

ORCUTT

Union School District

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July 15, 2011

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

cc. Joni Gray, Chair, Santa Barbara County Board of Supervisors

Re: Response to Grant Jury Findings and Recommendations
“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.

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 Government 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.

Response:

The respondent disagrees wholly or partially with the finding.

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

This action is not within the District's control. This information is not currently available to us. The Orcutt Union School District is part of the schools statewide CalPERS and CalSTRS pools, and employer contributions are set at the same rate for all school district members of that pool.

The unfunded liability of the state schools pools impacts the employer contribution rate, and this unfunded liability is made available to the general public annually in the CalPERS Comprehensive Annual Report and the CalSRS Comprehensive Annual Report.

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.

Response:

The respondent agrees with the finding.

The recommendation has been implemented

The Orcutt Union School District currently has an unfunded obligation of \$9,242,271 as of December 31, 2010. In fiscal year 2010-11 the "pay as you go" amount was \$260,500 which is budgeted annually based on the current "pay as you go" liabilities. In Fiscal Year 2006-2007 the district set up a separate fund 20 to set aside prefunding of post retirement benefits. As of June 30, 2011 this fund is estimated to have a balance of \$1.7 million dollars which leaves \$7.6 million unfunded. In spite of volatility of district funding thus far the District has been able to keep the integrity of the fund for which it was established. The district currently "pays as it goes" in addition to setting aside 1% of payroll to fund 20. This health benefit is negotiable and unless the district renegotiates to not provide this benefit it intends to continue contributing to Fund 20 annually. The Board of Trustees understands its obligation to taxpayers in addition to the importance of this issue in regards to bond rating agencies.

While the District recognizes that it would be appropriate to have these funds in a separate trust, due to State funding volatility issues the Board of Trustees established Fund 20 with the understanding that this is held in restriction for the purpose of post retirement benefits, however it still allows the district flexibility to borrow these funds as the State continues to defer substantial payments to schools.

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:

The respondent agrees with the finding.

The recommendation has been implemented

The recommendation was implemented in Fiscal Year 2006-07 by establishing *Fund 20 Post Retirement Benefits Fund* for the purpose of setting aside money annually to prefund health benefits. The Fund currently has an approximate \$1.7 million dollar balance.

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.

Response:

The respondent disagrees wholly or partially with the finding.

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

The Orcutt Union School district carries approximately a \$200,000 annual liability for compensated absences. This is not material when you reference the total for all governmental expenditures of the district which at June 30, 2010 was 34 million dollars. The District does not see the necessity in reducing compensated absences liability.



Bob Bush
Superintendent
Orcutt Union School District