Santa Maria
All-America City

CITY OF SANTA MARIA
OFFICE OF THE MAYOR
AND CITY COUNCIL

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July 22, 2011

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

Honorable Judge Garcia:

The 2010-11 Santa Barbara County Civil Grand Jury recently released its report entitled *Local Government Post Employment Benefits In Santa Barbara County: Complicated and Costly.* The City of Santa Maria (City) is named as an affected agency and is required to respond to applicable findings and recommendations within 90 days of the report issuance.

<u>RESPONSE TO THE GRAND JURY FINDING REGARDING</u> *LOCAL GOVERNMENT POST EMPLOYMENT BENEFITS IN SANTA BARBARA COUNTY: COMPLICATED AND COSTLY*

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.

City Response: The City partially disagrees with the finding. The City can only verify the unfunded actuarial liability for the City – which the Grand Jury accurately reported. The City has not reviewed nor analyzed any of the other public agencies' actuarial valuations as of June 30, 2010.

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

City Response: The City 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 City partially disagrees with the finding. The City has not determined if the other agencies prefund or pay-as-you-go their retiree healthcare premiums.

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: The recommendation will not be implemented because it is not warranted, nor is it reasonable. With respect to post-retirement health benefits, the City provides benefits in accordance with State statutes to all retirees who are enrolled in an insurance program under the California Public Employees' Medical and Hospital Care Act (PEMHCA). The healthcare plan is administered by CalPERS. PEMHCA determines the amount contributed by the City toward retiree health insurance. Currently, the City is required to contribute $108 per month per retiree toward the cost of their health insurance. This is the minimum mandatory amount that the City is required to pay. The balance of the premium, averaging approximately $663 per month, is paid by the retirees to CalPERS. Therefore, it is not possible to reduce the City's healthcare contributions as recommended by the Grand Jury.

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.

City Response: The recommendation will not be implemented because it is not warranted, nor is it reasonable. As noted in Recommendation 2a, the City contributes the minimum mandatory amount required by the CalPERS health plan. According to the City's latest actuarial valuation, the pay-as-you-go amount for the next 20 years is $6.2 million (which the City has set-aside) versus $10.8 million to prefund the plan. During these tough economic times, the City does not have the financial resources to prefund the plan, nor would it be financially advantageous given the fact that after the year 2030, the annual savings are not material on a budget basis.

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 City partially disagrees with the finding. The City has not determined the total liability for compensated absences for other agencies in the County and Exhibit 4 shows an amount closer to $59.5 million.

Recommendation 3: That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that has compensated absence liabilities, adopt an implementation plan to reduce each agency's compensated absences liability.

City Response: The recommendation will not be implemented because it is not warranted, nor is it reasonable. The City currently has caps on the maximum amount of vacation an employee can accrue and sick leave hours that can be compensated upon separation of employment. When an employee reaches the maximum allowable vacation credit, no additional vacation credit shall be accrued until the vacation balance is below the maximum.

Also included in compensated absences are sick leave benefits. Sick leave benefits are not vested to the employee; however, the City has a sick leave incentive program, which will compensate employees at a rate of 50 percent for accrued sick leave between a floor and ceiling amount. This incentive program is only paid upon regular retirement or death.

In addition, reducing the compensated absences requires negotiations with all bargaining groups.

One area that I wanted to elaborate upon is that the City has reduced the pension benefits for all employees hired on or after July 1, 2011, to a lower level, two-tier benefit. This is not reflected in the Grand Jury Report's "Exhibit 1 – Agency Plan Participation. By way of explanation:

- For the Police Officer's Association, the defined benefit has been reduced from 3 percent at 50 to 3 percent at 55 using the officer's average salary for the final three years of employment. Also, the officer is now required to pay the entire employee portion of 9 percent to the retirement fund.

- For the Firefighter's Union Local 2020, the defined benefit has been reduced from 3 percent at 50 to 3 percent at 55 using the firefighter's average salary for the final three years of employment. Also, the firefighter is now required to pay the entire employee portion of 9 percent to the retirement fund.

- For all other employees, the defined benefit has been reduced from 2.7 percent at 55 to 2 percent at 55 using the employee's average salary for the final three years of employment. Also, the employee is now required to pay the entire employee portion of 8 percent to the retirement fund.

The above concludes the City's response to the Grand Jury's Report on *Local Government Post Employment Benefits In Santa Barbara County: Complicated and Costly*. The City respectfully submits this response to the Grand Jury and thanks you again for all your efforts associated with this 2010-11 Grand Jury Report.

Larry Lavagnino

LARRY LAVAGNINO
Mayor of Santa Maria

TIM S. NESS
City Manager