

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: City of Novato

FINDINGS

- I (we) agree with the findings numbered: F3, F4, F6
- I (we) disagree wholly or partially with the findings numbered: F1, 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

- Recommendations numbered R-1 through R-6 have been implemented.
(Attach a summary describing the implemented actions.)
- Recommendations numbered _____ 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 _____ will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: 8/1/13 Signed: _____

Number of pages attached 3



THE CITY OF
NOVATO
CALIFORNIA

DATE: August 1, 2013

TO: Grand Jury

FROM: City of Novato

SUBJECT: **RESPONSE TO THE GRAND JURY REPORT: MARIN'S RETIREMENT
HEALTH CARE BENEFITS: THE MONEY ISN'T THERE**

75 Rowland Way #200
Novato, CA 94945-3232
(415) 899-8900
FAX (415) 899-8213
www.ci.novato.ca.us

FINDINGS

F1 – Disagree in Part – The City of Novato began a pre-funding program into an OPEB trust during the 2012/13 fiscal year. This program fully funds the Annual Required Contribution, meaning that approximately \$140,000 will be going into the OPEB trust each year. Additionally, as you are aware, the Novato City Council has always been very fiscally conservative with respect to retiree health care, and has always provided only the legally mandated minimum retiree health care contribution, the “PEMHCA minimum”. This helped keep the City’s OPEB liability relatively modest, as indicated in the Grand Jury’s report. While the City believes it has taken appropriate action to ensure that retiree health care benefits promised to its current employees will be paid, it is not the City’s place to speculate on whether or not the benefits promised by other entities will or won’t be available in the future.

F2 – Disagree in Part – The City has already begun a program of fully funding its Annual Required Contribution. This policy will result in approximately \$140,000 annually being placed into the OPEB trust for Novato. It is not the City’s place to speculate on the ethical or fiduciary responsibilities of other governmental entities.

F3 – Agree – The City’s most recent published actuarial valuation, for the period ending January 1, 2010, used a fixed (closed) amortization period of 28 years. Though not yet published as a final version, the draft actuarial report for January 1, 2012 continues that policy and uses a fixed (closed) amortization period of 26 years.

F4 – Agree – The City only provides the legally mandated minimum retiree health care contribution, the “PEMHCA minimum”, so therefore cannot explore further caps or other types of reductions to the benefit. The required “PEMHCA minimum”, which is all that the City has ever paid for retiree health care, provides the City with reasonable certainty as to its future costs. It is not the City’s place to speculate about the risks that may be incurred by other entities.

F5 – Disagree in Part – The City’s perspective is that compensation is a system and that applicants consider all aspects of a compensation package, as well as many other elements of any

given position and employer, before making the decision to go to work for a particular entity. We do not feel that it is accurate to draw the anecdotal conclusion that because some entities are able to recruit without significant retiree benefits, then the benefits are not necessary. There may be a variety of other factors at play with respect to compensation and work environment that allow certain entities to successfully recruit while others are less successful – salary, benefits, management team, culture, proximity to a worker’s home, promotional opportunities, etc. may all be very relevant factors.

F6 – Agree - The City of Novato began a pre-funding program into an OPEB trust during the 2012/13 fiscal year. Additionally, ten years of estimated costs on both a pay-go basis and a pre-funded basis are available in the City’s actuarial reports. These reports are available on the City’s website at <http://www.cityofnovato.org/Index.aspx?page=1766>.

F7 – Disagree in Part - The City already offers the legally mandated minimum retiree health care contribution, the “PEMHCA minimum”, so therefore cannot negotiate age-based parameters or other types of limitations. Eligibility for the “PEMHCA minimum” is based on California Public Employees’ Retirement System rules, not local negotiations. It is not the City’s place to offer commentary on what the labor negotiation strategies of other entities should be.

F8 – Disagree in Part – Whether or not one believes that the OPEB disclosures in financial statement notes are “obscure” or not, what is helpful is that those notes provide a fairly standardized reporting methodology that makes comparisons between agencies relatively easy. The reporting methodology is generally prescribed in Governmental Accounting Standards Board Statement 45. The City’s full actuarial reports for its OPEB costs and liabilities are accessible on the City’s website at <http://www.cityofnovato.org/Index.aspx?page=1766>.

F9 – Disagree in Part – It is not the City’s place to weigh in on what other jurisdictions should or should not be doing with respect to communication to citizens and customers.

F10 – Disagree in Part - On a pay-go basis, the City of Novato’s actuarial reports use a discount rate assumption of 4.5%. For the City’s newly formed OPEB trust, invested in a “Moderate” portfolio of stocks, bonds, cash, real estate, etc, the City’s actuary recommended usage of a 6.5% discount rate using his available knowledge of the performance trends of that particular portfolio. It is not the City’s place to weigh in on the discount rates used by other jurisdictions and whether or not those assumptions are overly optimistic or not.

RECOMMENDATIONS

R1 – Implemented – Beginning with the 2012/13 fiscal year, the City established an OPEB trust with a third party trust administrator, and began setting aside its annual benefit contribution plus the amount to pre-fund the unfunded liability. In other words, the City is already funding its full Annual Required Contribution.

R2 – Implemented – As previously mentioned, the City’s most recent published actuarial valuation, for the period ending January 1, 2010, used a fixed (closed) amortization period of 28

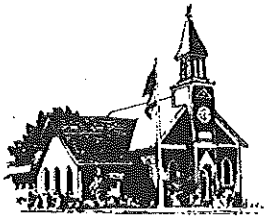
years. The not yet published as a final version, the draft actuarial report for January 1, 2012 continues that policy and uses a fixed (closed) amortization period of 26 years.

R3 – Implemented – The City already offers the legally mandated minimum retiree health care contribution, the “PEMHCA minimum”, so therefore cannot explore further caps or other types of reductions to the benefit. The PEMCHA minimum already acts as a cap – it is a modest defined contribution for future health premiums as opposed to a defined benefit.

R4 – Implemented - The City already offers the legally mandated minimum retiree health care contribution, the “PEMHCA minimum”, so therefore cannot negotiate changes to the age of eligibility or other changes to the benefit.

R5 –Implemented - The City already offers the legally mandated minimum retiree health care contribution, the “PEMHCA minimum”. We are not legally allowed to negotiate an employee share of this contribution. It should be noted, however, that even after payment of the “PEMHCA minimum” by the City, employees who choose to purchase health care coverage through PEMHCA after they retire are paying a substantial majority of the premium.

R6 – Implemented – The City has had available on its website for several years the past 2 actuarial valuations of its OPEB benefit program at <http://www.cityofnovato.org/Index.aspx?page=1766>.



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August 1, 2013

75 Rowland Way #200
Novato, CA 94945-3232
415/899-8900
FAX 415/899-8213
www.novato.org

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

Mayor

Pat Eklund
Mayor Pro Tem
Eric Lucan

Councilmembers
Denise Athas
Madeline Kellner
Jeanne MacLeamy

City Manager
Michael S. Frank

Dear Foreperson Treadgold:

The Novato City Council has received a copy of the May 22, 2013, Grand Jury Report: *Marin's Retirement Health Care Benefits: The Money Isn't There*

As required, I have enclosed a copy of the City of Novato's response associated with the specific Findings and Recommendations of the report. The response was approved by the City Council on July 30, 2013.

The City of Novato appreciates the opportunity to respond to the Grand Jury's report and to explain to the Grand Jury the City's continuing efforts to provide reasonable benefits to its employees while controlling their cost and ensuring they are properly funded.

Respectfully,

Sheri Hartz
City Clerk

enclosures