August 24, 2018

RECEIVED

AUG 29 2018

BY:________

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

Re: Grand Jury Report – _Pensions in Santa Barbara County_

Dear Judge Kelly:

The 2017-18 Santa Barbara County Grand Jury recently released its report entitled *Pensions in Santa Barbara County*. The City of Lompoc (Lompoc) is named as an affected agency and is required to respond to applicable findings and recommendations within 90 days of receipt of the report.

Following are Lompoc's responses to the individual applicable findings and recommendations in accordance with California Penal Code, Section 933.05(b)(2.).

FINDINGS

Finding 3: *In Lompoc, Santa Maria and the City of Santa Barbara, solvency risks are high in the pre-PEPRA plans that have most of the Actuarial Liabilities in the municipal plans.*

Lompoc's Response: While Lompoc was not directed to respond to this finding, Lompoc is named in the finding, and, therefore will respond.

Lompoc disagrees wholly with the finding.

The Grand Jury developed three categories of solvency risk (high, moderate, low) based on funded status of retirement plans, and rated all of Lompoc's non-PEPRA plans as "High." This rating is misleading in that it does not take into consideration important factors as described below.

1. The State of California implemented the Public Employees' Pension Reform Act (PEPRA) on January 1, 2013. PEPRA added a third tier for Lompoc's Safety and Miscellaneous plan members employed after December 31, 2012, providing a less costly pension plan. However, Lompoc had implemented a second tier for its Safety and Miscellaneous members before the implementation of PEPRA, significantly reducing Lompoc's risks going forward. Following is a summary of those proactive

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changes made by Lompoc through negotiated bargaining with the its various union groups:

a. A second tier for Miscellaneous plan members provides what is commonly known as the 2% at 60 plan for employees hired after August 12, 2011. Any "Classic" Miscellaneous members hired by Lompoc after December 31, 2012, are hired into this plan. Lompoc effectively closed the 2.7% at 55 plan to new and "Classic" members on August 12, 2011, reducing its long-term liabilities over time.

b. A second tier for Fire Safety plan members provides what is commonly known as the 3% at 55 plan for employees hired after September 23, 2011. Any "Classic" Fire Safety members hired by Lompoc after December 31, 2012, are hired into this plan. Lompoc effectively closed the 3.0% at 50 plan to new and "Classic" Fire Safety members on September 23, 2011.

c. A second tier for Police Safety plan members provides what is commonly known as the 3% at 55 plan for employees hired after November 18, 2011. Any "Classic" Police Safety members hired by Lompoc after December 31, 2012, are hired into this plan. Lompoc effectively closed the 3.0% at 50 plan to new and "Classic" Police Safety members on November 18, 2011.

2. Upon implementation of Lompoc's Tier 2 pension plans between August 12, 2011, and November 18, 2011, Lompoc also negotiated the full payment of the employee's contribution in all its pension plans to be paid by its employees. While some groups had their full employee portion paid by Lompoc prior to 2011, the negotiated change transferred the full employee portion to the employee in 2011. While this policy change is highlighted in the report for the City of Santa Maria, the report is silent on the proactive changes made by Lompoc that were fully implemented by November 18, 2011, almost seven years ago.

3. CalPERS made significant changes in funding of small plans (those with less than 100 active members) effective with the June 30, 2003, agency valuations. Risk pooling combined assets and liabilities across employers by plans to reduce or eliminate large fluctuations in an employer's retirement contribution rate caused by unexpected demographic events. In May 2014, CalPERS authorized the further combination of all existing risk pools into two pools; one for all Miscellaneous groups and one for all Safety groups. In 2003, Lompoc had more than 100 active members in its Miscellaneous plan; and, therefore, was not pooled with other agencies in any risk pool. Lompoc's Safety groups did not have more than 100 active members in 2003 and thus were pooled with other agencies in like plans. The implementation of risk pools is not discretionary on the part of CalPERS agencies as implied by the report (page 7, footnote 12). CalPERS pools Lompoc's Tier 1, Tier 2, and PEPRA tier Miscellaneous members in Lompoc's single valuation report produced annually. This combination allows for the averaging of employer contribution rates for Tier 1

members with Tier 2 and PEPRA tier members. One of the reasons CalPERS implemented the second combination of pooling in 2014 was due to the effective closed nature of all existing pooled plans with the implementation of PEPRA. Without combining all pooled Miscellaneous plans and combining all pooled Safety plans, eventually all closed plans would mirror the Safety plan of Carpinteria, which has no active members, no payroll and remaining unfunded actuarial liability (UAL) payments due to "active" retirees in their system. Current resources are required to amortize the retiree benefits being paid until the closed plan pays out the final pension obligations for retirees, likely in the mid 2040s but possibly much later than that.

4. Lompoc has been proactive in addressing the challenges faced by contribution increases imposed by CalPERS.

    a. The primary way Lompoc addressed the challenges was with the closures of the 2.7% at 55 Miscellaneous Plan and the 3.0% at 50 Safety Plan in 2011, prior to the implementation of PEPRA. With this proactive approach, Lompoc currently (effective June 2018) has the following makeup of active members in its three tiers of pension plans, with Tiers 2 and PEPRA more affordable and cost efficient plans:

	Active Members				
Plan Type	**Total**	**Tier 1**	**Tier 2**	**PEPRA Tier**	**% in Tier 1 & 2**
Miscellaneous	275	163	19	93	40.7%
Safety					
Police	44	27	5	12	38.6%
Fire	28	12	3	13	57.1%
Total	347	202	27	118	41.8%

    b. It is important to note the State identified PEPRA as a long-term solution and that significant savings are expected to be realized over the long term of 30 years or more. The same can be said for the changes implemented by Lompoc in 2011 to eliminate the 2.7% at 55 and the 3.0% at 50 plans. The savings from those eliminations will be realized over the life of the members in those plans as active members and retired members are dropped from the system. Lompoc knows of approximately 60 agencies that implemented second tiers before PEPRA was enacted. Those agencies, including Lompoc, have reduced their risks of additional liabilities due to transfers into their system of "Classic" members with the implementation of the second tier structure prior to implementation of PEPRA by the State.

    c. A second way Lompoc addressed the challenges was the elimination of any payment of employee contributions by Lompoc which was also accomplished in 2011 as discussed above.

d. A third, and ongoing way Lompoc is addressing the challenges is the annual prepayment of the various annual UAL obligations at the beginning of each fiscal year (FY) since 2015-16. This seemingly small measure will reduce Lompoc's long-term payments to CalPERS to provide for contractual obligations by more than $5,000,000 over the life of the existing UAL amortization periods through 2045.

e. Another CalPERS policy change will affect contributions of all plans going forward, effective with the contribution valuations as of June 30, 2019. With the June 30, 2019, valuations, CalPERS is changing the default amortization period for new layers of UAL payments from 30 years to 20 years, and to a "level dollar" payment, which will accelerate funding while greatly reducing the interest paid over the amortization period.

f. A number of agencies are prepaying significant lump sum payments against their UALs. The State of California utilized available cash to prepay $6 Billion of UAL payments with the expectation the prepayment will save approximately $11 Billion over a 20-year period. Several local agencies are also prepaying obligations including the Cities of Pismo Beach, Santa Cruz, Irvine, Newport Beach, and several others. This approach, if used by Lompoc, would reduce its UAL over time.

5. The rating created by the Grand Jury report (three categories of solvency risk [high, moderate, low]]) suggests Lompoc's non-PEPRA plans are at a high risk of not being able to pay the benefits due to current retirees and future retirees into the foreseeable future. That is just not the case. While Lompoc's Tier 1 plans' funded status are not ideal, the plans have sufficient assets to pay current benefits for many years. In addition, Lompoc's non-PEPRA Tier 2 plans provide a moderate benefit that is comparable with Lompoc's PEPRA tiers and are virtually fully funded as of June 30, 2016, at 93.3%. Lompoc's Miscellaneous Plan, which incorporates Lompoc's two tiers and the State's PEPRA tier in a single plan, had total assets as of June 30, 2016, of $122.6 Million and currently pays approximately $7.9 Million in benefits annually. Assuming no more contributions are made by either employees or Lompoc, and no additional investment returns are generated, it would take over 15 years to fully consume existing assets. Neither premise is realistic but the example supports Lompoc's assertion its non-PEPRA plans do not have a high solvency risk.

6. The Grand Jury's use of the current funded ratio alone, without context, as a basis to draw its conclusions, does not tell a complete story. Between 2001 and 2008, the United States suffered two major economic downturns, one created by the "dot-com" bust (and exacerbated by the terrorist attacks on September 11, 2001) and then the real-estate driven Great Recession. In FYs 2001 and 2002, CalPERS realized investment losses of 7.2% and 6.1%. Then in FYs 2008 and 2009, CalPERS realized investment losses of 5.1% and 24%. That latter loss is unprecedented and consistent with the fact the last time the U.S. experienced a recession of that magnitude was

during the Great Depression. Over a 24-year period (from FYs 1993 through 2016), the four losses noted above were the only years CalPERS realized investment losses and both were caused by external shocks to the economy. In the same FYs 1993 to 2016 period, there has been no four-year period in which CalPERS investments earned less than 7% annually in each and every year. Prior to the "dot-com" bust and the Great Recession, based on valuations as of June 30, 2000, and 2007, Lompoc's Miscellaneous plan had funding statuses of 140.9% and 103.1%, respectively. Lompoc's Safety plans had funding statuses of 109.1% and 99.0% respectively. Due to the Great Recession, Lompoc's Miscellaneous Plan dropped from 103.1% as of June 30, 2007, to 70.0% as of June 30, 2016, while Lompoc's Safety Plan (Tier 1) dropped from 99.0% to 66.3%. Other plans throughout the CalPERS system experienced similar drops. Generally, a pension system is considered appropriately funded with an 80% funded status. Having, 70% and 66.3% funded statuses is certainly not ideal, but given the backdrop of the two recessions, it is not unreasonable and does not in any way suggest pending insolvency. Subsequent to the issuance of the Grand Jury report, Lompoc received the June 30, 2017, valuations for all its plans. Lompoc's Miscellaneous Plan's funding status increased to 71.4% at June 30, 2017. Lompoc's Safety Plan (Tier 1) increased to 67.5% at June 30, 2017.

7. The Grand Jury's assessment of solvency risk does not take into consideration the purpose and impacts of the three recent CalPERS actions to (i) eliminate previously implemented smoothing policies over five years beginning with FY 2016 contribution rates, (ii) lowering the discount rate from 7.5% to 7% over eight years starting with the actuarial valuations for the fiscal year ended June 30, 2016 (for FY 2019 contribution rates), and (iii) gradually shift to less risky investments over 20 years, which is expected to lower the discount rate about 100 basis points (1%) (beginning with actuarial valuations for the fiscal year ending June 30, 2019). While putting more financial pressure on participating agencies and active employees, that decision actually strengthens the plans by relying less on investment returns and relying more on employer/employee contributions to fund retirement benefits. In fact, CalPERS' decision was less about its ability to earn the previous assumed rate of return target of 7.5%, as some may contend, and more about 'CalPERS' intent to strengthen the plans and increase the likelihood of achieving a funded status above 80% within the next ten years. The two policy decisions to reduce the assumed rate of return target to 7.0% in eight years and to 6.5% over 20 years also reduces the risk of the investment portfolio experiencing significant investment losses during that period.

8. Lompoc is unique in the County of Santa Barbara as it provides municipal electrical services to its customers and itself. Lompoc also provides water and wastewater utility services, solid waste collections and landfill services. Those full-service aspects of Lompoc utilize Miscellaneous plan employees to provide many of the services. Lompoc's pension costs for all Miscellaneous plan members of the municipally-owned utilities and support services are recovered in Lompoc's service charges for the applicable utilities. A significant percentage of active and retired

members of Lompoc's Miscellaneous plan are or were employed by Lompoc's utilities. That fact reduces Lompoc's exposure to "revenue shocks," as described on page 6 of the Grand Jury report under the title of "Complementary Risk Analysis" related to municipal tax revenues such as property taxes, sales taxes and other similar revenues subject to economic shocks.

9. Lompoc Safety plans other than its Tier 1 plan were initiated after the Great Recession of 2008. None of the newer four plans have to replace resources lost due market corrections of the Great Recession. This is a significant difference between the newer plans and the Tier 1 safety plan. As Lompoc's Miscellaneous plan incorporates all three tiers, the benefits of the newer-post Great Recession plans are also incorporated into the overall funding status of the plan.

Finding 4: *In Lompoc and the City of Santa Barbara, liquidity risks are high as measured by projected years of negative cash flow. Managing those risks will require employer's pension contributions of 40 percent of payroll in Lompoc and 50 percent in the City of Santa Barbara at least until 2030.*

Lompoc's Response: Lompoc partially disagrees with the finding.

The liquidity risk offered by the Grand Jury as a measure of pension system risk is fatally flawed in a number of ways in its attempt to assign a ranking of level of risk to individual agencies. The primary flaw is the method simplistically reduces the complexities to total contributions by employees and employers, total investment returns and total payments to retirees. In addition, the premise that periods of negative cash flow point to a liquidity risk ignores the underlying idea of pensions; that they are a promise to pay all earned benefits over the lives of the members using assets accumulated in a fund. The finding presumes negative cash flows for Lompoc's system for as long as 12 years; however, the funding horizon for Lompoc's Miscellaneous Plan includes employees just hired in their early 20s who will not be retiring until approximately age 62 providing up to 40 years to accumulate resources in order to pay the promised benefits before retirement.

There are fundamental differences between the cities in Santa Barbara County that make the analysis of overall risk more complex than one simple measure of annual cash flow including:

- The age of the cities and the length of time the cities have been members of CalPERS. Guadalupe, Lompoc, Santa Maria and Santa Barbara are much older than Buellton, Solvang, Goleta and Carpinteria.
- The number of member employees in each agency is vastly different as are the number of retirees from each agency.
- Whether the city has public safety as a direct expense, indirect expense or is not responsible for either the fire or police components of public safety.
- The complexity of the cities. As mentioned in the report, the cities of Buellton, Carpinteria, Goleta, and Solvang contract with Santa Barbara County for Police

services. Carpinteria and Goleta have no utility services. Buellton, Carpinteria, Goleta, and Solvang are served by the Santa Barbara Fire Protection District or another special district.

- The retiree to active ratio of the cities vary widely. Goleta's ratio is the lowest with 0.3 retirees per every active employee. Carpinteria's ratio is the highest with 2.4 retirees per every active employee. Guadalupe, Lompoc, Santa Barbara, Santa Maria and Solvang's ratios are between a 1.0 and 1.7 ratio of retirees to active members. [Note: All ratios are derived from information readily available from public documents based on the June 30, 2016, contribution actuarial valuations for each agency.]
- Whether cities mitigated their long-term exposure by implementing a "Classic" second tier lower than the most beneficial formula (from the employee's point of view). Only Lompoc and Santa Maria implemented a "Classic" second tier for Miscellaneous and Safety members prior to implementation of PEPRA.

Besides the above differences, which all affect each city's overall liability obligations, the assertion Lompoc's liquidity risks are high is based strictly on the assumption that, absent any actions already taken by Lompoc, potentially taken in the future, other factors that improve its finances, other factors that improve the finances of the CalPERS Pension Plan as a whole, or future court decisions affecting Lompoc's ability to modify existing pension plans, Lompoc will see negative cash flows for the next seven to eight years due to retirement payments, net of Lompoc and employee contributions and investment returns. In reality, the measured increases in Lompoc's contributions due to CalPERS policy changes mentioned in Response 7 to Finding 3, above, exceed Lompoc's anticipated base revenue growth only in FYs 2017-18 to 2020-21. Beyond FY 2020-21, average base tax revenue growth will exceed the increases in pension contribution growth by an average of $500,000 per year through FY 2032-33.

In addition, since FY 2015-16 (the first year available), Lompoc has utilized the annual lump sum payment option for its UAL obligations for Safety plans. Lompoc has also utilized the annual lump sum payment option for its Miscellaneous plans since FY 2017-18 (the first year available). Realized savings to date are approximately $500,000 for the four years from FYs 2015-19 with $171,000 anticipated to be saved in FY 2018-19. Continued over the existing amortization period of Lompoc's two UAL obligations, that single annual cash flow action will save Lompoc approximately $5,000,000 over the remaining amortization periods (approximately 28 years).

Unlike the unexpected losses from the Great Recession, Lompoc has the benefit of knowing what is coming due to the phased in approach of the CalPERS policy changes. With that foreknowledge, Lompoc has taken, and intends to take, measures to reduce the impacts of rising pension costs in the near future. Specifically, Lompoc has balanced historical budgets and will balance its future budgets based on (i) measures to control non-pension costs and (ii) new revenue not factored into the Grand Jury's projections. Each of those is described below.

1. Measures to Control Costs – Over the last several years, Lompoc implemented cost controlling measures to ensure it was able to adopt balanced budgets. Those measures included the following:

   a. Shifting more of the responsibility of pension costs to employees. Beginning after the 2008 Great Recession and completed in 2011, all members of the Miscellaneous and Safety plans have gone from having some or all of the employee share paid by Lompoc to paying all of the 7%, 8%, or 9% from employee deductions. While Lompoc has not yet implemented any cost sharing of the employer share of pension contributions, PEPRA provides for cities to negotiate or impose additional employee contributions above the contractual employee portion (the 7%, 8% or 9% rates mentioned above).

   b. During FYs 2009-11 and 2011-13, Lompoc implemented mandatory furloughs for all City employees. As CalPERS had not yet implemented the lump sum UAL payment procedures, the mandatory furloughs reduced Lompoc's contributions on a short-term basis, providing budgetary relief during the long recovery from the Great Recession.

2. New Revenues – In November 2018, Lompoc voters will have the opportunity to approve a new tax measure to impose up to a 6% general tax on retail cannabis businesses and other taxes on different categories of cannabis businesses. Starting in FY 2020-21, that could generate between $130,000 and $470,000 annually in new revenues to the General Fund.

   In addition, the U.S. Supreme Court decision in South Dakota v. Wayfair will result in increased sales tax revenues. The decision overturned the 1992 case of North Dakota v. Quill, which, at that time, prohibited states from requiring out-of-state businesses (primarily catalog and other mail order businesses) that sold to in-state purchasers from collecting sales taxes. Since mail order and catalog businesses have been replaced with online sales of commodities, the recent decision will allow states to collect sales taxes from out-of-state businesses that sell, via the internet, to in-state customers. The estimates of the additional revenues Lompoc will receive ranges from $100,000 to $300,000 annually. The State of California has already issued guidelines requiring the collection of sales taxes, which may start as early as August 2018. As such, Lompoc could receive approximately 10 months of revenues in FY 2018-19 and full revenues starting in FY 2019-20.

Lompoc provides significant services outside of its General Fund, primarily for utility services (Water, Electric, Wastewater, Solid Waste [collections and landfill]]). Each of those business-like activities has self-supporting rate structures that provide for operational costs, capital replacements and adequate reserves. Each activity is responsible for the pension obligations incurred in providing its respective service. In aggregate, approximately 80% of the entire Miscellaneous Plan unfunded actuarial liability resides in those business-type activities. While not immune to external economic influences, the revenue streams for the

business-type activities can be adjusted to account for increased (or decreased) cost pressures utilizing appropriate rate study methodologies.

In 2016, Lompoc commissioned Bartel Associates to model Lompoc's projected contribution trends for both its Miscellaneous and Safety plans (as wholes rather than by individual benefit type). Lompoc's Miscellaneous plan has a 50% confidence level of Miscellaneous rates above 40% (normal cost plus UAL expressed as a percentage) beginning in FY 2024-25, increasing to 43% in FY 2030-31. It has a 25% chance the rates will never exceed 35.3% and a 25% chance rates reach 52.9% before dropping. Rates are anticipated to drop below current levels by FY 2038-39 and to just the normal cost of 10% by FY 2047-48. The funded status of the plan, based on the Bartel Associates model, is projected (with a 50% confidence level) will reach a minimum of 69.7% in FY 2018-19 and exceed 80% by FY 2029-30, in reaching 100% by FY 2040-41. Lompoc's Safety plan has a 50% confidence level of reaching a 68.4% contribution rate by FY 2031-32 with a 25% confidence level of a range of 56.2% to 80.6% between FYs 2022-23 and 2032-33. The 50% confidence level reduces the contribution percentage to the same percentage as FY 2018-19 by FY 2038-39 and a drop to the normal cost by FY 2047-48. The funded status of the Safety plans have a 50% confidence level of reaching a low of 65.2% in FY 2019-20, returning to 80% funded by FY 2031-32 and reaching 100% funding by FY 2041-42. None of the strategic measures identified in the response to Finding 3 are contemplated in the contribution rates or funding levels identified in the Bartel Associates modeling. If Lompoc identifies a funding source to prepay a significant portion of the Miscellaneous plan's obligations, then the contribution rate projection and funding levels could be substantially different than projected.

An unintended consequence of implementation of PEPRA over the long term will be the inequitable allocation of funding levels. One component of PEPRA requires the continued contribution of the employee normal cost, by both the agency and the employee, regardless of the funding status of the plan. There are agencies in CalPERS with pooled PEPRA plans funded in excess of 200% and non-PEPRA pooled plans funded in the 70% to 80% range. Those agencies cannot utilize the surplus funding to offset the lesser funded plan and are required to continue funding the highly funded plan regardless of how overfunded it becomes.

Finally, the changes in 'CalPERS' contribution policies described above (elimination of smoothing methodologies, reducing the discount rate from 7.5% to 7.0%, and reducing the discount rate from 7.0% to 6.5%while moving CalPERS portfolio to less risky assets) are all being phased in over time rather than being effective immediately upon adoption. That phased-in approach provides member agencies time to prepare, plan and accommodate the anticipated increases over the 5-year, 8-year and 20-year horizons of each policy change. The phased-in approach, while not ideal for returning Lompoc's plans to a higher funding level more quickly, is a compromise that allows Lompoc to enact structural changes over time related to revenue enhancements, expenditure controls and, where required, bargained changes with various represented groups at the time individual memorandums of understanding are negotiated. The phased-in approach builds in a period of negative cash

flows in the system as concluded by the Grand Jury; however, it is planned and provides a path for all affected agencies, including Lompoc, to grow into the increasing contributions.

Agencies throughout California have provided testimony at various CalPERS Board meetings, legislative sessions, and with the Governor, to provide relief from the seemingly ever-increasing contribution obligations. Barring changes to pension law pending with the State Supreme Court, such measures to relieve agencies from currently contributing the required obligations, several agencies with available resources have, or plan to, contribute more than their required annual obligations up front.

Finding 7: *The City of Santa Maria faces greater pension risks because of its comparatively low General Fund revenue per capita, which is less than 50 percent of that of the City of Santa Barbara and less than 67 percent of that of Lompoc. Santa Maria has taken steps to end employer contributions in lieu of employee contributions in its pension plans; this step moves some of the burden of repaying its unfunded pension liabilities from the City to its active employees.*

Lompoc's Response: Agree.

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

Lompoc's Response: Agree. In addition, Lompoc's non-PEPRA Tier 2 plans provide a moderate benefit that is comparable with Lompoc's PEPRA tiers and are virtually fully funded at June 30, 2016, at 93.3%. Lompoc's Miscellaneous Plan combines Lompoc's two tiers and the State's PEPRA tier. The lower cost tiers (Lompoc's second tier and the State's PEPRA tier) have higher funding ratios that are blended with Lompoc's primary first tier funding status.

Lompoc Safety plans other than its Tier 1 plan were initiated after the Great Recession of 2008. None of the newer four plans experienced, and are not recovering from, the Great Recession. This is a significant difference between the newer safety plans and the Tier 1 safety plan and a major cause of the Tier 1 plans current funding status lower than the funding status of the four newer plans.

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 to 6 percent, from the 2018-19 rate of 7 percent, would push the funded ratios of several municipal systems close to 0.5 and might impose further increases in the employer's contributions in Lompoc, in the City of Santa Barbara and in Santa Maria.*

Lompoc's Response: Agree.

Finding 10: *It is unlikely that the largest municipal plans – Lompoc Safety; City of Santa Barbara Miscellaneous; City of Santa Barbara Fire; City of Santa Barbara Police; and City of Santa Maria Miscellaneous – can apply to the revised CalPERS amortization schedule of 20 years to all their unfunded liabilities without higher new employer's contributions. Such new contributions would be particularly problematic in Lompoc and in the City of Santa Barbara given the high employer's contribution rates that already apply in those cities.*

Lompoc's Response: Agree. The revised CalPERS 20-year amortization schedules only apply to new unfunded liabilities arising in the June 30, 2019, actuarial valuations or later. The revised CalPERS amortization schedules do not apply to amortizations of current unfunded liabilities although all CalPERS agencies can voluntarily elect amortization schedules other than the CalPERS default schedules.

RECOMMENDATIONS

Recommendation 1: *That in view of the 12 Findings, the governments 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.*

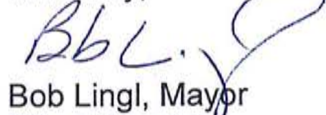
Lompoc's Response: This recommendation has already been implemented and will continue to be in place over the next several years to the extent revenue growth and new revenues are not sufficient to meet increasing pension costs. The recommendation appears to be focused on the various 'governments' General Funds. As mentioned in Lompoc's response to Finding 4 above, as much as 80% of Lompoc's Miscellaneous Plan net pension liabilities reside outside Lompoc's General Fund. See Lompoc's response to Findings 3 and 4 above for additional information related to existing steps implemented by Lompoc.

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.*

Lompoc's Response: Lompoc has provided public reports, discussed at open sessions of its City Council to inform the City Council and the public, of Lompoc's current situation. The most recent informational report was provided to the City Council on July 17, 2018. Lompoc has addressed rising pension costs in each and every biennial budget since FYs 1999-01. Each and every biennial budget has been presented to the City Council in a public report and discussed in open session during the spring prior to its adoption. Each biennial budget since FYs 1999-01 has had a balanced General Fund budget, as well as balanced non-General Fund budgets, while annual pension contributions have grown from $1.0 Million in FY 1999-00 to $8.7 Million in FY 2017-18.

As it has done since FYs 1999-01, Lompoc plans on preparing and making public a two-year plan for addressing rising pension costs. To a large degree, Lompoc will outline what is already being done. While there have been varied responses to increasing pension contributions throughout the State, an important and vital step is the identification of the issue. Creating a plan to address the issue, whether with a short-term infusion of surplus funds, a measured consistent contribution plan to address the issue over the long term, including abiding by the minimum funding parameters implemented by CalPERS, or some middle plan that reduces overall costs in the long run, is a very important step in the process. While a specific plan is helpful, implementation of the plan over the life of the various pension plans, and abiding by the plan over that time, are equally important steps. With a plan, Lompoc can modify the plan in the future by adding new elements that may improve Lompoc's situation as City Council membership changes, the financial environment changes, judicial rulings change, and as Lompoc's Tier 1 employees and retirees age out of the system.

Sincerely,



Bob Lingl, Mayor
City of Lompoc

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

c: Honorable Lompoc Mayor Pro Tem and Council Members
Jim Throop. City Manger
Brad Wilkie, Management Services Director