



City of La Habra

ADMINISTRATIVE BUILDING

"A Caring Community"

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September 15, 2014

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

Re: Required Response to Grand Jury Report, "ORANGE COUNTY CITY PENSION LIABILITIES-Budget Transparency Critically Needed"

Dear Presiding Judge Sanders:

On June 25, 2014, the 2013-2014 Orange County Grand Jury released its report on the "Orange County City Pension Liabilities - Budget Transparency Critically Needed." The report made 12 findings (F1, F2, F3, F4, F5, F6, F7, F8, F9, F10, F11, and F12) and 7 recommendations (R1, R2, R3, R4, R5, R6, and R7) to which the City of La Habra is required to comment on. Please consider this letter as the City's official comments on these findings and recommendations.

Findings

Finding 1 (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.

Based on the information and documentation provided in the study, the City of La Habra agrees with the finding of the Grand Jury.

Finding 2 (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.

Based on the data and analysis provided by the Grand Jury, the City of La Habra agrees with the finding of the Grand Jury.

Finding 3 (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.

Based on the data and analysis presented by the Grand Jury, the City of La Habra agrees with the finding that changes to key actuarial assumptions including revisions downward of expected returns on investment and increasing mortality assumptions would likely increase unfunded liabilities of OC cities including the City of La Habra.

Finding 4 (F4): Locating city budget information on a city website is not always straightforward and prior year budgets are sometimes not posted by a city.

The City of La Habra disagrees with the finding. The City of La Habra has historically posted its municipal budgets on its website which includes the current fiscal year adopted budget, as well as prior fiscal year budgets.

Finding 5 (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.

The City of La Habra partially disagrees with the finding. Each budget of the City of La Habra identifies revenue and expenditures for: (1) the current fiscal year adopted budget, (2) the prior fiscal year's amended budget; and (3) actual revenues and expenditures data from two years prior. The City also presents a five year General Fund revenue and expenditure projection during budget review but does not include this as part of the adopted budget document.

Finding 6 (F6): City budgets often lack footnotes explaining key assumptions, risks, and unusual changes in budgeted amounts or revenues and expenditures.

The City of La Habra partially disagrees with the finding. The City of La Habra addresses key assumptions, acknowledges risks, and identifies changes regarding

budgeted revenues and expenditures in the transmittal letter that is included in the City Manager's Message section of the budget document.

Finding 7 (F7): City budgets sometimes do not provide trend data on accumulation/drawdown of reserves and lack details on the city's plan for the size of its reserves or their intended uses.

The City of La Habra agrees with the finding. The City of La Habra does not provide trend data on accumulation/drawdown of reserves and does not provide details regarding the City's plan for the size of its reserves or their intended uses. The City does; however, present a summary of revenues, expenditures and use of fund balance schedule in each budget. This schedule presents available (spendable) fund balances at the beginning of the fiscal year, projected revenues, transfers and expenditures, and then a projected fiscal year ending balance.

Finding 8 (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.

The City of La Habra agrees with the finding.

Finding 9 (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 disclosed.

The City of La Habra agrees with the finding. The City of La Habra does disclose extensive pension plan and funding information in the Notes section of its Comprehensive Annual Financial Report (CAFR). The City presently has CAFR's for the past ten fiscal years posted on its website.

Finding 10 (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.

The City of La Habra agrees with the finding.

Finding 11 (F11): CalPERS Annual Valuation Reports for Miscellaneous and Safety City employees are available to the public online for a very small number of cities.

The City of La Habra agrees with the finding. The City of La Habra does not currently post its CalPERS Annual Valuation Reports for Miscellaneous and Safety City employees online.

Finding 12 (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.

Based on the information provided by the Grand Jury report, The City of La Habra agrees with the finding.

Recommendations

Recommendation 1 (R1): Each city should post its current and at least three most recent prior year budgets on the city's website, and these budgets should be easily located. Each city's website 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 had already been implemented The City of La Habra has the current and several prior year budgets posted on its website. The City's website search engine links to the current and prior year budgets using a single search on the word "budget."

Recommendation 2 (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)

The recommendation has not been implemented by the City of La Habra. The City will review the methodology and format for these extended projections and will assess their accuracy and usefulness.

Recommendation 3 (R3): 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 recommendation has already been implemented. The City of La Habra presents the predicted employee and employer contributions in our current fiscal year budget and the seven prior fiscal year budgets on our web site.

Recommendation 4 (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)

The recommendation has not been implemented. The City of La Habra has not included trend data on the accumulation/drawdown of reserves or the city's policy for the size of its reserves and their intended uses in our budget. We will consider implementing this recommendation as part of our FY 2015-16 Budget process.

Recommendation 5 (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)

The recommendation has not been implemented. The City of La Habra's Comprehensive Annual Financial Report (CAFR) includes extensive information on the City's pension plans, as required by governmental accounting standards. This information is found in the Notes to Financial Statement section of the CAFR. Additionally, the City has the audited CAFR's from the past ten years available on the City's website. We will consider making further modifications to our FY 2015-16 budget to include the recommended ARC information and predicted city catch-up projections.

Recommendation 6 (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. (F.6) (F.12)

The recommendation has not been implemented. The City does not outsource fire or police services to either OCFA or OCSD. However, as we do contract with the Los

Angeles County Fire Department and we will contact them to determine if this information can be provided.

Recommendation 7 (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)

The recommendation has not been implemented. The City of La Habra will consult with CalPERS regarding amending our contract to include a provision to post our Annual Valuation Reports online. We will verify if this option can be implemented before our next year's Annual Valuation Reports are completed. If it cannot be implemented by CalPERS, the City will post CalPERS valuation reports for the City's pension plans on the City's website annually.

Thank you for the opportunity to provide comments on these findings and recommendations related to the Grand Jury Report on "ORANGE COUNTY CITY PENSION LIABILITIES-Budget Transparency Critically Needed." If you have any questions or concerns, please contact Melvin Shannon, Director of Finance, at (562) 383-4052.

Sincerely,



Tom Beamish
Mayor, City of La Habra

CC: Orange County Grand Jury