MARINWOOD COMMUNITY SERVICES DISTRICT
775 Miller Creek Road, San Rafael, CA 94903-1323
Phone: (415) 479-7751 - Fax: (415) 479-7759

August 16, 2013

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

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

Dear Mr. Treadgold and Judge Ritchie,

Please find attached the responses of the Board of Directors of Marinwood Community Services District to the Grand Jury report "Marin's Retirement Health Care Benefits: the Money Isn't There", dated June 5, 2013. The responses were considered in open session in the Board's regular meeting held August 13, 2013.

The Board of Directors has been aware of the liability for retiree health care for some time, and it is in agreement with the basic conclusion of the report, that local governments must provide now for future retiree benefits.

However, the Board takes particular exception to the way in which it was singled out on pages 13 and 14 as being unique in having an eligibility for retirement and full lifetime benefits at age fifty, with five years of service, and for being under Social Security in addition to CalPERS retirement. Please note the following:

- Eligibility for retirement at 50 with a minimum of 5 years' service is a basic tenet of CalPERS (Article 1, Chapter 12 of the Public Employees' Retirement Law) and it is the case for all agencies in the County which participate in CalPERS.
  The Report does not provide information about the retirement systems of the agencies reported, but of the forty agencies surveyed, five are members of MCERA; most of the other agencies participate in CalPERS, and several of those are also in Social Security. Local governments have not been able to opt out of Social Security since 1983.
- As stated above, Marinwood CSD is not alone in having the PERS eligibility for retirement at 50 with 5 years. However, an employee has little incentive to retire at 50 with 5 years' service, as one's retirement benefit would be very low: 15% of final compensation for our firefighters, and 5.46% of final compensation for our park and recreation employees. Firefighters will typically retire at 55 or older, and park employees at 63 or older.
- The Grand Jury did not ask Marinwood CSD for information about its retirement benefits, and presumably did not ask the other responding agencies about their retirement programs. Because apparently only Marinwood's actuaries stated in their

report that employees in CalPERS can retire at 50 with 5 years' service, the Grand Jury seized on that statement and made unjustified and judgmental pronouncements regarding Marinwood. The Grand Jury clearly did not have adequate information to make those statements, and it had not even requested the needed information.

Please also note that the per household present cost reported by the Grand Jury is overstated by $423, because 26% of our Fire Department OPEB liability, which is 60.4% of our total liability, is borne by County Service Area 13, which has contracted with Marinwood CSD for fire protection and emergency response services for nearly 50 years.

The Board of Directors appreciates the work the Grand Jury has done to bring this issue to the fore in Marin County. Be assured that Marinwood CSD is aware of the issue, and it will continue to take such steps as it can to reduce its OPEB liability, without compromising the level of service it provides to the community.

Very truly yours,

Bruce Anderson

Bruce Anderson, President
Board of Directors

Cc: Susan Adams, District 1 Supervisor

Marinwood Community Services District Board of Directors responses to June 3, 2013 Marin County Civil Grand Jury report *"Marin's Retirement Health Care Benefits: The Money Isn't There"*

Findings

Finding No. 1: Agree, but only in regard to Marinwood CSD.

Finding No. 2: Disagree
Marinwood CSD rejects the assertion that having failed to begin an investment program to provide for retiree health care benefits is unethical, and a breach of fiduciary responsibility. The CSD has long been aware of the issue, and is taking steps to reduce the liability. However, the problem of retiree and employee rapidly escalating health care costs is the result of failure in policy at the Federal and State level, beyond the power and means of the CSD. Using the health premium inflation figures provided in our 2012 OPEB actuarial report, the CalPERS Kaiser North Plan family premium will be over $87,600/year in twenty-seven years, at the end of our current OPEB actuarial computation period. This is not sustainable, and it is far more than a CSD problem.

Finding No. 3: Disagree
The 30-year amortization period is provided for by GASB, and commonly used. GASB does not characterize the period as "extreme".

Finding No. 4: Disagree
The required actuarial reports guarantee that the risks are not "unknown", and further guarantee that Marinwood CSD knows precisely how costly they may be. The CSD has made moves to reduce the District share of employee and retiree health benefits that it pays, and it does plan to invest for future costs. However, as noted for Finding No. 2, the problem of "rapidly increasing costs" is ultimately beyond the means of taxpayers or retirees to deal with.

Finding No. 5: Disagree
As pointed out above, the District is increasing the share of health premium costs borne by employees and retirees. In addition, the Marinwood firefighters several years ago agreed to a second-tier retirement plan for new hires, with a formula retirement age of 55. However, the Public Employee Retirement Law (PERL) and the Public Employee Medical and Hospital Care Act (PEMHCA) do not permit similarly tiering health benefits by agencies contracting with CalPERS for health insurance.

Finding No. 6: Agree
The District's actuarial valuations do include a table of ten years' projected "Pay as You Go" costs.

Finding No. 7: Disagree
Public Employee Retirement Law does not provide Marinwood CSD this option. However, in 2008 the CSD negotiated a second tier of 3%@55 for new hires with its firefighters, and the Public Employees' Pension Reform Act (PEPRA) provides that new hires will be at a third tier of 2.7%@57. Marinwood CSD's non-safety employees have a 2%@60 formula for retirement, and PEPRA provides that new hires will be under 2%@62. Employees typically retire at an age greater than their retirement formula, the point at which the maximum benefit factor used to calculate retirement benefits is reached, because benefits still continue to increase with increased service tenure.

Finding No. 8: Disagree
The notes in our Financial Statements for 2010, 2011 and 2012 were provided to the Grand Jury. The CSD does not find that they are obscure.

Finding No. 9: Agree

Finding No. 10: Agree

Recommendations

Recommendation No. 1: The recommendation will not be implemented in the near future, because it will require an unreasonable reduction in service levels. The recommended set-aside for FY 2013-14 would represent over 7% of the CSD's operation budget. However, the District is taking the opportunity of the upcoming retirement of its District Manager to re-organize its management positions and outsource some of its maintenance functions, in order to reduce the number of full-time, benefitted employees. These changes, which will take effect as soon as Fiscal Year 2014-15, will reduce the long-term liability. The savings accruing from the changes will allow the District to first restore its Fund Balance to a point where it does not have to borrow every year from the County General Fund in anticipation of December property tax revenues, and only after that, to begin to pre-fund long-term OPEB liabilities and set aside funds for capital improvement and maintenance projects.

Recommendation No. 2: The recommendation will not be implemented, because it is not reasonable. The seventeen year amortization period is not warranted, and retirement pension benefits are not the same as health care costs. Pension benefits are pre-funded, and the amount needed is predictable and calculable, based on earnings. Health care costs are more difficult to predict.

Recommendation No. 3: The recommendation will not be implemented, because it is not reasonable. PERL and PEMHCA do not permit setting dollar amount caps for retirees separate from the caps set for current employees. However, the CSD has negotiated for employees (and with them, retirees) to pay a larger percentage of premiums.

Recommendation No. 4: This has been done for the CSD's Safety employees, setting a lower benefit of 3%@55 for new hires. The Miscellaneous employees are already at the lowest available CalPERS formula, 2%@60. The Public Employees' Pension Reform Act will reduce those formulas for new hires to 2.7%@57 and 2%@62, respectively.
The District wishes to point out to the Grand Jury that on pages 13 and 14 of their report, they have singled out Marinwood CSD as having a young eligibility age of 50 and short service time of 5 years for lifetime benefits, when that is set in Public Employees' Retirement Law and is true of every agency studied by the Jury which contracts with CalPERS, regardless of which retirement formula they have contracted for. The CSD's actuarial report was apparently the only one to reference this fact, and so it was erroneously seized upon by the Grand Jury as being unique.
Furthermore, just because an employee can retire with medical benefits at age 50 after 5 years of service does not mean that it would be wise to do so. For example, under the 2%@60 formula applicable to the CSD's parks and recreation employees, an employee retiring at age 50 with 5 years of service would receive a pension of only 5.46% of their final compensation, whereas an employee retiring at 63, after 30 years of service would receive a pension of 72.54% of final compensation.

Recommendation No. 5: The recommendation will not be implemented as stated. However, the District has made progress in increasing the amount that employees and retirees contribute toward their health care premiums, thus reducing the liability, rather than collecting funds from employees to pre-fund it.

Recommendation No. 6: The recommendation has been implemented. The CSD's actuarial report is posted on its marinwood.org website. It provides all of the information called for in the recommendation.