

RESPONSE TO GRAND JURY REPORT FORM

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

Report Date: May 22, 2013

Public Release Date: June 3, 2013

Response by: TOWN of TIBURON

FINDINGS

- I (we) agree with the findings numbered: _____
- I (we) disagree wholly or partially with the findings numbered: F1-10
(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

RECOMMENDATIONS

- Recommendations numbered R1 have been implemented.
(Attach a summary describing the implemented actions.)
- Recommendations numbered R6 have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
- Recommendations numbered _____ 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 R2, 3, 4, 5 will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.) *see attached letter dated July 18, 2013.*

Date: July 22, 2013 Signed: Margaret DeCuir

Number of pages attached 5

Office of the Town Attorney
(415) 435-7370

July 18, 2013

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

Mr. Rich Treadgold, Foreperson
Marin County Grand Jury,
2012/2013
3501 Civic Center Drive, Room 275
San Rafael, CA 94903

**Re: Retirement Health Care Benefits
Grand Jury Report, May 22, 2013**

Dear Honorable Judge Ritchie and Mr. Treadgold:

This letter explains in detail the Town of Tiburon's response to the Grand Jury Report dated May 22, 2013. The Report asks the Town to respond to all findings and Recommendations. Please note that the Report contains assertions of fact that the Town has little or no independent basis to evaluate. In responding to the Report, the Town generally assumes that the information in the Report is correct and relies on that information.

These findings and recommendations also 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 Report's Recommendations require action by agencies and individuals that are outside the Town's control. Accordingly, this letter is intended only to apply to the Recommendations insofar as they pertain to the Town.

Report Findings:

The Report requests the Town to respond to ten findings. State law requires the Town to make one of two responses to each finding; the Town must either agree with the finding or explain why the Town disagrees. This is a difficult task. Most of the Report's findings conclude that Marin's public agencies should modify various practices and regulations relating to retiree health care benefits. However, the Report does not contain adequate evidence to support the findings, at least with respect to the Town. Moreover, the Report contains little or no analysis of the feasibility and economic consequences of the proposed changes.

The Town has historically been quite conservative with respect to its finances in general and its employee benefits in particular. The Town eliminated the retiree



Emmett O'Donnell
Mayor

Alice Fredericks
Vice Mayor

Frank Doyle
Councilmember

Jim Fraser
Councilmember

Jeff Slavitz
Councilmember

Margaret A. Curran
Town Manager

health care benefit for newly hired employees beginning in 2009 (see response to F4). For those employees that potentially qualify, the retiree health benefits are modest relative to other agencies and available only to very long term employees. To qualify for the minimum benefit (50% of Kaiser single rate in effect at the time of retirement) an employee must retire from the Town after 15 years of service. To receive the maximum benefit (100% of Kaiser single rate in effect at the time of retirement) must retire from the Town after 25 years of service.

Because of these general facts and the reasons set forth below, the Town disagrees with all of the Report's findings as applied to the Town:

F1: Since 2008, the Town has maintained a committed fund for future retiree health benefits. The Town makes annual contributions to this fund, whose balance as of June 30, 2013 was \$734,036. These and all other reserves are invested pursuant to the Town's conservative investment policy. The Town's investments do not offer a high return but they are very safe, avoiding the market risks that have decimated some retirement accounts. The Town is confident that this practice, combined with the 2009 elimination of the retiree health benefit, will ensure that the Town has sufficient resources to pay the promised benefit to eligible employees.

F2: See response to F1.

F3: The 30-year amortization period is not extreme; it is standard practice. The Town is confident, that this amortization rate, combined with the 2009 elimination of the retiree health benefit, will ensure that the Town has sufficient resources to pay the promised benefit to eligible employees without any future cut in services to the community.

F4: The Town eliminated its retiree medical allowance (above the legally required PHEMCA contributions) to any management/mid-manage/unrepresented employee hired after July 1, 2009, to any Tiburon Police Association member hired after July 1, 2010, and any SEIU employee hired after July 1, 2011. The Town caps the benefit for current employees at the time of retirement.

F5: See response to F4 with respect to recent and future employees. With respect to previously-hired employees, the Town would have to negotiate any reduction in benefits or cost-sharing, with unknown financial consequences. We do not believe this is warranted because the Town's liability for these benefits is limited and because the Town has sufficient resources to pay the promised benefit to eligible employees.

F6: As explained in response to F1, the Town does not solely rely on "Pay as you Go" ("Pay-go") funding alone, but contributes annually to a dedicated reserve. The Town is confident that this practice, combined with the 2009 elimination of the retiree health benefit, will ensure that the Town has sufficient resources to pay the promised benefit to eligible employees. The Town's current actuarial valuation provides an annual "Pay-go" estimate for a ten-year period. Town staff provided the Grand Jury with a copy of this document, which is available to the public upon request.

F7: See response to F4 with respect to recent and future employees. With respect to previously-hired employees, the Town would have to negotiate any increase in the eligibility age, with unknown financial consequences. We do not believe this is warranted because the Town's liability for these benefits is limited and because the Town has sufficient resources to pay the promised benefit to eligible employees.

F8: The Town's annual audit includes these costs. The Council approves the annual audit at a public meeting and it is readily available to the public.

F9: The Town's retiree health benefits are relatively modest. Accordingly, this finding does not appear to apply to the Town.

F10: The Town uses a 4% discount rate, which the finding describes as "reasonable." We do not have sufficient information to evaluate whether agencies using a lower discount rate are understating the total funding needed.

Report Recommendations:

The California Penal Code provides the Town with only four options in responding to a Grand Jury recommendation, as follows:

1. A statement that the recommendation has been implemented, with a summary of the implementing actions.
2. A statement that the recommendation will be implemented, with a timeframe for the implementation.
3. A statement that the recommendation requires further analysis, with an explanation of the scope of the analysis and a timeframe for the Town Council to consider said analysis, not to exceed six months from the date of the Report (i.e., by November 22, 2013).

4. A statement that the recommendation will not be implemented because it is not warranted or unreasonable, with an explanation.

The Town's responses are set forth below:

R1: The Town has already implemented this recommendation and will continue to set aside funds for its OPEB obligations in addition to its "Pay-go" funding. See responses to F1 and F6.

R2: If the Town amortized the estimated OPEB benefit costs over 17 years, rather than the current 30, the Town's fund for such benefits would increase more rapidly. However, this would have a commensurate negative effect on other portions of the Town's budget. The Town believes that its current practices are more than adequate to fund future costs of the benefits, as explained in response to F.3. Accordingly, the Town rejects this recommendation as unreasonable and unwarranted.

R3: See response to F4 with respect to recent and future employees and caps on employees that remain eligible for the retirement health care benefit. The Town would have to negotiate any further caps on eligible employees, with unknown financial consequences. The Town believes that its current practices are more than adequate to fund future costs of the benefits, given the limited extent of the benefit. Accordingly, the Town rejects this recommendation as unreasonable and unwarranted.

R4: See response to F4 with respect to recent and future employees. With respect to previously-hired employees, see response to F7. The Town would have to negotiate any cap on benefits, with unknown financial consequences. The Town believes that its current practices are more than adequate to fund future costs of the benefits, given the limited extent of the benefit. Accordingly, the Town rejects this recommendation as unreasonable and unwarranted.

R5: See response to F4 with respect to recent and future employees. With respect to previously-hired employees, the Town would have to negotiate any contribution to their health care retirement benefits, with unknown financial consequences. The Town believes that its current practices are more than adequate to fund future costs of the benefits, given the limited extent of the benefit. Accordingly, the Town rejects this recommendation as unreasonable and unwarranted.

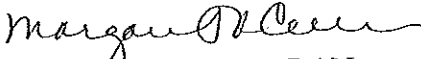
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R6: The Town will implement this recommendation within 90 days of this letter.

* * * * *

The Tiburon Town Council reviewed and approved this response on July 17, 2013 at a duly noticed and agendized public meeting. If you have further questions on this matter, please do not hesitate to contact me.

Very truly yours,


MARGARET A. CURRAN
Town Manager

cc: Town Council
Town Attorney