



CITY of LAGUNA WOODS

Cynthia Conners  
Mayor

September 21, 2015

Noel Hatch  
Mayor Pro Tem

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

Bert Hack  
Councilmember

Shari L. Horne  
Councilmember

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

Carol Moore  
Councilmember

Christopher Macon  
City Manager

Dear Judge Sanders:

Thank you for the opportunity to provide a response to the Orange County Grand Jury report titled “*Unfunded Retiree Healthcare Obligations- A Problem for Public Agencies.*” The City of Laguna Woods (City) is supportive of increased government transparency and welcomes the opportunity to discuss the City’s strategies for funding retiree healthcare obligations.

The City’s response addresses the Grand Jury’s findings and recommendations as they relate to the City only. The City’s response does not extend to, and should not be interpreted as, commenting on any other agency’s activities.

**CORRECTION OF INFORMATION ERRONEOUSLY REPORTED BY THE ORANGE COUNTY GRAND JURY**

The City respects the work of the Grand Jury, but believes that it would have been prudent for the Grand Jury to speak directly with cities to verify figures prior to public reporting, in order to reduce the chance of ambiguity and error. Two such errors exist in the Grand Jury’s report with respect to the City.

- *Table 3: Annual Cost as a Percentage of General Fund Expenditures* – Laguna Woods’ Annual OPEB Costs (AOPEBC) is incorrectly reported as \$226,947, which results in a miscalculation of the City’s percentage of annual cost to General Fund expenditures. Laguna Woods’ AOPEBC should have been reported as \$11,965, which results in a percentage to General Fund expenditures of 0.3%, instead of the 5.5% reported.
- *Table 9: Unfunded Accrued Actuarial Liability (UAAL) for Safety Services* – Laguna Woods’ UAAL is incorrectly reported as \$865,981, instead of \$106,225. In addition, the size of the unfunded liability is more directly related to three factors: the number of covered employees, the richness of the benefit program, and the ability or willingness of the agency to fund the liability. Those factors can vary amongst agencies.

**RESPONSE TO 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 FY 2012-13.**

The City agrees with this finding. In 2013, the City underwent a management transition and a reorganization of its administrative services functions. At that point, management became aware that GASB 45 disclosures had not been included in prior years' audited financial statements. The City took immediate action and included GASB 45 disclosures in the FY 2013-14 audited financial statements. That disclosure occurred, and this matter was self-identified and self-corrected, in advance of the Grand Jury's report.

It should be noted that prior to the change in management and reorganization, staff relied on the expertise of external, independent auditors who expressed unqualified opinions in all prior years' audit reports on the City's audited financial statements, including FY 2012-13.

**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. While the City had not set aside funds in an irrevocable trust as of June 30, 2013, the City had ample fund balance available to pay all unfunded balances in their entirety. The City does not believe that it acted imprudently and intends to establish an irrevocable trust shortly (see response to R.2.).

**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. The City's contribution was based on the portion of the cost that the City must pay of the annual health insurance premiums for its retirees and was not required to equal the Annual Required Contribution to be in compliance with laws and accounting standards. External, independent auditors expressed unqualified opinions in all prior years' audit reports on the City's audited financial statements, including FY 2012-13.

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

The City partially disagrees with this finding. It is not clear which compensation report the Grand Jury is referring to. 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. As evidenced by the City's unqualified audit opinions, the City was in compliance with GASB 45 and other GASB requirements for the financial statement presentation and disclosure of other post-employment benefits.

## **RESPONSE TO 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.)**

This recommendation was implemented prior to the Grand Jury's report (see response to F.1.). Disclosures began in the FY 2013-14 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.)**

This recommendation has not yet been implemented, but will be implemented during FY 2015-16. The City's Budget & Work Plan for FY 2015-16, which was adopted prior to the Grand Jury's report, includes a work plan item to establish an irrevocable trust. The City will establish the trust at an initial funding level of 80% of the City's unfunded liability calculated as of July 1, 2015, which is significantly more than the Annual Required Contribution.

**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.)**

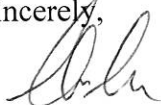
This recommendation has not yet been implemented, but will be implemented beginning in FY 2015-16 with the establishment of an irrevocable trust (see response to R.2.). The City plans to contribute more than its Annual Required Contribution to the trust in FY 2015-16 and will appropriately record the contributions on its financial statements.

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

This recommendation will not be implemented as identification of the compensation reports to which the Grand Jury is referring to is unclear and requires further explanation. The City does include its retiree healthcare costs as a part of employee benefit rates for budgeting, financial reporting, and reporting of expenditures. As evidenced by the City's unqualified audit opinions, the City was in compliance with GASB 45 and other GASB requirements for the financial statement presentation and disclosure of other post-employment benefits.

If you have any questions or would like additional information, please do not hesitate to contact me at (949) 639-0525 or [cmacon@cityoflagunawoods.org](mailto:cmacon@cityoflagunawoods.org).

Sincerely,



Christopher Macon  
City Manager

CC: Laguna Woods City Council