



September 20, 2014

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

**RE: "Orange County City Pension Liabilities-Budget Transparency
Critically needed"**

Dear Judge Sanders:

The City of Seal Beach 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 Seal Beach is providing the following information:

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 Response:

The City of Seal Beach 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 Response:

The City of Seal Beach agrees with the finding.

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 Response:

The City of Seal Beach 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 Response:

The City of Seal Beach agrees with the finding.

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 Seal Beach agrees with the finding.

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

City Response:

The City of Seal Beach agrees with the finding.

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 Response:

The City of Seal Beach 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 Response:

The City of Seal Beach 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 Seal Beach 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 Response:

The City of Seal Beach 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 Seal Beach agrees with the finding.

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 Response:

The City of Seal Beach agrees with the finding.

Recommendation R1: 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 of Seal Beach's current budget and prior year budgets are available online.

<http://www.sealbeachca.gov/departments/admin/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 Seal Beach does not have staff dedicated to budget preparation. City staff will endeavor to include future year projections within the next year's budget cycle.

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 Seal Beach currently provides one line item depicting the sum total of retirement contributions. However, each payroll cycle a separate liability account is used for both the employer and employee share. City staff will endeavor to split these retirement costs into separate accounts 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 Seal Beach's budget includes trend data and details for the uses of Unassigned and Assigned Fund Balances (reserves).

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 does not have a side fund.

As a result of the recently approved changes to pension risk pools by CalPERS the City's obligations are expected to increase by approximately \$286,000. The City pays 100% of the required contribution with each payroll cycle.

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 Response:

The City of Seal Beach does not currently provide a synopsis of the current benefit formula and retirement rates in its budget. City staff will endeavor to incorporate trend information for the CalPERS Annual Valuation Reports and risk information associated with projections provided by CalPERS in the next budget cycle.

Recommendation R6: Each city which outsources fire or police services to OCF A 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:

The City of Seal Beach will request OCFA and OCSD to provide five year projections for pension costs and their amortization policies. Since the receipt of this information is dependent upon the actions of another agency, City staff will include the risk information associated with these projections when available.

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 Seal Beach will consult with CalPERS to clarify if this option can be implemented. The City of Seal Beach will implement a practice of posting annual valuation reports on the Seal Beach website.

I am pleased that our current practices are consistent with the recommendations of the Grand Jury. Please contact Victoria L. Beatley, Director of Finance/City Treasurer at (562) 431-2527 x1311 if you have questions or need additional information.

Sincerely,

A handwritten signature in blue ink that reads "Jill R. Ingram". The signature is written in a cursive style with a large, stylized "J" and "I".

Jill R. Ingram
City Manager

Cc: Orange County Grand Jury
Seal Beach City Council