



February 17, 2022

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Pamela Olsen, Foreperson
2021 Santa Barbara County Grand Jury
Santa Barbara County Courthouse
1100 Anacapa Street
Santa Barbara, CA 93101

RE: Response to 2020-21 Santa Barbara County Civil Grand Jury Report
Titled *Pensions in Santa Barbara County Require Vigilance.*

Dear Madame Foreperson and Members of the Grand Jury,

The 2020-21 Santa Barbara County Civil Grand Jury recently released its report entitled, *Pensions in Santa Barbara County Require Vigilance.* The City of Goleta is named as an affected agency and is required to respond to the applicable findings and recommendations within 90 days of the receipt of the report.

The purpose of this letter is to provide responses from the City to Findings 1a, 1c, and 2, and Recommendations 1 and 2 contained in the report dated November 30, 2021. The responses to the findings and recommendations are as follows:

Finding 1a:

The cities of Buellton, Carpinteria, Goleta, Guadalupe, Solvang and the County of Santa Barbara are at less potential plan solvency risk.

Response to Finding 1a: Agree.

Finding 1c:

Unfunded Accrued Liabilities have risen for all cities since 2016, and with the announced change in the Discount Rate, are expected to rise further, which could impact the cities' ability to delivery expected services to residents.

Response to Finding 1c: Agree.

The reduced discount rate of 6.8% set by the CalPERS board in November 2021 will have an impact by increasing the amount of future payments to CalPERS. However, the CalPERS investment rate of return for June 30, 2021 of 21.3% will have a positive impact on future unfunded liability payments. Other factors, including salary changes, actuarial assumptions and future investment returns will continue to have future impacts to the annual payments the City is required to make.

The City's adopted budget will continue to ensure all required payments are adequately appropriated. The operating and capital budgets will continue to be evaluated to ensure services levels are being met. Any new or increased service levels will be supported by exploring future revenue generating solutions. The City will be utilizing its Section 115 Trust to prefund pension obligations and as a pension rate stabilization tool.

Recommendation 1:

That each city council and the Santa Barbara County Board of Supervisors develop and publish a comprehensive plan by June 30, 2022, addressing their pension plans and how they intend to properly assure future obligations are paid when due, without impacting the timely delivery of essential and promised services to residents.

Response to Recommendation 1: Will be implemented.

During the 2022 calendar year, staff will continue its work with the Section 115 Trust and analyzing and considering various pension management strategies, including funding policies and a written plan addressing the risks of pension plan insolvency. The plan will be part of the FY 2022/23 budget process that will be adopted in June 2022.

Finding 2:

Section 115 Trusts, Pension Obligation Bonds, and Pension Reserve Funds can be effective mechanisms to protect cities from dramatic impacts to the financial markets or declines in General Fund revenues.

Response to Finding 2: Agree.

The City agrees that Section 115 Trusts and Pension Reserve Funds to be effective mechanisms to protect cities from dramatic impacts, though finds Pension Obligation Bonds to involve considerable investment risk, making this approach very speculative and not a one size fits all approach. Issuing a Pension Obligation Bond can pay down the UAL that exists at a specific point in time, but other actuarial dynamics and market performance can create a new UAL or produce a surplus. If the pension investment return rate falls below the interest rate on the bonds, the City would be worse off by issuing debt.

Recommendation 2:

That each city council and Santa Barbara County Board of Supervisors study and determine by June 30, 2022, whether a Section 115 Trust, Pension Obligation Bond, or

Pension Reserve Fund would be an effective hedge against risks to their pension plans for their city.

Response to Recommendation 2: Has been implemented.

The City had evaluated the available options and adopted and approved a Section 115 Pension Trust on June 16, 2020 with PARS and will be utilizing a passively managed – moderate risk portfolio. Staff found that prefunding pension obligations in a trust provided a way of committing assets with local control, including contributions, disbursement, timing amount and risk tolerance levels of investments. The City has also historically maintained a reserve account for pension liabilities and plans to continue to fund the reserve and make transfers from the reserve to the Section 115 Trust.

Conclusion

The City of Goleta appreciates the opportunity to provide detailed responses to the Grand Jury's findings and recommendations. Addressing the unfunded liabilities of public pensions is critical. CalPERS' decision to lower the discount rate as a way to reduce volatility presented a fiscal challenge all participating agencies. The City of Goleta is in good financial condition and has a record of sound budgeting and fiscal prudence, which, combined with the proactive steps we are taking to reduce our UAL, will allow the City to address the challenge of increasing pension costs successfully. This concludes our responses to the Grand Jury's Report. For any additional assistance we can provide on this, feel free to contact Luke Rioux, Finance Director at lrioux@cityofgoleta.org or by phone at (805) 562-5508.

Sincerely,



Michelle Greene
City Manager

cc: Luke Rioux, Finance Director

The Honorable Judge Gustavo Lavayen, Presiding Judge, Santa Barbara County Grand Jury, 312 East Cook Street, Santa Maria, CA 93454

Santa Barbara County Grand Jury
Digital Copy to: sbcgj@sbcourts.org