

ROSS VALLEY FIRE DEPARTMENT
STAFF REPORT

For the meeting of: July 10, 2013

To: Board of Directors
From: ~~Roger~~ Meagor, Fire Chief
Subject: Response to the Marin County Civil Grand Jury's Report: "Marin's Retirement Health Care Benefits: The Money Isn't There"

RECOMMENDATION:

That the Board approves the draft response to the Marin Civil Grand Jury Report, "Marin's Retirement Health Care Benefits: The Money Isn't There."

BACKGROUND:

On June 3, 2013 the Marin Civil Grand Jury issued its report, "Marin's Retirement Health Care Benefits: The Money Isn't There." The report investigates government entities' provisions to meet the growing retiree medical health care cost for current employees and for those already retired.

The Fire Board, as a governing body, is required to respond in writing to the Findings and Recommendations contained in the report within 90 days.

DISCUSSION:

Ross Valley Fire has been asked to respond to Findings 1 through 10 and Recommendations 1 through 5. Staff has reviewed the report and recommends agreement with Findings 1, 4, 6, 8, and 9, but is recommending that Board wholly or partially disagree with Findings 2, 3, 5, 7, and 10. Staff has noted that Recommendations 1 and 5 have been implemented and Recommendation 2, 3, and 4 need further analysis.

Attachments: Draft Response
Grand Jury Report – Marin's Retirement Health Care Benefits: The Money Isn't There

AGENDA ITEM # 5
Date 7/10/13

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: Ross Valley Fire Department

FINDINGS

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

RECOMMENDATIONS

- Recommendations numbered 1, 5 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 2, 3, 4 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: _____ Signed: _____

Number of pages attached _____



Ross Valley Fire Department

777 San Anselmo Avenue, San Anselmo, CA 94960

Roger Meagor
FIRE CHIEF

July 10, 2013

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

Subject: Response to Civil Grand Jury Report - Marin's Retirement Health Care Benefits: The Money Isn't There

Dear Honorable Judge James Ritchie,

The Ross Valley Fire Board of Directors has received the Grand Jury Report, date June 3, 2013, – “Marin Retirement Health Care Benefits: The Money Isn't There.” The Grand Jury has requested a response to finding F1-F10 and recommendations R1-R6. The Fire Department's response is attached.

Please do not hesitate to contact me should you need additional information or clarification.

Respectfully,

Jeff Kroot
President

Committed to the protection of life, property, and environment.
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Ross Valley Fire Department

777 San Anselmo Avenue, San Anselmo, CA 94960

Roger Meagor
FIRE CHIEF

July 10, 2013

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

Subject: Response to Civil Grand Jury Report - **Marin's Retirement Health Care Benefits: The Money Isn't There**

Dear Mr. Treadgold,

The Ross Valley Fire Board of Directors has received the Grand Jury Report, date June 3, 2013, – “Marin Retirement Health Care Benefits: The Money Isn't There.” The Grand Jury has requested a response to finding F1-F10 and recommendations R1-R6. The Fire Department's response is attached.

Please do not hesitate to contact me should you need additional information or clarification.

Respectfully,

Jeff Kroot
President

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**ROSS VALLEY FIRE DEPARTMENT
RESPONSE TO FINDINGS AND RECOMMENDATIONS FROM
MARIN COUNTY CIVIL GRAND JURY
“MARIN’S RETIREMENT HEALTH CARE BENEFITS – THE MONEY ISN’T THERE”**

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: Ross Valley Fire agrees with the finding. However, the decision whether or not to pre-fund and the potential impacts of that decision should be evaluated on an agency by agency basis. A decision not to pre-fund may or may not have a significant impact on the ability of an agency to fund the promised benefits. Ross Valley Fire Department began pre-funding in FY2010, and it is the Board’s intention to continue to fund OPEB.

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: Ross Valley Fire disagrees wholly or partially with the finding. We agree by not prefunding retiree health care benefits for future retirees it will lead to generation shifting of the payment responsibility. However, the Ross Valley Fire Board does not have an opinion, nor does the report provide sufficient information to indicate that failure to prefund is either unethical or a breach of fiduciary responsibility. Again Ross Valley Fire has been prefunding retiree health benefits since 2010 and it is the Board’s intention to continue to pre-fund these future retiree benefits.

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: Ross Valley Fire disagrees wholly or partially with the finding. We believe that the 30-year amortization period is reasonable based on the current liability for retiree health benefits. It is true that the decision to utilize a 30-year amortization period will defer a portion of the current liability to future

generations, but the current liability, in the case of Ross Valley Fire and likely other agencies, was incurred over an extended period. To require the current tax payer to bear the entire cost of previous liabilities in a short period of time, while at the same time they are fully pre-funding the “Normal Cost” for current employees, may not be practical. We do agree that agencies should strive to reduce the amortization period when realistic to do so.

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: Ross Valley Fire agrees with the finding.

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: Ross Valley Fire disagrees wholly or partially with the finding. We agree that such benefits are increasingly rare in the private sector. We also agree that for newly hired employees, the benefits should be trimmed and costs should be shared between the employees and their employer, and for current employees the cost of these benefits need to be addressed through the meet and confer process. We disagree that such benefits are unnecessary for attracting and retaining employees. Because Ross Valley Fire provides essential life safety services it is important that we continue to attract and retain qualified and well-trained employees. A balanced benefit plan, where costs are managed and shared by the employer and the employee, can and should be used to attract and retrain quality 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: Ross Valley Fire agrees with the finding. Actuarial valuations should include the cost of future benefits for both current and future retirees.

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: Ross Valley Fire disagrees wholly or partially with the finding. The age of eligibility should be decided based on many factors, which include but are not limited to the employee classification, level of benefit, years of service, etc. The report did not provide adequate information regarding the appropriate age for benefit eligibility.

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: Ross Valley Fire agrees with the finding. The public has the right to know how the government is spending the tax payer money. Government agencies should strive to provide as much transparency as possible.

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: Ross Valley Fire agrees with the finding. The public has the right to know how the government is spending the tax payer money. Government agencies should strive to provide as much transparency as possible.

F10: Most entities the Grand Jury investigated are using fairly reasonable discount rate 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 are made to grow and fund the future benefits. The result is to understand the total funding needed today and in future years, to pay for those future benefits.

Response: Ross Valley Fire disagrees wholly or partially with the finding. There has been considerable debate regarding proper discount rates. The report does not contain sufficient information for Ross Valley Fire to provide an opinion on whether some agencies "are using higher and highly questionable rate assumptions that are not justified by the investments..."

RECOMMENDATIONS:

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: The recommendation has been implemented.

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

Response: The recommendation requires further analysis. Currently Ross Valley Fire is pre-funding prior liability on a 30-year, closed amortization period. Current liability, which is stated as "Normal Cost" is being paid in the year in which the benefit is earned. Ross Valley Fire will continue to analyze these liabilities to determine if the amortization period can be reduced.

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

Response: The recommendation requires further analysis. Ross Valley Fire has reduced the guaranteed benefit for new employees, capping the amount at the Public Employees Medical and Hospital Care Act (PEMHCA) minimum, which is currently \$115 per month. The Department will continue to work with labor through the collective bargaining process to manage the increasing cost of retiree health care.

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

Response: The recommendation requires further analysis. Currently the retirement age for the commencement of retiree health care benefits is regulated by CalPERS and the Public Employees Medical and Hospital Care Act (PEMHCA).

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

Response: The recommendation requires further analysis. Currently new employees participate in a Retiree Health Saving Plan where the employer and the employee provide equal contributions to the plan based on a percentage of salary.

R6: Place a link on its website to provide the last 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: The recommendation has been implemented. The current actuarial valuation for OPEB is available for viewing on the Ross Valley Fire Department website under the "Financial" tab.