

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Administrative Office	(2) MEETING DATE 8/12/2014	(3) CONTACT/PHONE Nikki J. Schmidt 805-781-5496	
(4) SUBJECT Request to approve the recommended response to the FY 2013-14 Grand Jury report titled "County Employment Retirement Plan: "Let's Make it Clear" and forward this response to the Presiding Judge of the Superior Court by September 5, 2014. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board: 1. Adopt the proposed response prepared by staff to the Grand Jury report titled "County Employment Retirement Plan: "Let's Make it Clear" as the Board's response, and 2. Forward this response to the Presiding Judge of the San Luis Obispo Superior Court by September 5, 2014.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____) <input type="checkbox"/> Board Business (Time Est. ____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors
FROM: Nikki J. Schmidt, Administrative Office
DATE: 8/12/2014
SUBJECT: Request to approve the recommended response to the FY 2013-14 Grand Jury report titled "County Employment Retirement Plan: "Let's Make it Clear" and forward this response to the Presiding Judge of the Superior Court by September 5, 2014. All Districts.

RECOMMENDATION

It is recommended that the Board:

1. Adopt the proposed response prepared by staff to the Grand Jury report titled "County Employment Retirement Plan: "Let's Make it Clear" as the Board's response, and
2. Forward this response to the Presiding Judge of the San Luis Obispo Superior Court by September 5, 2014.

DISCUSSION

The Grand Jury issued a report on July 8, 2014 titled "County Employment Retirement Plan: "Let's Make it Clear". The report focuses on the disclosure/reporting of the San Luis Obispo County Employees Retirement Plan (Plan), specifically the unfunded liability. Information used by the Grand Jury to develop their findings and recommendations was obtained directly from the County; the Plan's most current Comprehensive Annual Financial Report (CAFR), and the June 2013 Actuarial report.

The Grand Jury report included two (2) Findings and two (2) Recommendations. The Board of Supervisors and the Auditor-Controller-Treasurer-Tax Collector (Auditor-Controller) are both required to respond to all Findings and Recommendations. The required response from the Auditor-Controller is provided in Attachment 1. Staff is recommending that your Board adopt the response provided by the Auditor-Controller as your Board's response.

OTHER AGENCY INVOLVEMENT/IMPACT

The Auditor-Controller prepared the response to the Grand Jury report.

FINANCIAL CONSIDERATIONS

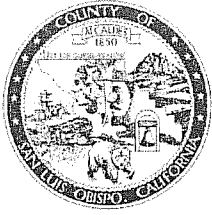
There are no fiscal impacts associated with this response.

RESULTS

This response meets the legal requirements for responding to a Grand Jury Report with findings and recommendations under California Penal Code Section 933.05.

ATTACHMENTS

1. Attachment #1 - Auditor-Controller-Treasurer-Tax Collector response
2. County Employment Retirement Plan: "Let Make it Clear" Grand Jury report



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR

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JAMES P. ERB, CPA
Auditor-Controller
Treasurer-Tax Collector
James W. Hamilton, CPA
Assistant

ATTACHMENT #1

TO: Nikki Schmidt, Administrative Office

FROM: James P. Erb, Auditor-Controller- Treasurer-Tax Collector

DATE: July 24, 2014

SUBJECT: Auditor-Controller-Treasurer-Tax Collector Response to the 2013-14 Grand Jury Report titled, "County Employee Retirement Plan: Let's Make it Clear"

On June 26, 2014 the San Luis Obispo County Grand Jury issued a report titled "Let's Make it Clear". The report focuses on the disclosure/reporting of the San Luis Obispo County Employees Retirement Plan (Plan), specifically the unfunded liability. Information used by the Grand Jury to develop their findings and recommendations was obtained directly from the County; the Plan's most current Comprehensive Annual Financial Report (CAFR), and the June 2013 Actuarial report. These three reports are posted on the corresponding entity's webpage and are readily available to the general public.

The proper presentation of pension liabilities and pension costs has been a topic of debate in recent years. Governmental financial reporting must follow the requirements set forth by the Governmental Accounting Standards Board (GASB), the County may not set its own reporting standards. GASB prescribes defined reporting standards to promote consistency in financial reporting which enables users to make reliable comparisons of one governmental entity to another.

In addition, the Government Finance Officers Association (GFOA) sponsors a financial statement certification program for government entities nationwide. Receiving the GFOA Certificate of Excellence is a testament to meeting all of the applicable GASB reporting requirements. The County of San Luis Obispo just received its 28th annual Certificate of Excellence in Financial Reporting from GFOA.

The Grand Jury findings and recommendations coincided with the recent release of GASB Statement 68 regarding government pension reporting requirements. One of the major changes that impacts San Luis Obispo County is that the Net Pension Liability (Pension Assets less Pension Obligations = Net Pension Liability) will be reported in the financial statements of the County as well as in the Notes to the financial statements. The Net Pension Liability will be presented as a long term liability on the balance sheet and the supporting detail will continue to be outlined in the Notes to the Financial

Statements. The GASB 68 reporting changes for the County's financial statements will be implemented for Fiscal Year (FY) 2014-15.

Grand Jury Finding 1:

"Although it is consistent with general accepted accounting practices, the unfunded liability is recorded in the notes of the financial statements which make it difficult to understand the totality of unfunded obligations for San Luis Obispo County."

Auditor-Controller-Treasurer-Tax Collector Response:

I agree that pension calculations can be difficult to understand, however, financial statements continue to evolve in an effort to make them more comprehensive and understandable. As mentioned above, in accordance with newly issued GASB Statement 68 the Net Pension Liability will be recorded in County's financial statements beginning FY 2014-15, in addition to the current GASB requirement to present the Net Pension Liability in the notes to the financial statements and Required Supplementary Information. The County will comply with the GASB reporting requirements and the required implementation timeline.

Grand Jury Finding 2:

"The County has a 30-year plan to fully fund the pension liability. It is unclear where the county currently stands in this planned recovery."

Auditor-Controller-Treasurer-Tax Collector Response:

I partially agree. Even though the information is available I can understand it may be difficult to locate. The County fully funds the Annually Required Contribution (ARC) which is computed independently by the Plan's actuary on an annual basis. The ARC is an amount that, if paid on an ongoing basis, would be expected to provide sufficient resources to fund both the normal cost for each year and reducing the unfunded liability. By fully funding the ARC, the County is on track with its 30-year plan to fund the pension liability. The ARC is funded by a combination of employer and employee contributions. As of the start of 2014, there are 26 years remaining in this 30 year UAAL amortization period. The actuarial report is compiled annually and if needed, recommends adjusting contribution rates to meet the County's retirement obligations. The 2013 Actuarial Valuation included a 30 year projection of the funding of the pension obligations that was referenced by the Grand Jury. The accompanying Attachment 1 to this memo provides an update on this 30 year projection based on the 2014 Actuarial Valuation.

Grand Jury Recommendation 1:

"The Pension Trust administrator and the Auditor-Controller-Treasurer should make available to the Board of Supervisors and the residents of San Luis Obispo County an additional simplified transparent reporting of the totality of the county's pension obligation."

Auditor-Controller-Treasurer-Tax Collector Response:

I partially agree with this recommendation. Determining funding requirements for pensions is a complicated, ever changing calculation performed by actuaries. While it would be difficult to simplify the reporting, there are some changes we can make that will help present the pension obligation with more history in one document.

As previously mentioned the implementation of GASB 68 in FY 2014-15 is intended to provide additional transparency to pension reporting. Currently, there is a table in the CAFR under "Required Supplementary Information" (Attachment 2) which may have been overlooked by the Grand Jury. This table clearly presents the County's total pension obligation over the last three years. GASB 68 requires that the table be expanded from the current 3 years of pension history to include 10 years of pension history. The reader can see the annual changes in the County's total pension obligation. Even though the GASB 68 requirement to record the unfunded liability in the financial statements is not scheduled until FY 2014-15, we are allowed to early-adopt changes to the Required Supplementary Information and present the expand the reporting time period for the attached Schedule of Funding Progress to 10 years. Based on the Grand Jury's recommendation, we will implement this change for the FY 2013-14 CAFR rather than waiting until FY 2014-15. Both the Pension Trust CAFR and the annual actuarial valuation reports referenced by the Grand Jury also had this data in the form of a Schedule of Funding Progress going back to 2001.

In addition, all CAFR's have a portion referred to as the "Statistical Section." GASB and GFOA give government agencies some flexibility in what they choose to report in the Statistical Section beyond some basic requirements. Based on the Grand Jury's recommendation, we will include the 30 year annual actuarial projection (Attachment 1) in the Statistical Section of the CAFR starting with the fiscal year ending June 30, 2014. The 30 year projected performance along with the 10 years of historical data in the Required Supplementary Information (Attachment 2) will provide 40 years of pension information in one document, the County's CAFR.

Grand Jury Recommendation 2:

"A balance sheet report should be provided showing the year to date changes in the actuarial assets and liabilities to assist in tracking the progress of the plan."

Auditor-Controller-Treasurer-Tax Collector Response:

I partially agree with the recommendation. There is already a schedule in the County's CAFR that accomplishes this but it only presents three years of data. Expanding this report to include 10 years of historical data along with the other changes identified in the response to recommendation 1 will provide the year to year changes of pension assets and liabilities in one document. Beginning FY 2014-15, GASB requires the net pension liability to be reported on the balance sheet.

Summary:

There are a number of required checks and balances in place to ensure the County continues to pay 100% of the annual required contributions and is in compliance with

reporting requirements of the Plan. The results of these monitoring mechanisms are available to the public. They include:

- The Pension Trust and County of San Luis Obispo Comprehensive Annual Financial Reports are prepared by staff and audited by outside accounting firms annually.
- There is a seven member Pension Trust Board of Trustees, made up of appointed and elected members, who meet monthly in a public forum.
- Board of Trustee meeting agendas and materials, including past meeting minutes, are available on the Pension Trust website for interested persons who are unable to attend the live presentation.
- Pension Trust Board members are required to take specific training classes and maintain a certain level of continuing education on an annual basis.
- The County goes through rating reviews every two years. The County's General Obligation Bond rating was recently upgraded from AA+ to AAA and the Pension Obligation Bonds were upgraded from AA to AA+. Triple A rating is the highest credit score a governmental agency can obtain.

This Board of Supervisors working with collective bargaining units has done more than any previous Board to reduce annual pension costs which ultimately resulted in the reduction of the long term pension liability. Those changes include:

- Establishing a Tier 2 reduced pension benefit for all new employees before it was required.
- Adopting the State changes implemented by Governor Brown with the Public Employees Pension Reform Act (PEPRA) of 2012. PEPRA created a Tier 3 reduced pension benefit for employees hired after January 1, 2012.
- Providing direction on a 50/50 split between employee and employer for all future pension rate increases.
- Moving final monthly pension calculation from a 12 month average to a 36 month average for Tier 2 and Tier 3.
- Never having allowed pension spiking features such as including vacation, sick leave, or other non-salary items to add to the final pensionable compensation calculation.
- Eliminating the employer pick up from the pension calculation for Tier 2 and Tier 3 pension benefits.
- Approving pension prefunding saving approximately \$1.4 million in FY 2014-15

I agree with the Grand Jury that pension calculations and subsequent reporting is complicated. To fully understand the health of a pension plan requires professional judgment of outside auditors, actuaries, rating agencies (Fitch and Standard and Poor's), and financial advisors. All of this information is available to the public for review. Any questions can be directed to my office or to the Pension Trust Executive Secretary.

I believe we have or will comply with the Grand Jury recommendations by:

- Implementing the reporting requirements of GASB 68
- Expanding the three year history to ten years in the CAFR Required Supplementary Information (Attachment 1)
- Including the actuarial thirty year projection in the Statistical Section of the CAFR (Attachment 2).

I would like to thank the Grand Jury for looking into this important matter. They were helpful and courteous as they conducted their review.

San Luis Obispo County Pension Trust
Projection Based on January 1, 2014 Actuarial Valuation with Tier 3 (AB 340)
7.25% Investment Rate of Return Assumption
3.75% Payroll Growth Assumption

Valuation as of January 1, (1)	Input Market Return for Past Fiscal Year (2)	Market Return for Past Fiscal Year (3)	Total Contribution Rate (4)	Compensation at Valuation (5)	Total Contribution (6)	Actuarial Liability (AAL) (7)	Actuarial Value of Assets (AVA) (8)	Unfunded AAL (9)	Funded Ratio (10)	Total Normal Cost Rate (11)	Market Value of Assets (MVA) (12)	Funded Ratio Using MVA (13)
2014	7.25%	13.07%	34.23%	\$ 165	\$ 56.4	\$ 1,519	\$ 1,183	\$ 336	77.9%	22.52%	\$ 1,136	74.8%
2015	7.25%	7.25%	34.23%	170	58.0	1,596	1,239	357	77.6%	21.82%	1,205	75.5%
2016	7.25%	7.25%	34.59%	175	60.5	1,674	1,287	387	76.9%	21.22%	1,275	76.2%
2017	7.25%	7.25%	34.60%	181	62.5	1,752	1,346	405	76.9%	20.65%	1,347	76.9%
2018	7.25%	7.25%	34.87%	186	65.0	1,829	1,399	430	76.5%	20.10%	1,421	77.7%
2019	7.25%	7.25%	34.85%	192	67.0	1,905	1,462	444	76.7%	19.60%	1,495	78.5%
2020	7.25%	7.25%	34.52%	199	68.5	1,980	1,534	446	77.5%	19.15%	1,570	79.3%
2021	7.25%	7.25%	34.19%	205	70.1	2,054	1,608	446	78.3%	18.75%	1,645	80.1%
2022	7.25%	7.25%	33.85%	212	71.8	2,127	1,682	445	79.1%	18.37%	1,720	80.9%
2023	7.25%	7.25%	33.53%	219	73.5	2,197	1,756	442	79.9%	18.02%	1,794	81.7%
2024	7.25%	7.25%	33.25%	227	75.3	2,266	1,830	437	80.7%	17.72%	1,868	82.4%
2025	7.25%	7.25%	32.98%	234	77.3	2,333	1,903	430	81.6%	17.45%	1,942	83.2%
2026	7.25%	7.25%	32.74%	243	79.4	2,399	1,977	422	82.4%	17.21%	2,016	84.0%
2027	7.25%	7.25%	32.51%	251	81.6	2,463	2,052	412	83.3%	16.99%	2,090	84.9%
2028	7.25%	7.25%	32.32%	260	84.0	2,525	2,126	399	84.2%	16.80%	2,165	85.7%
2029	7.25%	7.25%	32.13%	269	86.5	2,586	2,201	385	85.1%	16.62%	2,240	86.6%
2030	7.25%	7.25%	31.96%	279	89.1	2,645	2,278	368	86.1%	16.47%	2,317	87.6%
2031	7.25%	7.25%	31.80%	289	91.8	2,704	2,356	348	87.1%	16.32%	2,395	88.6%
2032	7.25%	7.25%	31.66%	299	94.7	2,761	2,436	325	88.2%	16.20%	2,475	89.6%
2033	7.25%	7.25%	31.53%	310	97.7	2,817	2,518	299	89.4%	16.09%	2,557	90.8%
2034	7.25%	7.25%	31.40%	321	100.9	2,873	2,604	270	90.6%	15.98%	2,643	92.0%
2035	7.25%	7.25%	31.29%	333	104.2	2,929	2,693	236	91.9%	15.89%	2,732	93.3%
2036	7.25%	7.25%	31.19%	345	107.6	2,985	2,786	199	93.3%	15.81%	2,825	94.6%
2037	7.25%	7.25%	31.09%	358	111.3	3,041	2,884	157	94.8%	15.74%	2,923	96.1%
2038	7.25%	7.25%	30.99%	371	115.0	3,098	2,988	110	96.5%	15.68%	3,026	97.7%
2039	7.25%	7.25%	30.89%	385	118.8	3,156	3,098	58	98.2%	15.62%	3,136	99.4%
2040	7.25%	7.25%	15.56%	399	62.1	3,215	3,215	(0)	100.0%	15.58%	3,254	101.2%
2041	7.25%	7.25%	15.25%	414	3.276	63.1	3,276	(1)	100.0%	15.53%	3,316	101.2%
2042	7.25%	7.25%	15.24%	429	65.4	3,340	3,341	(1)	100.0%	15.50%	3,380	101.2%
2043	7.25%	7.25%	15.24%	445	67.9	3,407	3,408	(1)	100.0%	15.47%	3,446	101.2%
2044	7.25%	7.25%	15.24%	462	70.4	3,477	3,478	(1)	100.0%	15.44%	3,516	101.1%

Projection assumes no actuarial gains and losses, other than from assets. Projection based on constant population. Tier 3 changes include No DROP, 2% COLA, pay limited to Social Security Taxable Wage Base (\$117,000 for 2014), 3 year Final Average Compensation for members hired on or after January 1, 2013. All dollar amounts in millions.

COUNTY OF SAN LUIS OBISPO
 REQUIRED SUPPLEMENTARY INFORMATION
 SAN LUIS OBISPO COUNTY PENSION TRUST SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2013 (in thousands)

Actuarial Valuation Jan 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
2004	\$604,808	\$642,734	\$37,926	94.1%	\$136,364	27.8%
2005	651,751	715,085	63,334	91.1%	135,189	46.8%
2006	700,060	831,290	131,230	84.2%	143,902	91.2%
2007	759,758	962,828	320,627	78.9%	152,117	210.8%
2008	829,764	1,057,124	227,360	78.5%	162,436	140.0%
2009	875,602	1,150,214	226,104	76.1%	168,677	162.8%
2010	937,279	1,216,153	278,874	77.1%	160,444	173.8%
2011	1,000,169	1,282,058	281,889	78.0%	161,783	174.2%
2012	1,057,922	1,378,549	320,627	76.7%	161,055	199.1%
2013	1,122,151	1,468,001	345,850	76.4%	164,299	210.5%

Separate stand-alone financial statements were issued for the Pension Plan and are available at the County of San Luis Obispo Auditor-Controller's office located at the County Government Center Room D220, San Luis Obispo, CA 93408.