



City of Santa Barbara

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September 13, 2011

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

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

Judge Garcia:

The City of Santa Barbara City Council is providing its responses to the above-referenced Civil Grand Jury Report.

The City appreciates the effort of the Grand Jury and recognizes the importance of understanding the obligations related to post-employment benefits and their long-term impacts on the finances of government agencies. The City Council is committed to maintaining excellent service to our residents and the financial health of the City.

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

Findings, Recommendations and Responses

Finding 2a:

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

City Response:

The Council agrees with the finding.

Finding (2b):

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

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City Response:

The Council agrees 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."

City Response:

The Council agrees with the finding.

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."

City Response:

Because of collective bargaining requirements and vesting of benefits, the City may not be in a position to reduce all payments to retirees for health care. Over the longer term, the City will work with labor groups and ensure these benefits are controlled so as to limit the City's future obligations.

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 current unfunded healthcare liability."

City Response:

While the City recognizes the advantage of prefunding post-employment benefits, the current economic and budget environment preclude the City from allocating the required financial resources to address these liabilities by January 1, 2012. However, when the City's current fiscal constraints are resolved and additional resources become available, the City intends to initiate a prefunding plan.

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Finding 3

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

City Response:

The Council agrees with the finding. However, the schedule compiled by the Grand Jury (Exhibit 4C) shows a total of \$59,471,050.

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 the agency's compensated absences liability."

City Response:

The City's share of the amount reported in Exhibit 4C is \$8.3 million, representing accrued sick leave. The City is evaluating various options for advance funding of the sick leave benefits that are expected to be paid at retirement. Because of the current fiscal constraints facing the City, such a plan will require additional resources that are currently not available. It will also need to be considered in the context of other unfunded liabilities associated with post-employment benefits. In addition, while the City recognizes the importance of limiting the City's liability for accrued sick leave, any reduction in sick leave benefits is subject to collective bargaining.

Sincerely,



Jim Armstrong
City Administrator

cc: 2010-11 Santa Barbara County Civil Grand Jury (with a CD-ROM disc)
Santa Barbara County Board of Supervisors
Santa Barbara Mayor and City Council
Robert Samario, Finance Director
Marcelo Lopez, Assistant City Administrator
Paul Casey, Assistant City Administrator