August 9, 2011

Honorable Arthur A. Garcia
Assistant Presiding Judge
Santa Barbara Superior Court
312 East Cook Street
Post Office Box 5369
Santa Maria, California 93456-5369

Reference: Response to Santa Barbara Civil Grand Jury Titled, "*Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly*" (Published June 23, 2011 on Jury Web Site)

Judge Garcia:

The Santa Barbara County Board of Supervisors (Board) is providing its response to the above-referenced Civil Grand Jury Report. The Board recognizes the importance of understanding post employment benefits as they compose a significant portion of public budgets. The members of the Board and staff are committed to providing excellent service to constituents while ensuring fiscal health and responsibility. We appreciate the Grand Jury's time and effort into compiling the report entitled "Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly." We hope you will find our commentary responsive and helpful.

In accordance with the Grand Jury's direction, answers are provided in accordance with Section 933.05 of the California Penal Code.

Finding 1a
"Most public agencies in Santa Barbara County are participants in large defined benefit pension plan pools, which provide diversification, cost efficiency, spreading of risk, centralized management and centralized investment strategy."

The Board agrees with the finding.

Finding 1b
"Public agencies in Santa Barbara County participating in defined benefit pension pools know their current year required contribution and an estimate of the following year's contribution."

The Board agrees with the finding.

Finding 1c
"Fitch Ratings is a global rating agency that has announced new disclosure requirements because current disclosure requirements make it impossible for Fitch to accurately allocate a cost-sharing multiple-employer system's unfunded pension liability to the numerous participating employers that use pools to provide pensions to their employees. Moody's Investor Service has begun to recalculate the states' debt burdens in a way that includes unfunded pensions. The Governmental Accounting Standards Board has stated that each government agency participating in a cost-sharing pension plan should report a net liability based on its proportion of the unfunded obligation of all the participating governments."

The Board partially disagrees with the finding.

The Board partially disagrees with the finding since the Government Accounting Standard Board has only issued exposure drafts regarding new reporting standards for pensions that would, if adopted by GASB, be effective for plan years after June 15, 2013.

Finding 1d
"Unfunded long-term liability can have an important impact on future funding requirements that the ratepayer, taxpayer and each individual agency needs to know."

The Board agrees with the finding.

Finding 1e
"Public agencies in Santa Barbara County participating in defined benefit pension pools do not know their individual long-term unfunded actuarial liability."

The Board partially disagrees with the finding.

Since Santa Barbara County is the major plan sponsor for SBCERS, the County can reasonably estimate their proportionate share of the long-term unfunded liability of SBCERS. However, it is recognized that actuarial reports for each individual plan sponsor are not currently required.

Recommendation 1
"That, no later than January 1, 2012, all local government agencies that belong to multiple-employer pension pools obtain, and for each year thereafter, make publicly available estimates of their individual unfunded actuarial liability from an actuary or the plan sponsor."

The recommendation will not be implemented because it is not warranted or is not reasonable.

The recommendation will not be implemented because the date January 1, 2012, is premature since new disclosure requirements by GASB are pending and proposed to be effective for plan years beginning after June 15, 2013.

Finding 2a
"As of June, 2010, public agencies in Santa Barbara County had a total unfunded actuarial liability for post employment healthcare of approximately $316,000,000."

The Board agrees with the finding.

Finding 2b
"Some agencies pay all or a portion of the healthcare premium costs for employees."

The Board agrees with the finding.

Finding 2c
"For the most part, local agency healthcare benefits are pay as you go, and are not structured on a prefunded basis like defined benefit pension plans."

The Board agrees with the finding.

Recommendation 2a
"That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that contributes some or part of healthcare premium for employees, adopt an implementation plan to reduce those contributions."

<u>The recommendation will not be implemented because it is not warranted or is not reasonable.</u>

The recommendation will not be implemented because the Board may not be in a position for implementation of a plan to reduce all contributions to health care premiums due to the requirements of collective bargaining and vested benefit obligations.

Recommendation 2b
"That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that provides healthcare premiums for employees, implement prefunding their currently unfunded healthcare liability."

<u>The recommendation will not be implemented because it is not warranted or is not reasonable.</u>

The recommendation will not be implemented because the Board many not be a position for implementation of a plan to prefund current unfunded health care liabilities due to the requirements of collective bargaining, constraints on the current budget to provide resources for all unfunded liabilities and the nature of vested benefit obligations. However, the Board recognizes the importance of a long-term plan to fund all benefit related liabilities. It should be noted that there is no unfunded liability associated with active employee health benefit coverage.

Finding 3
"As of June, 2010, public agencies in Santa Barbara County had a total liability for compensated absences of nearly $61,000,000."

<u>The Board disagrees with the finding.</u>

The Board disagrees with the finding since the amount listed for Santa Barbara County of $29,887,683 is overstated by $548,683. The County survey response for compensated absences liability was $29,339,000. This would reduce the overall amount shown on Exhibit 4 Obligations Other Than Pensions to approximately $59 million. However, the Board recognizes the significance of the liability for Santa Barbara County.

Recommendation 3
"That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that has compensated absences liabilities, adopt an implementation plan to reduce each agency's compensated absences liability."

<u>The recommendation will not be implemented because it is not warranted or is not reasonable.</u>

The County has paid compensated absence liabilities on a pay-go basis. Reduction of the benefit is subject to collective bargaining and the Board has proposed changes to this benefit in order to reduce the liabilities. The Board recognizes the importance of a long-term plan to fund all benefit related liabilities.

Yours Truly,

Joni Gray, Chair
Santa Barbara County Board of Supervisors

Cc: Santa Barbara County Board of Supervisors
Chandra L. Wallar, County Executive Officer
Jason Stilwell, Assistant County Executive Officer/Budget Director
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