



CITY OF DALY CITY

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September 26, 2011

Honorable Joseph E. Bergeron
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

RE: 2010-2011 Civil Grand Jury Report: Running on Empty?

Dear Judge Bergeron:

On behalf of the City Council of Daly City, I have been requested to submit the following response to the Grand Jury findings and recommendations pertaining to the above-referenced report. The City Council approved this response at a public meeting held on September 26, 2011. The Findings and each of the Recommendations of the Grand Jury's report is addressed below.

FINDINGS:

1. The amount of financial information cities and the County make available on their respective public websites varies widely, ranging from a minimum of just the current year's budget to the last ten years of both Comprehensive Annual Financial Reports (CAFRs) and Approved Annual Budgets.

Response: Concur with the finding.

2. Government accounting systems and financial statements provided to the public are complex and not readily understandable to the average citizen trying to assess the financial health of their city or County.

Response: The City neither agrees nor disagrees with this finding, as there is enough flexibility in what supplemental information is presented that a City's or County's CAFR can be reasonably informative to the average citizen. Additionally, all financial statements by their nature require a certain level of knowledge in order to be properly interpreted. The implication that there is a simple way to make them more understandable is in itself an oversimplification.

3. Four cities (Brisbane, Colma, Pacifica, and Portola Valley) did not have 2010 CAFRs posted to their websites as of March 11, 2011, almost nine months after the close of the fiscal year.

Response: The City neither agrees or disagrees as the finding does not pertain to Daly City.

4. All cities and the County had Unreserved General Fund Balances (reserves) consistent with GASB 34 recommended standards going into the recession, and have managed through the last three years in a way that maintained reserves on June 30, 2010 that were still above those minimum levels.

Response: Concur with the finding.

5. All cities and the County maintained GASB 34 minimum recommended levels of reserves, whether or not they had city council approved policies requiring maintenance of defined levels of reserves.

Response: Concur with the finding.

6. Some city policies are written to apply to "reserves" and not explicitly to the unreserved component of them as recommended by GASB 34. This allows for inclusion of funds not available for discretionary spending.

Response: Concur with the finding.

7. All cities complied with their own policies (where policies existed) from 2007-10 with respect to reserves, even in those few cases where those policies required higher levels than those recommended by GASB 34.

Response: Concur with the finding.

8. Confusion as to how governments categorized and interpreted what portion of fund balance was available for discretionary spending led to development of a new GASB 54 standard; effective for all financial statements after June 30, 2011, which provides more structure and clarity around constraints placed on fund balances. San Mateo County implemented GASB 54 early, with the new terminology reflected in its FY 2010 CAFR. No cities in San Mateo County implemented early.

Response: Concur with finding as it pertains to Daly City.

9. One city (Millbrae) had a Running Liquidity below 90 days.

Response: Neither agree or disagree with this finding as it pertains solely to the City of Millbrae.

10. All cities and the County are fully funding their Annual Required Contribution to CALPERS or SamCERA for retiree pension funding.

Response: Concur with finding as it pertains to Daly City.

11. Ten participating cities are not making their full actuarially determined OPEB payments for retiree health care benefits, with three cities (Atherton, Brisbane, Foster City) having paid at less than an average of 25 percent for the last two years.

Response: Concur with the finding as it pertains to Daly City.

Recommendations:

A. The San Mateo County Board of Supervisors and each City Council, by July 1, 2012:

- 1. Either revise the existing or implement a new policy for specific levels of reserves using language consistent with the new GASB Statement 54 hierarchy.***
 - a. Establish in the policy the required level of General Fund Balance for classifications that are spendable within the complete control of the government's local decision making authority.***
 - b. Require in the policy development of specific plans to restore the required level of reserves in the event they fall below that level.***
 - c. Include the policy in the annual CAFR and budget documents.***

Response

- a.) This recommendation has been **implemented**. On June 27, 2011, the City Council adopted a policy that incorporates the language and hierarchy of Governmental Accounting Standard Board (GASB) Statement No. 54 for its reporting of fund balances in the CAFR. Further, the City's reserve policy has been in effect for a number of years, has been included in the published budget document, and conforms to best practices for governmental accounting.

"Adequate reserves will be maintained in each of the City's funds to provide for cash flow needs as well as for unexpected emergencies. Levels will be adjusted as required to reflect current and anticipated economic conditions. This includes taking cash flow into account, and will use the low point for cash (normally the end of November before the twice per year receipt of property tax revenues) to determine available cash. Nominally a cash reserve of 15 percent of annual expenditures for the General Fund is considered adequate. Other funds vary from this norm because of circumstances and future needs for things like infrequent large purchases."

- b.) Additional wording to be added to the reserve policy, such as "Should the level of reserves fall below a level that is less than that which is considered appropriate given the economic circumstances, the City will develop specific plans for returning reserve levels to an adequate amount." will be brought to the City Council for its consideration, approval and implementation in advance of July 1, 2012.

c.) This recommendation **will be implemented** with the issuance of the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. The City will refer to its fund balance policy in the note disclosures and in the Management Discussion and Analysis per GASB 54 guidelines.

2. *Direct their City/County Managers to direct their Finance Directors to collaboratively develop a standard "scorecard" that shows how the city/County is doing with respect to key measures of fiscal health and make this available on city/County websites. Update it at least semi-annually or when major changes occur.*

Response

This recommendation **will not be implemented**, as the City does not agree that development of a standard "scorecard" as put forth by the Grand Jury would be productive in achieving a better understanding of a government's financial health.

The City's financial reporting and budgeting conforms to national standards promulgated by recognized standards setting bodies for governmental accounting. Such governing bodies exist so that governmental reporting is performed in a consistent manner that allows, to the greatest extent possible, comparability among governmental agencies.

The complexities of government accounting, as acknowledged by the Grand Jury, are a major factor necessitating the existence of these national standards setting bodies. Creating new standards that are unique to one small geographic area is exactly what such national standards seek to avoid.

3. *Direct their City/County Managers to formally evaluate the value of a clearly defined Running Liquidity metric as an additional measure of the city/County's fiscal health with specific target minimums, and make a specific recommendation back to the City Council or Board of Supervisors for action.*

Response

This recommendation **will not be implemented**, as the City does not agree that development of an additional calculated metric would provide added value in measuring the City's fiscal health. As stated above, the City's financial reporting conforms to national financial accounting standards as applied to government. This reporting is considered completely adequate to inform readers of the City's financial condition.

Creating such a simplified single metric to judge the financial health of an organization that is not generally recognized, has not been vetted in a national forum, and that may be easily misunderstood, is potentially misleading. To understand the financial condition of any entity requires a higher level of effort and understanding, and should include all the information included in the CAFR and the budget document. Transmittal letters, Management's Discussion and Analysis, actual financial results with comparisons to budgets, and discussions of economic impacts and trends are all essential to a full understanding of financial condition.

In addition, the report by the City's independent auditors is required to contain disclosures of findings that are serious enough to give concern about the financial health of the City and its ability to continue as a going concern.

B. The City Councils of Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Bruno, San Mateo, and South San Francisco by July 1, 2012:

- 1. Explain in the CAFR Management Notes, Annual Budget, or other appropriate document available to the public why full annual required OPEB payments are not being made.***

Response

This recommendation will be implemented in the CAFR for the year ended June 30, 2011.

- 2. Explain in the CAFR Management Notes, Annual Budget, or other appropriate document available to the public the city's planned strategy for addressing accumulated unfunded retiree healthcare obligations.***

Response

This recommendation will be implemented in the CAFR for the year ended June 30, 2011.

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

Sincerely,



Patricia E. Martel
City Manager