



September 17, 2015

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

Re: Response to the July 2015 Grand Jury Report: Unfunded Retiree Healthcare Obligations - A Problem for Public Agencies?

Dear Judge Sanders:

The following response is provided by the City of Tustin ("City") to the July 2015 Grand Jury Report entitled "Unfunded Retiree Healthcare Obligations - A Problem for Public Agencies?" (referred to herein as the "Report").

Pursuant to California Penal Code Section 933.05, the City responds that it agrees partially with findings F2 and F3, and disagrees with finding F4, and reports that recommendations R2, R3, and R4 require further analysis. These responses are based upon the following reasons:

Finding #2. The City is not putting aside funds in an irrevocable trust to help pay for the accrued actuarial liability of retiree healthcare costs in the future, which is an imprudent level of contribution.

The City of Tustin agrees partially with the finding. The City of Tustin agrees that it may be prudent to put aside additional funds in an irrevocable trust to help pay for the accrued liability of retiree health costs in the future. There are other sensible strategies to ensure the ability to pay these health costs in the future, such as long-term budgeting to include these costs and ensure future payment. At this time, the City is not funding an irrevocable trust to pay for the liability.

Finding #3. The City did not contribute the full 100% or more of the Annual Required Contribution (ARC) in FY 2012-13, and therefore, is not complying with requirements.

The City agrees partially with the finding. The City of Tustin did not contribute the full 100% or more of the Annual Required Contribution in FY 2012-13. However, the "Annual Required Contribution" is an actuarial term defined as the employer's required contributions for the year, calculated in accordance with certain parameters, which apply for financial reporting purposes, and the City disagrees that the contribution is required to be made annually. The City pays for the benefit on a pay-as-you-go basis. There is no GASB requirement to pay the full Annual Required Contribution annually.

Finding #4. The City is not disclosing retiree health benefits as part of employee compensation per GAAP standards.

The City disagrees with the finding. The City of Tustin did disclose retiree health benefits per GASB standards which govern the annual audited comprehensive annual financial report. While the City of Anaheim chose to present the additional information about estimated cost per

employee position in their compensation report posted on their website, posting this information is not required by GASB standards. The City reports the aggregate cost of the benefits annually and publicly, including on the City's website. However, breaking down the same information on a position-by-position basis would require undue consumption of time and limited City resources.

Recommendation #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.

The recommendation requires further analysis. The City will consider funding options available to begin setting aside money to finance the retiree health obligations and reduce the unfunded liability by December 31, 2015. The City's fiscal year 2015-16 and 2016-17 budgets were recently adopted and included funding for the costs for these years.

Recommendation #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 requirement to do so.

The recommendation requires further analysis. As mentioned previously there is no requirement to pay the "Annual Required Contribution", as this is an actuarial term and is subject to certain parameters. While it may be prudent to begin setting aside greater funding for these benefits, the City's budgeting process contends with many competing high priority matters. Nevertheless, the City will begin analysis to determine the best way for the City to reduce the unfunded liability further.

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

The recommendation requires further analysis. The City does recognize retiree health care benefits in conformity with GASB in our Comprehensive Annual Financial Report. Any changes to the financial reporting must be further evaluated because there is significant expense in creating the information on a position-by-position basis. As noted above, the aggregate costs are already being reported publicly in the City's annual reports in any case.

Thank you for the opportunity to respond to the Grand Jury's Report. If you have any questions regarding our response, please contact Jeffrey C. Parker, City Manager, at (714) 573-3012 or Pamela Arends-King, Finance Director/City Treasurer, at (714) 573-3061.

Sincerely,



Charles E. "Chuck" Puckett
Mayor

c: **Orange County Grand Jury**
Jeffrey C. Parker, City Manager
Pamela Arends-King, Finance Director/City Treasurer
David E. Kendig, City Attorney