



## Santa Barbara County Education Office

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June 23, 2011

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BY: \_\_\_\_\_

The Honorable Arthur A. Garcia  
Assistant Presiding Judge  
Santa Barbara Superior Court  
312 East Cook Street  
Post Office Box 5369  
Santa Maria, CA 93456-5369

Dear Judge Garcia:

Subject: Response to the 2010-11 Grand Jury Report: "Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly"

Thank you for the extensive time spent researching this important issue of post employment benefits. We are pleased to provide you with the following responses.

**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.

*Agree.*

**Finding 1b:** Pubic 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.

*Agree.*

**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.

*Agree.*

**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.

*Agree.*

**Finding 1e:** Public agencies in Santa Barbara County participating in defined benefit pension pools do not know their individual long-term unfunded actuarial liability.

*Agree; that is the structure of pools.*

**Recommendation 1**

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**

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

This action is not within the scope of our office's capabilities. As mentioned numerous times in the Grand Jury report, this information is not currently available to us. It could only be made available to individual government agencies if the pooled entities, CalPERS and CalSTRS, were to change their software to estimate such liabilities or engage their actuary to estimate the unfunded liability by agency.

The Santa Barbara County Education Office (SBCEO) 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; employer contributions are not based on individual agency retirement liability.

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 Financial Report* and the CalSTRS *Comprehensive Annual Financial 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.

*Agree, based on data contained in the Grand Jury report.*

**Finding 2b:** Some agencies pay all or a portion of the healthcare premium costs for employees.

*Agree.*

**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.

*Agree.*

**Recommendation 2a**

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**

*Recommendation has been implemented.*

At SBCEO, employer-paid post retirement benefits are not available to employees hired after January 1, 1986. We implemented this cost elimination plan for post employment health care benefits more than 25 years ago. Only those who were hired on or before January 1, 1986 and who retire after 20 years of full time service have health insurance paid by the SBCEO and only until they reach the age of Medicare eligibility. Currently approximately 30 employees remain who are full-time, were on the payroll on January 1, 1986, and are younger than 65. The benefit paid to these employees covers the employee only, not family member(s). The number of employees eligible for this benefit will continue to shrink as the individuals reach age 65 or pass away. The number of potential recipients cannot increase. Within 15 years or less, the unfunded liability will become zero.

**Recommendation 2b**

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**

*Recommendation will not be implemented because it is not warranted or is not reasonable.* Pre-funding is unnecessary for the SBCEO because cost elimination measures have been put in place so that within 15 years or less, the unfunded liability will become zero.

**Finding 3:** As of June 2010, public agencies in Santa Barbara County had a total liability for compensated absences of nearly \$61,000,000.

*Agree, based on data contained in the grand jury report.*

**Recommendation 3**

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**

*Recommendation has been implemented.*

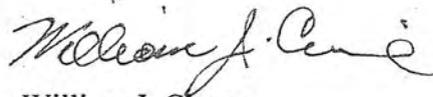
The SBCEO has in place a cost reduction plan that effectively keeps this liability to a minimum. All managers are responsible to monitor liability for compensated absences for their staff members throughout the year, and every effort is made to ensure that employees take vacation and compensatory time in a timely manner. Accrued vacation is required to be used on an annual basis, in the absence of rare short-term carryover exceptions for a specified reason. Because

Hon. Arthur A. Garcia  
June 23, 2011  
Page 4

managers review the relevant information regularly, the office's liability for compensated absences is minimized.

We appreciate the Grand Jury's attention to these important matters. Thank you for your time, support, and recommendations.

Sincerely,



William J. Cirone  
County Superintendent of Schools

WJC:ph

c: Joni Gray, Chair  
Santa Barbara County Board of Supervisors  
Kathryn D. McKee, Foreperson  
2010-11 Santa Barbara County Civil Grand Jury