



January 18, 2022

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

Honorable Judge Gustavo Lavayen,

The 2021 Santa Barbara County Grand Jury recently released its report entitled *Pensions in Santa Barbara County Require Vigilance*. The report includes four findings (including sub-findings) and two recommendations. The Grand Jury has requested the Santa Maria City Council respond to Findings 1b, 1c, 2, and Recommendations 1 and 2 within 90 days of the report issuance.

RESPONSE TO THE GRAND JURY

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

City Response to Finding 1b: Disagree partially with an explanation

The City acknowledges the City's normal accrued liability and unfunded accrued liability (UAL) are higher compared to many other cities in Santa Barbara County. Further, pension costs are a significant portion of the City's annual operating budget and higher costs do make it more challenging to maintain services. The City has taken many steps, starting as far back as 2011, to address rising pension costs and increase revenues to maintain essential services. The City has and will continue to make all legally required payments to CalPERS and has budgeted for these expenditures accordingly.

Although the City's UAL per capita is higher than most smaller communities in Santa Barbara County, it is much lower than the \$3,599.67 amount shown in Table 1 of the report. The correct UAL per capita amount is \$1,493.20 (UAL \$160,165,144 divided by 107,263 population = \$1,492.20). In addition, the percent of the City's pension obligations that are funded are in line with most other cities in Santa Barbara County and many other cities throughout California.

The City recognizes contributions toward pension costs are about 23 percent of original estimated revenues for 2021-22 (from the 2020-22 Budget). However, this analytical measurement ignores that not all pension costs are (nor can they be) funded by General Fund revenues. For instance, employees in the Utilities Department are funded by Water Resources and Solid Waste funds – both of which are Enterprise Funds that by law cannot be commingled with the General Fund.

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 Response to Finding 1c: Agree

The City agrees that a reduction in the discount rate will have a negative impact by increasing the amount of future payments. Fortunately, the impacts from lowering the discount rate to 6.8 percent will be offset by CalPERS 2020-21 investment return of 21.3 percent. CalPERS amortizes investment gains (and losses) over 30 years, making it unclear if it will fully offset the impacts from lowering the discount rate. In addition, 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.

As mentioned above, the City has taken many steps to reduce pension costs and enhance revenues to maintain services provided to the public. Most recently, the City conducted a city-wide comprehensive user fee study and the City Council approved fees be moderately raised with a goal of reaching full cost recovery within five years (by 2026). Additionally, and more significantly, in November 2018, City voters approved (with 74.18 percent majority) Measure U, a one-cent local transaction and use tax to maintain essential services and, when possible, enhance services. Although neither of these revenue enhancements is specifically to pay pension costs, any additional General Fund revenues improve the City's ability to deliver services to residents.

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 Response to Recommendation 1: Will be implemented, with an implementation schedule

On May 19, 2020, the City Council received a presentation and detailed CalPERS Actuarial Issues Report prepared by Bartel Associates, LLC, a leading actuarial firm. The report included a historical review and discussion of the CalPERS benefits and obligations, a projection of the City's future contribution rates, and funding strategies – the same strategies identified in the Grand Jury report. City staff is using information from the Bartel report to develop a formal Pension Liability Funding Policy that will be presented to the City Council for their consideration before 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 Response to Finding 2: Agree

The City agrees that Section 115, Pension Obligation Bonds, and Pension Reserve Funds are viable options for planning for future economic downturns. City staff has researched each of these options and has already implemented one (see City Response to Recommendation 2).

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 Trusts, Pension Obligation Bonds, and Pension Reserve Funds would be an effective hedge against risks to their pension plans for their city.

City Response to Recommendation 2: Has been implemented, with brief summary of implementation actions taken

This recommendation has been implemented. As part of the 2018-20 Budget, the City Council authorized and directed staff to establish an “Assigned Fund Balance for Unfunded Pension Benefits” (pension reserve) account in the General Fund. Further, the City Council authorized that one-third of all General Fund revenues in excess of expenditures as of June 30th of each year be transferred to the pension reserve account. The City Council provided this same direction in the 2020-22 Budget. The balance in the pension reserve account as of June 30, 2020, is \$2.8 million and staff estimates an additional \$1.8 million will be transferred for the fiscal year ending June 30, 2021. Although the account is within the General Fund, it serves the same purpose as setting up a separate Pension Reserve Fund. In addition, as noted above, all three of these strategies were included in the comprehensive pension liability analysis report prepared by Bartel Associates, LLC and will be considered as part of the development of the City's Pension Liability Funding Policy.

The above concludes the City's response to the Grand Jury's *Pensions in Santa Barbara County Require Vigilance* report. The City of Santa Maria respectfully submits this response to the Grand Jury and thank you again for all your efforts associated with this 2021 Grand Jury Report.



ALICE M. PATINO
Mayor

cc: Santa Barbara County Grand Jury