covers Citizen's Committee member stipends and staff support. These costs would require General Fund financing of $4,000 to be budgeted in Non-Departmental.

Staffing Impacts

Position Title (Payroll Classification)	**Monthly Salary Range** (A – I Step)	**Additions** (Number)	**Deletions** (Number)

Narrative Explanation of Staffing Impacts (If Required):

None.

Attachments:

Attachment 1 - Pension Ad Hoc Committee Charter
Attachment 2 - Citizen's Pension Advisory Committee Charter
Attachment 3 – Budget Estimate for Pension Ad Hoc and Citizen's Pension Committees

Related Items "On File" with the Clerk of the Board:

None.