

CITY of CARPINTERIA CALIFORNIA



August 22, 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

Members of the City Council

Al Clark - *Mayor*
J. Bradley Stein - *Vice Mayor*
Joe Armendariz
Gregg Carty
Kathleen Reddington

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

Judge Garcia:

On behalf of the City of Carpinteria we are providing responses to the relevant Findings and Recommendations in the above-referenced Civil Grand Jury Report. We acknowledge the importance of knowing, understanding and disclosing the costs of post employment benefits as they compose a significant portion of public budgets.

We also wish to acknowledge the actions of the City Council in not increasing the level of such benefits but rather retaining the standard 2% at 55 pension formula even in times in the not so distant past when the PERS stock portfolio performance provided a super funded status to many cities. The Council declined to increase the benefit at a time when many other agencies saw a super funded status as a `no cost` way to significantly increase benefits.

The City Council and staff have been and continue to be committed to providing excellent service to constituents while ensuring fiscal health and responsibility.

We appreciate the Grand Jury's time and effort in compiling the report entitled "Local Government Post Employment Benefits in Santa Barbara County - Complicated and Costly." We hope you will find our commentary responsive and helpful.

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

Finding 1a

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

The City agrees with Finding 1a.

Finding 1b

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

The City agrees with Finding 1b.

Finding 1c

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

The City disagrees with Finding 1c.

The Government Accounting Standards Board has not issued a Statement but only an exposure draft regarding possible new reporting standards for pensions that would, if adopted by GASB, be effective for plan years after June 15, 2013.

Finding 1d

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

The City agrees with Finding 1d.

Finding 1e

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

The City agrees with Finding 1e.

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."

Recommendation 1 will not be implemented because it is not warranted or is not reasonable.

The Recommendation cannot be implemented by January 1, 2012. New disclosure requirements by GASB are pending and are proposed to be effective for plan years beginning after June 15, 2013.

Finding 2a

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

The City agrees with the Finding 2a that there is an unfunded actuarial liability for post employment healthcare in Santa Barbara County agencies, including Carpinteria, but the City has not verified the dollar amount cited in the Finding for the County as a whole.

Finding 2b

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

The City agrees with Finding 2b.

Finding 2c

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

The City agrees with Finding 2b.

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."

This Recommendation has been implemented.

In 2006 the City implemented provisions that require City/employee cost sharing of increases in health care insurance premiums thereby reducing the historical 100% City contribution.

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."

Recommendation 2b will not be implemented because it is not warranted or is not reasonable.

The Recommendation will not be implemented because the City may not be in a position to implement a plan to prefund current unfunded health care liabilities due to the requirements of collective bargaining, constraints on the current budget to provide resources for all unfunded liabilities and the nature of vested benefit obligations.

Finding 3

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

As with Finding 2a, the City agrees with the Finding that there are liabilities for compensated absences in Santa Barbara County public agencies, including Carpinteria, but the City has not verified the dollar amount cited in Finding 3 for the County as a whole. The City of Carpinteria June 2010 CAFR reports a liability for compensated absences of \$51,830.

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."

Recommendation 3 has been implemented.

The City has for many years recorded the expense of unused leave in its financial statements and has limited the amount of leave that can be carried into future years. In addition, effective July 1, 2011, further restrictions on both employee cash out and maximum accruals of compensated absences have been implemented.

Yours Truly,



Al Clark, Mayor
City of Carpinteria

cc: Santa Barbara County Board of Supervisors
 Santa Barbara County Civil Grand Jury