

July 19, 2004

Honorable Clifford R. Anderson, III
Presiding Judge
Santa Barbara County Superior Court
P.O. Box 21107
Santa Barbara, CA 93121-1107

Board of Supervisors' Response to FY 2003-04 County Grand Jury Report on:
A Look at Santa Barbara County Finances (Red Ink Rising)

Dear Judge Anderson:

During its regular meeting of Tuesday, July 13, 2004, the Board of Supervisors adopted the following as its responses to the 2003-04 Grand Jury's report on "A Look at Santa Barbara County Finances (Red Ink Rising)." The Board of Supervisors thanks the Grand Jury for the report and appreciates the opportunity to review, discuss and respond to its important findings and recommendations.

Finding 1

County employee compensation is increasing at an unsustainable rate.

Response: Agree in part. The Board recognizes that the County employee compensation rate has been increasing. In fact, during a particular time period in the past, employee compensation may have risen at an unsustainable rate. However, the County budget has balanced each and every year and the compensation rate has now stabilized. Moreover, the current FY 2004-05 Proposed Operating Plan (Budget) does not contemplate nor contain any funding for compensation increases except for the few employees covered by an existing Firefighter contract. Finally, as indicated in the 5 Year Forecast contained in the FY 2004-05 Proposed Budget, General Fund Revenues are projected to outpace the growth in General Fund compensation costs.

Recommendation 1

Impanel an independent "Blue Ribbon" committee to conduct a comprehensive review of county employee compensation policies and practices. The Committee should report its findings and recommendations to the Board of Supervisors and also release its report to the public.

Response: The recommendation will not be implemented at this time because it is not considered warranted. As explained in the response to Finding 1, the current budget is balanced and contains no new employee compensation increases. Should a future Board of Supervisors determine a need for a comprehensive review of County employee compensation policies and practices, it could consider both the Grand Jury's recommendation to have it conducted by a "Blue Ribbon Committee" or alternatively, it could be conducted by the County Administrator, the elected Auditor-Controller and the independent Retirement System Administrator; each would allow for both an independent and public report.

In addition, the Mission County Formation Review Committee will be evaluating County employee compensation costs as they relate to the proposed new county and the Board will review the Commissions' report. Finally, if warranted, the Board will consider whether an independent committee may be appropriate to study not only employee compensation issues, but the entire structure of our County government.

Finding 2

Privatization of some County functions could result in significant savings. However, in February 2003 the Board of Supervisors adopted a policy of Privatization Criteria that in effect eliminates the benefits of privatization.

Response: Agree that privatization of some County functions could result in significant savings. In fact, many County functions are provided by the private sector (including both non-profit and for-profit private entities). Those functions include construction and road contracts, healthcare, probation services, criminal defense, law enforcement, information technology, social services, landscaping, architectural, environmental, office furniture, telephone maintenance, legal services, training and many others. Attached to this letter are listings of private sector contracts during FY 2003-04, the first full year the Privatization Criteria was in effect. Based upon those listings, during FY 2003-04, the County was engaged in private sector contracts totaling over \$107 million.

Disagree that the Privatization Criteria adopted by the Board of Supervisors in February 2003 "in effect eliminates the benefits of privatization." The adopted Privatization Criteria provides a means by which the County would privatize services when warranted.

The Grand Jury's conclusion about the Privatization Criteria "effectively eliminating the benefits of privatization" is focused on the section of the Criteria dealing with privatization when it results in layoffs. The Criteria require that

private contractors offer jobs to County employees laid-off as a result of privatization but only to those employees who currently have at least two overall performance ratings of satisfactory or above and then only when/if the contractor will be adding at least that same number of staff, (i.e. a contractor is not precluded from providing the service with fewer staff). A contractor is also not required to offer County employees laid-off with their current salary and benefits but rather offer compensation “equivalent” to the County’s as to an aggregate of wages, health insurance and retirement. Finally, overhead costs (i.e. office space, utilities, supplies, etc.) could be reduced by a contractor.

Recommendation 2

The Board of Supervisors should rescind the Policy of Privatization Criteria.

Response: As the policy on Privatization Criteria has been in existence for less than 18 months, additional time is needed to determine its long term effectiveness; therefore, the recommendation will not be implemented at this time. If warranted, it may be considered at a future date.

Finding 3

County retirement costs are increasing at an unacceptable rate.

Response: Disagree in part with the finding. It is accurate that the County retirement contribution rate has been increasing and is projected to increase over the next three years. However, after that point, the contribution rate should begin to decline. The rate is not a constantly increasing percentage of payroll; it in fact declined in the last actuarial experience study. It is true that absolute dollar cost will increase as the payroll of covered employees increases, just as it would in a defined contribution retirement plan.

Recommendation 3

*The Board of Supervisors make every effort to **retire** the Defined Benefit Plan and implement a Defined Contribution Pension Plan.*

Response: The recommendation calls for the Board to conclude on the basis of the Grand Jury Report that a Defined Contribution Pension Plan is superior to a Defined Benefit Plan and then to “retire” the Defined Benefit Plan. As retirement benefits are subject to meet and confer provisions of collective bargaining with employee groups, it would be inappropriate for the Board to so conclude or so act at this time. Moreover, replacement of the defined benefit plan would require State legislation amending the California Government Code. Accordingly, the recommendation will not be implemented at this time. If it is appropriate to do so in the future, the Board may conduct a study of a Defined Contribution Pension Plan.

Finding 4

The County's financial planning process does not adequately take into account adverse economic conditions.

Response: Disagree in part. The Grand Jury Report was prepared prior to publication of the FY 2004-05 Proposed Budget. The Budget contains a **5-Year Financial Forecast** that includes both discretionary revenue and expenditure projections with two scenarios—one assuming continuation of current local economic conditions and one assuming a loss of discretionary revenue due to continuing State budget difficulties.

Behind both published scenarios are additional, unpublished, projections based on various assumptions such as different employee cost of living adjustments and different property tax revenue growth rates. In addition, in FY 1997-98, the Board of Supervisors established a **Strategic Reserve** precisely to have funds set aside for use during adverse economic times. Contributions over the past seven years have increased the Strategic Reserve to its current total of approximately \$12 million. The goal is to increase the reserve to \$25 million.

Recommendation 4

The County Administration should prepare an easy to understand, five-year financial plan that takes into account both the most likely economic outlook and downside economic projections.

Response: As indicated in the response to Finding 4, this recommendation has been implemented. Further, an update to the 5 Year Forecast is intended to be published at least twice a year: once in the Fall when budget principles for development of the following year's budget are adopted and again in the summer with the annual Proposed Budget.

Sincerely,

Joseph Centeno
Chair, Board of Supervisors

Attachments:

Response to Grand Jury from Santa Barbara County Employees'
Retirement System
Grand Jury Report on "A Look at Santa Barbara County Finances"
Red Ink Rising

cc: Naomi Schwartz, Supervisor, First District
Susan Rose, Supervisor, Second District

Gail Marshall, Supervisor, Third District
Joni Gray, Supervisor, Fourth District
David Clous, Foreperson, 2003-04 Santa Barbara County Grand Jury
All County Department Directors
Oscar Peters, Retirement Administrator