

ERFA POSTSCRIPTS

News of the CSU East Bay Hayward Emeritus and Retired Faculty Association Fall 2014

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President's Message:

Autumn greetings—where it is 95 degrees in Walnut Creek. I hope it will be cooler at our luncheon on October 29 when Ben Bowser will wow us with his talk on “The Rise and Fall of the CSU.” Since the luncheon is before Halloween we will get to reuse our fabulous decorations from years gone by. See how thrifty your president is!

The Board voted to donate another \$500 to the ERFA Library Endowment. I hope that our generosity in giving over a thousand dollars a year is appreciated. Thank you to Russ Merris for donating the proceeds from his book sales to ERFA.

If you read any of the local papers you will have noticed the negative publicity about our former president, now president of San Jose State, Mo Qayoumi and CFO Shawn Bibb for their purchase of \$28 million of equipment (some still unused) and their close association with Cisco. Unfortunately Mo has not received much good publicity since his appointment at SJSU.

The race for State Controller deserves our close attention. While our Board is not endorsing anyone, there are rumors that one of the candidates might appoint someone to PERS Board who is known to oppose public pensions. The candidates are Ashley Swearingin and Betty Yee and we know Betty Yee to be an advocate for public pensions.

Helen Sowers, our excellent treasurer and recent recipient of our Leadership/Service, award just lost her husband Malcolm. She celebrated her 90th birthday in September. Ed Reuling, former Associate Vice President for Student Affairs, recently passed away. Our condolences to Helen and Pam Reuling.

At the luncheon we will be asking for feedback on topics you would like covered at luncheons and people who might speak on these topics. Please think about this. See you on the 29th.

Bea

Beatrice Pressley, President

Fall Luncheon, Wednesday, October 29, 2014

Guest Speaker: **Benjamin Bowser**, Professor emeritus of Sociology and former interim dean of the College of Letters, Arts, and Social Sciences, will speak on "**The Rise and Fall of the CSU.**"

Time: Gather starting at 11:30, social hour of 45 minutes, sit down 12:15

Place: Asian Buffet, 24100 Mission Boulevard, Hayward, at Fletcher Lane.

\$20, in cash or by check, on arrival. All you can eat, a wide variety of dishes, soft and other drinks, even wine, dessert, and gratuity, buffet style. Cost includes donation to the ERFA Library Endowment and a gift certificate for the speaker to the Friends of Castro Valley Library Bookstore.

Make checks payable to Helen Sowers, our treasurer.

Reserve the date, October 29. Please make reservations by Friday, October 24, with

- Jack Kilgour, (510) 582-8760, john.kilgour@csueastbay.edu or
- Bea Pressley, (925) 946-9786, beapressley@mac.com



Academic Emeriti Senator's Report From Ukraine

Since the Senate has not met since our last newsletter, the ERFA Board suggested that I write about consulting work that I have been doing in Ukraine. As the Director of the Center for Economic Education on campus I have been involved in economic and financial literacy projects in former communist and developing countries since shortly after the breakup of the former Soviet Union. As an extension of this work and through a non-profit organization that friends and I formed (The Global Economic Education Alliance) I have been working this past year as a consultant on a USAID financial literacy project in Ukraine. I traveled to Kiev in June and again in September.

While admittedly viewing the volatile political situation from the Ukrainian (as opposed to the Russian) perspective, my opinion is that the loss of Crimea and the instability caused by the pro-Russian separatists is a tragedy for this country struggling to reform its financial sector and turning to the West for support. I believe that Crimeans will regret their secession from Ukraine, as tourism is a primary industry and the number of tourists plummeted over the summer. The effect of the conflict on the economy of Ukraine is another tragedy of the conflict. In Independence Square (called Maidan), near where I stayed, much has changed between June and September. In June, barricades were up and streets blocked with memorials to the pro-Western revolutionaries of last January. In June, the barricades were down and the streets open, but the sad memorials remain.

As the conflict continues, life in western Ukraine goes on, including the USAID financial sector reform efforts. Our financial literacy project partners include the Ministry of Education and the National Bank of Ukraine. I am involved with projects to train NGOs to deliver financial literacy education to their constituents, and to train teachers to deliver a financial literacy course in the high schools. But unfortunately, the war-torn regions in eastern Ukraine are not involved in these efforts.

Jane Lopus

Editor's note: Ukraine is a stew of ethnicities and national identities, including pro-Ukrainian Russians and pro-Russian Russians, Western attitudes in Kiev overlain by a Kleptocracy, and poverty in rural areas. The violence in Crimea and the east are about identity, not economics, expressing a

resurgent Russian nationalism buoyed by fossil fuels and lacking a modern socio-economic base. To help Ukraine, Western policy should learn from what Germany did for East Germany. The Ukrainian military should emphasize a holding action while Kiev modernizes under Western carrots and sticks. Real economic growth in the west will be the best defense in the east.



PENSION OBLIGATION BONDS NEAR YOU

My last effort addressed the underfunding of CalPERS and, by extension, other public pension plans in California (CalPERS Unfunded Pension Liabilities: How Did We Get Into This Mess?). This paper explores a side effect of public pension underfunding, the pension obligation bond (POB).

There is a principle in public finance called “intergenerational equity” that holds that the people who benefit from a government service should pay for it. Operating costs should not be passed on to our children and grandchildren. Capital costs, such as building schools, libraries, roads, etc. (and the cost of fighting wars) produce things and outcomes that will also benefit the future generation(s). Such costs may be spread forward through the use of long-term bond financing. State and local government bonds are tax-exempt (the bond holder does not pay federal and usually state income tax on the interest earned). Such bonds are either general obligation bonds (GOBs) or special or revenue bonds. POBs are almost always GOBs.

In 1985, the city of Oakland, with the aid of its bond counsel, Orrick, Herrington & Sutcliffe, LLC (Orrick) issued the first tax-exempt POB. The idea was to issue bonds at a low rate of interest and then invest the proceeds in U.S. Treasury securities at a higher rate of interest. That’s classic arbitrage. No risk. The city and the bond buyers benefited at the expense of the U.S. Treasury. The IRS was not amused. It promoted legislation that became part of the Tax Reform Act of 1986 that prohibited the use of tax-exempt bonds if the proceeds are used for investment. That ended tax-exempt POBs.

Taxable POBs emerged in 1993, also with the aid of Orrick. The idea was to sell bonds at 5 or 6% and put the money into the pension trust fund where it was assumed by the actuaries that it would earn 7.5 to 8.5% based on long-term historical averages. Bad idea! Pension liabilities are inherently long-term. Financial markets fluctuate in the short- and intermediate term. This was not risk-free classic arbitrage.

There are many risks associated with taxable POBs. They include (1) financial risk (rate of return on assets may be less than the POB rate), (2) timing risk (issue POBs at or near the top of the business cycle), (3) flexibility risk (transferring “soft” unfunded pension liabilities into hard bond risk) and (4) political risk (the POB makes the pension fund balance sheet look better and the government’s look worse prompting public employee unions to demand benefit enhancements and beholding elected officials to acquiesce. Governments and their pension funds are separate entities with separate reporting and disclosure responsibilities.

In 2003, Governor Arnold Schwarzenegger attempted to issue a \$949 million POB (inherited from the Gray Davis Administration). The Pacific Legal Foundation (a Howard Jarvis tax-payer group) claimed that voter approval was required and the courts agreed. That was the end of State of California POBs. Good.

Numerous California county, municipal and other local-governments have issued POBs. There were 191 new POBs issued in California from 2000 to 2013. As of 2013, almost all of them were “under water.” The city of Oakland stands as a classic example of how not to do it. After its initial experience with a tax-exempt POB in 1985, Oakland issued taxable POBs of \$417 million 1997, \$196 million in 2001, and \$212 million in 2012. In 2010, the city auditor reported that Oakland still owed \$250 million more on its 1997 POB than it would have had it not been issued and had the city continue to make its payments to the pension plan instead. No one knows how the 2001 and the 2012 POBs will fare. Scary, isn’t it.

Government bond issues are usually insured by one or more of a handful of Wall Street municipal bond insurers. That lowers the interest rate. In the Stockton bankruptcy, the city abandoned \$195.5 million in pension bonds insured by Assured Guaranty while continuing to honor \$41.6 million of other pension debt backed by sources of revenue such as leases, buildings and other collateral. Its reasoning was that since the unsecured bonds were insured, the bond holders would not suffer a loss. Litigation followed. One of the issues is whether CalPERS should be involved in the bankruptcy negotiations as a creditor. Today (10/1/14) the bankruptcy judge ruled that Stockton’s pensions could be cut (as were Detroit’s). Many of us live in jurisdictions with serious fiscal problems exacerbated by large pension debt complicated by POBs that may some day be involved in Chapter 9 bankruptcy proceedings. Stay tuned in.

Not all POBs are bad. In 2003, CalPERS established a risk pool for about 1,500 public pension plans with fewer than 100 active members. To allow them an equal start, the plans were given a loan from CalPERS in the amount of their unfunded liability at 7.5% interest rate. In early 2014, the voters of Piedmont (an affluent city of 10,400 completely surrounded by Oakland) approved an \$8 million POB to pay off the CalPERS debt and thereby save over \$600,000 over 9 years. Not too shabby.

Most POBs in California have been issued at the wrong time for the wrong reason by the wrong governments. If you are asked to vote for or otherwise approve a POB, be careful.

Jack Kilgour



HAPA ANNOUNCES TRANSFER OF RESEARCH PROJECT TO UNIVERSITY OF MISSOURI

Hayward, CA - The Hayward Area Planning Association (HAPA) has transferred the InternationalComparisons.org website to the University of Missouri. Sherman Lewis, Professor Emeritus of Cal State University Hayward and President of HAPA, and Dustyn Bindel, Research Associate, developed the website over a period of almost four years. Tefvik Murat Yildirim, a Ph.D. student at the University, will be continuing the development of the site as new research is done on evaluating the performance of the world's advanced nations. Professor Cooper Drury, Chair of the Department of Political Science, edits the Journal, Foreign Policy Analysis, and is the faculty contact for the site. He said, “Understanding the politics in other states is critically important to understand the foreign policy of others and one’s own state.”

The site address is <http://www.internationalcomparison.org/>

Lewis says, “Work on this site has been rewarding but has become too time consuming, and I need to pass the baton onto some institution with fresh energy to continue the work.” Bindel, who

ran the website and a related [blog](#), says that "Laying out the site, technically, was quite challenging, but I think we've made it quite transparent for any journalist or academic with an interest in national comparative evaluations." Tefvik states that he "... was excited when I saw an announcement about this website, and as I looked into it more, I decided it was something important—something I really wanted to work on. I feel challenged and honored for the opportunity to work on this important website."

Sherman Lewis had the idea for this project for many years before he finally got serious, starting with a compilation of all the treaties that other advanced nations had agreed to, but not the United States. In general, he is critical of both ideological attacks on the United States and of simplistic defenses of the U.S. He believes that the United States is seriously behind on many important goals of society and yet also wants to give credit to the U.S. where its performance is good or excellent. Nevertheless, he believes that the U.S. in general has fallen behind other advanced democracies, and people need objective information about this problem.

Lewis: The "Intcomps" website is unique in that it has more topics of comparison for quality of life than any other website in the world today. On the other hand, it looks only at 12 countries, the U.S. and 11 advanced democratic countries: Australia, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, and the United Kingdom. The site combines objectivity with evaluation.

In May 2014, Wikipedia published an article on the general issue of international comparison statistics for 26 policy areas. The article discusses seven databases with this kind of statistical data. Internationalcomparisons.org is the only one that covers every area.

See: http://en.wikipedia.org/wiki/International_comparisons

On the website, the categorical pages, each containing several columns of statistics, are as follows:

Agriculture	Child Welfare 1	Child Welfare 2	Competitiveness 1	Competitiveness 2
Crime	Economy	Education K-12	Education 13+	Energy
Environment	Gender Equality	General Performance	Greenhouse Gases	Health Care
Health Regulation	Health Status	Housing	Income Distribution	International Aid
Lifestyle Risks	Military	Population	Rule of Law 1	Rule of Law 2
Sexual Health	Social Justice	Technology	Teen Pregnancy	Transportation
Treaties	Voting	Work and Leisure	Research	

To learn more about the website or HAPA, contact Sherman Lewis at sherman@csuhayward.us.

Obituaries

Ruthy Stephan and Gina Traversa maintain www20.csueastbay.edu/oaa/memorial/, honoring deceased tenured and tenure-track faculty.

William L. Sawrey, Professor, Department of Psychology, October 20, 2013,
http://www20.csueastbay.edu/oaa/files/memorial_files/MemorialSawrey.pdf

Edwin King Reuling, Judicial Officer for Student Affairs, September 24, 2014.
<http://www.legacy.com/obituaries/insidebayarea/obituary.aspx?n=edwin-king-reuling&pid=172678677>

My Untimely Death

Mark Twain is famous for having said that reports of his death had been greatly exaggerated. I know exactly how he felt. Here's what happened to me.

It was October, 2010 and I was just a couple of days at home after having undergone a total knee replacement. It was Friday night, time for a streaming movie on Netflix. A strange error message appeared on the TV. "There is a problem with your account. Please contact us." A quick call determined that the problem is that the bill hadn't been paid. I found that puzzling, as it was to be paid automatically on my credit card. A subsequent call to the credit card company found them quite surprised to hear from me. "Can you please repeat your name?" I was asked. Upon repeating my name I was told, much to my astonishment, that Social Security declared me dead six weeks before and therefore, my credit card had been cancelled.

Having your credit card cancelled is a pretty big deal if you pay bills that way. The ten different bills that hadn't been paid as a result of my untimely (and untrue) demise took some work to straighten out.

Key to the resolution of this problem is that one must show up in person at the Social Security office with two photo ID cards to prove one is alive. Not exactly convenient for someone four days home from a knee replacement, but there was no other choice. Needless to say, my Social Security payments were discontinued until I could straighten this out.

I learned that one of my pensions (STRS) had been summarily cancelled upon my "death" and it could only be reinstated upon receipt of a notarized Proof of Life form. It was disquieting to receive a letter from American Express to my estate telling my relatives how much the company had enjoyed having me as a client for the last 45 years and how much they were going to miss me.

I'll never know exactly what caused the mix-up. Apparently it happens fairly often. Most likely it was just a keyboarding error by a clerk filing a real reported death of a person with a Social Security number close to my own. It took about a month to straighten everything out. Being declared dead was a drag, but it renewed my appreciation for being alive.

Jodi Servatius

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