



February 16, 2022

Via Regular Mail and Email: [sbcgj@sbcourts.org](mailto:sbcgj@sbcourts.org)

Presiding Judge Gustavo Lavayen  
312 East Cook Street  
Santa Maria, CA 93454

Re: City of Lompoc's Response to the Findings and Recommendations in the Santa Barbara County Grand Jury Report on "Pensions in Santa Barbara County Require Vigilance"

Dear Presiding Judge Lavayen:

The Santa Barbara County Grand Jury recently released its report entitled *Pensions in Santa Barbara County Require Vigilance*. 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, by February 28, 2022.

Following are Lompoc's responses to the individual applicable findings and recommendations in accordance with California Penal Code Sections 933 and 933.05.

**Finding 1b:** The cities of Lompoc, Santa Barbara and Santa Maria are at higher potential pension plan solvency risk.

**Lompoc's Response to Finding 1b:** Agree.

As a full-service city, Lompoc's annual operating budget is larger in comparison to many other cities in Santa Barbara County, and therefore the total normal accrued and unfunded actuarial liabilities is also higher. The percent of Lompoc's pension obligations that are funded, however, is similar to other cities in Santa Barbara County and to many other cities throughout California.

Risks to pension plans exist for all members of CalPERS. In response to this higher potential risk, in July 2020, Lompoc enacted a 15-year Fresh Start of the unfunded accrued liability (UAL) for the Miscellaneous Plan, Rate Plan 488, and Safety Plan, Rate Plan 489. That irrevocable Fresh Start plan reduced the amortization period on Lompoc's UAL for those plans from a variable 30-year payment schedule to a more aggressive 15-year payment schedule. The fresh start will save Lompoc an estimated \$20 million, and the UAL is projected to be reduced to \$0 by 2035. Lompoc will continue to make all legally required payments to CalPERS throughout the year, and has budgeted for those expenditures accordingly.

(Date)

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**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 deliver expected services to residents.

**Lompoc’s Response to Finding 1c:** Agree.

Although the annual payments Lompoc is required to make will fluctuate and may increase, Lompoc does not anticipate its ability to deliver expected services to residents to be impacted. In March 2020, in response to the city’s UAL and other budget challenges, Lompoc voters approved Measure I2020 by 69.4%. Measure I2020 increased the sales tax rate in Lompoc by 1% and went into effect on July 1, 2020. In its first year of implementation, the I2020 sales tax generated over \$6.4 million of additional revenue to the city, which is anticipated to continue through the 15-year sunset of the measure. The increased revenues provide a reasonable measure of assurance that Lompoc will be able to continue to deliver expected services to its residents while the scheduled Fresh Start UAL payments are in effect.

As in prior fiscal years, Lompoc’s adopted budget will continue to ensure all required payments are properly appropriated while maintaining expected service levels.

**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.

**City of Lompoc’s Response to Recommendation 1:** Has been implemented.

Throughout calendar year 2019, Lompoc invested considerable time and dedicated discussion at multiple budget workshops to evaluate and analyze the city’s future pension obligations. As explained in the responses to Findings 1b and 1c above, those discussions ultimately resulted in Lompoc’s Measure I2020 1% sales tax, which was approved by voters in March 2020 and enacted on July 1, 2020. Lompoc subsequently enacted the 15-year Fresh Start payment plan of its unfunded accrued liability in July 2020. Taken together, those actions addressed how Lompoc will assure that future pension obligations are paid when due, without impacting the timely delivery of essential and promised services to residents. Furthermore, this comprehensive plan, which addresses both the UAL and the ability to continue to provide expected levels of service to the residents of Lompoc, was included as a core component in Lompoc’s FY 2021-23 Biennial Budget that was adopted by the Lompoc City Council at its special meeting on June 15, 2021. The FY 2021-23 Biennial Budget Book was published on June 29, 2021, and is available on Lompoc’s website.

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**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.

**Lompoc’s Response to Finding 2:** Agree.

While Lompoc agrees that Section 115 Trusts, Pension Obligation Bonds, and Pension Reserve Funds can be effective mechanisms, the city also recognizes that each of those mechanisms carry inherent risks and should be thoroughly evaluated for long-term efficacy and adherence to the city’s risk policies.

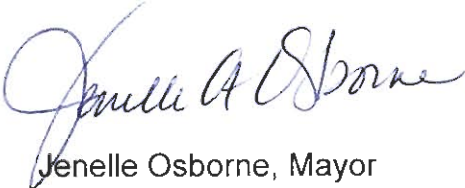
**Recommendation 2:** That each City Council and the Santa Barbara County Board of Supervisors study and determine by June 30, 2022, whether a Section 115 Trust, Pension Obligation Bond, or Pension Reserve Fund would be an effective hedge against risks to their pension plans for their city.

**Lompoc’s Response to Recommendation 2:** Will be implemented.

The City Council received a presentation and discussed the potential effectiveness of Pension Obligation Bonds during the March 17, 2021, special City Council meeting. Lompoc’s City Council was advised by staff that the risk, coupled with the timing of the investment market, would make a pension obligation bond an ineffective hedge against risks to the city’s pension plans at this time.

By June 30, 2022, the City Council will consider and determine whether a Section 115 Trust or a Pension Reserve Fund would be an effective hedge against risks to the city’s pension plans.

Sincerely,



Jenelle Osborne, Mayor  
City of Lompoc

cc: Santa Barbara County Grand Jury  
Santa Barbara County Courthouse  
1100 Anacapa Street  
Santa Barbara, CA 93101  
sbcgj@sbcourts.org

cc: Honorable Lompoc Mayor Pro Tem and Council Members  
Dean Albro, City Manger