



CITY OF YORBA LINDA

P.O. BOX 87014

CALIFORNIA 92885-8714

September 16, 2014

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

RE: Response to the Orange County Grand Jury report – *“Orange County City Pension Liabilities – Budget Transparency Critically Needed”*

Judge Sanders:

The City of Yorba Linda has reviewed the Orange County Grand Jury report titled *“Orange County City Pension Liabilities – Budget Transparency Critically Needed”* and has formulated a response to each of the required findings and recommendations as outlined on pages 35 – 37 of the report in compliance with Penal Code Section 933.05(a) and (b).

Finding 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.”

City’s Response

The City of Yorba Linda agrees with the finding.

Finding 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.”

City’s Response

The City of Yorba Linda disagrees partially with the finding. While Yorba Linda’s unfunded pension liability has increased overall since 2007, it has fluctuated (both increased and decreased) on a year over year basis when utilizing the market value of assets.

Finding 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.”

City’s Response

The City of Yorba Linda agrees with the finding.

Finding F4

“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’s Response

The City of Yorba Linda disagrees wholly with the finding. Yorba Linda’s current budget is easily found on the City’s website along with prior budgets going back five years.

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’s Response

The City of Yorba Linda disagrees partially with the finding. Yorba Linda’s budget includes data for three prior periods.

Finding F6

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

City’s Response

The City of Yorba Linda agrees with the finding. However, while Yorba Linda’s budget does not utilize footnotes throughout the document, the Budget Message at the beginning includes information related to key changes.

Finding F7

“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’s Response

The City of Yorba Linda agrees with the finding.

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, change unpredictably, and when they occur, are ramped up over two to five years.”

City’s Response

The City of Yorba Linda 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’s Response

The City of Yorba Linda agrees with the finding.

Finding 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.”

City’s Response

The City of Yorba Linda agrees with the finding. However, the number of Yorba Linda employees covered by PERS and enrolled as new members post-PEPRA is already at 10% (greater than just a few %).

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’s Response

The City of Yorba Linda disagrees wholly with the finding. The public can access the Annual Valuation Reports on the CalPERS website for all cities.

Finding 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.”

City’s Response

The City of Yorba Linda agrees with the finding. However, because Yorba Linda is a “Structural Fire Fund” city, fire services through OCFA are covered by property taxes which don’t actually flow through the City’s coffers. These property taxes go directly from the County of Orange to OCFA and therefore the City does not include fire service costs in its budget.

Recommendation 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 web site should have a search engine and a single search on the word “budget” should immediately link to the current budget.”

City’s Response

The recommendation has been implemented. The City of Yorba Linda already has the most recent budget plus the previous five years budgets on the website. These documents are easily located on the Finance Department page. A search on the word “budget” results in a link to the Finance Department page.

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’s Response

The recommendation has not yet been implemented. The City of Yorba Linda will consider implementing this recommendation in future budgets.

Recommendation R3

“Each city’s budget should show separate line items for predicted employee and predicted employer contributions for the city pension systems.”

City’s Response

The recommendation will not be implemented because employee contributions are not considered an obligation of the City and therefore should not be a part of the City’s appropriations. However, the City of Yorba Linda will consider other ways this information could be included in future budgets.

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’s Response

The recommendation has not yet been implemented. While the City of Yorba Linda’s budget already includes a discussion on the City’s reserve policy, the City will consider implementing the rest of the recommendation in future budgets.

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

City’s Response

The recommendation has not yet been implemented. The City of Yorba Linda will consider implementing this recommendation in future budgets.

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 budgets.”

City’s Response

The recommendation requires further analysis. The City of Yorba Linda can only *request* that OCSD provide five years of projected service costs which explicitly show pension costs and amortization of unfunded liabilities. In addition, because the City of Yorba Linda’s budget does not currently include costs for fire services (see response to Finding F12 above), that part of the recommendation related to OCFA projected costs will not be implemented.

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’s Response

The recommendation will not be implemented because CalPERS already posts the Annual Valuation Reports online and including a provision in the agreement is not necessary.

Should you have any questions or require any further information from the City of Yorba Linda, please feel free to contact our Assistant City Manager/Finance Director, David Christian at (714)961-7141 or dchristian@yorba-linda.org.

Sincerely,

A handwritten signature in black ink that reads "Craig Young". The signature is written in a cursive style with a large, looping "C" and "Y".

Craig Young
Mayor of Yorba Linda

Cc: Orange County Grand Jury