



**BOARD OF SUPERVISORS
AGENDA LETTER**

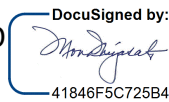
Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Submitted on:
(COB Stamp)

Department Name: County Executive Office
Department No.: 012
Agenda Date: November 18, 2025
Placement: Departmental Agenda
Estimated Time: 20 MINUTES
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Director(s): Mona Miyasato, CEO
Contact: Paul Clementi, Budget Director
SUBJECT: Other Post-Employment Benefits (OPEB) Funding Policy

DocuSigned by:

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County Counsel Concurrence

As to form: Yes

Other Concurrence: N/A

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- a) Adopt the Resolution in Attachment A that updates the County of Santa Barbara Other Post-Employment Benefits (401(h) Account) Funding Policy by adjusting the minimum funding rate from 4% to 1.5% of total pensionable payroll, beginning January 1, 2026; and
- b) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA), because pursuant to sections 15378(b)(4) and 15378(b)(5) the recommended actions consist of fiscal activities of government that will not result in direct or indirect physical changes in the environment.

Summary Text:

The County annually contributes toward a health benefit plan for retired employees and their dependents (Other Post Employment Benefit, or OPEB), but unlike the County's pension obligation, this plan has been closed to new employees since 2018, which limits future long-term liability. The County contributes 4% of payroll costs to pay for the yearly benefits to these retirees and projected future costs of the plan. The plan is now on track to fully fund its future obligation earlier than estimated. Given this positive position, and the County's fiscal needs, the County Executive Office is recommending the Board approve a reduction to the County's contribution from a rate of 4% to 1.5% of total pensionable payroll, effective January 1, 2026.

This change will help both the General Fund and non-general revenue funds with addressing forecasted operating budget deficits, while continuing to responsibly fund this long-term liability.

Anticipated savings in the General Fund are \$1.9 million in the current year and \$4.2 million in FY 2026-27. The net savings in other Funds is anticipated to be \$4.5 million in the current year and \$8.6 million in FY 2026-27. The adjustment will create one-time salary savings in departments in the current fiscal year, as well as a reduction in ongoing salary and benefit costs in the FY 2026-27 budget. With this change, staff estimates the County will still achieve a fully funded plan by the initial target date of 2034. This change will not impact health benefits to employees eligible for the benefit.

Discussion:

On March 1, 2016, the Board adopted an Other Post-Employment Benefits (401(h) Account) Funding Policy that established a minimum funding rate of 4% of total pensionable payroll, intended to fully fund long-term liabilities by 2034. As a result of the County's strict adherence to this policy, greater than assumed investment gains, and closure of the Plan to new members, the County OPEB liability is currently estimated to be fully funded by 2027 at the current funding level. This accelerated success of the funding plan presents an opportunity for the County to consider an adjustment to its contribution rate that could decrease ongoing costs to the General Fund and address current budgetary challenges.

The Fiscal Year (FY) 2025-26 Recommended Budget included an updated five-year forecast of General Fund costs that showed operating deficits growing to \$19.6 million over the next five years due primarily to operating costs outpacing revenues, reductions in state and federal funding, rising salary and benefit costs, and high costs for the Northern Branch Jail expansion.

To mitigate the large deficit ahead, the County Executive Office has started exploring options for reserving or redirecting revenue and, along those lines, requested updated actuarial projections of the County's OPEB liability funding status from SBCERS to determine if the County could reduce its annual OPEB contribution while still achieving its long-term liability funding goals.

Projections provided by the SBCERS actuary estimate that at the current funding rate of 4%, the OPEB Plan will be fully funded by 2027 – seven years earlier than anticipated when the Board adopted the current funding policy in 2016. Their projections also showed that a reduced funding rate of 2% starting in July of 2026 still results in a fully funded plan by 2030 – several years in advance of the County's original goal. It is likely that reducing the funding rate to 1.5% starting in January of 2026 will still achieve a fully funded plan by the initial target date of 2034 barring any unforeseen investment losses. Given these estimates, and the scope of the forecasted deficit ahead, staff recommend that the Board approve reducing the funding rate to 1.5% starting January 1, 2026.

If approved, this change could create salary savings of up to \$1.9 million in the General Fund and \$4.5 million in non-general revenue funds in FY 2025-26, and annualized savings of \$4.2 million in the General Fund and \$8.6 million in non-general revenue funds in FY 2026-27. Ongoing General Fund savings will be redirected toward upcoming annual debt service payments for the Northern Branch Jail expansion, currently estimated between \$8 - \$12 million per year (based on the availability of one-time funding to pay down construction costs).

Ongoing savings in other Funds, which includes the Department of Social Services and the County Health Department, will give those departments flexibility in managing revenue losses and other increases in their operating budgets.

Background:*History of Establishing the 401(h) Trust and Identification of Plan Participants*

On September 16, 2008, the County adopted regulations to create a trust pursuant to sections 401(h) of the U.S. Internal Revenue Code and entered into an agreement with SBCERS to administer the trust on the County's behalf. SBCERS therefore serves as the administrator of the County's retiree health plan. The purpose of the 401(h) trust (also referred to as the "OPEB Plan") was to provide health care benefits to retired employees of the County, their eligible dependents, and other participating plan sponsors.

Calculation, Eligibility, and Description of OPEB Benefits

The OPEB Plan provides benefits to employees based upon their years of service and whether or not the employee elects to use a County selected health insurance provider (\$15 per month per year of service) or acquires health insurance through another provider (\$4 per month per year of service). For example, an employee who retires after 10 years of service and elects to use the County negotiated health insurance will receive \$150 per month (10 years x \$15 per month) as a subsidy towards their health benefits. An employee who retires after 10 years of service and elects to use their own insurance provider will receive \$40 per month (10 years x \$4 per month) into a Health Savings Account. County contributions to the OPEB Plan on behalf of employees are not employee contributions and are not reflected on employee earning statements. On June 26, 2012, the County closed the OPEB Plan to new general employees, and the OPEB Plan was subsequently closed to new County safety members. The OPEB Plan has been closed to all new entrants with membership dates in SBCERS on or after December 31, 2018.

Funding History

Prior to the formal policy adoption, the County utilized a pay-as-you-go methodology for the OPEB Plan, with contribution rates equal to about 3% every year. In FY 2013-14, Budget Policy increased funding by 25 basis points each year until 2015 when the Governmental Accounting Standards Board (GASB) released Statement Number 75 (GASB 75), which required that the County record the unfunded OPEB obligation on the face of its government-wide financial statements in its entirety and recognize the expense related to the Plan in the current year as opposed to recognizing it over the life of the OPEB Plan. The SBCERS actuary analyzed the County's funding practices and determined a rate of 4% would reduce liability over the long term and would be sufficient to fully fund the plan by 2034. In 2016 the Board formally adopted these recommendations in the form of the County's Other Post-Employment Benefits (401(h) Account) Funding Policy.

The adopted policy states that the funding level is subject to reconsideration and adjustment based on extraordinary investment gains or losses or other material changes in circumstances. Since its adoption in 2016, the OPEB Plan annual rate of return has exceeded the assumed 7% used to create the policy in the majority of the years, including 14.85% in 2024 and 11.61% in 2025, and at the current rate the plan is anticipated to be fully funded by 2027, well before the original target of 2034.

OPEB Trust & Liability Balances

At the time of adoption of the original funding policy, the OPEB Plan had an accumulated asset balance of approximately \$3.2 Million, and the Actuarial Accrued Liability was \$178.5 Million, leading to a funded ratio of only 1.8%. As of the June 30, 2024 valuation date, the County's accumulated asset balance has grown to \$74.4 Million, while the Actuarial Accrued Liability is \$125.5 Million, for a funded ratio of 59.3%.

Fiscal Impacts:

At the current 4% contribution rate, it is estimated that the General Fund would pay \$6.7 million or 33% of the County's total \$20.4 million OPEB Plan contribution in FY 2026-27. Staff considered reduced contribution rates of 2% and 1%, and found that a 2% contribution would continue to fund the plan at an accelerated pace and a 1% contribution could potentially underfund the plan if returns fail meet the plan's assumption rate in a given year. Therefore, a 1.5% contribution rate is recommended to ensure the plan remains responsibly on track to be fully funded by the initial target date of 2034. The proposed rate reduction to 1.5% would decrease the General Fund cost by approximately \$4.2 million and non-General Fund costs by approximately \$8.6 million.

As mentioned above, ongoing savings to the General Fund will be reallocated toward the Northern Branch Jail expansion debt service and savings in other Funds will help mitigate, to some extent, budget issues related to cost increases and losses in state, federal and other non-General Fund sources. Total estimated OPEB Plan contribution costs for FY 2025-26 and FY 2026-27 (for the three funding options discussed in this letter) are reflected in the following table.

Fund Type	FY 2025-26 4% Rate (current)	FY 2026-27 4% Rate (no change)	FY 2026-27 1.5% Rate (recommended)
General Fund	\$5.8M	\$6.7M	\$2.5M
Non-General Fund	\$13.8M	\$13.7M	\$ 5.2M
Total	\$19.6 M	\$20.4M	\$7.7M

Special Instructions:

- A. The Clerk of the Board shall distribute copies of the Board Letter, Resolution, and Funding Policy, to the following:
 - a. The Auditor-Controller's Office
 - b. Brandi Cass, The Auditor Controller's Office, Payroll Division Chief
 - c. Rico Pardo, SBCERS, Controller
 - d. Charlotte Mack, The County Executive Office, Fiscal & Policy Analyst

Attachments:

Attachment A – Resolution and revised Other Post-Employment Benefits (401(h) Account) Funding Policy

Attachment B – Revised Other Post-Employment Benefits (401(h) Account) Funding Policy, Redline

Contact Information:

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