

The People are the City

Mayor
CHAD P. WANKE

Mayor Pro Tem
JEREMY B. YAMAGUCHI

Councilmembers:
CRAIG S. GREEN
SCOTT W. NELSON
CONSTANCE M. UNDERHILL



City Clerk:
PATRICK J. MELIA

City Treasurer
KEVIN A. LARSON

Acting City Administrator
DAMIEN R. ARRULA

401 East Chapman Avenue – Placentia, California 92870

September 2, 2015

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

**SUBJECT: 2014-15 ORANGE COUNTY GRAND JURY REPORT ENTITLED
“UNFUNDED RETIREE HEALTH CARE OBLIGATIONS-A PROBLEM FOR PUBLIC
AGENCIES?”**

Dear Judge Sanders:

We have reviewed the 2014-15 Orange County Grand Jury Report “Unfunded Retiree Health Care Obligations-A Problem for Public Agencies?”. On behalf of the City of Placentia City Council, we thank the volunteer members of the Grand Jury for their time and considerable effort in analyzing the various aspects of unfunded retiree health care obligations in Orange County.

The Grand Jury is requiring the City of Placentia to respond to finding F.2. though F.4. and recommendations R.2 through R.4. In accordance to California Penal Code §993 and 993.05, the City of Placentia is pleased to provide the following responses to the findings and recommendations made by the Grand Jury:

Finding 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.

City Response: Agreed however setting aside a significant amount of funds for this purpose is not currently possible due to the City’s financial situation. The City’s General Fund is operating with a structural deficit. In addition reserves are at about 3% of its operating budget which is much lower than the recommended level of 17% (two months general fund regular operating revenue or expenditures).

Finding 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: Do not agree with the statement that the remaining 26 agencies were not in compliance. There is not a requirement for any City to contribute the full 100% of its Annual Required Contribution. The requirement is that an agency's unfunded liability should either be contributed to or recognized as a liability in the entity's financial statements. This liability has been recorded in the City's financial statements.

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

City Response: This issue is being discussed with the City's audit firm and will be implemented if required by GAAP.

Recommendation 1. Not applicable.

Recommendation 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 liabilities.

City Response: Not implemented - This issue has been a topic of conversation when discussing the City's overall financial position and structural deficit. Unfortunately, this goal is included in the list of items that have gone unfunded, including but not limited to aging infrastructure, equipment & facilities, changes in employee compensation and the lack of adequate fund balance reserves. The City has taken steps to reduce the growth in the liability by significantly reducing retirement health benefits for new employees. This Grand Jury recommendation will not be implemented at this time. Should the City's financial situation improve, the option of prefunding retiree health obligations will be considered amongst all other unfunded obligations.

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

City Response: According to GASB 45, there is no requirement to advance fund a City's post retirement benefits. All that is necessary is for an entity to recognize the liability in its financial statements. The City will work with its auditors to ensure compliance with all requirements.

Recommendation 4. All agencies should recognize retiree health care benefits in employee compensation in conformity with GAAP.

City Response: As required by GAAP, the City's Comprehensive Annual Financial Report fully discloses the City's health benefit obligations for employees and retirees. This issue will be discussed with the City's audit firm, and if required by GAAP, changes will be made to the City's CAFR.

Thank you for affording us this opportunity to comment upon the findings and recommendations of the Grand Jury. Should you have any questions or need clarification regarding the City's responses contained herein, please do not hesitate to contact my office at (714) 993-8186.

Sincerely,

A handwritten signature in black ink, appearing to be 'Chad P. Wanke', written in a cursive style.

Chad P. Wanke
Mayor

cc: City Council
Orange County Grand Jury
City Administrator
Chief Financial Officer
Director of Administrative Services