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September 14, 2015

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

The Honorable Glenda Sanders,

Please accept this as the City of San Clemente's official response to the 2014-2015
Unfunded Retiree Health Care Obligations – A Problem for Public Agencies?

Findings

- 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.**

The City agrees that it has not set aside funds in an irrevocable trust for OPEB obligations; however, the City has been taking steps towards creating an irrevocable trust and has been setting aside funds for several years to address its Net OPEB obligation. While these funds have not yet been placed in a trust, they are available in the City's Employee Medical Insurance Internal Service Fund.

- 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.**

The City disagrees with this finding in that there is no requirement to contribute a full 100% or more of the Annual Required Contribution (ARC) for OPEB obligations, only that employers calculate the ARC and account for the unfunded accrued liability and compliance in meeting the ARC each year. The City is currently funding the program on a pay-as-you-go basis and accrues its increase in net OPEB obligation annually.

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

The City disagrees with this finding. The annual Net OPEB Obligation expenses and related liabilities are annually accrued as part of the Employee health expenses in the City's Employee Medical Insurance Internal Service Fund.

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.)

The City plans to implement this recommendation in the current fiscal year.

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.)

The City will continue to comply with all current and future Generally Accepted Accounting Principles (GAAP) and GASB requirements for accounting and reporting OPEB obligations.

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

The City will continue to comply with all current and future Generally Accepted Accounting Principles (GAAP) and GASB requirements for accounting and reporting OPEB obligations.

If further information is required regarding this matter, please contact the City's Finance Manager, Judi Vincent, at (949) 218-9601.

Sincerely,



Erik Sund
Assistant City Manager

C: Mayor and City Council
Orange County Grand Jury