

CITY of CARPINTERIA, CALIFORNIA



September 11, 2018

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SEP 17 2018

BY: _____

Honorable Patricia L. Kelly
Superior Court Presiding Judge
County of Santa Barbara
1100 Anacapa Street
Santa Barbara, CA 93101

Santa Barbara County Grand Jury
1100 Anacapa Street
Santa Barbara, CA 93101

Dear Judge Kelly/Santa Barbara County Grand Jury:

I am writing in response to the Grand Jury report entitled, "Pensions in Santa Barbara County." The City of Carpinteria City Council considered the Report at its regular meeting of September 10, 2018, and the proceedings can be viewed through the City's website at www.carpinteria.ca.us.

The City Council authorized the following responses to the request from the Grand Jury for the responses to certain findings and two recommendations of the Report:

Finding 2: In Carpinteria, Guadalupe and Solvang, pension solvency risks are minimal to moderate, except in the closed Carpinteria Safety Plan. Pension liquidity risks in those cities are higher, with several years in all three cities having projected negative cash flows under projected CalPERS actuarial returns.

Response: The City of Carpinteria disagrees partially. While there are liquidity and solvency risks with CalPERS pension plans, the City disagrees with the methodology used in the report to reach conclusions about risks associated with the City of Carpinteria pension plans. The classification of what a "high risk" solvency plan is a bit arbitrary, with the Carpinteria Safety Plan being labeled "high risk" at 68% funded, but a 70% funded (2 such plans in the report) classified as moderate risk. Furthermore, a closed plan like the Carpinteria Safety Plan will generally be less impacted by the discount rate changed to 7% that CalPERS has scheduled to include in the June 30, 2018 actuarial valuations. The City has an IRS Section 115 trust with Keenan for the Safety and Miscellaneous plans and has set aside additional funds in this irrevocable trust. The report does not include the impact of these additional committed trust funds.

Finding 8: The 12 PEPRA plans in the cities of the County of Santa Barbara have a funded ratio of 0.90 and the 20 non-PEPRA plans have a funded ratio of 0.68. This is

small, but positive, sign that the PEPRA law is having the intended effect of strengthening the security of pension benefits in the County.

Response: The City of Carpinteria agrees with this finding.

Finding 9: Funded ratios of the municipal pension systems in Santa Barbara County are sensitive to the discount rate applied by CalPERS. A cut in the rate of 6 percent, from the 2018-19 rate of 7 percent, would push the funded ratios several municipal systems close to 0.5 and might impose further increases in the employer's contribution in Lompoc, in the City of Santa Barbara and in Santa Maria.

Response: The City of Carpinteria agrees with this finding.

Recommendation 1: That in view of the 12 Findings, the government of the cities of Buellton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria and Solvang and of the County of Santa Barbara analyze capital spending, employer/employee contribution rates, staffing levels, and all existing taxes and revenue sources under their control to identify potential revenue gains and cost savings.

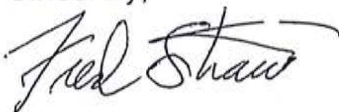
Response: The City of Carpinteria has implemented this recommendation. The City has taken many actions to address the Pension issues. On November 27, 2017, City Council was presented the City's Five-Year Financial Plan. The plan provided actions items to assist the City with fiscal sustainability. As of January 1, 2018, the cost sharing for employees is at the maximum percentage of 8% of payroll. On May 14, 2018, Council approved the participation and contribution to a Pension Stabilization Trust Fund. And on June 11, 2018, Council adopted a budget that also reflects the long-term financial planning of the City as established through its policies and regulations.

Recommendation 2: That the governments of the cities of Buellton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria and Solvang and of the County of Santa Barbara issue public reports, to be discussed at open sessions of their respective governing bodies, on the potential revenue gain and cost-saving measures that may be necessary to ensure continued adequate funding of their pension plans.

Response: The City of Carpinteria has implemented this recommendation. On June 11, 2018 City Council budget session, Council Members discussed the potential revenue gain and cost-saving measures that may be necessary to ensure continued adequate funding of their pension plans.

Should you or the Grand Jury wish to discuss this matter further, please feel free to contact me or City Manager Dave Durflinger.

Sincerely,



Fred Shaw
Mayor

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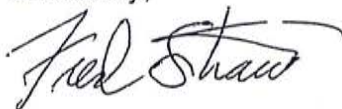
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Fred Shaw
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