



CITY OF RANCHO SANTA MARGARITA

January 13, 2016

Mayor

L. Anthony Beall

Mayor Pro Tempore

Carol A. Gamble

Council Members

Jerry Holloway

Bradley J. McGirr

Michael Vaughn

City Manager

Jennifer M. Cervantez

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

Dear Judge Sanders:

The City of Rancho Santa Margarita has reviewed the Orange County Grand Jury Report entitled, "Unfunded Retiree Healthcare Obligations – A problem for Public Agencies?" As requested, the City of Rancho Santa Margarita is responding to the findings and recommendations included with in the report.

FINDINGS:

F 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 liability of retiree healthcare costs in the future. This is an imprudent level of contribution.

Response: Based on the data provided by the Grand Jury, the City of Rancho Santa Margarita generally agrees with this finding, however, we don't agree as it applies to the City of Rancho Santa Margarita. The City of Rancho Santa Margarita does not put aside funds in an irrevocable trust for the purpose of funding the liability. Rather, the City funds this contribution on a pay-as-you-go basis annually. The City currently has only 5 retirees and therefore a very low overall total cost as it pertains to its retiree healthcare obligation.

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: Based on the data provided by the Grand Jury, the City of Rancho Santa Margarita wholly disagrees with this finding. The City of Rancho Santa Margarita is in compliance with all laws and regulations. As required by GASB 45, the City annually adjusts the



net retiree healthcare liability in accordance with the actuarial valuation. Actual contributions made by the City are based on the annual required payment determined by the number of participating retirees. These contributions are not required to equal the Annual Required Contribution (ARC), which is determined by an actuarial, to be in compliance with GASB 45. Further, the City's independent auditors have confirmed all reporting for unfunded healthcare obligations are accurate and in compliance with all GASB requirements.

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

Response: Based on the data provided by the Grand Jury, the City of Rancho Santa Margarita wholly disagrees with this finding. The City's independent auditors have confirmed that all information related to retiree health benefits have been properly recorded and disclosed in the City's Comprehensive Annual Financial Report (CAFR) and is consistent with GAAP standards. This information is included in the government-wide statements and in the notes to the financial statements of the CAFR.

RECOMMENDATIONS:

R 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.)

Response: The recommendation requires further analysis. The City has begun researching the possibility of establishing an irrevocable trust to finance their health obligations. Due to the nominal accrued actuarial liability of the City, the City will weigh its options of continuing to pay-as-you-go, setting aside funds within the general fund, or establishing an irrevocable trust by analyzing the pros and cons of each option.

R 3: The 26 agencies that are not recognizing the full amount of their Annual Contribution as expense in the current period should comply with the requirement to do so. (F.3.)

Response: This recommendation has been implemented by the City of Rancho Santa Margarita. The City of Rancho Santa Margarita properly records the full amount of the ARC as an expense in the



government-wide section of the CAFR. Each year the retiree health care liability is adjusted to the actuarially determined amount and an expense is recognized.

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

Response: This recommendation has been implemented. As stated before, the City already accounts for retiree healthcare costs in the City's Comprehensive Annual Financial Report in accordance with GAAP standards.

Should you have any questions or need any additional information, please contact Stefanie Turner, Finance Director, at 949-635-1808 or via e-mail at sturner@cityofrsm.org.

Respectfully,

L. Anthony Beall
Mayor
City of Rancho Santa Margarita

Cc: Orange County Grand Jury
700 Civic Center West
Santa Ana, CA 92701