



CITY OF ORANGE

CITY MANAGER

PHONE: (714) 744-2222 • FAX (714) 744-5147

September 19, 2014

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

Re: City of Orange Response to Grand Jury Report: "Orange County City Pension Liabilities-Budget Transparency Critically Needed."

Dear Judge Sanders:

The following is the City of Orange's response to the findings and recommendations the Grand Jury's Report, "Orange County City Pension Liabilities-Budget Transparency Critically Needed." The City of Orange was asked to respond to Findings F.1 through F.12 and Recommendations R.1 through R.5 and R.7.

Finding

F.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 Revenues.

Response

The City of Orange is inclined to **agree** with this finding depending on the definition of "large." We would add that unfunded liability is being effectively managed.

Finding

F.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.

Response

The City of Orange **agrees** with this finding as it relates to CalPERS but has no information to agree or disagree as to OCERS

Finding

F.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.

Response

The City of Orange **agrees** with this finding.

Finding

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

Response

The City of Orange **does not agree** with this finding as it relates to the City of Orange's website. The City's current annual budget as well as past budgets are posted on the City's website under the Finance Department and City Manager's Office.

Finding

F.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.

Response

The City of Orange **does not agree** with this finding as it relates to the City of Orange's website. The City's current annual budget that is posted online reflects current year projected revenues and expenditures as well as the prior three years of estimated or actual revenues and expenditures.

Finding

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

Response

The City of Orange **does not agree** with this finding as it relates to the City of Orange's budget. While not included as "footnotes" on various revenue or expenditure worksheets, the City's annual budget document includes an extensive narrative section that explains key budget assumptions, risks and unusual changes. This narrative can be found as part of the City Manager's Budget Message in the front of the document.

Finding

F.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.

Response

The City of Orange **does not agree** with this finding as it relates to the City of Orange's budget. Found in the City Manager's Budget Message is a narrative related to the General Fund reserve as well as reserves for Internal Service Funds and reasons for adjustments in the reserve amounts.

Finding

F.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.

Response

The City of Orange **agrees** with this finding.

Finding

F.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.

Response

The City of Orange **agrees** with this finding as it relates to the City of Orange's budget that is posted online.

Finding

F.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.

Response

The City of Orange **agrees** with this finding.

Finding

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

Response

The City of Orange **disagrees** with this finding as it appears most, if not all, CalPERS Annual Valuation Reports for Miscellaneous and Safety City employees are available to the public online at <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>

Finding

F.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.

Response

The City of Orange does not possess the appropriate knowledge to agree or disagree with this finding as the City of Orange does not outsource to OCFA or OCSD.

Recommendations:

Recommendation

R.1: 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.

Response

The City's current annual budget as well as the past two years of budget documents are posted on the City's website with links from the Finance Department and City Manager's Office pages. The City will include additional prior year budgets to the website within the next year.

Recommendation

R.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.

Response

The recommendation requires further analysis to determine the benefits of a speculative projection. To be informative and accurate, any five year projection would have to be based on some known quantity of change rather than just a speculative number.

Recommendation

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

Response

The recommendation has not yet been implemented, but will be implemented within the next year.

Recommendation

R.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.

Response

The City of Orange's current budget includes much of the Grand Jury's recommendation. However, the remaining recommendations, primarily related to possible use of reserves to accelerate amortization of unfunded pension liabilities, require further analysis prior to implementation.

Recommendation

R.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.

Response

The recommendation requires further analysis. This information is obtained from CalPERS and is currently in the City's CAFR which may be transferred to the City's budget. Further study to determine the risks associated would be needed.

Recommendation

R.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.

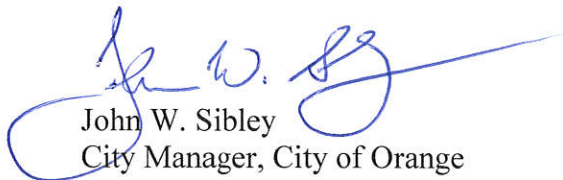
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Response

This is already being done by CalPERS as to the City of Orange.

Thank you for your service and efforts on behalf of the City of Orange. We hope this response will be helpful.

Sincerely,



John W. Sibley
City Manager, City of Orange

cc: The Orange County Grand Jury
700 Civic Center Drive West
Santa Ana, CA 92701