

**BOARD OF DIRECTORS
GROVELAND COMMUNITY SERVICES DISTRICT
GROVELAND, CALIFORNIA
April 1, 2010
10:00 a.m.**

Retirement Benefits Review Committee

The Groveland Community Services District Retirement Benefits Review Committee met on the above mentioned date with Director Dick Lennen, Chair, Director Gus Allegri, General Manager Jim Goodrich, John Thomas, Joe Santella, Admin/Finance Manager Vicki West, District Engineer Randy Klaahsen, and Board Secretary Lena Spilman.
Absent: John Lloyd

Director Lennen called the meeting to order at 10:00 a.m.

Introduction of Committee Members

Dick Lennen, GCSD Director and Committee Chair
Gus Allegri, GCSD Director
Jim Goodrich, General Manager
John Thomas
Joe Santella

John Thomas introduced himself as a retired public school administrator.

Joe Santella introduced himself as the Business Representative for the Operating Engineers Local Union No.3. Mr. Santella stated that although he had held this position for 10 years, he had also previously worked for the city of Stockton for 20 years.

Director Allegri introduced himself as a 20-year resident of Groveland and a retired electrical contractor with a good deal of experience in running a union shop.

Director Lennen explained that prior to moving to Groveland 7 years ago he was a small business owner for 35 years. Director Lennen also spent 15 of those 35 years operating as a union shop.

General Manager Jim Goodrich explained that throughout the course of his career he had experienced almost every type pension program both private and public.

Action Items

Define Goals and Objectives

Director Lennen explained that the country is facing tough economic realities across all levels of government. He stated that although the committee has no intention of arbitrarily slashing salaries, the Board does have a responsibility to look into the future and consider all possible ramifications of current practices.

General Manager Goodrich commented that the primary purpose of the Committee is to look into retirement benefits, of which there are two types: retirement through CalPERS and retirement medical benefits.

Review GCSO's Participation in CalPERS

a) Current Status

Director Lennen asked Mr. Goodrich whether every employee is currently enrolled in CalPERS. Mr. Goodrich answered that every GCSO employee is currently enrolled in CalPERS, but asked Mr. Santella whether the District had the option to keep current employees on the program while excluding all new hires. Mr. Santella stated that GCSO is a contract CalPERS employer and so must have all employee enrolled.

Mr. Santella explained that the Committee needs to consider that it is essentially dealing with a total of four separate contracts, two labor and two retirement contracts. The labor contract, which spells out certain benefits both pre- and post-retirement, is separated into O&M and Safety employees. The CalPERS pension benefit is also tied to two different contracts. Mr. Santella stated that the need for two pension benefit contracts stems from the fact that, unlike with the O&M employees, CalPERS will not allow public safety entities (Fire Department) to be in miscellaneous contracts.

A member of the public inquired as to what CalPERS alternatives other public agencies use.

Mr. Goodrich commented that his previous employer opted out of the CalPERS system and went into a defined contribution program. He explained that under this program employees were responsible for their own investments, but that those investments were very restricted. Looking back over the last 15 years, the program has suffered greatly. Many pensions were wiped out with the turn-down of the economy because it didn't have the same breadth of investment diversity as does CalPERS.

Mr. Santella also offered that there are 21 California counties that have their own pension programs. He cautioned that as public employees you are prohibited from participating in certain types of programs due to the prohibition on gifts of public funds. The programs that are permitted for public agencies are ones which include strict limitations on investments.

Mr. Santella clarified for the Committee and members of the public that CalPERS is a state enacted pension system. Although CalPERS acts independently of the state, its Board must submit all proposed changes to the system to the California State Legislature for approval.

Director Allegri asked Mr. Santella whether in his experience the CalPERS system has been able to maintain its benefit outlays with the income it received from its participants. Mr. Santella responded that within the first 5 to 7 years of an employee's retirement they have usually exhausted everything that they and their employer have contributed. At that point an employee begins to use the interest that his/her portfolio has earned. Mr. Allegri asked whether the state or the tax payers have had to contribute to that benefit. Mr. Santella stated that the state is prohibited by law from putting money into the CalPERS fund.

Director Allegri asked what would happen should CalPERS fall short of its obligations. Mr. Santella explained the 25-year smoothing system in which the contribution level of the employer is raised to compensate for times in which the portfolio earnings fall below a pre-determined threshold. This contribution is adjusted annually and all increases are actuarialized over a 25- year period.

Director Allegri expressed concern that shortfalls would eventually be compensated for by the taxpayers. He stated that he strongly believes that employees should only be allowed to take out of a pension system that which they have put in.

Director Lennen inquired as to the District's current CalPERS funding percentages. Mr. Goodrich answered that for the miscellaneous contract, which includes all but the Fire Department employees, the District's contribution is 9.4% and the employee's contribution is 8%. For the Safety Contract (Fire Department), the District's contribution is 13.9% and the employee's is 9%.

Mr. Santella added that the employee contribution is not subject to negotiation and is mandated under CalPERS law. Each employer contract sets up an investment portfolio to be managed by CalPERS. The higher the rate of return, the more money is in that portfolio. The employer's contribution to the system will vary based on the success of that portfolio.

b) Expected Impact of Current Economic Conditions on CalPERS Investments

Mr. Santella explained that in 2008 when CalPERS took a \$64 billion loss, they still maintained over \$600 billion in assets. He stated that the economic recovery of CalPERS due to the most recent economic crisis is going very well. CalPERS has already recovered \$49 of \$64 billion lost.

c) Expected Long-Term Solvency of CalPERS

After some discussion of the District's participation in both Social Security and CalPERS, Mr. Santella explained that when an employer first joins CalPERS they are required to make the decision whether or not to remain in the Social Security system. He explained that GCSD is a participant in both systems.

A member of the public noted that the District's Social Security contribution of 6.7% plus the CalPERS contribution is nearly a 20% total contribution. She asked how many employers contribute on this level. Mr. Santella replied that many employers contribute this much.

Director Allegri inquired as to whether a current retiree's benefits would be affected by a change made today. Mr. Santella explained that current retiree's benefits could not be changed, but that employees drawing from both Social Security and CalPERS do receive a reduced benefit from both systems. He also explained that the District's original decision to participate in both Social Security and CalPERS can not be revoked. This is set forth in the terms of the contract with CalPERS, and the only way to change those terms would be to terminate the contract altogether.

Identify Current GCSD Legacy Costs and Future Projections

District staff explained that the District current supports 23 miscellaneous, 7 safety, and 9 retired employees. Although retiree pension benefits are paid completely by CalPERS, the District pays approximately \$66,000 annually in health benefits to retired employees.

Mr. Goodrich explained that the only legacy costs that the District has are medical. There are 2 requirements for this medical benefit; the first, the employee must begin taking CalPERS retirement benefits when they leave the District, and the second, the employee must have 10 years vested time in the District. He also explained that 3 out of the 9 District retirees are currently receiving Medicare, which significantly reduces the District's responsibility.

Mr. Santella stated that many other Districts are experiencing similar economic situations, and that he has participated in at least 20 meetings of this sort. He commented that the country as a whole is facing financial crisis, and that there is no doubt that we need to focus on gathering information. He urged those in attendance to gather this information and become informed, but to avoid panic. He assured the Board and members of the public that everyone is in a similar situation, and we will all get through this together.

Adjournment

Mr. Santella moved, seconded by Director Allegri, and the motion passed unanimously to adjourn the meeting at 11:55 a.m.

APPROVED:

ATTEST:

Dick Lennen, Chair

Lena Spilman, Board Secretary