

RESPONSE TO GRAND JURY REPORT FORM

Report Title: Retiree Health Care Costs: I Think I'm Gonna Be Sick

Report Date: March 19, 2007

Response by: Margaret A. Curran Title: Town Manager

BOARD: Tiburon Town Council

FINDINGS

- I (we) agree with the findings numbered: 1, 2, 3, 5, 6, 7, 11
- I (we) disagree wholly or partially with the findings numbered: 4, 8, 9, 10
(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.) see attached letter

RECOMMENDATIONS

- Recommendations numbered N/A have been implemented.
(Attach a summary describing the implemented actions.)
- Recommendations numbered 5 have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
- Recommendations numbered N/A require 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 3, 4, 6 will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: June 7, 2007 Signed: Margaret A. Curran

Margaret A. Curran, Town Manager

Number of pages attached 4

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Date: June 7, 2007 Signed: Margaret A. Curran

Margaret A. Curran, Town Manager

Number of pages attached 4

Office of the Town Manager
(415) 435-7383



June 7, 2007

The Honorable Lynn Duryee
Marin County Superior Court
Post Office Box 4988
San Rafael, CA 94913-4988

Ms. Karin J. Hern, Foreperson
Marin County Grand Jury
3501 Civic Center Drive, Room 303
San Rafael, CA 94903

**Re: Response to Grand Jury Report February 14, 2007
Disaster Preparedness**

Dear Honorable Judge Duryee and Ms. Hern:

This letter explains in detail the Town of Tiburon's response to the Grand Jury Report dated March 19, 2007. The Report directs the Town to respond to Findings Nos. 1 – 11 and Recommendations Nos. 3, 4, 5 and 6. These findings and recommendations involve a number of agencies other than the Town. The Town does not have sufficient information to evaluate the Report's accuracy with respect to these other jurisdictions.

The Findings also involve conclusions of fact that the Town has little or no independent basis to evaluate. In responding to these findings, the Town assumes that the information in the Report is correct and relies on that information. Lastly, the Recommendations require action by agencies and individuals that are outside the Town's control. Accordingly, this letter is intended only to apply to the Report's recommendations insofar as they pertain to the Town.

FINDINGS

Finding 1: The Town agrees that health care coverage is a valuable benefit to attract and retain employees.

Finding 2: The Town has not researched whether governments generally pay more of their compensation in the form of benefits than the private sector and the report offers little evidence in support of this finding. Nevertheless, it is consistent with the general practice of government employers to offer lower wages and enhanced benefits. Accordingly, the Town tentatively agrees with this finding, based on the assertions of the report.

Tom Gram
Mayor

Jeff Slavitz
Vice Mayor

Miles Berger
Councilmember

Alice Fredericks
Councilmember

Paul Smith
Councilmember

Margaret A. Curran
Town Manager

Finding 3: The Town agrees that most government entities providing retiree health care and other non-pension retirement benefits must disclose the future and accrued cost of the benefits to the public with the next four years, pursuant to GASB 45.

Finding 4: This finding asserts that government budgets and union negotiations will be affected by the implementation of GASB 45. There is scant discussion of this finding in the report. It seems likely to be true with respect to agencies that have made commitments to employees that may consume more resources than the agency can afford, but untrue with respect to agencies whose commitments are more modest. Based on the information available to Town staff at this time, we believe that this finding is untrue with respect to the Town of Tiburon, but we will not know for certain until we have the results of our actuarial stuffy. Accordingly, the Town provisionally disagrees with this finding.

Finding 5: The Town agrees that determining whether retiree health benefits are vested will require a fact-specific analysis.

Finding 6: The Town agrees that some agencies have not researched whether retiree health care benefits and the manner in which they are calculated are vested.

Finding 7: The Town agrees that public comments by government entities could result in creating a vested right where none previously existed. However, this will depend on the facts of each agency's circumstances.

Finding 8: This finding states that unless government employers prudently manage the liability for retiree health care benefits, they will be forced to cut services, reduce benefits and/or raise taxes to satisfy credit agencies. This finding appears both highly speculative and unduly pessimistic. The Grand Jury seems to assume that government employers have not historically managed their obligations with care. Accordingly, the Town agrees with the need to prudently manage these liabilities, the Town disagrees with the finding's prediction of catastrophic consequences, at least with respect to the Town.

Finding 9: This finding states that financially weak government entities faced with staggering liabilities will be required to reduce benefits, raise taxes or reduce services and that failure to manage the liability could well result in bankruptcy for those entities. The Town disagrees with this statement in that it does not appear to apply to the Town. If all employees that currently qualify for retiree health benefits were to retire immediately, the annual cost to the Town would be \$48,000. This

amount is not negligible, but the Town could absorb it without any of the drastic consequences predicted in the finding. This annual exposure will fluctuate; the Town's liability will increase as more employees become eligible for benefits, or for higher levels of benefits, and decrease as employees leave the Town pre-retirement and as retirees de cease.

Finding 10: The Town disagrees that it has not taken appropriate aggressive steps to understand and begin to comply with the requirements of GASB 45. The Town's budget for FY 2007-2008 includes the funds necessary to hire an actuarial for GASB 45. If the Town retains the actuarial in the next fiscal year, it will have ample time to meet its statutory deadline of compliance in fiscal year 2009-2010.

Finding 11: The Town disagrees that its elected and appointed employees that manage the retiree health care liability are subject to a conflict of interest with respect to retiree health care benefits. The officials responsible for managing such benefits are the Town Council and the Town Manager. The Town Council does not receive any retiree health care benefits and the Town Manager's benefits are set by her employment contract.

The Grand Jury has not asked the Town to respond to any other findings.

RECOMMENDATIONS

- **Recommendation 3:** The Town will not implement this recommendation by the end of 2007, because it is not currently warranted. The Town will consider this recommendation after completing its actuarial study. If the study indicates that the issue could significantly affect the Town's future budget decisions, the Town will research the vesting issue, retaining professional assistance as needed.
- **Recommendation 4:** The Town will not implement this recommendation because it is unwarranted at this time. This recommendation assumes the Town faces a significant problem with its retiree health care benefit liabilities, which the Town does not believe is correct. To the extent that the actuarial study indicates a potential future problem, the Town will consider addressing this issue in future union negotiations and benefit resolutions, but will not commit to doing so at this time.

- **Recommendation 5:** The Town will implement this Recommendation by directing Town officials not to comment on the vesting issue.
- **Recommendation 6:** The Town will not implement this recommendation because it is not currently warranted. The Town has until FY 2009-2010 to complete its actuarial study and begin the GASB 45-required reporting. The Town will begin this process in the next fiscal year, well in advance of the deadline. That said, the Town will consider information generated for GASB 45 in labor negotiating and budget decisions.

The Grand Jury has not asked the Town to respond to any other recommendations.

* * * * *

The Tiburon Town Council reviewed and approved this response on June 6 2007 at a duly noticed and agendized public meeting. If you have further questions on this matter, please do not hesitate to call.

Very truly yours,



MARGARET A. CURRAN
Town Manager

cc: Town Council
Town Attorney
Town Chief of Police