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# ALISO VIEJO

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INCORPORATED JULY 1, 2001

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September 21, 2015

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

**SUBJECT: Response to Orange County Grand Jury Report, "Unfunded Retiree Healthcare Obligations- A Problem for Public Agencies?"**

The Honorable Glenda Sanders,

Please accept this as the City of Aliso Viejo's official response to the 2014-2015 *Unfunded Retiree Healthcare Obligations-A Problem for Public Agencies*. The City of Aliso Viejo is supportive of increased government transparency and welcomes the opportunity to discuss the City's strategies for funding retiree healthcare obligations. Below are the City's comments to the applicable findings and recommendations set forth in the Grand Jury Report pursuant to Penal Code Sections 933(c) and 933.05.

**Findings**

**F.1. Aliso Viejo, Dana Point, Laguna Hills, and Villa Park were not in compliance with GASB Statement No. 45 regarding the authorization of a study to determine other post-employment benefit liabilities. Aliso Viejo, Dana Point, Laguna Hills, Laguna Woods, and Villa Park were not in compliance with the disclosure of post-employment benefits in the Notes Section of their Comprehensive Annual Financial Report for the FY2012-13.**

The City agrees with the 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.**

The City partially disagrees with this 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.**

The City disagrees with this finding.

**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.

#### Recommendations

**R.1. The cities of Aliso Viejo, Dana Point, Laguna Hills, Villa Park, and Laguna Woods should measure and disclose their liability in accordance with Governmental Accounting Standards Board Statement No. 45. (F.1.)**

The City agrees with the finding. It should be noted though that the City of Aliso Viejo is in compliance with its OPEB obligations. The City did not record its OPEB liabilities in the financial statements due to the immaterial value of the liability. A study will be authorized and disclosures will be included in the Notes Section of the Comprehensive Annual Financial Report (CAFR). This recommendation will be implemented starting with the FY 2014-15 audited financial statements.

**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 partially disagrees with this finding. The City of Aliso Viejo does not put aside funds in an irrevocable trust due to the immaterial value of the liability. In addition, maintaining control of these funds is an acceptable method to ensure sufficient funding is available to pay all OPEB obligations. The City is fiscally prudent and has the ability to fully fund this liability. It would seem the Grand Jury is recommending an irrevocable trust be set up to fully fund the OPEB liability. It is important to note that this is not a requirement of the pronouncement.

**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 disagrees with this finding. The City 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 to be in compliance. The City pays 100% of the Total Employer Contribution Rate as calculated on actual payroll. In addition, the Employer UAL amount is also paid off annually. The City's external, independent auditors have reviewed and expressed unqualified opinions on the City's audited financial statements. It is important to note that contributing 100% or more of the Annual Required Contribution is not required by the pronouncement.

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

The City disagrees with this finding. Although not separately disclosed, the City does include its retiree healthcare costs as a part of employee benefit rates for budgeting, financial reporting, and reporting of expenditures.

Government Code Section 53892(l) provides that the report submitted to the State Controller's office shall contain "[t]he annual compensation of a local agency's elected officials, officers, and employees in accordance with reporting instructions developed by the Controller pursuant to Section 53891 in consultation with affected local agencies."

The City submitted the state compensation report on the State Controller form. The form does not contain a line item to identify the entire amount of employee health care benefits (i.e. the difference between the amount the City paid directly to the employee and the Annual Retiree Contribution).

Please contact me at [gtharani@cityofalisoviejo.com](mailto:gtharani@cityofalisoviejo.com) or at (949) 425-2520 if you have questions or need additional information.

Sincerely,



Gina Tharani  
Director of Financial Services/City Treasurer

Attachments:  
Notice of Special Tax

CC: Orange County Grand Jury  
Aliso Viejo City Council  
David Doyle, City Manager