

A REPORT ON THE COSTS, OPERATIONS, PERFORMANCE AND FINANCES OF THE MORAGA-ORINDA FIRE DISTRICT (MOFD)

by

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Section VI - Financial Stability of MOFD

Due to a large and relatively stable property tax revenue stream, MOFD, unlike some other agencies, is apparently not at risk of claiming bankruptcy. While many areas in the Bay Area have seen significant decreases in property values and thus taxes, MOFD has actually seen a fractional increase in property tax revenue over the past four years (2%) and significant increase since the District was formed 15 years ago (120%). Their \$17 million in property tax revenue is sufficient to staff MOFD with four times the number of firefighters per capita as the neighboring ConFire District. Their buildings and firefighting equipment are in good condition and they currently have \$6 million in reserves.

However, MOFD has the same problem as other public agencies; employee benefit liabilities funded by insufficient assets. These are liabilities are **the legal responsibility of the District's taxpayers**. They are for benefits that employees earned and vested for past labors and which the District is obliged to pay for over the next 60 years. The sum of these liabilities (Graph VI-1) is about **\$700 million**. This equates to \$60,000 per household; 35 times the size of next year's budget; 3.5 times the \$200 million in property tax revenue the District has received since being formed 15 years ago. While the District has \$112 million of pension plan assets that, with earnings, will pay off some of these liabilities, the Task Force's analysis shows that these assets will fall \$400-500 million short of paying off current liabilities. It could take **\$4-10 million per year for the next 30 years**, in excess of what is currently anticipated, to pay for these unfunded liabilities.

The Task Force believes that despite the magnitude of the District's indebtedness, steps can be taken which will pay off this debt without negatively impacting the service to the community. But the longer the solution is delayed the harder it will be to implement. This report will discuss the District's financial position, what impact it may have on future operations, and present suggestions on how tracking the District's financial position and funding its liabilities can be improved.

THE BALANCE SHEET - A SNAPSHOT OF MOFD'S FINANCIAL CONDITION

Part of the reason the District has reached its current uncomfortable position of having seriously underfunded liabilities is that standard accounting procedures have masked the true extent of these liabilities and the District has not taken steps to work around the accounting industry's shortcomings.

The annual audited balance sheet should give the District's managers and the community a strong indication of the District's financial condition. The latest published balance sheet, Exhibit VI-1, for the year ending June 30, 2011 shows assets of \$42 million (including \$7 million in cash), liabilities of \$31 million, for a net asset value of \$11 million. Quite respectable for an operation with revenue and expenses of close to \$20 million per year. But as this report will show, the audited balance sheet bears

Graph VI-1 MOFD Liabilites - \$700,000,000

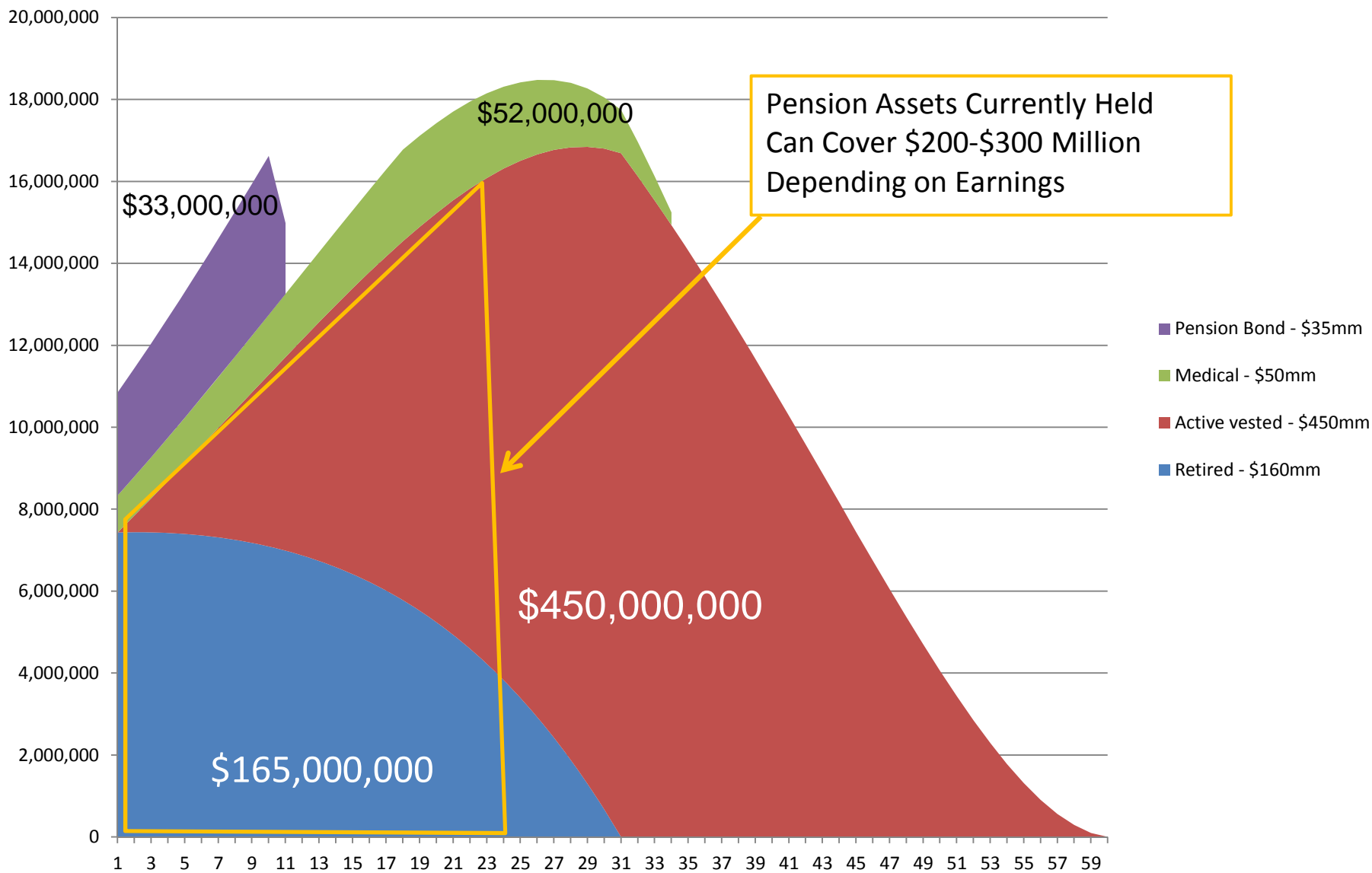


Exhibit VI-1

**MORAGA-ORINDA FIRE PROTECTION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2011**

	General Fund	Capital Projects Fund	2011 Total	Adjustments (Note 2)	Statement of Net Assets
ASSETS					
Cash and investments	\$ 3,826,973	\$ 3,005,317	\$ 6,832,290	\$ -	\$ 6,832,290
Taxes receivable	105,417	-	105,417	-	105,417
Other receivables	652,624	1,740	654,364	-	654,364
Prepaid items	97,436	30,184	127,620	26,344,837	26,472,457
Capital assets, net of accumulated depreciation	-	-	-	8,348,722	8,348,722
Total assets	<u>\$ 4,682,450</u>	<u>\$ 3,037,241</u>	<u>\$ 7,719,691</u>	<u>\$ 34,693,559</u>	<u>\$ 42,413,250</u>
LIABILITIES AND FUND BALANCE					
Accounts payable	156,487	47,823	204,310	-	204,310
Salaries and benefits payable	808,213	-	808,213	-	808,213
Accrued interest	-	-	-	672,336	672,336
Long-term liabilities:					
OPEB payable (note 13)	-	-	-	3,493,000	3,493,000
Due within one year	-	-	-	1,275,321	1,275,321
Due in more than one year	-	-	-	25,035,482	25,035,482
Total liabilities	<u>964,700</u>	<u>47,823</u>	<u>1,012,523</u>	<u>30,476,139</u>	<u>31,488,662</u>
FUND BALANCES / NET ASSETS					
Fund balances:					
Nonspendable	97,436	30,184	127,620	(127,620)	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	2,959,234	2,959,234	(2,959,234)	-
Unassigned	3,620,314	-	3,620,314	(3,620,314)	-
Total fund equity	<u>3,717,750</u>	<u>2,989,418</u>	<u>6,707,168</u>	<u>(6,707,168)</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 4,682,450</u>	<u>\$ 3,037,241</u>	<u>\$ 7,719,691</u>		
Net assets:					
Invested in capital assets				8,348,722	8,348,722
Restricted				-	-
Unrestricted				2,575,866	2,575,866
Total net assets				<u>\$ 10,924,588</u>	<u>\$ 10,924,588</u>

little resemblance to the actual financial condition of the District. In reality the District, has approximately \$700 million in long-term liabilities offset by about \$130 million in current assets.

LIABILITIES

The District three basic liabilities: 1) A Pension Obligation Bond, 2) Post Retirement Medical Benefits for its retirees, and 3) a Defined Benefit Pension Plan

Pension Obligation Bond - At the end of 2005, MOFD's pension plan was almost \$30 million underfunded due to the fact that in late 2003 they retroactively increased the pension benefits for all current employees by 50 percent. MOFD was obligated to pay this underfunding back over a 15 year period including an assumed interest rate of 7.75 percent, the projected earning rate of the pension plan's assets. An alternative to paying increased payments to the pension plan was to borrow money from the municipal bond market, use the proceeds to fully fund their pension plan, and pay the bond holders back instead of making higher pension plan contributions. So \$28.5 million was borrowed at an interest rate of 5.22 percent. The payments were scheduled to continue for 17 years (paying off in 2022), with the payment amounts increasing by about 5 percent each year. In 2012 the annual cost of this loan is \$2.5 million; in 5 years it will be \$3.1 million; and the last full year of payments (2021) will be \$3.9 million. The current loan balance is about \$25 million and over the next 10 years the total payments will add up to \$33 million. The full repayment schedule for this bond is detailed in Table VI-1. There is further discussion later in this section regarding the appropriateness of obtaining this bond as opposed to paying the higher pension plan payments.

Post Retirement Medical Benefits (called OPEB - Other Post Employment Benefits) - MOFD pays medical benefits for life for its retired employees. A full description of the plan is contained in the latest report by the District's actuary (Exhibit VI-2 on the Task Force web site). A summary this benefit's liability includes:

- 1) In 2010/11 these benefits cost the District \$834,000 (Table IV-1). The District's long range forecast only has them growing by 0.5 percent annually so the 2012/13 projection (Table IV-4a) is \$835,000. However, the proposed budget for this year has them at \$933,000, a 12 percent increase over 2 years.
- 2) The District does **not** "pre-fund" these costs and currently legislation has not required agencies to pre-fund. However, an accounting is required every three years with the value of liability placed in a footnote to the balance sheet. This liability is slowly being included in the balance sheet.
- 3) The latest accounting of these liabilities, completed in August 2010, included a valuation for 6/30/2009 and an estimation for 6/30/2011. The accounting does not report actual projected liabilities, but rather gives a present value of those liabilities at a proscribed discount rate (4.25 percent at that point in time) and at the pension plan's projected asset earning rate of 7.75 percent.

Date of Valuation	Discount Rate	
	4.25%	7.75%
June 30, 2009	\$24,104,000	\$15,301,000
June 30, 2011	\$26,342,000	(16,722,000) est.

Table VI-1 MOFD Pension Bond Investment Performance

Payment	Pension Bond Liability			Annualized Earning Rate	CCCERA Pension Asset Performance					Bond Benefit **	CCCERA IRR to date	
	Interest 5.22%	Principal	Balance		Value of Assets Purchased by Bond Proceeds	less Bond Balance Due	Yield To Date	Value of Assets Purchased by Bond Cash Flows	Yield To Date			
12,227												
1/1/2006		(28,435)	28,435		28,435	-		0		-	100.0	(100.0)
7/1/2006	742	742	28,435	14.23%	30,391	1,956		742		1,214		-
1/1/2007	742	742	28,435	14.23%	32,481	4,046	1882.1%	1,535	14.2%	2,511	114.2	-
7/1/2007	1,197	742	455	6.03%	33,446	5,466	280.2%	2,778	8.7%	2,688		-
1/1/2008	730	730	27,980	6.03%	34,440	6,460	116.4%	3,591	7.3%	2,869	121.1	-
7/1/2008	1,325	730	595	-28.35%	29,152	1,767	n/a	4,365	-9.1%	(2,598)		-
1/1/2009	715	715	27,385	-28.35%	24,676	(2,709)	n/a	4,409	-17.0%	(7,118)	86.8	-
7/1/2009	1,450	715	735	19.68%	26,650	345	n/a	6,274	-7.0%	(5,928)		-
1/1/2010	696	696	26,650	19.68%	29,532	2,882	n/a	7,559	-0.3%	(4,676)	103.9	-
7/1/2010	1,586	696	890	13.35%	31,442	5,682	-26.6%	9,633	2.7%	(3,951)		-
1/1/2011	672	672	25,760	13.35%	33,475	7,715	-11.4%	10,928	4.8%	(3,213)	117.7	-
7/1/2011	1,727	672	1,055	1.76%	33,768	9,063	-11.0%	12,751	4.3%	(3,688)		-
1/1/2012	645	645	24,705	1.76%	34,064	9,359	-10.3%	13,508	3.8%	(4,149)	119.8	119.8
7/1/2012	1,875	645	1,230	3.06% *	34,581	11,106	-9.0%	15,588	3.7%	(4,482)		-
1/1/2013	613	613	23,475	3.06%	35,105	11,630	-7.8%	16,437	3.6%	(4,806)		-
7/1/2013	2,038	613	1,425	3.06%	35,638	13,588	-6.8%	18,724	3.5%	(5,136)		-
1/1/2014	576	576	22,050	3.06%	36,178	14,128	-5.9%	19,583	3.5%	(5,455)		-
7/1/2014	2,206	576	1,630	3.06%	36,727	16,307	-5.2%	22,086	3.4%	(5,779)		-
1/1/2015	533	533	20,420	3.06%	37,284	16,864	-4.5%	22,954	3.4%	(6,090)		-
7/1/2015	2,388	533	1,855	3.06%	37,849	19,284	-3.9%	25,690	3.3%	(6,405)		-
1/1/2016	485	485	18,565	3.06%	38,423	19,858	-3.3%	26,564	3.3%	(6,705)		-
7/1/2016	2,585	485	2,100	3.06%	39,006	22,541	-2.9%	29,551	3.3%	(7,010)		-
1/1/2017	430	430	16,465	3.06%	39,598	23,133	-2.4%	30,429	3.3%	(7,296)		-
7/1/2017	2,790	430	2,360	3.06%	40,198	26,093	-2.0%	33,680	3.2%	(7,587)		-
1/1/2018	368	368	14,105	3.06%	40,808	26,703	-1.7%	34,559	3.2%	(7,856)		-
7/1/2018	3,008	368	2,640	3.06%	41,427	29,962	-1.4%	38,092	3.2%	(8,130)		-
1/1/2019	299	299	11,465	3.06%	42,055	30,590	-1.0%	38,969	3.2%	(8,378)		-
7/1/2019	3,244	299	2,945	3.06%	42,693	34,173	-0.8%	42,804	3.2%	(8,631)		-
1/1/2020	222	222	8,520	3.06%	43,340	34,820	-0.5%	43,675	3.2%	(8,855)		-
7/1/2020	3,487	222	3,265	3.06%	43,998	38,743	-0.3%	47,825	3.2%	(9,082)		-
1/1/2021	137	137	5,255	3.06%	44,665	39,410	0.0%	48,688	3.2%	(9,278)		-
7/1/2021	3,747	137	3,610	3.06%	45,342	43,697	0.2%	53,173	3.2%	(9,476)		-
1/1/2022	43	43	1,645	3.06%	46,030	44,385	0.4%	54,022	3.1%	(9,637)		-
7/1/2022	1,688	43	1,645	3.06%	46,728	46,728	0.5%	56,530	3.1%	(9,802)		-

\$ cost averaging

* six year average

** The benefit of "Dollar Cost Averaging" vs. a single highly leveraged purchase

8,055 25,760

Defined Benefit Pension Plan Benefits - MOFD provides its employees a defined benefit pension plan. The employees are divided between "safety" and "non-safety" employees. Safety employees, e.g. firefighters (including the Chief, Division Chiefs, Battalion Chiefs and the Fire Marshall), receive a benefit called "3 at 50". This means that for each year an employee works, he/she vests 3 percent of their final year's salary. The employee starts collecting the vested benefits at age 50 or retirement, whichever is later. For non-safety employees (fewer than 10 at MOFD) the benefits are "2 at 55". Each year following retirement the vested benefits increase at a Cost Of Living Allowance (COLA) equal to that year's increase in the Consumer Price Index (CPI). *Note - On August 31, 2012 the California legislature passed a major pension reform bill. It's possible impact on MOFD is included at the end of this section.*

The value of these accrued benefits is reported annually by MOFD's pension plan administrator, CCCERA (Contra Costa County Employees' Retirement Association). The latest letter of benefit liability for MOFD was as of December 31, 2010 (Exhibit VI-3 on the Task Force web site) but recently, in a report by the Plan's actuary to CCCERA (Exhibit VI-4 on the Task Force web site), the plan's results for 2011 are reported.

As with the value of OPEB liabilities, pension liabilities are reported as the present value of future obligations. For December 31, 2010, the present value of MOFD's pension liabilities, using CCCERA's projected asset earning rate of 7.75 percent as the discount rate, was \$142,547,000. Offsetting this liability are assets which the Plan manages assets on MOFD's behalf. The "actuarial value" (explained later) of those assets was \$124,642,000. This resulted in a net unfunded "accounting" liability (called the UAAL standing for Unfunded Actuarial Accrued Liability) of \$17.9 million.

The actual (undiscounted) future obligations are not reported. When the Task Force requested the detailed projection from both MOFD and CCCERA it was told that those values were not available. The Task Force believes that to only know the discounted value of a liability is equivalent to only knowing one's home mortgage balance and not knowing what the actual payments due are nor the number of years those payments are due for.

It should be noted that the "actuarial value" of the Plan's assets (\$124.6 million) differs from the asset's "market value" in that extraordinary gains or losses, in excess of the projected earnings of 7.75 percent are spread over a five year period. As of the December 31 2010 valuation date, there were \$7.7 million of unrecognized losses. The "market value" of the assets was only \$116,966,000.

MOFD's Net Liabilities - MOFD owes a \$25 million Pension Bond, plus \$26 million of OPEB liabilities, plus \$143 million of pension liabilities, for a total of \$194 million in total liabilities. Offsetting these are \$117 in pension plan assets (this is the market value as of 12/31/2010 which this report will use), \$7 million in cash, and \$9 million in capital assets and other receivables for a total of \$133 million in assets. Thus at the end of fiscal year 2010/11 **MOFD had \$61 million in net liabilities**, not the \$11 million in net assets which the audited financials show.

Can MOFD management and the community make appropriate decisions when their audited financial balance sheet shows that the District has net assets of \$11 million when, in fact, they have net liabilities of \$61 million?

What is the source of the \$72 million discrepancy in net assets?

The management, who have greater knowledge of the situation than the general public, must know that the \$11 million in net assets does not portray the real picture, yet, this is the only number presented to the public. Management knows that footnote 13 in their audited financials states there are \$24 million in OPEB liabilities and footnote 8 says there are an additional \$18 million of pension plan net liabilities. But even with these \$42 million in adjustments, the \$11 million net asset balance sheet only reduces to \$31 million in net liabilities; half the actual amount. Is management aware of the true magnitude of its liabilities? Where is the additional \$30 million of discrepancy?

The largest element is contained on the fourth line of the balance sheet (Exhibit VI-1) which says there are \$26 million in prepaid items. This "pre-payment" was, in fact, the money paid to the pension plan in 2005 from pension bond proceeds. While the accounting world might consider this a "pre-payment", the real world knows that it was simply an attempt to make up for past underfunding by trading one liability for another. However, the problem is not in the name given to this amount, the problem is that this \$26 million is already accounted for in the \$125 million in pension assets declared in footnote 8. In other words, this \$26 million is "double dipped". It should either be removed from the balance sheet (reducing balance sheet assets to \$16 million and reversing the \$11 million in net assets to \$15 million in net liabilities), or it should be removed from footnote 8's assets (reducing them to \$99 million and increasing the pension plan's net liabilities to \$44 million). The accountants can't have it both ways.

The next adjustment is the \$7.6 million difference between the accounting value of the pension assets (\$124.6 million) and the market value (\$117 million) of those assets. While the accountants might say the higher value is an accepted accounting practice, common sense dictates that the market value of the assets be used even if this makes the value fluctuate from year-to-year (indicating the volatility of high risk assets). The Task Force believes that MOFD should start this practice immediately. (Note: New accounting rules are being phased in over the next several years which will, in fact, specify that the assets' market value be used. See page VI-17 for details.)

These two changes add up to \$33.5 million, \$3.5 million greater than the \$30 million discrepancy noted. The final adjustment comes from the fact that \$3.5 million of the OPEB liabilities are also double counted. They are on line four of the balance sheet and they are also included in the total OPEB liabilities in footnote 8.

What Are MOFD's Actual Liabilities?

The \$25 million Pension Bond balance, the \$24 million in OPEB liabilities used in the balance sheet (or \$26 million as of June 2011 from the Bartel report) and the \$143 million in pension liabilities are the discounted present value of sixty years of liabilities. The Task Force believes that the balance sheet should show not just the present value of future liabilities but the sum of those liabilities without discounting. This will give MOFD management and the community the facts on exactly what is at risk; the total liability and the possible discounting of that liability. Again, using the home mortgage analogy, the homeowner needs to know what he can pay his loan off for today for AND what the payments will be if he pays it off over time. With this knowledge, if a different interest rate was deemed more appropriate for discounting, the impact of this interest rate change would be calculable.

Pension Obligation Bond Liabilities - The pension bond is the one liability for which all aspects of liability are known; both principal and interest liabilities as shown in Table VI-1. While it is not necessary to understand the reason that the Pension Obligation Bond even exists in order to quantify its \$25 million balance and \$33.4 million in total future cost, the Task Force believes it is worthwhile information for the community to understand why this loan exists.

The Task Force believes it was a bad idea to borrow this money in 2005 and that the community should understand why so that the mistake is not repeated. Currently we are in a similar situation (large unfunded liabilities and low interest rates) so there is a real risk that another pension bond could be borrowed.

Starting in 1999, safety agencies (police and fire) throughout the state substantially increased their employee's pension benefits. This is equivalent to giving the employees a raise, which is not bad per se, but what was bad was that the raise was provided by future benefits without pre-funding the future cost. And the cost was substantive. What inspired the decision to grant employees this raise was a decade of extraordinary gains in the stock market (a ten-year average annual gain in the Dow Jones Industrial Average of over 16 percent with the annual gain being over 20 percent in the second half of the decade) which made it appear that such benefit increases could be self-funded in short order by gains on existing pension assets.

MOFD agreed to retroactively increase their employees' pension benefits by 50 percent in late 2003 even though by then the Dow had actually decreased in value over the past four years so where the money was going to come from to pay these new benefits was questionable. These increased benefits added \$28 million of liabilities to the MOFD pension plan. This value was the present value of actual incurred liabilities. The Task Force estimates that the undiscounted new liabilities totaled approximately \$175 million (over ten times MOFD's 2003/04 tax revenue); granted by the MOFD Board without knowing how these new benefits would ever be paid. The Board, had just handed out \$175 million in bonus payments to 60-70 employees, collectable over time.

This underfunding forced the pension plan to increase MOFD's pension contributions. The underfunding had to be paid down over a 15 year term assuming an interest rate equal to the plan's assumed earning rate of 7.75 percent. That would have amounted to almost \$3 million per year in extra payments (over 20% of MOFD's total tax revenue).

However, MOFD, and other agencies, discovered that they had another option. They could borrow money from the bond market at a substantially lower interest rate than 7.75 percent, fully fund their pension plan, and then pay off the bond with lower payments (also agreeing to an accelerating payment schedule with payments starting low and increasing 5% each year to further defer the costs) than they would have had to pay to the pension plan. It did not take a vote of the taxpayers to enter into this loan because a tax increase was not necessary to pay it off and it was a fully collateralized loan (it went to purchase pension plan assets).

However, as many investors have learned before and since, purchasing investments with 100 percent leverage, which is what the MOFD Board did, is risky business. Probably involving more risk than a prudent public agency should take since, if the investment "goes south", it is the taxpayers who

have to make up for any losses the pension again becomes under-funded while the pension bond liability does not decrease. However, in late 2005 MOFD did just that and fully funded their plan.

After MOFD borrowed the \$28 million at the end of 2005 and invested the proceeds with CCCERA, the decision seemed like a wise one through 2007 with the pension assets gaining \$3 million more in value than the pension bond cost in interest (Table VI-1). But then 2008 happened. By the end of the year the pension assets had lost 28 percent of their value and MOFD's leveraged investment was \$7 million "under water." Fortunately, this was not a margined stock so there were no "call provisions" and MOFD just continued to pay off its bond on the original schedule. In 2009 and 2010 CCCERA assets regained much of their losses but in 2011 their earning rate dropped to under 2 percent. By the end of 2011 the CCCERA assets MOFD purchased in 2005, minus the remaining balance on the bond, were worth \$4 million less than the the value of pension assets would have been worth if the money used for bond payments had been slowly added to the asset pool (dollar cost averaging investing). In addition, the bond obligations continue to increase at 5 percent per year while over the past 5 years MOFD's revenue has only increased at an average of 1.4 percent, putting an additional strain on the budget.

Hopefully the MOFD management has learned a lesson, especially since they are in the same position today, with a seriously underfunded pension and historically low interest rates available for borrowing.

Final Note: In the September 4 edition of the *New York Times* there was an article on Pension Obligation Bonds. It appears that MOFD was by far from the only entity who "bought into" the idea that they could save money by purchasing 100% leveraged high yielding investments. And it appears that some are still buying into it but, hopefully, MOFD has learned its lesson. A copy of the NYT article is on the Task Force web site as Exhibit VI-6.

Post Retirement Medical Benefit liabilities / OPEB - As stated previously, the Task Force requested the actual OPEB liabilities (year by year) from MOFD but they informed the Task Force that they did not have these values and would not request them from their actuary, John Bartel. So, based on values in Bartel's report of 8/27/2010 (Exhibit VI-2), the Task Force was forced to estimate the stream of medical benefit liabilities. The constraints to the stream was that when discounted at 4.25 percent back to 2011 they equal \$26.3 million and when discounted at 7.75% a value of \$16.7 million results.

This is the OPEB stream of liabilities displayed in Table VI-2. It extends 34 years and adds up to almost \$52 million.

Pension Plan Liabilities - All that is known about these liabilities, projected by The Segal Company (CCCERA's actuary), is that when they are discounted at the current assumed CCCERA asset earning rate of 7.75 percent, they present value to \$142,547,000 (as of 12/31/2010 - Exhibit VI-3). As neither MOFD nor CCCERA would provide the year-by-year values to the Task Force, the Task Force was forced to estimate these values also.

To estimate the "shape" of the payment curve that would present value to \$142 million, the Task Force broke the liabilities into two parts: Active Employees and Already Retired. While there are probably more exceptions to these assumptions than not, some "simplified" set of rules had to be adopted.

- * There are the same number of active employees as retired (with the active employees ranging from 20 years old to 50 and the retired from 50 to 80).
- * Vested benefits for retired employees increase 3.5 percent annually.
- * For retired employees, each year 1/30th of the current pool would drop out as they reach 80.
- * The average retired employee receives 50% of his final year's salary plus COLA.
- * For active employees, the eldest (1/30th of total) starts getting benefits next year and continues for 30 years. The second eldest starts the next year and continues for thirty years. And so on until the youngest starts 30 years from now and continues for 30 years.
- * Each active employee retires 80 percent vested.

This defined the "pattern" of the vested liabilities due. The values were then scaled such that the entire stream present valued to \$142,547,000 using the 7.75 percent discount rate. The result produced a stream with a total liabilities of \$617 million dollars due over 60 years. This estimate of Pension Plan liabilities is also contained in Table VI-2a and 2b.

The questions remaining for these liabilities are:

- 1) How should the "current value" of these future liabilities be defined?
- 2) How much will it cost to fully fund them?
- 3) What if we don't fully fund them?

What is the "current value" of these future liabilities?

The Task Force believes that while MOFD's audited financial balance sheet may adhere to standard accounting practices, the value assets and liabilities included do not reflect the reality of the situation. The audited balance sheet, Exhibit VI-1, shows:

Assets -	\$42.4 million
Liabilities -	\$31.5 million
Net Assets -	\$10.9 million

But the top line(s) of Table VI-2, a table of total assets and liabilities, shows:

Assets -	\$117 million current balance
Liabilities -	\$180-700 million (depending on discount rate)
Net Assets -	none - MOFD has massive net liabilities

These two statements cannot both be describing the current condition of MOFD; but they are. Our accounting system has failed us - or at least the government version has. It has hidden liabilities in footnotes; discounted long term liabilities without openly displaying the degree of discounting; and offset liabilities with assets, presenting just the net liability, when there is no legal offset. The impact of these practices is that entities like MOFD, which believed they were well capitalized, find themselves in distress because they have pension liabilities which are 100 times net worth of the entity "hiding" behind supposedly offsetting assets.

Businesses, which rely on their accounting reports to guide them rather than obfuscate the bad news, use the concept of "fair value" when evaluating long term assets and liabilities. For an asset, the "fair value" is what a third party would be willing to pay for that asset and for a liability, it would be the amount the lender would be willing to take to be paid off in full. The difference between what the asset

Table VI-2a MOFD Employee Benefit Liabilities and Assets

	Discount Rate	Pension Obligation*	OPEB*	Pension Bond	Total Liabilities	Current Assets and Their Ability to Fund Current			Unfunded Liability
						Pension Liabilities			
						Interest	Principal	Balance	
						7.75%	(There is only a 42% chance this goal will be met **)		
Total	0.00%	617,217,595	51,793,042	33,405,174	702,415,810	179,609,388	116,966,000	116,966,000	405,840,422
US Tres Bonds - (3/21/2012)	3.38%	290,389,259	29,889,057	27,356,418	347,634,734				157,904,405
Inflation rate	3.50%	283,739,460	29,362,307	27,171,282	340,273,049				153,301,988
30 yr T (10 yr avg)	4.50%	235,966,664	25,430,722	25,696,310	287,093,696				121,095,319
	5.00%	216,390,117	23,735,700	25,001,923	265,127,740				108,395,720
Pension Bond Interest Rate	5.22%	208,533,334	23,039,923	24,705,000	256,278,257				103,392,903
Warren Buffet	6.00%	183,878,134	20,793,280	23,692,675	228,364,088				88,083,693
Possible CalPERS rate (3/15/2012)	7.25%	152,741,703	17,801,435	22,192,815	192,735,953				69,726,378
CCCERA	7.75%	142,547,000	16,779,211	21,631,865	180,958,076				63,992,076
								116,966,000	
2011		7,434,692	900,620	2,519,601	10,854,913	9,064,865	1,630,173	118,596,173	3,420,221
2012		7,848,805	950,154	2,650,395	11,449,354	9,191,203	1,342,399	119,938,572	3,600,549
2013		8,268,150	1,002,413	2,781,010	12,051,573	9,295,239	1,027,089	120,965,661	3,783,423
2014		8,692,076	1,057,546	2,920,924	12,670,546	9,374,839	682,763	121,648,423	3,978,470
2015		9,119,858	1,115,711	3,069,093	13,304,662	9,427,753	307,895	121,956,318	4,184,804
2016		9,550,698	1,177,075	3,219,473	13,947,246	9,451,615	-99,083	121,857,234	4,396,548
2017		9,983,717	1,241,814	3,376,281	14,601,812	9,443,936	-539,781	121,317,453	4,618,095
2018		10,417,952	1,310,114	3,543,473	15,271,539	9,402,103	-1,015,849	120,301,603	4,853,587
2019		10,852,349	1,382,170	3,709,744	15,944,262	9,323,374	-1,528,974	118,772,629	5,091,914
2020		11,285,756	1,458,189	3,884,311	16,628,256	9,204,879	-2,080,877	116,691,752	5,342,500
2021		11,716,921	1,538,389	1,730,869	14,986,179	9,043,611	-2,673,310	114,018,441	3,269,258
2022		12,144,480	1,623,001		13,767,481	8,836,429	-3,308,051	110,710,390	1,623,001
2023		12,566,954	1,712,266		14,279,220	8,580,055	-3,986,899	106,723,491	1,712,266
2024		12,982,741	1,806,441		14,789,181	8,271,071	-4,711,670	102,011,821	1,806,441
2025		13,390,105	1,905,795		15,295,900	7,905,916	-5,484,189	96,527,632	1,905,795
2026		13,787,175	2,010,614		15,797,788	7,480,891	-6,306,283	90,221,349	2,010,614
2027		14,171,927	2,121,197		16,293,124	6,992,155	-7,179,772	83,041,576	2,121,197
2028		14,542,184	2,237,863		16,780,047	6,435,722	-8,106,462	74,935,114	2,237,863
2029		14,895,601	2,222,066		17,117,668	5,807,471	-9,088,130	65,846,985	2,222,066
2030		15,229,657	2,197,763		17,427,419	5,103,141	-10,126,516	55,720,469	2,197,763
2031		15,541,643	2,164,064		17,705,707	4,318,336	-11,223,307	44,497,162	2,164,064
2032		15,828,653	2,120,009		17,948,663	3,448,530	-12,380,123	32,117,039	2,120,009
2033		16,087,572	2,064,563		18,152,135	2,489,071	-13,598,501	18,518,538	2,064,563
2034		16,315,060	1,996,604		18,311,664	1,435,187	-14,879,873	3,638,665	1,996,604
2035		16,507,545	1,914,925		18,422,470	281,997	-3,638,665	0	14,501,809
2036		16,661,206	1,818,221		18,479,427	0	0	0	18,479,427
2037		16,771,958	1,705,088		18,477,045	0	0	0	18,477,045
2038		16,835,438	1,574,009		18,409,447	0	0	0	18,409,447
2039		16,846,990	1,423,354		18,270,344	0	0	0	18,270,344
2040		16,801,648	1,251,365		18,053,014	0	0	0	18,053,014
2041		16,694,118	1,056,152		17,750,270	0	0	0	17,750,270
2042		16,126,518	835,681		16,962,198	0	0	0	16,962,198
2043		15,539,846	587,762		16,127,608	0	0	0	16,127,608
2044		14,934,902	310,044		15,244,947	0	0	0	15,244,947
2045		14,312,615			14,312,615	0	0	0	14,312,615
2046		13,674,052			13,674,052	0	0	0	13,674,052
2047		13,020,432			13,020,432	0	0	0	13,020,432
2048		12,353,135			12,353,135	0	0	0	12,353,135
2049		11,673,713			11,673,713	0	0	0	11,673,713
2050		10,983,902			10,983,902	0	0	0	10,983,902
2051		10,285,640			10,285,640	0	0	0	10,285,640
2052		9,581,074			9,581,074	0	0	0	9,581,074
2053		8,872,578			8,872,578	0	0	0	8,872,578
2054		8,162,772			8,162,772	0	0	0	8,162,772
2055		7,454,532			7,454,532	0	0	0	7,454,532
2056		6,751,010			6,751,010	0	0	0	6,751,010
2057		6,055,656			6,055,656	0	0	0	6,055,656
2058		5,372,232			5,372,232	0	0	0	5,372,232
2059		4,704,836			4,704,836	0	0	0	4,704,836
2060		4,057,921			4,057,921	0	0	0	4,057,921
2061		3,436,321			3,436,321	0	0	0	3,436,321
2062		2,845,274			2,845,274	0	0	0	2,845,274
2063		2,290,445			2,290,445	0	0	0	2,290,445
2064		1,777,958			1,777,958	0	0	0	1,777,958
2065		1,314,419			1,314,419	0	0	0	1,314,419
2066		906,949			906,949	0	0	0	906,949
2067		563,215			563,215	0	0	0	563,215
2068		291,464			291,464	0	0	0	291,464
2069		100,555			100,555	0	0	0	100,555
2070		0			0	0	0	0	0
2071									
					Total Liabilities				
					702,415,810				
					Projected Earnings	179,609,388	116,966,000		
					296,575,388				
					Unfunded Liabilities				405,840,422

* Estimated by FAIR. Values requested from MOFD in June 2011 but request denied because they claimed they did not know the values requested,

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Table VI-2b MOFD Employee Benefit Liabilities and Assets

	Discount Rate	Pension Obligation	OPEB	Pension Bond	Total Liabilities	Current Assets and Their Ability to Fund Current			Unfunded Liability
						Pension Liabilities			
						Interest	Principal	Balance	
						6.00%	(There is only a 65% chance this goal will be met **)		
Total	0.00%	617,217,595	51,793,042	33,405,174	702,415,810	95,334,106	116,966,000	116,966,000	490,115,705
US Tres Bonds - (3/8/2012)	3.18%	301,975,127	30,795,952	27,669,025	360,440,103				208,196,901
Inflation rate	3.50%	283,739,460	29,362,307	27,171,282	340,273,049				192,728,333
30 yr T (10 yr avg)	4.50%	235,966,664	25,430,722	25,696,310	287,093,696				152,995,657
	5.00%	216,390,117	23,735,700	25,001,923	265,127,740				137,114,452
Pension Bond Interest Rate	5.22%	208,533,334	23,039,923	24,705,000	256,278,257				130,819,022
Warren Buffet	6.00%	183,878,134	20,793,280	23,692,675	228,364,088				111,398,088
Possible CalPERS rate (3/15/2012)	7.25%	152,741,703	17,801,435	22,192,815	192,735,953				87,747,068
CCCERA	7.75%	142,547,000	16,779,211	21,631,865	180,958,076				80,263,841
								116,966,000	
7,434,692	2011								
7,848,805	2012	7,434,692	900,620	2,519,601	10,854,913	7,017,960	-416,732	116,549,268	3,420,221
8,268,150	2013	7,848,805	950,154	2,650,395	11,449,354	6,992,956	-855,848	115,693,419	3,600,549
8,692,076	2014	8,268,150	1,002,413	2,781,010	12,051,573	6,941,605	-1,326,545	114,366,874	3,783,423
9,119,858	2015	8,692,076	1,057,546	2,920,924	12,670,546	6,862,012	-1,830,064	112,536,810	3,978,470
9,550,698	2016	9,119,858	1,115,711	3,069,093	13,304,662	6,752,209	-2,367,650	110,169,161	4,184,804
9,983,717	2017	9,550,698	1,177,075	3,219,473	13,947,246	6,610,150	-2,940,548	107,228,612	4,396,548
10,417,952	2018	9,983,717	1,241,814	3,376,281	14,601,812	6,433,717	-3,550,000	103,678,612	4,618,095
10,852,349	2019	10,417,952	1,310,114	3,543,473	15,271,539	6,220,717	-4,197,235	99,481,377	4,853,587
11,285,756	2020	10,852,349	1,382,170	3,709,744	15,944,262	5,968,883	-4,883,466	94,597,911	5,091,914
11,716,921	2021	11,285,756	1,458,189	3,884,311	16,628,256	5,675,875	-5,609,882	88,988,029	5,342,500
12,144,480	2022	11,716,921	1,538,389	1,730,869	14,986,179	5,339,282	-6,377,639	82,610,390	3,269,258
12,566,954	2023	12,144,480	1,623,001		13,767,481	4,956,623	-7,187,857	75,422,533	1,623,001
12,982,741	2024	12,566,954	1,712,266		14,279,220	4,525,352	-8,041,602	67,380,931	1,712,266
13,390,105	2025	12,982,741	1,806,441		14,789,181	4,042,856	-8,939,885	58,441,046	1,806,441
13,787,175	2026	13,390,105	1,905,795		15,295,900	3,506,463	-9,883,643	48,557,403	1,905,795
14,171,927	2027	13,787,175	2,010,614		15,797,788	2,913,444	-10,873,730	37,683,673	2,010,614
14,542,184	2028	14,171,927	2,121,197		16,293,124	2,261,020	-11,910,907	25,772,766	2,121,197
13,543,565	2029	14,542,184	2,237,863		16,780,047	1,546,366	-12,995,818	12,776,948	2,237,863
	2030	14,895,601	2,222,066		17,117,668	766,617	-12,776,948	0	3,574,102
	2031	15,229,657	2,197,763		17,427,419	0	0	0	17,427,419
	2032	15,541,643	2,164,064		17,705,707	0	0	0	17,705,707
	2033	15,828,653	2,120,009		17,948,663	0	0	0	17,948,663
	2034	16,087,572	2,064,563		18,152,135	0	0	0	18,152,135
	2035	16,315,060	1,996,604		18,311,664	0	0	0	18,311,664
	2036	16,507,545	1,914,925		18,422,470	0	0	0	18,422,470
	2037	16,661,206	1,818,221		18,479,427	0	0	0	18,479,427
	2038	16,771,958	1,705,088		18,477,045	0	0	0	18,477,045
	2039	16,835,438	1,574,009		18,409,447	0	0	0	18,409,447
	2040	16,846,990	1,423,354		18,270,344	0	0	0	18,270,344
	2041	16,801,648	1,251,365		18,053,014	0	0	0	18,053,014
	2042	16,694,118	1,056,152		17,750,270	0	0	0	17,750,270
	2043	16,126,518	835,681		16,962,198	0	0	0	16,962,198
	2044	15,539,846	587,762		16,127,608	0	0	0	16,127,608
	2045	14,934,902	310,044		15,244,947	0	0	0	15,244,947
	2046	14,312,615			14,312,615	0	0	0	14,312,615
	2047	13,674,052			13,674,052	0	0	0	13,674,052
	2048	13,020,432			13,020,432	0	0	0	13,020,432
	2049	12,353,135			12,353,135	0	0	0	12,353,135
	2050	11,673,713			11,673,713	0	0	0	11,673,713
	2051	10,983,902			10,983,902	0	0	0	10,983,902
	2052	10,285,640			10,285,640	0	0	0	10,285,640
	2053	9,581,074			9,581,074	0	0	0	9,581,074
	2054	8,872,578			8,872,578	0	0	0	8,872,578
	2055	8,162,772			8,162,772	0	0	0	8,162,772
	2056	7,454,532			7,454,532	0	0	0	7,454,532
	2057	6,751,010			6,751,010	0	0	0	6,751,010
	2058	6,055,656			6,055,656	0	0	0	6,055,656
	2059	5,372,232			5,372,232	0	0	0	5,372,232
	2060	4,704,836			4,704,836	0	0	0	4,704,836
	2061	4,057,921			4,057,921	0	0	0	4,057,921
	2062	3,436,321			3,436,321	0	0	0	3,436,321
	2063	2,845,274			2,845,274	0	0	0	2,845,274
	2064	2,290,445			2,290,445	0	0	0	2,290,445
	2065	1,777,958			1,777,958	0	0	0	1,777,958
	2066	1,314,419			1,314,419	0	0	0	1,314,419
	2067	906,949			906,949	0	0	0	906,949
	2068	563,215			563,215	0	0	0	563,215
	2069	291,464			291,464	0	0	0	291,464
	2070	100,555			100,555	0	0	0	100,555
	2071	0			0	0	0	0	0
					Total Liabilities				702,415,810
					Projected Earnings	95,334,106	116,966,000		
					Unfunded Liabilities				490,115,705

* Estimated by FAIR. Values requested from MOFD in June 2011 but request denied because they claimed they did not know the values requested,
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or liability holder is willing to accept today (the fair value), and the sum of all future receipts or amounts due which would be paid over time, is the discount off the total asset or liability. A balance sheet that attempts to tell the whole story would include all of this information: Total Payments; Discount; Fair Value. This is the balance sheet this report creates for MOFD in Table VI-3.

What are the Fair Values of MOFD's liabilities?

The Pension Obligation Bond. This is a loan with a defined interest rate and defined principal repayment schedule. Assuming there is no penalty for early payment of principal, the lender would accept \$25.0 million as payment in full. But the scheduled remaining payments, stretching out to 2022, add up to \$33.4 million. Therefore the "discount" for this liability is the difference between the two: \$8.4 million. A balance sheet describing "the full story" would display all three values

Total Liability	33,421,338
Discount	-8,385,856
Fair Value	25,035,482

Post Retirement Medical Benefits and Pension Benefits are much more difficult to assign fair value to but the question, "what would the lender take today to pay off the loan?" is the same. Who is the lender? MOFD's current and former employees. What would they take today to be considered "paid in full"?

They would have to ask themselves "what do we have today?" Their answer would be: We have medical benefits that are going to increase in cost at an unknown rate. Plus we have retirement benefits based on an unknown final year of salary which will continue to grow at an unknown rate of inflation until we die at an unknown age. These benefits are guaranteed by a group of property taxpayers with property currently assessed at \$8 billion and with a market value of at least \$10 billion. In addition there are \$117 million of assets being invested by CCCERA, earning over \$5 million per year that are also dedicated to paying our pension benefits. To the extent that the CCCERA assets earn less than the 7.75 percent projected return rate or even if the assets actually lose value, like the 28 percent they lost in 2008, that is not our risk.

The Task Force believes that with those answers, that even if MOFD offered to give the employees US treasury bonds and notes (which would take away all investment risk) that would mature to the \$670 million of currently assumed future benefits, this still might not be enough to absorb the benefit risks that that the employees would be assuming from the taxpayers. But some discount rate greater than zero percent should be assumed so the long term US Treasury yield rate is what the Task Force is assuming for this analysis.

The ten year average of the long (20-30 year term) US Treasury Bond yield is about 4.50 percent. The CCCERA assumed asset earning rate is 7.75 percent. A recent study said there is only a 42 percent chance this goal will be met while there is a 65 percent chance that a 6 percent earning rate could be achieved.

These rates produces the following fair values for MOFD long term liabilities:

	Total Liabilities	Fair Value		
Pension Obligation Bond	33,400,000	25,000,000	25,000,000	25,000,000
		@ 4.50%	@ 6.0%	@ 7.75%
OPEB	51,800,000	25,400,000	20,800,000	16,800,000
Pension Plan	617,200,000	236,000,000	183,900,000	142,500,000
TOTAL	702,400,000	286,400,000	229,700,000	184,300,000

Offsetting Assets

Understanding MOFD's assets is much more straightforward. In addition to its \$7 million of cash reserves, MOFD's major asset is what is held and managed by the pension plan: a \$117 million portion of CCCERA's \$5 billion asset pool (as of 12/31/2010). The \$117 million pension asset value is the market value of the assets as opposed to the actuarial value of \$124.6 million displayed in Exhibit VI-3. The Task Force believes the market value is the appropriate value to use. New GASB (Government Accounting Standard Board) rules which will go into effect in the coming years adopt this standard also.

A "Common Sense" Balance Sheet for MOFD

Table VI-3 is the Task Force's restatement of the MOFD balance sheet which more clearly describes the District's true assets and liabilities for the District's managers and the community

1) The \$26.3 million Prepaid Item, which is actually part of the pension plan assets, is removed and replaced with the full \$117 million market value of the pension plan's assets. Also included are the projected earnings on those assets using a 6.00 percent assumed earning rate. The District's pension plan administrator is currently assuming a 7.75 percent earning rate but as stated above a Stanford study determined that there was only a 42 percent chance such long term earnings could be achieved. The study claims that even the 6 percent rate the Task Force is assuming only bears a 65 percent chance of being achieved. Table VI-2b shows that these assets will be able to pay down 18 years of pension liabilities while earning \$95 million assuming a 6 percent earning rate.

2) It shows not only the \$25 million balance of the Pension Bond but the \$8.4 million interest cost.

3) It replaces the \$3.5 million in OPEB (retiree medical benefits) liability with the full value of those liabilities. It displays both the total projected (undiscounted) value of these liabilities, \$51.8 million, and the \$25.4 million Fair Value using a 4.50 percent discount rate (the 10 year average of the long term US Treasury bond).

4) It includes the pension liabilities: Both the total projected (undiscounted) value of these liabilities, \$617 million, and the \$236 million Fair Value, again using the 4.50 percent discount rate used to discount the OPEB liabilities.

The total (discounted) asset value becomes \$133 million; liabilities \$289 million; resulting in a net liability of \$156 million. Vastly different than the \$11 million in net assets the current balance sheet presents.

Table VI-3

MOFD Restated Balance Sheet for Fiscal Year Ending June 30, 2011

	Audited	"Common Sense" Revision		Discount	note	Change (A)-(B)	note
	Financials FYE 6/30/2011 (A)	Discounted (B)	Undiscounted				
Assets							
Cash and investments	6,832,290	6,832,290	6,832,290		1	0	
Taxes receivable	105,417	105,417	105,417		1	0	
Other receivables	654,364	654,364	654,364		1	0	
Prepaid Items	26,472,457	127,620	127,620		1	(26,344,837)	2
Capital Assets	8,348,722	8,348,722	8,348,722		1	0	
OPEB		0			1a	0	
Long Term Asset							
Pension Plan (12/31/2010)			212,300,000		8b		
Pension Plan discount @ 6.00%				(95,334,000)	8b		
Pension Plan Fair Value		116,966,000			8a	116,966,000	
	=====	=====	=====	=====		=====	
Total	42,413,250	133,034,413	228,368,413	(95,334,000)		90,621,163	
Liabilities							
Accounts payable	204,310	204,310	204,310		3	0	
Salaries and benefit	808,213	808,213	808,213		3	0	
Accrued interest	672,336	672,336	672,336		3	0	
Due within one year	1,275,321	1,275,321	1,275,321		4	0	
Long term liabilities (due in over 1 year)							
Pension Bond (7/2/2011)			33,421,338		5a		
Pension Bond discount				(8,385,856)	5b		
Pension Bond Fair Value	25,035,482	25,035,482			5c		
OPEB (6/30/2011)			51,793,042		6		
OPEB discount				(26,362,320)	9		
OPEB Fair Value (6/30/2011)	3,493,000	25,430,722			7 / 9	21,937,722	
Pension Plan (12/31/2010)			617,217,595		10		
Pension Plan discount				(381,250,931)	10		
Pension Plan Fair Value		235,966,664			10	235,966,664	
	=====	=====	=====	=====		=====	
Total	31,488,662	289,393,048	705,392,154	(415,999,107)		257,904,386	
Net Asset / (Liability)	10,924,588	(156,358,635)	(477,023,741)		11	(167,283,223)	

1) MOFD audited financials 2010/11, Page 2, Assets, Column 5

1a) OPEB liabilities totally unfunded (MOFD audited financials 2010/11, note 13)

2) Outstanding Pension Obligation Bond balance as of 6/30/2011. The revised statement includes this with the Pension Plan Assets; which it is.

3) MOFD audited financials 2010/11, Page 2, Liabilities, Column 5

4) MOFD audited financials 2010/11, Page 2, Liabilities, Column 5 - includes a 7/1/2011 Pension Obligation Bond principal payment of \$1,055,000

5a) All principal and interest due after 6/30/2011

5b) All interest due after 6/30/2012

5c) Pension Bond principal due after 6/30/2012 of \$24,705,000 plus \$330,482 of other (not Pension Obligation Bond) amounts due.

6) Estimate of total OPEB liabilities, not discounted, based on discounted projections by Bartel of \$26.34 million using a 4.25% discount rate. Actual projections not available from MOFD.

7) MOFD audited financials 2010/11, Footnote 13.

8a) In a letter dated 10/21/2011, the actuary to MOFD's pension plan administrator (CCCERA) stated that MOFD had assets with an accounting value of \$124.64 million. This accounting value "smoothes" the impact of recent extraordinary gains and losses. In its annual report, CCCERA listed the accounting value of its total assets as \$5.36 billion but their market value as only \$5.03 billion. As MOFD's assets are a portion of CCCERA's assets (and not distinct assets), this means they have a market value of \$116.97 million. The payments from this asset balance to pay off currently vested pension liabilities would total \$212 million until the current balance would be exhausted in 2030. This assumes a conservative earning rate of 6.00%; 1.75% below CCCERA's existing assumed rate of 7.75% but greater than their 5 year average of 5.3%.

8b) Assuming a 6% earning rate (Table VI-2b) which a Stanford study (footnote ** Table VI-b) indicates there is a 65% chance of achieving vs. the 42% chance of achieving a 7.75% earning rate which the pension plan is currently assuming.

9) In its 8/27/2010 letter, MOFD's actuary (Bartel) estimated MOFD's OPEB liability as of 6/30/2011 as \$26.34 million using a 4.25% discount rate (based on US Government bond yields). The 10 year average of the US Government 30 year bond yield was 4.50%. Applying that discount rate to the estimated (note 6) projections results in a \$25.43 million Fair Value.

10) In the 2010/11 audited financials, the Pension Plan assets and liabilities are "off balance sheet" described Footnote 8). Footnote 8 states that MOFD's pension liabilities are \$143 million. This a present value, using a 7.75% discount rate, of 60 years of vested pension benefits which MOFD does not know therefore could not provide to the Task Force. The estimated value of these pension benefits, without discounting, is \$620 million. While using a 7.75% discount rate to determine the Fair Value of these benefits is standard accounting practice, it does not make sense. There is no nexus between these liabilities and the assets set aside to fund them. The employees have not accepted the pension plan assets as their payment source. The MOFD taxpayers are fully liable for these payments. Therefore, these liabilities are no different than the OPEB liabilities and should be evaluated using the same discount rate: 4.50%. This produces a Fair Value of \$236 million.

11) Although the change in net assets going from a positive \$11 million to a negative \$156 million appears drastic, it is the "undiscounted" column that should be noted. \$705 million in total liabilities. That is 90 times the 2011/12 base salary budget. Discounting those liabilities back at 3.5% (in other words, stating them as uninflated dollars) is still \$300 million - 40 times the 2011/12 base salary budget. The current asset pool will only cover \$200 million of this \$700 million cost if it earns at 6%. Future generations will have to pay for the remaining \$500 million.

What does this \$156 million value represent? It is the estimation of what the taxpayers would have to pay if they shut down MOFD today, cashed out the assets and paid off the liabilities.

Does this mean that we would have to raise \$156 million today to fully fund our future liabilities? No. If the current assets, which are assumed to earn 6.00 percent, were increased by the \$111 million highlighted in Table VI-2b, the earnings on those new assets would be approximately the \$477 million shortfall shown in the "Undiscounted" column of Table VI-3.

Further Pension Information

Pension Assets and Liabilities as of 12/31/2011 - On June 29, 2012 CCCERA's actuary presented the accounting for the year ending December 31, 2011 (Exhibit VI-4). While the report did not clearly give MOFD pension assets and liabilities it included data that allowed the Task Force to calculate them.

- * Discounted liabilities increased from \$142.5 to \$143.6 million using the same 7.75 percent discount rate as the previous year.
- * The actuarial value of the assets decreased from \$124.6 to \$119.6 million. This resulted in the UAAL (Unfunded Actuarial Accrued Liability) increasing from \$17.9 million to \$24.0 million.
- * However, the market value of the assets also decreased from \$117.0 to \$112.2 million. Over five years, the unrecognized losses will be amortized to bring the actuarial value of the assets equal to their market value (assuming no further gains or losses in excess of the projected earning rate) so the "true" unfunded liability rose from \$25.6 to \$31.4 million.
- * In order to amortize the \$13.5 million difference between the 2011 \$31.4 million true unfunded liability and the 2010 reported value of \$17.9 million over 18 years will cost another \$1.4 million per year on top of the current \$1.9 million or \$3.3 million just to pay down unfunded liabilities (on top of "normal" costs for newly vested liabilities).

How do corporations account for pensions that differ from government agencies? - Corporations are required to pre-fund their pension plans as are government agencies. However, they are required to discount future liabilities at a rate based on current bond yields which have historically been between 5 and 6 percent and are currently below 5 percent, not at an assumed asset earning rate like government agencies currently do. Assuming a 5.5 percent discount rate, MOFD's pension liabilities increase \$57 million to \$201 million.

For corporations market value adjustments to assets have to be made within 2 years so MOFD's assets would be valued at their \$112 million market value in short order making the net unfunded liability \$89 million.

Any shortfall between the discounted liabilities and the market value of pension assets are required to be funded over a seven year period. Paying off \$89 million over seven years assuming a 5.5% interest rate would cost \$15.7 million per year. We would have \$2 million left over and that would not even cover the pension bond payments much less the OPEB liabilities.

New Accounting Rules Are Coming Into Effect - Over the next few years new rules from the Government Accounting Standards Board (GASB) are coming into effect on how government entities account for pension plans.

1) While they do not place pension assets into the assets section of the balance sheet and liabilities into the liability section as the Task Force suggests, they do move the net assets or liabilities into the balance sheet as opposed to the current practice of relegating them to a footnote.

2) They allow the government agency to discount liabilities at the expected asset earning rate only up to the value of the assets. Any liabilities in excess of those fully funded by assets must be discounted at a rate tied to the current 20 year AA municipal bond yield rate. This rate is currently just over 3 percent.

What would the effect on MOFD be? MOFD's \$112 million in assets will be able to pay off \$266 of pension liabilities over the next 23 years. After that there will be an additional \$356 million in liabilities still outstanding. Discounting these outstanding liabilities at a 3.12% discount rate (the 20 year municipal bond rate as of 6/25/2012 when the new regulations were announced) produces a present value of unfunded liabilities of \$126 million.

This new accounting procedure, called GASB 67, will go into effect starting in June 2013 for MOFD's pension plan administrator (so they will report the 12/31/2013 underfunding as such) and it will go into effect for MOFD for their fiscal year ending June 30, 2014, two years from now. This will be quite a shock going from a \$24 million liability hidden in a footnote to a \$126 million liability on the balance sheet (and by then it might even be greater). The Task Force suggests MOFD prepare the community for this shock by creating a "truthful" balance sheet similar to Table IV-3.

New California Pension Legislation - On August 31, 2012 the California legislature passed a bill that will reduce pension costs to government agencies in the future by reducing benefits to employees. It increases the age at which firefighters start receiving pension benefits from 50 to 57. Reduces the 3 percent per year vesting to 2.7% for firefighters. Puts a cap on maximum benefit allowable to \$132,000 per year (so the \$242,000 benefit that Chief Pete Nowicki started receiving in 2008 would no longer be allowed). Requires employees to pay half of the "normal" cost (cost for newly vested benefits, not for old underfunded benefits).

That is the good news. The bad news is that these changes are pro-active, not retroactive, and they only apply to employees hired starting next year. In other words, it will not affect MOFD's current underfunded liabilities at all and will only slowly start affecting its going-forward costs as new employees are hired when existing employees retire. Note on cost sharing: MOFD employees already pay 24% of their salary which is more than half of the "normal" cost of the pensions.

Cleaning Up The Mess

While raising \$111 million will be a difficult task, it is not impossible. This is a wakeup call as to what these benefits really cost; a call that can no longer be ignored.

What will it take so that we do not mortgage our children's and their children's future?

Table VI-2a shows that even if the MOFD pension plan's \$117 million in assets earn at the 7.75 percent rate CCCERA currently projects, they will be exhausted in 25 years; and they are only paying for pension costs, ignoring the \$40 million of OPEB expenses and the \$33 million of debt service on the pension bond that is due during that time frame. After 2036, there would still be 35 more years of currently vested liabilities which add up to \$333 million - a total of \$406 million of unfunded liabilities including OPEB and the Pension Bond. But if CCCERA is wrong and these assets only earn at the 6 percent rate the Task Force believes is reasonable (Table VI-2b), then our current assets run out in 19 years (2030) leaving \$490 million of unfunded liabilities after that.

What can we do? First, we can figure out what it would take to at least pay off the benefits that are already vested plus the pension bond: the \$700 million of total liabilities displayed in Table VI-2 that the last generation has accrued and only partially paid for. We need to make conservative assumptions and test out options. We need better information from MOFD's and CCCERA's actuaries. We need to understand what happens if investment income does not meet expectations; if inflation rates go up or down; if longevity increases. We need to understand what the actuaries believe "final salaries" are going to be based on assumed retirement rates and employment contracts and possibly adjust employment agreements such that an employ might not get \$5 of future pension benefits for every dollar of salary he or she earns. The new California law addresses these concerns but not necessarily soon enough or to a degree required to allow for funding existing liabilities.

CCCERA believes that it can earn 7.75 percent but over the past decade it has only earned 5 percent. Maybe it has achieved the 7.75 percent growth over two decades but the 90's were extraordinary with a 16 percent average annual gain in the Dow. Warren Buffet believes that we should be more conservative; assuming 6.00 percent. The Task Force believes it is time to start acting conservatively and make the extra sacrifice needed to protect future generations from our excesses.

The Task Force also believes that we need to pre-fund all of our vested liabilities, including OPEB. Table VI-4b calculates what it will cost to pay down our unfunded pension liabilities over 30 years (column D); pay down our unfunded OPEB liabilities over 30 years (column J); and start pre-funding future OPEB liabilities (column N). The total starts at \$7.2 million in 3013 (column O) and increases to \$13 million by 2033 before it starts reducing.

That is the bad news. The good news is that some, actually a lot, of the required funding is already in the budget (already being used to pay off past promises as opposed to current services). This includes:

- * Pension Obligation Bond payments: \$2.65 million in 2013.
- * OPEB payments: about \$950,000 in 2013; all used to fund existing liabilities.
- * Pension Plan contributions: projected to be \$3 million by 2013; \$1 million of which cover currently vested liabilities with the other \$2 million needed to cover newly vesting benefits. This adds up to \$4.6 million per year. Almost enough to fund \$5.1 million needed if assets can earn at 7.75 percent (Table VI-4a) but it will be \$2.6 million shy if they can only earn at 6 percent (Table VI-4b). But there is more bad news.

Table VI-4a
Funding Needed to Pay off MOFD Employee Benefit Liabilities
 (assuming 7.75% asset earning rate)

	(A) Currently Vested Pension Liabilities	(B) Pension Liabilities Currently Payable from Asset Pool	(C) Currently Unfunded Pension Liabilities (A) - (B)	(D) Required Funding Increasing at 3.0%	(E) Net Payments To / (From) Asset Pool (D) - (A)	(F) interest 7.75%	(G) Principal (E) + (F)	(H) Asset Balance	(I) Currently Unfunded OPEB Liabilities	(J) Required Funding Increasing at 3.0%	(K) interest 7.75%	(L) Principal (J) + (K) - (I)	(M) Asset Balance	(N) Pre-Fund OPEB 3.0%	(O) Required Funding for Pension and OPEB (D)-(J)+(N)	(P) Existing Funding OPEB plus Pension Bond	(Q) Additional Funding In Excess of Projections (O)-(P)
Total 2011	650,622,769	296,575,388	354,047,381	127,921,873	-522,700,896	405,734,896	-116,966,000	116,966,000	50,892,421	44,553,927	6,338,494	0	0				115,717,125 over 30 years
2012	9,954,293	7,434,692	2,519,601	2,519,601	-7,434,692	9,064,865	1,630,173	118,596,173					0				
2013	10,499,200	7,848,805	2,650,395	3,407,301	-7,091,898	9,191,203	2,099,305	120,695,478	950,154	1,210,573	0	260,419	260,419	500,000	5,117,875	3,600,549	1,517,325
2014	11,049,160	8,268,150	2,781,010	3,509,520	-7,539,640	9,353,900	1,814,260	122,509,738	1,002,413	1,246,891	20,182	264,660	525,079	515,000	5,271,411	3,783,423	1,487,988
2015	11,613,000	8,692,076	2,920,924	3,614,806	-7,998,194	9,494,505	1,496,310	124,006,048	1,057,546	1,284,297	40,694	267,445	792,525	530,450	5,429,553	3,978,470	1,451,084
2016	12,188,951	9,119,858	3,069,093	3,723,250	-8,465,701	9,610,469	1,144,768	125,150,816	1,115,711	1,322,826	61,421	268,536	1,061,061	546,364	5,592,440	4,184,804	1,407,636
2017	12,770,171	9,550,698	3,219,473	3,834,948	-8,935,223	9,699,188	763,965	125,914,781	1,177,075	1,362,511	82,232	267,669	1,328,730	562,754	5,760,213	4,396,548	1,363,665
2018	13,359,998	9,983,717	3,376,281	3,949,996	-9,410,002	9,758,395	348,394	126,263,174	1,241,814	1,403,386	102,977	264,549	1,593,279	579,637	5,933,020	4,618,095	1,314,925
2019	13,961,425	10,417,952	3,543,473	4,068,496	-9,892,299	9,785,396	-107,533	126,155,641	1,310,114	1,445,488	123,479	258,854	1,852,132	597,026	6,111,010	4,853,587	1,257,424
2020	14,562,093	10,852,349	3,709,744	4,190,551	-10,371,542	9,777,062	-594,480	125,561,161	1,382,170	1,488,853	143,540	250,223	2,102,355	614,937	6,294,340	5,091,914	1,202,427
2021	15,170,067	11,285,756	3,884,311	4,316,267	-10,853,800	9,730,990	-1,122,810	124,438,352	1,458,189	1,533,518	162,933	238,262	2,340,617	633,385	6,483,171	5,342,500	1,140,671
2022	13,447,790	11,716,921	1,730,869	4,445,755	-9,002,035	9,643,972	641,938	125,080,289	1,538,389	1,579,524	181,398	222,532	2,563,149	652,387	6,677,666	3,269,258	3,408,407
2023	12,144,480	12,144,480	0	4,579,128	-7,565,352	9,693,722	2,128,370	127,208,660	1,623,001	1,626,909	198,644	202,553	2,765,702	671,958	6,877,996	1,623,001	5,254,995
2024	12,566,954	12,566,954	0	4,716,502	-7,850,452	9,858,671	2,008,219	129,216,878	1,712,266	1,675,717	214,342	177,793	2,943,494	692,117	7,084,336	1,712,266	5,372,070
2025	12,982,741	12,982,741	0	4,857,997	-8,124,744	10,014,308	1,889,564	131,106,443	1,806,441	1,725,988	228,121	147,668	3,091,163	712,880	7,296,866	1,806,441	5,490,425
2026	13,390,105	13,390,105	0	5,003,737	-8,386,368	10,160,749	1,774,381	132,880,824	1,905,795	1,777,768	239,565	111,538	3,202,701	734,267	7,515,772	1,905,795	5,609,977
2027	13,787,175	13,787,175	0	5,153,849	-8,633,326	10,298,264	1,664,938	134,545,762	2,010,614	1,831,110	248,209	68,697	3,271,398	756,299	7,741,245	2,010,614	5,730,631
2028	14,171,927	14,171,927	0	5,308,464	-8,863,462	10,427,297	1,563,834	136,109,596	2,121,197	1,886,034	253,533	18,370	3,289,768	778,984	7,973,482	2,121,197	5,852,285
2029	14,542,184	14,542,184	0	5,467,718	-9,074,466	10,548,994	1,474,028	137,583,624	2,237,863	1,942,615	254,957	-40,291	3,249,477	802,353	8,212,687	2,237,863	5,974,823
2030	14,895,601	14,895,601	0	5,631,750	-9,263,851	10,662,731	1,398,880	138,982,504	2,222,066	2,000,893	251,834	30,661	3,280,138	826,424	8,459,067	2,222,066	6,237,001
2031	15,229,657	15,229,657	0	5,800,702	-9,428,950	10,771,144	1,342,190	140,324,693	2,197,763	2,060,920	254,211	117,368	3,397,506	851,217	8,712,839	2,197,763	6,515,077
2032	15,541,643	15,541,643	0	5,974,724	-9,566,920	10,875,164	1,308,244	141,632,938	2,164,064	2,122,748	263,307	221,991	3,619,497	876,753	8,974,224	2,164,064	6,810,161
2033	15,828,653	15,828,653	0	6,153,965	-9,674,688	10,976,553	1,301,865	142,934,802	2,120,009	2,186,430	280,510	346,932	3,966,429	903,056	9,243,451	2,120,009	7,123,442
2034	16,087,572	16,087,572	0	6,338,569	-9,783,456	11,077,447	1,284,444	144,229,246	2,064,563	1,967,787	307,398	210,622	4,177,051	930,147	9,436,503	2,064,563	6,371,940
2035	16,315,060	16,315,060	0	6,521,172	-9,891,888	11,181,402	-273,486	145,957,760	1,996,604	1,749,144	323,721	76,261	4,253,313	958,052	9,630,368	1,996,604	5,633,764
2036	16,507,545	3,920,661	12,586,884	4,307,776	-12,199,770	11,097,206	-1,102,563	147,087,197	1,914,925	1,530,501	329,632	-54,792	4,198,520	986,793	9,825,070	1,914,925	4,910,145
2037	16,661,206	0	16,661,206	3,692,379	-12,968,827	11,011,758	-1,957,069	140,130,128	1,818,221	1,311,858	325,385	-180,978	4,017,542	1,016,397	9,620,634	1,818,221	4,202,413
2038	16,771,958	0	16,771,958	3,076,983	-13,694,975	10,860,085	-2,834,890	137,295,238	1,705,088	1,093,215	311,360	-300,513	3,717,029	1,046,889	9,217,087	1,705,088	3,511,999
2039	16,835,438	0	16,835,438	2,461,586	-14,373,852	10,640,381	-3,733,471	133,561,767	1,574,009	874,572	288,070	-411,367	3,305,662	1,078,296	8,414,454	1,574,009	2,840,445
2040	16,846,990	0	16,846,990	1,846,190	-15,000,801	10,351,037	-4,649,764	128,912,004	1,423,354	655,929	256,189	-511,236	2,794,426	1,110,646	7,423,763	1,423,354	2,189,409
2041	16,801,648	0	16,801,648	1,230,793	-15,570,855	9,990,680	-5,580,175	123,331,829	1,251,365	437,286	216,568	-597,511	2,196,915	1,143,964	6,212,032	1,251,365	1,560,678
2042	16,694,118	0	16,694,118	615,397	-16,078,721	9,558,217	-6,520,505	116,811,324	1,056,152	218,643	170,261	-667,248	1,529,666	1,178,283	5,012,322	1,056,152	956,170
2043	16,126,518	0	16,126,518	0	-16,126,518	9,052,878	-7,073,640	109,737,684	835,681	0	118,549	-717,131	812,535	1,213,631	3,213,631	835,681	377,951
2044	15,539,846	0	15,539,846	0	-15,539,846	8,504,671	-7,035,176	102,702,508	682,971	0	587,762	0	1,250,040	1,250,040	587,762	682,971	662,278
2045	14,934,902	0	14,934,902	0	-14,934,902	7,959,444	-6,975,458	95,727,051	310,044	0	22,300	-287,744	0	1,287,541	1,287,541	310,044	977,497
2046	14,312,615	0	14,312,615	0	-14,312,615	7,418,846	-6,893,768	88,833,282	0	0	0	0	0	1,326,168	1,326,168	0	1,326,168
2047	13,674,052	0	13,674,052	0	-13,674,052	6,884,579	-6,789,472	82,043,810	0	0	0	0	0	1,365,953	1,365,953	0	1,365,953
2048	13,020,432	0	13,020,432	0	-13,020,432	6,358,395	-6,662,037	75,381,773	0	0	0	0	0	1,406,931	1,406,931	0	1,406,931
2049	12,353,135	0	12,353,135	0	-12,353,135	5,842,087	-6,511,048	68,870,726	0	0	0	0	0	1,449,139	1,449,139	0	1,449,139
2050	11,673,713	0	11,673,713	0	-11,673,713	5,337,481	-6,336,231	62,534,494	0	0	0	0	0	1,492,613	1,492,613	0	1,492,613
2051	10,983,902	0	10,983,902	0	-10,983,902	4,846,423	-6,137,479	56,397,015	0	0	0	0	0	1,537,392	1,537,392	0	1,537,392
2052	10,285,640	0	10,285,640	0	-10,285,640	4,370,769	-5,914,871	50,482,144	0	0	0	0	0	1,583,513	1,583,513	0	1,583,513
2053	9,581,074	0	9,581,074	0	-9,581,074	3,912,366	-5,668,707	44,813,437	0	0	0	0	0	1,631,019	1,631,019	0	1,631,019
2054	8,872,578	0	8,872,578	0	-8,872,578	3,473,041	-5,399,537	39,413,900	0	0	0	0	0	1,679,949	1,679,949	0	1,679,949
2055	8,162,772	0	8,162,772	0	-8,162,772	3,054,577	-5,108,195	34,305,705	0	0	0	0	0	1,730,348	1,730,348	0	1,730,348
2056	7,454,532	0	7,454,532	0	-7,454,532	2,658,692	-4,795,839	29,509,866	0	0	0	0	0	1,782,258	1,782,258	0	1,782,258
2057	6,751,010	0	6,751,010	0	-6,751,010	2,287,015	-4,463,996	25,045,870	0	0	0	0	0	1,835,726	1,835,726	0	1,835,726
2058	6,055,656	0	6,055,656	0	-6,055,656	1,941,055	-4,114,601	20,931,269	0	0	0	0	0	1,890,798	1,890,798	0	1,890,798
2059	5,372,232	0	5,372,232	0	-5,372,232	1,622,173	-3,750,059	17,18									

Table VI-4b
Funding Needed to Pay off MOFD Employee Benefit Liabilities
 (assuming 6.00% asset earning rate)

	(A) Currently Vested Pension Liabilities	(B) Pension Liabilities Currently Payable from Asset Pool	(C) Currently Unfunded Pension Liabilities (A) - (B)	(D) Required Funding Increasing at 3.0%	(E) Net Payments To / (From) Asset Pool (D) - (A)	(F) interest 6.00%	(G) Principal (E) + (F)	(H) Asset Balance	(I) Currently Unfunded OPEB Liabilities	(J) Required Funding Increasing at 3.0%	(K) interest 6.00%	(L) Principal (J) + (K) - (I)	(M) Asset Balance	(N) Pre-Fund OPEB 3.0%	(O) Required Funding for Pension and OPEB (D)+(J)+(N)	(P) Existing Funding OPEB plus Pension Bond	(Q) Additional Funding In Excess of Projections (O)-(P)
Total	650,622,769	212,300,106	438,322,663	204,520,744	-446,102,025	329,136,025	-116,966,000	116,966,000	50,892,421	45,661,758	5,230,664	0	0	500,000	7,229,241	3,600,549	3,628,692
2011																	
2012	9,954,293	7,434,692	2,519,601	2,519,601	-7,434,692	7,017,960	-416,732	116,549,268		1,240,674	0	290,520	290,520	500,000	7,229,241	3,600,549	3,628,692
2013	10,499,200	7,848,805	2,650,395	5,488,567	-5,010,633	6,992,956	1,982,323	118,531,591	950,154			290,520	290,520	515,000	7,446,118	3,783,423	3,662,696
2014	11,049,160	8,268,150	2,781,010	5,653,224	-5,395,936	7,111,895	1,715,959	120,247,550	1,002,413	1,277,894	17,431	292,913	583,433	530,450	7,669,502	3,978,470	3,691,032
2015	11,613,000	8,692,076	2,920,924	5,822,821	-5,790,180	7,214,853	1,424,674	121,672,224	1,057,546	1,316,231	35,006	293,692	877,124	562,754	7,899,587	4,184,804	3,714,783
2016	12,188,951	9,119,858	3,069,093	5,997,505	-6,191,446	7,300,333	1,108,888	122,781,111	1,115,711	1,355,718	52,627	292,635	1,169,760	579,637	8,380,672	4,396,548	3,740,027
2017	12,770,171	9,550,698	3,219,473	6,177,430	-6,592,741	7,366,867	774,126	123,555,238	1,177,075	1,396,390	70,186	289,501	1,459,260	597,026	8,632,092	4,583,587	3,778,506
2018	13,359,998	9,983,717	3,376,281	6,362,753	-6,997,245	7,413,314	416,170	124,073,307	1,241,814	1,438,281	87,556	284,023	1,743,284	597,026	8,891,055	4,799,914	3,799,141
2019	13,961,425	10,417,952	3,543,473	6,553,636	-7,407,789	7,438,278	30,489	124,001,796	1,310,114	1,481,430	104,597	275,913	2,019,197	614,937	9,157,786	5,042,500	3,815,286
2020	14,562,093	10,852,349	3,709,744	6,750,245	-7,811,848	7,440,108	-371,740	123,630,057	1,382,170	1,525,873	121,152	264,855	2,284,052	633,385	9,432,520	5,294,258	3,852,262
2021	15,170,067	11,285,756	3,884,311	6,952,752	-8,217,315	7,417,803	-799,511	122,830,545	1,458,189	1,571,649	137,043	250,503	2,534,555	633,385	9,621,117	5,500,000	3,892,495
2022	13,447,790	11,716,921	1,730,869	7,161,335	-6,286,455	7,369,833	1,083,378	123,913,923	1,538,389	1,618,798	152,073	232,482	2,767,037	633,385	9,816,184	5,800,000	3,922,184
2023	12,144,480	12,144,480	0	7,376,175	-4,768,305	7,434,835	2,666,530	126,580,453	1,623,001	1,667,362	166,022	210,384	2,977,421	633,385	10,006,961	6,000,000	4,006,961
2024	12,566,954	12,566,954	0	7,597,460	-4,969,494	7,594,827	2,625,333	129,205,786	1,712,266	1,717,383	178,645	183,763	3,161,184	633,385	10,200,000	6,200,000	4,000,000
2025	12,982,741	12,982,741	0	7,825,384	-5,157,357	7,752,347	2,594,990	131,800,777	1,806,441	1,768,905	189,671	152,135	3,313,319	633,385	10,400,000	6,400,000	4,000,000
2026	13,390,105	13,390,105	0	8,060,146	-5,329,960	7,908,047	2,578,087	134,378,864	1,905,795	1,821,972	198,799	114,976	3,428,295	633,385	10,600,000	6,600,000	4,000,000
2027	13,787,175	13,787,175	0	8,301,950	-5,485,225	8,062,732	2,577,507	136,956,371	2,010,614	1,876,631	205,698	71,715	3,500,010	633,385	10,800,000	6,800,000	4,000,000
2028	14,171,927	14,171,927	0	8,551,008	-5,620,918	8,217,382	2,596,464	139,552,835	2,121,197	1,932,930	210,001	21,733	3,521,744	633,385	11,000,000	7,000,000	4,000,000
2029	14,542,184	14,542,184	0	8,807,539	-5,734,645	8,373,170	2,638,525	142,191,359	2,237,863	1,990,918	211,305	-35,641	3,486,103	633,385	11,200,000	7,200,000	4,000,000
2030	14,895,601	13,543,565	1,352,036	9,071,765	-5,823,836	8,531,482	2,707,645	144,899,005	2,222,066	2,050,645	209,166	37,745	3,523,848	633,385	11,400,000	7,400,000	4,000,000
2031	15,229,657	0	15,229,657	9,343,918	-5,885,739	8,693,940	2,800,201	147,707,206	2,197,763	2,112,165	211,431	125,833	3,649,681	633,385	11,600,000	7,600,000	4,000,000
2032	15,541,643	0	15,541,643	9,624,235	-5,917,408	8,862,432	2,945,025	150,652,231	2,164,064	2,175,530	218,981	230,447	3,880,129	633,385	11,800,000	7,800,000	4,000,000
2033	15,828,653	0	15,828,653	9,912,962	-5,919,691	9,039,134	3,123,443	153,775,674	2,120,009	2,240,796	232,808	353,594	4,233,723	633,385	12,000,000	8,000,000	4,000,000
2034	16,087,572	0	16,087,572	10,211,666	-5,950,909	9,226,540	3,307,949	157,083,623	2,064,563	2,016,716	254,023	206,176	4,439,899	633,385	12,200,000	8,200,000	4,000,000
2035	16,315,060	0	16,315,060	10,507,930	-5,987,130	9,410,070	3,500,070	158,583,693	1,996,604	1,792,637	266,394	62,426	4,502,325	633,385	12,400,000	8,400,000	4,000,000
2036	16,507,545	0	16,507,545	10,804,634	-5,987,130	9,602,100	3,700,170	159,283,863	1,979,637	1,586,557	270,140	-76,229	4,426,096	633,385	12,600,000	8,600,000	4,000,000
2037	16,661,206	0	16,661,206	11,109,428	-5,987,130	9,809,486	3,900,356	160,184,319	1,818,221	1,344,477	265,566	-208,178	4,217,918	633,385	12,800,000	8,800,000	4,000,000
2038	16,771,958	0	16,771,958	11,414,273	-5,987,130	10,014,630	4,100,520	160,284,849	1,705,088	1,120,398	253,075	-331,615	3,886,303	633,385	13,000,000	9,000,000	4,000,000
2039	16,835,438	0	16,835,438	11,719,118	-5,987,130	10,219,780	4,290,650	160,385,369	1,574,009	896,318	233,178	-444,513	3,441,791	633,385	13,200,000	9,200,000	4,000,000
2040	16,846,990	0	16,846,990	12,024,063	-5,987,130	10,414,910	4,475,720	160,486,889	1,423,354	672,239	206,507	-544,608	2,897,183	633,385	13,400,000	9,400,000	4,000,000
2041	16,801,648	0	16,801,648	12,329,008	-5,987,130	10,610,040	4,650,810	160,588,419	1,251,365	448,159	173,831	-629,375	2,267,808	633,385	13,600,000	9,600,000	4,000,000
2042	16,694,118	0	16,694,118	12,634,053	-5,987,130	10,805,170	4,825,900	160,690,949	1,056,152	224,080	136,068	-696,004	1,571,803	633,385	13,800,000	9,800,000	4,000,000
2043	16,126,518	0	16,126,518	12,939,108	-5,987,130	11,000,300	5,000,970	160,793,479	835,681	0	94,308	-741,372	830,431	633,385	14,000,000	10,000,000	4,000,000
2044	15,539,846	0	15,539,846	13,234,153	-5,987,130	11,195,430	5,176,040	160,896,009	587,762	0	49,826	-537,936	292,495	633,385	14,200,000	10,200,000	4,000,000
2045	14,934,902	0	14,934,902	13,529,198	-5,987,130	11,380,560	5,341,110	161,000,539	310,044	0	17,550	-292,495	0	633,385	14,400,000	10,400,000	4,000,000
2046	14,312,615	0	14,312,615	13,814,243	-5,987,130	11,555,690	5,506,180	161,105,069	0	0	0	0	0	633,385	14,600,000	10,600,000	4,000,000
2047	13,674,052	0	13,674,052	14,088,288	-5,987,130	11,720,820	5,671,250	161,210,599	0	0	0	0	0	633,385	14,800,000	10,800,000	4,000,000
2048	13,020,432	0	13,020,432	14,352,333	-5,987,130	11,885,950	5,836,320	161,316,119	0	0	0	0	0	633,385	15,000,000	11,000,000	4,000,000
2049	12,353,135	0	12,353,135	14,616,378	-5,987,130	12,041,080	6,001,390	161,421,639	0	0	0	0	0	633,385	15,200,000	11,200,000	4,000,000
2050	11,673,713	0	11,673,713	14,870,423	-5,987,130	12,196,210	6,166,460	161,527,159	0	0	0	0	0	633,385	15,400,000	11,400,000	4,000,000
2051	10,983,902	0	10,983,902	15,124,468	-5,987,130	12,341,340	6,331,530	161,632,679	0	0	0	0	0	633,385	15,600,000	11,600,000	4,000,000
2052	10,285,640	0	10,285,640	15,370,483	-5,987,130	12,486,470	6,500,600	161,738,199	0	0	0	0	0	633,385	15,800,000	11,800,000	4,000,000
2053	9,581,074	0	9,581,074	15,616,528	-5,987,130	12,631,600	6,670,670	161,843,719	0	0	0	0	0	633,385	16,000,000	12,000,000	4,000,000
2054	8,872,578	0	8,872,578	15,862,573	-5,987,130	12,776,730	6,840,740	161,949,239	0	0	0	0	0	633,385	16,200,000	12,200,000	4,000,000
2055	8,162,772	0	8,162,772	16,108,618	-5,987,130	12,921,860	7,010,810	162,054,759	0	0	0	0	0	633,385	16,400,000	12,400,000	4,000,000
2056	7,454,532	0	7,454,532	16,354,663	-5,987,130	13,066,990	7,180,880	162,160,279	0	0	0	0	0	633,385	16,600,000	12,600,000	4,000,000
2057	6,751,010	0	6,751,010	16,600,708	-5,987,130	13,212,120	7,350,950										

Table VI-4c

Funding Needed to Pay off MOFD Employee Benefit Liabilities

(assuming 6% asset earning rate / adjusted to reflect 2011 pension plan results)

	(A) Currently Vested Pension Liabilities (Pension + Bond)	(B) Pension Liabilities Currently Payable from Asset Pool	(C) Currently Unfunded Pension Liabilities (A) - (B)	(D) Required Funding Increasing at 3.0%	(E) Net Payments To / (From) Asset Pool (D) - (A)	(F) interest 6.00%	(G) Principal	(H) Asset Balance	(I) Currently Unfunded OPEB Liabilities	(J) Required Funding Increasing at 3.0%	(K) interest 6.00%	(L) Principal	(M) Asset Balance	(N) Pre-Fund OPEB 3.5%	(O) Required Funding for Pension and OPEB (D)+(J)+(N)	(P) Existing Funding OPEB Plus Pension Bond Plus CCCERA Underfunded Charge	(Q) Additional Funding In Excess of Projections (O)-(P)
Total 2011	655,182,178	197,026,073	458,156,105	218,542,608	-436,639,571	324,439,571	-112,200,000	112,200,000	50,892,421	45,661,758	5,230,664	0	0	500,000	7,610,229	4,218,336	3,391,892
2012	10,009,214	7,489,613	2,519,601	2,519,601	-7,489,613	6,732,000	-757,613	111,442,387					0				
2013	10,557,179	7,906,784	2,650,395	5,869,555	-4,687,624	6,686,543	1,998,919	113,441,306	950,154	1,240,674	0	290,520	290,520	500,000	7,610,229	4,218,336	3,391,892
2014	11,110,238	8,329,228	2,781,010	6,045,641	-5,064,596	6,806,478	1,741,882	115,183,188	1,002,413	1,277,894	17,431	292,913	583,433	517,500	7,841,036	4,931,210	2,909,826
2015	11,677,209	8,756,285	2,920,924	6,227,010	-5,450,198	6,910,991	1,460,793	116,643,981	1,057,546	1,316,231	35,006	293,692	877,124	535,613	8,078,854	5,656,257	2,422,598
2016	12,256,320	9,187,227	3,069,093	6,413,821	-5,842,499	6,998,639	1,156,140	117,800,121	1,115,711	1,355,718	52,627	292,635	1,169,760	554,359	8,323,898	6,392,591	1,931,307
2017	12,840,722	9,621,249	3,219,473	6,606,235	-6,234,487	7,068,007	833,520	118,633,641	1,177,075	1,396,390	70,186	289,501	1,459,260	573,762	8,576,387	7,134,335	1,442,052
2018	13,433,748	10,057,467	3,376,281	6,804,422	-6,629,326	7,118,018	488,693	119,122,334	1,241,814	1,438,281	87,556	284,023	1,743,284	593,843	8,836,547	7,885,882	950,665
2019	14,038,383	10,494,910	3,543,473	7,008,555	-7,029,828	7,147,340	117,512	119,239,846	1,310,114	1,481,430	104,597	275,913	2,019,197	614,628	9,104,613	8,121,374	983,239
2020	14,642,259	10,932,515	3,709,744	7,218,812	-7,423,448	7,154,391	-269,057	118,970,790	1,382,170	1,525,873	121,152	264,855	2,284,052	636,140	9,380,824	8,359,701	1,021,123
2021	15,253,436	11,369,125	3,884,311	7,435,376	-7,818,059	7,138,247	-679,812	118,290,978	1,458,189	1,571,649	137,043	250,503	2,534,555	658,405	9,665,430	8,610,287	1,055,143
2022	15,869,474	11,803,474	4,066,000	7,658,437	-8,214,906	7,097,459	-1,117,447	117,172,530	1,538,389	1,618,798	152,073	232,482	2,767,037	681,449	9,958,685	6,537,045	3,421,639
2023	16,504,192	12,234,192	4,269,999	7,888,191	-8,616,907	7,170,752	-2,448,761	116,023,781	1,623,001	1,667,362	166,022	210,384	2,977,421	705,299	10,260,852	4,890,788	5,370,064
2024	17,159,787	12,659,787	4,500,000	8,124,836	-9,024,836	7,340,237	-2,805,286	114,212,567	1,712,266	1,717,383	178,645	183,763	3,161,184	729,985	10,572,204	4,980,053	5,592,151
2025	17,834,645	13,078,645	4,756,000	8,368,581	-10,124,645	7,508,554	-2,998,491	112,244,058	1,806,441	1,768,905	189,671	152,135	3,313,319	755,534	10,893,020	5,074,228	5,818,793
2026	18,534,619	13,489,619	5,045,000	8,619,639	-11,345,000	7,676,463	-3,288,637	110,000,000	1,905,795	1,821,972	198,799	114,976	3,428,295	781,978	11,223,589	5,173,582	6,050,007
2027	19,269,615	13,889,615	5,380,000	8,878,228	-12,711,415	7,844,888	-3,746,527	107,155,237	2,010,614	1,876,631	205,698	71,715	3,500,010	809,347	11,564,206	5,278,401	6,285,806
2028	20,044,615	14,276,615	5,768,000	9,144,575	-14,276,615	8,014,934	-4,311,680	103,843,613	2,121,197	1,932,930	210,001	21,733	3,521,744	837,674	11,915,179	5,388,984	6,526,195
2029	20,869,615	14,649,615	6,210,000	9,418,912	-15,869,615	8,187,908	-4,971,707	100,000,000	2,237,863	1,990,918	211,305	-35,641	3,486,103	866,993	12,276,823	5,505,650	6,771,173
2030	21,734,615	15,005,615	6,729,000	9,701,479	-17,534,615	8,365,341	-5,619,272	96,288,527	2,322,066	2,050,645	209,166	37,745	3,523,848	897,338	12,649,463	5,489,853	7,159,609
2031	22,649,615	15,342,159	7,307,456	9,992,524	-19,342,159	8,549,012	-6,392,767	92,000,000	2,397,763	2,112,165	211,431	125,833	3,649,681	928,745	13,033,433	4,847,763	8,185,671
2032	23,604,615	15,656,450	7,948,165	10,292,300	-21,304,615	8,740,974	-7,363,744	87,288,528	2,464,064	2,175,530	218,981	230,447	3,880,129	961,251	13,429,080	4,284,064	9,145,016
2033	24,609,615	15,945,580	8,664,035	10,601,068	-23,364,615	8,943,584	-8,221,150	82,000,000	2,520,009	2,240,796	232,808	353,594	4,233,723	994,894	13,836,759	3,710,009	10,126,749
2034	25,664,615	16,206,411	9,458,204	9,540,962	-25,458,204	9,159,528	-9,159,528	77,000,000	2,564,563	2,316,716	254,023	403,899	4,439,899	1,029,716	14,287,393	3,124,563	9,462,830
2035	26,769,615	16,435,580	10,334,035	8,480,855	-27,769,615	9,309,173	-10,334,035	72,000,000	1,996,604	2,392,637	266,394	62,426	4,502,325	1,065,756	11,339,247	2,526,604	8,812,643
2036	27,924,615	16,629,487	11,295,128	7,420,748	-30,304,615	9,390,440	-11,295,128	67,000,000	1,914,925	2,568,557	270,140	-76,229	4,426,096	1,103,057	10,092,362	1,914,925	8,177,437
2037	29,229,615	16,784,283	12,545,332	6,360,641	-33,869,615	9,401,342	-13,229,615	62,000,000	1,818,221	2,844,477	265,566	-208,178	4,217,918	1,141,664	8,846,783	1,818,221	7,028,561
2038	30,684,615	16,895,853	13,788,762	5,300,534	-37,384,615	9,340,004	-15,314,615	57,000,000	1,705,088	3,120,398	253,075	-331,615	3,886,303	1,181,622	7,602,555	1,705,088	5,897,467
2039	32,199,615	16,959,802	15,239,913	4,240,427	-41,959,615	9,204,685	-17,719,615	52,000,000	1,574,009	3,496,721	233,178	-444,513	3,441,791	1,222,979	6,359,725	1,574,009	4,785,716
2040	33,774,615	16,971,439	16,903,176	3,180,321	-47,593,615	8,993,803	-20,119,615	47,000,000	1,423,354	3,722,239	206,507	-544,608	2,897,183	1,265,784	5,118,343	1,423,354	3,694,989
2041	35,409,615	16,925,763	18,483,852	2,120,214	-54,284,615	8,705,964	-22,814,615	42,000,000	1,251,365	4,48,159	173,831	-629,375	2,267,808	1,310,086	3,878,459	1,251,365	2,627,093
2042	37,104,615	16,817,438	20,287,177	1,060,107	-62,037,615	8,339,989	-25,877,615	37,000,000	1,056,152	5,224,080	136,068	-696,004	1,571,803	1,355,939	2,640,125	1,056,152	1,583,973
2043	38,859,615	16,245,645	22,613,970	0	-70,614,615	7,894,949	-29,820,615	32,000,000	835,681	0	94,308	-741,372	830,431	1,403,397	1,403,397	835,681	567,716
2044	40,664,615	15,654,640	25,010,000	15,654,640	-76,319,615	7,393,907	-34,426,615	27,000,000	587,762	0	49,826	-537,936	292,495	1,452,516	1,452,516	587,762	864,754
2045	42,519,615	15,045,227	27,474,388	15,045,227	-81,564,615	6,898,263	-37,826,615	22,000,000	310,044	17,550	17,550	-292,495	0	1,503,354	1,503,354	310,044	1,193,309
2046	44,524,615	14,418,342	30,106,273	14,418,342	-87,106,615	6,409,445	-41,246,615	17,000,000	0	0	0	0	0	1,555,971	1,555,971	0	1,555,971
2047	46,589,615	13,775,062	32,814,553	13,775,062	-92,814,615	5,928,911	-45,318,615	12,000,000	0	0	0	0	0	1,610,430	1,610,430	0	1,610,430
2048	48,714,615	13,116,615	35,598,000	13,116,615	-98,608,615	5,458,142	-49,770,615	7,000,000	0	0	0	0	0	1,666,795	1,666,795	0	1,666,795
2049	50,909,615	12,444,388	38,465,227	12,444,388	-105,465,615	4,998,634	-54,872,615	5,000,000	0	0	0	0	0	1,725,133	1,725,133	0	1,725,133
2050	53,264,615	11,759,947	41,504,668	11,759,947	-113,504,615	4,551,889	-60,420,615	4,000,000	0	0	0	0	0	1,785,513	1,785,513	0	1,785,513
2051	55,779,615	11,065,041	44,714,574	11,065,041	-121,714,615	4,119,405	-66,956,615	3,000,000	0	0	0	0	0	1,848,006	1,848,006	0	1,848,006
2052	58,454,615	10,361,620	48,093,000	10,361,620	-131,093,615	3,702,667	-74,193,615	2,000,000	0	0	0	0	0	1,912,686	1,912,686	0	1,912,686
2053	61,299,615	9,651,849	51,647,766	9,651,849	-141,647,766	3,303,130	-83,490,615	1,000,000	0	0	0	0	0	1,979,630	1,979,630	0	1,979,630
2054	64,314,615	8,938,120	55,376,495	8,938,120	-152,376,495	2,922,207	-94,628,615	0	0	0	0	0	0	2,048,917	2,048,917	0	2,048,917
2055	67,509,615	8,223,071	59,286,544	8,223,071	-164,286,544	2,561,252	-107,417,615	0	0	0	0	0	0	2,120,629	2,120,629	0	2,120,629
2056	70,984,615	7,509,598	62,475,017	7,509,598	-177,475,017	2,221,543	-121,017,615	0	0	0	0	0	0	2,19			

The 2011 pension plan results which were recently released show that MOFD pension liabilities have increased a very small amount (\$1 million when discounted at 7.75%) but their assets (market value) have decreased \$5 million from \$117 million to \$112 million due to investment returns of less than 2% in 2011 (Table VI-2c). This has caused the unfunded liabilities to increase from \$111 million to \$117 million and Table VI-4c shows that this will cause the 2013 funding requirement to increase to \$7.6 million.

Can these funds be made available from projected revenues without reducing emergency services to Orinda and Moraga? The Task Force believes they can. Details of the Task Force's suggested reduction in expenses so that increases in employee retirement benefit funding can be increased is presented in Table IV-4b.

To the extent all savings are not consumed by funding past unfunded employee benefits; the District has many other ways to invest its savings in making the community safer and promoting prevention as opposed to reacting to emergencies with maximum resources:

- * One-person rapid response medical units in remote areas of the District (Sleepy Hollow / Sanders Ranch) to address some of the excessive response time problems.

- * Subsidize the "sprinklering" of all residences to increase personal safety (of both residents and firefighters) and decrease the impact of response times when dealing with residential structure fires.

- * Fuel load mitigation projects.

- * Water pipe upgrades in Orinda and possibly Moraga also. Can a 3,000 gallon tank truck replace a series of 1,200 gallon per minute hydrants for fighting wild-land fires? Half of Orinda's "grossly inadequate" hydrants are in Very High Fire Hazard Severity Zones. (Exhibit III-2)

We are not going to just "spend ourselves" out of this mess. We need to start acting smart.