



HOPE SCHOOL DISTRICT

3970 LA COLINA ROAD • SANTA BARBARA, CALIFORNIA 93110 • PHONE (805) 682-2564
Daniel Cooperman, Ph.D., District Superintendent FAX (805) 687-7954

June 29, 2011

Kathryn D. McKee, Foreperson
2010-11 Santa Barbara County Grand Jury
Grand Jury Suite 12
411 East Canon Perdido Street
Santa Barbara, CA 93101-7531

The Honorable Arthur A. Garcia
Assistant Presiding Judge
Santa Barbara Superior Court
312 East Cook Street
Post Office Box 5369
Santa Maria, CA 93456-5369

The Honorable Joni Gray, Chair
Santa Barbara County Board of Supervisors
County Administration Building
105 East Anapamu Street
Santa Barbara, CA 93101

**Responses to Santa Barbara County Civil Grand Jury
Local Government Post Employment Benefits in Santa Barbara County—
Complicated and Costly
Hope School District**

Dear Ms. McKee:

Here are Hope School District's responses to the selected findings and recommendations of the Grand Jury's report concerning local government post employment benefits.

Please contact my office right away if further information is needed to complete our response. Thank you for this opportunity to provide our response.

Sincerely,

Dan Cooperman, Ph.D.
Superintendent
Hope School District

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

Agree.

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

Agree.

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

Agree.

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

Partially disagree.

Partial disagreement is our response because the finding is incomplete regarding information that ratepayers, taxpayers, and individual agencies need to assess the impact of unfunded liability. The pension issue is complex. For example, public pension dollars support economic activity through increased retiree expenditures while the investment of pension assets provides capital to businesses to develop products, invest in new technologies, and create jobs (*Pensionomics: Measuring the Economic Impact of State and Local Pension Plans*, National Institute on Retirement Security, 2008). Another example of needed information is that ratepayers, taxpayers, and individual agencies ought to know the average retirement benefit paid under the specified pension plan. For example, the average annual member-only benefit to a retiree under CalSTRS in 2010 is \$51,072 (CalSTRS Comprehensive Annual Financial Report, 2010). CalSTRS retirees are ineligible to receive Social Security benefits. Such data balance perceptions that all pensions are underfunded because they are overly generous, or that public pensions benefit only the recipient. A broader perspective constructs a more comprehensive foundation for public policy regarding unfunded pension liabilities.

For these reasons, the finding proposes important information for the policy debate, however, it limits the perspective to just one pertinent piece of the data puzzle regarding future funding requirements for public employee pensions.

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

Agree.

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.

Recommendation will not be implemented because it is not warranted or is not reasonable.

We cannot implement this recommendation because the information is not available to us.

Hope School District is part of the statewide CalPERS and CalSTRS pools, and employer contributions are set at the same rate for all school district members of that pool.

The unfunded liability of the state schools pools impacts the employer and employee contribution rates, and this unfunded liability is made available to the public annually in the CalPERS *Comprehensive Annual Financial Report* and the CalSTRS *Comprehensive 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.

Response

Agree.

Finding 2b

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

Response

Agree.

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

Agree.

Recommendation 2a

That, no later than January 1, 2012, in the best interests 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 action has been implemented.

Hope School District eliminated post-retirement health benefits in 2009. In addition, Hope School District negotiates a cap on the employer contribution to

medical benefits with its certificated and classified staff. This medical benefit cap has not been increased since the 2004-2005 school year.

Finally, The Hope School District Board of Trustees is drafting new policy language to require reports regarding unfunded liabilities as part of the annual budget adoption process.

Recommendation 2b

That, no later than January 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

This action has been implemented.

Hope School District pays as it goes with respect to the medical benefit employer contribution. That contribution is capped, and has not been increased since 2004-2005. The district's liability is therefore completely paid each year.

With regard to unfunded future liability, Hope School District eliminated post-retirement medical benefits. For that reason, the liability for that cost terminates in 2013.