



RESPONSE TO SANTA BARBARA COUNTY CIVIL GRAND JURY REPORT

“Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly”

Finding 1a

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

We agree with this finding. The Carpinteria Sanitary District provides employee pension benefits through the California Public Employee’s Retirement System (CalPERS). We have participated in the Miscellaneous 2% at 55 Risk Pool since July 1, 1999. Between 1977 and 1999 the District participated in the Miscellaneous 2% at 60 Risk Pool.

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.

We agree with this finding. CalPERS provides this information in a timeframe that conforms to the District’s annual budget process.

Finding 1c

Fitch Ratings is a global ratings 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.

We agree with this finding, however, the District has not independently confirmed the actions or intentions of the mentioned bond rating agencies or the Governmental Accounting Standards Board. The District makes every effort to be transparent and to provide required public disclosures related to its fiscal obligations and liabilities. In 2010 the District received the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers’ Association of the United States and Canada.

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.

We agree with this finding. The District carefully monitors the status of the Miscellaneous 2% at 55 Risk Pool through review of annual actuarial valuation reports provided by CalPERS. District staff and its Board of Directors also periodically review market performance data for CalPERS investments to anticipate the general direction employer contribution rates are trending going forward.

Finding 1e

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

We agree with this finding. CalPERS does not provide information on individual long-term unfunded actuarial liability to participants in the Miscellaneous 2% at 55 Risk Pool. Actuarial liabilities, by their nature, are based on assumptions and can only be considered a best estimate of future obligations. The District can reasonably estimate its fraction of the overall pool's long-term unfunded actuarial liability. For Fiscal Year 2010/2011 the District's employer contribution represents approximately 0.118% of the total employer contributions to the risk pool. On this basis, the District's share of the overall pool's long-term unfunded actuarial liability, as of June 30, 2009, could be estimated to be \$248,965.

Recommendation 1

That, no later than January 1, 2012, all local governmental 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.

This recommendation will not be implemented because it is not reasonable. While the District may request that the Chief Actuary of CalPERS provide an estimate of our individual unfunded actuarial liability each year, the likelihood of receiving this information is remote. This District is one of several hundred member agencies within the risk pool. The cost of conducting an independent actuarial study each year would be significant and would outweigh any potential benefits realized by District ratepayers. A proportional estimate of individual unfunded actuarial liability, as presented in response to Finding 1e, could be provided annually and reported in the Management Discussion and Analysis section of our annual financial report.

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.

We agree with this finding. The District's unfunded actuarial liability for post employment healthcare as of June 2010 was just \$40,136. This unfunded liability, determined through an independent actuarial study completed in May 2010 (available on the District's website), is among the lowest of all agencies in Santa Barbara County. The District provides a post-retirement healthcare benefit that is very limited in duration and scope and has graduated tenure-based eligibility requirements. The benefit is only offered while a retiree is eligible for continuation coverage under Cal-COBRA, generally not longer than 36 months. District retirees are not eligible for dental/vision coverage.

Finding 2b

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

We agree with this finding. The District pays the full cost of providing an HMO type medical insurance plan for regular, full-time employees. The District carefully analyzes available medical insurance plans from a wide range of carriers each year to obtain quality healthcare coverage at a reasonable cost. Employees have the option to select a plan with a higher level of benefit but are expected to pay the differential cost over the base HMO plan offered by the District. The District has elected not to consider CalPERS medical insurance due to that

program's requirement to provide retirement medical coverage and the associated costs to ratepayers.

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.

We agree with this finding. With respect to post-retirement healthcare benefits, the District Board of Directors has elected to fund these expenses on a pay as you go basis. Although the District's total unfunded actuarial liability is just over \$40K, based on the structure of the benefit program and the number of agency employees the annual expenses will be predictable and manageable within our normal operating budget in any given year.

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.

This recommendation will not be implemented because it is not warranted. The District does not require an implementation plan to reduce agency contributions to healthcare coverage for its employees. As mentioned in response to Finding 2b, the District spends considerable efforts each year to analyze and select coverage options that are fiscally responsible. In 2011, the District was facing an 18% increase in premiums for renewal of its HMO plan coverage. The increases stemmed primarily from Federal healthcare reform legislation. Instead of passing this cost on to ratepayers, the District selected an HMO plan with a substantially lower level of benefit to its employees (i.e. higher co-pay, co-insurance and deductible amounts). The result was a net reduction in agency healthcare insurance costs of approximately 2%. As such, District contributions have already been reduced.

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.

This recommendation will not be implemented because it is not warranted. It is presumed that this recommendation pertains to retiree healthcare benefits and not ongoing employee coverage costs. Due to the very limited retiree healthcare benefit offered by the District, as discussed in response to Finding 2c, a pay as you go approach is in the best interest of our ratepayers. To comply with GASB 45 requirements, pre-funding this type of actuarial liability will incur significant management and trustee costs that would not be recouped and are not justified based on the District's projected annual obligations.

Finding 3

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

We agree with this finding. The District reported a total liability for compensated absences of \$121,365. District policy, in accordance with State law, states that accrued vacation time is compensable upon separation from employment. Accrued sick leave is not compensable.

District policy prescribes a cap on vacation leave accrual that is equal to 2.5 times the employee's annual accrual rate, with a maximum accrual of 400 hours.

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.

This recommendation will not be implemented because it is not reasonable or warranted. The District encourages its employees to utilize accrued vacation time. A reasonable cap on vacation leave accrual is in place that limits the District's ultimate liability. The District has established target reserve fund levels that consider this liability. We have and will continue to maintain reserve funds at levels sufficient to cover the entire accrued liability in any given year without affecting agency operations.

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AUTHORIZED SIGNATURE

The response provided herein was reviewed by the Carpinteria Sanitary District Board of Directors at their regular meeting on July 5, 2011.

Submitted By:



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