



September 16, 2015

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

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

Dear Judge Sanders:

The City Council has authorized me to submit the City of Laguna Beach's response to the June 29, 2015, report of the Orange County Grand Jury regarding unfunded retiree health care obligations. In accordance with California Penal Code Sections 933 and 933.05, the City's response addresses the Orange County Grand Jury Report findings and recommendations pertaining to the City of Laguna Beach.

**Response to Findings:**

***Finding 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.***

Response: The City of Laguna Beach partially agrees with the finding. The City offers elective medical insurance coverage on behalf of its eligible retirees and their dependents. Retirees pay a premium that is identical to what is used for City's active employees. While the City does not directly contribute towards the cost of the premiums for retirees, the ability to obtain coverage at an active employee rate constitutes an economic benefit to the retirees, called an "implicit subsidy." While the City does not contribute funds to an irrevocable trust to help pay the accrued actuarial liability, the City is accounting for costs and contributions associated with the implicit subsidy annually in the City's Self Insurance Fund.

**Finding 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 Laguna Beach partially disagrees with the finding. The payment of 100% or more of the Annual Required Contribution (ARC) is not required by GASB 45 and the funding of an amount less than the ARC may be appropriate in some situations. For the City of Laguna Beach, its Insurance Fund currently has reserves and available fund balance in excess of the estimated unfunded liability; therefore, the City pays less than the required ARC. However, the City adjusts its contributions to the Insurance Fund during the budget adoption to ensure that funding levels are appropriate.

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

Response: The City of Laguna Beach disagrees with the finding. The City of Laguna Beach properly records and presents in its annual financial statements and notes to the financial statements the cost associated with allowing retirees access to the City health insurance plan in accordance with GAAP.

**Response to Recommendations:**

**Recommendation 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.**

City Response: The recommendation has been implemented. While the City does not contribute into an irrevocable trust fund, it does accumulate and hold assets in its Insurance Fund to finance retiree health obligations and reduce the related unfunded liability.

**Recommendation 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.**

City Response: The recommendation has been implemented. In accordance with Generally Accepted Accounting Principles (GAAP), the city is properly recording funding and related expenses for allowing retirees to enroll in the City's health insurance plan in its financial statements. However, the City will continue to evaluate

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annually the contributions towards the unfunded liability and determine if additional funding is necessary.

**Recommendation R.4: All agencies surveyed should recognize retiree healthcare benefits in employee compensation in conformity with GAAP**

City Response: The recommendation will be partially implemented. For future compensation reports, the City will include in the report a footnote that describes the retiree health benefit offered by the City, the unfunded liability, and the impact, if any, on the City budget.

Respectfully submitted,

A handwritten signature in blue ink that reads "John Pietig". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

John Pietig  
City Manager

cc: City Council