RESPONSE TO GRAND JURY REPORT FORM

Report Title: Marin's Retirement Health Care Benefits: The Money Isn't There

Report Date: May 22, 2013

Response by: Paul Libeu. Title: Board President

Agency/Department Name: Marin/Sonoma Mosquito & Vector Control District

FINDINGS:

I (we) agree with the findings numbered: F1, F3, F4, F6

I (we) disagree wholly or partially with the findings numbered: F2, F5, F7, F8, F9, F10

(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

RECOMMENDATIONS:

Recommendation numbered R6 has been implemented.

(Attach a summary describing the implemented act

ions.)

Recommendation numbered R1 has not yet been implemented, but will be implemented in the future.

(Attach a timeframe for the implementation.)

Recommendation number R2 requires further analysis.

(Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.)

Recommendations numbered R3, R4 & R5 will not be implemented because they are not warranted or are not reasonable.

(Attach an explanation.)

Date: 8-16-2013 Signed: Paul Libeu

FINDINGS

F1 We find that many of Marin's local governments and special districts are failing to pre-fund future costs for retired employees by making investments to cover promised benefits for active employees. This jeopardizes the certainty that retiree health care benefits promised to current employees will be paid.

Response: The District is able to respond to findings concerning the District's practices and not those of other local agencies. However, we agree that in general, if an entity were to promise retiree health care benefits without prefunding them, this could jeopardize the certainty that retiree health care benefits will be paid.

F2 The failure of the majority of entities studied in this investigation to begin an investment program to provide a portion of the needed funds to pay for retiree health care benefits leads to generation shifting of the payment responsibility. Thus it appears to be, at the least unethical, and even a breach of fiduciary responsibility.

Response: The Board is not in a position to judge whether or not a majority of entities studied have or have not begun an investment program to pay for retiree health care benefits, and can consequently neither agree nor disagree with this part of the finding. The Board agrees that the absence of a pre-funded investment program for an entity could transfer some or all of the costs of retiree health care benefits to a future generation or generations. While the Board cannot comment on how this issue appears to others, it agrees that entities have a fiduciary responsibility to address the issue of retiree health care benefits. See the District's response to recommendation R2 below for the District's plans to study and deal with this issue.

F3 The extreme 30-year amortization period used by most entities minimizes the annual cost of funding the liability gap and further defers to future generations the compensation owed to present employees who provide services to present taxpayers and customers. Shorter amortization periods should be required for reasons of equity and to ensure that the promised benefits will be provided.

Response: The Board agrees that, pending further study of this issue, to ensure that retiree benefits are fully funded it would be beneficial if the amortization period used by an entity was reasonably consistent with the active working years of its employees. See the District's response to recommendation R2 below for the District's plans to study and deal with this issue.

F4 By capping retiree health care benefits, the City of San Rafael has reasonable certainty as to what those costs are. Other entities studied here that promise to pay for future retiree health care with uncertain and likely rapidly increasing costs are accepting an unknown and potentially very costly risk.

Response: The Board agrees that future retiree health care costs are unknown, that this uncertainty creates a risk, and that capping benefits may reduce uncertainty in many instances. We note that the increase in health care costs has slowed recently, and it is not possible to forecast whether health care costs are likely to rapidly increase in the future. Health care benefits provided to retirees are governed by a Memorandum of Understanding that is periodically negotiated with the Employee Association. This matter is further explained in the responses provided to the Grand Jury's recommendations (below).

F5 Because a few Marin County cities and other entities studied provide very limited benefits yet still appear able to meet community service needs, and because providing such benefits is increasingly rare in the private sector, such benefits appear to be unnecessary for attracting and retaining employees. Accordingly, for active and newly hired employees, the benefits should be trimmed and costs should be shared between the employees and their employer.

Response: The Board partially disagrees with this finding. We do not agree that because a few Marin County cities and other entities studied provide very limited benefits yet still appear able to meet community service needs, this means that it is unnecessary for other entities to provide benefits to attract and retain well-qualified employees. No facts or analysis to support this finding are provided, nor does the report explain why an evident majority of Marin cities and other entities are continuing to provide the benefits discussed. Different governmental and private sector entities may have different personnel needs that could affect the compensation packages offered. Historically the District has been successful in recruiting and retaining well-qualified employees, thus providing high-quality services while saving substantial recruitment and training costs. It should be noted that the terms under which benefits are provided to the District's employees are governed by a Memorandum of Understanding (MOU) that is negotiated periodically with its employees.

F6 Marin entities using "Pay-Go" funding are paying only the current year health care benefits of those already retired. This ignores the reasonably known rising costs to cover future retirees who are already heading for retirement. Some actuarial valuation reports the Grand Jury studied provide those future "Pay-Go" estimates year-by-year, so they should be readily available from the actuary's valuations. Estimates of those annual costs for each of the next 10 years should be provided to the public so that those who will incur the costs can know those costs.

Response: The Board agrees that it is presently funding retiree health care benefits on a pay as you go basis and that estimates of annual costs should be provided to the public, including a 10-year projection of annual costs. Estimates of the year-by-year actuarial liabilities, including a 10-year projection of annual costs are provided in the District's most recent Other Post-Employment Benefits (OPEB) actuarial valuation report, which is available for public review on the District's web site. An updated OPEB report has been in the planning stages for a long time, and is currently under preparation by an independent actuarial consulting firm.

F7 Employers studied for this report should include an age-60, or even later, date for retiree health care benefits to commence in future negotiations with employees and their representatives.

Response: The Board neither agrees nor disagrees with this finding. The minimum age at which retirees are eligible for health care benefits is subject to negotiation with employees and is based on a number of factors.

F8 The results of retiree health care actuarial cost analyses are summarized if at all only in obscure notes to annual financial statements. The public is entitled to more readily accessible explanation of these costs because the public will bear those costs.

Response: The Board partially disagrees with this finding as current retiree medical costs are clearly labeled as a line item in the District's annual budget documents. However, we agree that the public is entitled to a readily accessible explanation of OPEB costs. Further, the District's OPEB actuarial valuation report is available for public review on the District's web site and the District complies with GASB 45 disclosure requirements on its financial statements

F9 There is a wide range of retiree health care benefits offered among the entities studied in this investigation. No clear explanation for the range from minimal to extremely generous is readily available. Those entities that are promising relatively generous benefits should provide clear justifications to their citizens and customers.

Response: The Board partially disagrees with this finding as it can comment only on the District's retiree health care benefits, and cannot offer an opinion on the benefits it offers relative to those provided by other entities studied. However, the Board notes that the OPEB it provides includes only medical premiums for the retiree; no life insurance, dental or vision care benefits are provided. We agree that a clear explanation of benefits should be provided to the public; in fact a summary of employee and retiree benefits is provided on the District's web site under "Employment Opportunities." Employees hired on or after July 1, 2009 receive medical coverage for themselves only; no spousal coverage is offered. Unlike some entities, District Board members receive no benefits during their term of office or OPEB.

F10. Most of the entities the Grand Jury investigated are using fairly reasonable discount rates of 4% - 5% per year to bring back to today in actuarial valuations the future annual costs of retiree health care benefits. However, some are using higher and highly questionable rate assumptions that are not justified by the investments (if any) that they have made to grow and fund the future benefits. The

result is to understate the total funding needed today and in future years, to pay for those future benefits.

Response: The Board partially disagrees with this finding as it has no knowledge of the discount rates assumed by "most of the entities" investigated by the Grand Jury. However, the Board agrees that if an assumed discount rate is unreasonably high, it could "understate the total funding needed today and in future years." In the District's most recent actuarial valuation report, an interest rate of 4.5% was used, which appears to be in line with the Grand Jury's' recommendation in this finding.

RECOMMENDATIONS:

The Grand Jury recommends that each Marin County local government, special district and school district:

R1 Begin setting aside in separate investment accounts, if it is not already doing so, each year's funds for amortizing its retiree health care benefits' UAAL, in addition to its "Pay-Go" funding of those benefits for present retirees.

Response: This recommendation has not been implemented but will be in the future. The District has contracted for a new actuarial report that will include preparation of a plan to prefund our retiree health care benefits. The study is planned to begin during August 2013 and the results will be available for the Board's review, discussion and potential action before the end of calendar year 2013.

R2 Begin a program to lower the amortization period for funding its retiree health care benefits UAAL from as much as 30 years presently, to approach (within 10 years), the commonly used 17-year amortization period for retiree pension funding.

Response: This recommendation requires further analysis. The District has contracted for a new actuarial report and preparation of a plan to prefund retiree health care benefits. The study is planned to begin during August 2013 and the results will be available for the Board's review, discussion and potential action before the end of calendar year 2013. The amortization period chosen will be dependent on multiple factors, including affordability.

R3 Negotiate caps on the amounts it commits to pay existing and new employees for retiree health care benefits.

Response: This recommendation will not be implemented because it is not possible to modify the amount of retiree medical benefits provided to the District's current employees without their agreement through the MOU that expires on June 30, 2014. Negotiations for a new MOU are scheduled to begin in early 2014 and the extent of medical benefits will undoubtedly be a topic to be negotiated at that time. We note that the time frame for negotiations is greater than the maximum six-month time frame specified in the Penal Code for further analysis of the Grand Jury's recommendations.

R4 Negotiate a higher retirement age than the currently applicable age for the commencement of retiree health care benefits.

Response: This recommendation will not be implemented because it is not possible to modify the currently applicable retirement age for the commencement of retiree health care benefits without the agreement of the District's employees through the Memorandum of Understanding ("MOU"). This MOU expires on June 30, 2014 and we expect to enter negotiations for a new MOU early in 2014. We note that the time frame for negotiations is greater than the maximum six-month time frame specified in the Penal Code for further analysis of the Grand Jury's recommendations.

R5 Require active employees to make a contribution towards the cost of their retiree health care benefit.

Response: This recommendation will not be implemented because it is not possible to modify the amount of active employees' contributions towards the cost of retiree medical benefits without their agreement through the Memorandum of Understanding ("MOU") that expires on June 30, 2014. Negotiations for a new MOU are scheduled to begin in early 2014 and the cost of retiree medical benefits will undoubtedly be a topic to be negotiated at that time. We note that the time frame for negotiations is greater than the maximum six-month time frame specified in the Penal Code for further analysis of the Grand Jury's recommendations.

R6 Place a link on its website to provide the latest actuarial valuation of its AAL, its UAAL, its consequent percent funded, its discount rate (annual percentage) used to determine these values, and a projection of outlays ("Pay-Go") for retiree health care benefits for each of the current and subsequent 10 years.

Response: This recommendation has been implemented. The District's most recent OPEB actuarial report is available on the District's web site under the "About Us > Financial Information" tab. See www.msmosquito.com

MARIN/SONOMA MOSQUITO & VECTOR CONTROL DISTRICT

595 Helman Lane
Cotati, CA 94931
1.800.231.3236 or 707.285.2200
707.285.2210 fax
www.msmosquito.com

Philip D. Smith
District Manager

August 19, 2013

The Honorable Judge James Ritchie
Marin County Superior Court
P.O. Box 4988
San Rafael, CA 94913-4988

Foreperson Richard Treadgold
Marin County Civil Grand Jury
3501 Civic Center Drive, Room 275
San Rafael, CA 94903

Re: Grand Jury Report: Marin's Retirement Heath Care Benefits: The Money Isn't There.
Report Date: June 3, 2013

Dear Judge Ritchie & Foreperson Treadgold:

The President and Board of Trustees of the Marin/Sonoma Mosquito and Vector Control District considered the Grand Jury's recent report referenced above.

At its regular, noticed public meeting on August 14, 2013, the Board authorized the President to send the enclosed responses.

Please contact me if I can supply any further information.

Sincerely,

Philip D. Smith
District Manager