

Responses to the Santa Barbara County Grand Jury Report on Post Employment Benefits.

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 1a

The District agrees with the Grand Jury Finding. Public school districts are required by the State's Education Code to participate in the CalPERS and CalSTRS defined benefit plans. These plans require contributions by the employer and employees.

Finding 1b

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

Response 1b

The District agrees with the Grand Jury Finding. The defined benefit pension pools do provide adjustments to contribution rates each year. The employer rate for CalPERS has risen to nearly 11% of employee salaries for 2011-12. CalSTRS employer and employee contribution rates have been static for nearly a decade.

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 1c

The District agrees with the Grand Jury Finding and supports reasonable efforts to more accurately determine the unfunded liability of each participating District in the pension

pool. However, school districts have had little or no control as to how these pensions are structured, financed or managed.

Finding 1d

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

Response 1d

The District agrees with the Grand Jury Finding. It should be noted that the District budgets annually for changes in the employer contribution rates for CalPERS and CalSTRS, and if those pensions have significant unfunded liabilities it has been outside the purview of individual district control to address pension shortfalls.

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 1e

The District agrees with the Grand Jury Finding. The pension pools spread the risk and funding amongst many entities, but in some cases it may be unsustainable for some districts to meet their individual long-term liability. The near-depression of recent years has sharpened focus on the growing unfunded liability for defined benefit pensions. However, this has not been the result of district mismanagement; rather, it is reflective of the financial commitment to the public sector to retain quality employees given the modest salaries when compared to the private sector.

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 to Recommendation 1

The District respectfully declares that this recommendation will not be implemented because it is an unreasonable expectation of individual school districts. This level of financial oversight is not within the capabilities of our current management structure. CalPERS and CalSTRS bear the responsibility on a statewide basis to properly manage the pension pools, and requires that members make sufficient contributions to meet the benefit needs. The pensions set the rates and all districts pay those same rates. Disclosure

is made available to the public of the unfunded liability annually in the CalSTRS and CalPERS Financial Reports.

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 to Recommendation 3

The District has already implemented a plan to limit the carryover of compensated absences. The payoff of excess amounts owed is made annually to classified employees, and this prevents rising liability levels for compensated absences. The approximately \$76,000 liability balance, when measured against a District budget of \$37 million, reflects the small exposure of this liability.

Respectfully submitted by:

A handwritten signature in black ink, appearing to read "Ralph Pachter". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ralph Pachter
Assistant Superintendent, Fiscal Services
Goleta Union School District

August 3, 2011