



## City of La Habra

## ADMINISTRATIVE BUILDING

*"A Caring Community"*

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### CITY COUNCIL

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September 21, 2015

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

Re: Required Response to Grand Jury Report, "UNFUNDED RETIREE  
HEALTHCARE OBLIGATIONS – A PROBLEM FOR PUBLIC  
AGENCIES"

Dear Presiding Judge Sanders:

On June 22, 2015, the 2014-2015 Orange County Grand Jury released its report on the "Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies." The report made 3 findings (F2, F3, F4) and 3 recommendations (R2, R3, R4) to which the City of La Habra is required to comment on. Please consider this letter as the City's official response to these findings and recommendations.

### Findings

**Finding 2 (F2): 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.**

Based on the information and documentation provided in the study, **the City of La Habra partially disagrees with the finding** of the Grand Jury. Although the City has not put aside funds in an irrevocable trust, the City has been internally setting aside monies to fund retiree healthcare obligations since June 2012. As of June 30, 2015, the balance of this internal set-aside fund is approximately \$757,000.

**Finding 3 (F3): 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.**

Based on the data and analysis provided by the Grand Jury, the City of La Habra wholly disagrees with the finding of the Grand Jury. The City is not aware of the contributions made by other agencies; however, Governmental Accounting Standards Board (GASB) Statement No. 45 does not require an agency to contribute any funds towards its Annual Required Contribution (ARC).

**Finding 4 (F4): All agencies surveyed (except Anaheim) do not disclosure retiree health benefits as part of employee compensation per GAAP standards.**

Based on the data and analysis presented by the Grand Jury, the City of La Habra wholly disagrees with the finding of the Grand Jury. Since the GASB 45 implementation in FY 2008-09, the City has been in compliance with GASB by recognizing OPEB expense in the government-wide section of our Comprehensive Annual Financial Report. The City also has been disclosing all required retiree health care benefit information in the notes to financial statements.

### Recommendations

**Recommendation 2 (R2): 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 recommendation has not yet been implemented. The City had previously made plan to implement this recommendation, which should be completed in FY 2015-16, by establishing an irrevocable trust fund to finance the City's future retiree healthcare obligations.

**Recommendation 3 (R3): 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 recommendation has already been implemented. The City implemented GASB 45 in FY 2008-09. The City has been recognizing OPEB expense in the government-wide section of our Comprehensive Annual Financial Report. ARC is a component of the OPEB expense. The Grand Jury's recommendation to contribute a full 100% will not be immediately implemented. The City continually assesses its financial situation and may consider increasing contribution levels in future budgets as funds become available.

**Recommendation 4 (R4): All agencies surveyed should recognize retiree health care benefits in employee compensation in conformity with GAAP (F.4).**

**The recommendation has not yet been implemented.** The City will begin including retiree health care benefit costs as part of the 2015 Orange County Grand Jury Employee Compensation Report. The City has been recognizing retiree health care benefits in employee compensation in the financial statements. The City also has been disclosing all required retiree health care benefit information in the notes to financial statements.

Thank you for the opportunity to provide comments on these findings and recommendations related to the Grand Jury Report on "Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies." Please contact Melvin Shannon, Director of Finance at (562) 383-4052 if you have any questions.

Sincerely,



Michael Blazey  
Mayor, City of La Habra

**CC: Orange County Grand Jury**