



ORANGE COUNTY FIRE AUTHORITY

P.O. Box 57115, Irvine, CA 92619-7115 • 1 Fire Authority Road, Irvine, CA 92602

Jeff Bowman, Fire Chief

(714) 573-6000

www.ocfa.org

September 24, 2015

VIA CERTIFIED U.S. MAIL

The Honorable Glenda Sanders
Presiding Judge
O.C. Grand Jury
700 Civic Center Drive West
Santa Ana, CA 92701

Dear Judge Sanders,

Subject: OCFA Responses to 2014-15 Grand Jury Report "Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?"

At its September 24, 2015, meeting, the Orange County Fire Authority's Board of Directors approved and authorized the attached responses to the Findings/Conclusions and the Recommendations to the 2014-15 Grand Jury Report entitled "Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?" as requested.

Please feel free to let me know if you have any questions or need additional information.

Sincerely,

A handwritten signature in blue ink that reads "Sherry A. E. Wentz".

Sherry A.E. Wentz, CMC
Clerk of the Authority

cc: Grand Jury Foreman Paul S. Borzcik

Enclosure: OCFA Responses to the 2014-15 Grand Jury Report "Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?"

Grand Jury Response: “Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?”

September 24, 2015

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

Your Honor,

The Orange County Fire Authority (OCFA) Board of Directors reviewed the 2014/15 Grand Jury report, “*Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?*” during its public meeting held on September 24, 2015. The Board has reviewed and authorized this formal response from our agency.

We appreciate the time and effort the Grand Jury has dedicated to the citizens of Orange County in the pursuit of fair and transparent governance. The enclosed responses describe the OCFA’s compliance with the Grand Jury’s recommendations.

If I may be of service in the clarification of this response, please feel free to contact me at jeffbowman@ocfa.org or (714) 573-6010.

Sincerely,



Jeff Bowman
Fire Chief

Grand Jury Response: “Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?”

Reserved for Board Recommendation/Action

**MINUTES
ORANGE COUNTY FIRE AUTHORITY**

Board of Directors Special Meeting

**September 24, 2015
6:00 P.M.**

3. CONSENT CALENDAR

D. Response to Grand Jury Report: “*Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?*” (F: 20.04A8)

On motion of Director Shawver and second by Director Ta, the Board of Directors voted unanimously by those present to approve and authorize the Fire Chief to submit the proposed response to the recommendations contained in the Grand Jury Report entitled “*Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?*” to the Presiding Judge of the Superior Court and to the Orange County Grand Jury.

Grand Jury Response: “Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?”

Summary

The Orange County Grand Jury released a report entitled, “*Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?*” on June 29, 2015. The report addresses concerns with (1) quantifying the full extent of the financial liability for retiree health benefits facing the County’s 34 cities, the County, and the OCFA, (2) determining how much is owed in total by these 36 agencies, (3) identifying how much each agency has to contribute each year to meet its obligation to pay for the benefit, (4) to see how many public agencies are complying with the requirements and recommendations put forward by the Governmental Accounting Standards Board (GASB) in Statement No. 45, and (5) the provision of quantitative information regarding each public entity’s progress in addressing the important issue of unfunded liability.

The OCFA agrees with the need to understand the full extent of liability associated with retiree health benefits. One of the key components of fiscal responsibility is prudent management of long-term liabilities. For this very reason, the OCFA has been providing annual Liability Studies to its Board of Directors since 2012, focusing on all OCFA liabilities including retiree health benefits. By performing these reviews annually, not only do we provide transparency to the public through an accurate assessment of the OCFA’s *total* long-term obligations, but we also remain proactive in identifying strategies to reduce and/or fund the liabilities. These annual Liability Studies are presented to the Board of Directors at public meetings and remain available on the OCFA’s website.

<http://www.ocfa.org/Transparency>

Overview of Retiree Healthcare at OCFA

The OCFA administers two separate plans for retiree healthcare.

- Employees hired prior to January 1, 2007 are in a *defined benefit plan* that provides a monthly grant toward the cost of retirees’ health insurance coverage. The Plan’s assets are held in an irrevocable trust for the exclusive benefit of plan participants. Active employees hired prior to January 1, 2007, are required to contribute 4% of their gross pay toward the plan. This plan is referred to as the “Retiree Medical Plan”, which is addressed in the OCFA’s Comprehensive Annual Financial Report (CAFR) and the Grand Jury Report.
- Employees hired after January 1, 2007, are in a *defined contribution plan* that provides for retiree health savings accounts for each participant. Employees are required to contribute 4% of their gross pay, with the contributions invested as directed by each participant. All contributions, investment income, realized gains and losses are credited to each individual participant’s account. Upon retirement, the participant receives reimbursement for medical, dental and other healthcare expenses from their individual accounts. Under this plan structure, there is no liability to OCFA.

The OCFA’s post-2007 defined contribution plan was created specifically to address retiree healthcare liabilities. Since the defined contribution plan has no liability to OCFA, we were able to ensure that OCFA’s retiree healthcare liability will not grow perpetually into the future.

Grand Jury Response: “Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?”

Response to Findings and Recommendations

Finding 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 OCFA disagrees wholly with this finding because GASB Statement No. 45 does not require agencies to fund their Annual Required Contribution (ARC). GASB dictates reporting of the liability, using the actuary’s calculation of ARC, but GASB does not dictate funding.

The Government Accounting Standards Board (GASB) Statement No. 45 requires government agencies to have an actuarial valuation performed every two years to determine (among other things) the Annual Required Contribution (ARC) for uniform financial reporting of other post-employment benefits (OPEB). The ARC is then required to be recorded as an expense in the financial statements, and any portion of the expense which is not funded by contributions must be recorded as a net OPEB obligation (liability). However, GASB does not require government agencies to contribute 100% of the ARC. GASB compliance is based on financial reporting rather than funding contribution levels. OCFA has complied with all GASB requirements, as confirmed by the annual independent financial audit.

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

The OCFA disagrees wholly with this finding because OCFA does correctly disclose amounts earned for retiree health benefits as part of employee compensation.

As described above in the section titled **Overview of Retiree Healthcare at OCFA**, these benefits are funded by mandatory employee contributions at 4% of gross pay for all active employees. At the outset of these benefit programs and funding mechanisms, OCFA provided salary increases combined with simultaneous-mandatory employee deductions for retiree healthcare. The 4% salary is part of the employees’ gross pay, which is reported as employee compensation each year. This 4% earning is then deducted from employee pay and deposited to the applicable retiree healthcare trust fund (either the pre-2007 Plan or the post-2007 Plan).

Recommendation 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 recommendation has been implemented.

OCFA has correctly recognized the full ARC as an expense in the current period every year since GASB Statement No. 45 became effective. See the description of the GASB requirements provided under Finding 3.

Grand Jury Response: “Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?”

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

The recommendation has been implemented.

OCFA has correctly included the 4% salary earnings/deductions, which are dedicated to funding the healthcare benefit, as part of employee compensation each year. See additional details provided under Finding 4.