



September 16, 2015

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

**SUBJECT: GRAND JURY REPORT – UNFUNDED RETIREE HEALTH CARE OBLIGATIONS**

Dear Judge Sanders,

In accordance with the California Penal Code, Section 933 and 933.05, the City of Los Alamitos is submitting this response to the Grand Jury Report “Unfunded Retiree Health Care Obligations – A Problem for Public Agencies?” As stipulated in the statute, the responses are provided for each Grand Jury finding and recommendation. Included with the responses are statements of agreement or disagreement, either wholly or partially, and the corresponding reasons for each.

Per the requirements and instructions, the City of Los Alamitos is responding to Findings (F.2 through F.4) and Recommendations (R.2 through R.4).

**Responses to Grand Jury Findings:**

**F.2 Twenty one 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 Los Alamitos agrees partially with this finding. The City of Los Alamitos does not put aside funds in an irrevocable trust. However, on July 1, 2014, the City of Los Alamitos set-aside \$250,000 of cash balances that have been designated for unfunded retiree healthcare obligations, which we believe is fiscally prudent.

**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 Fiscal Year 2012-13. The remaining 26 agencies were not in compliance.**

**Response:** The City of Los Alamitos agrees that it did not contribute 100% of its annual required contribution, as defined by the actuarial standards, in FY 2012-13, but

disagrees that it was required to do so. The City of Los Alamitos is in compliance with all laws and regulations. Actual contributions are based on annual required cash flow payments and are not required to equal the annual required contribution (which is an actuarial term) to be in compliance. As required by the Governmental Accounting Standards Board (GASB), the City of Los Alamitos annually adjusts the net retiree health liability in accordance with the actuarial valuation. Further, the City's independent auditors have confirmed that all reporting for unfunded healthcare obligations are accurate and in compliance with all GASB requirements.

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

**Response:** While we are not aware what other agencies disclose, the City's independent auditors have confirmed that all disclosures related to retiree health benefits have been properly disclosed in the City's Comprehensive Annual Financial Report and is consistent with GAAP standards. Therefore, the City of Los Alamitos disagrees with this finding.

**Responses to Grand Jury 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 liabilities (F.2.)**

**Response:** The City of Los Alamitos has set aside cash balances to fund retiree health obligations. The City has chosen not to contribute these set-aside cash balances to an irrevocable trust in order to maintain control of the funds. The necessary cash flow for annual retiree health obligations are always available and are paid as required. This is an allowable and prudent method of ensuring sufficient monies are available to pay all retiree health liabilities. Therefore this recommendation will not be implemented.

**R.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 requirements to do so (F.3.)**

**Response:** The City of Los Alamitos already properly records the full amount of the ARC as an expense, so this recommendation does not apply to the City of Los Alamitos. Each year the retiree health care liability is adjusted to the actuarially determined amount and an expense is recognized.

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

**Response:** The City of Los Alamitos already accounts for retiree healthcare costs in the City's Comprehensive Annual Financial Report in accordance with GAAP standards, so this recommendation does not apply to the City of Los Alamitos.

If you have any questions regarding the responses provided in this letter, please contact Mr. Jason Al-Imam, Director of Administrative Services, at (562) 431-3538 ext. 222 or via e-mail at [jalimam@cityoflosalamitos.org](mailto:jalimam@cityoflosalamitos.org).

Sincerely,

**CITY OF LOS ALAMITOS**



Richard D. Murphy  
Mayor

cc: *City Council*  
*Bret M. Plumlee, City Manager*  
*Cary S. Reisman - Wallin, Kress, Reisman & Kranitz, LLP*  
*Paul S. Borzcik, Foreman, 2014-15 Orange County Grand Jury*