

# City of Cotati

Sonoma County, California



August 24, 2006

Melinda A. Cabral, Foreperson  
The Sonoma County Grand Jury  
P.O. Box 5109  
Santa Rosa, CA 95402

Please accept this letter as the Cotati City Council's required response to the recommendations contained in the 2005-06 Sonoma County Grand Jury Final Report, "The Impact of Yesterday's Promises".

**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.**

Retirement - The City of Cotati provides pension benefits through the California Public Employees Retirement System (CalPERS) to eligible employees. Separate plans cover Police and Miscellaneous employees. Each plan is subject to actuarial analysis and funding levels are adjusted to pay for the normal cost of benefits, unfunded actuarial liabilities and gains and losses in the PERS investment portfolio. Additionally the CalPERS board has prescribed that the plans be administered in conformance with generally accepted accounting principles.

Retiree medical Benefits - The City provides very limited paid retiree medical benefits to the following:

City Council members (4) vested under Resolution 88-33. This resolution was rescinded with Resolution 92-74.

Additionally, City employees can continue health care benefits, at their own cost, after the following years of service:

12 years - City Council  
15 years - All other Employees

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

Retirement - The City of Cotati relies on the CalPERS for actuarial expertise and auditing services as required under California law. Additionally, the City hires an independent

auditor that reviews the GASB 27 pension disclosure prepared by CalPERS as part of the annual audit.

Retiree Medical Benefits - GASB 45 requires public agencies to report their costs and obligations pertaining to health and other benefits of current and future retired employees. The City of Cotati will not be required to implement it until Fiscal Year 2009-10. Although paid retiree medical benefits provided are very limited the City may consider early implementation.

**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.**

The City of Cotati provides health insurance benefits to eligible employees in accordance with the following:

- negotiated agreements (MOUs) with the three employee bargaining units.
- contracts negotiated on behalf of the City by health care professionals with the service providers.

Annually the City evaluates options for controlling health care costs and implements those that are prudent and in accordance with our current MOUs. Additionally, this year the City began offering our employees the option to enroll in a Health Savings Account (HSA), an option that potentially could significantly reduce health care costs.

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

Retirement - CalPERS is required by law to value and fund the City of Cotati's retirement plan according to generally accepted accounting principles and actuarial standards. Beginning in the early part of this decade many California cities, including Cotati, have experienced dramatic increases in pension contribution rates, much of them due to the significant PERS portfolio losses. CalPERS has recently made changes to increase rate stability.

**R5 The grand jury recommends full disclosure of each entities total benefit obligations 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 benefits: 37.** Figure obtained for CalPERS actuarial valuations as of June 30, 2004.

**Number of retired employees receiving pension benefits: 34.**

**Financial Obligation:** According to the CalPERS actuarial valuation as of June 30, 2004, for the fiscal year ending June 30, 2007 the following contributions are required:

- Employer contribution of 12.072% for miscellaneous employees

- Employee contribution (paid by City) of 7.00% for miscellaneous employees
- Employer contribution of 48.853% for safety employees
- Employee contribution (paid by City) of 9.00% for safety employees

These contributions total \$988,625. Contributions to CalPERS are budgeted and paid throughout each fiscal year.

Unfunded liability for the two CalPERS Risk Pools is shown as \$ 1,244,486,108 as of June 30, 2004 per the "Information on Compliance with GASB statement No. 27".

**What reserves are in place to insure these pension obligations:** According to the CalPERS actuarial valuation as of June 30, 2004 for the fiscal year ending June 30, 2007 actuarial assets are reported to be \$ 6,885,531,502 per the "Information on Compliance with GASB statement No. 27".

**Obligation for health care coverage:**

Retiree medical benefits - the City of Cotati has a very limited number of former employees entitled to paid retiree medical. The annual cost budgeted for fiscal year 2006-07 is \$ 17,236.

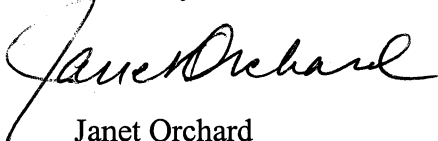
Other health care coverage - The City of Cotati provides health insurance benefits to eligible active employees in accordance with negotiated agreements with the employee bargaining units.

**Reserve amount in place:** None. Benefit cost are appropriated each fiscal year in the budget.

**Amount required by federal authorities to secure those health care benefits:** State and Local governments are not subject to federal pension rules or insurance programs. No federal obligation to secure City health care benefits.

If you have any questions, or you require any further information, please contact me at 707 792-4600.

Sincerely,



Janet Orchard  
Mayor

cc: City Council