



CITY OF HEALDSBURG ADMINISTRATION

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August 21, 2006

Honorable Robert S. Boyd
600 Administration Drive
Santa Rosa, C 95403

Re: Healdsburg City Council, City Manager and Chief Financial Officer Responses to 2005-2006 Grand Jury Report: The Impact of Yesterday's Promises

Dear Judge Boyd:

Please find below the City's response to the 2005-2006 Grand Jury Final Report regarding the subject of employee retirement benefits. Although we have previously provided all of the information requested, I am pleased to have this opportunity to submit once again responses to the Grand Jury's recommendations on this very important issue.

REQUIRED RESPONSE TO RECOMMENDATIONS

- R1 The recommendation will not be implemented (in regard to health care benefits) because the City of Healdsburg does not pay for health care benefits for retirees. See answer to R5 below in regard to pension benefit.
- R2 The recommendation will not be implemented (in regard to health care benefits) because "the City of Healdsburg does not pay for health care benefits for retiree. In regard to pension benefits, the Public Employees Retirement System (PERS) provides annual actuarial data for pension plan obligations. See answer to R5 below in regard to audit of retirement benefit.
- R3 The recommendation had previously been implemented. *In 2001 the City of Healdsburg put in place an employee paid retiree health savings plan through the International City Managers' Association-Retirement Corporation (ICMA-RC) in which all employees are free to participate. Annual deposits of employees' unused sick leave (once a minimum number of sick leave hours has been accrued), in addition to voluntary cash contributions through pre-tax payroll deductions, create a special deferred compensation account that is used exclusively to pay medical premiums and other*

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medical needs upon retirement without tax liability. The City makes no contribution to this program. Individual account administrative fees are paid by the employee as well. Current participation of the City work force is over 50%; this number will increase as sick leave accrual rates meet the required participation threshold. This program is available to all cities.

R4 The recommendation has been implemented. *See answer to R3 and R5 below.*

R5 The recommendation has been implemented.

- Number of employees eligible for pension benefits: 110
- Number of retired employees receiving pension benefits: 20
- Financial obligation: *Audited Financial Statement (previously submitted) for pension obligation, pages 62/63 attached. .*
- Reserves in place to ensure these pension obligations: *Audited Financial Statement in regard to retirement benefits, pages 62/63 are attached. The City has no retiree health care benefit obligation, as our retiree health plan is 100% employee funded.*
- Obligation for [retiree] health care coverage: *None*
- Reserve amount in place. *Not applicable because the City of Healdsburg does not pay for retiree health care benefits.*
- Amount required by federal authorities to secure these health care benefits. *Not applicable because the City of Healdsburg does not pay for retiree health care benefits.*

If you have any questions, or you would like further information about any of the responses given above, please do not hesitate to contact me at (707) 431-3317.

Sincerely,

Chet Wystepek
City Manager

CJW:bj-w

Attachment

c: Board of Supervisors
Court Executive Officer
County Administrator
County Clerk

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2005

7. EMPLOYEES' RETIREMENT PLAN:

Plan Description

The City of Healdsburg contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City Ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is 11.178% for miscellaneous employees and 20.507% for the period July 2004 to December 2004 and 31.415% for the period January 2005 to June 2005 for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS. The City, due to a collective bargaining agreement, also has a legal obligation to contribute 7% (9% for safety employees) of each participant's annual covered salary.

Annual Pension Cost

For 2005, the City's annual pension cost of \$1,286,275 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.50% per year cost-of-living adjustments, (d) 3.75% payroll growth, and (e) individual salary growth using a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.50% and an annual production growth of 0.25%. Both (a) and (b) included an inflation component of 3.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2002 was 22 years.

See independent auditors' report.

CITY OF HEALDSBURG

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2005

7. EMPLOYEES' RETIREMENT PLAN (CONTINUED):

Three-Year Trend Information for the Miscellaneous and Safety Plans

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 677,861	100%	\$ -
6/30/04	693,895	100%	-
6/30/05	1,286,275	100%	-

Schedule of Funding Progress for PERS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (B)</u>	<u>(Overfunded) Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a % of Covered Payroll [(B-A)/C]</u>
6/30/01:						
Misc.	\$ 20,217,598	\$ 19,017,940	\$ (1,199,658)	106.3 %	\$ 4,833,438	(24.819) %
Safety	12,206,895	10,994,782	(1,212,113)	111.0 %	1,792,279	(67.629) %
Total	\$ 32,424,493	\$ 30,012,722	\$ (2,411,771)	108.0 %	\$ 6,625,717	(36.400) %
6/30/02:						
Misc.	\$ 19,491,095	\$ 21,188,667	\$ 1,697,572	92.0 %	\$ 5,483,146	30.960 %
Safety	11,674,901	14,001,327	2,326,426	83.4 %	1,833,680	126.872 %
Total	\$ 31,165,996	\$ 35,189,994	\$ 4,023,998	88.6 %	\$ 7,316,826	54.997 %
6/30/03:						
Misc.	\$ 20,063,233	\$ 25,214,165	\$ 5,150,932	79.6 %	\$ 5,735,518	89.808 %
Safety	11,891,319	15,026,183	3,134,864	79.1 %	2,008,844	156.053 %
Total	\$ 31,954,552	\$ 40,240,348	\$ 8,285,796	79.4 %	\$ 7,744,362	106.991 %

See independent auditors' report.