



City of Westminster

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November 25, 2014

The Honorable Glenda Sanders
Presiding Judge of the Superior Court
700 Civic Drive West
Santa Ana, CA 92701

RE: Response to Orange County Grand Jury Report: "Orange County City Pension Liabilities – Budget Transparency Critically Needed"

TRI TA
Mayor

MARGIE L. RICE
Mayor Pro Tem

DIANA LEE CAREY
Council Member

SERGIO CONTRERAS
Council Member

ANDY QUACH
Council Member

EDDIE MANFRO
City Manager

Dear Judge Sanders:

I have reviewed the Orange County Grand Jury Report "Orange County City Pension Liabilities – Budget Transparency Critically Needed." On behalf of the City of Westminster, I am providing responses to Findings F1 through F12 and Recommendations R1 through R7, as requested by the Grand Jury.

F1: *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 Westminster agrees with this finding. However, it should be noted that the City of Westminster pays its Annual Required Contribution (ARC) as billed from CalPERS and is not delinquent. The unfunded pension liabilities are a result of CalPERS changes in assumptions and investment returns and not from underpayments by the City.

F2: *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 Westminster partially agrees with this finding. However, the major dollar impact on unfunded liabilities was the enhanced benefits negotiated with employee groups in the early 2000s, which was made possible by changes approved by the California State Legislature and the passage of SB400 in 1999. Unfunded liabilities have been increasing for many years, regardless of any larger economic changes taking place.

F3: *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 Westminster agrees with this finding.

F4: 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 Westminster partially agrees with this finding. We are unaware of what other cities may or may not do in regards to posting budget information. However, the City of Westminster's website posts the last seven biannual budgets and the past six years of annual comprehensive annual financial reports (CAFR) on its website under the easy to find "Financial Reports Online" link.

F5: 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 Westminster partially agrees with this finding. We are unaware of what other cities present in their budget documents. However, the City of Westminster, in preparing its biannual budget, includes prior year data on actuals (tied to our annual CAFR) and adopted and revised budgets in addition to the current and one future fiscal year.

F6: City budgets often lack footnotes explaining key assumptions, risks, and unusual changes in budget amounts or revenues and expenditures.

RESPONSE: The City of Westminster partially agrees with this finding. We are unaware of what other cities present in their budget documents. The City of Westminster includes notes in each Department and program budget detail page about assumptions made for expenditure line items. In addition, the City's "Budget Message" and "Transmittal Letter" included in every adopted budget provide ample detail about the various assumptions made in preparing the budget and even include discussion of known, future issues which could impact the City's fiscal health.

F7: 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 Westminster partially agrees with this finding. We are unaware of what other cities present in their budget documents. The City of Westminster includes information on prior year General Fund reserve levels as well as projections for the next two years. We believe this is a sufficient amount of information, especially when coupled with the ten years available in the City's annual CAFR.

F8: Cities can control most future expenditures by increasing or decreasing budgets for these 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 Westminster agrees partially with this finding. The City budget is based on projected revenues and expenditures for the budget period, in Westminster's case, the two year budget cycle. The impact on reserves, based on the projected revenues and expenditures included in each adopted budget, are clearly shown in the budget document. These projected expenditures include known and anticipated payments to CalPERS (i.e., the annual required contribution, or ARC). To the extent possible, using publicly available data from CalPERS, the City of Westminster incorporates all known and anticipated changes to CalPERS actuarial assumptions in its budget planning process and documents.

F9: *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 Westminster partially agrees with this finding. We are unaware of what other cities present in their budget documents. The City of Westminster, in preparing its two year budget, includes known retirement costs as well as projected retirement costs, based on CalPERS valuation report data and information.

F10: *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 Westminster partially agrees with this finding. We are unaware of what other cities have done to lower future retirement costs. The City of Westminster, as part of labor negotiations with their two represented groups, instituted cost sharing of the employee portion of retirement costs as well as implemented a "Second Tier" retirement benefit that is less generous over three years ago. In addition, one-fifth of the City's employees have been paying the full share of employee retirement costs for more than three fiscal years. These changes have provided substantial savings to the City, even before the advent of AB340 (PEPRA) in January, 2013. The City of Westminster's retirement costs are substantially lower with these changes in place.

F11: *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 Westminster disagrees with this finding. CalPERS provides this information on-line for all of its contracting agencies and is available to the public via its website. The City of Westminster, in reviewing the totality of financial information accessible via its website will consider including valuation reports and related information.

F12: *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 Westminster partially agrees with this finding. We are unaware of what other cities who contract with either OCFA and/or OCSD present in their budget documents.

Responses to Grand Jury Recommendations:

R1: *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.*

RESPONSE: The City of Westminster has implemented this recommendation. The City currently posts adopted budgets back to Fiscal Year 2005-06 on its website. In addition, the City's CAFR is available back to Fiscal Year 2006-07. This information is easily found in a number of ways from the front page of the City's website. In addition, entering the word "budget" in the City's website search produces numerous results, primary to this is the link to the current fiscal year budget as well as budgets back to Fiscal Year 2008-09.

R2: 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.

RESPONSE: This recommendation will not be implemented. Multi-year budgets/projections beyond two years are notoriously inaccurate and of little value. Most costs are associated with salary and benefit expenditures, which are primarily dictated by existing Memorandum of Understanding (MOU) in place between the City and its labor groups. Also, CalPERS actuarial rates are only provided for one year in advance, with estimates provided for additional future years, so those costs cannot be accurately determined and incorporated into long-term (i.e., past two years) projections. In addition, revenues are volatile and are difficult to project accurately beyond two years. This is especially true in the City of Westminster since the City relies heavily on sales and property tax revenue, two sources of revenue directly impacted by economic forces completely outside of the control of the City. To prepare and present five years or more of estimates would not represent true projections and may in fact be a disservice to those believing that these estimates represent credible financial analysis when they are nothing more than "guesstimates."

R3: Each city's budget should show separate line items for predicted employee and predicted employer contributions for the city pension system.

RESPONSE: This recommendation will not be implemented. The City of Westminster already accounts for and displays salary and benefit costs at the "line item" detail level in its budget documents. In addition, these projected costs are presented by Department and individual program, where applicable. There is a single line item in the City of Westminster's budget to account for "PERS Retirement." Given the cost-sharing arrangement in place – employees contribute between 63% and 100% of the employee share of retirement costs depending on their bargaining unit and date of hire – the line item "PERS Retirement" in each budget detail page fully reflects the estimated net cost for that fiscal year of total estimated CalPERS retirement costs.

R4: 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.

RESPONSE: The City of Westminster has implemented most of this recommendation. The impact of past and future budgets is presented in the budget document. Changes to fund balance (i.e., reserves) are clearly displayed for all major funds, showing past year actuals and projected future year estimates. The City of Westminster is currently planning to develop comprehensive reserve policies as part of the 2015-17 budget development process.

R5: *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.*

RESPONSE: This recommendation will not be implemented because the City of Westminster has always, and will continue to, utilize the most current CalPERS valuation report available as part of its budget development process. The CalPERS valuation reports are available and accessible on the CalPERS website. In addition, as described in the City's Response to Recommendation R3, the line item "PERS Retirement" included in each budget document already incorporates the full net cost to the City of each employee's retirement cost.

R6: *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.*


RESPONSE: This recommendation will not be implemented. The City of Westminster has its own Police Department. While the City does contract with OCFA for fire services, the City is not involved with the accounting for the services provided. The OCFA does provide the City of Westminster – as a "cash contract" city – with estimates of future annual contract costs. It is assumed that these estimates provided by OCFA include assumed retirement cost increases based on data provided by OCERS. This recommendation would have to be implemented by the OCFA and/or OCERS and not by the City of Westminster.

R7: *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.*

RESPONSE: This recommendation will not be implemented and is unwarranted. CalPERS already provides this information for each City and agency with which it has a contract and makes this information publicly available on its website.

The City would like to thank the Orange County Grand Jury for its efforts in researching these issues and for giving the City an opportunity to respond to its findings and recommendations. Should you have any questions regarding the information in this letter, please contact me directly at 714-548-3190 or msolorza@westminster-ca.gov.

Sincerely,



Michael Solorza
Administrative Services Director

Cc: Mayor
City Council
City Manager