



CITY OF GARDEN GROVE

(714) 741-5060

September 23, 2014

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

RE: Response to Orange County Grand Jury Report, *Orange County City Pension Liabilities – Budget Transparency Critically Needed*

Dear Judge Sanders:

I have reviewed the Orange County Grand Jury Report, *Orange County City Pension Liabilities – Budget Transparency Critically Needed*. On behalf of the City of Garden Grove, I am providing responses to Findings F1 through F12, and Recommendations R1 through R5 and R7, as requested by the Grand Jury.

Response to Findings

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.*

The City agrees with this 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.*

The City agrees with this 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.*

The City agrees with this finding.

Bruce A. Broadwater
Mayor

Dina Nguyen
Mayor Pro Tem

Steven R. Jones
Council Member

Christopher V. Phan
Council Member

Kris Beard
Council Member

F4: *Locating city budget information on a city website is not always straightforward and prior year budgets are sometimes not posted by a city.*

The City disagrees wholly with this finding. Since fiscal year 2007-08, the City's annual budgets have been available on the City web page.

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.*

The City disagrees wholly with this finding. All City of Garden Grove annual budgets posted online contain a delineated section, which shows a 5-year forecast of operational and capital budgets.

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

The City disagrees wholly with this finding. The City of Garden Grove annual budget contains a transmittal letter that discusses unusual changes in the budgeted amounts, and extensively discusses the budget's underlying assumptions including risks, economic climate, major initiatives, and financial strategy that support the projected revenues and expenditures.

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.*

The City disagrees partially with this finding. The City of Garden Grove does not have a general reserve policy as described in the Grand Jury report. Instead, the City sets aside funds specific to identified needs, potential exposure and accrued liabilities via internal service funds mechanisms.

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.*

The City agrees with this 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.*

The City disagrees partially with this finding. The City agrees that its annual budget does not show details of the pension expenditures or the pension actuarial reports. However, the City's Comprehensive Annual Financial Report (CAFR), consistent with Governmental Accounting Standards Board requirements, provides a detailed discussion of the City's pension system that provides the link between pension obligations, current year expenditures, and actuarial reports. Copies of the City's CAFR beginning from fiscal year 2004/05 to present are posted on the City's website. The CAFR can be reviewed along with the budget to get a complete financial picture of the city.

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.*

The City agrees with this 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.*

The City agrees with this finding.

F12: *OCERS provides pension plans for OCFA and OCSD employees, but there is no way to trace through publicly available sources OCERS unfunded pension liabilities to the city budgets which outsource to OCFA and OCSD for fire and police services.*

This finding does not apply to the City of Garden Grove as the City does not have pension plans with OCERS.

Response to Recommendations

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. (See F1 and F4)*

The recommendation has been partially implemented. The City's annual budgets beginning from fiscal year 2007/08 to present are posted on the City website. The City will make necessary changes on its website to ensure that a single search on the word "budget" immediately links to the City's current year budget by December 31, 2014. Upon completion, the recommendation will be fully implemented.

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. (See F3, F2, F3, F5, F8, F10)*

The recommendation will not be implemented to the same level of detail as information for the current budget. This is due to the fact that the City adopts a one-year budget and does not have sufficient certainty and/or detail available to support the same line item structure going out five years. The City provides a delineated 5-year forecast section in the annual budget for all city funds revenues and expenditures. The 5-year operational and capital expenditure forecasts are presented in sufficient detail that in most part mirrors the presentation details of the annual budget.

R3: *Each city's budget should show separate line items for predicted employee and predicted employer contributions for the city pension systems. (See F8 and F9)*

The recommendation will not be implemented because it is not warranted. First, detailed information about the City's PERS obligations and annual required contribution amounts are disclosed in the City's Comprehensive Annual Financial Report so there is no need for this information to be shown in the budget as well. Secondly, PERS provides the City with an actuarial report that shows the required minimum employer contribution rate that serves as a basis for amounts included in that current year budget. The actuarial report also provides a projected employer rate for the following year, which PERS updates in such following year to reflect the actual required contribution rate.

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. (See F7)*

The recommendation will not be implemented because it is not warranted. The City of Garden Grove does not have a general reserve policy. Instead, the City sets aside funds specific to identified needs, potential exposures and accrued liabilities via an internal service funds mechanism. With regard to pension unfunded liability, the City intends to meet its pension obligations in accordance with the PERS actuarial valuation.

R5: *Each city using CalPERS for one or more of its pension plans should identify the names and dates of the 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. (See F1, F2, F8 and F9)

The recommendation will not be implemented because it is not warranted. The City prepares and adopts an annual budget, a plan of expenditures for the fiscal year, as opposed to a multi-year budget. Detailed discussion of the City's PERS obligations and annual required contribution amounts are disclosed in the City's Comprehensive Annual Financial Report (CAFR). This is largely information contained in the PERS actuarial valuation report. The City's CAFR should be read in conjunction with the City's Annual Budget to have a complete financial position and outlook of the City. Further, GASB 67 and GASB 68 effective fiscal year 2014 will require all municipal entities to expand reporting of unfunded pension liability information both on the face of the financials and in the CAFR.

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. (See F11)*

The recommendation will not be implemented because it is not warranted. The City plans to request that CalPERS provide an electronic copy of their Annual Valuation Reports to the City, which the City will post on its website.

Sincerely,



KINGSLEY OKEREKE
Assistant City Manager/Director of Finance

C: Orange County Grand Jury