

August 23, 2011

VIA REGULAR MAIL

Hon. Arthur A. Garcia
Assistant Presiding Judge
Santa Barbara Superior Court
312 East Cook Street
Santa Maria CA 93456-5369

RE: Responses to June 2011 Santa Barbara Civil Grand Jury Report entitled “*Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly*”

Dear Judge Garcia:

The Cachuma Operation and Maintenance Board of Directors adopted the attached responses to the Civil Grand Jury’s June 2011 Report entitled “*Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly.*” An informational copy has been provided to Joni Gray, Chair of the County Board of Supervisors and a printed and CD-ROM copy has been sent to Kathryn D. McKee, Foreperson of the Santa Barbara County Civil Grand Jury.

Cachuma Operation and Maintenance Board has carefully reviewed the findings and recommendations presented in the Grand Jury’s report and wishes to thank the Grand Jury for its findings and recommendations on this important matter.

Respectfully submitted,

Lauren Hanson
President, COMB Board of Directors

attachments

Finding 1a

Most public agencies in Santa Barbara County are participating in large defined benefit pension plan pools, which provide diversification, cost efficiency, spreading of risk, centralized management and centralized investment strategy.

Response:

Cachuma Operation and Maintenance Board agrees with this finding. COMB provides employee pension benefits through the California Public Employee's Retirement System (CalPERS). We currently participate in the Miscellaneous 2% @ 55 Risk Pool along with many other governmental agencies.

Finding 1b

Public agencies in Santa Barbara County participating in defined benefit pension pools know their current year required contributions and an estimate of the following year's contribution.

Response:

Cachuma Operation and Maintenance Board agrees with this finding. In FY 2010-11, COMB paid a contribution rate of 17.671% and for 2011-12 is paying a contribution rate of 18.621%.

Finding 1c

Fitch ratings is a global rating agency that has announced new disclosure requirements because current disclosure requirements make it impossible for Fitch to accurately allocate a cost-sharing multiple-employer system's unfunded pension liability to the numerous participating employers that use pools to provide pensions to their employees. Moody's Investor Service has begun to recalculate the states' debt burdens in a way that includes unfunded pensions. The Governmental Accounting Standards Board has stated that each government agency participating in a cost-sharing pension plan should report a net liability based on its proportion of the unfunded obligation of all the participating governments.

Response:

Cachuma Operation and Maintenance Board partially agrees with the finding. For purposes of clarity to Finding 1c, the Governmental Accounting Standards Board has currently issued two Exposure Drafts proposing improvements to financial reporting of pensions by state and local governments. These Exposure Drafts are currently open for comments until September 30, 2011 and will consider all alternatives that may be presented by way of comments to the draft. The adoption of any alternatives will not take place until 2013. COMB is, and will continue to be, in full compliance with all GASB-required disclosures and will incorporate any future GASB changes to pension disclosure requirements.

Finding 1d

Unfunded long-term liability can have an important impact on future funding requirements that the ratepayer, taxpayer and each individual agency needs to know.

Response:

Cachuma Operation and Maintenance Board agrees with the finding. The calculation of unfunded liability for each retirement plan is based on a negotiated pension formula, amortization of side funds and unfunded liability, smoothing periods, and various other actuarial assumptions and is calculated by CalPERS. This estimate can vary significantly from year to year. While the dollar amount of the unfunded liability is not available for reporting at the individual agency level, CalPERS risk pool's funded ratio and COMB's specific Annual Required Contribution are both known and disclosed in our annual audit report.

Finding 1e

Public agencies in Santa Barbara County participating in defined benefit pension pools do not know their individual long-term unfunded actuarial liability.

Response:

Cachuma Operation and Maintenance Board agrees with the finding. CalPERS does not provide specific information on individual long-term unfunded actuarial liability to participants in the Miscellaneous 2% at 55 Risk Pool.

Recommendation 1

That, no later than January 1, 2012, all local government agencies that belong to multiple-employer pension pools obtain, and for each year thereafter, make publicly available estimates of their individual unfunded actuarial liability from an actuary or the plan sponsor.

Response:

The recommendation will not be implemented because it is not reasonable. At this time, the recommendation would be an inefficient use of public funds. COMB is one of several hundred member agencies within the Miscellaneous 2% at 55 Risk Pool. The cost of conducting an independent actuarial study each year would be significant and would outweigh any potential benefits realized by ratepayers and taxpayers. If GASB enacts its currently proposed changes to accounting regulations, this will likely impact the information that CalPERS provides to COMB at no additional cost to ratepayers or taxpayers.

Finding 2a

As of June 2010, public agencies in Santa Barbara County had a total unfunded actuarial liability for post employment healthcare of approximately \$316,000,000.

Response:

Cachuma Operation and Maintenance Board agrees with the value represented as its own on the Grand Jury's report.

Finding 2b

Some agencies pay all or a portion of the healthcare premium costs for employees.

Response:

Cachuma Operation and Maintenance Board agrees with the finding. COMB belongs to the Association of California Water Agencies and pays the full cost of the ACWA Blue Cross Classic Plan for regular, full time employees. Each year COMB performs comparative health premium and benefits analysis to obtain quality healthcare coverage for our employees at reasonable costs.

Finding 2c

For the most part, local agency healthcare benefits are pay as you go, and are not structured on a prefunded basis like defined benefit pension plans.

Response:

Cachuma Operation and Maintenance Board agrees with the finding. With respect to post-retirement healthcare benefits, the COMB Board of Directors has elected to fund these expenses on a pay as you go basis at this time.

Recommendation 2a

That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that contributes some or part of healthcare premium for employees, adopt an implementation plan to reduce those contributions.

Response:

The recommendation has not yet been implemented, but may be implemented in the future. COMB is currently in the process of reviewing the current compensation plan for our employees which includes the healthcare premiums paid by the agency. This review will be completed by June 2012 and the resulting decisions of the COMB Board will be implemented during fiscal year 2013. COMB continues each year to analyze and select healthcare coverage options that are fiscally responsible.

Recommendation 2b

That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that provides healthcare premiums for employees, implement prefunding their currently unfunded healthcare liability.

Response:

The recommendation will not be implemented because it is not reasonable. COMB is a Joint Powers Authority which operates on revenues provided by our five Member Units. The agency uses a pay-as-you-go approach to funding retiree healthcare costs. The COMB Board of Directors has reviewed the implications of pre-funding retiree healthcare and as a matter of economic impact, elected to continue with the pay-as-you-go system.

Finding 3

As of June 2010, public agencies in Santa Barbara County had a total liability for compensated absences of nearly \$61,000,000.

Cachuma Operation and Maintenance Board agrees with the value represented as its own on the Grand Jury's report. As disclosed in the COMB 2010 annual audit, the total liability for compensated absences is equal to \$104,583. COMB has implemented a cap on accrued vacation time.

Recommendation 3

That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that has compensated absences liabilities, adopt an implementation plan to reduce each agency's compensated absences liabilities.

Response:

The recommendation has been implemented. COMB encourages its employees to use accrued vacation time which reduces the compensated absences obligation as well as facilitates employee health and well being. A reasonable cap on vacation leave accrual is established and in place in order to limit the agency's ultimate liability.