

SUMMERLAND SANITARY DISTRICT

The Santa Barbara Civil Grand Jury Report requested a response to its findings and recommendations. The grand jury, by its letter dated June, 2011, requested that the Summerland Sanitary District respond to findings 1a, 1b, 1c, 1d, 1e, 2a, 2b, 2c, and 3. Further requested response to recommendations 1, 2a, 2b, and 3.

The following are the responses of the Summerland Sanitary 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-Summerland Sanitary District is a participant in the Santa Barbara County Employees Retirement System (“SBCERS”).

Finding 1b: Public agencies in Santa Barbara County participating in Defined Benefit Pension Plan Pools know their current year required contributions 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 numerous participating employers that use pools to provide pensions to their employees. Moodys Investors Services has begun to

recalculate the state's debt burdens in a way that includes unfunded pensions. The Government 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 obligations of all 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: Agree.

Finding 1e: Public agents in Santa Barbara County participating in Defined Benefit Pension Pools do not know their individual long term unfunded actuarial liability.

Response: Agree.

Recommendation No. 1: That, no later than January 1, 2012, all local government agencies that belong to multiple-employer pension pools obtain, for each year thereafter, make publicly available estimates of their individual unfunded actuarial liability from an actuary or the plan sponsor.

Response: It is the intent of the Summerland Sanitary District to report such estimates beginning January 1, 2012, if available.

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 million.

Response: Based on the calculations in the grand jury's report, this would appear accurate.

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 interest of ratepayers and taxpayers, each government agency that contributes some or part of the healthcare premium for employees adopt an implementation plan to reduce those contributions.

Response to Recommendation 2a: The Summerland Sanitary District Board of Directors will undertake studies to determine ways to reduce these contributions.

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 to Recommendation 2b: Summerland Sanitary District Board of Directors will study this recommendation.

Finding 3: As of June, 2010, public agencies in Santa Barbara County had a total liability for compensated absences of nearly \$61 million.

Response to Finding 3: It would appear that the grand jury's calculations on this subject are correct.

Recommendation 3: That no later than January 1, 2012, in the best interests of ratepayers and taxpayers, each government agency that has compensated absences liability, adopt an implementation plan to reduce each agency's compensated absences liability.

Response to Recommendation 3: The Summerland Sanitary District Board of Directors will initiate studies to determine ways to reduce its compensated absences liability.

September 16, 2011

GENERAL MANAGER,
SUMMERLAND SANITARY DISTRICT