



CITY of CYPRESS

5275 Orange Avenue, Cypress, California 90630

Phone 714-229-6700 www.ci.cypress.ca.us

August 12, 2015

The Honorable Glenda Sanders
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Subject: Response to Grand Jury Report- "Unfunded Retiree Health Care
Obligations- A Problem for Public Agencies?"

Dear Judge Sanders:

In accordance with the California Penal Code, Section 933 and 933.05, the City of Cypress is submitting this response to the Grand Jury Report "Unfunded Retiree Health Care Obligations - A Problem for Public Agencies?" As stipulated in the statute, the responses are provided for each Grand Jury finding and recommendation. Included with the responses are statements of agreement or disagreement, either wholly or partially, and the corresponding reasons for each.

Per the requirements and instructions, the City of Cypress is responding to Findings (F.2 through F.4) and Recommendations (R.2 through R.4).

Responses to Grand Jury Findings:

F.2 Twenty one out of 32 agencies that provided June 30, 2013 data to the Grand Jury had not put aside funds in an irrevocable trust to help pay for the accrued actuarial liability of retiree healthcare costs in the future. This is an imprudent level of contribution.

Response: The City of Cypress agrees partially with this finding. We are not aware of what other Cities/Agencies do to put aside funds. The City of Cypress does not put aside funds in an irrevocable trust, partially funding the liability. Rather, the City of Cypress has set-aside cash balances equal to the full liability in the City's Employee Benefits Fund. While this is not recognized by the Governmental Accounting Standards Board (GASB) as funding the debt, the City is fiscally prudent and has fully funded the liability.

Rob Johnson, Mayor

Mariellen Yarc, Mayor Pro Tem
Paulo M. Morales, Council Member

Stacy Berry, Council Member
Jon E. Peat, Council Member

F.3 Anaheim, Buena Park, County of Orange, Huntington Beach, Lake Forest and Stanton were in compliance with the requirement to contribute a full 100% or more of their Annual Required Contribution in the FY 2012-13. The remaining 26 agencies were not in compliance.

Response: The City of Cypress disagrees with this finding. The City of Cypress is in compliance with all laws and regulations. As required by GASB, the City of Cypress annually adjusts the net retiree health liability in accordance with the actuarial valuation. Actual contributions are based on annual required cash flow payments and are not required to equal the ARC to be in compliance. Further, the City's independent auditors have confirmed all reporting for unfunded health care obligations are accurate and in compliance with all GASB requirements.

F.4 All agencies surveyed (except Anaheim) do not disclose retiree health benefits as part of employee compensation per GAAP standards.

Response: The City of Cypress agrees partially with this finding. While we are not aware what other agencies disclose, the City of Cypress does include the retiree health costs as part of the employee fringe rates for budgeting, financial reporting and expenditure reporting purposes. These costs are charged and accumulated in the City's Employee Benefits Fund for disbursement. The City's treatment is consistent with GAAP standards.

Responses to Grand Jury Recommendations:

R.2: The 21 agencies that have not contributed into an irrevocable trust fund to finance their retiree health obligations should begin to put aside monies to fund this obligation and reduce their unfunded public liabilities (F.2.)

Response: This recommendation will not be implemented. The City of Cypress has fully funded its retiree health obligations with cash balances set-aside and designated in a separate Employee Benefits Fund. The City has chosen not to contribute these set-aside cash balances to an irrevocable trust in order to maintain control of the funds. The necessary cash flow for annual retiree health obligations are always available and are paid as required. This is an allowable and prudent method of ensuring sufficient monies are available to pay all retiree health liabilities.

R.3 The 26 agencies that are not recognizing the full amount of their Annual Required Contribution as expense in the current period and should comply with the requirement to do so. (F.3)

Response: This recommendation will not be implemented. The City of Cypress already properly records the full amount of the ARC as an expense, so this recommendation does not apply to the City of Cypress. Each year the retiree health care liability is adjusted to the actuarially determined amount and an expense it recognized.

R.4 All agencies surveyed should recognize retiree health care benefits in employee compensation in conformity with GAAP. (F.4)

Response: This recommendation will not be implemented. The City of Cypress already accounts for the retiree healthcare costs in its budget and associated reporting of expenditures as part of salary and wages, so this recommendation does not apply to the City of Cypress.

If you have any questions regarding the responses provided in this letter, please contact Mr. Matt Burton, Director of Finance and Administrative Services, at (714) 229-6718 or via e-mail at mburton@ci.cypress.ca.us.

Sincerely,



Rob Johnson
Mayor
City of Cypress

cc: City Council
Peter Grant, City Manager
Paul S. Borzcik, Foreman, Orange County Grand Jury, 700 Civic Center Drive
West, Santa Ana, CA 92701