



Carpinteria Valley Water District

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August 26, 2011

Kathryn D. McKee, Foreperson
2010-11 Santa Barbara County Civil Grand Jury
411 E. Canon Perdido, Suite 12
Santa Barbara, CA 93101

Dear Ms. McKee,

This letter is in response to your letter dated June 2011 and received on June 16, 2011, requesting a response to the report, "Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly:

The report primarily focused on 3 areas; Defined Benefit Pension Plans, Healthcare - Other Post Employment Benefits (OPEB) and Compensated Absences.

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.

RESPONSE:

The Carpinteria Valley Water District (CVWD) participates in the CA Public Employees Retirement System (CalPERS). CVWD is a part of the 2% @55 pension plan.

FINDING 1b:

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

RESPONSE:

The CVWD agrees with this finding. The District receives an Annual Valuation Report each year that reflects Future Contribution Rates. In FY 10/11 CVWD's Employer Contribution Rate was 18.516%. In June, 2011 CVWD completed a Contract Amendment with CalPERS that incorporates two changes for new hires:

- new hires will contribute the 7% employee share of their pension;
- retirement calculation will use the 3-year final compensation calculation.

The Contract Amendment created a two tier system. The CVWD pays the full Employer Contribution Rate (currently 18.549%) for the First tier (current employees) as well as the Employee 7% share. The CVWD pays the full Employer Contribution Rate (currently 9.539%) for the Second Tier (new hires) and new hires must pay the 7% Employee contribution rate. The Employer Contribution Rate for the Second Tier is lower than the first tier as a result of the two contract amendment changes.

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:

GASB has issued a draft for public comment which includes proposed changes to accounting requirements for pensions. If enacted, governments will be required to record a liability for the unfunded obligation. For governments participating in a cost sharing plans, each participating government would be required to report their portion of the unfunded obligation for all of the participating governments. If GASB enacts the proposed changes, the District will comply with the 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:

CVWD agrees with this finding. The unfunded liability is an estimate which is derived from several assumptions, and is calculated using approved actuarial methods. This estimate can vary significantly from year to year. Although the dollar amount of the unfunded liability is not available for reporting at the District level, the risk pool's funded ratio and the District's specific Annual Pension Cost (APC) are both known and disclosed in the District's annual 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:

CVWD agrees with this finding. CVWD is aware of the underfunded status of the pooled pension plan. CalPERS does not provide detailed reporting that apportions unfunded actuarial liabilities across individual participants.

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:

CVWD staff will further evaluate this recommendation as CalPERS does not provide detailed reporting that apportions unfunded actuarial liabilities across individual participants. CVWD will evaluate options available to implement recommendation.

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:

CVWD agrees with the actuarial accrued liability represented in the Report for CVWD of \$440,624, all of which is currently unfunded. CVWD notes that this District's long term liability is much less than that of other agencies due to the District's limited scope and restrictive eligibility requirements. In January of 2011 the CVWD Board of Directors approved partially pre-funding the District's actuarial accrued liability in the amount of \$100,000.

FINDING 2B:

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

RESPONSE:

For employees of the District, CVWD pays up to the HMO Family premium rate. Employees must pay the difference if they elect the PPO Family plan. Retiree coverage is as follows: In order to receive continued Health, Vision and Dental Insurance benefits from the District as retired employees, the following requirements apply:

1. must have attained age 60,
2. must have completed a minimum of twenty (20) continuous years of service with the District,
3. must be receiving a monthly retirement benefit from PERS, and
4. final employment immediately prior to receiving the PERS monthly benefit was with the District.

Coverage for the retired employee will be for a period of five (5) years or until the employee reaches the age of sixty-five (65) and is eligible for Medicare insurance, whichever is sooner. Health, Vision and Dental insurance coverage for the retired employee will be the same that is in effect on the date of retirement. Dependent coverage in effect on that date may be purchased by the retiring employee. Employees

seeking this retiree insurance coverage are also subject to the applicable requirements, guidelines and terms of the ACWA benefit plans retirement policies.

FINDING 2c:

For 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:

CVWD agrees with this finding. The District currently funds its OPEB obligation on a pay-as-you-go basis and records a liability for the difference from the actuarially determined annual required contribution cost. The CVWD Board of Directors in January of 2011 approved partially prefunding the unfunded liability in the amount of \$100,000. The District is currently evaluating Trust options.

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 CVWD will seek concessions during upcoming labor negotiations in an effort to address escalating healthcare costs. The CVWD will also seek lower costs from its insurance carriers.

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:

CVWD has already committed to partially pre-funding a portion of the unfunded liability and will evaluate its options to prefund the remaining ~\$340,000 in the upcoming fiscal year 2011/12 budget cycle in commencing January, 2012. CVWD's water rates are higher than most neighboring agencies. The CVWD is currently analyzing its water rate structure in an effort to adequately fund District debt as well as necessary infrastructure rehabilitation. The Board will evaluate the impact to District customers in raising revenue for the remaining \$340,000 in unfunded liability.

FINDING 3:

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

RESPONSE:

As of June 30, 2010 the District's liability for compensated absences was \$220,769.

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 liability.

RESPONSE:

CVWD's liability of \$220,769 is lower than similar sized agencies. The District achieves this with an established cap on leave accrual as well as by encouraging staff to use their accrued time. Use of accrued leave not only reduces the District's liability but promotes employee well-being.

The District appreciates the efforts that the Grand Jury makes to help ensure good government in Santa Barbara County.

Sincerely,



Charles B. Hamilton
General Manager/Secretary

cc: Hon. Judge Arthur A. Garcia, Santa Barbara Superior Court
Hon. Joni Gray, County Board of Supervisors
CVWD Board of Directors