



August 23, 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

Hon. Joni Gray, Chair
Santa Barbara County Bd. of Supervisors
County Administration Building
105 East Anapamu Street
Santa Barbara, CA 93101

RE: Response to Grand Jury Report "Local Government Post Employment Benefits in Santa Barbara County-Complicated and Costly"

This letter shall serve as the response to the Civil Grand inquiry dated June 2011.

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.

Response to Finding 1a: The City of Solvang agrees with this finding.

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.

Response to Finding 1b: The City of Solvang agrees with this finding.

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 state's 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.

Response to Finding 1c: The City of Solvang agrees with this finding.

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.

Response to Finding 1d: The City of Solvang agrees with this finding.

Finding 1e

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

Response to Finding 1e: The City of Solvang partially agrees with this finding. The City of Solvang receives an actuarial report from CalPERS on an annual basis. The report includes an unfunded actuarial liability for the entire pooled fund. Our last report is dated October 2010 and shows an unfunded liability of \$340,993,809 at June 30, 2009. It does not separate Solvang's portion of that unfunded 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 to Recommendation 1: The City of Solvang will make the CalPERS actuarial valuation available to anyone who is interested in looking at it.

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 to Finding 2a: The City of Solvang only has information relating to the actuarial liability for post employment healthcare for the City of Solvang and therefore cannot agree or disagree with this finding relating to all agencies in the county.

Finding 2b

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

Response to Finding 2b: The City of Solvang only has information relating to the payment of healthcare for the City of Solvang employees. The City of Solvang does provide a portion of the healthcare premium costs for employees. It provides \$832.98 per month for each full time employee towards health and welfare benefits and \$519.00 per month for those that elect no medical coverage through the City of Solvang.

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.

Response to Finding 2c: The City of Solvang only has information relating to the healthcare benefits for the City of Solvang. The City of Solvang does fund healthcare benefits of current employees on an annual basis based on negotiated contracts with employee bargaining units. We also fund retiree healthcare benefits on an annual basis. In fiscal year ending June 2011 the City set aside \$130,000 for unfunded retiree healthcare benefits.

Recommendation 2a

That, no later than January 1, 2012, 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 to Recommendation 2a: The City of Solvang negotiates with employee bargaining units over benefit packages including healthcare premiums. With health care costs rising every year, employee bargaining units usually request that those increases be covered by the City. The City of Solvang values our employees and benefits from a healthy workforce. We always balance cost, benefit and ability to pay in negotiations. The possibility of employees paying a greater portion of the healthcare premium is always a negotiable item.

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 to Recommendation 2c: The City of Solvang set aside \$130,000 for this purpose in fiscal year ending June 30, 2011. As funds become available we plan to increase this amount. Funding is not estimated to be available for fiscal year 2012 and is not currently budgeted. Recently the City negotiated a reduced benefit for new hires in an effort to reduce this liability. For employees hired after November 1, 2010 the City will only be obligated to pay the Public Employees' Medical and Hospital Care Act (PEMCHA) minimum contribution for monthly medical upon their retirement. This is currently \$108 per month.

Finding 3

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

Response to Finding 3: The City of Solvang only has information relating to the liability for compensated absences for the City of Solvang and therefore cannot agree or disagree with this finding relating to all agencies in the county. The City of

Solvang's total liability for compensated absences is \$137,697 as of June 30, 2011. To reduce the amount of accrued leave balances Solvang puts a cap on accrued vacation leave and provides a program where employees can cash in 40 hours of vacation time once a year.

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: The City of Solvang has in place a program to limit the amount of accrued leave balances. Solvang puts a cap on accrued vacation leave at 280 hours and provides a program where employees can cash in 40 hours of vacation time once a year.

If you would like to discuss the matter further please do not hesitate to contact me at 688-5575.

Sincerely,



Brad Vidro
City Manager

cc: Solvang City Council
Grand Jury