

MARIN MUNICIPAL WATER DISTRICT

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**EXCERPT FROM THE MINUTES OF THE MEETING OF
THE BOARD OF DIRECTORS**

DATE OF MEETING: May 16, 2007
DIRECTORS PRESENT: Alex Forman, John C. Gibson, Cynthia Koehler and
Larry L. Russell
DIRECTORS ABSENT: David Behar

**ITEM 11. RESPONSE TO MARIN COUNTY CIVIL GRAND JURY REPORT ON
RETIRE HEALTH CARE**

Paul Helliker presented the staff report requesting approval of a response to the Marin County Grand Jury report entitled: Retiree Healthcare Costs: I Think I'm Gonna Be Sick which looks at accounting for healthcare benefits for retirees.

On motion of Director Gibson, seconded by Director Forman, and a vote of 4-0, the Board approved the response to the Marin County Grand Jury.

STATE OF CALIFORNIA)
COUNTY OF MARIN)

I, Stephanie Eichner-Gross, Secretary of the Board of Directors of MARIN MUNICIPAL WATER DISTRICT, do hereby certify that the foregoing is a true and correct excerpt of the minutes of the regular meeting of the Board of Directors of MARIN MUNICIPAL WATER DISTRICT, same having been fully approved.

October 9, 2007
Date

(Seal)



Stephanie Eichner-Gross
Secretary, Board of Directors
of MARIN MUNICIPAL WATER DISTRICT

RESPONSE TO GRAND JURY REPORT FORM

Report Title: Retiree Health Care Costs: I Think I'm Gonna Be Sick

Report Date: March 19, 2007

Response by: Terry J. Stigall Title: Finance Manager

BOARD: Marin Municipal Water District

FINDINGS

- I (we) agree with the findings numbered: F1, F3, F4, F5, F7
- I (we) disagree wholly or partially with the findings numbered: F2, F6, F8, F9, F10, F11
(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

RECOMMENDATIONS

- Recommendations numbered R3, R4, R5, R6 have been implemented.
(Attach a summary describing the implemented actions.)
- Recommendations numbered _____ have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
- Recommendations numbered _____ require further analysis.
(Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.)
- Recommendations numbered _____ will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: 5-17-07 Signed: [Signature]

Number of pages attached 3

Supplement to the Response to Grand Jury Report Form

Below are the responses of the Marin Municipal Water District to the Findings and Recommendations of the Marin County Grand Jury report 'Retiree Health Care Costs: I Think I'm Gonna Be Sick dated March 19, 2007.

FINDINGS

F1. Health care coverage is a valuable benefit to attract and retain employees.

MMWD agrees with this finding.

F2. Government entities generally pay more of their compensation in the form of benefits than the private sector.

This is unknown to MMWD, because we have not conducted a recent study of private vs public benefits.

F3. Most government entities providing retiree health care and other non-pension retirement benefits must disclose the future and accrued cost of those benefits to the public within the next four years pursuant to GASB 45.

MMWD agrees with this finding.

F4. Government budgets and union negotiations will be affected by the implementation of GASB 45.

To the extent that the government entity is required to comply with GASB Statement 45, MMWD agrees with this finding.

F5. Unless legally determined otherwise, the issue of vesting for retiree health care benefits requires a fact-specific analysis.

MMWD agrees with this finding. Unfortunately, the Grand Jury has not acted in a manner that comports with this finding. It has presented information on the status of compliance with GASB 45 which is incomplete and inaccurate.

F6. Some government entities have not done the extensive research to determine if retiree health care benefits and the manner in which they are calculated are vested or can be changed or eliminated.

MMWD does not agree with this finding. We believe that the vast majority of agencies have studied this issue. Most agencies have another 2 to 3 years before they must comply with GASB Statement 45. Many are in the process of obtaining actuarial information. For those who are required to report their plans 2 to 3 years hence, it is not unreasonable that they have not decided the type of trust fund, if any, that they will ultimately use. MMWD believes that the criticisms raised by the Grand Jury in this area are premature.

F7. Public comments on vesting by government entities could result in creating a vested right when none previously existed.

MMWD agrees with this finding. Unfortunately, the Grand Jury failed to act in a manner that comports with this finding, by reporting inaccurate information on the positions of various Marin County public agencies on the

nature of the other-than-pension benefits that they provide. The Grand Jury may have created potential liabilities for various public agencies by the conclusions it reports on this topic.

F8. Unless government employers prudently manage the liability for retiree health care benefits, they will be forced to cut services, reduce benefits, and/or raise taxes to satisfy credit agencies.

MMWD believes that public agencies should always be prudent when managing public funds. However, MMWD does not think it is beneficial to speculate on what may occur in the future.

F9. Financially weak government entities faced with staggering liabilities will be required to reduce benefits, raise taxes or reduce services. Failure to manage the liability could well result in bankruptcy for those government entities.

Please see response to F8 above.

F10. The municipalities and special districts have not taken appropriate aggressive steps to understand and begin to comply with the requirements of GASB 45.

MMWD vigorously disagrees with this finding. It is a blanket statement regarding ALL municipalities and special districts, and is not accurate, particularly with respect to MMWD. MMWD staff has studied GASB Statement 45. Staff has been trained in the reporting requirements and has prepared to meet those requirements. MMWD must comply with GASB Statement 45 in its financial statements to be dated June 30, 2009; more than 2 years hence. MMWD has contracted to have an actuarial study completed and is awaiting the results of that study. To state that this action is not "appropriate aggressive steps" is grossly inaccurate.

F11. Whether elected or appointed, public employees managing the retiree health care liability may also be eligible to receive the retiree health care benefits they manage. They are subject to a conflict of interest.

MMWD believes that this finding is also not completely accurate. Few, if any, public agencies will choose to self-manage OPEB trust funds. In the vast majority of cases, an agency will hire a professional money management team to invest the funds, using well-established investment guidelines. The elected or appointed officials will not be involved in the day-to-day investing of the funds. Many agencies have been awaiting a decision by CalPERS regarding whether CalPERS will manage these trusts as they do the retirement funds for local agencies. CalPERS has stated they will manage OPEB trust funds. If CalPERS or another professional money management team handles the day to day investment activities of the trust there is no conflict of interest by elected or appointed officials. To determine if a trust fund should be established also does not create a conflict of interest.

RECOMMENDATIONS

R3. All municipalities and special districts do extensive research on the facts and seek professional help to determine vesting issues. This should be done by the end of 2007.

MMWD has already completed its research and is in the process of conducting an actuarial study. Once this information has been evaluated by MMWD, the District will take the next steps to determine if a trust fund should be established and, if so, seek professional assistance to manage the fund. However, MMWD does not believe that this needs to be done by the end of 2007. As stated previously, MMWD is required to comply with GASB Statement 45 by June 30, 2009, and it has taken the appropriate steps to do so.

R4. The county, all municipalities and the special districts offering health care benefits consult with professional advisers to state clearly in employee and public communications whether retiree health care benefits are vested and the extent to which they can be changed, modified or eliminated.

MMWD agrees with this recommendation. MMWD also believes that the Grand Jury should have followed this recommendation as well, which it failed to do. Please see comments to F5 above.

R5. Unless they are certain of the status of vesting for retiree health care benefits, no government entity should comment publicly on the question of vesting because doing so may create a vested right where none exists currently.

MMWD agrees with this recommendation. MMWD also believes that the Grand Jury should have followed this recommendation as well, which it failed to do. Please see comments to F5 above.

R6. The municipalities and special districts take immediate, aggressive steps to understand now the requirements of GASB 45 reporting and that these entities, including the county, begin using the information generated for GASB 45 in labor negotiations and in budgeting.

MMWD agrees with this recommendation. The Grand Jury should explain what it means by "immediate, aggressive steps," and how those might differ from the steps that MMWD and other public agencies in Marin County have taken to comply with GASB 45.