



CITY OF DALY CITY

Sent Via Email: grandjury@sanmateocourt.org

November 5, 2019

Hon. Donald J. Ayoob
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Re: 2018-2019 County of San Mateo Civil Grand Jury Report "Soaring City Pension Costs – Follow-up on Grand Jury Report of 2017 – 2018"

Dear Judge Ayoob,

We are in receipt of the Grand Jury's final report "Soaring City Pension Costs – Follow-up on Grand Jury Report of 2017-2018." Pursuant to your July 29, 2019 request for response, the City Council of Daly City held a public meeting on October 28, 2019 and approved this response. The City of Daly City responds to the Grand Jury's findings, conclusions and recommendations as follows:

Findings:

F1. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined covered payroll for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

Response: The City agrees with the finding.

F2. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined contribution payments to CalPERS on the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

Response: The City agrees with the finding.

F3. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined Unfunded Liabilities (as defined in this report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A. Each City has been required to make large Amortization Cost (as defined in this

report) payments of principal and interest to CalPERS on those Unfunded Liabilities. These payments have diverted money that could otherwise have been used to provide public services or to add to reserves.

Response: The City agrees with the finding.

- F4. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined Funded Percentages (as defined in the prior report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

Response: The City agrees with the finding.

- F5. Each City's audited annual financial report for the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018 reported what the combined Unfunded Liabilities (as defined in the prior report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 would have been if the applicable Discount Rate applied to calculate them had been one percentage point lower in the amount set forth beside its name for that year in Appendix A.

Response: The City agrees with the finding.

- F6. Each City's audited annual financial report for the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018 reported general fund total expenditures 650 Woodside, Proposed Budget Fiscal Years 2019-21, Budget Overview, p. 8. 2018-2019 San Mateo County Civil Grand Jury 73 for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

Response: The City agrees with the finding.

- F7. In each of the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017 and June 30, 2018, each City's combined contribution payments to CalPERS on the City's pension plans represented the percentage of that City's general fund total expenditures for that year set forth beside its name for that year in Appendix A in the column entitled "Contribution Payments as % of General Fund Total Expenditures."

Response: The City agrees with the finding.

- F8. In each of the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017 and June 30, 2018, each City's combined contribution payments to CalPERS on the City's pension plans represented the percentage of that City's combined

covered payroll for the City's pension plans in the amount set forth beside its name for that year in Appendix A in the column entitled "Contribution Rate (i.e., Contribution Payments as % of Covered Payroll)."

Response: The City agrees with the finding.

Projections of Future City Pension Costs

- F9. Each of Colma, Daly City, Foster City, Hillsborough, and Redwood City includes in its annual, or bi-annual budgets published on its public website, projections showing the annual dollar amount of its projected pension contribution costs for the next five or more years. None of the other Cities do so.

Response: The City agrees with the finding.

- F10. Neither Atherton, Brisbane, nor Portola Valley have published, anywhere on their public website or their agenda packages for city council meetings, projections showing the annual dollar amount of their projected pension contribution costs for the next five or more years.

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

- F11. The only way to find projections showing the annual dollar amount of the following Cities' projected pension contribution costs for the next five or more years on their public websites is by manually searching through agenda packages for their city council meetings: Belmont, Burlingame, East Palo Alto, Half Moon Bay, Menlo Park, Millbrae, Pacifica, San Bruno, San Carlos, San Mateo, South San Francisco and Woodside.

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

Long-Term Financial Forecasts

- F12. Each of Colma, Daly City, Hillsborough, Menlo Park, Pacifica, Redwood City, San Mateo, South San Francisco and Woodside has a general fund operating budget forecast covering a ten-year period. Of those nine, only Colma, Hillsborough, Menlo Park, Redwood City, San Mateo, and Woodside make those forecasts accessible to the public in their most recent annual or bi-annual budgets or annual financial reports published on their public websites.

Response: The City agrees with the finding.

- F13. The only way to find the ten-year general fund operating budget forecasts on the public websites of Pacifica and South San Francisco is by manually searching through agenda packages for their City Council meetings.

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

- F14. Daly City's ten-year general fund operating forecast is not accessible to the public through its public website.

Response: The City agrees with the finding.

- F15. Each of Atherton, Belmont, Brisbane, Burlingame, Foster City, Half Moon Bay, San Bruno and San Carlos has a general fund operating budget forecast covering only a five-year period. Of those eight, only Belmont, Foster City, Half Moon Bay, San Bruno and San Carlos make the forecasts available to the public in their most recent annual or biannual budgets or annual financial reports published on their public websites.

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

- F16. The only way to find the five-year general fund operating budget forecasts on the public websites of Atherton and Burlingame is by manually searching through agenda packages for their City Council meetings.

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

- F17. Brisbane's five-year general fund operating forecast is not accessible to the public through its public website.

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

- F18. Neither East Palo Alto, Millbrae, nor Portola Valley has a general fund operating forecast that extends beyond the fiscal years covered in its most recent annual or bi-annual budget.

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

Plans to Make Additional Payments to CalPERS Beyond Annual Required Contributions

- F19. Each of Belmont, Colma, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, and San Mateo has made, or currently has a specific plan to make, additional pension contribution payments to CalPERS beyond its Annual Required Contribution.

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

- F20. Neither Atherton, Brisbane, Burlingame, Daly City, East Palo Alto, Half Moon Bay, Hillsborough, Millbrae, Pacifica, Portola Valley, San Bruno, South San Francisco nor Woodside currently has a specific plan recommended by staff to the City or Town Council (as applicable) to make additional pension contribution payments to CalPERS beyond its Annual Required Contribution.

Response: The City agrees with the finding.

Establishment of Reserves or Section 115 Trusts for Future Pension Payments

- F21. Each of Brisbane, Burlingame, Colma, Daly City, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Pacifica, Portola Valley, Redwood City, San Carlos, South San Francisco and Woodside has set aside internal reserves, or contributed funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs.

Response: The City agrees with the finding.

- F22. Neither Atherton, Belmont, East Palo Alto, Millbrae, San Bruno, nor San Mateo currently has a specific plan recommended by staff to the City or Town Council (as applicable) to set aside internal reserves, or to contribute funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs.

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

Employee Cost-Sharing to Help Pay Cities' Pension Costs

- F23. Each of Atherton, Belmont, Burlingame, Foster City, Hillsborough, Menlo Park, Millbrae, Pacifica, Redwood City, San Mateo and South San Francisco has, or currently intends to seek, one or more cost-sharing agreements with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS.

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

- F24. Neither Brisbane, Colma, Daly City, East Palo Alto, Half Moon Bay, Portola Valley, San Bruno, San Carlos nor Woodside has, or currently intends to seek, one or more cost-sharing agreements with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS.

Response: The City agrees with the finding.

Revenue Enhancement Ballot Initiatives by Cities

F25. Each of Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Redwood City and South San Francisco have, since November 2016, sought and obtained voter approval for ballot measures intended to increase revenues.

Response: The City agrees with the finding.

F26. Each of Half Moon Bay, Pacifica, Redwood City, and San Bruno are currently considering seeking approval of their voters for revenue enhancement measures in the near term.

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

F27. Neither Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Hillsborough, Menlo Park, Millbrae, Portola Valley, San Carlos, San Mateo, South San Francisco, nor Woodside is currently considering seeking approval of its voters for revenue enhancement measures in the near term.

Response: The City agrees with the finding.

Recommendations

R1. Each City include in its published annual or bi-annual budgets a general fund operating budget forecast for the next ten fiscal years.

Response: The City will include this information in the FY 2021/FY 2022 biennial budget and in subsequent fiscal years.

R2. Each City include a report in its published annual or bi-annual budgets specifically setting forth the dollar amounts of its annual pension costs paid to CalPERS. The report should include the following:

- a) The City's total pension contribution costs under all plans, for each of the three preceding fiscal years as well as estimates for such costs in each of the following ten fiscal years (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.

Response: The City will include this information in the FY 2021/FY 2022 biennial budget. Attachment A is a table of the information that will be included.

- b) The City's total Unfunded Liabilities under all plans, for each of the three preceding fiscal years as well as estimates for such Unfunded Liabilities in each of the next ten fiscal years, (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.

Response: The City will include this information in the FY 2021/FY 2022 biennial budget. Attachment A is a table of the information that will be included.

- c) The City's Funded Percentage across all plans, for each of the three preceding fiscal years as well as estimates for such Funded Percentages in each of the next ten fiscal years, assuming CalPERS' actuarial assumptions are met.

Response: The City will include this information in the FY 2021/FY 2022 biennial budget. Attachment A is a table of the information that will be included.

- d) The percentage of the City's general fund expenditures, and the percentage of the City's covered payroll, represented by the pension costs described in (a) above (using estimates of general fund expenditures in future fiscal years).

Response: The City will include this information in the FY 2021/FY 2022 biennial budget. Attachment A is a table of the information that will be included.

The City of Daly City appreciates the opportunity to provide written responses to the 2018-2019 County of San Mateo Civil Grand Jury Report "Soaring City Pension Costs – Follow-up on Grand Jury Report of 2017 – 2018"

Should you or the Grand Jury require any additional information, please contact me directly at (650) 991-8127.

Very truly yours,



Shawna Maltbie
City Manager

cc: City Council
Annette Hipona, City Clerk
Rose Zimmerman, City Attorney

Attachment A: Pension Obligations Summary for the City of Daly City

(all numbers in thousands)

	FY 2017	FY 2018	FY 2019
Total Pension Contributions	\$11,631	\$13,132	\$15,003
Total Unfunded Liabilities	\$139,861	\$164,352	\$154,618
Total Funded Percentage	75.7%	74.1%	76.0%
General Fund Expenditures	\$77,139	\$77,663	\$80,923
Pension Contributions as a Percent of General Fund Expenditures	15.1%	16.9%	18.5%
Covered Payroll	\$43,398	\$42,809	\$43,418
Pension Contributions as a Percent of Covered Payroll	26.8%	30.7%	34.6%
	<i>Actual</i>	<i>Projected</i>	