



CITY OF FULLERTON

Office of the Mayor and City Council

CITY COUNCIL

Mayor, Doug Chaffee
Mayor Pro Tem, Greg Sebourn
Jennifer Fitzgerald
Jan M. Flory
Bruce Whitaker

September 18, 2014

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

RE: City of Fullerton Response to Orange County Grand Jury Report
"Orange County City Pension Liabilities – Budget Transparency Critically Needed"

Dear Honorable Judge Sanders:

The City of Fullerton has reviewed the 2013-14 Orange County Grand Jury Report: "Orange County City Pension Liabilities – Budget Transparency Critically Needed" and provides the following response to the findings and recommendations.

Finding 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 reserves.

City Response: Agree

Finding 2. 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 Response: Agree

Finding 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.

City Response: Agree

Finding 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.

THE EDUCATION COMMUNITY

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City Response: Agree

Finding 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.

City Response: Agree

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

City Response: Agree

Finding 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.

City Response: Agree

Finding 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.

City Response: Agree

Finding 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.

City Response: Agree

Finding 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.

City Response: Agree

Finding 11. 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: Disagree. PERS posts valuation reports on its website for all agencies.

Finding 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.

City Response: The City does not contract with these agencies and has no comment.

The City has the following responses to the Grand Jury recommendations:

Recommendation 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.

City Response: The City already complies with this recommendation.

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 as information for the current budget.

City Response: City staff currently maintains a five-year projection of revenues and expenditures at the same level of detail as provided in the budget. The City agrees that this information should be included in the budget document and will comply with this recommendation in future publications.

Recommendation 3. Each city's budget should show separate line items for predicted employee and predicted employer contributions for city pension systems.

City Response: The City agrees and shall provide this information in future budget documents.

Recommendation 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.

City Response: The City's budget currently provides information on reserve levels and the City Council has a policy requiring a 10% General Fund reserve level. Staff plans to hold a budget workshop with the City Council later this year which will address recommended policies and reserve levels for other funds.

Recommendation 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.

City Response: The City currently provides the ARC information in the Comprehensive Annual Financial Report, but shall provide this information in future budget publications as well.

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 in the city's budgets.

City Response: This does not apply to the City of Fullerton.

Recommendation 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 Reports online.

City Response: CalPERS already posts this information online.

Thank you for affording the City the opportunity to comment on the findings and recommendations of the Grand Jury. Should you have any questions or require clarification regarding the City's responses herein, please do not hesitate to contact my office at 714.738.6311.

Sincerely,



Douglas B. Chaffee
Mayor

cc: Fullerton City Council
Joe Felz, City Manager
Julia James, Director of Administrative Services
Dave Baker, Foreman, 2013-14 Orange County Grand Jury