CITY OF FOUNTAIN VALLEY
www.fountainvalley.org
10200 SLATER AVENUE • FOUNTAIN VALLEY, CA 92708-4736 • (714) 593-4400, FAX (714) 593-4498

December 9, 2014

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

**RE: California Penal Code Section 933; Response to Orange County Grand Jury Report, "Orange County City Pension Liabilities -- Budget Transparency Critically Needed."**

Dear Judge Sanders:

As requested by Orange County Grand Jury letter dated June 18, 2014, the City of Fountain Valley is responding to the findings and recommendations of the Grand Jury Report entitled, "Orange County City Pension Liabilities – Budget Transparency Critically Needed." It should be noted that, as directed by the report, the City is responding to each recommendation as it applies to itself only.

## GRAND JURY FINDINGS

**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 agrees with the finding.

**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 agrees with the finding.

**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 agrees with the 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 agrees with the finding.

**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 agrees with the finding related to most cities. The City of Fountain Valley's current budget document offers a ten year complete line item forecast for all revenue sources and capital expenditures on a ten year schedule at a detail level.

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

**Response:** The City agrees with the finding related to most cities. While the City of Fountain Valley does not include footnotes in its budget, the key assumptions, as well as the risks and unusual changes in budgeted amounts or in revenues and expenditures, are clearly explained in the Budget Message, located in the Introduction section of the City's annual budget.

**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 agrees with the finding related to most cities. Within the City of Fountain Valley's biennial budget, the City makes a point of providing trend data regarding its reserves. Additionally, included in the budget, the City's Financial Policies explicitly address the City's reserve policies.

**F8. 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 agrees with the finding.

**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 agrees with the finding related to most cities. The City of Fountain Valley does include within its biennial budget a lengthy discussion regarding pension costs, future risks to the City, and the impacts of planned and unplanned changes in required contributions.

**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 disagrees partially with this finding. The City of Fountain Valley provides a tier two retirements for all "classic" employees including a 2% at 60 retirement

formula for miscellaneous and 3% at 55 for public safety. As a result, while the City will realize some savings as new employees replace legacy employees, the savings are not substantial, because the PEPRA retirement plan is only marginally less generous than the City's existing tier two plans.

**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 disagrees with this finding. While many cities do not include CalPERS Annual Valuation reports on their City websites, the reports are available for all cities that contract with CalPERS on its website dating back to 2011: http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml

**F12. OCERS provides pension plans for OCFA and OCSD employees, but there is no way to trace through publically available resources OCERS unfunded pension liabilities to the city budgets which outsource to OCFA and OCSD for fire and police services.**

**Response:** The City agrees with this finding. ***However, this finding does not apply to the City.***

## 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 single search on the word "budget" should immediately link to the current budget. (F.1) (F.4)**

**Response:** The City agrees with this recommendation. The City currently has the complete budget document for the most recent and two previous fiscal years on the City's website (www.fountainvalley.org) within the Finance section of the site. We also have "Budget Briefs" on the site going back to 2006-2007. Going forward the City plans to have the complete budget document posted on the website on an annual basis.

Currently the search engine is inadequate so when "budget" is typed in search field it does not take you to the most current section of the Finance page, however the City is in the process of updating the website and this will be corrected with the upgrade by April 2015.

**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. (F.1) (F.2) (F.3) (F.5) (F.8) (F.10)**

**Response:** The City agrees with this recommendation. Our current budget document offers a ten year complete line item forecast for all revenue sources; therefore we have no compliance issues in regards to revenue reporting. We also report on capital expenditures on a ten year schedule at a detail level. In addition, we also project expenditures out ten years but not at the lowest level offered in other sections of the

budget. The lowest level of detail offered on operating expenditures is presented for the current and next budget year and breaks expenditures down into three categories; Personnel, Internal Service (Benefits, Insurance etc.) and Operating. We have the ability to add additional years of expenditures at this three category level and will be implementing the recommendation as soon as we are able to reformat the pages that currently reflects two years of expenditure detail; our goal is to have this implemented by the time we publish the 2015-2016 Annual Operating Budget.

**R3. Each city's budget should show separate line items for predicted employee and predicted employer contributions for the city pension system (F.8) (F.9)**

**Response:** The City agrees with this recommendation. The City has implemented this finding. In as much as all employees of the City currently pay the entire portion of the employee required contribution towards their pension, the expense that is reflected in the Internal Service Funds-Employee Benefits section of the budget shows ten years of P.E.R.S. cost and reflects only the employer paid portion of pension benefits.

**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. (F.7)**

**Response:** The City agrees with this finding. Our current budget document includes a Ten Year Statement of Revenues, Expenditures and Estimated Fund Balance that reflects the changes in fund balance for the ten year period. The City does have a reserve policy in place but it is not currently presented in the budget document. The City will take the necessary steps to incorporate this policy in future budget documents.

**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. (F.1) (F.2) (F.8) (F.9)**

**Response:** The City agrees with this recommendation. This pension information will be presented in the 2015-2016 Annual Operating Budget when it is adopted in June 2015.

**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 costs information should be provided in budged 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 agrees with this recommendation. ***This recommendation does not apply to the City of Fountain Valley as we have our own in-house police and fire services.***

**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. (F.11)**

**Response:** The City partially agrees with this recommendation. We agree that this information should be shared online and CalPERS is currently providing actuarial information by City dating back to 2011. It is our opinion that it would also be best practice for the City to post this information on its website on an annual basis.

We are pleased that many of our current practices are consistent with the recommendations of the Grand Jury. Please contact David D. Cain, Finance Director/Treasurer at (714) 593-4418 if you have questions or need additional information.

Sincerely,

Bob Hall
City Manager

Cc: Orange County Grand Jury
Fountain Valley City Council

David Baker
Foreman, 2013-14 Orange County Grand Jury
700 Civic Center Drive West
Santa Ana, CA 92701