

Allan Hancock Joint Community College District
Response to Findings and Recommendations
Santa Barbara County Civil Grand Jury Report
“Local Government Post Employment Benefits in Santa Barbara County –
Complicated and Costly”

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.

District Response

The District is in agreement with the finding.

Finding 1b

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

District Response

The District is in agreement with the finding.

Finding 1c

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

District Response

The District agrees partially with the finding. The District is in agreement with the statements regarding Fitch Ratings and Moody’s Investor Service, but not agreement with the statement regarding the Governmental Accounting Standards Board (GASB). This statement is not accurate under current GASB standards; the District is in compliance with current GASB standards. This statement was issued by GASB as part of a Preliminary View entitled *Pension Accounting and Financial Reporting by Employers* regarding existing pension standards for state and local governments. When and if GASB issues a new standard regarding pensions, the District will comply with the standard.

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.

District Response

The District agrees partially with the finding. The District is in agreement with the statement that unfunded long-term liability can have an important impact on future funding requirements that each individual agency needs to know, but the District believes that the ratepayer and taxpayer need to understand the process and key assumptions used to determine the unfunded long-term liability, not necessarily the underlying actuarial valuations for determining the liability, including assumptions and variables that are constantly changing.

Finding 1e

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

District Response

The District is in agreement with the finding.

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.

District Response

The District is not in agreement with the recommendation. Currently, this information is not available and it is not information that the District has the ability to obtain. The District participates in CalSTRS and CalPERS, multiple-employer pension pools, and this information must come from them.

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.

District Response

The District is in agreement with the finding.

Finding 2b

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

District Response

The District is in agreement 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.

District Response

The District is partially in agreement with the finding. The liability associated with current employees is appropriately paid on a pay-as-you-go basis. The future service liability associated with current employees is addressed by applying a percentage of applicable salaries and restricting those funds to meet the future obligations related to those employees. This process was implemented effective July 1, 2006. A plan has been implemented to address the past service liability.

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.

District Response

The District is partially in agreement with the recommendation. The District regularly reviews healthcare plans and the cost of those plans available to employees. The amount paid by the district is subject to collective bargaining and is part of total compensation paid to the employees.

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.

District Response

The District agrees with the recommendation. Based on the actuarial prepared for Allan Hancock College in July 2004, the District's total unfunded healthcare liability was \$8,211,243. As of June 30, 2011, \$3,987,948 was restricted and managed in a separate fund to meet this liability. The future service liability is addressed by applying a percentage of applicable salaries. This process was implemented effective July 1, 2006. The past service liability is addressed by allocating approximately \$340,000 per year from the annual adopted unrestricted general fund. It is projected that the assets restricted for meeting the total liability as of June 30, 2012 will be \$4,477,558. This funding plan is consistent with GASB 45 requirements. An updated actuarial is currently being finalized.

Finding 3

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

District Response

The District is in agreement with the finding.

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.

District Response

The District is in agreement with the finding recognizing that compensated absences are subject to collective bargaining. Allan Hancock College reports the total liability as part of its annual independent audit, accrues as an expense the current portion as required by GASB 16, and has established a restricted reserve for the payment of excess vacation.