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August 17, 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. The Sonoma City Manager and Chief Financial Officer were asked to respond to the following report 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 City of Sonoma employees are provided with pension annuities by the California Public Employees Retirement System (CalPERS). The separate plans covering local police, local fire and local miscellaneous 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 Sonoma does not provide health benefits for any retirees. There are 2 former City Council members who receive paid health benefits pursuant to a policy which has been repealed. Pursuant to that policy, the City's obligation to pay for health benefits for these former members of the City Council will be phased out by August 2013. Given the small annual cost of these benefits, \$13,600 in FY 2007, the fact that the City's obligation to pay these benefits will be phased out by August 2013 and the fact that no other employees or Council members are eligible for these benefits, 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 Sonoma 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.

With respect to health benefits, the City has no material obligation for future benefits and, thus, has no need for additional actuarial expertise in this area. The City's financial auditors have stated that the future amount is considered immaterial by guidelines established by GASB 45.

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 Sonoma 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 Sonoma has been increasing the share of health insurance premiums paid by City employees.

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

Response

City of Sonoma pension benefits, as noted above, are secured through the CalPERS actuarial program which includes actuarial projections of future pension payments in current expenses paid by the City to CalPERS. 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.

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, 77 active City of Sonoma employees are enrolled in CalPERS.
- According to City of Sonoma records, 12 former City employees are receiving CalPERS pension benefits.
- According to the most recent actuarial evaluation from CalPERS, the City of Sonoma's total pension contribution for FY 2007 is \$975,064.
- Based on current memorandums of understanding and including the City's obligation to pay health insurance premiums for certain former members of the City Council, the annual City obligation for health care coverage in FY 2007 is estimated to be \$616,009.
- Since the annual expense for health insurance coverage for former members of the City Council is minimal and the City's obligation in this regard will be phased out by 2013, no reserve is deemed to be warranted.
- Neither City of Sonoma staff nor the Sonoma City Council is aware of any federal authority having established requirements for local funding to secure future health benefits, nor of any requirement that the federal government secure such benefits for City of Sonoma employees.

Very truly yours,



Michael Fuson
City Manager



Carol Giovanatto
Assistant City Manager/Chief Financial Officer

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

Mayor and Councilmembers

City Clerk