

## **RESPONSE TO GRAND JURY REPORT**

Report Title: PENSION TENSION RELIEVED? AN INVESTIGATION INTO THE COUNTY'S  
UNFUNDED ACCRUED PENSION LIABILITIES

Report Date: JULY 11, 2025

Response by: HUMBOLDT COUNTY BOARD OF SUPERVISORS

### **FINDINGS**

The county agrees with Finding 1.

The county partially agrees with Finding 2.

### **RECOMMENDATIONS**

Recommendations 1-3 and 8 will be implemented.

Recommendations 4-5 will not be implemented.

Recommendations 6-7 will not be implemented as written.

Date: Sept. 23, 2025

Signed: \_\_\_\_\_  
Michelle Bushnell, Chair  
Humboldt County Board of Supervisors

Number of pages attached: 5



## COUNTY OF HUMBOLDT

### COUNTY ADMINISTRATIVE OFFICE

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#### INTEROFFICE MEMORANDUM

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**TO:** BOARD OF SUPERVISORS  
**FROM:** COUNTY ADMINISTRATIVE OFFICE  
**SUBJECT:** PENSION TENSION RELIEVED? AN INVESTIGATION INTO THE COUNTY'S  
UNFUNDED ACCRUED PENSION LIABILITIES  
**DATE:** TUESDAY, SEPT. 23, 2025

In the Grand Jury Report, "*Pension Tension Relieved? An Investigation into the County's Unfunded Accrued Pension Liabilities*," the Grand Jury has requested that the Board of Supervisors respond to Findings 1 and 2 and Recommendations 1 through 8. The County Administrative Office is proposing the following response as detailed below.

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#### FINDINGS

**Finding 1:** *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.*

**Agree.** The county agrees the Trust is a prudent mechanism to assist in the management of unfunded pension liabilities. The county emphasizes that the Trust's purpose is primarily a defensive strategy for liquidity management and budget stabilization during market volatility. The pension funding strategy centers on maintaining volatility reserves that provide a balance between protecting against investment losses and preserving financial flexibility. The strategy includes gradual reserve growth and cautious management of liquidity

When well-funded, the trust could also act as a proactive strategic tool to reduce negative amortization and reduce county interest cost. However, return enhancement, as the Grand Jury report might suggest, is not a primary objective of the trust strategy.

The county would also make another clarification to the report that the 2% of salaries that is deposited into PARS was not offset by a 2% increase in employee wages as the county is funding this contribution, not employees.

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**Finding 2:** *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)*

**Partially agree.** The county agrees that actuarial valuations, while essential, do not by themselves provide a complete picture of the pension funding landscape. Valuations are point-in-time estimates based on current assumptions and do not capture:

- Known but not yet reflected experience (e.g., recent market gains or losses that will only appear in future reports).
- The probable frequency and severity of future investment losses given CalPERS' expected volatility.
- The impact of CalPERS' 20-year amortization policy, which can translate market volatility into significant new repayment obligations regardless of current funded status.
- The county's liquidity needs and risk tolerance, which drive the rationale for maintaining a \$115 volatility reserve and current investment strategy.

At the same time, the county believes it is important to address these limitations through policy-level commitments to transparency rather than piecemeal disclosure in individual reports. A revised Pension Funding Policy can provide the public with clearer objectives, reporting standards and context around risk management, liquidity and long-term funding priorities.

Accordingly, the county partially agrees with the finding: actuarial valuations alone are insufficient, but the solution lies not in adding ad hoc disclosures, but in establishing a policy-based reporting framework that explains how the \$115 trust fits with the broader funding strategy.

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## RECOMMENDATIONS

**Recommendation 1:** *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.*

**This recommendation will be implemented.**

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**Recommendation 2:** *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.*

**This recommendation will be implemented.**

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**Recommendation 3:** *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.*

**This recommendation will be implemented.**

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**Recommendation 4:** *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.*

**This recommendation will not be implemented.** This recommendation is not warranted and would be administratively burdensome. The annual report will 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, and the return earned in the trust.

The county will not include a comparison of §115 Trust returns to hypothetical CalPERS earnings in the annual report. This recommendation is not warranted for two primary reasons:

- **Conceptual Misalignment:** Contributions to CalPERS reduce outstanding pension debt; they are not investment assets earning a return for the county. By contrast, the §115 Trust is structured as a volatility reserve to provide liquidity and budget stability. Comparing the two as if both were investment portfolios is misleading and does not accurately reflect their distinct purposes.
- **Administrative Burden:** Developing and maintaining an annual estimate of hypothetical CalPERS earnings would require unnecessary resources and provide limited value to public understanding of the county's pension strategy.

The county's reporting will instead focus on the actual performance of the §115 Trust, along with the county's broader strategy of building and maintaining reserves to manage volatility, preserve liquidity and protect essential services during periods of market stress.

The county's pension funding strategy therefore focuses on building and maintaining volatility reserves that strike a balance between protecting against investment losses and preserving liquidity. This approach

emphasizes steady reserve growth and cautious liquidity management, ensuring the county can respond effectively to market swings while maintaining essential services.

Ultimately, should the Board determine that pursuing higher returns within the §115 Trust is appropriate, it may direct staff to evaluate alternative asset allocations commensurate with the county's overall risk tolerance and long-term funding objectives. Any such adjustments should balance the potential for enhanced returns against the increased exposure to market volatility and its implications for liquidity and budget stability.

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**Recommendation 5:** *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.*

**This recommendation will not be implemented.** This recommendation is not warranted and would be administratively burdensome. This comparison is not warranted for two reasons:

- **Conceptual Misalignment:** Allocations to the UAL reduce outstanding pension debt; they do not generate investment income. By contrast, the §115 Trust is structured as a reserve to provide liquidity and budget stability during periods of market volatility. Comparing the two as if both were investment vehicles is misleading and does not accurately reflect their distinct purposes.
- **Administrative Burden:** Developing and maintaining an annual estimate of hypothetical CalPERS investment earnings would be resource-intensive, and the resulting figures would add little value to public understanding of the county's pension strategy.

Instead, the county's annual reporting will focus on the strategic role of the §115 Trust as a volatility reserve and on the county's broader pension funding strategy, rather than on speculative yield/return comparisons.

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**Recommendation 6:** *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.*

**This recommendation will not be implemented.** However, it will be partially implemented. The county agrees that transparency regarding investment fees is important and will include a discussion of fees in future annual reports. The report will describe the management fees charged by Public Agency Retirement Services (PARS) for the administration of the §115 Trust, including both the stated basis points and the corresponding dollar impact on returns.

For CalPERS, it is important to clarify that published investment returns are reported gross of fees and then allocated to individual employer plans net of fees, which currently average approximately 10 basis points (0.10%) based on the current total assets under management. These investment expenses are deducted internally by CalPERS and are not separately invoiced to employers.

Because the §115 Trust and CalPERS serve distinct purposes, any fee disclosure will be framed in context. The §115 Trust exists as a volatility reserve to provide liquidity and budget stability, while CalPERS contributions primarily serve to reduce outstanding pension debt. Fee comparisons alone do not fully capture the different roles of these vehicles, and the county's reporting will emphasize this distinction.

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**Recommendation 7:** *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.*

**This recommendation will not be implemented.** This recommendation will, however, be partially implemented. The county agrees that the public should understand its long-term pension funding objectives and progress. However, including detailed projections of when the Unfunded Accrued Liability (UAL) will be fully funded within the annual report is not warranted. The UAL is highly sensitive to CalPERS' investment performance, actuarial assumption changes and demographic experience. These variables can significantly extend or shorten repayment schedules, making a "date certain" projection inherently speculative and potentially misleading.

The county believes this recommendation may be best addressed in a revised Pension Funding Policy. Updating the policy would allow the county to:

- Clearly articulate its long-term funding objectives and strategic priorities (e.g., liquidity, stability, intergenerational equity).
- Define a framework for transparent, policy-based reporting on reserves, contributions and funding progress.
- Commit to regular review and updates to ensure the policy remains aligned with best practices and the county's fiscal capacity.

Annual reports will continue to disclose contributions, funded status and reserve balances consistent with the policy. However, the more meaningful transparency lies in a policy document that provides clear direction and consistency, rather than piecemeal disclosures in response to individual recommendations.

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**Recommendation 8:** *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.*

**This recommendation will be implemented.**

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