



CITY OF ORANGE

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September 24, 2015

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

Re: City of Orange Response to Grand Jury Report: “*Unfunded Retiree Health Care Obligations-A Problem for Public Agencies?*”

Dear Judge Sanders:

The following is the City of Orange’s response to the findings and recommendations contained in the Grand Jury’s Report, “*Unfunded Retiree Health Care Obligations-A Problem for Public Agencies?*” The City of Orange was asked to respond to Findings F.2, F.3 and F.4 and Recommendations R.2, R.3 and R.4.

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.

Response

The City of Orange **disagrees** with this finding as it relates to our City as the City only offers the minimum allowed under the Public Employees Medical and Hospital Care Act (PEMHCA), which is currently \$119 per month. Additionally, the City’s Annual Required Contribution (ARC), per Table 8 of the Grand Jury’s report, was 1.77% of the City’s Annual Covered Payroll, an amount lower than 10 of the 11 agencies that had put aside funds.

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.

Response

The City of Orange **disagrees** with this finding. There is no requirement of full funding, GASB 45 is strictly an accounting standard setting entity and does not establish public policy. The only requirement of GASB 45 is to record the full ARC as an expense, which the City of Orange does.

Finding

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

Response

The City of Orange **disagrees** with this finding as it relates to the City of Orange. There is no GAAP standard that exists as it relates to reporting employee compensation. We are unsure as to which report the Grand Jury is referring, but if it is referring to the compensation report submitted to the State Controller, there is no specific field to report this information. Furthermore, the California State Controller's Office does not set Generally Accepted Accounting Principles (GAAP). The American Institute of Certified Public Accountants (AICPA) and the Governmental Accounting Standards Board (GASB) are the only bodies recognized as establishing GAAP for governmental entities.

Recommendations:

Recommendation

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.)

Response

The recommendation requires further analysis. The City of Orange's unfunded liability and Annual OPEB Cost are relatively low. Currently, the City's pay-as-you-go amount is 34.7% of the total Annual OPEB Cost. Additionally, the Annual Required Contribution is only 1.77% of Annual Covered Payroll. This is a manageable amount. However, the City will review options as to funding of the Annual OPEB Cost in the next twelve months.

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Recommendation

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. (F.3)

Response

This recommendation has already been implemented. The Grand Jury erroneously stated that the City had not complied with this requirement when, in fact, it had done so for the year under review.

Recommendation

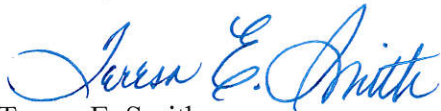
R.4: All agencies surveyed should recognize retiree health care benefits in employee compensation in conformity with GAAP. (F.4)

Response

The recommendation requires further analysis. There are no GAAP requirements as it relates to employee compensation. If the Grand Jury is referring to the State Controller's Report for Local Government Compensation, the City will evaluate how to include such information in that report for its next reporting period.

Thank you for your service and efforts on behalf of the City of Orange. We hope this response will be helpful.

Sincerely,



Teresa E. Smith
Mayor, City of Orange

cc: The Orange County Grand Jury
700 Civic Center Drive West
Santa Ana, CA 92701