



Town of Atherton

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September 19, 2019

Honorable V. Raymond Swope
Judge of the Superior Court
C/O Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA. 94063-1655

SUBJECT: GRAND JURY REPORT "Soaring Pension Costs-Follow-Up On Grand Jury Report 2017-18"

Dear Hon. V. Raymond Swope:

Attached please find the Town of Atherton's response to the above Grand Jury Report. Pursuant to California Penal Code Section 933.05, the response was considered by the City Council at a public meeting on September 18, 2019.

Should you have any questions concerning the response, please contact City Manager George Rodericks at (650) 752-0504.

Sincere Regards,

TOWN OF ATHERTON

William R. Widmer
Mayor

RESPONSE TO GRAND JURY REPORT

Report Title: "Soaring City Pension Costs-Follow Up On Grand Jury Report 2017-2018"

Report Date: July 30, 2019

Response by: Town of Atherton

By: Bill Widmer, Mayor

The Town of Atherton is responding to each Finding solely with respect to itself and not regarding any other City.

FINDINGS:

- We agree with the findings of numbers: F1, F2, F4, F5, F6, F7, F8, F11, F12, F13, F14, F15, F17, F18, F19, F21, F23, F24, F25, F26, F27
 - For those items describing methodology for accessing information in other jurisdictions, the Town agrees with the findings of the Grand Jury only to the extent of the information provided within the Grand Jury Report. The Town has not independently accessed the websites or data of other jurisdictions.

- We somewhat agree, disagree wholly or partially with the findings numbered: F3, F9, F10, F16, F20, F22

RECOMMENDATIONS:

Recommendation numbered R1, R2 will take under advisement and implement when feasible.

FINDINGS

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.

F3 Response: The Town of Atherton agrees with the finding that it has been required to make large amortization cost payments of principal and interest to CalPERS on our unfunded liabilities. However, the disagrees that these funds have diverted money that could have been used to provide public services or add to reserves. Personnel costs are part of the cost of a service driven industry and while funds could always be spent elsewhere, these funds were not "diverted" from other specific projects or services. The Town operates in a fiscally conservative manner and operates with a surplus each fiscal year.

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.

F9 Response: The Town of Atherton discusses annual dollar amount pension contribution cost projections with the Town Finance Committee and during its annual budget study sessions with the City Council. These projections extend over five years.

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.

F10 Response: The Town of Atherton discusses annual dollar amount pension contribution cost projections with the Town Finance Committee and during its annual budget study sessions with the City Council. These projections extend over five years. These meetings are public meetings with publicly posted agendas on the Town's website. These meetings are also typically video-recorded.

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.

F16 Response: The Town of Atherton disagrees with the finding. The Town produces a General Fund five year forecast that is part of its annual budget study session discussions. These study sessions are posted on the Town website for City Council meetings.

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.

F20 Response: The Town of Atherton disagrees with the finding. The Town over the years through its Finance Committee has explored long term financial plans to provide opportunities the City Council can consider paying down pension liabilities and mitigate investment volatility. Every year we review the CalPERS pension actuarials and risk analysis tools to estimate the Town Contributions payments toward unfunded liabilities, Employer normal cost rates, and an outlook on paying down liabilities. Currently the Town anticipates making only its Annual Required Contributions.

The Town has explored the following:

➤ **Consideration of additional contributions to CalPERS beyond required UAL to lower our payroll normal costs. This will accelerate funding based on alternative amortization schedules in the valuation reports;**

- **Decision to accumulate reserves and establish an Internal Service Fund to make a singular significant contribution to CalPERS when the Town sees prudent;**
- **The Town established an Irrevocable Supplemental Trust that can be used to reimburse for CalPERS contributions or make payments directly to CalPERS;**
- **Setting of a funding target for unfunded liabilities versus continuing pay as we go based on CalPERS valuation reports.**

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.

F22 Response: The Town of Atherton disagrees. In 2018, the Town of Atherton approved setting up an Irrevocable Trust with PARS that can be used to reimburse CalPERS contributions or make payments directly to CalPERS. No funds have yet been directed to this Trust.

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.

R1 Response: The Town reviews its pension cost every year in public meetings with the Town Finance Committee and City Council. The Town believes that forecast revenue and expenditures over 10 years will not be accurate and may have a tendency to be highly speculative. The Town does a 5-year forecast that it believes is more appropriate in providing an accurate forecast while gauging current trends and operations. Pension liabilities are reviewed during budget study sessions, its annual audit, and presentation of financials statement at City Council. Paying down of long-term liabilities is a Town core strategy of maintaining financial stability as the Town has taken steps to address pension costs in the long term. The Town supports reviewing pension obligations annually and projecting costs and looking for opportunities to pay down long term liabilities. The Town has explored most of the options of policies and or implementation measures provided in the Grand Jury Report and will take others under advisement where feasible.

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:

- 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.
- 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.

- 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.
- 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).

R2 Response: The Town supports reviewing pension obligations annually and projecting costs in future fiscal years. The Town will take under advisement the recommendations above and project costs in future years in a matter that is feasible and allows the Town to identify opportunities to pay down its pension obligations.