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September 16, 2014

*Office of the Mayor*

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

Re: 2013 – 2014 Orange County Grand Jury Report – Orange County City Pension Liabilities – Budget Transparency Critically Needed

Honorable Glenda Sanders, Presiding Judge:

Regarding the findings made by the 2013–2014 Orange County Grand Jury Report, “Orange County City Pension Liabilities – Budget Transparency Critically Needed”, the City of San Juan Capistrano is in agreement with the Grand Jury’s findings, with the exception of the following:

**Finding 4 – Locating city budget information on the city web site is not always straight forward and prior year budgets are sometimes not posted by a city.**

The City of San Juan Capistrano adopts two-year budgets which are posted on the City’s website. The City’s budget document includes prior year budgets. Also, available on the City’s website are the Quarterly Financial Reports from the year ended 2011 through the year ended 2014, Comprehensive Annual Financial Reports from the year ended 2005 through the year ended 2013 and the Single Audit Reports from the year ended 2004 through the year ended 2013. The year ended 2014 reports will be posted following the completion of the audit.

**Finding 5 – City budgets posted online project revenues and expenditures for at most two years and sometimes do not show prior year data.**

The City of San Juan Capistrano adopts a two-year budget which projects revenue and expenditures for two years and a 7-Year Capital Improvement Plan. Prior year data is included in the City’s budget documents which are posted on the City’s website.

In regards to the Grand Jury's Recommendations; Recommendation 5 and Recommendation 7 are not applicable to the City of San Juan Capistrano because it does not participate in a CalPERS pension plan. Below is the City's response for the remaining recommendations made by the Grand Jury.

**Recommendation 1 – Each city shall post its current and at least three most 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.**

The City's budgets are available on the City's website and are easily located by typing the word "budget" in the search engine. Prior year budgets from Fiscal Year 2004-2005 are posted on the City's website.

**Recommendation 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 and information in the current budget.**

The recommendation will be implemented with the adoption of the City's Fiscal Years 2016-2017 and 2017-2018 Budget. The five year projected revenues and expenditures will be reported separately at the fund summary level.

**Recommendation 3 – Each city budget should show separate line items for predicted employee and predicted employer contribution for the city pension systems.**

The City does not pay employee retirement contributions. The City's retirement contribution, which is the employer share only, is included in the budget. A footnote will be added indicating the City does not pay employee contributions in the City's next two-year budget for Fiscal Years 2016-2017 and 2017-2018.

**Recommendation 4 – Each city's budget should provide trend data on the accumulation/drawdown of reserves and provide details of the city's policy for the size of its reserves and the intended use of such reserve. In particular any discussion of reserves should address possible use of reserves to accelerate amortization of unfunded pension liabilities.**

The City partially agrees with Recommendation 4. Trend data on the accumulation/drawdown of reserves will be implemented with the adoption of the City's Fiscal Years 2016-2017 and 2017-2018 Budget. The City's budget already includes a description of the City's contingency reserves and funding policies and opportunities to pay down debt are evaluated with the adoption of each budget.

**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 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 on the city's budgets.**

The Orange County Fire Authority (OCFA) provides the City of San Juan Capistrano fire services and it contracts with the Orange County Sheriff's Department (OCSD) for police services.

The recommendation for the OCFA will not be implemented because it is not warranted or is not reasonable. The City's fire services are funded by property tax revenues paid to the Orange County Structural Fire Fund, which is exclusively utilized for the provision of fire protection services. The City does not outsource to or contract with the OCFA for these services and cannot independently decide to provide fire services differently. Consequently, the City does not include the cost of fire protection services in its budget.

The recommendation for OCSD will be implemented with the adoption of the Fiscal Years 2016-2017 and 2017-2018 Budget. The City has requested and received projections of future costs of service five years out. Additionally, these projections include projected pensions costs.

Should you have any questions, please do not hesitate to contact me at (949) 443-6315 or Cindy Russell, Chief Financial Officer at (949) 443-6301.

Sincerely,



Sam Allevato  
Mayor