September 25, 2015

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

RE: "Unfunded Retiree Health Obligations – A Problem For Public Agencies?"

Dear Judge Glenda Sanders:

This letter is in response to the Orange County Grand Jury's report entitled "Unfunded Retiree Health Obligations – A Problem For Public Agencies?". The City of Dana Point is required to respond to Finding 1 and Recommendation 1. Please see our requisite responses provided below.

Finding 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 FY2012-13.

We disagree with this statement. Note 13 located on page 45 of the City's Comprehensive Annual Financial Report ("CAFR") for FY2012-2013 described Other Post-Employment benefits provided to City retirees. The City does not provide post-employment benefits except to the extent that they are legally mandated under California's Public Employee Medical and Hospital Care Act ("PEMHCA"). In particular, the City of Dana Point provides post-retirement medical benefits to employees who retire directly from the City, and are CalPERS members that continue participating in the City's medical plan at their own expense.

Since incorporation, the City had only six employees who elected to continue participation in the CalPERS health program. The City's total contribution in FY2012-2013 was $3,414 and in the following FY2013-2014, the City's contribution was $4,688. The City determined that OPEB costs and liabilities were immaterial to the City's financial statements. Since GASB Statement 45 states that the provisions of the Statement do not need to be applied to immaterial items, the City's contribution was not disclosed in the Note 13.

Furthermore, the City works closely with its independent auditors to annually evaluate the City's position concerning potential OPEB liability and reporting requirements. Staff worked on developing an OPEB model utilizing the alternative measurement option

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described in GASB 45. The model has been implemented and the City still deems the liability immaterial.

Recommendation 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.)

The City agrees with this recommendation. An alternative measurement option model was developed and utilized. Based on that model, the City continues to deem that the OPEB liability remains immaterial. According to GASB 45, immaterial amounts do not require disclosure in the financial reports.

Respectfully,

Douglas C. Chotkevys
City Manager

Michael A. Killebrew
Assistant City Manager/
Director of Administrative Services

Cc: Dana Point City Council
Dana Point City Attorney