



September 23, 2014

**Rigoberto A. Ramirez**  
*Mayor*

**Alexander A. Ethans**  
*Mayor Pro Tem*

**Brian Donahue**  
*Council Member*

**David J. Shawver**  
*Council Member*

**Carol Warren**  
*Council Member*

**James A. Box**  
*City Manager*

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 Stanton has reviewed the findings and recommendations of the Orange County Grand Jury report entitled, "Orange County City Pension Liabilities – Budget Transparency Critically Needed" and provides the following responses:

Finding F1: OC cities have large unfunded pension liabilities both in terms of absolute dollar value and on a per capita basis as a percentage of city General Fund revenues.

City Response:

The City of Stanton 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 Stanton 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 Stanton 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 Stanton partially disagrees with the finding. It may be difficult to find budget information on many cities' websites. Staff believes that budget information is displayed on the City of Stanton's website in a straightforward manner, with prior years' budgets also available.

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 Stanton partially disagrees with the finding. Other cities may not show prior year data, but the City of Stanton has consistently included data from the three previous years.

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

City Response:

The City of Stanton partially disagrees with the finding. Other cities' budgets may be lacking an explanation of key assumptions, and assumptions in budgets could be explained better through footnotes. However, the City Manager's Budget Message in the City of Stanton's budget document goes into great detail to explain key assumptions, risks and unusual changes in the economy, budgeted amounts, revenues and expenditures.

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 Stanton 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 Stanton 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 Stanton 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 the pension reform will not be realized for one or more decades.

City Response:

The City of Stanton partially disagrees with the finding. Many cities may only have a small percentage of New employees, but 19% of Stanton's employees are New. Stanton has few full-time employees so small turnover adds up quickly.

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 Stanton 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 OSCD for fire and police services.

City Response:

The City of Stanton 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 recommendation has been implemented. The City's current and prior years' budgets back to 2011 can be found at:

<http://www.ci.stanton.ca.us/Departments/Administrative-Services-and-Finance/City-Finance-Information>

Entering "budget" into the search engine reveals the budget documents on the first page of results.

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 recommendation has not yet been implemented, but will be partially implemented in the future. The City of Stanton will include five-year projections for revenues and expenditures in the next budget cycle for Fiscal Years 2015-2017.

However, completing a five year projection at the same level of detail as the budget would take a significant amount of resources that the City does not have. In addition, financial information is constantly adjusting. As such, despite approving a two-year budget, the City adjusts the budget for the second fiscal year and even annually approves a mid-year budget adjustment. In our opinion, attempting to continuously update five year budget information at a granular level of detail would be a misuse of precious public resources.

Recommendation R3: Each city's budget should show separate line items for predicted employee and predicted employer contributions for the city pension system.

City Response:

The recommendation has not been implemented, but will be implemented in the future. The City of Stanton currently provides one line item depicting the sum total of benefit contributions. While the budget only reflects the costs of the City, a supplemental schedule that breaks down the retirement costs between employer and employee contributions will be implemented in the next budget cycle for FY 2015-2017.

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 recommendation has not yet been implemented, but will be partially implemented in the future. The City of Stanton's budgets have previously included a ten-year look-back of Unreserved Fund Balance by fiscal year. A schedule showing trend data for the accumulation/drawdown of reserves will be implemented in the next budget cycle for FY 2015-2017. A policy regarding the size and intended use of the City's reserves will be implemented in the next budget cycle for FY 2015-2017.

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. As a result of being in a Risk Pool, any contributions the City makes to its Risk Pool to reduce unfunded pension liabilities would be shared with the other members of the pool. As such, at this time the City does not have the ability to dramatically pay down its unfunded liability. The City will be in discussions with CalPERS to determine if a mechanism to reduce its unfunded pension liabilities will be possible in the future.

The City does have a side fund in excess of \$500,000 with CalPERS that could be paid off directly. A discussion of the advance payoff of the side fund will be included in the next budget cycle for FY 2015-2017.

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 recommendation has not yet been implemented, but will be implemented in the future. The City will be including a supplemental schedule that splits the retirement costs between the employer and employee contribution in the next budget cycle for FY 2015-2017. That schedule will also include the names and dates of CalPERS Annual Valuation Reports and separate expenditure line item for predicted city catch-up contributions based on their Annual Required Contributions.

Recommendation R6: Each city which outsources fire or police services to OCFA and/or OCSA 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 Stanton will request OCFA and OCSD provide five year projections for pension costs and their amortization policies. Risk information associated with these projections will be implemented in the next budget cycle for FY 2015-2017.

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.

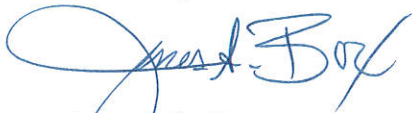
City Response:

This recommendation has not yet been implemented, but will be partially implemented in the future. The City of Stanton will consult with CalPERS to clarify if this option can be implemented.

The City receives an Annual Valuation Report from PERS in October of each year. In the past the City has not posted the report online but based on the Grand Jury's recommendations, the City will begin posting when the October 2014 report is received.

The City of Stanton would like to express its appreciation for the efforts of the Orange County Grand Jury. The City of Stanton is committed to public disclosure and transparency in its governmental affairs. Please contact Stephen Parker, Director of Administrative Services at (714) 890-4226 or [sparker@ci.stanton.ca.us](mailto:sparker@ci.stanton.ca.us) if you have questions or need additional information.

Sincerely,



James A. Box  
City Manager

Cc: Orange County Grand Jury