MONTECITO WATER DISTRICT

August 26, 2011

Hon. Arthur A. Garcia,
Assistant Presiding Judge
Santa Barbara Superior Court
312 East Cook St.
Santa Maria, CA 93456

RE: Responses to June 2011 Santa Barbara Civil Grand Jury Report entitled *"Local Government Post Employment Benefits in Santa Barbara County — Complicated and Costly"*



Dear Judge Garcia,

During its regular meeting on August 23, 2011, The Montecito Water District Board of Directors approved the attached Board's response to the Civil Grand Jury 2011 Report entitled *"Local Government Post Employment Benefits in Santa Barbara count – Complicated and Costly."* An informational copy will be provided to Joni Gray, Chair of the County Board of Supervisors and printed and CD-ROM copies to Kathryn D. McKee, Foreperson of the Santa Barbara County Civil Grand Jury.

The District has carefully reviewed the findings and recommendations presented in the Grand Jury's report and wishes to thank the Grand Jury for its findings and recommendations on the important matter.

Sincerely,

Sam Frye
President

Attachment

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## RESPONSE TO 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.*

We agree with the finding. The Montecito Water District provides employee pension benefits through the California Public Employees' Retirement System (CalPERS). We have participated in the Miscellaneous 2% at 55 Risk Pool since July 1, 1945.

**Finding 1b**

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

We agree with the finding. CalPERS provides the contribution rate, which is used to estimate the contribution as applied on salaries, in a timeframe that conforms to the District's annual budget process.

**Finding 1c**

*Fitch Ratings is a global ratings 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.*

We partially agree with the finding. We agree with the desirability of reporting the District's portion of the PERS unfunded obligation.  We have been in contact with PERS in an effort to develop this information. The District has not independently confirmed the actions or intentions of the mentioned bond rating agencies or the Governmental Accounting Standards Board.

**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.*

We agree with the finding. The District monitors the status of the Miscellaneous 2% at 55 Risk Pool through review of annual actuarial valuation reports provided by CalPERS. District staff and its Board of Directors also periodically review market performance data for CalPERS investments to anticipate the general direction employer contribution rates are trending going forward.

**Finding 1e**

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

We agree with the finding. CalPERS does not provide information on individual long-term unfunded actuarial liability to participants in the Miscellaneous 2% at 55 Risk Pool. We are attempting to extrapolate our percentage of the pool from CalPERS and estimate our portion of the unfunded liability. (See response to Finding 1c)

**Recommendation 1**

*That, no later than January 1, 2012, all local governmental agencies that belong to multiple-employee 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.*

This recommendation will not be implemented because it is not warranted or reasonable. Under GASB, CalPERS is not required to provide estimates of individual unfunded actuarial liability for governmental agencies that belong to multiple-employee pension pools. Therefore, the cost of conducting an independent actuarial study each year would be significant for a small district such as ours and would be too onerous on the District's rate payers.

**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.*

**Response**

We partially agree with the finding. We assume the above figure is correct as we have not independently verified the reported liabilities for other agencies. The District's unfunded actuarial liability for Other Post Employment Benefit (OPEB) healthcare as of June 2010 was $144,729. This unfunded liability was determined through an independent actuarial study completed in February 2009. GASB statements 43 and 45 require that an OPEB actuarial study be performed no less frequently than every three years; therefore an actuarial study will be performed before February 2012. The District provides a postretirement healthcare benefit that is limited in duration and scope. The benefit is limited to retirees who have reached age 60, must have at least 12 consecutive years of service with the District and the District is the final employment prior to receiving the PERS monthly benefit. The benefit premium decreases to a Medicare supplement premium when the employee reaches age 65.

**Finding 2b**

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

**Response**

We agree with this finding. Currently, the District pays the full cost of two party coverage to provide an HMO type medical insurance plan for regular, full-time employees. The District carefully analyzes available medical insurance plans from a wide range of carriers each year to obtain quality healthcare coverage at a reasonable cost.

**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.*

We agree with this finding. Healthcare benefits for the District's regular full time active employees are funded on a pay as you go basis as an annual operating expense.

**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.*

**Response**

The recommendation will not be implemented because it is not warranted or reasonable. The District is not required to have an implementation plan. The District is currently considering options to minimize the effects of future premium increases. Our analysis may not be complete by January 1, 2012 and the District reserves the right to evaluate its healthcare costs annually in order to make sound fiscal decisions each year.

**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.*

**Response**

This recommendation will not be implemented because it is not warranted or reasonable. There is no unfunded liability for healthcare costs for active employees, which are budgeted annually on a pay as you go basis. It is presumed that this recommendation pertains to retiree healthcare benefits and not ongoing employee coverage costs. In discussions, the Board of Directors decided not to prefund the OPEB at this time. The District periodically analyzes the option to prefund in light of competing capital funding needs.

**Finding 3**

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

We do not agree with this finding. We assume the above figure is correct as we have not independently verified the reported liabilities for other agencies. The District reported a total liability for compensated absences of $338,947 in its independently audited financial statements as of June 30, 2010. District policy, in accordance with State law, states that accrued vacation time is compensable upon separation from employment. Accrued sick leave is 50% compensable once an employee has completed 5 years of service and is 100% compensable after an employee completes 20 years of service.

## 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.*

### Response to Recommendation 3

This recommendation will not be implemented because it is not warranted or reasonable. The District is not required to have an implementation plan. The District provides paid vacation and sick leave for regular full time employees. The District encourages its employees to take regular vacation time. We believe it is in the employees' best interest (and therefore the District's best interest) to take vacation time annually rather than carrying a significant vacation leave balance. The District policy limits an employee's vacation leave balance to 160 hours maximum which limits the District's ultimate liability. The District provides compensated sick leave for employees to use due to illness, serious health condition or other reasons as required by the Family Medical Leave Act. Currently, each employee is limited to a 960 hour maximum sick leave balance. We have and will continue to maintain reserve funds at a level sufficient to cover the entire liability in any given year.