County of Orange
California

Thomas G. Mauk
County Executive Officer

August 24, 2005

Bette Flick, Foreperson
FY 05/06 Grand Jury
Superior Court of California
700 Civic Center Drive West
Santa Ana, CA 92702

Subject: Response to Orange County Grand Jury Report, "Another County Crisis: Pensions, Health Care and Other Benefits"

Dear Ms. Flick:

Per your request, and in accordance with Penal Code 993, enclosed please find the County of Orange response to the subject report as approved by the Board of Supervisors. If you have any questions, please contact Brian Wayt at (714) 834-4104 in the County Executive Office who will either assist you or direct you to the appropriate individual.

Very truly yours,

Thomas G. Mauk
County Executive Officer

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2004-2005 Grand Jury Report
"Another County Crisis: Pensions, Health Care and Other Benefits"
Response to Findings and Recommendations

Response to Findings 6.1 - 6.6:

6.1 Yearly pension costs under the new formulas increased from $45 million in FY 2000-2001 to $178 million for FY 2004-2005. This is an increase of $133 million, or 296%. New projections indicate the county's unfunded liability for the pension program has risen to $2.3 billion as opposed to the previously projected $1.3 billion

Response: Disagrees partially with the finding

The $2.3 billion unfunded pension liability represents the entire unfunded liability of Orange County Employees Retirement System which includes the County of Orange as well as other cites, special districts and the Orange County Fire Authority.

6.2 If the new pension projections are taken into account, county liabilities covered in this report would total approximately $4.4 billion ($2.3 billion unfunded pension, $1.3 billion unfunded health care, and $800 million bankruptcy payoff).

Response: Disagree partially with the finding

The $2.3 billion unfunded pension liability represents the entire unfunded liability of Orange County Employees Retirement System which includes the County of Orange as well as other cites, special districts and the Orange County Fire Authority.

6.3 The BOS made the latest pension enhancement retroactive, thereby applying it to all current general employees.

Response: Agrees with finding

6.4 Pensions are not based on salaries alone. Rather, they are enhanced with add-ons required under the Ventura Decision (California Supreme Court 1997), thus enlarging an employee's pay for pension purposes. However, employee contributions to the pension fund are based only on the employee's base salary.

Response: Disagrees wholly with the Finding

Employee contributions are based on base salary as well as other salary components that are part of the employee's final pay based on the Ventura Decision.

6.5 The Performance Incentive Program was designed to encourage employee productivity but morphed into a 2% bonus for a large number of county employees and now offers paid time off instead of cash.

Response: Disagrees partially with the finding

The Performance Incentive Program was implemented to reward employees for achieving goals consistent with the department's business plans and objectives. Currently the plan provides for paid time off in lieu of cash for employees, with the exception of employees represented by AFCSME and Probation Unit.

6.6 During 2004 labor negotiations, the BOS sought, but was unable to obtain, agreement for a shift in how county employee pensions operate.

Response: Agrees with finding

Response to Recommendations 7.1 - 7.5:

7.1 The BOS should explain to the citizens of Orange County what the board intends to do about the increases in employee pension costs and the related unfunded pension liability.

Response: The recommendation has not yet been implemented, but will be implemented in the future

The Board of Supervisors and county staff are currently analyzing the cost increases related to employee pensions. As part of the County Strategic Financial Plan and the FY 06-07 budget process, the BOS will address how to pay for these increases.

7.2 In the future, the BOS should consider all other options before granting retroactive pension enhancements.

Response: The recommendation has been implemented

The Board of Supervisors has and will continue in the future to work with staff to address all available options and the issues surrounding them when negotiating future pension benefits.

7.3 Ways should be found to narrow the gap between employee contributions to the pension fund that are tied to base salaries and final employee pay, a higher amount that is enhanced for pension purposes via the Ventura Decision.

Response: The recommendation has been implemented.

Employee contributions are based on base salary as well as other salary components that are part of the employee's final pay based on the Ventura Decision.

7.4 The Performance Incentive Program should be reconstituted as a true incentive program with high qualifying standards, or it should be eliminated.

Response: The recommendation has not yet been implemented, but will be implemented in the future.

The Performance Incentive Program, as modified by mutual agreement (i.e., time off in lieu of cash payments) was extended to June 30, 2006 by mutual agreement between the County and the Unions (excluding AFCSME and Probation Units). The parties have begun to renegotiate the terms and conditions of the Program consistent with the extension.

7.5 The BOS, in conjunction with OCERS and employee unions, should explore all possibilities for broadening the county retirement system in ways that would provide more options for employee retirement planning. The goal for all parties in this quest should be to arrive at a system beneficial to both employer and employee.

Response: The recommendation has been implemented

The county, along with the employee unions and OCERS, have begun exploring alternatives that provide more options for employee retirement planning (funding) that preserve the county's fiscal solvency. For example, the county is pursuing conducting a study by CalPERS to determine the feasibility of transferring pension systems. Additionally, the county has hired an actuary to review not only the most recent actuarial assumptions completed by OCERS' new actuary – Segal – but also other 37 Act systems such as LACERS, to generate additional options.