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## CITY OF SANTA ANA

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September 8, 2014

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

Dear Judge Sanders,

Enclosed please find the responses related to the Orange County Grand Jury Findings and Recommendations dated June 18, 2014. Should you have any questions, please let me know. Thank you.

Respectfully,

David Cavazos  
City Manager

cc: Miguel A. Pulido, Mayor  
Orange County Grand Jury

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# Orange County Grand Jury 2013-2014 Orange County City Pension Liabilities Budget Transparency Critically Needed

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## **Findings** (Page 35)

Based on its investigation of Pension Funding Status of Cities in Orange County, the 2013-2014 Grand Jury has arrived at 12 principal findings, as follows:

**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.

*We concur that OC cities have large unfunded pension liabilities in terms of absolute dollar values. However, utilizing per capita and General Fund revenue metrics as a basis to gauge the burden of unfunded pension liabilities for any particular city is difficult. The Grand Jury report alludes to this in its report.*

**F.2.** 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.

*We concur 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.

*We concur with this finding. However, the degree of risk is dependent on the City.*

**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.

*We do not agree with this finding. We believe that the City's budget information is easily accessible by clicking on the Quick Links tab from the City's home page. The "Annual Budget" is under "Your City Government" and is the second selection in this section.*

**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.

***We disagree with this finding. The City of Santa Ana posts seven years of prior budgets on-line. In addition, it also posts its five year forecast on-line.***

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

***We disagree with this finding. The posted five year forecast provides an explanation to key budget assumptions impacting the City's revenue and expenditure base. The City's Five Year Forecast aligns with the City's budget and is presented at a public forum before the City Council.***

***In addition, the Budget Office does work collaboratively with departments to analyze each department's budget (revenues and expenditures). This collaboration results in a proposed budget that conforms with key assumptions as outlined in the forecast and is in alignment with the City's Strategic Plan and Fiscal Policy.***

**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.

***We partially disagree with this finding. Although the budgets themselves may not contain trend data on reserves, the budget presentations that reference the City's budget and that are presented in a public forum before the City Council do contain this information.***

***In addition, the City has an adopted Fiscal Policy that outlines target levels for City reserves, how these reserves can be used and a requirement plan for replenishment.***

**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.

***We concur with this finding. The Annual Required Contribution (ARC) is determined by CalPERS and not the City. Therefore, the City is provided the contribution rates and budgets appropriately.***

**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.

*We partially disagree with this finding. Pension expenditures can be found as a line item in each department's budget. The actuarial reports are available from CalPERS for public viewing and include the annual required contribution data. Staff utilizes this information to ensure that the City's Annual Required Contributions are met. However, we concur that no discussion on risks is presented.*

**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.

*We concur with future pension costs associated with PEPRA. Pension costs for new (PEPRA) employees will be substantially lower. However, the timetable for reduced pension costs associated with PEPRA will be largely based on turnover and retirements. There still is an anticipated acceleration of retirements related to baby boomers over the next few years which has been highlighted by the General Accounting Office. We believe it still may be too early to ascertain when cities will realize true savings.*

**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.

*We disagree with finding. The availability of this information to the public is on the CalPERS website: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>*

**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

*We concur with this finding. We could not find any publically available sources that provides a direct correlation on unfunded pension liabilities.*

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## **Recommendations** (Page 36)

Based on its investigation of Pension Funding Status of Cities in Orange County, the 2013-2014 Orange County Grand Jury makes the following 8 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)**

*The recommendation has been implemented. The City currently has its current budget plus seven years of past budgets posted and is easily accessible on the City's web site (Finance & Management Services).*

**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)**

*The recommendation related to the City budget containing this year's and next year's budget projections has been implemented. In addition, the City currently provides and posts on-line a five year forecast with key assumptions highlighting any major changes to major revenues and expenditures.*

*The recommendation to provide the same level of detail and use of the same line item structure as the current budget requires further analysis. Forecasts change and the maintenance of such a detailed line item structure may be prohibitive. The City has already embarked on building a platform of providing and posting additional financial information as outlined in its Five Year Strategic Plan and believes that this information will contain higher value information for the public to evaluate the City's financial position.*

**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)**

*The City will evaluate how the information is currently presented since it shows the contributions towards retirement by accounting unit and is a combination of employer minus employee contributions. The City will consider alternative presentations on how best to present the information requested.*

**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)**

*The City will consider implementing the trend information related to its City reserves into future City budgets. As the City updates its fiscal policy, language will be incorporated to allow the use of reserves to address the issue of unfunded pension liabilities.*

**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)**

*The recommendation has not been implemented. The City will look to post the CalPERS website information on the City's web site and highlight the names and dates of the CalPERS Annual Valuation Reports conducted that include the ARC information. The City will identify an appropriate venue to discuss the risks associated with CalPERS projections.*

**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)**

*The recommendation has yet been implemented. The City will request the information from OCFA.*

**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 Report online. **(F.11)**

*The recommendation has been implemented. This report is posted on the CalPERS website: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>*