

## **Summary of Responses to Report 0907**

### **"Retiree Healthcare Benefits Leave County Taxpayers on the Hook"**

Report 0907 was sent to The Contra Costa Board of Supervisors, eleven Special Districts; Lafayette Elementary, Acalanes Union, John Swett Union, Mt. Diablo Unified, Pittsburg Unified, San Ramon Valley Unified, West Contra Costa Unified, Contra Costa Community College, Central Contra Costa County Sanitary, Delta Diablo Sanitary and East Bay Regional Parks, and six (6) Cities in Contra Costa County; Antioch, Brentwood, Concord, Martinez, Pittsburg, and Richmond.

Responses were received from all entities except the Cities of Pittsburg and Richmond.

### **Responses were not required to the following:**

Findings – 10, 11 – Contra Costa Board of Supervisors

Findings – 7,8,9,10,11,15 and 16 – Special Districts and School Boards and Cities

## **Findings and Responses**

### 1. Retiree health benefits have traditionally been a form of compensation earned by

County and local government employees (e.g., pension income) over their working career, but paid to them over the years they spend in retirement. In prior years, the cost of these benefits was usually recognized as an expense only when actual payments began, following an employee's retirement. (This method of recognizing an expense is commonly described as "pay as you go" or "pay go".)

- The Contra Costa board of Supervisors agreed .
- The Special Districts and School Boards – agreed 100%
- The Cities – agreed 75 % and disagreed 25 %.

### 2. GASB 45 now requires that larger governmental entities commence accounting for

( but not necessarily funding ) these benefits on an accrual basis – during the employees' period of active service when the benefits are actually earned.

- The Contra Costa Board of Supervisors – agreed ..
- The Special Districts and School Boards – agreed 100%
- The Cities – agreed 100 %.

3. GASB 45 requires the following expenses to be recognized: the current year's cost to fund that year's earned benefits, plus the amount necessary to fund the unfunded OPEB liability for benefits earned but not funded in prior years.
  - The Contra Costa Board of Supervisors – agreed .
  - The Special Districts and School Boards – agreed 100 %.
  - The Cities – agreed 75 % and disagreed 25%.
  
4. To date in Contra Costa County there has been little or no funding of the OPEB liabilities for most governmental entities offering retiree medical benefits, including County, school districts, cities and special districts.
  - The Contra Costa County Board of Supervisors – disagreed .
  - The Special Districts and School Boards– agreed 46 %, disagreed 36 % and 18 % was N/A.
  - The Cities agreed 100 %.
  
5. Most larger County governmental employers provide their employees with extraordinarily generous retiree health benefits .
  - The Contra Costa Board of Supervisors – disagree .
  - The Special Districts and School Boards – agreed 54 %, disagreed 27 %, and 19 % N/A
  - The Cities – disagree 100 %.
  
6. Property taxes accounted for almost 93 % of Contra Costa County tax revenues in the most recent fiscal year with sales and other taxes making up the balance of total tax revenues received. These locally derived taxes also represented a significant portion of the revenue of school districts, cities and special districts located in the County.
  - The Contra Costa County Board of Supervisors – agreed ..
  - The Special Districts and School Boards – agreed 81 %, disagreed 10 %, and 9 % N/A
  - The Cities - agreed 100 %.
  
7. The Board of Supervisors of Contra Costa County has committed to a future OPEB liability funding schedule for the County, including a commitment to contribute \$20 million during the 2008-2009 fiscal year. Although no payments were made into the County's OPEB Irrevocable Trust as of January 31, 2009, \$10 million is held by the County Treasurer in a designated account.
  - The Contra Costa Board of Supervisors – partially disagreed.

8. As of January 1, 2008, the County's OPEB obligation was determined to be \$2.367 billion, or almost four times the County's covered payroll (annual payroll of active employees covered by the plan) of \$610 million. Its Annual Required Contribution for the fiscal year that ended June 30, 2008 was \$195 million, almost 32 % of the covered payroll.

- The Contra Costa Board of Supervisors – agreed.

9. The calculation to determine a liability for future payments is primarily dependent on the interest rate assumption. If the interest rate assumption is higher than the liability is lower; if the interest rate assumption is lower, then the liability is higher. If no funding mechanism is in place and there is no expectation of putting money aside, the rules under GASB 45 require that a lower interest rate assumption be used.

The interest rate assumption that was used for the calculation of the OPEB liability and ARC for the fiscal year 2007-2008 was 4.5 %. The basis for allowing the use of a higher interest assumption rate is that the entity will earn a rate of return on investments that can be used to help pay for the future benefits. Because the funding commenced with the current fiscal year, the assumed interest rate was increased to 7.75 % in 2008-2009.

The result of the assumed interest rate increase was the OPEB liability dropped from \$2.3 billion to \$1.7 billion, almost solely due to the interest rate assumption change.

- The Contra Costa Board of Supervisors – partially disagreed.

12. As the summary number shown in finding 11 indicate, County local governments are currently only paying 34 % ( \$83,348,000 / \$245,234,000 ) of the Annual Required Contribution set forth in GASB 45. This means that the unpaid balance Of the Annual Required Contribution, ( \$245,324,000 - \$83,348,000 ) \$161,976,000 is being transferred to future taxpayers. This transfer to future taxpayers takes place every year.

- The Contra Costa County Board of Supervisors – agreed.
- The Special Districts and School Boards – agreed 64 %, disagreed 27 and 9 % N/A.
- The Cities – agreed 50 % and disagreed 50 %.

13. The 2007-2008 property tax revenue for the entire County was \$2.077 billion.

Projections are that this amount will decline significantly during the next several fiscal years because of the current widespread decline in property values.

- The Contra Costa Board of Supervisors – partially disagreed.
- The Special Districts and School Boards – agreed 45 %, disagreed 27 %, and 28 % N/A.
- The Cities agreed 100 %.

14. Larger Contra Costa County governmental entities with identified retiree health plans are:
- Contra Costa County.
  - School Districts: Lafayette Elementary, Acalanes Union, John Swett Unified, Mt. Diablo Unified, Pittsburg Unified, San Ramon Valley Unified, West Contra Costa Unified and Contra Costa Community College.
  - Cities: Antioch, Brentwood, Concord, Martinez, Pittsburg and Richmond.
  - Special Districts: Central Contra Costa Sanitary, Delta Diablo Sanitary and East Bay Regional Parks.
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- The Contra Costa Board of Supervisors – agreed
  - The Special Districts and School Boards – agreed 64 %, disagreed 9 %, and 27 % N/A.
  - The Cities – agreed 100 %.
15. Recent information provided to the Contra Costa County Board of Supervisors makes clear that tax revenues and state support to the County are likely to decline for at least the next several years. This reduction in projected revenue has been currently offset by County Departments reducing their budgeted 2009-2010 full-time equivalent headcount by 191 public safety, health care and social services positions. If the County were to commence fully funding its ARC, its only practical source of near term future funding would be to further lower its staffing levels.
- The Contra Costa County Board of Supervisors – agreed.
16. On May 6, 2008, the Contra Costa County Administrator presented the following challenge to the Board of Supervisors:
- “ The ever growing health care expense demand on the general fund will consume our ability to provide public services. Given the size of our liability we cannot responsibly eliminate enough programs to fund our current health care programs; we must contain and change the County’s cost of health care.”***
- The Contra Costa County Board of Supervisors – agreed.

### **Recommendation**

**Contra Costa County government entities in most cases do not have the financial ability to prudently pay for the current retiree healthcare benefits that have been, and are continuing to be, earned by their employees. The Grand Jury recommends that these governmental entities implement sustainable strategies to reduce retiree healthcare benefits.**

Several alternatives and options were suggested for consideration.

#### Responses:

- School Districts – Has been implemented – 17 %  
Will be implemented – 25 %  
Will not be implemented – 16 %  
Has not yet been implemented – 8 %  
Requires further analysis – 34 %
  
- Special Districts – Has been partially implemented – 25 %  
Not applicable – 25 %  
Not being considered – 25 %  
Requires further analysis – 25 %
  
- Cities - Has been implemented – 50 %  
Has not been implemented – 25 %  
Requires further analysis – 25 %
  
- Contra Costa County Board of Supervisors – Has been implemented

**Individual responses to the Findings and Recommendations are available on request. Please contact Janice Cueva at ( 925 ) 957-5600.**