



P.O. Box 4, Goleta, CA 93116-0004

805 / 968-2617 • FAX 805 / 562-8987

RECEIVED

NOV 21 2011

BY: \_\_\_\_\_

FILE COPY

August 3, 2011

Honorable Arthur A. Garcia,  
Assistant Presiding Judge  
Santa Barbara Superior Court  
PO Box 5369  
Santa Maria, CA 93456-5369

*312 Cook*

RE: Grand Jury Response

Dear Honorable Arthur A. Garcia:

Attached is Goleta West Sanitary District (GWSD) response to the 2010-11 Santa Barbara County Civil Grand Jury report entitled "Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly". GWSD consulted with its District auditors, Bartlett, Pringle & Wolf, LLP to ensure the accuracy of this response letter.

If you have any questions or need further information, I can be reached through the District office at (805) 968-2617.

Sincerely,

GOLETA WEST SANITARY DISTRICT

A handwritten signature in black ink, appearing to read "Craig Geyer", is written over a horizontal line.

Craig Geyer  
President of the Board

cc: Honorable Joni Gray, Chair  
Santa Barbara County Board of Supervisors

**Re: Response to June 2011 Grand Jury Report entitled "Local Government Post-Employment Benefits in Santa Barbara County -- Complicated and Costly"**

**Finding 1a Agree -**

Goleta West Sanitary District is a participant in the Miscellaneous 2% at 55 Risk Pool of the California Public Employees' Retirement System.

**Finding 1b Agree -**

Goleta West Sanitary District receives a valuation report from CalPERS annually which provides the upcoming year's annual required contribution (ARC) as well as an estimate of the following year's contribution, expressed as a percentage of projected pay.

**Finding 1c Agree -**

Fitch will be requesting that the states it rates provide an estimate of the portion of the UAAL attributable to the state itself and, if possible, to participating local government employers. However, in cases where this information is not available, Fitch will focus on the funded ratio and contribution trends for the overall plan and the rated entity when projecting the current and future burden that pension obligations place on the rated entity.

- **Funded Ratio:** For rating purposes, Fitch considers the funded ratio using a 7% investment return assumption adjustment rather than the funded ratio as reported by the system. Fitch generally considers a funded ratio of 70% or above to be adequate and less than 60% to be weak. As calculated by Fitch, the CalPERS plan's funded ratio using this 7% adjustment is 77% and therefore is considered to be strong.
- **Contribution Trends:** Fitch notes that:

"The systems that pose the greatest risks are those with significant unfunded liabilities for which the government's annual payments have been significantly less than an actuarially determined ARC over multiple years."

Additionally, Fitch notes that:

"Governments that exhibit a steady history of meeting their pension commitments should not experience rating pressure due to market-driven declines in funded ratios unless it becomes clear that pension costs will be significantly deferred or that increasing expenses will contribute to or exacerbate declines in liquidity and financial flexibility."



The overall CalPERS plan funding of the ARC for 2009 was 100%, and GWSD has contributed 100% of the District's ARC to the plan every year, without exception. Based on the District's financial position there is no indication that the District will not be able to do so indefinitely. It is also worthwhile to consider that Fitch makes note in its analysis if pensions demand more than 10% of an issuer's operating budget.

Goleta West Sanitary District's ARC as a percentage of its operating budget for the fiscal years 08/09 and 09/10 was .7% for both years.

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 representing the portion of the pension obligation that is not covered by assets in the pension plan – the unfunded obligation. For governments participating in cost-sharing plans, each participating government would be required to report a net pension liability based on its proportion of the unfunded obligation of all the participating governments. If GASB enacts the proposed changes to accounting requirements for pensions, it is likely that CalPERS will provide this information to the participating governments.

**Finding 1d Agree -**

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. While 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 ARC are both known and disclosed in the District's annual audit report, which is a public document. This disclosure includes information for the most recent fiscal year as well as the two preceding fiscal years.

**Finding 1e Agree -**

Effective for the June 30, 2003 actuarial valuation, CalPERS began requiring mandatory pooling for plans with less than 100 active members. Since this change, the only District-specific information received on an annual basis from CalPERS is the upcoming year's annual required contribution (ARC) as well as an estimate of the following year's contribution, expressed as a percentage of projected pay.

**Recommendation 1 - Recommendation has not been implemented per the following explanation:**

Obtaining an actuarial analysis of Goleta West Sanitary District's individual unfunded actuarial liability could cost the ratepayers between \$5,000 and \$10,000 at this time. As noted above, this individual unfunded actuarial liability would be an estimate which could vary greatly from year to year. The currently available information regarding the pool's funded ratio and the District's ARC should be sufficient for making management decisions, considering the small portion of District operating expenses required to be contributed each year, and the District's long history of having no problem contributing the full ARC. If GASB enacts its currently proposed changes to accounting regulations, this will likely impact the information that CalPERS provides to the District, at no additional cost to the rate payers. The District believes the best course of action is



to wait for GASB's final determination in the matter and to re-evaluate after seeing the revised CalPERS provided information.

**Finding 2a Agree -**

Goleta West Sanitary District prefunded its entire estimated actuarial accrued liability related to post employment healthcare benefits during the year ended June 30, 2009, and was funded to 161% as of June 30, 2010 due to changes in actuarial assumptions and market conditions.

**Finding 2b Agree -**

The District provides retiree medical coverage to current and future eligible retirees and their dependents. The District pays a monthly premium for the health insurance benefits up to a maximum amount equal to the Blue Shield HMO Family Rate for the "Other Southern California" region.

**Finding 2c Agree -**

As noted above, the District has prefunded its postemployment healthcare benefit plan to 161% as of June 30, 2010.

**Recommendation 2a – The recommendation has been implemented.**

Goleta West Sanitary District has taken steps in prior years to control costs related to its postemployment healthcare benefit plan. These steps include:

- Placing a cap on monthly benefits equal to the Blue Shield Basic HMO Family Rate for Southern California and, once the participant reaches 65, Medicare becomes the primary insurance which greatly reduces the District's insurance premium to the amount needed to pay for a supplemental policy.
- Additionally, because the District prefunded its estimated liability, the discount rate used in the calculations of the liability and the ARC is higher than what would be used for a pay as you go plan, which results in a smaller liability and ARC.

Also, it should be noted that the District's assets placed into trust for this liability earned investment income of approximately \$191,000 during the fiscal year ended June 30, 2010, while the benefits paid were only approximately \$41,000.

**Recommendation 2b - The recommendation has been implemented.**

This recommendation is not applicable to Goleta West Sanitary District. As noted above, the District has prefunded its postemployment healthcare benefit plan to 161% as of June 30, 2010.

**Finding 3 Agree -**

Goleta West Sanitary District had compensated absences liabilities in the amount of \$243,351 as of June 30, 2010.

**Recommendation 3 - The recommendation has been implemented.**

During the fiscal year ended June 30, 2009 the District revised its sick leave policy to place a cap on the number of hours allowed to be accrued per employee. A cap on vacation accruals was already in existence. The District believes that its future liability related to compensated absences is sufficiently controlled through these policies.