

October 30, 2006

The Honorable Judge Robert S. Boyd
Presiding Judge of the Superior Court
P.O. Box 5109
Santa Rosa, CA 95403

Re: Response to 2005-2006 Sonoma County Grand Jury Final Report

This letter responds to the findings and recommendations contained in the 2005-2006 Sonoma County Grand Jury Final Report. This is the joint response from the Cloverdale City Manager/ Chief Financial Officer and City Council to the following report findings and recommendations:

The Impact of Yesterday's Promises – R1, R2, R3, R4 and R5

Recommendation R1 – 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

All full-time and qualifying part-time City of Cloverdale employees are provided with pension annuities via a contractual agreement between the City of Cloverdale and the California Public Employees Retirement System (CalPERS). Two separate plans covering local police, local fire (i.e., Safety Plan) and local miscellaneous (i.e., Miscellaneous Plan) employees are subject to actuarial analysis annually and funding levels are adjusted to pay for the normal cost of these retirement benefits, unfunded actuarial liabilities and gains and losses in the CalPERS investment portfolio.

The City of Cloverdale does provide health benefits for certain retirees; in accordance with legal obligations specified within specific Memorandum of Understanding between the City of Cloverdale and Cloverdale Employee Labor Units. City Council members do not receive retiree health benefits. Currently there are five former employees eligible and receiving post-employment health benefits. Given the small annual cost of these benefits; approximately \$11,400 in FY 2006, the City has chosen to pay for these benefits as part of the annual budget rather than establish a reserve account.

Recommendation R2 – The grand jury recommends that the Board of Supervisors and/or City Councils enlist actuarial expertise to audit this asset/obligation disclosure.

Response

With respect to CalPERS pension benefits, the City of Cloverdale relies on the annual actuarial analyses prepared by CalPERS to establish the appropriate funding level to assure the ability to pay pension benefits in the future. In 1976 Cloverdale voters approved a special tax to fund the cost of City employees' participation in the California Public Employees Retirement System or PERS. Property owners in Cloverdale pay this special tax as part of their annual tax bill. The amount each property owner pays depends on the value of each property. The tax rate is set annually by the City Council.

A recent issue of concern to the City was whether a previous Southern California Court decision "The Huntington Beach Case" would impact the special "retirement tax" established in 1976 by the voters of Cloverdale. Under the Huntington Beach ruling, cities with pre-Proposition 13 retirement taxes could no longer use them to fund the cost of enhancements to employee retirement benefits. Following the Huntington Beach ruling, the City wanted to determine how to reasonably account for the costs of any after-added benefits as if they were separate costs. To determine this, it was necessary to obtain specialized actuarial consulting services. On July 27, 2005 City Council authorized a professional services agreement with Bartel Associates, the actuarial firm most experienced in this type of specialized assessment. In September 2005 John Bartel, President of Bartel Associates reported his findings to the City Council. The data provided by Bartel Associates identified a formula that must be applied each year when City Council establishes the Ad Valorem tax rate for the current fiscal year. As result of this assessment and the continuation of Ad Valorem tax revenues the City's pension obligation for future benefits require no additional need for actuarial expertise in this area.

With respect to health benefits, the City's independent financial auditors have stated that the guidelines established by GASB 45 must be implemented by the City not later than June 30, 2009. The City will comply with these requirements.

Recommendation R3 – 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

The City of Cloverdale establishes its employee health care program through meet and confer negotiations with the bargaining units representing City employees. In securing health plan options, the City relies on expertise provided by the Redwood Empire Municipal Insurance Fund (REMIF). In recent years,

REMIF has obtained health insurance quotes based on increased deductible levels and increased co-payments as a way of holding down premium costs. Through the meet and confer negotiations process the City of Cloverdale will explore developing a cost sharing plan for health insurance premiums to be partially paid by City employees as a future cost containment measure.

Recommendation R4 – The grand jury recommends to build a secure structure for maintenance of employee benefits should not be deferred.

Response

City of Cloverdale pension benefits, as noted above, are primarily secured through the establishment of an annual Ad Valorem tax rate for each fiscal year. In this regard it should be noted that in recent years CalPERS has been working cooperatively with local agencies to implement actuarial policies to stabilize contribution rates, thereby further securing the ability of CalPERS member agencies to fund their pension commitments. As a result, the City of Cloverdale held stable the Ad Valorem tax rate for five straight years 2000 through 2005.

Recommendation R5 – The grand jury recommends full disclosure of each entities total benefit obligations along with information describing provisions to secure them. We are requesting that 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 premiums*
- *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 benefits*

Response

- According to the most recent actuarial evaluation from CalPERS, 50 active City of Cloverdale employees are enrolled in CalPERS.
- According to the most recent actuarial evaluation from CalPERS, 41 former employees are receiving CalPERS pension benefits.
- According to the most recent actuarial evaluation from CalPERS, the City of Cloverdale's total pension contribution for FY 2007 is \$845,858 approximately 84% funding is available from Ad Valorem tax revenues.
- Based on current memorandums of understanding and including the City's obligation to pay health insurance premiums for certain former employees, the annual City obligation for health care coverage in FY 2007 is estimated to be \$761,520.

- Since the annual expense for health insurance coverage for former employees of the City is minimal, no reserve is established for future benefit obligations. However, the City of Cloverdale will comply with GASB statement numbers 43 & 45 as indicated above.
- The City of Cloverdale management staff, nor the Cloverdale City Council are aware of any federal agency that has established current requirements for local funding to secure future health benefits, nor of any requirement that the federal government secure such benefits for City of Cloverdale employees.

Very truly yours,

Vincent Long
City Manager/Chief Financial Officer

Robert Jehn
Mayor

cc: Melinda A. Cabral, Foreperson
Sonoma County Grand Jury
P.O. Box 5109
Santa Rosa, CA 95476

Mayor and Councilmembers

City Clerk