



MONTECITO FIRE PROTECTION DISTRICT

595 San Ysidro Rd * Santa Barbara, California 93108 * (805) 969-7762 * FAX (805) 969-3598

August 24, 2011

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

Re: Grand Jury Report entitled "Local Government Post Employment Benefits in Santa Barbara County"

Honorable Judge Garcia:

This letter contains the Montecito Fire Protection District's ("District") responses to the Santa Barbara County Civil Grand Jury's report entitled *Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly* ("Report"). The Report was delivered to the District on June 16, 2011.

The District has been requested to respond to the Report's Findings 1(a) – (e), 2(a) – (c) and 3 and Recommendations 1, 2 (a), 2 (b) and 3. In accordance with Penal Code section 933, the following responses were approved by the District's Board of Directors at a public meeting on August 15, 2011.

Finding 1a

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

District's Response:

Based upon the information contained in the Report, the District agrees with the finding. The District's safety employees participate in the Safety 3% at 55 risk pool and the District's non-safety employees participate in the Miscellaneous 3% at 60 risk pool.

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.

District's Response:

Based upon the information contained in the Report, the District agrees with the finding. In October of each year, CalPERS provides the District with the District's employer contribution rate for the following fiscal year and a projected employer contribution rate for the fiscal year following the next fiscal year.

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.

District's Response:

Based upon the information contained in the Report, the District agrees that the finding reflects the respective positions of Fitch Ratings, Moody's and GASB.

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.

District's Response:

The District agrees with the finding.

Finding 1e

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

District's Response:

The District agrees with the finding. CalPERS does not currently provide this information to plan participants. The most likely reason for CalPERS's failure is due to the speculative nature of providing such estimates.

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.

District's Response:

The recommendation requires further analysis. The District has submitted a request to CalPERS to obtain an estimate of the District's individual unfunded actuarial liability prepared by an actuary or by CalPERS. The District is waiting for a response from CalPERS.

Finding 2a

As of June, 2010, public agencies in Santa Barbara County had a total unfunded actuarial liability for post employment benefits healthcare of approximately \$316,000,000.

District's Response:

Based upon the information contained in the Report, the District agrees with the finding. The District, however, has already implemented a mechanism for funding the District's post employment healthcare benefits for the District's eligible employees. Please refer to District's response to Recommendation 2b below.

Finding 2b

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

District's Response:

Based upon the information contained in the Report, the District agrees with the finding.

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.

District's Response:

Based upon the information contained in the Report, the District agrees with the finding. The District, however, has already implemented a mechanism for funding the District's post employment healthcare benefits for the District's eligible employees. Please refer to District's response to Recommendation 2b below.

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.

District's Response:

The recommendation requires further analysis. The District recently concluded negotiations with its employee groups, which agreements are scheduled to be in effect through June 30, 2012. The District, however, will take the Grand Jury's recommendation into account during future negotiations beginning in 2012.

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.

District's Response:

The recommendation has been implemented. The District approved the PARS Public Agencies Post Retirement Health Care Plan Trust Agreement whereby the District

annually funds the District's post-employment benefits for the District's eligible employees.

Finding 3

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

District's Response:

Based upon the information contained in the Report, the District agrees with the finding.

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.

District's Response:

The recommendation requires further analysis. The District recently concluded negotiations with its employee groups, which agreements are scheduled to be in effect through June 30, 2012. The District, however, will take the Grand Jury's recommendation into account during future negotiations beginning in 2012.

The District appreciates the efforts of the Grand Jury regarding this important topic and its impact on the ability of local government to provide important services to its constituents. Please contact Kevin Wallace, Fire Chief, should you have any additional questions regarding the District's responses.

Respectfully submitted,



Roland Jensen, President
Board of Directors

cc: Board of Directors, Montecito Fire Protection District
Kevin Wallace, Fire Chief
Mark S. Manion, General Counsel