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Published August 9th, 2017

An inconvenient liability, presented by Lamorinda public agencies

By Nick Marnell

According to the latest audited financial statements, Lamorinda school districts, municipalities and the local fire district carry a combined net pension and retiree health care liability of nearly $200 million, more than $3,000 per Lamorinda resident.

"It's a gigantic problem, and a well-reported crisis, but residents aren't paying attention," said Seth Freeman, Moraga financial advisor.

Net pension liability is the difference between what the pension plan has in the bank and what the plan owes its members and retirees. Calculations are similar for other post employment benefits, or retiree health benefits, resulting in a net OPEB liability.

Together with investment losses from the Great Recession, not achieving projected investment returns and the longer lifespan of retirees, the dollar amount that Lamorinda public agencies owe to their pensioners - but do not have in the bank - has increased from $164.9 million in 2015 to $195.2 million in 2016.

Why the big jump? Partly because pension plan managers like the California Public Employees' Retirement System and the Contra Costa County Employees' Retirement Association have experienced lower than expected returns on the investments they use to fund retiree benefits. For example, CalPERS announced investment gains of only 4.4 percent over 10 years through fiscal year 2017. The low returns add to the pension liability, as pension plan mangers base their expected gains on percentages ranging anywhere from 7 to 8 percent.

"The projected returns in general are rarely achieved," said Freeman. "Not only are the amounts large now, until they are dealt with, they will only get larger."

Among Lamorinda public agencies, the Moraga-Orinda Fire District leads the way with nearly $64 million in net pension and OPEB liability, followed by the Acalanes Union High School District with $55 million. The Orinda Union School District and Lafayette School District report nearly $30 million each, with the Moraga School District at about $13 million. The Town of Moraga reports a net pension liability of $3.8 million but no net OPEB liability.

To pay down those balances if investment goals are not achieved, agencies have to increase contributions into their pension and OPEB accounts, and according to a 2015 Contra Costa County Grand Jury report, that money "must come from either budget cuts, increased revenues, tax increases or some combination of the three. Budget cuts mean service or salary cutbacks, deferred maintenance and postponed capital improvements." Those options would hurt Lamorinda residents and impose hardships on employees.

Agencies may also prefund in order to mitigate pension plan financial performance. The fire district board recently voted to contribute into OPEB and pension trust funds, but not everyone was thrilled with the policy decision. "I have concerns with MOFD," said Vince Wells, president of Local 1230 of the firefighters union. "They seem super-focused on funding those plans. Then you start risking the services you provide."

In a roundabout way, Freeman agrees. "If agencies didn't have to make a net pension liability payment each year, that's more money that could go to services," he said.

Not only to services but also to employees. The OUSD board on June 26 planned to contribute an additional $25,000 a year into the district OPEB trust account, but with labor negotiations underway, the teachers bargaining unit objected. "It's starting to feel to OEA leadership that this is just another way to hold money aside," said Charles Swanson, Orinda Education Association president. The board voted to not increase contributions to the OPEB account.

Because the two cities do not offer defined-benefit pension plans, Lafayette and Orinda carry no unfunded pension obligations. Moraga, which has struggled with its finances to the point of declaring a fiscal emergency in June, is the only Lamorinda municipality that reports pension expense and a net pension liability. "The town's pension costs are not a contributing factor in the declaration of fiscal emergency," said Amy Cunningham, Moraga administrative services director.

As of 2016, the funded ratios for most of the Lamorinda agencies' pension plans hover under the 80 percent threshold, which is considered unhealthy by financial analysts. Jack Weir, president of the Contra Costa Taxpayers Association, says it's time to take corrective action and he delivered this admonition to public agencies, for starters.

"Be frank and candid about the problem," Weir said.

(Public agencies like BART, the East Bay Municipal Utility District, the Contra Costa County Fire Protection District and the county itself report net pension and OPEB liabilities, which also affect Lamorinda residents, but this article focuses only on agencies headquartered in Lamorinda.)

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