



City of Westminster

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

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

Dear Judge Sanders:

The City of Westminster has reviewed the Orange County Grand Jury report titled "Unfunded Retiree Healthcare Obligations -- A Problem for Public Agencies?" and has formulated a response to each of the findings and recommendations requiring a response from the City of Westminster, as specified on pages 17-20 of the report.

The City's responses below address the Grand Jury's findings and recommendations as they relate to the City of Westminster only. The City's responses do not extend to, and should not be interpreted as, commenting on any other agency's practices.

Finding #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: The City disagrees partially with this finding. The City agrees that it has not put aside funds in an irrevocable trust to help pay for this future liability. The City disagrees that this is an imprudent level of contribution. The City continues to face recurring annual operating budget deficits and structural deficits in its General Fund. As a result, the City continues to address its retiree health care obligations on a pay-as-you-go basis. However, the City has taken proactive steps to control the amount of the unfunded liability for retiree healthcare. The City restructured its retiree healthcare benefit program to constrain the growth in future costs by reducing the benefit level for employees hired after January 1, 2011 and capping the benefit for employees hired prior to this date. This has resulted in a reduction in the accrued actuarial liability for each actuarial valuation conducted subsequent to these plan changes. As additional resources may become available in the future, the City will give strong consideration to establishing an irrevocable trust for this program. Given the fiscal challenges the City has faced in recent years, the City believes it has acted prudently in addressing its retiree healthcare obligation.

TRI TA
 Mayor

SERGIO CONTRERAS
 Mayor Pro Tem

DIANA LEE CAREY
 Council Member

TYLER DIEP
 Council Member

MARGIE L. RICE
 Council Member

EDDIE MANFRO
 City Manager

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 Fiscal Year 2012-13. The remaining 26 agencies were not in compliance.”

City Response: The City disagrees wholly with this finding. There is no Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) or legal requirement to contribute 100% or more of the annual required contribution (ARC) for any given year.

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

City Response: The City disagrees partially with this finding. Although not separately disclosed, the City does include retiree healthcare costs as part of employee compensation expenditures in its financial statements. As evidenced by the City's unqualified audit opinions, the City was in compliance with GAAP standards for its financial statement presentation and disclosure of other post-employment benefits.

Recommendation #2 – “The 21 agencies that have not contributed into an irrevocable trust fund to finance their health obligations should begin to put aside monies to fund this obligation and reduce their unfunded public liabilities (F.2.)”

City Response: This recommendation requires further analysis. The City will evaluate the priority of funding this obligation for the next annual budget cycle.

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.)”

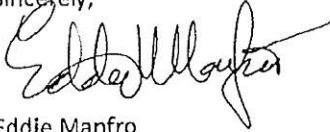
City Response: This recommendation has already been implemented. To the extent that a governmental entity is contributing less than the full amount of their Annual Required Contribution (ARC) and therefore not already expensing the amount of the ARC on their financial statements, GASB Statement No. 45 requires agencies to expense the difference between their actual contribution and the ARC and report the difference as a Net OPEB Obligation on their Statement of Net Position. The City of Westminster complies with GASB 45 in its Comprehensive Annual Financial Reports by including the difference between its actual annual contribution and the ARC as expense on the Statement of Activities, by reporting a Net OPEB Obligation on the Statement of Net Position and by including appropriate disclosures in the Notes to the Financial Statements.

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

City Response: This recommendation has already been implemented. The City of Westminster already includes the cost of retiree health care benefits as part of employee compensation in its annual budget, and in the reporting of annual expenses/expenditures in its Comprehensive Annual Financial Report, in accordance with GAAP.

Thank you for the opportunity to comment upon the findings and recommendations of the Grand Jury. If you have any questions or need additional information, please feel free to contact me at (714) 548-3172 or emanfro@westminster-ca.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Eddie Manfro". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eddie Manfro
City Manager

Cc: City Council
Orange County Grand Jury