



CITY OF ANAHEIM
MAYOR TOM TAIT

October 28, 2014

The Honorable Glenda Sanders
Presiding Judge
Orange County Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Subject: 2013-2014 Orange County Grand Jury Report, "Orange County City Pension Liabilities – Budget Transparency Critically Needed"

Honorable Judge Sanders:

As the Mayor of the City of Anaheim, I am pleased to respond on behalf of the City to the 2013-2014 Orange County Grand Jury Report, "Orange County City Pension Liabilities – Budget Transparency Critically Needed." The responses contained in this letter have been approved by the Anaheim City Council. The City's response addresses the Orange County Grand Jury Report's findings and recommendations relevant to our City in accordance with the California Penal Code Sections 933 and 933.05.

Findings

F.1. OC cities have large unfunded pension liabilities both in terms of absolute dollar value and on a per capita basis and as a percentage of city General Fund revenues.

Response: The City of Anaheim agrees with this finding.

F.2. OC cities' unfunded pension liabilities have been increasing on a year over year basis over the past several years as a result of the 2007-2009 Great Recession and as key actuarial assumptions have been changed by CalPERS and OCERS.

Response: The City of Anaheim agrees with this finding.

F.3. There are risks to OC cities of changes to key actuarial assumptions including revisions downward of expected returns on investment and the likely move by pension funds to using more realistic mortality assumptions, which would increase unfunded liabilities.

Response: The City of Anaheim agrees with this finding.

F.4. Locating city budget information on a city web site is not always straightforward and prior year budgets are sometimes not posted by a city.

Response: The City of Anaheim disagrees with this finding. The City of Anaheim's budget, along with prior year budgets dating back to fiscal year (FY) 2004/05 can be found from a number of locations on the City's main page and using the search feature with the keyword "budget".

F.5. City budgets posted online project revenues and expenditures for at most one or two years into the future and sometimes do not show prior year data.

Response: The City of Anaheim disagrees with this finding. The City of Anaheim's FY 2014/15 budget includes prior year budget and actual information for all funds. Additionally, the City's Five-year Plan for the General Fund is published.

F.6. City budgets often lack footnotes explaining key assumptions, risks, and unusual changes in budgeted amounts or revenues and expenditures.

Response: The City of Anaheim partially disagrees with this finding. The City of Anaheim includes discussion of key assumptions for General Fund revenue and expenditures in Executive Summary and General Fund sections of the budget

F.7. City budgets sometimes do not provide trend data on the accumulation/drawdown of reserves and lack details on the city's plan for the size of its reserves or their intended uses.

Response: The City of Anaheim partially disagrees with this finding. The City of Anaheim's budget states the reserve policy is to strive to maintain a minimum unrestricted fund balance in the General Fund of between 7% to 10% of General Fund budgeted expenditures in order to moderate revenue losses and maintain core services during times of economic hardship. Further, the City's Five-year Plan for the General Fund, which is also included in the budget, provides the dollar value and percentage of expected reserves for each of the five years.

F.8. Cities can control most future expenditures by increasing or decreasing budgets for those expenditures as funds are available. However, increases to annual required contributions to their pension systems are imposed externally, change unpredictably, and when they occur, are ramped up over two to five years.

Response: The City of Anaheim agrees with this finding.

F.9. City budgets posted online do not explicitly show the link between planned city pension expenditures and pension system actuarial reports and those reports' annual required contributions. Risks associated with predictions of future annual required pension contributions based on risk assessment data provided by their pension systems and/or based on their own analysis are not discussed.

Response: The City of Anaheim agrees with this finding.

F.10. Pension costs for New (Post-PEPRA) employees will be substantially lower than for Legacy employees, but only a small percentage of current employees, typically only a few percent of total employees, are New. Substantially reduced pension costs for cities as a result of pension reform will not be realized for one or more decades.

Response: The City of Anaheim agrees with this finding.

F.11. CalPERS Annual Valuation Reports for Miscellaneous and Safety City employees are available to the public online for a very small number of cities.

Response: The City of Anaheim disagrees with this finding. CalPERS publishes individual public agency reports on its website.

F.12. OCERS provides pension plans for OCFA and OCSD employees, but there is no way to trace through publically available sources OCERS unfunded pension liabilities to the city budgets which outsource to OCFA and OCSD for fire and police services.

Response: The City of Anaheim disagrees with this finding because the City of Anaheim does not have pension liabilities associated with OCFA and OCSD.

Recommendations

R.1. Each city should post its current and at least three most recent prior year budgets on the city's web site, and these budgets should be easily located. Each city's web site should have a search engine and a single search on the word "budget" should immediately link to the current budget. (F.1) (F.4)

Response: The City of Anaheim has implemented this recommendation. The City's current and prior budgets (dating back to FY 2004/05) can be found at <http://www.anaheim.net/title/Finance/Financial%2FBudget+Documents/>.

R.2. Each city's budget information should contain not only this year/next year budget projections, but should show at least five years of projected revenues and expenditures. Projections should be at the same level of detail and use the same line item structure as information for the current budget. (F.1) (F.2) (F.3) (F.5) (F.8) (F.10)

Response: The City of Anaheim has not yet implemented this recommendation but will implement this during the next budget cycle for Fiscal Year 2015/16. The City's Five-year Plan for the General Fund, which contains projected revenues and expenditures, is included in the City's budget and can be found on page 95 of the FY 2014/15 budget. The City intends to expand these projections, especially related to pension costs, for Fiscal Year 2015/16.

R.3. Each city's budget should show separate line items for predicted employee and predicted employer contributions for the city pension systems. (F.8) (F.9)

Response: The City of Anaheim has implemented this recommendation and the information can be found on pages 392 and 393 of the City's Supplemental Schedules and Line Item Detail of the FY 2014/15 budget. Further, the City intends to consider improving the transparency and understanding of this information during the next budget cycle for Fiscal Year 2015/16.

R.4. Each city's budget should provide trend data on the accumulation/drawdown of reserves and provide details on the city's policy for the size of its reserves and on the intended uses of such reserves. In particular any discussion of reserves should address possible use of reserves to accelerate amortization of unfunded pension liabilities. (F.7)

Response: The City of Anaheim has not implemented this recommendation but will implement this during the next budget cycle for Fiscal Year 2015/16. The City's FY 2014/15 budget states the reserve policy is to strive to maintain a minimum unrestricted fund balance in the General Fund of between 7% to 10% of General Fund budgeted expenditures in order to moderate revenue losses and maintain core services during times of economic hardship. Further, the City's Five-year Plan for the General Fund, which is also included in the budget, provides the dollar value and percentage of expected reserves. The City intends to add more trend information for Fiscal Year 2015/16.

R.5. Each city using CalPERS for one or more of its pension plans should identify the names and dates of the CalPERS Annual Valuation Report(s) which call out Annual Required Contributions (ARCs) for these plans and should provide a separate expenditure line item for predicted city catch-up contributions for the city pension systems based on these ARCs. A discussion of the risks associated with these CalPERS projections should also be provided by the city. (F.1) (F.2) (F.8) (F.9)

Response: The City of Anaheim has not yet implemented this recommendation but will implement this recommendation during the next budget cycle to show the portion of the ARC related to normal cost and catch-up contributions. Further, the City will separately show any discretionary catch-up contributions separately from those related to the ARC.

R.6. Each city which outsources fire or police services to OCFA and/or OCSD should require them to provide projections of future costs of service out at least five years into the future and require that these projected costs explicitly show the relationship of projected pension costs including amortization of unfunded liabilities. This level of pension cost information should be provided in budgeted expenditures for outsourced services. A discussion of the risks associated with these projections should also be provided by the agencies and incorporated in the city's budgets. (F.6) (F.12)

Response: The City of Anaheim does not outsource fire or police services to OCFA and/or OCSD and is not required to respond to this recommendation.

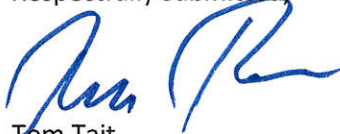
R.7. Each city that has CalPERS as a provider for pensions should include a provision in their agreements with CalPERS that CalPERS will post their Annual Valuation Reports online. (F.11)

Response: This recommendation has been implemented. The last three years of valuation reports can be found at <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers->

[reports/actuarial-reports/browse-results.xml&strCatId=2&q=anaheim-city](http://www.anaheim.net/actuarial-reports/browse-results.xml&strCatId=2&q=anaheim-city). Further, the City of Anaheim has placed the actuarial reports for the most recent report (June 30, 2012) along with the 6 previous reports on the City's website at <http://www.anaheim.net/title/Finance/Financial%2FBudget+Documents/>.

The City of Anaheim would like to express its appreciation for the efforts of the Orange County Grand Jury. The City of Anaheim is committed to public disclosure and transparency in its governmental affairs. Should you have any questions or need additional information, please contact Debbie Moreno, Finance Director, at (714) 765-4651 or dmoreno@anaheim.net

Respectfully submitted,



Tom Tait
Mayor

Cc: Orange County Grand Jury
City Clerk, City of Anaheim