



# COUNTY of NAPA

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Auditor-Controller

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August 7, 2008

The Honorable Francisca P. Tisher  
✓ The Honorable Raymond A. Guadagni  
Presiding Judges 2007-2008  
Superior Court of the State of California  
County of Napa  
825 Brown Street  
Napa, CA 94559

# FILED

AUG 11 2008

Clerk of the Napa Superior Court  
By: C. B.  
Deputy

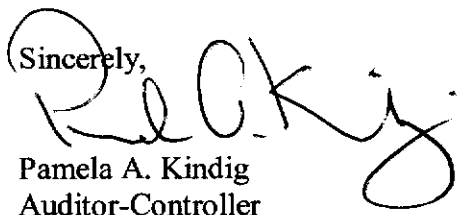
Dear Judges Tisher and Guadagni:

As required by Penal Code Section 933(c), please find attached the Napa County Auditor-Controller's responses to the 2007-2008 Grand Jury's Final Report regarding Retirement Benefits for County Of Napa Employees.

This response is required to be filed within 60 days of receipt of the report and this response meets that requirement. However, due to the complexity of the topic of this report my responses are presented at this time with the understanding that when the Board of Supervisors and the County Executive Officer present their responses 90 days after receipt of the report I may submit additional comments at that time.

I have responded to those items that are generic in nature or refer specifically to the County of Napa. I do not discuss any items that reference the City of Napa.

Please contact me if you have any questions regarding my responses.

Sincerely,  
  
Pamela A. Kindig  
Auditor-Controller

Received  
Napa Superior Court

AUG - 8 2008

Court Executive Office

PAK:pak

Cc: Board of Supervisors  
Nancy Watt, County Executive Officer  
Robert Westmeyer, County Counsel

## RETIREMENT BENEFITS FOR COUNTY OF NAPA EMPLOYEES

### FINDINGS:

1. The County of Napa:

- a. pension benefit for employees is a defined-benefit plan.

**Auditor-Controller Response: I concur with this finding.**

- b. plan for its non-safety employees and the Board of Supervisors is a “2.5% at 55” plan.

**Auditor-Controller Response: I concur with this finding. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

- c. plan for safety employees is a “3% at 50” plan.

**Auditor-Controller Response: I concur with this finding. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

- d. vesting period for County employees is 5 years and for the Board of Supervisors 8 years.

**Auditor-Controller Response: I partially concur with this finding. County employees and the Board of Supervisors vest with 5 years of service for pension benefits as required by PERS. County Department Heads and Board of Supervisors who are eligible for life-time medical benefits vest with 8 years as a County employee and 5 years as a Board member or department head. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

- e. total cost to Napa County taxpayers to fund employee retirement benefits over the next two years will be \$39,377,900.

**Auditor-Controller Response: I concur with this finding. Listed below is a break-out of estimated retirement benefits by type and for the two year period of 2007-2008 and 2008-2009.**

<b>Benefit Type</b>	<b>2007-2008 Estimated</b>	<b>2008-2009 Estimated</b>	<b>Estimated Total</b>
<b>Pension</b>	<b>\$13,210,200</b>	<b>\$14,261,400</b>	<b>\$27,471,600</b>
<b>OPEB</b>	<b>\$ 5,858,000</b>	<b>\$ 6,048,300</b>	<b>\$11,906,300</b>
<b>Total</b>	<b>\$19,068,200</b>	<b>\$20,309,700</b>	<b>\$39,377,900</b>

**The estimated costs for OPEB benefits for 2009-2010 are \$6,244,857. Estimated pension costs for 2009-2010 will not be available until October, 2008. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

- f. BOS monthly salary is currently \$7,017, with full medical and dental coverage for themselves and their family. They also enjoy a defined-benefit pension that includes a monthly annuity.

**Auditor-Controller response: I concur with this finding. Board of Supervisors, currently in office, receive the same health and pension benefits as other County employees and pay the same share of cost. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

3. OPEB:

- a. The County of Napa also provides OPEB for its retired employees and elected officials, some for their lifetime.

**Auditor-Controller response: I partially concur with this finding. Retirement benefits vary based on length of service, usage of sick leave to convert to health benefits, or employee classification. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

- c. The costs of OPEB, particularly health insurance have experienced double-digit percentage increases in the past 5 years.

**Auditor-Controller response: I concur with this finding. The increase in OPEB costs between FY2002/03 and FY2006/07 was due in part to the increase in health insurance premiums and, more significantly, to an increase in the number of eligible retirees (during this period, the County's OPEB**

**costs consisted entirely of pay-as-you-go costs for health insurance premiums). The increase in OPEB costs from \$1.4 million in FY2006/07 to \$5.3 million in FY2007/08 was due almost entirely to the Board's decision to begin paying down the County's OPEB unfunded liability on a very aggressive 14 year amortization schedule.**

- d. Early retirement of County employees, allowed by the pension plans, obligates the County to provide OPEB for a longer period of time until a retiree becomes eligible for Medicare at age 65.

**Auditor-Controller response: I concur with this finding.**

- e. The unfunded OPEB for the County of Napa is between \$37 and \$51 million...

**Auditor-Controller response: I concur with this finding. The range indicated in this finding precedes the Board of Supervisors decision to pre-fund its OPEB liability and was dependent upon the investment vehicle to be used to meet the annual funding requirements. The County has now contracted with CalPERS for pre-funding the liability using a 7.75% rate of return which reflects the CalPERS expected long term investment return. The Retiree Healthcare Plan Actuarial Valuation as of January 1, 2006 indicates that the County had an Unfunded Actuarial Accrued Liability (UAAL) of \$34.2 million as of that date. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

- f. The County has started reducing its unfunded OPEB liability and intends to be fully funded in 14 years.

**Auditor-Controller response: I concur with this finding. The County is currently using an aggressive 14 year amortization schedule to fund its OPEB liability. Future budget constraints may require the amortization schedule to be spread out over 20 or 30 years. This change would reduce the annual pre-funding payment but also increase the total costs of funding the liability.**

4. Pensions:

- a. The costs to the County for pension benefits are rising so rapidly that they can adversely impact the provision of other governmental services.

**Auditor-Controller response: I do not concur with this finding. The Grand Jury report indicated that pension costs increased 1,156% in just five years. Though this percentage increase may be accurate it is reflective of a comparison when the County's costs were minimal because the County's PERS Pension Plan was superfunded generating an employer rate of 0%. During the years when the employer rate was 0% the County set aside money in a savings account (Designations) for future pension costs. The following table reflects a more accurate picture of pension costs as a percentage of salary.**

Napa County		MISCELLANEOUS PLAN						
		Employer Portion					Who Pays?	
Fiscal Year	Market Return	Normal Cost	UAAL Amort	Total Employer Contrib.	Employee Contrib.	Total PERS Contribution	Employer	Employee
1996/97	2.0%	8.4%	1.8%	10.2%	7.0%	17.2%	12.7%*	4.5%*
1997/98	16.3%	8.4%	1.6%	10.0%	7.0%	17.0%	12.5%*	4.5%*
1998/99	15.3%	8.8%	0.1%	8.9%	7.0%	15.9%	13.8%	2.1%
1999/00	20.1%	7.4%	-5.7%	1.7%	7.0%	8.7%	7.7%	1.0%
2000/01	19.5%	7.4%	-7.4%	0.0%	7.0%	7.0%	7.0%	0.0%
2001/02	12.5%	7.5%	-7.5%	0.0%	7.0%	7.0%	7.0%	0.0%
2002/03	10.5%	7.7%	-7.7%	0.0%	7.0%	7.0%	7.0%	0.0%
2003/04	-7.2%	7.7%	-7.7%	0.0%	7.0%	7.0%	7.0%	0.0%
2004/05	-5.9%	7.9%	-1.0%	6.9%	7.0%	13.9%	13.9%	0.0%
2005/06	3.9%	9.2%	4.7%	13.9%	8.0%	21.9%	17.4%	4.5%
2006/07	16.7%	9.3%	4.0%	13.3%	8.0%	21.3%	17.2%	4.1%
2007/08	12.7%	9.1%	4.5%	13.6%	8.0%	21.6%	17.2%	4.4%
2008/09	12.3%	9.0%	4.6%	13.6%	8.0%	21.6%	17.4%	4.2%
Napa County		SAFETY PLAN						
		Employer Portion					Who Pays?	
Fiscal Year	Market Return	Normal Cost	UAAL Amort	Total Employer Contrib.	Employee Contrib.	Total PERS Contribution	Employer	Employee
1996/97	2.0%	12.6%	-0.1%	12.5%	9.0%	21.5%	15%*	6.5%*
1997/98	16.3%	12.6%	-1.7%	12.5%	9.0%	21.5%	12.5%	9.0%
1998/99	15.3%	12.9%	-2.7%	10.2%	9.0%	19.2%	10.2%	9.0%
1999/00	20.1%	10.5%	-8.2%	2.3%	9.0%	11.3%	2.3%	9.0%
2000/01	19.5%	12.5%	10.4%	2.1%	9.0%	11.1%	2.1%	9.0%
2001/02	12.5%	12.6%	12.6%	0.0%	9.0%	9.0%	0.0%	9.0%
2002/03	10.5%	17.8%	-5.0%	12.8%	9.0%	21.8%	12.8%	9.0%
2003/04	-7.2%	17.4%	-1.6%	15.8%	9.0%	24.8%	14.8%	10.0%

Auditor-Controller Responses  
 Retirement Benefits for County of Napa Employees  
 Page 5

2004/05	-5.9%	17.4%	1.2%	18.6%	9.0%	27.6%	15.8%	11.8%
2005/06	3.9%	14.8%	11.9%	26.7%	9.0%	35.7%	26.2%	9.5%
2006/07	16.7%	16.2%	11.7%	27.9%	9.0%	36.9%	26.9%	10.0%
2007/08	12.7%	15.8%	10.6%	26.4%	9.0%	35.4%	25.3%	10.1%
2008/09	12.3%	17.4%	10.5%	27.9%	9.0%	36.9%	26.7%	10.2%

\*Percent is estimated. County paid approximately \$55 per pay period per employee toward employee's cont.

**A detailed discussion of the above chart and the County's pension costs will be available when the Board of Supervisors and County Executive Office respond to this report.**

b. The unfunded liability by the County of Napa for pension benefits is \$52.5 million.

**Auditor-Controller response: I concur with this finding. The \$52.5 million unfunded liability is for the County's miscellaneous plan as of June 30, 2006 and reflects a 90.5% funded status on a market value basis.**

6. The consequences of the failure to manage these unfunded liabilities can result in tax increases, reduced services and impaired borrowing ability.

**Auditor-Controller response: I concur with this finding. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

7. GASB 45 government agencies 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.

**Auditor-Controller response: I partially concur with this finding. GASB 45 has a phased approach to the implementation of this accounting standard with the dates tied to the implementation dates of GASB 34. Phase 1 requires governments with revenues of over \$100 million to implement with fiscal years ending June 30, 2008. Phase 2 requires governments with revenues of over \$10 million or more but less than \$100 million to implement with fiscal years ending June 30, 2009. Phase 3 requires governments with revenues of less than \$10 million to implement with fiscal years ending June 30, 2010. Napa County's revenues exceed \$100 million; therefore the County will be implementing GASB 45 with the 2007-2008 audit report.**

8. Government agencies pay more of their compensation in the form of benefits than in the private business sector.

**Auditor-Controller response: I concur with this finding. Generally speaking this is an accurate statement.**

9. Government entities do not need to provide these high levels of pension benefits to attract and retain employees.

**Auditor-Controller response: I partially concur with this finding. I believe this perception is totally dependent upon the governmental agency involved and should be reviewed on an agency by agency basis. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

10. Having the Board of Supervisors negotiate or approve wages and benefits on behalf of themselves, although legally permissible, is a classic conflict of interest.

**Auditor-Controller response: It is beyond the scope of my responsibilities as the Auditor-Controller to determine if a conflict of interest exists when the Board of Supervisors negotiate or approve wages and benefits on behalf of themselves. A response from County Counsel would be appropriate.**

11. Private sector defined-benefit pensions are a thing of the past, retiree health care is virtually non-existent and wages, on average, are not greater than their public sector counter-parts.

**Auditor-Controller response: I do not concur with this finding. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

13. The average age at which current Napa County employees retire is 62 for miscellaneous employees and 57 for safety employees.

**Auditor-Controller response: I do not concur with this finding. Information from PERS indicates the average retirement age for miscellaneous employees is 60 and the average retirement age for safety employees is 56.**

14. A defined-contribution plan allows the plan to define the level of contribution the employer and the employee will make.

**Auditor-Controller response: I partially concur with this finding. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

15. A defined-contribution plan provides advantages to the employees and reduces the cost of retirement benefits over time.

**Auditor-Controller response: I partially concur with this finding. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

#### **RECOMMENDATIONS:**

1. A shift to defined-contribution plans for all new employee of the County be considered as a priority.

**Auditor-Controller response: It is beyond the scope of my responsibilities as the Auditor-Controller to respond to this recommendation as the decision to move to a defined-contribution plan for all new employees rests with the Board of Supervisors. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

2. The County of Napa adopt a resolution stating that it will participate in talks regarding health care reform.

**Auditor-Controller response: It is beyond the scope of my responsibilities as the Auditor-Controller to respond to this recommendation as a resolution requires the discussion and adoption by the Board of Supervisors. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

3. A commission or task force be established to recommend and/or to vote on any wage, pension or OPEB for the Board of Supervisors.

**Auditor-Controller response: It is beyond the scope of my responsibilities as the Auditor-Controller to respond to this recommendation. All commissions and task forces are appointed by the Board of Supervisors. Further**

**comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**

4. Both the City of Napa and Napa County review the time period of the OPEB coverage to determine if it could be reduced, e.g. by adjusting the retirement age percent formulas to reflect a 2.5% at 62 instead of age 55 for miscellaneous employees, or to reflect 3% at 55 instead of age 50 for safety employees, the OPEB liability could be significantly reduced.

**Auditor-Controller response: It is beyond the scope of my responsibilities as the Auditor-Controller to respond to this recommendation. The County Executive Officer and the Board of Supervisors plan to review the above recommendation during this fiscal year. Further comments will be available when the Board of Supervisors and County Executive Officer respond to this report.**