

The People are the City



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August 19, 2014

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

**SUBJECT: 2013-14 ORANGE COUNTY GRAND JURY REPORT ENTITLED  
"ORANGE COUNTY CITY PENSION LIABILITIES – BUDGET TRANSPARENCY  
CRITICALLY NEEDED"**

Dear Judge Sanders:

We have reviewed the 2013-14 Orange County Jury Report, "Orange County City Pension Liabilities – Budget Transparency Critically Needed" On behalf of the Placentia City Council, we thank the volunteer members of the Grand Jury for their time and considerable effort in analyzing the various aspects of public employee pension liabilities in Orange County.

The Grand Jury is requiring the City of Placentia to respond to findings F-1 through F-9 and recommendations R-1 through R-7. In accordance to California Penal Code §§ 993 and 993.05, the City of Placentia is pleased to provide the following responses to the findings and recommendations made by the Grand Jury.

Finding 1. Orange County 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.

*City Response: Agree*

Finding 2. Orange County cities' unfunded pension liabilities have been increasing on a year by 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 California Public Employees Retirement System (CalPERS) and Orange County Employees Retirement System (OCERS).

*City Response: Agree*

Finding 3. There are risks to Orange County 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.

*City Response: Agree; the changes in assumptions will provide a more realistic picture of the unfunded pension liability for each agency.*

Finding 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.

*City Response: Disagree.* Staff feels that the City of Placentia's budget information is displayed on the City's website in a straightforward manner and prior year's budget documents are also available on the City's website to review and compare.

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

*City Response: Disagree.* City Budget revenue forecasts are a part of the annual budget. Currently the City has prior budgets from the past five (5) fiscal years posted on the City's website for review. Long term forecasts are often conservative in nature as agencies continue to address both future expenditures and projected revenues/revenue opportunities.

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

*City Response: Disagree.* In Placentia, the City Administrator's Budget Message in the annual budget document goes into great detail to explain assumptions, risks, and unusual changes in the economy, budgeted amounts, revenues and expenditures.

Finding 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.

*City Response: Disagree.* The City has a Reserve Policy that details the amounts of City Reserves and any plan for their use or intended use.

Finding 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, changes unpredictably, and when they occur, are ramped up over two to five years.

*City Response: Agree*

Finding 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 pensions contributions based on risk assessment data provided by their pension systems and/or based on their own analysis are not discussed.

*City Response: Agree; as previously mentioned in response to Finding 6, City Administrator's budget message will address such issues when information is available.*

Finding 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.

*City Response: Agree*

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

*City Response: Agree*

Finding 12. OCERS provides pension plans for Orange County Fire Authority and Orange County Sheriff's Department employees, but there is no way to trace through publically available sources OCERS unfunded pensions liabilities to the city budgets which outsource to Orange County Fire Authority and Orange County Sheriff's Department for fire and police services.

*City Response: Agree*

Staff recommends the following responses to the Jury Report recommendations:

Recommendation 1. Each city should post its current and at least three (3) 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.

*City Response: Implemented.* The City's website has budgets posted from FY 2010 - 2011 through FY 2014-2015. There is a search engine which will direct a user to the page listing the available budgets by entering "budget" as a search word.

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

*City Response: Not Implementing as recommended.* During the FY 2014-2015 budget process, a five (5) year projection was prepared and submitted to the City Council. This projection was done by major categories and not at the same level of detail as the annual budget is done. In order to complete a five (5) year projection at the same level of detail as the budget would add a tremendous amount of work to the budget process. In addition the five (5) year projections with same budget detail's accuracy would be extremely challenging and not necessarily meaningful as financial information changes from year to year.

Recommendation 3. Each city's budget should show separate line items for predicted employee and predicted employer contributions for the city pension systems.

*City Response: Partially Implemented.* The City's budget only reflects the costs and expenditures that the City needs to operate. Costs incurred and/or contributions made by City employees are not found in the budget. Examples of contributions by employees include payment toward their health benefit premiums and payment toward their retirement. The purpose of a budget is to create a spending plan for the City. This does not include budgeting for expense borne by employees, such as retirement contributions, tax payments or other benefits.

Recommendation 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.

*City Response: Partially Implemented.* The City Council has a Reserve Policy regarding amount of desired reserves and use of reserves. Reserves are used for unforeseen expenses, emergency purchases or response to a disaster. By policy, City Council must approve all use of reserve funds. City budget currently shows prior fiscal year transfers from the reserve fund to the general fund or other funds when needed for emergency purchases. City Council's Reserve policy can be added to the 2015-2016 fiscal year budget documents. Due to the City's limited reserves, pre-funding of unfunded pension liabilities is not viable. Should additional reserves become available in the future, City staff will analyze the pros and cons of utilizing reserves to pre-fund future unfunded pension obligations and advise the City Council accordingly.

Recommendation 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 pensions systems based on these ARCs. A discussion of the risks associated with these CalPERS projections should also be provided by the agencies and incorporated in the city's budgets.

*City Response: Recommendation has not been implemented but will be partially implemented in Fiscal Year 2014-2015.* The City receives an Annual Valuation Report from PERS in October of each year. In the past the City has not posted the report online but based on the Grand Jury's recommendations, City will begin posting when the October, 2014 report is received. Further analysis will be necessary prior to including a separate expenditure line item for predicted city catch up contributions. City will need to work both internally and with PERS actuary prior to moving forward on this component of Recommendation #5.

Recommendation 6. Each city which outsources fire or police services to OCFA and/or OCSD should require them to provide projections of future costs of services 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.

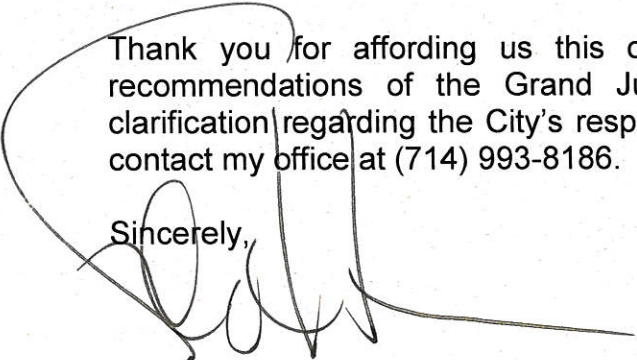
*City Response: Recommendation has not been implemented and requires further analysis.* The City of Placentia contracts with the Orange County Fire Authority (OCFA) for fire services. The contract with OCFA which runs through FY 2019-2020. The contract has a maximum annual increase of four (4) % which must be justified by OCFA to the City. While the recommendations by the Grand Jury may provide good information relative to OCFA pension obligations, this information does not currently impact the contract with Placentia. There may be other areas/cost centers that impact OCFA as well (health care, liability, workers' compensation, etc) that cannot change the commitment of OCFA to stay within the contracted agreement. A note referring the reader to the OCFA's website for additional pension information could be added to the City's budget document.

Recommendation 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.

*City Response: Not currently implemented however, per Recommendation #5, City agrees to place Annual Valuation Reports on the City website.* City can begin discussion with PERS on posting all PERS agencies Annual Valuation Reports on their (PERS) website. This recommendation would only work if all public agencies had their information posted by PERS.

Thank you for affording us this opportunity to comment upon the findings and recommendations of the Grand Jury. Should you have any questions or need clarification regarding the City's responses contained herein, please do not hesitate to contact my office at (714) 993-8186.

Sincerely,



Scott W. Nelson  
Mayor

cc: City Council  
Orange County Grand Jury  
City Administrator  
Chief Financial Officer  
Director of Administrative Services