

October 7, 2019

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

Honorable Judge Ayooob –

Thank you for the opportunity to review and comment on the Grand Jury Report: “Soaring City Pension Costs – Follow-up Grand Jury Report of 2017-2018” filed on July 29, 2019. The City of San Mateo’s responses to both the findings and recommendations are listed below. This response was approved by the City Council at a public meeting held on October 7, 2019.

Response to Grand Jury 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 of San Mateo agrees with this 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 of San Mateo agrees with this 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 of San Mateo partially disagrees with this finding.

This is simply a point of clarification. The values listed for the unfunded liability for each year are actually the value of the unfunded liability, as defined by GASB 68, for the applicable measurement period, which happens to be one year earlier. Ultimately, the unfunded liability numbers agree with the values in the City's CAFR; the City just wants to clarify that the unfunded liability values listed under each year are attributable to a measurement period that ties to the previous fiscal year.

- 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 of San Mateo partially disagrees with this finding.

Same clarification as item F3. Otherwise, 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 of San Mateo partially disagrees with this finding.

Same clarification as item F3. Otherwise, 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 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 of San Mateo agrees with this 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 of San Mateo agrees with this 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 of San Mateo agrees with this 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 of San Mateo partially disagrees with this finding, as projections for General Fund pension costs over the next ten years are included in the City's long-term financial plan, which is included in the Adopted 2019-20 Budget document..

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: Not applicable to the City of San Mateo.

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: The City of San Mateo agrees with this finding.

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 of San Mateo agrees with this finding, only as it relates to the City of San Mateo.

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: Not applicable to the City of San Mateo.

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

Response: Not applicable to the City of San Mateo.

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 bi- annual budgets or annual financial reports published on their public websites.

Response: Not applicable to the City of San Mateo.

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: Not applicable to the City of San Mateo.

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

Response: Not applicable to the City of San Mateo.

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: Not applicable to the City of San Mateo.

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: The City of San Mateo agrees with this finding, only as it relates to the City of San Mateo.

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: Not applicable to the City of San Mateo.

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: Not applicable to the City of San Mateo.

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: The City of San Mateo partially disagrees with this finding. The City's strategic plan to address its pension liability is to pre-pay the annual lump sum unfunded accrued liability (UAL) contribution and make Additional Discretionary Payments (ADP) to CalPERS. From the City's perspective, the most direct method of addressing unfunded pension liability is through making ADPs. The City Council has a goal to eliminate the City's unfunded pension and Other Post-Employment Benefits (OPEB) liabilities by no later than 2050.

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: The City of San Mateo agrees with this finding.

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: Not applicable to the City of San Mateo.

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: Not applicable to the City of San Mateo.

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: Not applicable to the City of San Mateo.

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 of San Mateo disagrees with this finding.

The City presented revenue enhancement options to Council during a public hearing on March 18, 2019. With Council direction, community polling is planned for the first quarter of fiscal year 2019-20, with potential placement of tax revenue enhancement measures in November 2020.

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: This recommendation has been implemented by the City of San Mateo.

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.
- 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.
- 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.
- 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: While this recommendation has not yet been implemented in the City's published budget, it has been implemented as part of the mid-year financial update public hearing to the City Council and included as an attachment to the administrative report. Pursuant to this recommendation, the City will include this information as part of its published budgets beginning with the 2020-22 Business Plan.

Respectfully,

Diane Papan,
Mayor – City of San Mateo