



CITY of LAGUNA NIGUEL

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CITY COUNCIL

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September 16, 2015

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

Re: City of Laguna Niguel Response to 2014-2015 Grand Jury Report Entitled: “*Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?*”

Dear Judge Sanders:

On June 29, 2015, the 2014-2015 Orange County Grand Jury issued a report entitled: “*Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?*”. The City of Laguna Niguel is required to respond to Findings F.2 through F.4 and Recommendations R.2 through R.4.

The Laguna Niguel City Council reviewed and considered the Grand Jury Report on September 15, 2015. The responses from the City of Laguna Niguel are set forth below. In the interest of brevity, our response is limited to the Findings and Recommendations for Orange County Agencies which are paraphrased below.

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.

City Response: Based on our understanding of the Grand Jury’s methodology and calculations, the City might agree with the finding for large full-service cities, such as Anaheim, and disagrees with the finding for smaller contract cities, such as Laguna Niguel. It should be noted; however, the City of Laguna Niguel annually sets-aside 60% of its OPEB liability as a commitment of General Fund fund balance and is of the opinion that our level of contribution is prudent, safe, and sound.

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: This recommendation will not be implemented because it is not warranted. The City’s OPEB liability is small relative to other agencies and not all current and future employees are going to retire from the City of Laguna Niguel. As such, the City believes it is prudent to set-aside General Fund fund balance for future OPEB expenses and not fund OPEB in an irrevocable trust that is better suited for large public agencies.

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.

City Response: Based on our understanding of the Grand Jury’s methodology and calculations, the City disagrees with the finding. GASB Statement 45 does not require agencies to contribute the full 100% or more of their Annual Required Contribution

(ARC). GASB Statement 45 requires Cities to either report a Net OPEB Obligation or Net OPEB Asset based on the difference between the ARC and the amount actually contributed. Laguna Niguel complies with GASB Statement 45 by reporting a Net OPEB Obligation in its Comprehensive Annual Financial Report (CAFR), specifically in the Statement of Net Position and the Notes to the Financial Statements.

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: This recommendation will not be implemented because GASB Statement 45 does not require agencies to contribute the full 100% or more of their Annual Required Contribution (ARC). GASB Statement 45 requires cities to either report a Net OPEB Obligation or Net OPEB Asset based on the difference between the ARC and the amount actually contributed. Laguna Niguel complies with GASB Statement 45 by reporting a Net OPEB Obligation in its Comprehensive Annual Financial Report (CAFR), specifically in the Statement of Net Position and the Notes to the Financial Statements.

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

City Response: Based on our understanding of the Grand Jury's methodology and calculations, the City disagrees with the finding. As attested to by our independent accounting firm Lance, Soll, & Lunghard, LLP, the City's compensation is in conformance with GAAP and no audit exceptions have been noted by said auditor.

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

City Response: The recommendation will not be implemented as the right to retiree health care is only available to a City employee when that employee retires directly from the City. As such, the retiree health benefit for a Laguna Niguel City employee vests at the time retirement occurs. The City has no way of knowing who will retire directly from the City. As such, including retiree health benefits as part of compensation before those benefits are earned is inappropriate and unethical. As attested to by our independent accounting firm Lance, Soll, & Lunghard, LLP, the City's compensation is in conformance with GAAP and no audit exceptions have been noted by said auditor.

In summary, the title of the Grand Jury's report is "**Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?**". Although OPEB may be a major financial impact for large cities with hundreds of employees, the answer to the Grand Jury's question for Laguna Niguel specifically is "no". Thank you for the opportunity to respond to this Grand Jury Report.

Sincerely,



Rod Foster
City Manager

Cc: Orange County Grand Jury