PENSION TENSION RELIEVED?

An Investigation into the County's Unfunded Accrued Pension Liabilities

Released July 21st, 2025

SUMMARY

The purpose of this report is to follow up on the recommendations of the 2017 Humboldt County Civil Grand Jury report. Specifically, we wanted to investigate if the County has been fulfilling the objectives of its Pension Funding Policy (PFP) over the intervening eight years.

The 2017 Grand Jury looked at the Unfunded Accrued Liabilities (UAL) associated with Humboldt County's pension fund obligations. Their report outlined the situation the County faced due to the combination of increased pension benefit costs and decreased market performance, which left a gap of approximately $232 million in funding for the County's accrued pension obligations.

To give a sense of the serious nature of the situation, the 2017 report stated that the County Administrative Officer's (CAO) office "…considers the problem of unfunded pension liabilities to be a significant threat to the financial viability of our County within 3-5 years."

To address this looming crisis, the County formed a Section 115 Irrevocable Trust with the intention of depositing an additional 2% of County payroll costs into the Trust every fiscal year. These monies would be in addition to the County's annual funding of its California Public Employees Retirement System (CalPERS) obligations.

The Section 115 Irrevocable Trust is administered by a company that specializes in managing public agency pension funds called Public Agency Retirement Services (PARS). Because the company is a non-governmental entity, it can invest under guidelines that are more lenient than those of government agencies, thus producing the potential for higher returns.

As of the end of February 2025, the balance in the 115 Trust is $13,652,918. This amount consists of $9,875,000 deposited by the county plus $3,777,918 in accrued interest.

Our investigation determined that during fiscal years 2017-2020, the Section 115 Trust was funded at a level below the target amount. However, over the last four years the County responsibly and diligently followed their policy to fund the Trust at 2% of payroll costs. Even so, the UAL obligations still present a major threat to the continued financial viability of the County, totaling over $378 million in FY 2024-25. The UAL must continue to be managed in a focused, responsible manner in order to minimize the potential for future bankruptcy of the County.

The only critical finding in our investigation is that there is a lack of transparency for the citizens of Humboldt County surrounding the County's work in this regard. It is our recommendation

that the CAO's office issue a comprehensive annual report detailing their work so the citizens of Humboldt County can easily follow their progress in this critical matter.

GLOSSARY

ADC	Actuarially Determined Contribution
BOS	Humboldt County Board of Supervisors
CalPERS	California Public Employees Retirement System
CAO	County Administrative Officer
MBT	Minimum Balance Target
PARS	Public Agency Retirement Services
PEPRA	Public Employees' Pension Reform Act
PFP	Pension Funding Policy
PPA	Pension Protection Act
PRSP	Pension Rate Stabilization Program
UAL	Unfunded Accrued Liability

PEPRA Employees	Any employee hired after January 2013
Classic Employees	Any employee hired prior to January 2013
Safety Employees	Police, Fire, and other emergency personnel
Miscellaneous Employees	All other county employees

METHODOLOGY

The Grand Jury conducted interviews with people who have firsthand knowledge of the unfunded pension liabilities policy as it has been administered over the past eight years. In addition, we researched documents and reports pertaining to the unfunded pension liabilities obligation to better understand the history of the situation.

BACKGROUND

CalPERS was created in 1932 to provide workers with an incentive to stay on the job and allow older workers to retire with a pension. At that time retirement age was set at 65 years old and life expectancy was 66 years. The pension was calculated by taking 1.43% of the average of the highest 5-year's salary and multiplying it by the total years worked. An employee who worked for 40 years could expect to receive approximately 57% of their ending salary.

In 1968, a cost-of-living adjustment was added. By 1970, the retirement age was lowered to 60 and workers received 2% for each year worked. In 1983 Safety workers were given 2.5% for each year worked and the retirement age was reduced to 55.

In 1984, Proposition 21 passed and loosened the requirements for CalPERS investments, allowing them to invest in riskier assets to earn higher yields.

In 1992 voters approved Proposition 162, the "Public Employee Retirement Benefits Initiative" which gave CalPERS additional powers, including the power to determine the size of state and local governments contributions into the funds. In other words, if CalPERS failed to generate the returns needed to meet pension obligations during a given fiscal year, then state and local governments were required to fund the shortfall.

The tech boom of 1994-2000 produced extremely high returns on pension fund investments, seducing State and county governments into offering ever more attractive pension benefits, thus increasing their payroll contributions to CalPERS. For example, the retirement age for safety employees was reduced to 50 and the age for miscellaneous employees was reduced to 55. The tech bubble burst after 2000, and investments experienced massive losses. For the next ten years CalPERS' investments failed to produce the returns needed to pay the obligated benefits.

As a result, in 2006, the federal "Pension Protection Act" (PPA) was passed and CalPERS required state and local governments to annually contribute supplementary funds into their UAL account in order to "pay down" the unfunded liability. The UAL payments were in addition to the money they were paying to cover the current year's pension obligations.

In January 2013, the Public Employees' Pension Reform Act (PEPRA) created new guidelines that reduced the benefits of all new employees hired after the act went into effect. These employees were placed in what is called the PEPRA category. Anyone who was hired prior to January 2013 were placed in what is called the "Classic" category.

PEPRA enhanced the long-term stability of the CalPERS retirement fund by implementing the following changes:

- Reducing the retirement formula percentage
- Increasing retirement age
- Capping the annual salary used for final compensation calculations
- Establishing PEPRA member contribution rates based on the Annual Actuarial Valuation Report issued by CalPERS

More than 12 years have passed since PEPRA took effect and changed the way CalPERS retirement benefits are calculated. Currently in the State of California, nearly 64% of CalPERS active members are PEPRA members, with a projection of 90% within a decade.

In 2015, the County Board of Supervisors (BOS) established a Section 115 Irrevocable Trust and selected PARS to manage the account.

In 2017, the BOS formed the Pension Rate Stabilization Program (PRSP) to address the unfunded liability situation. They did so by giving all employees a 2% "raise" and simultaneously deducting the "raise" as a payroll pension contribution to fund the Section 115 Trust. This was done across all departments.

DISCUSSION

Following up on the 2017 Grand Jury report, we investigated how the County has been responding to the UAL obligations they have accumulated in regard to CalPERS pension payments.

In March 2017 the BOS adopted a Pension Funding Policy (PFP) which was then revised in April 2021. The PFP applies to plans that cover both “Miscellaneous” and “Safety” employees as well as those employees under the “Classic” and “PEPRA” designations.

The PFP sets out the County’s strategies for funding both the long-term UAL pension liability and the short-term Actuarially Determined Contribution (ADC) required by CalPERS to cover the current year’s obligations.

The ADC is CalPERS’ estimate of what the County needs to pay into the pension system during the coming fiscal year in order to cover its future pension obligations generated during that year. If at the end of the year CalPERS has determined that they underestimated the amount, the County is obligated to pay the difference. If they have overestimated the amount, the overage is used to pay down the County’s UAL.

Under the terms of the Section 115 Trust, the monies deposited into it are only allowed to be used to pay for the County’s pension fund obligations, and according to the PFP they are only to be used in two circumstances:

> The first use is to pay for any additional obligations that CalPERS might add to the ADC in a given fiscal year. For example, if CalPERS estimates that the County’s ADC for that year is $28 million and at the end of the year, they recalculate the amount as $30 million, the monies in the Section 115 Trust can be used to pay the difference. As of this date, no additional payments have been necessary.
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> The second use is to pay down the UAL in a lump sum, or in a series of lump-sum payments at some future date. The assumption is that, because the funds in the Section 115 Trust can be invested in a less restrictive manner (although still conservative due to regulatory guidelines), they should in theory generate higher returns than if the money had been given to CalPERS to invest. We recommend that the County verify this assumption as part of an annual public report.

According to the PFP, the Long-Term Funding Target is: “… 100% (full funding) of the Accrued Liability related to the County’s pension plans.” To work toward achieving that goal, between 2017 and 2025 the BOS approved the following payroll contribution percentages.

Fiscal Year	Approved % Contribution
2017-18	0.5%
2018-19	1%
2019-20	1.5%
2020-21	2%
2021-22	2%
2022-23	2%
2023-24	2%
2024-25	2%

However, due to challenges within the County Auditor Controller's office, the approved contributions were not actually withheld for a portion of FY 2019-20, FY 2020-21 and FY 2021-22.

As of the end of February 2025, the balance in the Section 115 Trust is $13,652,918. In March of 2025, an additional $1.25 million was deposited into the Section 115 Trust and is not yet reflected in the total. Future contribution rates will be determined annually through the County budgeting process and the guidelines contained in the PFP.

CalPERS provides the County with annual valuation reports for both the Miscellaneous and Safety Plans. These reports provide the actuarial assumptions CalPERS used to determine the status of the Plans' funding levels and the current year's ADC.

Actuarial assumptions are also used to calculate the County's required annual UAL contributions, amortized over 10-year, 20-year, and 30-year time horizons. The county has the choice of which amortization schedule they will use and have been paying based on the 30-year model.

The UAL contributions can be paid annually as a lump sum or in monthly installments. The current PFP calls for the CAO's office to conduct an annual analysis to determine whether the UAL contributions will be paid in advance as a lump sum or monthly. Historically, the County has been paying the UAL contributions in advance in order to generate higher returns on the money since CalPERS can invest more liberally than the County's General Fund is allowed to invest.

The BOS approved a Pension Rate Stabilization Program (PRSP) as part of the PFP which would allow for additional discretionary contributions to CalPERS and the Section 115 Trust out of the General Fund.

A section of the PFP deals with the Section 115 Trust and its administration. Contributions to the Section 115 Trust are funded through payroll contributions as outlined in the chart in this section. Investment strategies are to be reviewed routinely by the CAO's office.

The PFP recommended Minimum Balance Target (MBT) for the Section 115 Trust is 1/6 of the County's ADC and the target amount will be adjusted annually. Funds can only be withdrawn from the Section 115 Trust to pay pension costs. The 1/6 threshold has not been reached as of this year and no withdrawals from the Section 115 Trust have been made as of the date of this report.

The PFP also recognizes the necessity of re-evaluating the policy at least every five years to adjust for changes to ensure adequate resources are being accumulated. The last revision of the PFP was completed in 2021 and the County is planning to revise it again this fiscal year.

Transparency

The PFP calls for the CAO's Office to annually send the CalPERS actuarial reports and the PARS performance report to the BOS. They are also required to post a summary "lay" report understandable to the public on the County's website. We diligently searched the County's website but were unable to locate any summary reports issued to the public. We have been told that the CAO's Office considers the reporting they do to the BOS as fulfilling their reporting requirements to the public.

It is our opinion that this level of reporting does not provide citizens with adequate information regarding the County's Pension Funding Policy annual strategy and the Section 115 Trust's performance. It does not provide the appropriate transparency needed for Humboldt County's citizens to adequately understand the Unfunded Accrued Liabilities situation, both in the short term and in the long term.

CONCLUSION

The Grand Jury determined that the County has adopted an effective Pension Funding Policy. Assuming the policy continues to be implemented appropriately, the County appears to be on track to fully fund its UAL pension plan obligations over the coming decades.

FINDINGS

The Humboldt County Civil Grand Jury finds that:

F1: In February of 2017 the County adopted a pension funding policy of contributing an additional 2% of payroll into the Section 115 Irrevocable Trust. As a result the County has put in place a mechanism to responsibly manage its unfunded pension liabilities.

F2: The Pension Funding Policy states that actuarial valuations be posted annually to the County website. Actuarial valuations alone do not provide citizens with adequate information to understand the Unfunded Accrued Liabilities situation, neither in the short term nor in the long term**. (R1-R8)**

RECOMMENDATIONS

The Humboldt County Civil Grand Jury recommends that:

R1: By no later than the end of the second quarter (December 31) of each fiscal year the County's Chief Administrative Officer shall issue a report regarding the pension funding policy obligations to the citizens of Humboldt County to be posted on the County's website.

R2: The annual report should contain a section listing the total dollar amounts that the County Board of Supervisors authorized to contribute in the previous fiscal year to the CalPERS Unfunded Accrued Liabilities account, and to the Section 115 Trust. The report should include a brief discussion of the strategy behind contributing these amounts. It should also include an explanation if the amounts contributed were different than those recommended by the Chief Administrative Officer's office under the County's Pension Funding Policy.

R3: The annual report should contain a section listing the dollar amounts that the Chief Administrative Officer's office recommends that the County contribute in the current fiscal year to the CalPERS Unfunded Accrued Liability account and the Section 115 trust. It should include a brief discussion of the strategy behind contributing these amounts.

R4: The annual report should contain a section with a running historical account updated each fiscal year in the form of a table, showing the amount of money deposited into the Section 115 Trust each fiscal year, the rate of return earned in the trust (both as percentage and a dollar amount), and the rate of return that the funds would have earned had they been deposited with CalPERS (again as a percentage and dollar amount), along with a total of the dollar amounts at the bottom of each column.

R5: The annual report should contain a section with a running historical account updated each year in the form of a graph showing the actual interest earned during each fiscal year in the Section 115 Trust vs. the estimated interest that would have been earned had the money been invested with CalPERS in the Unfunded Accrued Liabilities account.

R6: The annual report should contain a section with a brief discussion of the management fees charged by Public Agency Retirement Services and those charged by CalPERS (if any), as well as the impact of all fees on the fund's returns.

R7: The annual report should contain a brief discussion of the County's long-term strategy for paying into the Unfunded Accrued Liability account and an assessment of the County's progress in implementing that strategy, including a projection of when the Unfunded Accrued Liability will be funded at 100% based on the County's current strategy.

R8: The annual report should contain any other information the County thinks would be useful in helping the citizens of Humboldt County understand the scope of the County's Unfunded Accrued Liability obligations and how the County is working to mitigate them.

RESPONSES

Pursuant to California Penal Code sections 933 and 933.05, the Grand Jury requests each entity or individual named below to respond to the enumerated Finding and Recommendations within specific statutory guidelines.

Responses to Findings shall be either:

- The respondent agrees with the finding;
- The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

Responses to Recommendations shall be one of the following:

- The recommendation has been implemented, with a summary regarding the implemented action.
- The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
- The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency where applicable. This time frame shall not exceed six months from the date of the Grand Jury report.
- The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.

REQUIRED RESPONSE – WITHIN 90 DAYS

The Humboldt County Board of Supervisors
(All findings, all recommendations)

Invited Responses

The Humboldt County Chief Administrative Officer
(All findings, all recommendations)

The Humboldt County Auditor Controller
(All findings, all recommendations)

Responses are to be sent to:

The Honorable Judge Kelly L. Neel

Humboldt County Superior Court
825 5th Street
Eureka, CA 95501

The Humboldt County Civil Grand Jury
P.O. Box 657
Eureka, CA 95502 A

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.