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CITY OF SANTA ANA

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September 22, 2015

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

Re: City of Santa Ana 2014-2015 Orange County Grand Jury Report:
Unfunded Retiree Health Care Obligations

Dear Judge Sanders:

Enclosed please find the responses to each of the findings and recommendations as outlined in the above-referenced Grand Jury report.

If you have any questions feel free to contact Francisco Gutierrez, Executive Director at (714) 647-5420 or via email at Fgutierrez@santa-ana.org

Respectfully,

David Cavazos
City Manager

Cc: Miguel Pulido, Mayor
Orange County Grand Jury

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Orange County Grand Jury FY 2014-2015
Orange County Unfunded Retiree Health Care Obligations
A Problem for Public Agencies

Findings [Page 17]

Based on its investigation of Unfunded Retiree Health Care obligations for Cities within Orange County (“OC”), the 2014-2015 Grand Jury has arrived at three (3) principal findings, as follows:

Findings of the Grand Jury

- F.2.** Twenty one out of 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.

City Response:

City of Santa Ana (“We”) agrees with the finding that OC cities should establish and/or set-aside funds in an irrevocable trust to offset current and future retiree health costs.

Findings of the Grand Jury

- 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 the City Annual Required Contribution in the FY 2012-13. The remaining 26 agencies were not in compliance.

City Response:

We agree with the finding that OC cities should contribute 100% of its Annual Required Contribution (“ARC”). However please note, the City recognizes on an annual basis the full ARC within its financial statements.

Findings of the Grand Jury

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

City Response:

We agree that OC cities should disclose retiree health benefits as part of employee compensation per GAAP standards. The City has disclosed its OPEB liability within its Notes Disclosure section of its FY 2012-13 Comprehensive Annual Financial Report (“CAFR”) in accordance with GAAP, including but not limited to the following items:

- 1. Annual Required Contributions**
- 2. Annual OPEB cost (expense)**
- 3. OPEB obligation**

Recommendations of the Grand Jury [Page 17]

Recommendations of the Grand Jury

- R.2.** The 21 agencies that have not contributed in an irrevocable trust fund to finance their retiree health obligations should begin to put aside monies to fund this obligation and reduce their unfunded pension liabilities. [F.2]

City Response:

The recommendation requires further analysis by the City regarding the scope, amount and functionality in both establishing and funding an irrevocable trust for the purpose of funding retiree health obligations.

Please note upon final negotiation, the City has reduced its Other Post Employment Obligation (“OPEB”) liability by virtue of opting out and allowing the participating bargaining units fund the liability separate from the City.

The City will provide an update on the feasibility in implementing the above-referenced recommendation within six months of the date of publication of the Grand Jury Report, December 2015.

Recommendations of the Grand Jury

- 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 requirement to do so. [F.3]

City Response:

The recommendation has been implemented within the City’s CAFR financial statements. Implementation will occur within the upcoming fiscal year.

Recommendations of the Grand Jury

- R.4.** All agencies surveyed should recognize retiree health care benefits in employee compensation in conformity with Generally Accepted Accounting Principles. [F.4]

City Response:

The recommendation has not yet been implemented. Implementation will occur with the fiscal year 2014-2015 CAFR.