



City of Villa Park

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September 15, 2014

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

RE: City of Villa Park Response to Orange County Grand Jury Report
"Orange County City Pension Liabilities-Budget Transparency Critically Needed"

Dear Honorable Judge Sanders:

The City of Villa Park has reviewed the 2013-2014 Orange County Grand Jury Report, "Orange County City Pension Liabilities-Budget Transparency Critically Needed". In response to the Grand Jury's findings and recommendations outlined in said report, the City of Villa Park is providing the following information:

Finding F1: 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:

The City of Villa Park agrees with the finding.

Finding F2: Orange County 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.

City Response:

The City of Villa Park agrees with the finding.

Finding F3: 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:

The City of Villa Park agrees with the finding.

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

City Response:

Disagree. Staff feels that the City of Villa Park'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 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.

City Response:

The City of Villa Park agrees with the finding that the budget shows project revenues and expenditures for at most one year into the future. However, the City disagrees with the finding that the budget does not show revenues and expenditures for prior years. The City of Villa Park reports in their budgets, four (4) years worth of prior year revenues and expenditures.

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

City Response:

Disagree. In the City of Villa Park's FY2013-14 budget, staff included thirty-eight (38) footnotes describing key assumptions, risks and unusual changes in the budget amounts or revenues and expenditures.

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

City Response:

The City of Villa Park agrees with the finding that the budget does not provide trend data on the drawdown of reserves; however, the City of Villa Park has not drawn upon its General Fund Reserves as of June 30, 2014. The City of Villa Park also disagrees with the finding that the budget does not provide trend data on accumulation of reserves and lack of details on the city's plan for the size of its reserves or intended uses. The City of Villa Park's budget, reports five (5) years of accumulation of reserves and also states the city Reserve Policy that details the amount of the City Reserves and any plan for their use or intended use.

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

City Response:

The City of Villa Park agrees with the finding.

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.

City Response:

The City of Villa Park agrees with the finding.

Finding F10: Pensions 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:

The City of Villa Park agrees with the finding.

Finding F11: 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:

The City of Villa Park agrees with the finding.

Finding F12: 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:

The City of Villa Park agrees with the finding.

Recommendation R1: Each city should post its current and at least three (3) 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.

City Response:

Implemented. The City's website has budgets posted from FY 2011-2012 through FY 2014-2015. This information is easily accessible either on an easy to view tab on the front page or via the search engine (www.villapark.org/departments/finance/budget/).

Recommendation 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.

City Response:

The City of Villa Park prepares a Five Year Strategic Plan that is updated regularly. This plan in conjunction with the budget provides the recommended information delineated by the Grand Jury.

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

City Response:

The City of Villa Park currently provides one line item depicting the sum of the retirement contributions for the employer. The retirement costs for the employee are currently reported as a percentage, but will be implemented as a dollar figure in the next budget cycle.

Recommendation 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.

City Response:

The City of Villa Park's budget does not include trend data for drawdowns of reserves, as General Fund Reserves have currently never been drawn on as of June 30, 2014. However, the details for the uses of reserves and the City's obligations for retirement benefits are included in the budget. Also included in the budget are the Budget Policy, General Fund Reserve, Glossary and Fund descriptions.

The City is currently included in a Risk Pool which was implemented by CalPERS effective with the June 30, 2003 actuarial valuations to protect small employers (those with less than 100 active members) against large fluctuations in employer contribution rates caused by unexpected demographic events. At this time the City does not have the ability to pay down its unfunded liability. The city currently has a side fund.

Going forward the City will document the City's ability in the budget to pay down its share of the pool's unfunded accrued liability.

Recommendation 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 pensions systems based on these ARCs. A discussion of the risks associated with these CalPERS projections should also be provided by the city.

City Response:

The City of Villa Park currently provides a synopsis of the current benefit formula and retirement rates in its budget. Trend information for the CalPERS Annual Valuation Reports and risk information associated with projections provided by CalPERS will be implemented in the next budget cycle.

Recommendation 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 budget.

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City Response:

The City of Villa Park will request OCFA and OCSD to provide five year projections for pension costs and their amortization policies. Risk information associated with these projections will be implemented in the next budget cycle.

Recommendation 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.

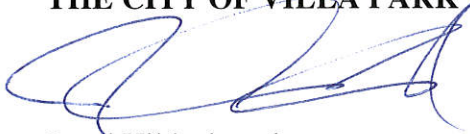
City Response:

The City of Villa Park will consult with CalPERS to clarify if this option can be implemented.

Thank you for affording us this opportunity to comment upon the findings and recommendations of the Grand Jury. I am pleased that our current practices are consistent with the 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) 998-1500.

Sincerely,

THE CITY OF VILLA PARK



Jarad Hildenbrand
City Manager