



December 10, 2015

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

Re: City of La Palma Response to 2014-2015 Orange County Grand Jury Report *"Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?"*

Dear Judge Sanders:

The City of La Palma has reviewed the 2014-2015 Orange County Grand Jury Report *"Unfunded Retiree Healthcare Obligations – A Problem for Public Agencies?"* that was made public on June 29, 2015. As requested by the Grand Jury and in accordance with California Penal Code §933 and §933.05, this letter constitutes the City of La Palma's response to the findings and recommendations contained in the report.

The City of La Palma agrees with the importance of addressing unfunded retiree healthcare obligations and is proud of its past actions to address this issue. In 2011, the City capped what its Safety Officers who were hired before July 1, 2011, would receive in retiree healthcare. The City also instituted a second tier for Safety Officers hired after July 1, wherein those employees will receive only the Public Employee Medical Health Care Act (PEMHCA) required amounts similar to the City's non-safety employees. In April 2013, the City Council directed staff to establish a trust that would set aside initial funding of \$1.5 Million; in October 2013, the City established an irrevocable trust to prefund other post employment benefits (OPEB); in February 2014, the City prefunded the trust with \$1.5 Million; and continues to make the projected annual required contributions (ARC).

Findings:

Finding F-2: Finding F-2 states, *"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 liability of retiree healthcare costs in the future. This is an imprudent level of contribution"*

City of La Palma Response to Finding F-2: The City of La Palma **partially agrees** with the finding. While the City had not put aside funds as of June 30, 2013, it had already taken actions to do so. In April 2013, the City Council directed staff to establish a trust that would set aside initial funding of \$1.5 Million; in October 2013, established an irrevocable trust to prefund other post employment benefits (OPEB); in February 2014, prefunded the trust with \$1.5 Million; and continues to make the projected annual required contributions (ARC).

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Finding F-3: Finding F-3 states, *“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.”*

City of La Palma Response to Finding F-3: The City of La Palma **partially disagrees** with this finding as it relates to itself. In FY 2012-13 the City of La Palma paid approximately 70% of the ARC and was already taking steps to establish an irrevocable trust, including having identified \$1.5 Million in reserves to initially prefund its (OPEB) obligations.

Finding F-4: Finding F-4 states, *“All agencies surveyed (except Anaheim) do not disclose retiree health benefits as part of employee compensation per GAAP standards.”*

City of La Palma Response to Finding F-4: The City of La Palma **partially agrees** with this finding. While not aware what other agencies disclose, the City of La Palma includes retiree health as a separate line item in its Human Resources budget and includes those expenses in the overall personnel expenses. Further, the City properly records and presents its OPEB obligations in its annual financial statements and notes to the financial statements in accordance with GAAP.

Recommendations:

Recommendation R-2: Recommendation R-2 states, *“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)]*

City of La Palma Response to Recommendation R-2: The recommendation **has been implemented**. In April 2013, the City Council directed staff to establish a trust that would set aside initial funding of \$1.5 Million; in October 2013, established an irrevocable trust to prefund other post employment benefits (OPEB); in February 2014, prefunded the trust with \$1.5 Million; and continues to make the projected annual required contributions (ARC).

Recommendation R-3: Recommendation R-3 states, *“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 of La Palma Response to Recommendation R-3: The recommendation **has been implemented**. Since funding an irrevocable trust in February 2014, the City continues to make the projected annual required contributions (ARC).

Recommendation R-4: Recommendation R-4 states, *“All agencies surveyed should recognize retiree health care benefits in employee compensation in conformity with GAAP.” [(F.4)]*

City of La Palma Response to Recommendation R-4: The recommendation will be partially implemented. Currently, the City of La Palma includes retiree health as a separate line item in its Human Resources budget and includes those expenses in the overall personnel expenses. Further, the City properly records and presents its OPEB obligations in its annual financial statements and notes to the financial statements in accordance with GAAP. For future compensation reports, the City will include in the report a footnote that describes the retiree

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health benefit offered by the City, the unfunded liability, and the impact, if any, on the City budget.

The City would like to thank the Orange County Grand Jury for its efforts in researching these issues and for giving the City an opportunity to respond to its findings and recommendations. Should you have any questions regarding the City's responses, please contact Laurie Murray, City Manager, at (714) 690-3338.

Sincerely,

A handwritten signature in black ink that reads "Peter L. Kim". The signature is written in a cursive style with a large initial "P" and a long horizontal stroke at the end.

Peter L. Kim
Mayor

c: City Council
City Manager
City Attorney
Orange County Grand Jury