Agenda Item No._____

File Code No. 150.04

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: September 13, 2011

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Response To Grand Jury Report On Post Employment Benefits In Santa Barbara County

RECOMMENDATION: That Council:

A. Consider and adopt responses as the City Council responses to the Grand Jury report entitled, "Local Government Post Employment Benefits in Santa Barbara County - Complicated and Costly"; and
B. Approve and authorize the City Administrator to execute a letter forwarding the responses to the Assistant Presiding Judge.

DISCUSSION:

In June 2011, the Santa Barbara Grand Jury issued its report entitled "Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly." The report includes a compilation of various post employment benefits provided by the County of Santa Barbara, cities, special districts and school districts. Post-employment benefits payable upon retirement include defined benefit pensions, health care payments, and miscellaneous benefits such as accrued sick leave and other accrued compensated absences. The report indicates that it is intended as an in-depth study of the future obligations of government agencies within Santa Barbara County.

While most of these post-employment benefits have been in place for decades, they have received nationwide attention in the last several years, particularly defined benefit pension plans. As a result of the recent recession, defined benefit pension plans administered by the California Public Employee Retirement System (CalPERS), the California State Teachers Retirement System (CalSTRS) and the Santa Barbara County Employees Retirement System (SBCERS) sustained significant investment losses, increasing or creating significant unfunded liabilities in these plans. In addition, a movement in private sector financial reporting to disclose post-employment health care benefits has led to similar reporting and disclosure requirements in the public sector, which has raised the local awareness of the magnitude of these financial commitments by state and local governments.

A summary of the issues identified in the Grand Jury report is provided below.

Status of Unfunded Pension Liabilities

One of the issues raised by the Grand Jury report is that certain agencies within the County of Santa Barbara do not know the extent of their unfunded liabilities for the defined benefit pension plans they offer. This may be true of smaller cities and special districts because they are part of retirement pools offered by CalPERS, SBCERS or CalSTRS whereby the assets and liabilities of the plan are shared among several smaller agencies. Retirement pools are designed to spread the risk and operational costs of the plan over several agencies. In these cases, the individual agencies are not provided with actuarial information for their share of the plans assets, accrued liabilities or unfunded liabilities.

However, larger public agencies that participate in PERS, such as the City of Santa Barbara, maintain individual plans and thus know precisely the funding status of their plans. Therefore, while the issue raised by the grand Jury may be valid, it does not apply to the City of Santa Barbara.

Other Post-Employment Benefits

Another issue raised in the report relates to other post-employment benefits not including defined benefit retirement plans. The report indicates that the majority of these other benefits, which primarily relate to healthcare, are on a “pay-as-you-go” basis, which means there is no advanced funding for these payments while the employee is employed by the agency.

It is indeed true that, historically, these benefits have not been advanced funded like defined benefit pensions. Several years ago, new governmental accounting and financial reporting standards were implemented by federal regulation requiring governments to calculate the total liabilities associated with these post-employment obligations, using actuarial methods, in order to increase the level of understanding of these previously undisclosed and unknown liabilities. The new accounting and financial reporting standards did not mandate that governments advance fund these liabilities; however, to the extent governments choose to continue to fund them on a pay-as-you-go basis, any shortfall in relation to the funding needed based on actuarial calculations must be recognized in the financial statements of the entity.

The City of Santa Barbara makes limited payments to retirees to assist in the cost of retirement health care coverage, which payments vary slightly by labor group. In all cases, the amount paid is determined on the number of years of service and requires that the employee works for the City for a minimum of fifteen years. In addition, unlike similar benefits in many other agencies, the City’s payments terminate when the retiree reaches age 65.

The City currently is on a pay-as-you-go basis for retiree health contributions, but recognizes the advantage of advance funding of these obligations. Prior to the recent recession, when the new standards went into place, the City intended to move to a fully funded approach. However, the financial impacts created by the severe economic downturn have delayed that decision until City finances are more stable and the additional funds needed to fully fund the liabilities are available.

Written Response to the Grand Jury

The attached letter to the Assistant Presiding Judge, the Honorable Arthur A. Garcia, from City Administrator Jim Armstrong contains the City of Santa Barbara's response to the findings and recommendations presented in the County of Santa Barbara Grand Jury report (Attachment 1). The letter is in accordance with the Grand Jury's direction. Staff recommends Council authorize the City Administrator to execute the letter for submittal to the Grand Jury.

ATTACHMENTS: 1. Grand Jury Report
2. Letter from Jim Armstrong to the Assistant Presiding Judge

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office

Attachment 1

MAILING ADDRESS:
GRAND JURY SUITE 12
411 E. CANON PERDIDO ST.
SANTA BARBARA, CA
93101-7531

TEL: (805) 568-2291
FAX: (805) 568-3301
email: sbcgj@sbcgj.org
http:// www.sbcgj.org

GRAND JURY
SANTA BARBARA COUNTY

June 2011

City Manager
City of Santa Barbara
735 Anacapa Street
Santa Barbara, CA 93101

RECEIVED
JUN 16 2011
CITY ADMINISTRATOR'S OFFICE
SANTA BARBARA

Dear Sir:

On behalf of the 2010-11 Santa Barbara County Civil Grand Jury (Jury), I am enclosing our report entitled **"Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly"** for your review and response.

The Jury, Santa Barbara County Counsel and Assistant Presiding Judge Arthur A. Garcia have reviewed and approved this report. A copy will be sent to any agency or agency head for which findings and recommendations are applicable, and an information copy will be sent to the Board of Supervisors. I have also attached *Sections 933(c)* and *933.05(a),(b) and (c)* of the *California Penal Code* with emphasis added in bold face to enhance a complete response. In particular, please be mindful of the following requirements:

- You are receiving this report two working days prior to its release to the public. You shall not disclose the contents of this report prior to its public release per *California Penal Code, Section 933.05(f)*
- The response time for public agencies and agency heads is 90 days from receipt
- The response time for elected county officials is 60 days from receipt

- The response time for elected county officials is 60 days from receipt
- You must respond to each applicable finding and recommendation in this report and all responses must include a timeframe for implementation per *California Penal Code, Section 933.05(b)(2)*
- You must submit your signed original response to Judge Garcia with an information copy to the Board of Supervisors
- Please submit a printed copy of your response, as well as a copy on CD-ROM disc in MS Word or PDF format, to the Jury

Please be aware this report and your response will be posted on the Jury website at sbcgj.org and may be included in our official published reports.

In order to assist you in responding I am providing you with the mailing addresses for Judge Garcia and Supervisor Gray:

Hon. Arthur A. Garcia,
Assistant Presiding Judge
Santa Barbara Superior Court
312 East Cook Street
P.O. Box 5369
Santa Maria, California 93456-5369

Hon. Joni Gray, Chair
Santa Barbara County Board of Supervisors
County Administration Building
105 East Anapamu Street
Santa Barbara, California 93101

Thank you for your anticipated cooperation.

Sincerely,

Kathryn D. McKee, Foreperson
2010-11 Santa Barbara County Civil Grand Jury
Attachments

Attachment

2010 California Penal Code

Section 933

(c) No later than 90 days after the grand jury submits a final report on the operations of any public agency subject to its reviewing authority, the governing body of the public agency shall comment to the presiding judge of the superior court on the findings and recommendations pertaining to matters under the control of the governing body, and every elected county officer or agency head for which the grand jury has responsibility pursuant to *Section 914.1* shall comment within 60 days to the presiding judge of the superior court, with an information copy sent to the board of supervisors, on the findings and recommendations pertaining to matters under the control of that county officer or agency head and any agency or agencies which that officer or agency head supervises or controls. In any city and county, the mayor shall also comment on the findings and recommendations. All of these comments and reports shall forthwith be submitted to the presiding judge of the superior court who impaneled the grand jury. A copy of all responses to grand jury reports shall be placed on file with the clerk of the public agency and the office of the county clerk, or the mayor when applicable, and shall remain on file in those offices. One copy shall be placed on file with the applicable grand jury final report by, and in the control of the currently impaneled grand jury, where it shall be maintained for a minimum of five years.

Section 933.05

(a) For purposes of subdivision (b) of *Section 933*, as to each grand jury finding, the responding person or entity shall indicate one of the following:

(1) The respondent agrees with the finding.

(2) The respondent disagrees wholly or partially with the finding, **in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.**

(b) For purposes of subdivision (b) of *Section 933*, as to each grand jury recommendation, the responding person or entity shall report one of the following actions:

(1) The recommendation has been implemented, **with a summary regarding the implemented action.**

(2) The recommendation has not yet been implemented, but will be implemented in the future, **with a timeframe for implementation.**

(3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. **This timeframe shall not exceed six months from the date of publication of the grand jury report.**

(4) The recommendation will not be implemented because it is not warranted or is not reasonable, **with an explanation therefor**.

(c) However, if a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the agency or department head and the board of supervisors shall respond if requested by the grand jury, but the response of the board of supervisors shall address only those budgetary or personnel matters over which it has some decisionmaking authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

LOCAL GOVERNMENT POST EMPLOYMENT BENEFITS IN SANTA BARBARA COUNTY

Complicated and Costly

SUMMARY

In March, the 2010-11 Santa Barbara County Civil Grand Jury (Jury) published a report on the results of its survey of salaries and benefits offered by local government agencies within the county.

While the March survey and report proved to be an illuminating endeavor, the Jury realized the data presented represented only a review of current total compensation. The Jury decided to conduct a follow-on survey of post employment benefits including pension and other post employment benefits (OPEB) incurred by the same government agencies for employees who would be retiring. The following report is an outgrowth of that survey.

The Jury learned that while the majority of these agencies make annual contributions to fund post employment benefit programs, many of the agencies do not know their total post employment obligations nor the asset values, either actuarial or market, supporting such obligations. The reason for this lack of knowledge is that they participate in retirement pools either through Santa Barbara County Employees Retirement System (SBCERS), California Public Employees Retirement System (CalPERS), or California State Teachers Retirement System (CalSTRS). With the exception of Santa Barbara County's participation in SBCERS, each member represents a relatively small component of these centrally managed pools.

Furthermore, actuarial estimates are not currently available for the individual pool members. However, the pooling concept makes sense for these agencies – both by spreading risk and spreading costs of operation. As noted, the Jury finds the majority of local government employers in the county are not aware of their individual share of their defined benefit plan's assets or future obligations.

In addition, many agencies fund their post employment healthcare benefits on a pay-as-you-go basis. As stable as the current funding situation may be for current retirees (and those nearing retirement), there is a serious potential shortfall of funding for future retirees.

The Jury believes there is a need to know the extent of these unfunded future obligations, for the agencies, their employees, and for the Santa Barbara County ratepayers and taxpayers.

The Jury believes that all ratepayers and taxpayers in the county are entitled to estimates of future funding requirements.

BACKGROUND

Due to national public focus on the future funding requirements of pension obligations for governmental employees, the 2010-11 Santa Barbara County Civil Grand Jury (Jury) conducted a survey of pension, healthcare, and other post employment benefit obligations for local government agencies[1] within the county to determine the total countywide unfunded liability. The term "unfunded liability" applies to pension plans and other post employment obligations.[2]

This report is not intended as an in-depth study of the future post employment obligations of governmental agencies within Santa Barbara County, but as a survey of those obligations.

METHODOLOGY

The Jury conducted a survey of the total unfunded post employment benefit liabilities for local government agencies in Santa Barbara County. The survey included Santa Barbara County, cities, school districts, and special districts. Each agency has a different unfunded actuarial liability because of demographic and economic assumptions. An actuary was interviewed to gain a better understanding of the methodology and complexity of estimating a particular agency's pool liability.

The Jury emailed a questionnaire on post employment obligations to nearly all agencies operating within the county. A few agencies without staff or with minimal budgets per the compensation survey were not sent surveys.

The Jury learned that numerous agencies were unable to respond completely because specific information was unavailable due to their participation in pension pools which manage their retirement plans. It was this surprising information that prompted the Jury to make the recommendations contained in this report.

The Jury reviewed certain Governmental Accounting Standards Board (GASB)[3] rules for the financial reporting of pension and other post employment obligations. GASB Statements issued that pertain to accounting for pensions and other post employment benefits are Nos. 25, 26, 27, 43, and 45.

PENSIONS IN GENERAL

[1] "Local government agencies" refers to Santa Barbara County, its cities, school districts and special districts (See Exhibit 1).
[2] Glossary, Table 4.
[3] Governmental Accounting Standards Board, http://www.gasb.org

The majority of agencies within the county that have pension plans for their employees contribute to a defined benefit pension plan. Wikipedia[4] defines a defined benefit pension plan as follows:

> *... a **defined benefit pension plan** is a type of pension plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending on investment returns. It is 'defined' in the sense that the formula for computing the employer's contribution is known in advance.*

In contrast, Wikipedia defines a defined contribution plan as follows:

> *... a **defined contribution plan** is a type of retirement plan in which the amount of the employer's annual contribution is specified. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employer contributions and, if applicable, employee contributions) plus any investment earnings on the money in the account. Only employer contributions to the account are guaranteed, not the future benefits. In defined contribution plans, future benefits fluctuate on the basis of investment earnings. The most common type of defined contribution plan is a savings and thrift plan. Under this type of plan, the employee contributes a predetermined portion of his or her earnings (usually pretax) to an individual account, all or part of which is matched by the employer.*

Defined Benefit Pension Plans

Within Santa Barbara County, there are three primary retirement systems providing defined benefit pension plans for local government employees:

SBCERS, Santa Barbara County Employees' Retirement System

- SBCERS operates as a cost-sharing multiple-employer defined benefit plan for Santa Barbara County and is governed by an 11 member Board of Retirement, six of whom are elected by members, four appointed by the Board of Supervisors and the county treasurer. Members of the SBCERS system are the County of Santa Barbara, nine other special districts located within the county, and the Superior Court

- The SBCERS system currently offers four general retirement plans, one for general or miscellaneous members, two for safety members and one for the Air Pollution Control District (APCD)

[4] Defined Benefit Plan and Defined Contribution Plan, http://en.wikipedia.org

CalPERS, State of California Public Employees' Retirement System

- CalPERS is the largest public pension plan in the nation, providing retirement and healthcare plans to state employees and other governmental agencies within the state. CalPERS administers 13 defined benefit retirement formulas for more than 2,500 state, school (classified employees only), and public agency employers. The system is governed by a 13 member Board of Administration, six of whom are elected by members, three are state officers, two are appointed by the governor, one appointed by the State Personnel Board, and one by the speaker of the assembly and Senate Rules Committee

- CalPERS currently manages over 450 individual defined benefit plans for agencies with 100 members or more. For agencies with fewer than 100 members, CalPERS offers five Miscellaneous Risk pools, four Safety Risk pools, and one Inactive Plan pool.[5] As an example of a plan, under a 2% @ 55 formula, an employee with 30 years of service retiring at age 55 would receive an annual pension of 60% (2% for each year of service) of his or her highest annual average salary for either one year or three years, depending upon the plan. School employees who do not qualify as teachers for inclusion in the CalSTRS program are members of the CalPERS Miscellaneous 2% @ 55 Risk Pool

- Risk pools provide a sharing of risk among the agencies and also economies of scale insofar as it would be inefficient and costly to maintain an individual plan with few employee members. As shown on Exhibit 2, three agencies (cities) in Santa Barbara County have individual plans with CalPERS. The remaining CalPERS agencies' employees are members of various risk pools

- In addition to defined benefit pension plans, CalPERS also provides defined contribution plans and other employee benefit plans[6]

CalSTRS, California State Teachers' Retirement System

- CalSTRS currently manages the CalSTRS Defined Benefit Program for "California public school employees, prekindergarten through community college, who teach, are involved in selecting and preparing instructional materials, or are supervising people engaged in those activities."[7] The system is governed by a 12 member Teacher's Retirement Board, three of whom are elected by members; one retired member appointed by the governor and approved by the senate; three public representatives appointed by the governor and confirmed by the senate; one school board representative appointed by the governor and approved by the senate; and four members who serve in an ex-officio capacity by

[5] CalPERS Facts At A Glance: General, April 2011, http://www.calpers.ca.gov
[6] CalPERS Supplemental Income Plans, http://www.calpers.ca.gov
[7] CalSTRS Comprehensive Annual Financial Report – 2010, http://www.calstrs.com

virtue of their office: director of finance, state controller, state superintendent of public instruction, and state treasurer

- School employees who do not qualify as members of CalSTRS are members of the CalPERS Miscellaneous 2% @ 55 Risk Pool[8]

- In addition to the Defined Benefit Program, CalSTRS also provides a Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefit Program[9]

- All defined benefit plans discussed above include some form of disability coverage and allow for optional survivor coverage. Some provide for a death benefit. Furthermore, each of the systems provides optional health benefit plans

Outliers

- Agencies whose employees are not part of one of the previously discussed systems either have a defined contribution plan of some type or no plan. As shown in Exhibit 1, employees of four agencies participate in a defined contribution or similar plan and 12 agencies do not have an employee plan

- Santa Barbara Metropolitan Transit District's (MTD) represented employees are members of the Western Conference of Teamsters Pension Plan, a pooling of various employers. The MTD did obtain an estimate of its portion of the pool's assets and obligations prepared by its consultants; non-represented employees participate in a defined contribution plan

- Exhibit 1 shows the plans to which each agency participates

Pension Highlights

All information shown in the exhibits and tables is taken from information published by the retirement systems or from surveys prepared by the individual agencies. No attempt was made to independently verify any of the data obtained.

SBCERS, Santa Barbara County Employees Retirement System:

The following summarizes SBCERS pension fund performance for fiscal years since year 2000.

[8] Ibid
[9] Ibid

SBCERS Pension Fund Performance
(all dollar amounts in millions)

Valuation Year (Notes 1 and 2)	Market Value of Assets (Dollars)	Actuarial Value of Assets (Dollars)	Actuarial Accrued Liability (Dollars)	Unfunded Liability - Assets @ Market Values (Dollars)	Unfunded Liability - Assets @ Actuarial Values (Dollars)	Funding Ratio @Market Values (Note 3)	Funding Ratio @ Actuarial Values (Note 4)
Dec-00	n/a	1,171	1,146	n/a	(25)	n/a	102.2%
Dec-01	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dec-02	n/a	1,296	1,364	n/a	68	n/a	95.0%
Jun-03	n/a	1,347	1,455	n/a	108	n/a	92.6%
Jun-04	1,347	1,379	1,579	232	200	85.3%	87.4%
Jun-05	1,476	1,444	1,688	212	244	87.4%	85.6%
Jun-06	1,629	1,553	1,810	181	257	90.0%	85.8%
Jun-07	1,900	1,735	1,957	57	222	97.1%	87.1%
Jun-08	1,763	1,894	2,136	373	242	82.5%	88.6%
Jun-09	1,421	1,706	2,264	843	558	62.8%	75.4%
Jun-10	1,609	1,927	2,616	1,007	689	61.5%	73.7%

Note 1 - Information for years prior to 2007 was provided by prior actuaries
Note 2 - "Prior to 2007, non-valuation assets reserves were included with the Actuarial Value of Assets (AVA), non-valuation asset reserves were also added to Actuarial Accrued Liabilities (AAL) prior to 2007. Beginning in 2007, non-valuation assets are not included in the AVA and are no longer added to the AAL." (Source SBCERS 2007 Financial Report)

Note 3 - Funding Ratio @ Market Values - Market Value of Assets divided by Actuarial Accrued Liability
Note 4 - Funding Ratio @ Actuarial Values - Actuarial Value of Assets divided by Actuarial Accrued Liability

The 2010 employers' pension costs, as a percent of payroll as of June 30, 2010, the most recent fiscal year, are shown below.[10] It is important to note that agencies make annual contributions to the defined benefit pension fund which includes two cost components - normal cost and amortization cost.

SBCERS - Percent of Payroll

	General Members	Safety Members	APCD Members	Average
Net Employer Normal Cost	13.85%	24.33%	14.76%	16.58%
Amortization of Unfunded Actuarial Accrued Liability	16.09%	22.95%	18.41%	17.90%
Totals	29.94%	47.28%	33.17%	34.48%

The above rates are only the employers' portion of the pension costs. "Member contribution rates are actuarially determined on the basis of plan and age upon entry into the retirement system."[11] However, in many cases, the employing agency is paying a portion or all of the required member contribution.

[10] SBCERS 2010 Financial Statements, http://www.countyofsb.org
[11] SBCERS plan description for safety members, http://www.countyofsb.org

Due to agency participation in pools, SBCERS does not provide separate actuarial reports for each agency (the Air Pollution Control District is an exception because it is the only participant in its pool). Consequently, the public and management do not know the unfunded pension liability for each individual agency. While the unfunded liability for each agency could be estimated, it appears this is seldom done.

CalPERS, State of California Public Employees Retirement System:

With the exception of three cities in the county participating in CalPERS with individual plans, most agencies and school districts employees who are not members of CalSTRS contribute to pooled funds with statewide participants, making it impossible to determine even a total local liability.

In summary, the various statewide pools, as of 2009, included in the June 30, 2010, CalPERS annual report, totaled as follows:[12]

CalPERS Funded Ratios –Statewide Pools
(all dollar amounts in millions)

Actuarial Accrued Liability	$20,584
Actuarial Value of Assets	$17,154
Unfunded Liability (line 1- line 2)	$3,431
Funded Ratio (line 2 / line 1)	**83.3%**
Side Funds*	($1,552)
Actuarial Value of Assets excluding Side Funds (line 1 – line 5)	$18,706
Unfunded Liability excluding Side Funds (line 1 – line 6)	$1,879
Funded Ratio excluding Side Funds (line 6 / line 1)	**90.9%**
Market Value of Assets	$12,513
Unfunded Liability at Market Values (line 1 – line 9)	$8,071
Funded Ratio at Market Values (line 10 / line 1)	**60.8%**

*Side funds were created at the time CalPERS implemented risk pools to ensure that plans with varying funded status could participate in the same pool. Each side fund is subject to a fixed amortization schedule. Anytime an employer improves benefits for their plan, the side fund is adjusted to ensure the employer pays for the benefit improvement and a new 20-year amortization is established. *(Source – CalPERS website)*

The following shows CalPERS pension fund performance since year 2000 as reported in CalPERS financial reports:

[12] Total of all funds set forth in CalPERS summary attached as Exhibit 2

CalPERS Pension Fund Performance
(all dollar amounts in millions)

Valuation Year (June 30 fiscal year)	Market Value of Assets (Dollars)	Actuarial Value of Assets (Dollars)	Actuarial Accrued Liability (Dollars)	Unfunded Liability - Assets @ Market Values (Dollars)	Unfunded Liability - Assets @ Actuarial Values (Dollars)	Funding Ratio @Market Values (Note 1)	Funding Ratio @ Actuarial Values (Note 2)
2000	172,163	162,439	135,970	(36,193)	(26,469)	126.6%	119.5%
2001	156,053	166,860	149,155	(6,898)	(17,705)	104.6%	111.9%
2002	142,455	156,067	163,961	21,506	7,894	86.9%	95.2%
2003	144,330	158,596	180,922	36,592	22,326	79.8%	87.7%
2004	167,110	169,899	194,609	27,499	24,710	85.9%	87.3%
2005	189,103	183,680	210,301	21,198	26,621	89.9%	87.3%
2006	211,188	199,033	228,131	16,943	29,098	92.6%	87.2%
2007	251,162	216,484	248,224	(2,938)	31,740	101.2%	87.2%
2008	238,041	233,272	268,324	30,283	35,052	88.7%	86.9%
2009	178,860	244,964	294,042	115,182	49,078	60.8%	83.3%

Note 1 - Funding Ratio @ Market Values - Market Value of Assets divided by Actuarial Accrued Liability
Note 2 - Funding Ratio @ Actuarial Values - Actuarial Value of Assets divided by Actuarial Accrued Liability

CalPERS reports a year in arrears. The above shows the data from its June 30, 2010 financial reports, which are also used to calculate the rates for the 2010-11 fiscal year.

The CalPERS website reports that, for agencies within Santa Barbara County, employers' rates for the 2009-10 year for non-safety members ranged from a low of 5.123% of payroll to a high of 18.564%. For safety members, rates ranged from a low of 10.256% to a high of 30.833%. The school employer rate was 9.709%. Employee contribution rates were reported as varying between 5% and 9%. In some agencies, a portion or all of the employee's rates were actually paid by the employer.

Data for agencies having individual plans are shown in Exhibit 3.

CalSTRS, California State Teachers Retirement System:

The following shows CalSTRS pension fund performance since year 2000 as reported in CalSTRS' financial reports:

CalSTRS Pension Fund Performance
(all dollar amounts in millions)

Valuation Year (June 30 fiscal year)	Market Value of Assets (Note 1)	Actuarial Value of Assets (Note 2) (Dollars)	Actuarial Accrued Liability (Dollars)	Unfunded Liability - Assets @ Market Values	Unfunded Liability - Assets @ Actuarial Values (Dollars)	Funding Ratio @Market Values Note (n/a)	Funding Ratio @ Actuarial Values (Note 3)

2000	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2001	n/a	107,654	109,881	n/a	2,227	n/a	98.0%
2002	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2003	n/a	108,667	128,104	n/a	19,437	n/a	84.8%
2004	n/a	114,094	134,677	n/a	20,583	n/a	84.7%
2005	n/a	121,882	142,193	n/a	20,311	n/a	85.7%
2006	n/a	131,237	150,872	n/a	19,635	n/a	87.0%
2007	n/a	148,427	167,129	n/a	18,702	n/a	88.8%
2008	n/a	155,215	177,734	n/a	22,519	n/a	87.3%
2009	n/a	145,142	185,683	n/a	40,541	n/a	78.2%

Note 1 - Market Values not provided

Note 2 - "Except for year ended June 30, 2004 actuarial valuations were not prepared in even numbered years. No estimation using actuarial methodology is made in years between valuations." (Source - CalSTRS 2006 Financial Report)

Note 3 - Funding Ratio @ Actuarial Values - Actuarial Value of Assets divided by Actuarial Accrued Liability

CalSTRS contribution rates are 8.25% paid by the employer, 8% paid by the employee (increased from 6% effective January 1, 2011) and 2.017% paid by the state, provided however, the state may be required to contribute additional funds for shortfalls. It is not known if any of the required employee contributions are being made by the employer. Whereas the contribution rates for SBCERS and CalPERS are calculated based on actuarial determined rates, CalSTRS contribution rates are set by the State legislature.

As with SBCERS and CalPERS pools, the school districts within Santa Barbara County are pooled with other districts in California and do not know the amount of their respective individual unfunded liability.

OBSERVATIONS AND ANALYSIS

Funding

Defined benefit retirement plans are prefunded systems that receive regular contributions for an employee from three sources: the employee, the employer, and investment returns. These contributions are made for an employee throughout his or her career. This is different than a pay as you go system which uses contributions from current employees to pay benefits to current retirees. Investment returns are a significant source of the funding that pays for benefits. Nationally, between 1993 and 2006, 19.6% of state and local government pension fund receipts came from employers, 10.8% from employees, and 69.6% from investment earnings.[13]

As can be seen from the above tables, there are significant annual variations in the unfunded liabilities and funding ratios for each of the defined benefit retirement systems.

[13] *Pensionomics - Measuring the economic impact of State and Local Pension Plans*, Ilana Boivie and Beth Almeida, February, 2009, National Institute of Retirement Security, www.nirosonline.org

Investment performance dictates the employer contribution portion because returns increase or decrease the employer's annual share of actuarially required contributions. If high investment returns are realized, the employer's contribution decreases. Conversely, if investments perform poorly, the employer's contribution increases to make up for the loss of investment earnings.

Fitch Ratings[14]

Fitch Ratings (Fitch) is a major global rating agency providing the world's credit markets with independent and prospective credit opinions, research, and data. Fitch notes that 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. Fitch will now request from states that it rates, a documented estimate of the portion of the unfunded liability of each state-run, cost-sharing multiple-employer system that is attributable to the state itself and, if possible, to participating local government employers.

The Governmental Accounting Standards Board (GASB) is formulating significant changes to pension disclosure requirements that are expected to improve transparency and reliability. Fitch will revisit its analytical framework after these changes are made and enhanced disclosure becomes available.

Moody's Investor Service (Moody's)[15]

Moody's is a provider of credit ratings, credit and economic related research, data and analytical tools, risk management software and quantitative credit risk measures, credit portfolio management solutions, training and financial credentialing and certification services. Moody's has begun to recalculate the states' debt burdens in a way that includes unfunded pensions, something states and others have ardently resisted until now.

Moody's new approach may now turn the tide in favor of more disclosure. In the past, Moody's looked at a state's level of bonded debt alone when assessing its creditworthiness. Pensions were considered "soft debt" separate from the bonds, using a different method. Moody's had decided it is important to consider total unfunded pension obligations because they could contribute to current budget woes. Government agencies "...have a tax base. They have contractually obligated themselves to make these payments. These are part of the ongoing budget stress ... It ultimately all comes back to being an operating cost. Addressing those problems is really what's happening today."

Governmental Accounting Standards Board (GASB)[16]

---

[14] *Fitch Ratings: Enhancing the Analysis of U.S. State and Local Government Pension Obligations*, February 17, 2011, http://reports.fitchratings.com

[15] Mary Williams Walsh, New York Times, January 27, 2011, "*Moody's to Factor Pension Gaps in State's Ratings*," http://www.nytimes.com/2011/01/27/business

"In June 2010, the GASB issued a Preliminary Views entitled *Pension Accounting and Financial Reporting by Employers* that contains a preliminary set of views about how to improve the effectiveness of the existing pension standards for state and local governments."[17] If adopted, these views would revise actuarial assumptions currently employed by most local governments and which could affect current income. In addition, "The GASB believes that the unfunded portion of a cost-sharing pension plan's obligation is the primary responsibility of the participating governments as a group. Each participating government, therefore, should report a net liability based on its proportion of the unfunded obligation of all the participating governments." The deadline for public comment was September 17, 2010. The GASB will release a draft, for comment, of its proposed pension accounting changes as soon as June 2011.

Actuarial Valuations

The following is a CalPERS quotation that the Jury believes has wide applicability.[18]

> *What will the pension plan cost? Unfortunately, there is no simple answer. There are two major reasons for the complexity of the answer:*
>
> *First, all actuarial calculations, including those in this report, are based on a number of assumptions about the future. These assumptions can be divided into two categories.*
>
> - *Demographic assumptions include the percentage of employees that will terminate, die, become disabled, and retire each future year.*
> - *Economic assumptions include future salary increases for each active employee, and the assumption with the greatest impact, future asset returns at CalPERS for each year into the future until the last dollar is paid to current members of your plan.*
> - *While CalPERS has set these assumptions as our best estimate of the real future of your plan, it must be understood that these assumptions are very long-term predictors and will surely not be realized in any one year. For example, while the asset earnings at CalPERS have averaged more than the assumed 7.75% for the past twenty year period ending June 30, 2010, returns for each fiscal year ranged from -24% to +20.1%.*
>
> *Second, the vary nature of actuarial funding produces the answer to the question of plan or pool cost as the sum of two separate pieces:*

[16] Institutional Investor http://www.institutionalinvestor.com/Article/2812574/GASB-Readying-Public-Pension-Accounting-Changes.html
[17] GASB release, June 2010
[18] CalPERS, 2% at 55 Risk Pool, June 30, 2009, Cost and Volatility, http://www.calpers.ca.gov

- *The Normal Cost (i.e., the future annual premiums in the absence of surplus or unfunded liability) expressed as a percentage of total active payroll, and*
- *The Past Service Cost or Accrued Liability (i.e., representing the current value of the benefit all credited past service of current members) which is expressed as a lump sum dollar amount.*

- *The cost is the sum of a percent of future pay and a lump sum dollar amount (the sum of an apple and an orange if you will). To communicate the total cost, either the Normal Cost (i.e., future percent of payroll) must be converted to a lump sum dollar amount (in which case the total cost is the present value of benefits), or the Past Service Cost (i.e., the lump sum) must be converted to a percent of payroll (in which case the total cost is expressed as the employer's rate, part of which is permanent and part temporary). Converting the Past Service Cost lump sum to a percent of payroll requires a specific amortization period, and the plan or pool rate will vary depending on the amortization period chosen. And as the first point above states; these results depend on all assumptions being exactly realized.*

The calculation of unfunded liability for each plan is based on a negotiated pension formula, amortization of side funds and unfunded liability, smoothing periods, and various other actuarial assumptions. Actuarial assumptions also include projected rates of return on investments, employment longevity, salary increases and cost of living increases, which are different for each of the retirement systems. Consequently, it is not possible to make direct comparisons of the retirement systems or their results. Tables 1, 2 and 3 summarize the retirement plans and major actuarial assumptions for SBCERS, CalPERS, and CalSTRS, respectively. Table 4 is a Glossary of Actuarial Terms that can be used in evaluating all the plans.

In addition, although this report has been prepared from information provided by the agencies for the fiscal year ending June 30, 2010, there are differences in the actual dating of the information, as follows:

- SBCERS - Assets are appraised as of the valuation date of June 30, 2010 and Contribution Rates for the following fiscal year determined by the Actuarial Valuation
- CalPERS – The pension information provided by the agencies in their annual reports of June 30, 2010, actually represents the results of CalPERS actuarial valuation of June 30, 2009. Contribution Rates for the July 1, 2011 through June 30, 2012 fiscal year are based on the June 30, 2009 valuation date
- CalSTRS – As with CalPERS, the pension information provided by the agencies in their annual reports of June 30, 2010, actually represent the results of CalSTRS actuarial valuation of June 30, 2009. Contribution Rates are fixed by and subject to revision by the state legislature

Other Post Employment Obligations (OPEB)

In addition to pensions, many agencies provide some form of post employment health care coverage. As reflected below, these aggregate amounts for all three systems are sizeable and will have to be included in future budgets and funded from future revenues.

Healthcare Benefits

While not having received the same level of attention, the OPEB healthcare obligations, which include medical, dental, vision and other health related benefits, if applicable, can be sizable and are required to be reported in financial statements. As shown in Exhibit 4A, as of June 30, 2010, the date of the agencies' last fiscal year, the Actuarial Accrued Liabilities as reported by the agencies totaled $325,193,581, of which $9,136,137 had been funded, leaving a total actuarial unfunded liability balance for all agencies of $316,057,444.

Other Than Healthcare Benefits

As shown in Exhibit 4B, three agencies reported other post employment obligations totaling $5,562,620, which includes: $3,805,000 accrued sick leave benefits by the City of Santa Barbara, $150,000 for voluntary resignation incentive plan by College School District, and $1,607,620 for early retirement and medical benefits for a former supervisor by Lompoc Unified School District.

Compensated Absences

In addition, 48 agencies reported Compensated Absences Liability for vacation, sick days and other unfunded obligations that would be payable upon an employee's separation from the entity. As shown in Exhibit 4C, the total obligation for all agencies was $60,756,644.

CONCLUSIONS

The implications of the data reflected in this report are staggering. The recent market recovery will reduce the size of the unfunded liabilities, assuming that markets remain stable and there are no major changes in the actuarial assumptions. Anticipated GASB rule changes can be expected to increase unfunded liabilities. Based on actuarial value of assets, as of June 30, 2010, the Santa Barbara County Employees' Retirement System (SBCERS) had an unfunded pension liability of approximately $689,000,000.[19] Based on actuarial value of Assets statewide, the California Public Employees Retirement System (CalPERS) pools and California State Teachers' Retirement System (CalSTRS) plans had unfunded liabilities overall in excess of $42,400,000,000. Local government agencies who participate in pools are unable to break out their specific individual unfunded

[19] SBCERS unfunded liability includes Santa Barbara County Superior Court employees, but who are state employees.

accrued liability. As a result, the agencies do not know the extent of their specific future obligations, which makes it difficult to do strategic financial planning for pension expense beyond the next year or so.

Agencies in Santa Barbara County offering retiree health benefits have an additional unfunded liability of $316,000,000 for these plans as well. They are principally on a pay as you go basis, wherein new hires and current employees or the employer pays for retiree benefits as a part of operational costs. In order to manage future costs, thought should be given to either containing the benefit or funding it. These liabilities can be expected to grow as the number of employees retiring expands and health costs continue to increase.

Current pension and other post employment benefit plans were negotiated by the individual agencies and their respective employee bargaining units, and approved by their governing bodies. Change would be subject to collective bargaining and approval by the applicable governing body.

Those agencies participating in a SBCERS, CalPERS or CalSTRS plan have little control over their plans other than to switch an existing plan to a different plan within the system, such as switching from a CalPERS Safety 2% @ 50 Risk Pool to a Safety 2% @ 55 Risk Pool. Any such change would be subject to collective bargaining and approval by the applicable governing body.

Other Post Employment Benefit unfunded accrued liabilities, particularly healthcare obligations, are sizable. Many agencies fund their post employment healthcare benefits on a pay as you go basis.

This report is a wake-up call for agencies to seek the information and take action that will allow them to better plan for their financial future.

FINDINGS AND RECOMMENDATIONS

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.

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.

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.

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.

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

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.

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.

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

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.

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.

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.

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

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.

REQUEST FOR RESPONSE

In accordance with *California Penal Code Section 933.05*, each agency and government body affected by or named in this report is requested to respond in writing to the findings and recommendation in a timely manner. The following are the affected agencies for this report, with the mandated response period for each.

Each Agency Listed Below - 90 days
Finding 1a, 1b, 1c, 1d, 1e, 2a, 2b, 2c, 3
Recommendation 1, 2a, 2b, 3

Santa Barbara County
Santa Barbara County Education Office
Ballard School District
Carpinteria Unified School District
Guadalupe Union School District
Lompoc Unified School District
Orcutt Union School District
Santa Barbara School District
Santa Maria-Bonita School District
Santa Maria Joint Union High School District
Allan Hancock College

Each Agency Listed Below - 90 days
Finding 1a, 1b, 1c, 1d, 1e, 2a, 2b, 2c
Recommendation 1, 2a, 2b

Buellton Union School District
Cold Spring School District
College School District
Hope School District
Montecito Union School District
Santa Barbara City College

Each Agency Listed Below - 90 days
Finding 1a, 1b, 1c, 1d, 1e, 3
Recommendation 1, 3

Cuyama Joint Unified School District
Goleta Union School District
Los Alamos School District
Los Olivos School District
Santa Ynez Valley Union High School District

Each Agency Listed Below - 90 days
Finding 1a, 1b, 1c, 1d, 1e
Recommendation 1

Blochman Union School District
Solvang School District
Vista del Mar Union School District

Each Agency Listed Below - 90 days
Finding 1a, 1b, 1c, 1d, 1e, 2a, 2b, 2c, 3
Recommendation 1, 2a, 2b, 3

City of Buellton
City of Carpinteria
City of Lompoc
City of Solvang
Cachuma Operations & Maintenance Board
Carpinteria / Summerland Fire Protection District
Carpinteria Public Cemetery District
Carpinteria Sanitary District
Carpinteria Valley Water District
Goleta Cemetery District
Goleta Water District
Goleta West Sanitary District
Montecito Fire Protection District
Montecito Sanitary District
Montecito Water District
Mosquito and Vector Management District of SBC
Santa Barbara Metropolitan Transit District
Santa Maria Cemetery District
Santa Ynez River Water Conservation District ID No. 1
Summerland Sanitary District

ach Agency Listed Below - 90 days
Finding 1a, 1b, 1c, 1d, 1e, 2a, 2b, 2c
Recommendation 1, 2a, 2b

Santa Barbara County Association of Governments
Goleta Sanitary District

Each Agency Listed Below - 90 days
Finding 1a, 1b, 1c, 1d, 1e, 3
Recommendation 1, 3

City of Goleta
City of Guadalupe
Isla Vista Recreation and Park District
Oak Hill Cemetery District
Santa Maria Public Airport District
Vandenberg Village Community Services District

Each Agency Listed Below - 90 days
Finding 1a, 1b, 1c, 1d, 1e
Recommendation 1

Cuyama Valley Recreation and Park District
Los Alamos Community Services District

Each Agency Listed Below - 90 days
Finding 2a, 2b, 2c, 3
Recommendation 2a, 2b, 3

Santa Barbara Air Pollution Control District
City of Santa Barbara
City of Santa Maria

Each Agency Listed Below - 90 days
Finding 3
Recommendation 3

Cachuma Resource Conservation District
Cuyama Community Services District
Lompoc Cemetery District
Lompoc Valley Medical Center
Mission Hills Community Services District
Santa Ynez Community Services District

EXHIBIT 1 - AGENCY PLAN PARTICIPATION

Agency Name Listing is by Retirement System and then by; County Agencies, Cities, Schools Districts, Colleges, and Special Districts	N/A	CalSTRS	PLAN DESCRIPTIONS											
			Individual Plan(s)	MISCELLANEOUS POOLS						SAFETY POOLS				Teamsters	Defined Contribution
				2% @ 60	2% @ 55	2% @ 57	2.5% @ 55	2.7% @ 55	3% @ 60	2% @ 55	2% @ 50	3% @ 55	3% @ 50		
A. SBCERS															
Santa Barbara County					X	X						X	X		
Santa Barbara County Association of Governments			2% @ 55			X									
Santa Barbara County Air Pollution Control District															
Carpinteria / Summerland Fire Protection District						X									
Carpinteria Public Cemetery District						X									
Goleta Cemetery District						X									
Mosquito and Vector Management District of SBC						X									
Oak Hill Cemetery District						X									
Santa Maria Cemetery District						X									
Summerland Sanitary District						X									
B. CalPERS															
City of Buellton					X										
City of Carpinteria					X										
City of Goleta					X										
City of Guadalupe					X					X					
City of Lompoc:															
Miscellaneous			2% @ 55												
Safety													X		
City of Santa Barbara:															
Miscellaneous			2.7% @ 55												
Safety - Fire Plan			3% @50												
Safety - Police			3% @50												
Safety & Service Retirement Plans			n/a												
City of Santa Maria:															
Miscellaneous			2.7% @ 55									X	X		
Safety - Fire Plan (through 6-30-11)															
Safety - Police (through 6-30-11)			3% @50										X		
City of Solvang							X								
Cachuma Operations & Maintenance Board					X										
Carpinteria Sanitary District					X										
Carpinteria Valley Water District					X										
Cuyama Valley Recreation and Park District				X											

EXHIBIT 1 - AGENCY PLAN PARTICIPATION

Agency Name Listing is by Retirement System and then by; County Agencies, Cities, Schools Districts, Colleges, and Special Districts	N/A	CalSTRS	PLAN DESCRIPTIONS Individual Plan(s)	MISCELLANEOUS POOLS 2% @ 60	2% @ 55	2% @ 57	2.5% @ 55	2.7% @ 55	3% @ 60	SAFETY POOLS 2% @ 55	2% @ 50	3% @ 55	3% @ 50	Teamsters	Defined Contribution
Goleta Sanitary District					X										
Goleta Water District								X							
Goleta West Sanitary District					X										
Isla Vista Recreation and Park District					X										
Lompoc Valley Medical Center				X											X
Los Alamos Community Services District									X			X			
Montecito Fire Protection District					X										
Montecito Sanitary District					X										
Montecito Water District					X										
Santa Maria Public Airport District					X										
Santa Ynez River Water Conservation District ID No. 1					X										
Vandenberg Village Community Services District								X							
C. CalSTRS and CalPERS															
Santa Barbara County Education Office		X			X										
All School Districtss within the County		X			X										
Allan Hancock College		X			X										
Santa Barbara City College		X			X										
D. Teamsters Retirement System															
Santa Barbara Metropolitan Transit District (Note)														X	
E. Agencies with Defined Contribution Plans (or similar)															
Lompoc Valley Medical Center															X
Santa Barbara Metropolitan Transit District (Note)															X
Santa Ynez Community Services District															X
Santa Ynez River Water Conservation District															X

EXHIBIT 1 - AGENCY PLAN PARTICIPATION

Agency Name	N/A	CalSTRS	PLAN DESCRIPTIONS											
			Individual	MISCELLANEOUS POOLS						SAFETY POOLS				Teamsters	Defined Contribution
Listing is by Retirement System and then by; County Agencies, Cities, Schools Districts, Colleges, and Special Districts			Plan(s)	2% @ 60	2% @ 55	2% @ 57	2.5% @ 55	2.7% @ 55	3% @ 60	2% @ 55	2% @ 50	3% @ 55	3% @ 50		
Agencies with no plan															
Santa Barbara County LAFCO	X														
Cachuma Conservation Release Board	X														
Cachuma Resource Conservation District	X														
Casmalla Community Services District	X														
Cuyama Community Services District	X														
Embarcadero Municipal Improvement District	X														
Guadalupe Cemetery District	X														
Lompoc Cemetery District	X														
Los Alamos Cemetery District	X														
Mission Hills Community Services District	X														
Santa Maria Valley Water Conservation District	X														
Santa Rita Hills Community Services District	X														

Note - Santa Barbara Metropolitan Transit District's (MTD) non-represented employees are members of a defined contribution plan and its represented employees are members of the Teamsters Union defined benefit pension plan. While the Teamsters' plan is a pooling, MTD has made a best efforts estimate of its share of the pooled assets and liabilities of the fund and its data has been included on Exhibit 3, Individaual Plans, along with those agencies having individual plans.

EXHIBIT 2 - CalPERS RISK POOLS

Actuarial Valuation Results for Risk Pools as of June 30, 2009

*The valuation results below are based on the June 30, 2009 actuarial valuations completed in November 2010.
They do not reflect any benefit improvements that might have occurred after November 2010.

		Miscellaneous Risk Pools					Safety Risk Pools			
	Benefit Formula	**2.0% at 60**	**2.0% at 55**	**2.5% at 55**	**2.7% at 55**	**3.0% at 60**	**2.0% at 55**	**2.0% at 50**	**3.0% at 55**	**3.0% at 50**
	Number of Plans	243	430	163	178	89	44	61	116	266
	Number of Active Members	3,506	12,375	5,492	6,856	2,450	387	935	2,563	10,786
	Retirees and Beneficiaries Receiving Payments	1,516	8,257	4,286	4,396	1,819	216	945	2,320	13,130
	Risk Pool's Required Base Employer Rate									
	Pool's Gross Employer Normal Cost	6.917%	8.340%	9.489%	10.656%	11.456%	13.454%	14.734%	17.426%	19.003%
	Less: Surcharges for Class 1 Benefits	0.295%	0.656%	0.774%	0.769%	1.199%	0.324%	0.720%	1.701%	1.839%
	Pool's Net Employer Normal Cost	6.622%	7.684%	8.715%	9.887%	10.257%	13.130%	14.014%	15.725%	17.164%
	Payment on Pool's Amortization Base	1.111%	1.855%	4.034%	4.226%	3.896%	2.071%	5.155%	4.583%	5.927%
	Pool's Base Employer Rate	7.733%	9.539%	12.749%	14.113%	14.153%	15.201%	19.169%	20.308%	23.091%
	Funded Status of the Risk Pool									
1.	Entry Age Normal Accrued Liability	$582,841,869	$3,104,798,222	$1,834,424,640	$2,140,438,884	$883,394,429	$73,625,106	$440,333,381	$1,802,882,330	$9,721,675,347
2.	Actuarial Value of Assets	$553,953,526	$2,758,511,101	$1,493,430,831	$1,674,260,302	$694,384,975	$63,095,026	$368,645,673	$1,520,081,328	$8,027,158,724
3.	Unfunded Liability [(1) - (2)]	$28,888,343	$346,287,121	$340,993,809	$466,178,582	$189,009,454	$10,530,080	$71,687,708	$282,801,002	$1,694,516,623
4.	Funded Ratio [(2) / (1)]	95.0%	88.9%	81.4%	78.2%	78.6%	85.7%	83.7%	84.3%	82.6%
5.	Side Funds	$580,003	($134,900,555)	($133,165,243)	($189,069,871)	$93,693,110	($4,979,438)	($28,531,145)	($137,709,170)	($830,821,231)
6.	Actuarial Value of Assets excluding Side Funds [(2) - (5)]	$553,373,523	$2,893,411,656	$1,626,596,074	$1,863,330,173	$788,078,085	$68,074,459	$397,176,818	$1,657,790,498	$8,857,979,955
7.	Unfunded Liability excluding Side Funds [(1) - (6)]	$29,468,346	$211,386,566	$207,828,566	$277,108,711	$95,316,344	$5,550,647	$43,156,563	$145,091,832	$863,695,392
8.	Funded Ratio excluding Side Funds [(6) / (1)]	94.9%	93.2%	88.7%	87.1%	89.2%	92.5%	90.2%	92.0%	91.1%
9.	Market Value of Assets (MVA)	$403,326,924	$2,014,366,226	$1,088,733,372	$1,224,530,092	$507,263,008	$46,048,400	$270,100,582	$1,108,159,710	$5,850,794,301
10.	Funded Ratio (MVA [(9) / (1)]	69.2%	64.9%	59.4%	57.2%	57.4%	62.5%	61.3%	61.5%	60.2%

EXHIBIT 3 - INDIVIDUAL PLANS

Agency Name	Plan	June 30, 2010 Reported Amounts						
		Market Value of Assets	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability - Assets @ Market Values	Unfunded Liability - Assets @ Actuarial Values	Funding Ratio @ Market Values (column 1 / 3)	Funding Ratio @ Actuarial Values (column 2 / 3)
Santa Barbara County Air Pollution District (Note 1)	SBCERS	$ 21,760,392	$ 26,056,912	$ 34,631,911	$ 12,871,519	$ 8,574,999	62.8%	75.2%
City of Lompoc	CalPERS	75,749,476	104,111,766	122,797,890	47,048,414	18,686,124	61.7%	84.8%
City of Santa Barbara	CalPERS	382,726,884	523,802,029	669,686,684	286,959,800	145,884,655	57.2%	78.2%
City of Santa Maria	CalPERS	134,450,128	184,088,669	219,379,228	84,929,100	35,290,559	61.3%	83.9%
Santa Barbara Metropolitan Transit District (Note 2)	Teamsters	16,543,688	18,920,500	23,609,779	7,066,091	4,689,279	70.1%	80.1%
		$ 631,230,568	$ 856,979,876	$ 1,070,105,492	$ 438,874,924	$ 213,125,616	59.0%	80.1%

Note 1 - Although Santa Barbara County Air Pollution Control District is a part of SBCERS, it is reported separately.

Note 2 - Santa Barbara Metropolitan Transit District's plan for represented employees is with the Teamsters Union Fund which is a pool; however, MTD has made a best efforts estimate of its share of the pooled assets and liabilities.

EXHIBIT 4 - OBLIGATIONS OTHER THAN PENSIONS

Agency Name For convenience, Agencies have been listed by; County Agencies, Cities, Schools Districts, Colleges, and Special Districts	June 30, 2010 Reported Amounts				
	Actuarial Accrued Liability	Actuarial Value of Assets	Market Value of Assets	Unfunded Actuarial Accrued Liability	Unfunded Liability at Market Value
A. OPEB OBLIGATIONS - HEALTH CARE BENEFITS (see Notes 1 and 2)					
Santa Barbara County	$ 173,943,536	$ 1,874,929	$ 1,874,929	$ 172,068,607	$ 172,068,607
Santa Barbara County Association of Governments	458,841	-	-	458,841	458,841
Santa Barbara Air Pollution Control District	1,822,303	275,096	275,096	1,547,207	1,547,207
Santa Barbara County Education Office	1,549,925	-	-	1,549,925	1,549,925
City of Buellton	1,210,956	-	-	1,210,956	1,210,956
City of Carpinteria	3,336,816	-	-	3,336,816	3,336,816
City of Lompoc	10,055,000	2,063,000	2,105,503	7,992,000	7,949,497
City of Santa Barbara	30,697,000	-	-	30,697,000	30,697,000
City of Santa Maria	6,798,520	-	-	6,798,520	6,798,520
City of Solvang	1,918,713	-	-	1,918,713	1,918,713
Ballard School District (K-6)	202,852	-	-	202,852	202,852
Buellton Union School District (K-8)	19,500	19,500	19,500	-	-
Carpinteria Unified School Dist. (K-12)	2,338,173	-	-	2,338,173	2,338,173
Cold Spring School District (K-6)	281,234	-	-	281,234	281,234
College School District (K-8)	397,665	-	-	397,665	397,665
Guadalupe Union School District (K-6)	319,280	-	-	319,280	319,280
Hope School District (K-6)	198,836	-	-	198,836	198,836
Lompoc Unified School District (K-12)	307,012	362,778	362,778	(55,766)	(55,766)
Montecito Union School Dist. (K-6)	264,893	-	-	264,893	264,893
Orcutt Union School District (K-9)	5,050,407	-	-	5,050,407	5,050,407
Santa Barbara School District	10,766	-	-	10,766	10,766
Santa Maria-Bonita School Dist. (K-8)	9,756,298	-	-	9,756,298	9,756,298
Santa Maria Joint. Union High School District (9-12)	12,464,084	-	-	12,464,084	12,464,084
Allan Hancock College	7,220,666	3,057,587	3,057,587	4,163,079	4,163,079
Santa Barbara City College	681,720	-	-	681,720	681,720
Cachuma Operations & Maintenance Board	1,164,773			1,164,773	1,164,773
Carpinteria / Summerland Fire Protection District	2,558,975	-	-	2,558,975	2,558,975
Carpinteria Public Cemetery District	64,270	-	-	64,270	64,270
Carpinteria Sanitary District	40,136	-	-	40,136	40,136
Carpinteria Valley Water District	440,624	-	-	440,624	440,624
Goleta Cemetery District	137,676	77	77	137,599	137,599
Goleta Sanitary District	2,773,266	272,130	275,388	2,501,136	2,497,878
Goleta Water District	16,079,140	-	-	16,079,140	16,079,140
Goleta West Sanitary District	750,326	1,208,994	1,361,032	(458,668)	(610,706)
Montecito Fire Protection District	14,752,000	-	-	14,752,000	14,752,000
Montecito Sanitary District	281,750	-	-	281,750	281,750
Montecito Water District	144,729	-	-	144,729	144,729
Mosquito and Vector Management District of SBC	41,844	-	-	41,844	41,844
Santa Barbara Metropolitan Transit District	12,186,000	-	-	12,186,000	12,186,000
Santa Maria Cemetery District	331,582	2,046	2,046	329,536	329,536
Santa Ynez River Water Conservation District ID No. 1	2,058,383	-	-	2,058,383	2,058,383
Summerland Sanitary District	83,111	-	-	83,111	83,111
Totals all Agencies	$ 325,193,581	$ 9,136,137	$ 9,333,936	$ 316,057,444	$ 315,859,645

Note 1 - The above OPEB data for SBCERS participants has been updated by the Milliman Actuarial Valuation dated as of June 30, 2010 delivered March 16, 2011. Insofar as this data might not have been available for the preparation of the respective agencies June 30, 2010 annual repots, there may be difference between the above data and the annual reports.

Note 2 - The above OPEB data for CalPERS and CalSTRS participants may be reported a year in arrears.

B. OTHER OPEB OBLIGATIONS					
City of Santa Barbara	$ 3,805,000	$ -	$ -	$ 3,805,000	$ 3,805,000
College School District (K-8)	150,000	-	-	150,000	150,000
Lompoc Unified School District (K-12)	1,607,620	-	-	1,607,620	1,607,620
Totals all Agencies	$ 5,562,620	$ -	$ -	$ 5,562,620	$ 5,562,620

EXHIBIT 4 - OBLIGATIONS OTHER THAN PENSIONS

Agency Name For convenience, Agencies have been listed by; County Agencies, Cities, Schools Districts, Colleges, and Special Districts	June 30, 2010 Reported Amounts				
	Actuarial Accrued Liability	Actuarial Value of Assets	Market Value of Assets	Unfunded Actuarial Accrued Liability	Unfunded Liability at Market Value
C. COMPENSATED ABSENCES LIABILITIES					
Santa Barbara County	$ 29,887,683	$ -	$ -	$ 29,887,683	$ 29,887,683
Santa Barbara County Air Pollution Control District	370,006	-	-	370,006	370,006
Santa Barbara County Education Office	52,962	-	-	52,962	52,962
City of Buellton	68,069	-	-	68,069	68,069
City of Carpinteria	51,830	-	-	51,830	51,830
City of Goleta	318,671	-	-	318,671	318,671
City of Guadalupe	191,998	-	-	191,998	191,998
City of Lompoc	3,309,623	-	-	3,309,623	3,309,623
City of Santa Barbara	8,293,978	-	-	8,293,978	8,293,978
City of Santa Maria	5,884,867	-	-	5,884,867	5,884,867
City of Solvang	115,659	-	-	115,659	115,659
Ballard School District (K-6)	10,357	-	-	10,357	10,357
Carpinteria Unified School Dist. (K-12)	324,467	-	-	324,467	324,467
Cuyama Joint Unified School Dist. (K-12)	14,377	-	-	14,377	14,377
Goleta Union School District (K-6)	76,490	-	-	76,490	76,490
Guadalupe Union School District (K-6)	28,953	-	-	28,953	28,953
Lompoc Unified School District (K-12)	673,105	-	-	673,105	673,105
Los Alamos School District (K-8)	4,220	-	-	4,220	4,220
Los Olivos School District (K-8)	9,679	-	-	9,679	9,679
Orcutt Union School District (K-9)	205,607	-	-	205,607	205,607
Santa Barbara Secondary School District	1,285,594	-	-	1,285,594	1,285,594
Santa Maria Joint. Union High School District (9-12)	371,845	-	-	371,845	371,845
Santa Maria-Bonita School Dist. (K-8)	40,030	-	-	40,030	40,030
Santa Ynez Valley Union High School District (9-12)	51,446	-	-	51,446	51,446
Allan Hancock College	815,042	-	-	815,042	815,042
Cachuma Operations & Maintenance Board	104,583	-	-	104,583	104,583
Cachuma Resource Conservation District	19,672	-	-	19,672	19,672
Carpinteria / Summerland Fire Protection District	659,163	-	-	659,163	659,163
Carpinteria Public Cemetery District	2,000	-	-	2,000	2,000
Carpinteria Sanitary District	121,365	-	-	121,365	121,365
Carpinteria Valley Water District	220,769	-	-	220,769	220,769
Cuyama Community Services District	25,668	-	-	25,668	25,668
Goleta Cemetery District	27,737	-	-	27,737	27,737
Goleta Water District	797,136	-	-	797,136	797,136
Goleta West Sanitary District	243,351	-	-	243,351	243,351
Isla Vista Recreation and Park District	42,061	-	-	42,061	42,061
Lompoc Cemetery District	54,039	-	-	54,039	54,039
Lompoc Valley Medical Center	1,771,933	-	-	1,771,933	1,771,933
Mission Hills Community Services District	78,804	-	-	78,804	78,804
Montecito Fire Protection District	958,744	-	-	958,744	958,744
Montecito Sanitary District	186,444	-	-	186,444	186,444
Montecito Water District	347,730	-	-	347,730	347,730
Mosquito and Vector Management District of SBC	63,020	-	-	63,020	63,020
Oak Hill Cemetery District	8,958	-	-	8,958	8,958
Santa Barbara Metropolitan Transit District	837,096	-	-	837,096	837,096
Santa Maria Cemetery District	50,179	-	-	50,179	50,179
Santa Maria Public Airport District	115,136	-	-	115,136	115,136
Santa Ynez Community Services District	43,360	-	-	43,360	43,360
Santa Ynez River Water Conservation District ID No. 1	101,047	-	-	101,047	101,047
Summerland Sanitary District	46,723	-	-	46,723	46,723
Vandenberg Village Community Services District	87,774	-	-	87,774	87,774
Totals all Agencies	$ 59,471,050	$ -	$ -	$ 59,471,050	$ 59,471,050

TABLE 1 - SBCERS

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM "SBCERS"

Date of Report(s)	June 30, 2010
Defined Benefit Programs (only)	
Membership:	
Active	4,228
Retired & Beneficiaries	3,318
Vested Terminated Employees	902
Terminated Members (with Contributions)	279
Total Membership	8,727

Plans:	Rate Tier	Formula	Type
General	Plan 5	2% @ 57	Contributory
Safety	Plan 4	3% @ 55	Contributory
Safety	Plan 6	3% @ 50	Contributory
APCD	Plan 1 & 2	2% @ 55	Contributory
General	Plan 2	2% (SSA Integrated)	Non- Contributory

Annualized Payroll as of the Valuation Date:		
Annual Total	$	306,963,000
Monthly Average	$	6,050,000
Average Monthly Benefit to Current and Beneficiaries	$	2,637
Expected Investment Return		7.75%
Inflation Factor		3.25%
Wage growth		3.75%
Asset Smoothing (subject to limits)		5 Years
UAAL amortization period		17 Years
Retirees cost of living increases (subject to CPI limitations)		3.00%, Compounded (except for Plan 2)
Actuarial Accrued Liability		$2,616,147,000
Valuation date of Assets		June 30, 2010
Assets:		
Market Value of Fund	$	1,609,449,000
Actuarial Value of Assets	$	1,927,229,000
Funded Ratios:		
Market Value of Assets		61.50%
Actuarial Value of Assets		73.70%
Unfunded Accrued Liabilities:		
Unfunded Actuarial Accrued Liability	$	688,918,000
Unfunded Market Value Actuarial Liability	$	1,006,698,000
Required Employer contribution rate for all tiers combined as a percent of total payroll		
Gross Normal Cost		21.12%
Member Contributions		-4.54%
Employer Normal Cost		16.58%
UAAL Amortization		17.90%
Total Employer Rate		34.48%

Note - By agreement with the bargaining units, some agencies have agreed to pay all or a portion of the required Member Contribution

TABLE 2 - CalPERS

CALIFORNIA PUPLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS) VARIOUS PLANS

Date of Report(s)	June 30, 2010
Defined Benefit Programs (only)	
Membership (excluding Legislators and Judges)	
Active and Inactive	1,116,044
Retired & Beneficiaries	513,623
Total Membership	1,629,667

Plans:	Rate Tier	Formula	Type
Local	Misc.	2% @ 60	Contributory
Local	Misc.	2% @ 55	Contributory
Local	Misc.	2.5% @ 55	Contributory
Local	Misc.	2.7% @ 55	Contributory
Local	Misc.	3% @ 60	Contributory
Local	Safety	2% @ 50	Contributory
Local	Safety	2% @ 55	Contributory
Local	Safety	2.5% @ 55	Contributory
Local	Safety	3% @ 50	Contributory
Local	Safety	3% @ 55	Contributory

Annualized Payroll as of the Valuation Date:	
Annual Total	Not provided
Monthly Average	Not provided
Average Monthly Benefit to Current and Beneficiaries	Not provided
Expected Investment Return	7.75%
Inflation Factor	3.00%
Wage growth	3.25%
Asset Smoothing (subject to limits)	15 Years
UAAL amortization period	16 Years for Safety 31 Years for Misc.
Retirees cost of living increases (subject to CPI limitations)	2.00%, Compounded (Optional 3%, 4% or 5%)
Actuarial Accrued Liability	By Plan or Pool
Valuation date of Assets	June 30, 2009
Assets:	
Market Value of Fund	By Plan or Pool
Actuarial Value of Assets	By Plan or Pool
Funded Ratios:	
Market Value of Assets	By Plan or Pool
Actuarial Value of Assets	By Plan or Pool
Unfunded Accrued Liabilities:	
Unfunded Actuarial Accrued Liability	By Plan or Pool
Unfunded Market Value Actuarial Liability	By Plan or Pool
Required Employer contribution rate for all tiers combined as a percent of total payroll	
Gross Normal Cost	By Plan or Pool
Member Contributions	By Plan or Pool
Employer Normal Cost	By Plan or Pool
UAAL Amortization	By Plan or Pool
Total Employer Rate	By Plan or Pool

TABLE 3 CalSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CalSTRS) DEFINED BENEFIT PROGRAM

Date of Report(s)			June 30, 2010
Defined Benfit Program (only):			
Membership:			
Active			441,544
Inactive			166,976
Retired & Beneficiaries			235,215
Disability Benefit Recipients			8,581
Total Membership			852,316
Plans:	Rate Tier	Formula	Type
General		2% @ 60 (up to 2.4% at 63)	Contributory
Annualized Payroll as of the Valuation Date:			
Annual Total			$ 27,327,000,000
Monthly Average			$ 2,277,250,000
Average Monthly Benefit to Current and Beneficiaries			Not Provided
Expected Investment Return			8.00%
Inflation Factor			3.25%
Wage growth			4.25%
Interest on Accounts			6.00%
Asset Smoothing (subject to limits)			3 Years
UAAL amortization period			30 Years
Retirees cost of living increases (subject to CPI limitations)			2.00%, Simple (80% - 85% purchasing power protection)
Actuarial Accrued Liability			$ 185,683,000,000
Valuation date of Assets			June 30, 2009
Assets:			
Market Value of Fund			(not provided)
Actuarial Value of Assets			$ 145,142,000,000
Funded Ratios:			
Market Value of Assets			(not provided)
Actuarial Value of Assets			78.00%
Unfunded Accrued Liabilities:			
Unfunded Actuarial Accrued Liability			$ 40,541,000,000
Unfunded Market Value Actuarial Liability			(not provided)
CALSTRS Contributions:			
Members:		Though 12-31-10	6.00%
		Therafter	8.00%
Employers			8.25%
State			2.017% (subject to adjustment)

TABLE 4

GLOSSARY OF ACTUARIAL TERMS

Accrued Liability (also called Actuarial Accrued Liability or Entry Age Normal Accrued Liability)
The total dollars needed as of the valuation date to fund all benefits earned in the past for current members

Actuarial Assumptions
Assumptions made about certain events that will effect pension costs. Assumptions generally can be broken down into two categories: demographic and economic. Demographic assumptions include such things as mortality, disability and retirement rates. Economic assumptions include investment return, salary growth and inflation.

Actuarial Methods
Procedures employed by actuaries to achieve certain goals of a pension plan. These may include things such as funding method, setting the length of time to fund the past service liability and determining the actual value of assets.

Actuarial valuation
The determination, as of a valuation date, of the normal cost, actuarial accrued liability, actuarial value of assets and related present values for a pension plan. These valuations are performed annually or when an employer is contemplating a change in plan provisions

Actuarial Value of Assets
The actuarial value of assets used for funding purposes is obtained through an asset smoothing technique where investment gains and losses are partially recognized in the year they are incurred, with the remainder recognize I subsequent years

Amortization Basis
Separate payment schedules for different portions of the unfunded liability. The total unfunded liability of a risk pool or non-pooled plan can be segregate by "cause", creating "bases" and each such base will be separately amortized and paid for over a period of time. This can be likened to a home mortgage that has 24 years of remaining payments and a second mortgage that has 10 years left. Each base or each mortgage note has its own terms (payment period, principal, etc.)

Generally in an actuarial valuation, the separate bases consist of changes in unfunded liability due to amendments, actuarial assumption changes, actuarial methodology changes, and gins and losses. Payment periods are determined by Board policy and vary based on the cause of the change

Amortization Period
The number of years required to pay off an amortization base.

Annual Required Contribution (ARC)
The employer's period require annual contributions to a defined benefit pension plan as set forth in GASB Statement No. 7, calculated in accordance with the plan assumptions. The ARC is determined by multiplying the employer contribution rate by the payroll reported to CalPERS for the applicable fiscal year. However, if this contribution is fully prepaid in a lump sum, then the dollar value of the ARC is equal the Lump Sum Prepayment.

Entry Age
The earliest age at which a plan member begins to accrue benefits under a defined benefit pension plan or risk pool. In most cases, this is age of the member on their date of hire.

Entry Age Normal Cost method
An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to yield a rate expressed as a level percentage of payroll.

(The assumed retirement age less the entry age is the amount of time required to fund a member's total benefit. Generally, the older a member on the date of hire, the greater the entry age normal cost. This is mainly because there is less time to earn investment income to fund future benefits.)

TABLE 4

GLOSSARY OF ACTUARIAL TERMS

Fresh Start

A fresh start is the single amortization base created when multiple amortization bases are collapsed into one base and amortized over a new funding period.

Funding Status

A measure of how well funded a plan is. Or equivalently, how "on track" a plan is with respect to assets vs. accrued liabilities. A ratio greater than 100% means the plan or risk pool has more assets than liabilities and a ratio less than 100% means liabilities are greater than assets. A funded ratio based on Actuarial value of Assets indicates the progress toward fully funding the plan using actuarial cost methods and assumptions. A funded ratio based on Market value of Assets indicates the short-term solvency of the plan.

GASB 27

Statement No. 27 of the Governmental Accounting Standards Board. The accounting standard governing a state or local governmental employer's accounting for pensions.

Lump Sum Contribution

A contribution made by the employer to reduce or eliminate the unfunded liability.

Normal Cost

The annual cost of service accrual for the upcoming fiscal year for active employees. The normal cost should be viewed as the long term contribution rate.

Pension Actuary

A person who is responsible for the calculations necessary to properly fund a pension plan.

Prepayment Contribution

A payment made by thee employer to reduce or eliminate the year's required employer contribution.

Present Value of Benefits

The total dollars needed as of the valuation date to fund all benefits earned in the past or expected to be earned in the future for *current* members.

Rolling Amortization Period

An amortization period that remains the same each year rather than declining.

Suoerfunded

A condition existing when the actuarial value of assets exceeds the present value of benefits. When this condition exists on a given valuation date for a given plan, employee contributions of the rate covered by that valuation may be waived.

Unfunded Liability or Unfunded Accrued Liability (UAL)

A plan with an actuarial value of assets below the accrued liability is said to have an unfunded liability and must temporarily increase contributions to get back on schedule.

Source: CalPERS Actuarial Valuation for Required Contributions for Fiscal Yaer July 1, 2011 - June 30, 2012

The 2010-11 Santa Barbara County Civil Grand Jury

CERTIFICATE OF SERVICE

The undersigned, under penalty of perjury, does hereby certify that a Transmittal Letter and report titled **"Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly"** from the 2010-11 Santa Barbara County Civil Grand Jury was delivered this day.

To: City Manager
City of Santa Barbara
735 Anacapa Street
Santa Barbara, CA 93101

Name of person accepting: Deborah J Bach

Signature: Deborah J Bach

Title: Executive Assistant to Mayor/Council

At: 735 ANACAPA St. SB, California
Street address City

Date Delivered June 16 2011 Time Delivered 4:15pm

Signature of Juror

September 13, 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 Report Titled *"Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly* (Published June 23, 2011 on Jury Web Site)

Judge Garcia:

The City of Santa Barbara City Council is providing its responses to the above-referenced Civil Grand Jury Report.

The City appreciates the effort of the Grand Jury and recognizes the importance of understanding the obligations related to post-employment benefits and their long-term impacts on the finances of government agencies. The City Council is committed to maintaining excellent service to our residents and the financial health of the City.

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

Findings, Recommendations and Responses

Finding 2a:

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

City Response:

The Council agrees with the finding.

Finding (2b):

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

City Response:

The Council 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."

City Response:

The Council 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."

City Response:

Because of collective bargaining requirements imposed by state law and legally mandated vesting of benefits, the City may not be in a position to reduce all payments to current retirees for health care. Over the longer term, the City will work with labor groups and ensure these benefits are controlled so as to limit the City's future 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 current unfunded healthcare liability."

City Response:

While the City recognizes the advantage of prefunding post-employment benefits, the current economic and budget environment preclude the City from allocating the required financial resources to address these liabilities by January 1, 2012. However, when the City's current fiscal constraints are resolved and additional resources become available, the City intends to initiate a prefunding plan.

Finding 3

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

City Response:

The Council agrees with the finding. However, the scheduled compiled by the Grand Jury (Exhibit 4C) shows a total of $59,471,050.

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 the agency's compensated absences liability."

City Response:

The City's share of the amount reported in Exhibit 4C is $3.8 million, representing accrued sick leave. The City is evaluating various options for advance funding the sick leave benefits that are expected to be paid at retirement. Because of the current fiscal constraints facing the City, such a plan will require additional resources that are currently not available. It will also need to be considered in the context of other unfunded liabilities associated with post-employment benefits. In addition, while the City recognizes the importance of limiting the City's liability for accrued sick leave, any reduction in sick leave benefits is subject collective bargaining.

Sincerely,

James Armstrong, City Administrator
City of Santa Barbara

Cc: Santa Barbara County Board of Supervisors
Santa Barbara City Mayor & Council

Robert Samario, Finance Director
Marcelo Lopez, Assistant City Administrator
Paul Casey, Assistant City Administrator