

# Reporting Santa Cruz County Retirement Costs and Obligations

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## Summary

The purpose of this Santa Cruz County Grand Jury report is to evaluate how Santa Cruz County retirement costs and obligations (liabilities) are reported to the public. The Santa Cruz County Grand Jury found the county is reporting annual retirement costs according to Government Accounting Standards Board (GASB) guidelines. However, the current reporting does not provide an easily accessible, clear, and understandable annual accounting of the totality of Santa Cruz County retirement costs and obligations in a single summary document. We recommend the county provide an easily accessible, clear and understandable annual accounting of all retirement costs and obligations in the budget.

## Background

The 2014/15 Santa Cruz County Grand Jury issued a report titled “*Retirement Costs and Obligations in Santa Cruz County*”<sup>[1]</sup> regarding pension plans for six jurisdictions, including the County of Santa Cruz. Recommendation 2 in the report stated:

*Each of the six public agencies in this report should provide, in language understandable to the public, the totality of retirement obligations in their annual budget narratives beginning with the fiscal year 2015/16 budget.*

The cities of Capitola, Santa Cruz, Scotts Valley, and Watsonville and the Soquel Creek Water District responded by indicating they have implemented or will implement Recommendation 2. The County responded that Recommendation 2 will not be implemented, explaining:

*The County will continue to adhere to the Governmental Accounting Standards Board (GASB) guidelines for reporting pension and OPEB obligations, and in accordance with GASB reports the obligations in the CAFR which is available to the public on the County's web page under “Budget and Financial Reports.” The budget documents will disclose costs on Schedule 9 for each department under Salaries & Benefits. Pension costs are provided on the “PERS” line item; retiree health benefit costs (OPEB) are included with active employee health benefit costs in the “Employee Insurance and Benefits” line item. It's anticipated that the County will begin issuing an Annual Report in FY 2015-16 and could provide some narrative of the OPEB and Pension liabilities there.*<sup>[2]</sup>

Social security costs, unfunded pension liabilities, and unfunded Other Post-Employment Benefits (OPEB) liabilities are not addressed in the county's response. The response does not address the issue of having an easily accessible and

clearly understandable summary of all annual retirement costs and obligations.

Retirement benefits comprise a significant portion (10.7% for fiscal year 2013/14) of the county operating budget.<sup>[1]</sup> **No single summary document shows all retirement costs and obligations.** Prudent fiscal management should include a clear understanding of both short-term and long-term retirement costs in the budget.

*The Santa Cruz County Grand Jury is not questioning the payment of retirement benefits, but would like to see an easily accessible, clear, and understandable annual accounting of all county retirement costs and obligations in a single summary document.*

## Scope

The focus of this report is to identify how the annual retirement costs and obligations are reported. The Santa Cruz County 2015/16 budget,<sup>[3]</sup> the 2014 county Comprehensive Annual Financial Report (CAFR),<sup>[4]</sup> California Public Employment Retirement System (Cal/PERS) annual actuarial reports,<sup>[5] [6] [7]</sup> and FY 2014/15 Preliminary Official Statement (POS)<sup>[8]</sup> were reviewed to determine the accessibility and totality of annual retirement costs and obligations. The report also makes recommendations for reporting total retirement costs and obligations.

## Investigation

The Santa Cruz County Grand Jury determined that the following elements comprise the county retirement costs:

- Pension costs
- Other post-employment benefits (OPEB) costs
- Social Security costs

The Santa Cruz County Grand Jury also determined that the following elements comprise the county retirement obligations:

- Unfunded Pension Liability
- Unfunded OPEB Liability

The funded status was also reviewed because it is an indicator of the health of a pension plan. The funded status is the ratio of assets to a plan's accrued liabilities. A ratio of over 100% means the plan has more assets than liabilities. A ratio of less than 100% means liabilities are greater than assets. Santa Cruz County has three separate plans covering county employees under the Cal/PERS retirement system (Miscellaneous, Safety, and Safety Sheriff), each with its own funding ratio.

The 2015/16 Santa Cruz county budget, 2014 Santa Cruz Comprehensive Annual Financial Report (CAFR), 2014/15 Preliminary Official Statement (POS), and FY 2012/13 Cal/PERS actuarial reports were reviewed to find and determine the total

retirement costs and obligations with the results reported in the following table:

***Documents Where Retirement Costs and Obligations are Located***

<b><i>Costs and liabilities/obligations</i></b>	<b><i>Document</i></b>
Pension costs	County budget, Schedule 9, <sup>[3]</sup> listed separately as the “PERS” line item for each of the 23 county departments. No summary totals were found in the budget. The CAFR <sup>[4]</sup> and POS <sup>[8]</sup> do show total pension costs.
OPEB costs	County budget, Schedule 9, <sup>[3]</sup> OPEB costs are included with active employee health benefit costs in the “Employee Insurance and Benefits” line item for each of the 23 county departments. No summary totals were found in the budget. The CAFR <sup>[4]</sup> and POS <sup>[8]</sup> do show total OPEB costs.
Social Security costs	County budget, Schedule 9, <sup>[3]</sup> listed separately as the “OASDI-Social Security” line item for each of the 23 county departments. No summary total social security costs were found. The CAFR, POS and Cal/PERS reports do not show any social security costs.
Total annual summary retirement costs	The county does not provide a comprehensive summary of its total retirement cost obligations.
Unfunded Pension Liability	Located in the 2014 CAFR (Note 14) <sup>[4]</sup> and POS <sup>[8]</sup>
Unfunded OPEB Liability	Located in the 2014 CAFR (Note 15) <sup>[4]</sup> and POS <sup>[8]</sup>
Funded ratios	Located in the 2014 CAFR (Notes 14,15) <sup>[4]</sup> and POS <sup>[8]</sup> (using Actuarial Value of Assets or AVA)

The Santa Cruz County Grand Jury could not find any single summary document that identified the totality of county retirement costs and obligations. In addition, no single

summary document could be located that provided a trend analysis of all retirement costs and obligations. The grand jury did not find any federal, state or local regulation that requires the identification of all retirement costs and obligations in a single document. However, the Santa Cruz County Grand Jury determined that a clear understanding of all retirement costs and obligations is important to the budget process.

The table listed below is an example of how the total county retirement costs and obligations could be reported; additional data may be useful.

***Annual Summary of Total Retirement Costs and Obligations  
(Example for Reporting)***

	<b><i>FY 2011/12</i></b>	<b><i>FY 2012/13</i></b>	<b><i>FY 2013/14</i></b>
Total Pension Cost	\$33,261,121	\$34,365,995	\$36,462,580
Total OPEB Cost	\$4,822,914	\$4,591,534	\$4,681,209
Total Social Security Cost	<u>\$4,433,234</u>	<u>\$4,490,544</u>	<u>\$4,672,552</u>
<b>Total Retirement Costs</b>	<b>\$42,517,269</b>	<b>\$43,448,073</b>	<b>\$45,816,341</b>
Total Employee Contribution	\$13,886,917	\$15,850,295	\$15,387,807
Total County Contribution	<u>\$28,630,352</u>	<u>\$27,597,778</u>	<u>\$30,428,534</u>
<b>Total Retirement Costs</b>	<b>\$42,517,269</b>	<b>\$43,448,073</b>	<b>\$45,816,341</b>
Unfunded County Pension Liability Obligation	\$179,515,853	\$166,062,673	\$210,871,371
Unfunded County OPEB Liability Obligation	<u>\$88,212,910</u>	<u>\$95,416,647</u>	<u>\$102,743,480</u>
<b>Total County Unfunded Liabilities</b>	<b>\$267,728,763</b>	<b>\$261,479,320</b>	<b>\$313,614,851</b>
Miscellaneous Pension Plan Funded Ratio Market Value of Assets (MVA)	69.0%	73.4%	-
Safety Pension Plan Funded Ratio (MVA)	71.4%	76.3%	-
Safety Sheriff Pension Plan Funded Ratio (MVA)	61.6%	64.9%	-

Sources: County of Santa Cruz Grand Jury Report, Cal/PERS as of June 30, 2011 Actuarial Valuation Reports<sup>[9]</sup> <sup>[10]</sup> <sup>[11]</sup> and CAFR Fiscal Year 2013/14.<sup>[4]</sup>

The county has taken numerous steps to control and reduce retirement costs and obligations.<sup>[1]</sup> As a defined benefit plan, the county is required to pay and guarantee pension obligations. Rights to retiree medical benefits (OPEB obligations) are not guaranteed in the way that pension rights are vested.<sup>[12]</sup> In other words, OPEB costs are negotiable.

The Santa Cruz County Grand Jury is not questioning payment of retirement benefits, but would like to see an easily accessible, clear, and understandable annual accounting

of all county retirement costs and obligations in a single summary document.

**Investigative Facts Summary**

- According to CAFR, Santa Cruz County is reporting annual retirement costs pursuant to Government Accounting Standards Board (GASB) guidelines.
- Santa Cruz County has taken numerous steps to control and reduce retirement costs and obligations.
- The county is required to guarantee and pay pension costs and obligations.
- Rights to retiree medical benefits (OPEB obligations) are not guaranteed in the way that pension rights are vested.
- Santa Cruz County retirement costs and obligations include pensions, other post-employment benefits, social security, unfunded pension liabilities, and unfunded Other Post-Employment Benefits (OPEB).
- There is no single summary document which identifies all annual county retirement costs and obligations.

**Finding**

**F1.** The public has not received a clear, understandable accounting of the County of Santa Cruz’s total annual retirement costs and obligations in a single summary document.

**Recommendations**

- R1.** The Board of Supervisors should direct the County Administrative Office to provide an annual summary of all retirement costs and obligations starting in FY 2016/17.
- R2.** The annual summary of the total retirement costs and obligations should be identified in the county budget in clear and understandable language.

**Responses Required**

<i>Respondent</i>	<i>Finding</i>	<i>Recommendations</i>	<i>Respond Within/ Respond By</i>
Santa Cruz County Board of Supervisors	F1	R1, R2	90 Days April 25, 2016

**Definitions**

- **AVA:** The *Actuarial Value of Assets* is obtained through an asset smoothing technique where investment gains and losses are partially recognized in the year they are incurred, with the remainder recognized in subsequent years. This

method of determining asset value dampens fluctuations in the employer contribution rate.

- **CAFR:** The *Comprehensive Annual Financial Report* is a set of U.S. government financial statements comprising the financial report of a state, municipal, or other governmental entity that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB).
- **Cal/PERS:** The *California Public Employees Retirement System* is the state agency responsible for managing public agency retirement funds through contracts with local agencies.
- **Defined Benefit Plan:** A type of pension plan in which an employer or sponsor promises a specified monthly benefit upon retirement that is predetermined by a formula based on the employee's earnings history, tenure of service, and age.
- **Funded status:** A measure of how well funded or how "on track" a plan or risk pool is with respect to assets versus accrued liabilities. A ratio greater than 100% means the plan or risk pool has more assets than liabilities and a ratio less than 100% means liabilities are greater than assets. A funded ratio based on the Actuarial Value of Assets (AVA) indicates the progress toward fully funding the plan using the actuarial cost methods and assumptions. A funded ratio based on the Market Value of Assets (MVA) indicates the short-term solvency of the plan. Cal/PERS uses MVA values and the CAFR document uses AVA values.
- **GASB:** The *Governmental Accounting Standards Board* is the source of generally accepted accounting principles used by state and local governments in the United States.
- **MVA:** The *Market Value of Assets* is the current price of assets.
- **OPEB:** *Other Post-Employment Benefits* are benefits that an employee will begin to receive at the start of retirement in addition to pension payments. Benefits for which a retiree can be compensated are life insurance premiums, health care premiums, and death benefits. OPEB costs are primarily health insurance premiums.
- **POS:** The *Preliminary Official Statement* is the statement approved by the Board of Supervisors with the "Fiscal Year 2014/15 Tax and Revenue Anticipation Notes" detailing the financial condition of the county in order to secure tax and revenue anticipation notes.

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