

DEC 8 2011

BY: _____



August 31, 2011

Honorable Judge Arthur A. Garcia, Presiding Judge
 Santa Barbara Superior Court
 Cook Division
 312 East Cook Street, Department 4
 Santa Maria, CA 93454

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BROWNSTEIN HYATT
FARBER SCHRECK, LLP
 General Counsel

**RE: 2010-2011 Grand Jury Report - Local Government Post
 Employment Benefits in Santa Barbara County – Complicated and
 Costly**

Honorable Judge Garcia:

The Santa Ynez River Water Conservation District, Improvement District No. 1, ("ID No. 1") appreciates the opportunity to respond and provide information requested in the Grand Jury Report ("Report") entitled "Local Government Post Employment Benefits in Santa Barbara County – Complicated and Costly". By this letter, and in compliance with Penal Code section 933.05, ID No. 1 submits its comments on the Grand Jury's findings and recommendations in the Report within the specified ninety (90) day time period. ID No. 1's response to each of the findings and recommendations are limited to information pertaining to ID No. 1 as ID No. 1 does not have specific knowledge or information about other public agencies in Santa Barbara County. ID No. 1's specific comments to the Report are included below.

Grand Jury Findings and Recommendations

Finding 1a.

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

ID No. 1 Response to 1a: Agree with the finding. ID No. 1 is a member of and participates in the California Public Employee's Retirement System (CalPERS) and provides employee pension benefits in the CalPERS program Miscellaneous 2% @ 55 Risk Pool. CalPERS membership includes more than 1.6 million members and more than 3,000 public agency employers.

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.

ID No.1 Response to 1b: Agrees with this finding. In FY 2010-11, ID No.1's employer contribution was 13.552% and 7% of the employee portion for a total contribution rate of 20.552%. For Fiscal Year 2011-12, ID No.1 is paying 14.711% and 7% for a total contribution rate of 21.711%.

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 the 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.

ID No.1 Response 1c: Partially agree with the finding to the extent that the Governmental Accounting Standards Board has issued two Exposure Drafts - *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25* that propose improvements to financial reporting of pensions by state and local governments. The comment period for these Exposure Drafts is open until September 30, 2011. The adoption of any amendment or alternative will not take place until 2013.

ID No.1 complies with all Governmental Accounting Standards Board (GASB) required disclosures. Any future GASB pension financial reporting or accounting will be disclosed as required.

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.

ID No.1 Response 1d: Agree with the finding. ID No.1's annual required contribution is disclosed in the annual audited financial statements. CalPERS Actuarial Office provides an annual valuation report that calculates ID No.1's contribution inclusive of the Risk Pool's net employer normal costs based on the negotiated pension formula, amortization of side funds, projections of funds, and other actuarial variables. This report is made available on June 30 of each year.

Finding 1e.

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

ID No.1 Response to 1e: Agree with the finding. CalPERS does not provide specific information on ID No.1's individual long-term unfunded actuarial liability because ID No.1 participates in a risk pool with 429 CalPERS members in the Miscellaneous 2% at 55 plan.

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.

ID No.1 Response: Recommendation 1 will not be implemented because it is not required of ID No.1 and is not reasonable. The recommendation to perform an actuarial valuation on an annual basis would be an inefficient use of public funds. The cost of conducting an independent actuarial study each year would be significant and would outweigh any potential benefits realized by its ratepayers. The scope of Recommendation 1 is also improper. The unfunded liability is an estimate that can vary significantly from year to year. ID No.1's specific Annual Required Contribution ("ARC") is disclosed by CalPERS, but the ID No.1 portion of the pool's total unfunded liability is not individualized by CalPERS. Should GASB enact changes to accounting requirements, this will likely impact the information that CalPERS provides to ID No.1.

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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.

ID No. 1 Response 2a: Agree with the actuarial accrued liability for ID No.1 as represented in the Grand Jury's report. ID No.1 will continue to analyze and select healthcare coverage options that are fiscally responsible.

Finding 2b.

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

ID No. 1 Response 2b: Agree with the finding to the extent it applies to ID No.1. ID No.1 is a member of the Association of California Water Agencies ("ACWA") which offers health care plans and coverage to its membership. ID No.1 adopted policy to provide its regular full-time employees

a choice of three ACWA plans; ID No.1 has elected to pay up to the amount of the monthly premium for the employee plus one family rate of the ACWA Blue Cross PPO Advantage Plan, which is the lesser health care premium of the three plans offered by the ACWA. Any plan and premium selected by the employee that is in excess of the PPO Advantage Plan, the cost difference is the responsibility of the employee.

From time-to-time, ID No.1 performs comparative health premium and benefits evaluation to obtain quality healthcare coverage for its employees at competitive and reasonable cost.

Finding 2c.

For the most part, local agency healthcare benefits are pay as you go, and are not structured on a pre-funded basis like defined benefit pension plans.

ID No. 1 Response 2c: Agree with the finding as it applies ID No.1. With respect to post-retirement healthcare benefits, the Board of Trustees has elected to fund these expenses on a pay-as-you-go basis which is allowable under GASB 45 and the resulting is posted and reported in the annual audited statements.

Recommendation 2a.

That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that contributes some or port of healthcare premium for employees, adopt an implementation plan to reduce those contributions.

ID No. 1 Response: Recommendation 2a will not be implemented because it is not warranted and is not reasonable. ID No.1's Board of Trustees adopted its contribution to the employee healthcare premiums on December 21, 2010 and as part of the 2011/2012 Fiscal Year budget adopted on June 21, 2011. The Board reviews the current compensation for ID No.1 employees annually and from time-to-time which includes the healthcare premiums paid by ID No.1.

Recommendation 2b.

That, no later than January 1, 2012, in the best interest of ratepayers and taxpayers, each government agency that provides some or port of healthcare premium for employees, implement pre-funding their currently unfunded healthcare liability.

ID No. 1 Response: The recommendation 2b will not be implemented in the time frame because it is not reasonable. The Board of Trustee's reviewed the GASB 45 Liability Information and the Annual Required Contribution Report in 2010, considered the financial implications of pre-funding the estimated unfunded liability for ID No.1's Other Post Employment Benefits (OPEB) retiree

healthcare, and decided to fund the retiree health care benefits on a pay-as-you-go basis rather than pre-fund the OPEB, which represented \$46,812 in Fiscal Year 2010/11 or .63% (two thirds of one percent) of the total budget for the five retirees since ID No.1 was formed in 1959. The annual unfunded liability is posted and reported in the annual audited financial statements. The Board continued the pay-as-you-go funding basis for the OPEB as approved on June 21, 2011 for fiscal year 2011/2012. ID No.1 will consider this recommendation when it next reviews funding for health care for 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.

ID No. 1 Response to 3: Agree with the finding as it applies to ID No.1 and the total liability of \$101,047 for compensated absences (vacation pay only) upon separation from ID No.1. ID No.1 has adopted policy regarding limitation on accrued vacation leave.

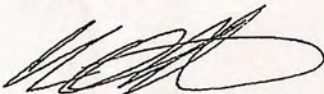
Recommendation 3.

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

ID No.1 Response: Recommendation 3 has been implemented. The ID No.1 Board of Trustees adopted the Personnel and Policy Manual on December 21, 2011 that maintained ID No.1's established accrued vacation limitations policy and procedures. The limitation on vacation leave accrual is established and in place to limit ID No.1's liability upon separation. The ID No.1 management also encourages its employees to utilize their accrued vacation time which promotes employee health and general well being as well as to control ID No.1's compensated absences financial obligation upon separation.

We thank you for the opportunity to respond to the Grand Jury report. Please let us know if there is anything further that you require.

Sincerely,



Chris Dahlstrom
General Manager

cc: Board of Trustees
Gary M. Kvistad, Brownstein Hyatt Farber Schreck, LLP