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## **COUNTY OF SANTA BARBARA**

**February 8, 2022**

Honorable Gustavo Lavayen  
Presiding Judge  
Santa Barbara Superior Court  
312 East Cook Street  
Santa Maria, CA 93454

Reference: Response to Santa Barbara Grand Jury report titled, "Pensions in Santa Barbara County Require Vigilance" published November 30, 2021.

Judge Lavayen:

Please find attached the Santa Barbara County Board of Supervisors (Board) response to the above referenced Civil Grand Jury Report. As directed by the Grand Jury, all responses are provided in accordance with Section 933.05 of the California Penal Code.

Sincerely,

Joan Hartmann, Chair  
Santa Barbara County Board of Supervisors

CC: Santa Barbara County Board of Supervisors  
Pamela Olsen, Foreperson, 2021 Santa Barbara Grand Jury

**Santa Barbara County Board of Supervisors  
Response to the Santa Barbara County Grand Jury 2021 Report  
“Pensions in Santa Barbara County Require Vigilance”**

**Finding 1a**

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

The Board of Supervisors agrees with this finding.

**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.**

The Board of Supervisors partially disagrees with this finding. See the County’s response to Recommendation #2 for explanation.

**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.**

This recommendation has been implemented. County staff provides the Board of Supervisors reports throughout the year on budget policies, fiscal outlook and a five-year forecast to plan for future increases while still delivering services. As part of the five-year forecast presentation, retirement assumptions are incorporated to plan over the period for anticipated changes in pension costs. Annual budget workshops (April) and budget hearings (June) are held to review the overall financial conditions of the County as part of the adoption of the annual budget, which incorporates the upcoming year’s pension plan rates. This ensures every year that the County’s annual pension obligation is included in the adopted budget and available to be paid when due. Additionally, the Board regularly receives a detailed presentation from the Santa Barbara County Employees’ Retirement System (SBCERS) on the current status and valuation of the Retirement Plans. The funded ratio of the SBCERS pension fund was 89.5% as of June 30, 2021, a significant positive increase compared to the prior year’s ratio of 74.3%. The unfunded liability decreased from \$1.1 billion to \$470.1 million.

**Recommendation 2**

**That each city council and the 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.**

This recommendation has been implemented. The County has previously evaluated whether a Section 115 Trust, POB or reserve fund would be an effective measure to hedge against volatility. The County has opted not to initiate a Section 115 Trust or POB but when prudent, has recommended budgets with set-asides of revenue growth in reserve to offset future year pension increases. In this way the County has been able to hedge against future risks that rising pension costs could negatively impact the delivery of services to residents. Should this budgetary strategy prove insufficient to manage pension contribution volatility in the future, the County will re-evaluate the need to establish a pension reserve fund.

Regarding Pension Obligation Bonds, during the past decade of rising pension costs in the wake of the Great Recession, and the move towards more conservative actuarial assumptions by SBCERS, the County evaluated, but did not find it necessary to issue Pension Obligation Bonds (POB), which carry many risks of their own. In 2015, the Government Finance Officers Association (GFOA) issued a formal advisory (reaffirmed in February 2021) that state and local government should *not* issue POBs, due to the risk that the invested POB proceeds might fail to earn more than the interest rate on the bonds, and the fact that increasing a jurisdiction's debt burden potentially uses up debt capacity that could be used for other needs, among other reasons. For these reasons, the County is not considering POBs in the near future.

Similarly, if the County established a Section 115 Trust, it would need to invest in a similar manner, and be exposed to the same market volatility, as SBCERS investments in order to generate strong returns. Section 115 Trusts could end up *increasing* market risk exposure compared to investments made through SBCERS, which has a much larger investment pool, access to various investment tools, and controls that a 115 Trust wouldn't have to smooth in impacts in the event of market losses. It is not at all clear that establishing a 115 Trust would be a more effective hedge against pension volatility than simply increasing contributions to SBCERS. For these reasons, the County is not considering establishing a Section 115 Trust in the near future.