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August 24, 2006

Ms. Eeve Lewis, Clerk/Recorder/Assessor
Sonoma County Clerk/Recorder/Assessor Department
585 Fiscal Drive, Suite 103-F
Santa Rosa, CA 95403

RE: Responses to Grand Jury Report

Dear Ms. Lewis:

Below are my responses to the Grand Jury's recommendations related to "The Impacts of Yesterday's Promises":

Recommendation R1 page 49:

"The grand jury recommends that Supervisors, Council members and financial officers should verify that health or other lifetime benefit promises are secured properly and in compliance with reserve funding standards."

Response:

This recommendation has not yet been implemented but will be implemented in the future, see the following for timing.

We have already begun working toward this goal. In October 2005, the Sonoma County Board of Supervisors took a proactive action by approving a contract for actuarial services to calculate the liability associated with health insurance currently provided to Sonoma County retirees. The results of the Actuarial Valuation will be reported to the Board of Supervisors in August 2006. In addition, the Board contracted for Actuarial Valuation of alternatives that may be considered in lieu of the current retirement health benefits.

In April 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 43 entitled "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans," and in June 2004 the GASB issued Statement No. 45 entitled "Accounting and Financial Reporting

by Employers for Postemployment Benefits Other than Pensions." GASB No. 43 requires employers to actuarially determine the total liability of Other Post Employment Benefits (OPEB) and actuarially determine an annual required contribution towards the total cost of OPEB. GASB No. 45 requires employers to either fund the actuarially determined annual required contribution towards the cost of the OPEB, or record the entire amount of the unfunded liability for the OPEB in the financial statements. The County is required to implement GASB No. 43 by June 30 2007 and GASB No. 45 by June 30, 2008.

It is important to note that the GASB statement does not mandate the pre-funding or reserves of OPEB liabilities, only how one accounts for those benefits. However, any pre-funding of OPEB benefits at an amount less than the annual required contribution per GASB 43 would produce a positive net OPEB obligation. This net OPEB obligation would be required to be disclosed on the financial statements and may have a detrimental impact on the Employer's perceived financial health. While prefunding and reserves are not required by GASB, the County understands its responsibility to properly fund its future obligations and is in the process of developing a plan to do so. The determination of the annual required contribution (ARC) is the first step to meeting that obligation.

Recommendation R2 page 49:

"The grand jury recommends that the Board of Supervisors and/or City Councils enlist actuarial expertise to audit this asset/obligation disclosure."

Response:

This recommendation has already been implemented.

In October 2005, the Sonoma County Board of Supervisors took a proactive action by approving a contract for actuarial services to calculate the OPEB liability. The results of the Actuarial Valuation were reported to the Board of Supervisors in August 2006 prior to the budget hearings for 2006-07. In addition, the Board contracted for Actuarial Valuation of retirement health benefit alternatives that may be considered in lieu of the current retirement health benefits. The purpose of the valuation of retirement health benefit alternatives is to allow for consideration of alternatives that will enable the County to control and, if necessary due to funding constraints, reduce its future retirement health benefit obligation.

Recommendation R3 page 49:

"The grand jury recommends that the advice of an expert should be solicited to consider the fairest most equitable way to offer health care benefits to public employees. This should be disclosed."

Response:

This recommendation has already been implemented.

Currently, the County contracts with Towers Perrin, LLC for expert advice regarding its employee health care benefits. This service reviews and makes recommendations regarding health care benefits for both current and retired County employees. Ultimately, some of the changes will require negotiations with employee groups.

Currently, the County's Comprehensive Annual Financial Report (CAFR) includes disclosure of other employee benefits costs/liability such as; retirement, sick/vacation and insurances. With the implementation of GASB 43, the CAFR will include the disclosure of the retirement health benefit obligation and annual required obligation.

Recommendation R4 page 49:

"The grand jury recommends to build a secure structure for the maintenance of employee benefits should not be deferred."

Response:

This recommendation has been implemented and will continue implementation into the future, beginning with public meetings in August 2006.

The intent of this recommendation is not entirely clear to us. Since the County is already providing health care benefits for retirees the structure for the maintenance of those benefits is already in place. The rest of this response, similar to the other recommendations in the Grand Jury report, focuses on the appropriate future funding for those benefits. County staff will be discussing with the Board of Supervisors the current retirement health care benefits and alternatives for retiree health benefits, funding ability, and reserve structure during the August 2006 public meeting and subsequent meetings.

Recommendation R5 page 49:

"The grand jury recommends full disclosure of each entities total benefit obligation along with information describing provisions to secure them. We are requesting this information between the end of each entities current fiscal year and December 31, 2006:

- Number of employees eligible for pension premiums
- Number of retired employees receiving pension benefits
- Financial obligation
- What reserves are in place to insure these pension obligations
- Obligation for health care coverage

- Reserve amount in place
- Amount required by federal authorities to secure these health care benefits.”

Response:

This recommendation, with one exception, has already been implemented.

Annually, the County issues its CAFR, prior to December 31. The County has received national awards for its financial report. We will comply with the reporting requirements of GASB 43 & 45 in order to ensure the proper financial reporting/disclosure and the award. In addition, the GASB statements require periodical actuarial valuations of the obligation and funding of retirement health benefits. We will contract for those actuarial valuations to comply with the requirement of the GASB statements and for proper financial reporting.

The reporting/disclosure requirements for GASB 43 and 45 will be similar to the reporting/disclosure requirements for employee retirement benefits. I believe the new GASB reporting/disclosure requirements for retirement health benefits in combination with the actuarial valuation reports will meet all of the grand jury's requested information, except for the “Amount required by federal authorities to secure these health care benefits.” Currently, I'm not aware of any federally required amount of funding for health care benefits. However, it is the County's practice to comply with Federal and State program and funding requirements.

Summary:

The County of Sonoma has made a conscious decision to be proactive in its early efforts to address the requirements of GASB 43 and 45. We have completed the requirement for the actuarial valuation well in advance of the GASB requirements and the majority of California Counties. It is our intent to meet the challenges of and opportunities for retirement health benefits as we address the requirements of GASB 43 and 45.

If you should have any questions or suggestions for response improvement, please feel free to contact me.

Sincerely,

Rodney A. Dole

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