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Retirement Administrator

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: November 6, 2013
To: Audit and Budget Committee
From: Richard White, Retirement Administrator RAW
Subject: Audit and Budget Committee Report

Summary:

The Audit and Budget Committee did not hold the scheduled meeting on October 16 but met in a special meeting on October 22, 2013. The primary purpose of the meeting was to review the most recent version of draft audit report prepared by the External Auditor, Gallina LLP. The agenda for the meeting is included in this report as are the approved minutes from their meeting of September 18, 2013.

The committee has not scheduled another date as a future meeting will depend upon the finalization of the financial statements and actuarial valuation – which is underway with the respective professional service providers.

Attachments

Special Meeting

Mendocino County Board of Retirement
Audit and Budget Committee Meeting Agenda
October 22, 2013
9:00 a.m.

Roll Call

Public Comment

Members of the public are welcome to address the committee on subjects both on and off the agenda. The committee is prohibited from taking action on matters not on the agenda, but may ask questions and/or briefly answer questions. Public comment is limited to 5 minutes per person and not more than 10 minutes for a particular subject at the discretion of the Committee Chair. Please complete a speaker form, available at the entrance to the conference room and present to the Clerk. Public speakers are required to state their name before they begin. If you wish to submit written comments please provide 7 copies to the Clerk prior to the start of the meeting.

1) Approval of the September 18, 2013 Committee meeting minutes.

2) Discussion and Recommendation regarding the Draft External Audit report for Fiscal Year 2012/13.

3) Schedule the next Audit & Budget Committee meeting.

Meeting Adjourned (Approximate Time 10:00 a.m.)

(Pursuant to Government Code Section 54954, this agenda was posted 72 hours prior to the meeting.)

Mendocino County Board of Retirement
Audit and Budget Committee Meeting Minutes
September 18, 2013

1:03 p.m.

Participants: Lloyd Weer, Committee Chair, Randy Goodman, Bob Mirata, Ted Stephens, Rich White, Retirement Administrator, and Judy Zeller. Scott German, Fechter and Company, Crystal Ekanayake and Daniel Matzinger, Gallina LLP, participated by teleconference.

Public Comment: None

1) Approval of the July 17, 2013 Committee meeting minutes.

Mr. Mirata motioned to approve the July 17, 2013 minutes. Mr. Goodman seconded the motion and the minutes were approved unanimously.

2) Discussion and Recommendation regarding the draft External Audit report for Fiscal Year 2012/13.

Presenters: Mr. White began discussion regarding the Draft External Audit report for Fiscal Year 2012/13.

Mr. Stephens asked if anyone had evaluated the figures on page 11 of the report. Mr. White suggested that review of the August meeting investment report may help evaluate the figures. Mr. Stephens mentioned that he was uncomfortable with the reference to Retiree Health benefits. He felt much has changed over the years and did not think we needed to include this information in the audit report again. If someone was reading the document they may think retire health insurance is still offered. Mr. Weer reviewed the last audit report prepared by Gallina and found that it included the same language. It was determined at that time that we needed to complete our Voluntary Correction Process and it would be appropriate to continue to include reference to health benefits until next year.

Mr. Stephens asked about custodial credit risk on page 14 and if the securities held in the County Treasury in the name of MCERA are in a separate account. He added that MCERA does not have a custodial bank and we need to discuss this with Gallina.

Crystal Ekanayake, Daniel Matzinger, and Scott German joined the meeting by conference call at 1:30 p.m.

Ms. Ekanayake addressed the committee and stated that Gallina has done all testing and has completed the draft report, highlighting items in yellow that still need to be acquired or updated. Most footnotes have been updated as well, except for the end of the document where most items are highlighted and still incomplete. Mr. German added that he will review the numbers next week while he is in Ukiah before the final draft is prepared.

Ms. Ekanayake referenced page 10 of the report and stated that investment figures were taken from the confirmation letters that they received back from our investment firms. Mr. German added that the statements did reconcile with Callan Associates with a few exceptions. Callan does not consider payables, receivables, and accruals. Mr. German added that he will reconcile between the two so you can see where this difference comes from. Mr. Stephens asked is we should be concerned about investments reconciling, what about the difference, is it close enough? Mr. Goodman mentioned that Callan picks up a dividend on a REIT that is paid on the 1st of the month and their report includes it in the previous month.

Ms. Ekanayake stated that we want to include any extra information to allow a reader to reconcile the figures on their own without comparing reports. There is no reason not to provide as much additional information as we can. Mr. Stephens agreed, stating that he felt a certain obligation to verify. If the figures differ it looks like we are hiding something. Our standard should be if we know it, we should disclose it.

The committee discussed real estate and noted that Private and Patriot fund are included in Mutual Funds. We want to make sure our real estate is accounted for correctly. Mr. Weer mentioned that there may be a cash reconciling error depending on when you get that balance. You could expect movement for at least 60 days.

Segal's draft report should be due in October and Ms. Ekanayake mentioned that the draft audit report will be provided to Segal when we all agree that it is approved. Segal will use the information on pages 10 and 11 and that is all they receive. Mr. German will review the draft next week and once his review is done we will send to Segal. Mr. Weer asked that a copy of the new footnote for page 10 be sent to the committee and corrections will be made to page 11 to reflect appreciation, income, and increase. Mr. Stephens asked to amend the 3rd to the last sentence, note 1, page 13 from has to had. Then he brought up the issue of custodial bank on page 14. He asked if this was standard language held over from the previous audit report and mentioned that we do not have a custodial bank. The county holds approximately $2 million in cash and our investments are held by each investment fund. Mr. German suggested that the statement should be saying that the County has investments and these investments expose our securities to risk. Ms. Ekanayake will amend the last sentence in the first paragraph regarding custodial credit risk. Mr. Stephens asked to add a market risk explanation to page 14 and Ms. Ekanayake said she would add some standard language. He also asked to add the plan name, Retiree Health Plan, to note 2 on page 16.

The committee agreed that mutual fund real estate on page 18 will be verified with Callan, page 19, note 4, will be updated to reflect the value of Kings Court and new language will be added, and the 3rd paragraph of note 7on page 25 will be removed.
Mr. Stephens asked about page 24 and whether we should note the Buck Consultants settlement funds? Ms. Ekanayake replied that we could add a footnote and explain that reserve, but it does not meet the materiality threshold. Instead we can explain why it is not available for payment of benefits. MCERA will provide the reserve figure to update the total.

3) Schedule the next Audit & Budget Committee meeting.

The next Budget and Audit Committee meeting will be scheduled October 16, 2013 following the Board of Retirement meeting.

Meeting Adjourned (2:55 p.m.)

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: November 6, 2013
To: Board of Retirement
From: Judy Zeller, Retirement Specialist II JZ
Subject: October 21, 2013 Board of Retirement Election Results

On October 21, 2013, an election was conducted to elect one General Member to the Board of Retirement pursuant to Article X. of the Bylaws of the Board of Retirement. This new term of office begins December 1, 2013 and ends on November 30, 2016.

Staff received a total of 111 countable ballots. Candidate Randy Goodman received 68 votes, Candidate David Marshall received 41 votes, and we received two under votes (unmarked ballots). Candidate Goodman received the highest number of votes and was declared elected. Article X. section 8 of the Bylaws states that following the date of election the Retirement Administrator shall publicly canvass the returns of said election and shall certify the results thereof to the Board of Retirement and to the Board of Supervisors of the County of Mendocino at the soonest possible board meetings following the election. The Candidate receiving the highest number of votes shall be declared elected.

A Safety Member election was also scheduled to be held on October 21, 2013, but was not held because only one member filed for candidacy. As provided in Article X. Section 6 of the Bylaws of the Board of Retirement and pursuant to Government Code Section 31523, if an election to fill a vacancy for the Second, Third, Seventh, or Eight member has been called and only one member has been duly nominated in accordance with the rules established for the holding of such election, the Board of Supervisors shall order that no election be held and shall direct the Retirement Administrator to cast a unanimous ballot in favor of such nominated member.

The results of the October 21, 2013 General Member election and notice that no election shall be held for the Safety Member seat and that the Retirement Administrator shall cast a unanimous ballot in favor of Mr. Craig Walker were both certified to the Board of Supervisors at their regular scheduled board meeting on November 5, 2013 by consent calendar.

There is no action to be taken at this time other than to receive this consent agenda item.

PAYMENT AGREEMENT

This agreement is entered into between Julie McCarthy and the Mendocino County Employees' Retirement Association ("MCERA").

Factual Recitals

Whereas, Ms. McCarthy has received an overpayment of benefits paid by MCERA of $71,547.59.

Whereas, the overpayment was caused by MCERA's mistake or inadvertence and through no fault of Ms. McCarthy.

Whereas, MCERA has a fiduciary obligation to conserve and protect the assets of the retirement fund.

Whereas, MCERA has an obligation to make every reasonable effort to recover amounts that have been overpaid through mistake or inadvertence.

Agreement

In consideration of MCERA's agreement to refrain from seeking judicial approval to recover the overpaid amount, Ms. McCarthy agrees to execute a Promissory Note (Exhibit A) providing for regular monthly payments of $207.99 for 343 months, and one final payment of $207.02, beginning November 1, 2013, to equal the overpayment. The periodic payments will take the form of deductions from the monthly benefit payments to Ms. McCarthy. By this Agreement, MCERA is expressly authorized to make the agreed-upon deductions.

Ms. McCarthy enters into this Agreement voluntarily and has had the opportunity to review it with her counsel, Ryan Gronsky.

Dated: October 22, 2013

Julie McCarthy

Dated: October 30, 2013

Ryan Gronsky
Attorney for Julie McCarthy

Dated: October 31, 2013

Richard White
Retirement Administrator

Exhibit A

PROMISSORY NOTE

$71,547.59 Ukiah, California

I, Julie McCarthy, promise to pay the Mendocino County Employees' Retirement Association, 625B Kings Court, Ukiah, California 95482, the sum of $71,547.59 in installments of $207.99 per month, beginning November 1, 2013, for a total of 343 months, and one final payment of $207.02. MCERA is authorized to deduct each installment payment from the monthly benefit amount payable to me.

Further, if I should pass away before making the final payment, I understand and agree that the remaining balance due would be a debt of my estate.

Dated: October 22 2013

Julie McCarthy

Richard A. White, Jr.
Retirement Administrator

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: November 6, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator RAW
Subject: Communications to the Board of Retirement

Discussion: Included are articles and items of interest which relate to public pension funds and are presented to the Board as informational items.

1. Weekly Update Report. Administrative updates as provided to the Board of Retirement are included for reference.

2. Gauging the Burden of Public Pensions on Cities. Center for State and Local Government Excellence. October 2013.

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: October 21, 2013
To: Member of the Board of Retirement
From: Richard White, Retirement Administrator
Subject: Weekly Update Report

The following is the regular weekly summary of MCERA administrative activity including an update regarding MCERA-related issues for the week of October 14 through 18, 2013:

- SCHEDULE:
  - The week was shortened due to the Columbus Day holiday (October 14), a vacation day (October 15) and a sick day (October 17).

- MEETINGS:
  - The Board of Retirement met on Wednesday (October 16) and the Audit and Budget Committee met briefly after the Board meeting. I spent two hours prior to the Board meeting preparing for both meetings and the remainder of the work day after the meetings was spent de-briefing these meetings.
  - I met with Board Chair Shapmire to discuss the performance evaluation presented at the Board meeting on Friday, October 18.

- ITEMS:
  - **Public Records Act Request.**
    - MCERA received a public records act request on October 15th and have ten days to respond to the item. Jeff Berk, MCERA Legal Counsel and I conversed on Friday regarding this request and will be responding within the deadline. Additional information will be provided to the Board on this item at the monthly Board meeting.
  - **Pension Administration System (PAS).**
    - I participated in a conference call on Friday with our legal team regarding the Pension Administration System (PAS) contract negotiations.
  - **Accountant Position Recruitment**
    - On Friday, Mendocino County Human Resources notified me that they have scheduled the oral panel interviews for November 5th and requested that MCERA participate in the panel. I enlisted the services of Board Member Randy Goodman to sit on this oral panel.

- TRAINING AND EDUCATION:
    - Judy Zeller, Retirement Benefit Specialist II, attended the CALAPRS Administrative Assistant Roundtable training session on Friday, October 18, 2013 in Burbank.

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: October 28, 2013
To: Members of the Board of Retirement
From: Richard White, Retirement Administrator
Subject: Weekly Update Report

The following is my regular weekly summary of MCERA administrative activity for the week of October 21 through 25, 2013:

- SCHEDULE:
  - This was a normal administrative work week which included our professional accounting service provider being in our office.

- MEETINGS:
  - The Audit and Budget Committee met in a special meeting on Tuesday, October 22, 2013. A report of the meeting will be included in the Board meeting agenda packet. Additional administrative time was spent following up on items generated from this meeting.
  - I had communication during the week with the Board Chair and Vice Chair on various matters.

- ITEMS:
  - **Election of member of the Board of Retirement.**
    - The ballot counting for the Board of Retirement elected general member took place in our office on Monday, October 21, 2013. Trustee Randy Goodman was elected for another term of office and Trustee Craig Walker was elected for another term of office (unopposed). A report of this election was provided to you and will also be included in the Board meeting agenda packet. All MCERA staff and a member of the Registrar of Voters conducted the ballot counting, which was coordinated by Judy Zeller.

  - **Public Records Act request.**
    - MCERA received a request for active member data from an organization called 'openthebooks.com." We have ten days to respond to the request which we met. We have requested clarifying information from the requestor and payment of fees associated with the preparing the request.

- Additional information will be included in the Board meeting agenda packet. Jeff Berk, Legal Counsel and Katy Richardson assisted me with this item.

- **Board meeting agenda packet.**
  - A significant portion of the week was taken with the preparation and review of materials and agenda items for next Board meeting. Legal Counsel, MCERA staff and our professional services providers assisted me with these items.

- **Pension Administration System (PAS)**
  - I spoke with our Linea Solutions consultant both on the phone and via email during the week to coordinate and plan the next steps once our contracts are finalized.
  - I worked with our legal consultants, Board leadership and MCERA staff on the PAS contract negotiations to answers questions and provide direction towards the completion of the LRS agreement.

- **Accounting Position Recruitment**
  - I worked with County HR and others on the materials and scheduling of the next step in the recruitment process that will take place on November 5^{th}. Additional information will be included in the Board meeting agenda packet.

- **Accounting and Financial**
  - Scott German, Fechter Company, was in the office this week. He and I spent time working on accounting procedures, various reports and other related items.
  - I spent some administrative time entering data into the Peachtree Accounting System and generating reports from the system.
  - I prepared the quarterly budget/expense report which will be included in the Board meeting agenda packet.

- **Investments**
  - I spoke with and emailed our Investment Consultant to discuss various items and plan for the next Board meeting.
  - I met with a representative of an Investment firm to discuss investment related topics and strategy relevant to the MCERA trust fund.

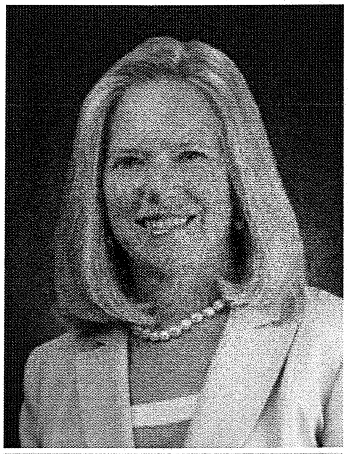
- **Disability**
  - I read the legal materials on disability cases sent to me by Attorney Graham and spoke with him on these and other matters.

CENTER FOR STATE &
LOCAL GOVERNMENT
EXCELLENCE

ISSUE BRIEF

Gauging the Burden of Public Pensions on Cities

October 2013



This ambitious research study starts with a question: how much do residents of a city pay for pensions—not just for city pensions, but also for school district and county pensions in their jurisdiction?

Using a sample of 173 cities and assigning pension costs to each city based on financial reports and their methodologies, the research team at Boston College found that overall pension costs equal 7.9 percent of the total revenue base.

As with other studies, the researchers found a wide variation in pension costs among the cities they studied ranging from 12.3 percent for the highest cost quintile to 2.7 percent for the lowest cost quintile.

As the authors note, the analysis should be viewed as preliminary as the data have not been reviewed by the individual cities. They conclude that, although some cities face significant problems, pension costs are less of a burden to most cities than has been widely reported.

The Center for State and Local Government Excellence gratefully acknowledges the financial support from the ICMA-RC to undertake this research project.

Elizabeth K Kellar

Elizabeth K. Kellar
President and CEO
Center for State and Local Government Excellence

Gauging the Burden of Public Pensions on Cities

Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Mark Cafarelli*

Introduction

Stories in the popular press suggest—particularly in the wake of the bankruptcy of Detroit—that pensions are the major expense of American cities and will lead to their widespread collapse.[1] Thus, it is important to know the burden of pensions on cities. This burden can be measured in two ways. The first is the direct cost of pensions to city governments. These costs include contributions to locally-administered plans, contributions to state non-teacher plans, and contributions to state teacher plans on behalf of dependent school districts. The direct cost measures the pressure on the city's finances. But there is also a broader question: how much do residents of a city pay for pensions? Here one would add to the city's direct costs the contributions made by independent school districts that serve city residents and contributions that city residents make to county plans. This second concept—which is more comprehensive, avoids distortions created by local government arrangements, and provides a measure of residents' incentive to move—is the focus of this brief. The question is whether pension costs—measured comprehensively—account for 5 percent or 50 percent of total local revenue raised from city taxpayers. (The Appendix presents both measures of the pension burden.)

The discussion proceeds as follows. The first section highlights the importance of looking beyond the cost of locally-administered plans and describes the process of collecting and allocating the amounts paid for pensions by school districts within the city and by counties in which the cities are located. The second section describes our sample of 173 cities and illustrates how costs and revenues from the various units of local government are allocated to city taxpayers. The third section reports that, for the full sample, overall pension costs borne by city residents amount to 7.9 percent of revenue. The discrepancy between the 7.9 percent and the average reported in the U.S. Census of 5.6 percent is primarily because our study uses the full Annual Required Contribution (ARC), while the Census reports the amount that the local governments actually paid. In terms of individual cities, taxpayer costs average 2.7 percent of revenue for the least expensive fifth of cities and 12.3 percent for the top fifth. Among major cities, Chicago, New York, and Philadelphia have very high pension costs. Detroit was #61 primarily because it issued Pension Obligation Bonds in 2005, which increased its overall borrowing costs but reduced its reported pension expense. The final section concludes that pension costs are closer to 5 percent of revenue than to 50 percent for cities, even in the wake of two financial crises and the Great Recession. However, in those cases where pensions are both expensive and underfunded, such as Chicago, they exacerbate fiscal problems.

Pension Financing at the Local Level

To clarify the goal of this study it may be helpful to compare it with earlier work that explored how well sponsors of locally-administered plans were funding their commitments.[2] First, the earlier sample consisted of individual local plans, whereas the current analysis pulls together all pension costs (to both state and local plans) for a given city. Second, the earlier study was limited to localities that administered their own plans. (For example, the sample included no city in Mississippi, Montana, or Nevada because cities in those states participate only in a state system.) The current analysis, which looks at pension contributions to both locally-administered and state-administered plans, includes cities in all 50 states. Finally, the earlier study looked at the funded status of the plans, while the focus here is on the burden of total pension costs on the city revenue base.

The Census data highlight the importance of looking beyond the cost of locally-administered plans.

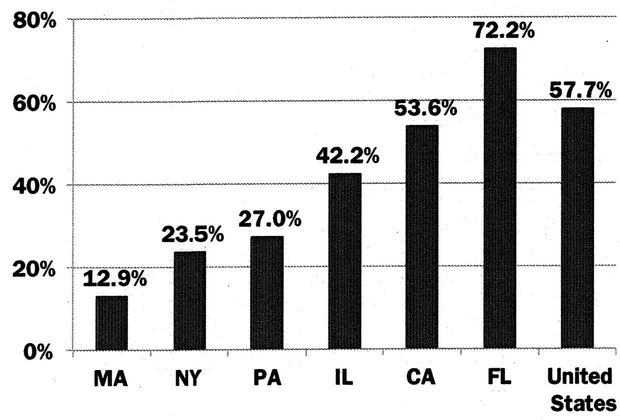
* Alicia H. Munnell is director of the Center for Retirement Research at Boston College (CRR) and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. Jean-Pierre Aubry is assistant director of state and local research at the CRR. Josh Hurwitz is a former research associate at the CRR. Mark Cafarelli is a research associate at the CRR. The authors thank Christine Manuelo and Joseph Prestine for valuable contributions to the data collection effort. The authors thank David Blitzstein, Keith Brainard, and Nathan Scovronick for helpful comments.

Specifically, many local governments make considerable contributions to state systems. In the aggregate, these payments account for 58 percent of total local pension contributions. But these percentages vary enormously across states. They range from zero in Vermont—where the entire state retirement system is financed at the state level—to 100 percent in Hawaii, Maine, Mississippi, Montana, Nevada, New Mexico, and Wyoming—where all localities are covered under the state plan.[3] Figure 1 shows the share of local pension contributions going to a state system for a sample of states that lie between the extremes of zero and 100 percent.

Unfortunately, the financing of pensions at the local level is more complicated than city money going to local plans or to state plans (see Figure 2). In addition, cities have school districts that make contributions directly to state plans and get their money either directly from the city or through a separate levy. Further, residents of cities also contribute to the financing of county governments that sponsor plans or contribute to state systems. The process of accounting for all of these contributions involves four separate steps, some easy, some painstaking.

The first step, which involves city contributions to its own plans, is straightforward. For those cities with a plan of their own, the Comprehensive Annual Financial Report (CAFR) lists both the Annual Required Contribution (ARC) and the percent of ARC paid by the city to all its plans. The ARC is included in the following calculations because it provides a better measure of the burden than the actual contribution.

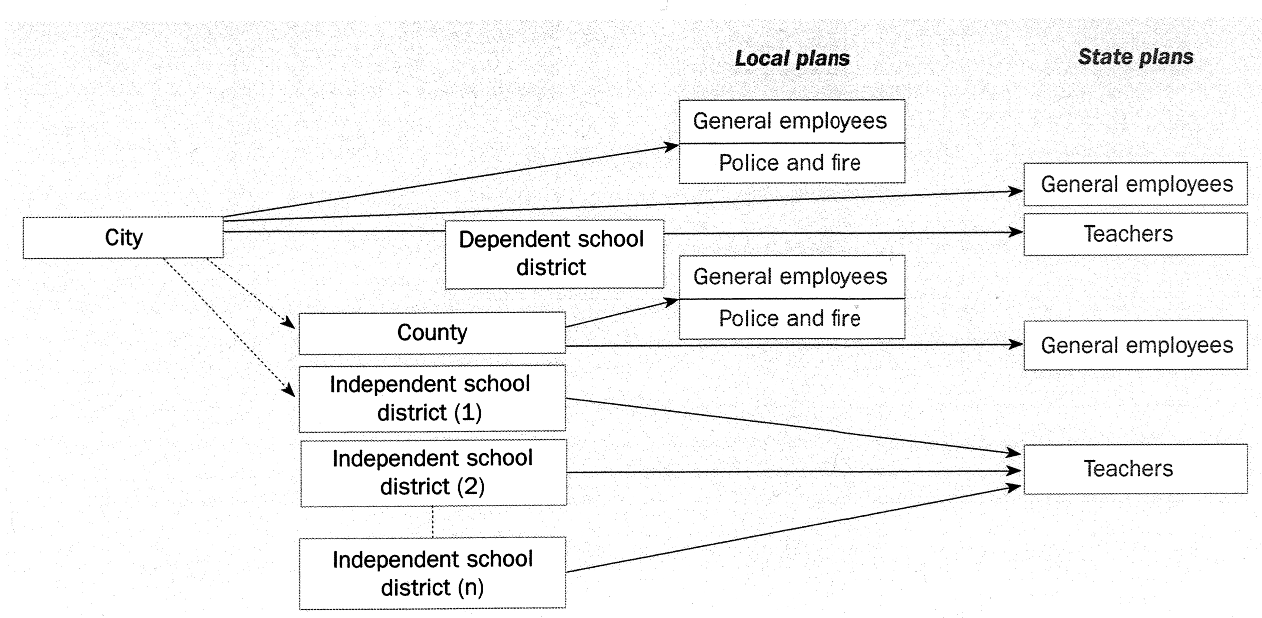
Figure 1. *Local Governments' Contributions to State-Administered Plans as a Percent of Their Total Contributions, Selected States, 2011*



Source: Authors' calculations from U.S. Census Bureau (2011).

The second step, which involves city contributions directly to state plans, is also easily addressed. For each city—those with plans of their own and those without—the city's CAFR generally includes both the ARC for the city to the state plan and the percent of ARC paid. Typically, these contributions go to state plans covering general employees. For the few cities with city-dependent

Figure 2. *Contributions from Cities to Pension Plans*



Source: Authors' illustration.

school districts, the city also pays to a state-administered teachers' plan on behalf of the school district.

The third step, which involves county government contributions, is a bit more challenging. Incorporating county costs is important because in some states, such as California and Maryland, county governments are often the predominant service providers and administrative bodies. Thus, their spending on pensions and other public services has a significant effect on city taxpayers who live in the county. The procedure adopted is to pro-rate the contributions reported in the county CAFRs based on the percent of the county's total population that resides in the city.

The fourth and final step, which involves independent school district contributions to state teachers' plans, is the most challenging. Obtaining the ARC for teachers requires collecting the CAFR for each individual school district that overlaps the city. Cities can have as many as 39 school districts, each reporting required contributions to teacher plans. The procedure adopted is to pro-rate the contributions reported in the school district CAFRs based on the percent of each school district's total student population that resides in the city. The student population data are available through the National Center for Education Statistics (NCES).

The other challenge is determining the revenue base for each locality. In those situations where the only payments are direct from the city to a local plan and to a state plan, the appropriate revenue base is the city's total revenue. When the dispersion of funds includes those made by school districts and counties, then a prorated portion of the county or school district revenue—again, based on shared population—is also included in the revenue base.

The Data

The sample consists of 173 cities, and includes 421 overlapping school districts, as well as 161 counties. Of the cities, 83 are new and were not covered in past analyses because they have no meaningful plan of their own and have never been part of the Public Plans Database. The new sample was designed to cover the two largest cities in each state, so that the total sample reflects the distribution of population across states. Because the largest cities tend to administer their own plans, additional large cities that participate in state plans were added to the sample in order to capture the variation on pension organization across localities. While the sample includes only 3.1 percent of the 24,000 localities identified in the Census, it covers nearly 40 percent of reported revenue.

The primary task is to assign all relevant pension costs to each city. A sample calculation for Albuquerque, New Mexico, may help clarify the process (see Table 1). The city of Albuquerque does not administer its own pension plan. Instead, it contributes 100 percent of its ARC, or \$36.3 million, directly to the state-administered plan. In addition, Albuquerque is located in Bernalillo County, which contributes \$12.3 million to pensions. Since Albuquerque accounts for 82.4 percent of the county's population, that portion of county pension costs (\$10.2 million) was allocated to the city of Albuquerque. Finally, the Albuquerque School District contributed \$57.0 million to the state's teacher plan. Since 75.0 percent of the school district's student body lives in the city of Albuquerque, that portion of the school district payment (\$42.8 million) was allocated to the city of Albuquerque. Similar procedures were used to allocate county and school district revenue to the city of Albuquerque. In total, pension contributions by the city, county, and school district account for 8.2 percent of the combined revenue. Costs as a percent of revenue and the percent paid to state plans for each of the 173 sample cities are presented in the Appendix.

Table 1. *Calculated Pension Costs for Albuquerque, New Mexico (in Millions)*

	Government finances		City's	City taxpayers		
Government entity	Pension costs	Revenue	portion of population	Pension costs	Revenue	Pension costs/ revenue
Albuquerque	\$36.3	\$694.5	100.0	\$36.3	\$694.5	5.2
Bernalillo county	12.3	303.0	82.4	10.2	249.5	4.1
Albuquerque school district	57.0	184.7	75.0	42.8	138.5	30.9
Total	105.7	1,182.2	—	89.3	1,082.5	8.2

Source: Authors' calculations based on various CAFRs and U.S. Census Bureau (2010).

The Results

Once the calculation is complete for each of the 173 cities, it is possible to compare total costs with Census benchmarks and to show the variation in costs across cities.

Total Costs

Contributions as a percent of revenue amounted to 7.9 percent for the residents of cities in the sample, compared to an overall Census figure of 5.6 percent (see Table 2). Part of that discrepancy is due to the aggregation procedure that assigns pension payments made by counties and independent school districts to their associated cities. Counties are less expensive than cities in terms of contributions as a percent of revenue, and school districts are slightly more expensive than cities. The aggregation by city involves adding a lot of school districts to each city and only slivers of counties, an adjustment that accounts for 0.4 percentage points of the difference. Next, the cost concept used in this analysis is the ARC, whereas the Census focuses on the amount actually paid. This difference accounts for another 1.5 percentage points. The remainder of the discrepancy is due to the fact that we have included approximately 130 more plans than reported in the Census for the same localities. These three factors fully explain the differential between sample and Census costs.

The CRR sample also shows a significantly lower percent of total contributions paid to the state government—34 percent as opposed to 58 percent reported in the Census. The reason for the discrepancy is that our sample has a disproportionate number of large cities. These cities are more likely to have their own plans and much less likely to contribute to state-administered plans.

Table 2. *Reconciliation of CRR and Census Costs as a Percent of Revenue*

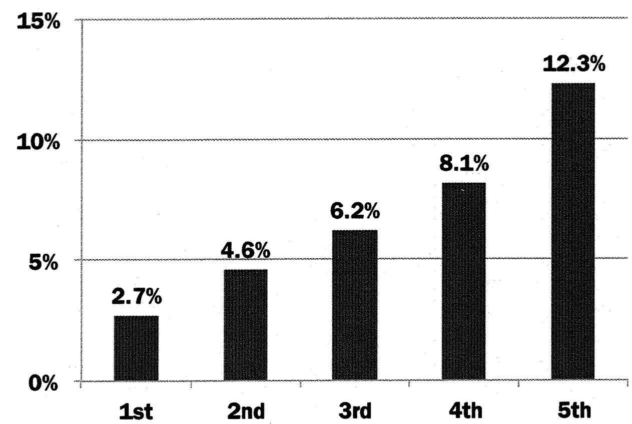
Costs	Costs as a percent of revenue
Average costs for 173 cities	7.9%
Less: adjustment due to aggregation procedure	–0.4
Less: difference between ARC and actual contributions	–1.5
Less: costs of additional plans	–0.4
Equals: Census cost	5.6

Source: Authors' calculations based on various CAFRs and U.S. Census Bureau (2010).

Variation Across Cities

Pension costs as a percent of revenue vary enormously across cities. The most expensive cities—those in the top quintile of the sample—have an average cost of 12.3 percent of revenue, while the bottom quintile averages 2.7 percent (see Figure 3).

Figure 3. *Pension Costs as a Percent of Revenue, by Quintile*



Sources: Authors' calculations based on various CAFRs and U.S. Census Bureau (2010).

It is also interesting to look at the most expensive cities and the least expensive cities. A couple of big cities—Chicago and New York—are among the top 15 high-cost cities (see Table 3), but so are smaller cities—Cincinnati, Providence, and Reno—and tiny places, like Charleston (WV). A similar array exists at the low end. For example, the large regional hubs of Charlotte, Milwaukee, and San Antonio are among the jurisdictions in the lowest cost group along with smaller cities like Lincoln (NE) and Wichita (KS) and very small cities like Montpelier (VT) (see Appendix). Consistent with this observation, a correlation analysis shows a positive relationship between size and cost, but the coefficient is small. Interestingly, Detroit is #61 primarily because it issued Pension Obligation Bonds in 2005-06, which increased its overall borrowing costs but reduced its reported pension expense.

Conclusion

The purpose of this exercise was to shift the analysis from plans to cities by aggregating total pension costs for each of 173 cities. This approach is interesting because the future of cities is a crucial concern, and

Table 3. *Sample Cities with Highest Pension Costs as a Percent of Revenue*

Rank	State	City	Pension costs/revenue	Percent of pension costs going to state-administered plans	City population (thousands)
1	AR	Little Rock City	17.6	47.3	187.5
2	IL	Chicago City	17.0	0.0	2,836.7
3	IL	Aurora City	16.4	80.9	170.9
4	WV	Charleston City	15.7	13.8	50.5
5	NV	Reno City	15.5	100.0	214.9
6	MA	Springfield City	15.0	0.0	149.9
7	CA	Bakersfield City	14.5	42.2	315.8
8	CA	Stockton City	14.1	48.6	287.2
9	MI	Saginaw City	13.8	70.2	56.3
10	OR	Portland City	13.0	35.5	550.4
11	NY	New York City	12.9	0.0	8,274.5
12	CA	Santa Ana City	12.7	62.7	339.6
13	CA	Fresno City	12.6	34.8	470.5
14	OH	Cincinnati City	12.5	47.4	332.5
15	RI	Providence City	12.4	12.2	172.5

Note: Estimates include all cities, overlapping counties, and school districts.
Source: Authors' calculations based on various CAFRs and U.S. Census Bureau (2010).

it is important because focusing solely on city plans ignores a large percentage of the pension costs borne by city taxpayers. The cost concept used was the ARC, so average costs of 7.9 percent of revenue were higher than those reported in the Census. Yet, the answer to the original question is that, even in the wake of the Great Recession and two financial crises, pensions as a share of taxpayer revenue are much closer to 5 percent than to 50 percent. This general finding, however, should not leave one too sanguine given that some large cities with high pension costs, like Chicago, also have seriously underfunded plans.

This analysis should be viewed as a preliminary foray into newly collected data. These data have been checked and re-checked internally, but have not been reviewed by the individual cities. This release is likely to provoke responses that will lead to further refinement of these estimates. The current data, and any revisions, will be available to analysts who would like to do further work and perhaps uncover patterns that we were unable to find.

Endnotes

1 See Riordan and Rutten (2013); and Maher, White, and Bauerlein (2012).

2 Munnell, Aubry, and Hurwitz (2013).

3 Alaska's only locally administered plan, the Anchorage Police and Fire Retirement System, was closed to new hires in 1994. All employees hired afterwards are covered under the Alaska State Retirement System.

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Appendix

Pension Costs as a Percent of Revenue for All Sample Cities, Ranked by Taxpayer Costs

Rank	State	City	City pension costs/revenue: Taxpayers	City pension costs/revenue: Government	Percent of taxpayer costs going to state-administered plans	City population (thousands)
1	AR	Little Rock City	17.6	16.0	47.3	187.5
2	IL	Chicago City	17.0	18.4	0.0	2,836.7
3	IL	Aurora City	16.4	11.9	80.9	170.9
4	WV	Charleston City	15.7	17.1	13.8	50.5
5	NV	Reno City	15.5	13.2	100.0	214.9
6	MA	Springfield City	15.0	15.0	0.0	149.9
7	CA	Bakersfield City	14.5	5.9	42.2	315.8
8	CA	Stockton City	14.1	6.6	48.6	287.2
9	MI	Saginaw City	13.8	13.5	70.2	56.3
10	OR	Portland City	13.0	20.9	35.5	550.4
11	NY	New York City	12.9	12.9	0.0	8,274.5
12	CA	Santa Ana City	12.7	6.4	62.7	339.6
13	CA	Fresno City	12.6	2.6	34.8	470.5
14	OH	Cincinnati City	12.5	16.9	47.4	332.5
15	RI	Providence City	12.4	12.4	12.2	172.5
16	VA	Newport News City	12.1	12.1	31.0	179.2
17	CA	Oakland City	11.9	12.7	63.9	401.5
18	AK	Fairbanks City	11.6	9.5	92.8	34.5
19	PA	Philadelphia City	11.4	12.5	6.7	1,449.6
20	RI	Woonsocket City	11.3	11.3	69.5	43.6
21	MI	Warren City	11.1	10.1	47.2	134.2
22	AL	Montgomery City	10.9	4.9	59.9	204.1
23	UT	West Valley City	10.8	5.8	96.5	122.4
24	NE	Omaha City	10.7	15.0	6.9	424.5
25	MS	Jackson City	10.7	7.7	85.5	175.7
26	MT	Missoula City	10.6	12.2	100.0	67.2
27	CT	New Haven City	10.2	10.2	0.0	123.9
28	NV	Henderson City	10.0	13.5	100.0	249.4
29	AR	Fort Smith City	10.0	4.0	98.4	84.4
30	WV	Morgantown City	9.9	11.6	0.0	29.4
31	GA	Columbus Consolidated Government	9.6	7.1	49.7	187.0
32	CA	Huntington Beach City	9.6	8.5	50.1	192.9
33	CA	Fremont City	9.4	8.9	70.7	201.3
34	CA	Sacramento City	9.2	5.5	58.2	460.2
35	NV	Las Vegas City	9.1	11.6	100.0	558.9
36	AZ	Tucson City	9.1	11.7	67.2	525.5
37	FL	Pensacola City	9.1	11.7	24.0	54.3
38	VA	Norfolk City	8.9	8.9	46.0	235.7
39	PA	Pittsburgh City	8.9	10.4	19.3	311.2

continued

Rank	State	City	City pension costs/revenue: Taxpayers	City pension costs/revenue: Government	Percent of taxpayer costs going to state-administered plans	City population (thousands)
40	CA	Anaheim City	8.8	5.9	71.5	333.2
41	VA	Virginia Beach City	8.8	8.8	100.0	434.7
42	KY	Lexington-Fayette County	8.7	11.2	46.3	279.0
43	CT	Bridgeport City	8.6	8.6	20.4	136.7
44	ID	Pocatello City	8.5	5.9	100.0	54.6
45	OH	Toledo City	8.4	7.4	100.0	295.0
46	MA	Worcester City	8.3	8.3	0.0	174.0
47	NM	Albuquerque City	8.2	5.2	100.0	518.3
48	IN	Gary City	8.2	0.0	85.5	96.4
49	LA	Shreveport City	8.2	4.8	68.0	199.6
50	FL	Fort Lauderdale City	8.2	11.2	21.9	183.6
51	CA	Modesto City	8.2	5.1	77.8	204.0
52	PA	Allentown City	8.1	8.8	33.9	107.1
53	WY	Casper City	8.0	10.2	100.0	53.0
54	AL	Mobile City	8.0	5.6	60.4	191.4
55	NJ	Newark City	7.9	14.3	91.0	280.1
56	FL	Miami City	7.9	14.5	42.2	409.7
57	CA	San Jose City	7.9	6.8	60.1	939.9
58	CA	San Diego City	7.8	6.1	28.7	1,266.7
59	AZ	Mesa City	7.7	6.4	100.0	452.9
60	MN	St Paul City	7.7	4.4	61.3	277.3
61	MI	Detroit City	7.7	4.1	49.7	917.0
62	CA	Los Angeles City	7.7	5.9	21.0	3,834.3
63	MI	Flint City	7.7	5.7	53.7	114.7
64	DE	Wilmington City	7.6	9.7	17.0	72.9
65	OH	Akron City	7.6	4.0	100.0	207.9
66	OH	Columbus City	7.6	6.0	100.0	747.8
67	NY	Buffalo City	7.3	14.5	100.0	272.6
68	FL	Miami Gardens City	7.1	10.3	100.0	97.3
69	MO	Independence City	7.1	2.1	91.5	110.7
70	CA	Riverside City	7.1	3.9	100.0	294.4
71	KY	Louisville-Jefferson County	7.0	7.9	96.4	709.3
72	NM	Las Cruces City	6.9	3.7	100.0	89.7
73	GA	Atlanta City	6.9	6.8	12.8	519.1
74	GA	Roswell City	6.8	4.6	58.3	87.3
75	NY	Yonkers City	6.7	12.3	100.0	199.2
76	SC	Spartanburg City	6.7	3.3	91.1	38.8
77	AZ	Phoenix City	6.6	7.3	67.1	1,552.3
78	CA	Long Beach City	6.5	4.1	73.0	466.5
79	LA	New Orleans City	6.4	7.8	4.6	239.1
80	MO	St Louis City	6.3	5.9	13.5	350.8
81	LA	Baton Rouge-East Baton Rouge City-Parish	6.3	4.6	50.1	227.1
82	UT	Salt Lake City	6.2	4.4	74.6	180.7

continued

Rank	State	City	City pension costs/revenue: Taxpayers	City pension costs/revenue: Government	Percent of taxpayer costs going to state-administered plans	City population (thousands)
83	FL	Hialeah City	6.2	10.3	62.6	212.2
84	WV	Wheeling City	6.2	7.4	51.1	29.1
85	TX	Houston City	6.2	8.5	37.5	2,208.2
86	AL	Hoover City	6.1	4.6	94.1	69.9
87	FL	St Petersburg City	6.1	9.6	29.4	246.4
88	OH	Dayton City	6.0	4.0	100.0	155.5
89	MD	Baltimore City	6.0	8.5	0.0	637.5
90	WA	Spokane City	6.0	4.3	61.2	201.0
91	NY	Syracuse City	6.0	8.3	100.0	139.1
92	MO	Kansas City	5.9	3.7	48.9	450.4
93	VA	Richmond City	5.9	5.9	35.2	200.1
94	SC	Greenville City	5.9	4.7	84.1	58.8
95	OH	Cleveland City	5.8	4.4	100.0	438.0
96	NH	Nashua City	5.8	5.9	93.6	86.8
97	CO	Aurora City	5.8	2.5	66.6	311.8
98	AL	Birmingham City	5.7	4.9	43.6	229.8
99	AK	Anchorage Municipality	5.6	5.6	82.8	279.7
100	OK	Oklahoma City	5.6	2.4	69.9	547.3
101	ND	Fargo City	5.6	4.5	54.1	92.7
102	TX	El Paso City	5.6	7.6	35.3	606.9
103	OK	Lawton City	5.6	3.5	90.2	91.6
104	HI	Honolulu City/County	5.4	5.4	100.0	905.6
105	MA	Boston City	5.4	5.4	0.0	599.4
106	OR	Salem City	5.3	3.8	100.0	151.9
107	MI	Grand Rapids City	5.2	2.4	59.0	193.6
108	CA	San Francisco City/County	5.2	5.0	14.6	765.0
109	OK	Tulsa City	5.1	3.1	67.6	384.0
110	CO	Colorado Springs City	5.0	3.3	95.3	376.4
111	FL	Jacksonville City	5.0	4.1	27.2	805.6
112	TX	Corpus Christi City	5.0	6.3	88.6	285.5
113	IA	Cedar Rapids City	4.9	2.9	100.0	126.4
114	MN	Minneapolis City	4.9	3.8	81.1	377.4
115	MN	Bloomington City	4.8	5.0	74.8	81.4
116	TN	Nashville-Davidson County	4.8	4.8	0.0	590.8
117	KS	Kansas City-Wyandotte County	4.7	3.4	81.7	142.3
118	WA	Seattle City	4.7	5.1	29.0	594.2
119	NH	Manchester City	4.6	4.6	86.3	108.9
120	IN	Indianapolis City	4.6	3.9	37.0	795.5
121	NC	Raleigh City	4.5	2.2	95.8	375.8
122	VA	Chesapeake City	4.5	4.5	100.0	219.2
123	FL	Tampa City	4.4	4.6	47.4	336.8
124	FL	Orlando City	4.4	5.7	29.9	227.9
125	ND	Bismarck City	4.4	2.7	57.5	59.5

continued

Rank	State	City	City pension costs/revenue: Taxpayers	City pension costs/revenue: Government	Percent of taxpayer costs going to state-administered plans	City population (thousands)
126	SD	Sioux Falls City	4.4	4.0	51.4	151.5
127	NY	Rochester City	4.3	6.4	100.0	206.8
128	TX	Dallas City	4.3	5.7	32.1	1,240.5
129	IA	Des Moines City	4.3	3.5	100.0	197.0
130	TN	Memphis City	4.1	5.4	28.2	674.0
131	ND	West Fargo City	4.0	1.1	100.0	23.1
132	TX	Fort Worth City	4.0	6.3	25.7	681.8
133	LA	Lafayette City-Parish	4.0	2.4	100.0	113.5
134	MN	Duluth City	4.0	2.6	79.9	84.4
135	ID	Boise City	3.9	3.9	100.0	202.8
136	KY	Owensboro City	3.8	3.5	97.6	55.4
137	SC	Charleston City	3.8	4.1	100.0	110.0
138	VT	Burlington City	3.8	3.8	0.0	38.5
139	CT	New Britain City	3.8	3.8	68.1	70.7
140	TN	Clarksville City	3.7	1.7	100.0	119.3
141	TX	Austin City	3.7	4.2	27.9	743.1
142	MT	Billings City	3.6	3.2	100.0	101.9
143	CT	Hartford City	3.6	3.6	0.0	124.6
144	MD	Bowie City	3.5	1.6	20.4	53.2
145	WI	Madison City	3.4	3.3	100.0	228.8
146	DC	Washington DC City	3.3	3.3	0.0	588.3
147	NJ	Jersey City	3.2	5.0	78.0	242.4
148	CO	Denver City/County	3.2	3.7	46.1	588.3
149	WA	Tacoma City	3.2	3.2	24.5	196.5
150	TX	Lubbock City	3.2	5.6	84.6	217.3
151	SD	Rapid City	3.0	1.9	100.0	64.0
152	IN	Fort Wayne City	2.9	1.9	87.7	251.2
153	TX	Arlington City	2.9	3.4	100.0	371.0
154	SC	Columbia City	2.9	4.0	100.0	124.8
155	TX	Garland City	2.8	4.3	100.0	218.8
156	NC	Greensboro City	2.7	1.9	91.4	247.2
157	ME	Lewiston City	2.7	2.7	87.7	35.2
158	NC	Durham City	2.6	2.3	91.8	217.8
159	MS	Gulfport City	2.6	1.2	100.0	66.3
160	FL	Tallahassee City	2.6	2.0	39.9	169.0
161	TX	San Antonio City	2.5	2.8	53.7	1,329.0
162	KS	Wichita City	2.5	3.1	32.0	361.4
163	CT	Greenwich Town	2.2	2.2	0.0	61.9
164	NC	Charlotte City	2.2	1.9	77.8	671.6
165	VT	Montpelier City	2.1	2.2	100.0	7.8
166	TN	Chattanooga City	2.1	1.7	47.9	169.9
167	DE	Dover City	2.0	1.8	30.4	35.8
168	TN	Knoxville City	1.9	1.2	30.3	183.5
169	WI	Milwaukee City	1.7	0.2	0.0	602.2

continued

Rank	State	City	City pension costs/revenue: Taxpayers	City pension costs/revenue: Government	Percent of taxpayer costs going to state-administered plans	City population (thousands)
170	WY	Cheyenne City	1.7	5.7	100.0	55.6
171	ME	Portland City	1.6	1.6	100.0	62.8
172	NE	Lincoln City	1.1	0.8	56.4	248.7
173	WA	Vancouver City	1.0	0.2	83.6	161.4

Note: Estimates for taxpayers include all cities, overlapping counties, and school districts. Estimates for government include only cities and *dependent* school districts.

Source: Authors' calculations based on various CAFRs and U.S. Census Bureau (2010).

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