



January 24, 2022

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

RE: City of Solvang Response to the Findings and Recommendations in the Santa Barbara County Grand Jury Report on "Pensions in Santa Barbara County Require Vigilance"

Presiding Judge Gustavo Lavayen,

In response to the Santa Barbara County Grand Jury Report, the City of Solvang offers the following responses to the findings and recommendations in the report:

Finding 1a: The cities of Buellton, Carpinteria, Goleta, Guadalupe, Solvang and the County of Santa Barbara are at less potential pension plan solvency risk.

City of Solvang's Response to Finding 1a: Agree

The City of Solvang agrees that the projected City's pension funded level versus unfunded liability remains in a stable range.

The City of Solvang also agrees that the CalPERS pension costs should be closely monitored and agrees to present a comprehensive plan to address the pension costs in the long run by June 30, 2022. The City is able to meet its required contributions to CalPERS based on the latest available actuarial report.

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.

City of Solvang's Response to Finding 1c: Agree

Although the reduced discount rate will have an impact by increasing the amount of future payments to CalPERS, the recently announced annual CalPERS rate of return at 21.3% will have a positive impact on future liability payments. The City will continue to closely monitor the actuarial statements from CalPERS and will develop strategies to manage further potential policy actions by CalPERS Board to stabilize the pension fund. Many other factors, including salary changes and increases, actuarial assumptions, and future investment returns will surely impact the annual payments the City is required to make.

City of Solvang

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As in prior fiscal years, the City's adopted budget will continue to ensure all required payments are adequately appropriated. The City will balance its operating and capital budget by considering potential service level impacts, exploring revenue generating solutions and other budget balancing options.

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 Solvang's Response to Recommendation 1: Will be implemented

The City of Solvang evaluated its Pension Obligations with multiple presentations made to the City Council in Fiscal Year 2019-20. The City is able to meet projected pension obligations and the payments are included in the City's long-term fiscal forecasts. However, the City will continue to proactively develop long-term strategies to be able to meet its obligations without significant impacts to operations.

Specific recommendations will be developed as part of Fiscal Years 2022-24 and will be prepared by June 30, 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.

City of Solvang's Response to Finding 2: Disagree partially

Section 115 Trusts or reserves set-aside to meet pension obligations can be effective tools to protect cities as a budget balancing tool. If required contributions are increased by CalPERS based on earnings (market fluctuations) or CalPERS Board policy changes, such funds can be applied toward the payment. These are planning tools which would allow for smoothing of cash payments and will result in more stable levels of ongoing operations.

Section 115 Trust would also allow the City to invest in similar strategies as CalPERS, which could potentially result in higher earnings than the City can achieve from its pooled cash investment funds.

Pension Obligation Bonds are risky and are generally not recommended by financial consultants who have studied this subject matter.

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.

City of Solvang's Response to Recommendation 2: Will be implemented

The City will evaluate the tools and will prepare a report by June 30, 2022.

Sincerely,

DocuSigned by:



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Xenia Bradford

City Manager, City of Solvang