



# City of Mission Viejo

## Administrative Services Department

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September 10, 2015

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

Re: Unfunded Retiree Health Care Obligations-A Problem for Public Agencies?

Dear Judge Glenda Sanders:

This letter is in response to the Orange County Grand Jury Report, "*Unfunded Retiree Health Care Obligations-A Problem for Public Agencies?*". The City of Mission Viejo ("City") has provided responses below at the request of the Orange County Grand Jury and in the format prescribed in the Report.

**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.**

The City wholly disagrees with the finding and believes the Grand Jury needs to clarify what exactly agencies are not in compliance with. There is no Generally Accepted Accounting Principles ("GAAP") or Government Accounting Standards Board ("GASB") "requirement" to fund an Annual Required Contribution ("ARC"). While those agencies that have established irrevocable trusts to accumulate funds for retiree health care benefits and prepare actuarial valuations on a regular basis have made commitments to fund their benefit plans, the actual payment of the ARC is not a requirement of GASB Statement No. 45. The scope and applicability of GASB 45 is to establish the standards of accounting and financial reporting for Other Post-Employment Benefit ("OPEB") expenses/expenditures and related OPEB liabilities or OPEB assets, note disclosures and required supplementary information in the financial reports of state and local governmental employers. GASB 45 does not address, nor take a position on funding requirements of retiree health care benefits. For agencies that have an ARC, GASB 45 provides guidance on how to report the ARC and how to report the portion of the ARC that is unpaid by an agency.

The City does take the position that an agency that offers retiree health care benefits should be proactive in funding that benefit. In addressing the Grand Jury's finding that the City did not contribute a full



100% of its ARC, the City also wholly disagrees with this finding. The City's ARC for FY 2012-13, as calculated in the City's June 30, 2011 Retiree Healthcare Plan Actuarial Valuation was \$736,000. The City remitted the entire ARC amount of \$736,000 to the California Employer's Retiree Benefit Trust ("CERBT") during fiscal year 2012-13. The City established an irrevocable trust with CERBT in 2008 to accumulate funds for retiree health care benefits and the City has contributed no less than 100% of its ARC each year since 2008. The City reported the actual ARC payment, which was equal to the actuarially determined ARC, as an expense/expenditure and also disclosed this information in the footnotes of the City's audited Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2013 in accordance with GASB 45.

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

Again, the City wholly disagrees with this finding. The Grand Jury is misinterpreting GAAP principles and GASB standards. The Grand Jury report (page 15) under the section titled "*GASB 45 Requirement: Timely and Appropriate Recognition of Benefit*" states "According to Generally Accepted Accounting Principles (GAAP), retiree health benefits earned by current employees for their future use should be recognized in the agency's compensation report in the period in which those benefits are earned". In fact, GAAP and GASB require that agencies recognize 100% of the cost of benefits earned by employees **in the financial periods** in which the benefits are earned. Recognition under GAAP and GASB are achieved by recording the cost of benefits in the agency's general ledger and in audited financial statements. Neither GAAP nor GASB requires, provide direction on, or references the preparation and reporting of a "compensation report".

The City is and has always been in compliance with GAAP and GASB. This is evidenced by 26 years of unqualified audit opinions from independent auditors on the City's financial statements and 26 years of receiving the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting, achievements that can only be accomplished if an agency is in compliance with GAAP and GASB. In addressing this specific issue of the Grand Jury, the City has recognized 100% of the cost of retiree health benefits in its general ledger and audited CAFR every year, including FY 2012-13, since implementing GASB 45 in FY 2007-08.

**Recommendation 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.**

The recommendation does not require implementation, as the City has consistently recognized the full ARC payment as an expense/expenditure in the City's general ledger and audited CAFR in accordance with GASB 45 in past fiscal years, including FY 2012-13.

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

The recommendation does not require implementation, as the City has consistently recognized, in the period earned, the full cost of retiree health care benefits as an expense/expenditure in the City's general ledger and audited CAFR in accordance with GASB 45 in past years, including FY 2012-13.

Respectfully,



Cheryl Dyas  
Director of Administrative Services

cc: Orange County Grand Jury  
Mission Viejo City Council