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September 1, 2015

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

Re: Retiree Healthcare Obligations

Dear Judge Sanders:

We are providing this response to the Orange County Grand Jury, as required and in the format prescribed in the Grand Jury report, "Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?"

#### Findings of the Grand Jury

F.2. Twenty one out of the 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.

#### City Response

The City agrees with this finding. However, the City is currently funding its post-retirement medical benefits obligation on a pay-as-you-go basis and has set aside an amount equivalent to the net OPEB obligation in the City's Insurance Benefits Internal Service Fund. For the year ending June 30, 2013, that amount was \$428,716 and for the year ending June 30, 2014, that amount was \$551,549.

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.

#### City Response

The City disagrees with this finding. GASB Statement No. 45 is an accounting and reporting standard; it is not a standard that governs how local governments fund other postemployment benefits. The standard does not require the City contribute

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a full 100% or more of its ARC. This accounting and reporting standard requires the City recognize the ARC as an expense in the City's government-wide and proprietary fund financial statements. In Fiscal Year 2012-13, the City's annual ARC of \$114,894 was recognized in the City's audited financial statements.

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

City Response

The City disagrees with this finding. The City's other post-employment benefits are disclosed in accordance with GAAP in the City's audited Comprehensive Financial Report. Specifically, for the Fiscal Years Ended June 30, 2013, and June 30, 2014, this benefit is disclosed in Note 12 of the audited financial statements.

Recommendations of the Grand Jury

- 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.)

City Response

When the City implemented Governmental Accounting Standards Board Statement No. 45 in Fiscal Year 2008-09, the City chose to fund this benefit by setting aside the actuarially determined annual required contribution in the City's Insurance Benefits Internal Service Fund. During the City's next two-year budget process, staff will seek City Council direction on whether the City should fund this benefit with an irrevocable trust.

- 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.)

City Response

The City disagrees with this recommendation. The City of San Juan Capistrano has recognized the full amount of post-employment medical benefit expense in its audited financial statements beginning with the fiscal year ending June 30, 2009, and every fiscal year thereafter, in accordance with GASB 45.

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

City Response

The City disagrees with this recommendation. Since the City implemented GASB 45 in Fiscal Year 2008-09, the City has recognized retiree health care benefits in accordance with GAAP. This is substantiated by the unqualified opinion received on the City's audited financial statements.

Should you have any questions, please do not hesitate to contact me at (949) 443-6315 or via email through Lindsey Stigall, Senior Executive Assistant at [lstigall@sanjuancapistrano.org](mailto:lstigall@sanjuancapistrano.org).

Sincerely,

A handwritten signature in black ink that reads "Derek Reeve". The signature is written in a cursive style with a large, prominent "D" at the beginning.

Derek Reeve  
Mayor