



Town of Atherton

91 Ashfield Road
Atherton, California 94027
Phone: (650) 752-0500
Fax: (650) 688-6528

August 18, 2011

DRAFT

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

Re: Running on Empty

Dear Judge Bergeron:

The Town of Atherton reviewed the Grand Jury's June 27, 2011 report titled "Running on Empty?" and would like to provide the following responses approved by the City Council at its regular meeting of August 17, 2011.

A.1 By July 1, 2012, the San Mateo County Board of Supervisors and each City Council will 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.

The recommendation has been implemented. On June 15, 2011, the City Council of the Town of Atherton adopted a new Fund Balance Policy that incorporates the language and hierarchy of GASB 54.

b. Require in the policy development of specific plans to restore the required level of reserves in the event they fall below that level.

The Town partially disagrees with a requirement to develop specific plans to restore reserves to the required level. The Town's new Fund Balance Policy establishes a committed fund balance for emergency disaster and a minimum required level of General Fund unassigned fund balance.

c. Include the policy in the annual CAFR and budget documents.

Honorable Joseph E. Bergeron

Page 2

August 18, 2011

The recommendation will be implemented with the issuance of the Town's financial statements for the fiscal year ended June 30, 2011. The policy will also continue to be included in future budget documents.

A.2 By July 1, 2012, the San Mateo County Board of Supervisors and each City Council will 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.

The Town agrees that metrics should be developed to measure fiscal health; however, the Town will not implement the recommendation. The Town believes and would like to recommend that the Grand Jury forward its recommendation to the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA) for their discussion and action. The GASB sets and improves governmental accounting reporting standards including supplementary information on overall financial health.

A.3 By July 1, 2012, the San Mateo County Board of Supervisors and each City Council will 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.

The Town places great emphasis on liquidity in its adopted Fund Balance Policy by committing 15% of actual annual General Fund expenditures for emergency disaster and at least 20% in unassigned fund balance. As a result, the recommendation will not be implemented. The Town would like to advocate for the GASB and GFOA to develop a clear definition and approach for measuring liquidity.

D.1 By July 1, 2012, the City Councils of Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Bruno, San Mateo, and South San Francisco are to explain in CAFR Management Notes, Annual Budget, or other appropriate document available to the public why full annual required OPEB payments are not being made.

The recommendation has been implemented. The Town funded 100% of the Annual Required Contribution (ARC) for fiscal years 2010 and 2011. The prefunding was set aside in an Internal Service Fund. Due to the fact that the Town has not yet placed the ARC in an Internal Revenue Service (IRS) approved Section 115 irrevocable trust, the Town is not allowed under GASB 45 to reduce the OPEB obligation by the amounts of ARC. On July 20, 2011, at its regular meeting, the City Council accepted the

Honorable Joseph E. Bergeron

Page 3

August 18, 2011

recommendation of the Audit Committee and has directed the Finance Committee to make a recommendation on the trust provider.

D.2 By July 1, 2012, the City Councils of Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Bruno, San Mateo, and South San Francisco are to explain in CAFR Management Notes, Annual Budget, or other appropriate document available to the public the city's planned strategy for addressing accumulated unfunded OPEB retiree healthcare obligations.

The City Council, as a part of its budgeting policy, is committed to prefunding the OPEB ARC and has done so for FY 2010 and FY 2011.

Sincerely,

James Dobbie
Mayor



August 9, 2011

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

RE: City of Belmont Response to 2011 San Mateo Grand Jury Report:
"Running on Empty?"

Dear Judge Bergeron:

The City of Belmont has reviewed the Grand Jury's June 27, 2011 report entitled "Running on Empty?" and has prepared the following response. This response was approved by the City Council at its regular meeting of August 9, 2011.

The City's response to the findings and recommendations are as follows:

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 Financial Report (CAFRs) and Approved Annual Budgets.

City's Response: Agree.

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.

City's Response: Partially Disagree – the City of Belmont goes to great efforts to provide meaningful and timely financial information which is understandable to the general public. In particular, the City utilizes its website and public agendas for this purpose. Further, the City takes great care in writing its Management Discussion & Analysis (MD&A) so that it is readable.

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.

City's Response: Agree.

4. All cities and the County had Unreserved General Fund Balances (reserves) consistent with GASB34 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.

City's Response: Agree.

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.

City's Response: Agree.

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.

City's Response: Partially Disagree - GASB 34 does not require a fund balance policy. It requires that fund balance is segregated into Reserved and Unreserved categories.

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.

City's Response: Agree.

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.

City's Response: Agree.

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

City's Response: Agree.

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

City's Response: Agree.

11. Ten participating cities (Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Mateo, San Bruno, South San Francisco) 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.

City's Response: Agree.

Recommendations

The San Mateo County Board of Supervisors and each City Council, by July 2, 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.

City's Response: Implemented – GASB Statement 54 was adopted on June 14, 2011, and, by reference, includes language that compliance will occur with General Fund balance budgetary policies.

- b. Requires in the policy development of specific plans to restore the required level of reserves in the event they fall below that level.

City's Response: Implemented – The City maintains adopted fiscal policies which include the requirement to develop budgetary plans that maintain minimum levels of reserves and provide for balanced budgeting.

- c. Include the policy in the annual Comprehensive Annual Financial Report (CAFR) and budget documents.

City's Response: Will Not Be Implemented – While the City of Belmont complies with this recommendation as part of our annual budget preparation process, the City will not implement the balance of the recommendation pertaining to the CAFR until it is promulgated by a standards setting authoritative body, which include GASB, the Financial Accounting Standards Board (FASB) and/or the American Institute of Certified Public Accountants (AICPA).

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 websites. Update it at least semi-annually or when major changes occur.

City's Response: Will Not Be Implemented – The City of Belmont will not implement this recommendation until it is either promulgated by a standards setting authoritative body, which include GASB, FASB, and/or AICPA, or when other non-authoritative accounting literature, such as publications of GFOA/CSMFO and others, become widely accepted as a “best practice”.

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 for action.

City's Response: Will Not Be Implemented – The City of Belmont will not implement this recommendation until it is either promulgated by a standards setting authoritative body, which include GASB, FASB, and/or AICPA, or when other non-authoritative accounting literature, such as publications of GFOA/CSMFO and others, become widely accepted as a “best practice”.

Sincerely,

Coralin Feierbach
Mayor

Cc: San Mateo County Grand Jury
Belmont City Council
Thomas Fil, Finance Director



CITY OF BRISBANE

50 Park Place
Brisbane, California 94005-1310
(415) 508-2100
Fax (415) 467-4989

September 19, 2011

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

Re: Running on Empty

Dear Judge Bergeron:

The City of Brisbane reviewed reviewed the Grand Jury's June 27, 2011 report titled "Running on Empty?" and is providing the following responses approved by the City Council at its regular meeting of September 19, 2011.

A.1 By July 1, 2012, the San Mateo County Board of Supervisors and each City Council will 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.

The recommendation has already been implement. The City already has a policy of maintaining 50% of its General Fund reserves in Fund Balance. During the budget approval process this year the City came into compliance with GASB Statement 54.

b. Require in the policy development of specific plans to restore the required level of reserves in the event they fall below that level.

The City does not agree that such a plan should be part of a policy before the reserves fall below the required amount. The reason for difference may make the need for the plan different. The Council has discussed what do if reserves fall below the required amount and have determined to take appropriate actions if they do.

c. Include the policy in the annual CAFR and budget documents.

The policy is included in the annual budget document where all of our financial related policies are included. We will discuss with our auditors about the appropriateness of including the policy in our annual CAFR.

A.2 By July 1, 2012 the San Mateo County Board of Supervisors and each City Council will direct their City/County Manager 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.

Finding metrics which measure the fiscal health of cities and counties has been an aspiration of governmental entities and organizations for the last twenty years. The difficulty of finding uniform measures which fit a variety of governments which provide a broad spectrum of services which are not always similar has made this endeavor unproductive. Uniform measures should be developed by organizations which have the resources to study these types of issues like the Governmental Accounting Standards Board or the Governmental Finance Officers Association. The Grand Jury may wish to present its recommendation to these two national associations.

A.3 By July 1, 2012, the San Mateo County Board of Supervisors and each City will direct their City/County Manager 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.

The places great importance on liquidity issues and this is one of the reasons it has set the standard of having 50% of its General Fund budgeted expenditures in reserves. Liquidity is also an important part of the City's Investment Policy ranking it above return and just after the safety of its investments. Therefore, the City does not feel a separate metric would serve any additional use and will not develop one. However, this may once again be a recommendation the Grand Jury would like to provide either GASB or GFOA.

B.1 Post FY 2010 CAFRs and/or other FY 2010 audited financial statements to public websites by September 1, 2011. Implement systems/processes to enable a more timely posting of CAFRs and/or other audited financial statements within six months after the end of the fiscal year.

Our FY 2010 audit has been posted. We post our CAFRs soon after receiving the electronic version from our auditors.

C.1 Provide citizens with timely and comprehensive information regarding the financial condition of their city and County by providing a minimum of three years of approved budgets and CAFRs on their websites and through other communications.

The 2008, 2009, 2010 CAFRs are posted on the website under Other Financial Documents. The 2008.10 budget is posted on the website. The 2010/11 approved budget will be posted as soon as an

electronic version is made available. The City always provides a recap of its budget to the citizens after it is adopted in the City News.

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

There are no annual required OPEB payments required. There is an amount required to fully fund our OPEB obligation, however, the City can choose to continue to fund this on a pay-as-you-go basis. The Council has made this decision in 2008 based on the funding requirement at that time and the fact the City has two-tiered its retirement health benefits. At this time the actual ARC may be less than was known in 2008 as a number of City employees have opted to take the defined contribution program instead of the defined benefit program. Also, the City has not replaced staff since 2008 which has also lowered our ARC. The on-going obligation as well as any accrued liability is included in our CAFR as part of the notes as required.

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

At a November 2007 meeting City Council discussed this issue of prefunding our OPEB obligation compared to using a pay-as-you-go method. The Council determined, based on a number of uncertainties, it would be better to fund this obligation on a pay-as-you-go basis. This staff report is available on-line for the public. In the future the City will review our CAFR Management Notes to ensure the public understands our OPEB obligation going forward.

Sincerely,

Cyril G. Bologoff

Mayor



STAFF REPORT

AGENDA
ITEM # 9b
MTG.
DATE September 19, 2011

TO: HONORABLE MAYOR AND CITY COUNCIL

DATE: September 13, 2011

FROM: Jesus Nava, Finance Director
558-7222

SUBMITTED BY 

APPROVED BY 

SUBJECT: **CITY OF BURLINGAME RESPONSE TO 2011 CIVIL GRAND JURY
REPORT ENTITLED: "RUNNING ON EMPTY"**

Recommendation

That the City Council adopt a Resolution Of The City Council Of The City Of Burlingame Approving The City's Response To 2010-2011 San Mateo County Grand Jury Report Entitled "Running On Empty"

Background

The 2010-2011 Grand Jury filed a report on June 27, 2011 which contains findings and recommendations pertaining to the City of Burlingame, the County of San Mateo and the other incorporated local governments of the County. The City of Burlingame is required to submit comments within 90 days to the Honorable Joseph E. Bergeron. The city's response is due no later than September 26, 2011.

Discussion

The City of Burlingame is required to determine for all findings, if:

1. The city agrees with the finding.
2. The city disagrees wholly or partially with the finding, in which case the city shall specify the portion of the finding that is disputed and shall explain the reasons for the dispute.

In addition, the city is required to report one of the following actions for each of the Grand Jury recommendations:

1. The recommendation has been implemented, with a summary regarding the implemented action.
2. The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
3. The recommendation requires further analysis, with an explanation and the scope and parameters of the analysis or study, and a time frame for the matter to be prepared for

- discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. The time frame shall not exceed six months from the date of publication of the Grand Jury report
4. The recommendation will not be implemented because it is not warranted or reasonable, with an explanation therefore.

Budget

There are currently no anticipated budgetary impacts.

Attachments

Resolution Of The City Council Of The City Of Burlingame Approving The City's Response To 2010-2011 San Mateo County Grand Jury Report Entitled "Running On Empty"

Official Letter to the Honorable Joseph E. Bergeron. RE: Response to Civil Grand Jury Report: "Running on Empty?"

San Mateo Civil Grand Jury Report: "Running on Empty?"



TOWN OF COLMA

1198 El Camino Real • Colma, California • 94014-3212

Tel 650-997-8300 • Fax 650-997-8308

September 15, 2011

City Council

Helen Fiscaro
Mayor

Raquel Gonzalez
Vice Mayor

Joanne F. del Rosario
Council Member

Joseph Silva
Council Member

Diana Colvin
Council Member

City Treasurer
Laura Walsh

City Officials

Laura Allen
City Manager

Robert L. Lotti
Chief of Police

Roger Peters
City Attorney

Cyrus Kianpour
Acting City Engineer

Brad Donohue
Public Works
Deputy Director

Michael Laughlin, AICP
Acting City Planner

Brian Dossey
Director of Recreation
Services

Lori Burns
Human Resources Manager

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

Dear Judge Bergeron:

On September 14, 2011, the City Council of the Town of Colma approved the following responses to the Grand Jury's June 27, 2011 report regarding "Running on Empty" at a public meeting.

Pursuant to your request, the Town has the following comments on each of the findings in the report:

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:

The Town of Colma is not in a position to comment on the amount of financial information available on other jurisdictions' websites.

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 Town agrees with this finding. While the Town follows the Generally Accepted Accounting Practices (GAAP) set by the Governmental Accounting Standards Board (GASB) it recognizes that these requirements may result in the production of documents which are not easy to read and understand by members of the general public. Therefore, in an effort to meet its responsibility to effectively present financial information to the community the Town provides

summary budget information annually in a brochure entitled "Budget at a Glance." The Town also submits its budget to the California Society of Municipal Finance Officers (CSMFO) awards program for review. During this process the document is examined by three government finance professionals to see if it meets accepted standards for best practices in budgeting. By incorporating reviewers' comments, the budget document has become more user friendly and easy to read.

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 Town partially agrees with this finding. The Town follows Generally Accepted Accounting Practices (GAAP). Under GAAP the preparation of annual financial statements is required; however the production of a CAFR is optional. Discussions with the Town's auditor confirmed the CAFR is not required under GAAP and not a warranted expense because, as the smallest municipality in San Mateo County, its finances are not as complex as most cities. The Town will post its FY 2009-10 Financial Statements on its website when they become available.

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:

The Town partially agrees with this finding. The Town is in compliance with GASB 34, but is not in a position to comment on the status of other jurisdictions.

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:

The Town partially agrees with this finding. The Town is in compliance with GASB 34, but is not in a position to comment on the status of other jurisdictions.

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:

The Town partially agrees with this finding. The Town is in compliance with GASB 34, but is not in a position to comment on the status of other jurisdictions. Town staff is in the process of revising its reserve policy to be GASB 54 compliant and expects to present a draft to the City Council in the fall of 2011.

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:

The Town partially agrees with this finding. The Town is in compliance with the GASB 34 recommended reserves and its own policies, but is not in a position to comment on the status of other jurisdictions' reserves or compliance with their own policies.

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:

The Town partially agrees with this finding. The Town agrees it was not an early adopter of the GASB 54 changes. Town staff is in the process of revising its reserve policy to be GASB 54 compliant and expects to present a draft to the Council in the fall of 2011. The Town is not in a position to comment on the status of other cities' efforts to adopt GASB 54.

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

Response:

The Town is not in a position to comment on the City of Millbrae's financial situation.

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

Response:

The Town partially agrees with this finding. The Town is fully funding its pension ARC, but is not in a position to comment on the status of other jurisdictions' pension funding.

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:

The Town partially agrees with this finding. The Town is also using the pay as you go method of OPEB funding which is fully discussed and disclosed in the budget and financial statements. The Town is not in a position to comment on the approach used by other jurisdictions.

You also requested the Town respond to each of the recommendations in the report. These are listed as follows:

Recommendations

The 2011 San Mateo County Civil Grand Jury recommends:

- 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:

The recommendation has not been implemented, but will be by June 30, 2012. Town staff is in the process of revising its reserve policy to be GASB 54 compliant and expects to present a draft to the Council in the fall of 2011.

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:

Implementation of this recommendation is not warranted. Town staff currently has a process in place to keep the Council apprised of the Town's fiscal health. Monthly investment reports and quarterly financial updates are provided to the City Council throughout the year. These reports give the Council an indication of where the Town is relative to the budget and/or last year's actual data.

It would be inappropriate and confusing to readers for San Mateo County Finance Directors to develop a scorecard in a vacuum. The Town recommends the Grand Jury send their comments directly to the Governmental Finance Officers Association (GFOA), GASB and CSMFO and request uniform standards be defined. Until those standards change, the Town will continue to report financial information in compliance with GASB, to avoid confusing the reader and the general public.

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:

Implementation of this recommendation is not warranted. A staff level review of the benefits of using Running Liquidity was completed. As the Grand Jury report

indicated, Running Liquidity is not an issue for the Town of Colma. The Town follows GAAP, which does not include using Running Liquidity as a financial indicator.

B. The City Councils of Brisbane, Colma, Pacifica, and Portola Valley:

1. Post FY 2010 CAFRs and/or other FY 2010 audited financial statements to public websites by September 1, 2011. Implement systems/processes to enable a more timely posting of CAFRs and/or other audited financial statements within six months after the end of the fiscal year.

Response:

This recommendation will be implemented as soon as the FY 2009-10 Financial Statements are completed. The Town has been experiencing some staffing issues which delayed the completion of the financial statements. The Town does not expect this issue to continue.

C. The City Councils of Millbrae, Foster City, Woodside, Brisbane, Colma and Portola Valley by July 1, 2012:

1. Provide citizens with timely and comprehensive information regarding the financial condition of their city and County by providing a minimum of three years approved budgets and CAFRs on their websites and through other communications.

Response:

Implementation of this recommendation is not warranted. The FY 2010-11 Adopted Budget contains a Financial Trends section with a ten year schedule of actual revenues and expenditures as well as five year's of projections in both categories. Charts are included which show the Town's future trends for revenues and expenditures; reserve balances; salaries and benefits as a percentage of General Fund operating expenses; and CIP expenditures. By referring to this section, the reader is able to see how the Town spent its money historically, and how it plans to spend it in the next five years. Rather than requiring the reader to search through multiple documents, the Town places this information in one section of the annual budget.

D. 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 CAFRs Management Notes, Annual Budgets, or other appropriate document available to the public why full annual required OPEB payments are not being made.

Response:

Implementation of this recommendation is not warranted because the Grand Jury did not include the Town of Colma.

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

Response:

Implementation of this recommendation is not warranted because the Grand Jury did not include the Town of Colma.

E. The City Council of Millbrae by January 1, 2012:

1. Direct the City Manager to evaluate and report on the implications of Running Liquidity below 90 days, as calculated in this report.

Response:

Implementation of this recommendation is not warranted because the Grand Jury did not include the Town of Colma.

Thank you for the opportunity to respond to the report on this important topic. If you have any questions or need additional information please contact City Manager Laura Allen at 650-997-8318 or laura.allen@colma.ca.gov.

Sincerely,

Helen Fisicaro
Mayor

Cc: City Council
City Attorney
City Manager

CITY OF DALY CITY

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.

DRAFT

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.

D. 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.



ATTACHMENT B

City of East Palo Alto

2415 University Avenue
East Palo Alto, California 94303
Phone: (650) 853-3100
Web: <http://www.ci.east-palo-alto.ca.us>

CITY COUNCIL
Carlos Romero, Mayor
Laura Martinez, Vice-Mayor
Ruben Abrica
Peter Evans
David E. Woods

September 20, 2011

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

Re: Civil Grand Jury Report — Running on Empty?

Dear Judge Bergeron:

The City of East Palo Alto City Council reviewed the June 27, 2011 report of San Mateo Grand Jury titled "Running on Empty?" and has prepared the following responses to the applicable findings and recommendations. This letter was approved by the City Council at a regular meeting held on September 20, 2011:

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: Finding appears supported by data submitted in Chart 1 of the Grand Jury report. East Palo Alto was not specifically cited for having fewer than three years of information.

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: We agree with the finding in the regard that *any* complex accounting systems and financial statements (whether private or governmental) may not be readily understood by “average citizens”. However, we assert that governments, generally, provide a high level of non-accounting, statistical information in both budget and financial documents in order to help users understand and assess the financial health of the entity.

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: City of East Palo Alto not cited in this finding.

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: Finding appears supported by data presented in Chart 2 of the Grand Jury report. The City of East Palo Alto increased General Fund “unreserved” fund balance by 108% from the period 2007-2010. We note, however, that the amounts included in the City of East Palo Alto’s “unreserved” fund balance includes balances designated or assigned by our Council for emergency contingency reserves, self-insurance risk reserves, and reserves for capital replacement.

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: Agree; finding appears supported by data in Chart 2 and written information contained in the Grand Jury report.

ATTACHMENT B

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: As noted in the Grand Jury Report, the City of East Palo Alto adopts policies regarding fund balance reserves in the annual budget document. The City intends to clarify, and adopt through Council action, our specific legislative intent regarding committed, assigned, and non-assigned balances as promulgated in GASB 54.

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: We agree with the finding. The City of East Palo Alto is in compliance with minimum recommended reserve requirements, as calculated by this report.

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 have implemented GASB 54 early.

Response: We agree with the finding. The City of East Palo Alto implementation of GASB 54 will be reflected in the June 30, 2011 financial statements. As noted above, City staff will conduct a study session with Council to discuss options for committing or assigning balances; this session has been intentionally delayed pending certain capital and liability studies the city will be conducting, and also pending the outcome of the recent Redevelopment legislation. As of this date, the Council’s contingency, self-insurance, and capital replacement reserves are considered “assigned” under GASB 54.

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

Response: City of East Palo Alto not cited in this finding.

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

Response: We agree with the finding.

11. Ten participating cities are not making their full actuarially determined Other Post Employment Benefit (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: The City of East Palo Alto does not have OPEB liabilities.

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 new GASB Statement 54 hierarchy.

Response: Planned Implementation by July 01, 2012, includes:

- a) Establishing in the policy the required level of General Fund balance for spendable reserves.
 - b) Determining, with Council direction, the degree to which Council desires to develop specific targets and plans to restore the required level of reserves in the event reserves fall below target.
 - c) Reserve policy will be disclosed in CAFR and Adopted Budget as required or recommended by authoritative standard-setting bodies.
2. Direct City Managers & the County Manager to direct their Finance Directors to collaboratively develop a standard "scorecard" that shows how the City is doing with respect to key measures of financial health and make this available on the City website. Update it at least semi-annually or when major changes occur.

Response: No planned implementation of the recommendation. The City asserts that audit and financial reporting requirements, as well as detailed operating and statistical information disclosed in the Management Discussion & Analysis and the Statistical Section of the City's financial statements, provide a sound basis for assessing the City's financial position. The City is in agreement with the Grand Jury's concern that the public users would benefit from periodic updates to the City's

financial condition, and as a result, will post future published quarterly or semi-annual reporting data on its website.

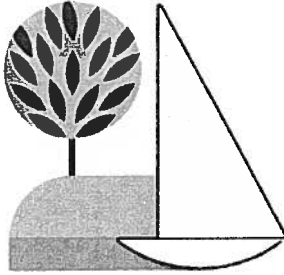
3. Direct the City Managers & the County Managers to formally evaluate the value of a clearly defined Running Liquidity metric as an additional measure of the fiscal health of a City or the County with specific target minimums, and make a specific recommendation back to the City Council or the County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

Response: No planned implementation of the recommendations. It is not clear that a running liquidity metric, on its own, would be valued by users. The City incurs the effort and expense to produce Comprehensive Annual Financial Statements because we believe that the additional reporting requirements add substantial informational value and financial clarity to users. Further, we believe the implementation of GASB 54 will dramatically increase the comparability of fund reserves between entities, as well as increase the understanding of each entity's future intent with regard to accumulated fund reserves.

Sincerely,

Carlos Romero
Mayor

CC: City Council
City Manager
Finance Director
City Attorney



City of Foster City

ESTERO MUNICIPAL IMPROVEMENT DISTRICT

610 Foster City Boulevard
Foster City, CA 94404-2222
650-286-3200
650-574-3483 (fax)

September 19, 2011

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

Dear Judge Bergeron

The City of Foster City City Council has reviewed the June 27, 2011 report of the San Mateo County Grand Jury entitled "Running on Empty?" and has approved the following response to the applicable findings and recommendations at its regular meeting of September 19, 2011.

The City's response to the findings and recommendations are as follows:

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.

City Response: Agreed

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.

City Response: Partially Disagree. While we agree that the average citizen does not understand governmental accounting systems, we have taken great care in attempting to make Foster City's financial information more understandable in the form of the Management Discussion & Analysis (MD&A) that is included in our annual CAFR, and began publishing Quarterly Financial Reports in June 2010 that are created in a comprehensive yet easy-to-read, newsletter-like format that is published to the City's website and presented at City Council meetings. Furthermore, the City issues an annual budget that is thoughtfully written to describe the services provided by the City's departments and the funds appropriated each year to fund those services.

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.

City Response: Not applicable to Foster 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.

City Response: Agreed.

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.

City Response: Agreed.

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.

City Response: Partially Agree. While the City does not dispute the findings regarding other cities in Attachment 1 to the Grand Jury's Report, the Fund Balance Policy adopted in Foster City is understood by the City Council and staff to refer to unrestricted, undesignated reserves. When taken in the context of how the City budgets its General Fund financial resources annually, the reserve policy establishes the limits under which the unreserved, undesignated reserves must be maintained.

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.

City Response: Agreed.

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.

City Response: The City agrees with this finding by acknowledging that GASB 54 is effective for financial statements with years beginning on or after June 15, 2010. The City Council adopted a GASB 54 Fund Balance Policy at its June 20, 2011 Council Meeting to classify fund balances in accordance with GASB 54's provisions, along with delegating authority to the City Manager to "assign"

amounts to be used for specific purposes. The City will be implementing GASB 54 with the issuance of its FY 2010-2011 CAFR.

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

City Response: Not applicable to Foster City.

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

City Response: Agreed.

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.

City Response: Disagree. As noted in the Grand Jury Report, while Foster City has not established an irrevocable trust for its OPEB obligations, the City has fully funded its actuarially determined OPEB liability – not merely its annual required contribution, but the entire OPEB liability – by setting aside funds in a separate Internal Services fund and investment portfolio. On June 20, 2011, the City Council received its biannual actuarial report on its OPEB liabilities and once again ensured that those liabilities were fully funded by transferring unreserved, undesignated assets to cover those liabilities in full.

Recommendations

- A. The 2011 San Mateo County Civil Grand Jury recommends that 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

City Response: Implemented – The City Council adopted a Fund Balance Policy compliant with the provisions of GASB 54 on June 20, 2011, which refers to the aforementioned General Fund Minimum Reserve Policy.

- b. Require in the policy development of specific plans to restore the required level of reserves in the event they fall below that level.

City Response: Requires Further Analysis – The City’s intent through its existing General Fund Fund Balance Policy is to avoid the situation where the unclassified General Fund reserves fall below the minimum threshold established in the policy. With the understanding that the Grand Jury is requesting that the City include a statement in its policy that “the City will develop specific plans to address any shortfall of unclassified General Fund reserves below the minimum level”, the City will consider implementation of this recommendation in regards to amendments to its General Fund Fund Balance Policy during the FY 2012-2013 budget process which starts in January 2012. However, the City will not consider including any specific plan in its policy as different actions may be necessary to restore reserves depending on the severity and circumstances that will dictate a unique plan for replenishment.

c. Include the policy in the annual CAFR and budget documents.

City Response: Will Be Implemented – The City will reference the policy as required under the provision of GASB 54 in the FY 2010-2011 CAFR, and will reference pertinent fund balance policies in its FY 2012-2013 annual budget.

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.

City Response: Will Not Be Implemented – The City does not agree that development of a standard “scorecard” will be productive in achieving a better understanding of a government’s financial health. The City will continue to comply with the financial reporting requirements established by the Governmental Accounting Standards Board (GASB) and other authoritative guidance and, in doing so, will be consistent and comparable with CAFRs produced by other cities. However, each agency must determine for themselves the “benchmarks” that are indicative of their long-term fiscal health and the “health” of their financial condition based upon their unique set of circumstances.

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.

City Response: Will Not Be Implemented – The City does not agree that development of a calculated benchmark as Running Liquidity will provide added value in measuring the City’s fiscal health unless there is widespread acceptance by users of government financial statements. As the Grand Jury indicated in their report, Running Liquidity can be defined and calculated in many ways by different organizations depending upon their circumstances. The GFOA’s recommended minimum unreserved general fund balance guidelines, for example, provides a more widely adopted metric that is clear in its method of calculation (unreserved general fund balance as a percentage of general fund revenues and/or general fund expenditures) and is widely accepted as a measurement of General Fund fiscal health, and one that the City already uses as a benchmark in its Annual Budget, CAFR, and Quarterly Financial Reports.

B. *This item is not applicable to Foster City.*

C. The City Councils of Millbrae, Foster City, Woodside, Brisbane, Colma, and Portola Valley by July 1, 2012 provide citizens with timely and comprehensive information regarding the financial condition of their city and County by providing a minimum of three years of approved budgets and CAFRs on their websites and through other communications.

City Response: Implemented – Prior to the date of the Grand Jury Report, the City has been publishing its CAFR on its website back to 2007. Further, every annual budget in their entirety is available on the City’s website from FY 2008-2009 through FY 2011-2012. The City is in the process of updating its website. These documents will continue to be hosted on the City’s website and will be located under the Financial Services section of the site when completed in December 2011.

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

City Response: Implemented – On Page 38 of the FY 2011-2012 Annual Budget, the City already indicates that it “has established a ‘pay as you go’ policy for funding its other post-employment benefit liabilities (OPEB), but has pre-funded those obligations through existing reserves”. As such, the City has indicated that it has set aside the sufficient reserves to fund its OPEB obligations. In its 2010 CAFR, the City indicated on page 11 in the MD&A section that the City Council transferred funds to its “Internal Service Funds to fully fund post-retirement benefit obligations related to

the City / District's longevity recognition plan and post-retirement medical obligations". The City has represented in these two documents its decision to fully-fund those obligations. Nevertheless, GASB 45 requires that the annual required contribution be accrued since the City has not implemented an irrevocable trust, which was fully documented through the action of the City Council at its May 18, 2009 meeting. GASB 45, however, does not allow the City to recognize its full-funding of the plan in the notes to the financial statements if they are not set aside in an irrevocable trust.

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

City Response: Requires Further Analysis – As previously indicated, the City has in the past decided to fully fund its OPEB obligations by setting aside reserves in an Internal Service Fund and separate investment portfolio for those employee benefits plans. Future City Councils will need to make a determination as to the method and extent to which they wish to fund the City's OPEB obligations. This policy direction will be addressed as part of the annual budget process which will commence in January 2012 and complete in June 2012. Based upon the City Council's policy direction, the City will determine the best approach of documenting its policy as it relates to the ongoing funding of its OPEB liabilities.

E. *This item is not applicable to Foster City.*

Sincerely,

Linda Koelling
Mayor

Cc: City Council
James C. Hardy, City Manager
Steve Toler, Finance Director

Honorable Joseph E. Bergeron
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94062-1655

Dear Judge Bergeron:

The City of Half Moon Bay has reviewed the Grand Jury's June 27, 2011 report entitled "Running on Empty?" and has prepared the following responses. This response was approved by the City Council at its regular meeting of September 6, 2011.

A1. By July 1, 2012, City Council will either revise the existing or implement a new policy for specific levels of reserves using language consistent with the new GASB Statement No. 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 decision making authority.**

The City of Half Moon Bay agrees with the finding. The recommendation has been implemented. In June 2011, the City Council adopted a new General Fund Balance Policy that is in compliance with Governmental Accounting Standards Board (GASB) Statement No. 54.

- b. Require in the policy development of specific plans to restore the required level of reserve in the event they fall below that level.**

The City partially disagrees with a requirement to develop specific plans to restore reserves, as the severity level and circumstances under which reserves would drop below certain levels will dictate a unique plan to reestablish the reserve. The recommendation will not be implemented. The City's new General Fund Balance Policy states that the reserve must be restored within three years, which is adequate to ensure that the reserve be maintained at an adequate level.

- c. Include the policy in the annual CAFR and budget documents.**

The City agrees with the finding. The recommendation will be implemented with the issuance of the City's financial statements for the fiscal year ended June 30, 2011, in compliance with GASB Statement No. 54. The policy will continue to be included in future budget documents.

A2. By July 1, 2012, City Council will direct their City/County Manager 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.

The recommendations will not be implemented, as the City does not agree that development of a standard "scorecard" would help readers to achieve a better understanding of the City's financial health. Many variables in each city will make it difficult for the reader to interpret the metrics and may confuse the reader. Cities may be in different cycles of recovery or investment and conclusions are not easily drawn just by a review of the numbers.

The City will continue to comply with all financial reporting requirements established by the Governmental Accounting Standards Board (GASB) and other authoritative guidance. These requirements provide for consistency and comparability in financial statement presentation. The audited financial statements provide assurance that these requirements are appropriately applied. As the GASB sets the standards for financial reporting, the City recommends that the Grand Jury forward its recommendation to the GASB for their consideration.

The City makes available four years of audited annual financial statements (Comprehensive Annual Financial Report or CAFR) and Annual Budgets on its website. Earlier years are available upon request.

A3. By July 1, 2012, City Council will direct their City/County Manager 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.

The recommendation will not be implemented. The City does not agree that an additional metric will provide added value to the reader unless the metric is understood by the reader. The City places great emphasis on liquidity in its General Fund Reserve Policy by establishing a reserve of no less than 30% of budgeted operating expenditures. This is a very practical guideline that can be easily calculated. In addition, as stated earlier, the GASB sets the standards for financial reporting. The City recommends that the Grand Jury forward its recommendation to the GASB for their consideration to develop a clear definition and approach for measuring liquidity.

Sincerely,

Laura Snideman
City Manager



TOWN OF HILLSBOROUGH

1600 FLORIBUNDA AVENUE

HILLSBOROUGH

CALIFORNIA

94010-6418

September 12, 2011

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

Dear Judge Bergeron:

Please accept this letter as the Town of Hillsborough's formal response to the June 27, 2011 letter from the San Mateo County Superior Court of California regarding the 2011 Grand Jury report titled "Running on Empty?"

The Town has reviewed the Grand Jury's report in full. The City Council at its September 12, 2011 meeting approved the responses listed below the findings and recommendations pertaining to the Town of Hillsborough.

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 Financial Report (CAFRs) and Approved Annual Budgets.

Agree - The Town has made available a variety of reports since it first developed its website. Currently, the site contains the Town's Comprehensive Annual Financial Reports and Adopted Budget for the last eight years. Additionally, the Town also posts quarterly financial reports for the last 8 quarters.

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.

Agree - The Town of Hillsborough provides the City's financial condition and the results of its operations through various financial reports including the Budget, the Comprehensive Annual Financial Report (CAFR) and the Quarterly Reports. Reports are prepared following guidelines recommended by the Government Finance Officers Association (GFOA) of the United States and Canada and the standards adopted by the Governmental Accounting Standards Board (GASB). Both the Town's CAFR and the Adopted Budget have respectively received the Certificate of

Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award administered by the GFOA. The financial reports are designed to achieve the highest standards in government accounting and financial reporting. The budget document serves as a policy document, operations guide, financial plan and a communication device.

3. Four cities (Brisbane, Colman, 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.

Not applicable to Hillsborough

4. All cities and the County had Unreserved General Fund Balances (reserves) consistent with GASB34 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.

Agree - The Town of Hillsborough continues to maintain General Fund reserves well above the GFOA recommendation of no less than one to two months (17%) of regular general fund operating expenditures and the Town's more restrictive fiscal policy of at least 30% of operating expenditures. The Town's Adopted Budget for 2011/12 provides a general fund reserve of 55% of regular operating expenditures (approximately 6 months of operations).

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.

Agree - As stated in the Grand Jury Report, the Town of Hillsborough is one of 3 cities which have managed to increase their general fund reserves in the last two or more reported years.

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.

Agree - The Town's fiscal and budget policies while using the word "reserves" as discussed above are designed to mean the unreserved general fund component pursuant to the GASB 34 recommendation.

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.

Agree - Please refer to the responses to items 4 and 5.

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.

Agree- The Town adopted the revised Budget and Revised Fiscal Policies (Policy No. 409) to incorporate the requirements of GASB 54. The standard will be implemented with the CAFR for the year ended June 30, 2011.

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

Not applicable to Hillsborough

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

Agree – As noted in the Grand Jury report, the Town of Hillsborough is one of the cities in the County making their full actuarially determined OPEB payments for retiree health care benefits. Additionally, Hillsborough has reduced the future costs of these benefits with changes to their labor agreements ending the benefit for new hires effective 2002.

11. Ten participating cities (Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Mateo, San Bruno, South San Francisco) 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.

Not applicable to Hillsborough

Recommendations

The San Mateo County Board of Supervisors and each City Council, by July 2, 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.

Response: The Town adopted the revised Budget and Revised Fiscal Policies (Policy No. 409) to incorporate the requirements of GASB 54. The standard reporting will be implemented with the CAFR for the fiscal year ending June 30, 2011.

b. Requires in the policy development of specific plans to restore the required level of reserves in the event they fall below that level.

Response: The Town's current fiscal and budget policies stipulate a minimum level of reserves beyond the GASB 34 recommendation. As is done in the past, the Town adopts annual budgets that comply with its minimum reserve requirements.

c. Include the policy in the annual Comprehensive Annual Financial Report (CAFR) and budget documents.

Response: The Town's fiscal and budget policies have always been included in the Adopted Budget document.

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 websites. Update it at least semi-annually or when major changes occur.

Response: The Town currently posts quarterly reports of its financial operations in its website. The Town will incorporate financial trends in these reports to show the readers how the town is doing with respect to key measures of fiscal health.

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 for action.

Response: The Town will review the potential of including a running liquidity metric as an additional measure of its fiscal health to annual financial reports including the Comprehensive Annual Financial Report and the budget.

Sincerely,

Thomas Kasten
Mayor

cc San Mateo County Grand Jury
City Clerk



City of Millbrae
621 Magnolia Avenue, Millbrae, CA 94030

PAUL SETO
Mayor
DANIEL F. QUIGG
Vice Mayor
MARGE COLAPIETRO
Councilwoman
GINA PAPAN
Councilwoman
NADIA V. HOLOBER
Councilwoman

September 13, 2011

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

Dear Judge Bergeron,

We are in receipt of the Grand Jury report entitled "Running on Empty". Pursuant to your June 27, 2011 request, the Millbrae City Council held a public meeting on September 13, 2011 and approved this response. The City of Millbrae responds to the Grand Jury's findings, and recommendations as follows:

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 Report (CAFR's) and Approved Annual Budgets.*

Response: The City of Millbrae has the six prior year CAFR's available on the City website, in addition to the current year and two prior year Annual Budgets.

- 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: Governmental accounting and financial reporting includes Fund accounting. A Fund, is a separate, self-balancing set of accounts used to account for resources that are segregated for specific purposes in accordance with special regulations, restrictions, or limitations. Other characteristic features of governmental accounting and financial reporting include measurement focus, basis of accounting for tax-supported activities, and the inclusion of budget-to-actual comparisons. Due to the fact that there are various primary users of governments' general-purpose external financial reports, these reports tend to be longer and more complex than comparable private-sector reports.

- 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: This finding was directed towards the cities of Brisbane, Colma, Pacifica, and Portola Valley.

City Council/City Manager (650) 259-2334	City Clerk (650) 259-2334	Public Works/Engineering (650) 259-2339	Recreation (650) 259-2360	Police Department (650) 259-2300
Personnel (650) 259-2334	Finance/Water (650) 259-2350	Community Development (650) 259-2341	Building Division (650) 259-2330	Fire Department (650) 259-2400

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: GASB 34 (Government Accounting Standards Board) does not reference, or discuss, or require, or recommend reserves.

In October 2009, the Government Finance Officers Association (GFOA) issued a "Best Practice" document titled "Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (Budget and CAAFR). In that document, GFOA recommends: "That governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the General Fund. The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."

The table below shows the days of available funding the City of Millbrae had per the GFOA recommended Best Practice document. The total expenditure amount does not include transfers out.

(Average Daily Expenditures divided by Total Fund Balance Available)

Fiscal Year	Total Expenditures	Average Daily Expenditures	Unreserved Fund Balance	Advance to Other Funds	Total Funds Available	Amount of Days
2007	13,577,690	37,199	2,982,238	1,040,100	4,022,338	108
2008	16,477,284	45,143	1,684,476	1,040,100	2,724,576	60
2009	16,081,253	44,058	1,567,044	1,040,100	2,607,144	59
2010	16,282,825	44,610	1,675,398	1,040,100	2,715,498	61

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: As mentioned above in response to Item 4, GASB 34 (Government Accounting Standards Board) does not reference, or discuss, or require, or recommend reserves.

The General Fund for the City of Millbrae had the following Reserved and Unreserved Fund Balances:

Fiscal Year	Reserved Fund Balance	Reserved Fund Balance RDA Loan	GRAND TOTAL RESERVED FUND BALANCE	Unreserved Fund Balance	Unreserved Fund Balance OPEB	GRAND TOTAL UNRESERVED FUND BALANCE	TOTAL FUND BALANCE
2007	673,921	1,040,100	1,714,021	1,449,776	1,532,462	2,982,238	4,696,259
2008	176,213	1,040,100	1,216,313	152,014	1,532,462	1,684,476	2,900,789
2009	141,822	1,040,100	1,181,922	34,582	1,532,462	1,567,044	2,748,966
2010	146,835	1,040,100	1,186,935	142,936	1,532,462	1,675,395	2,862,333

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

Response: As mentioned above in response to Item 4, GASB 34 (Government Accounting Standards Board) does not reference, or discuss, or require, or recommend reserves.

On November 25, 2008, the City of Millbrae and the Millbrae Redevelopment Agency approved Resolution 08-61 establishing that the annual budget shall include a fifteen percent (15%) General Fund reserve.

The City of Millbrae agrees that a truly comprehensive fund balance reserve policy needs to address all of the following:

- The appropriate level of unrestricted fund balance to be maintained in the General Fund; and
- The circumstances in which unrestricted fund balance can be "spent down"; and
- The policy for replenishing deficiencies

The City of Millbrae will develop a new Fund Balance Reserve Policy and request Council approval by June 30, 2012.

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: As mentioned above in response to Item 4, GASB 34 (Government Accounting Standards Board) does not reference, or discuss, or require, or recommend reserves.

On November 25, 2008, the City of Millbrae and the Millbrae Redevelopment Agency approved Resolution 08-61 establishing that the annual budget shall include a 15% General Fund reserve.

The City of Millbrae has not complied with Resolution 08-61 establishing that the annual budget shall include a fifteen percent (15%) General Fund reserve. On May 24, 2011, the City Council approved the Fiscal Year 2011-2012 Budget without the required fifteen percent (15%) General Fund reserve, and this was discussed in the Budget hearings and stated in the Agenda Report.

The City of Millbrae has set aside \$1,532,462 in the General Fund Unreserved Fund Balance for the Other Post Employment Benefits (OPEB) liability. Those funds have not yet been placed, nor invested into a separate irrevocable trust.

The table below shows both the percentage of reserves to expenditures in the Unreserved Fund Balance amount which does not include the amount set aside for the OPEB liability; and the percentage of reserves to expenditures in the Grand Total of all the Unreserved Fund Balances which includes the set aside amount for the OPEB liability.

(Total Expenditures divided by Unreserved Fund Balance)

Fiscal Year	Total Expenditures	Unreserved Fund Balance	Unreserved Fund Balance OPEB	GRAND TOTAL UNRESERVED FUND BALANCE	Unreserved Fund Balance Without OPEB	Unreserved Fund Balance With OPEB
2007	13,577,690	1,449,776	1,532,462	2,982,238	10.68%	21.96%
2008	16,477,284	152,014	1,532,462	1,684,476	0.92%	10.22%
2009	16,081,253	34,582	1,532,462	1,567,044	0.22%	9.74%
2010	16,282,825	142,936	1,532,462	1,675,398	0.88%	10.29%

- 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: In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This new standard is designed to establish fund balance classifications that are easier to understand and apply; it does not change the total amount of a given fund balance; but it substantially alters the classifications and terminology used to describe the components that make up a fund balance; and its objective is to isolate the portion of fund balance (assets minus liabilities) that is *unavailable* to support the following year's budget. GASB 54 eliminates traditional classifications of "Reserved," "Unreserved" and "Designated" for all Governmental Fund balances and replaces these with five new reporting classifications, which are described below. These classifications create a hierarchy of constraints that control how specific amounts can be spent. The new classifications and terminology reflect an approach that focuses, not on financial resources available for appropriation within a fund, but on the extent to which amounts in the fund can be spent. GASB 54 affects only external formal financial reporting.

The City of Millbrae is required to implement GASB 54, and have all policies in place related to it no later than June 30, 2011. The City of Millbrae has implemented GASB 54 and is in complete compliance.

The hierarchies of five possible classifications of fund balance are:

- **Nonspendable Fund Balance:** This classification is for *inherently nonspendable* assets, such as assets that will never convert to cash (e.g., inventories, prepaid expenses, land held for resale) or resources that must be maintained intact pursuant to legal or contractual requirements (e.g., the principal of an endowment). This category was traditionally reported as a "Reserved" fund balance under the old standard.
- **Restricted Fund Balance:** This classification is for resources that are subject to *externally enforceable* legal restrictions. Such restrictions typically include amounts that can be spent only for the specific purposes as stipulated by the external resource provider (e.g., grant providers), constitutionally, or through enabling legislation (i.e., legislation that creates a new revenue source and restricts its use). This category was traditionally reported as a "Reserved" fund balance under the old standard.
- **Committed Fund Balance:** This classification represents resources that can be used only for the specific purpose determined by formal action of the City Council, and remains binding unless removed in the same manner. This category was traditionally reported as a "Designated" fund balance under the old standard.
- **Assigned Fund Balance:** This classification represents resources *intended* to be used by the government for a specific purpose, but are neither restricted nor committed. Such intent can be established by the City Council or by an official delegated the authority. This category was traditionally reported as a "Designated" fund balance under the old standard.
- **Unassigned Fund Balance:** This classification represents resources that do not fall into one of the above four classifications. Unassigned amounts in the General Fund are technically available for any purpose. However, if a governmental fund, other than the General Fund, has a fund balance *deficit*, it will be reported as a negative amount in the unassigned classification in that respective fund. A surplus will never be reported in a governmental fund other than the General Fund; GASB 54 prohibits reporting any excess balances in other funds. Balances must be assigned to a specific purpose in all but the General Fund. This category was traditionally reported as an "Undesignated" fund balance under the old standard.

9) *One City (Millbrae) has a Running Liquidity below 90 days*

Response: The City of Millbrae agrees with the findings, when using the exact same method for the calculation as describe in the Grand Jury report.

Although, as mentioned above in response to Item 4, GFOA (Government Finance Officers Association) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

The table below shows the days of available funding the City of Millbrae had per the GFOA recommended Best Practice document. The total expenditure amount does not include transfers out; the Unreserved Fund Balance amount includes the set aside for the OPEB liability; and Cash in the Internal Service Funds has not been included.

(Average Daily Expenditures divided by Total Fund Balance Available)

Fiscal Year	Total Expenditures	Average Daily Expenditures	Unreserved Fund Balance	Advance to Other Funds	Total Funds Available	Amount of Days
2007	13,577,690	37,199	2,982,238	1,040,100	4,022,338	108
2008	16,477,284	45,143	1,684,476	1,040,100	2,724,576	60
2009	16,081,253	44,058	1,567,044	1,040,100	2,607,144	59
2010	16,282,825	44,610	1,675,398	1,040,100	2,715,498	61

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

Response: The City of Millbrae is a member of the California Public Employees' Retirement System (CalPERS). CalPERS is a defined benefit retirement plan. Benefits are based on a member's years of service, age, and highest average final compensation. Annually, on a actuarial basis, CalPERS determines the amount of the required contribution for Police, Fire and Miscellaneous employees and the City must contribute those amounts.

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: The City of Millbrae agrees with the findings. The City participates in the CalPERS health care plan, an agent multiple employer plan, which is governed under the California Public Employees' Medical and Hospital Care Act (PEMHCA). The City provides certain health care benefits for retired employees (spouse and dependents are included), and those health plan contributions are also governed by PEMHCA, however the City has only contributed to the plan on a pay-as-you-go basis.

As mentioned above in response to Item 7, the City of Millbrae has set aside \$1,532,462 in the General Fund Unreserved Fund Balance for this Other Post Employment Benefits (OPEB) liability. Those funds have not yet been placed, nor invested into a separate irrevocable trust.

Recommendations

The 2011 San Mateo County Civil Grand Jury recommends:

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: As mentioned above in response to Item 6 under Findings, the City of Millbrae agrees that a truly comprehensive fund balance reserve policy needs to address all of the following:

- The appropriate level of unrestricted fund balance to be maintained in the General Fund; and
- The circumstances in which unrestricted fund balance can be "spent down"; and
- The policy for replenishing deficiencies

The City of Millbrae will develop a new Fund Balance Reserve Policy and request Council approval by June 30, 2012. The Fund Balance Reserve Policy will be included in the budget documents.

2. Direct their City/County Manager 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: The Budget process is the formal method through which the City establishes its goals, program priorities, and identifies the resources required to achieve the desired service levels for the upcoming fiscal period. Essentially, it is a process through which policy is made, programs are articulated, and resources are identified in order to put them into effect.

A Budget is one of the most important management tools available to City policy-makers and management personnel. It serves as the City's fiscal plan and identifies how services will be financed. The Budget also provides the City Council with an opportunity to review the costs and benefits of various programs.

From a practical point of view, the Budget process is intended to:

- Provide the City Council with information regarding the City's total fiscal plan for all Funds;
- Allow the City Council to comprehensively review the City's public services and identify what has been and will be accomplished by each program;
- Comparatively evaluate different programs and objectives in relationship to one another and in relation to associated costs;
- Provide an opportunity to reconsider and reevaluate services provided;
- Provide a link between the City and the community. The City develops the budget utilizing citizen input regarding the types of public services that will be offered and services that should continue to be provided;

- Serve as an instrument for carrying out public policy, legally, honestly, and efficiently. In this regard, the budget provides the legal basis for revenue, expenditures; allows for a systematic reevaluation of internal operations from the perspective of efficiency, effectiveness, and economy; and provides the framework for accounting and fiscal accountability.

The adopted Annual Budget provides a clear and precise document of the services that will be provided, along with identifiable program measures, and a compressive outline of related personnel, supplies, and capital outlay expenditures.

A midyear review of all the budget assumptions, including the projected revenues and expenditures and major changes are presented to Council each year and are discussed in a open public meeting.

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

Response: The City of Millbrae agrees that liquidity must be monitored and does so on a daily basis. Governmental operations and financing are more complex then private-sector operations. For example: 1) Most grant programs require total project completion before reimbursement of grant proceeds, which will have an effect on liquidity; 2) Property Tax revenues generally come in only two times per fiscal year, and during those months, a measure of liquidity would show an significant increase; 3) Over the last several years the State has delayed various payments due to their financial crisis and this has effected liquidity. The development of a proper matrix for Running liquidity may have advantages, but the results would only represent that exact point in time.

B. The City Councils of Brisbane, Colma, Pacifica, and Portola Valley:

1. *Post FY 2010 CAFR's and/or other FY2010 audited financial statements to public websites by September 1, 2011. Implement systems/processes to enable a more timely posting of CAFR's and/or other audited financial statements within six months after the end of the fiscal year.*

Response: This recommendation is directed towards the cities of Brisbane, Colma, Pacifica, and Portola Valley.

C. The City Councils of Millbrae, Foster City, Woodside, Brisbane, Colma, and Portola Valley by July 1, 2012:

1. *Provide citizens with timely and comprehensive information regarding the financial condition of their city and County by providing a minimum of three years of approved budgets and CAFR's on their websites and through other communications.*

Response: The City of Millbrae has the six prior year CAFR's available on the City website, in addition to the current year and two prior year Annual Budgets.

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

Response: The OPEB funding and actuarial valuation is presented in the CAFR - Notes to Financial Statements. The City has set aside \$1,532,462 in the General Fund Unreserved Fund Balance for the Other Post Employment Benefits (OPEB) liability. Those funds have not yet been placed, nor invested into a separate irrevocable trust.

The City is required to have an actuarial valuation complete before June 30, 2012 and will present that complete report in a public session to City Council.

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

Response: The City of Millbrae will include a comment in the CAFR - Notes to Financial Statements.

E. The City Council of Millbrae by January 1, 2012:

1. Direct the City Manager to evaluate and report on the implications of a Running Liquidity below 90 days, as calculated in this report.

Response: The City of Millbrae agrees that liquidity must be monitored and does so on a daily basis. Although, as mentioned above in response to Item 4 under Findings, GFOA (Government Finance Officers Association) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The City is in compliance with the GFOA recommendation.

The City of Millbrae is very aware of declining fund balance, and has presented and discussed this issue with City Council over the years. Various cost-cutting measures have also been enacted, and the City continues to seek ways to cut expenditures.

In addition, due to the overall financial crisis and the ever-changing State fiscal environment, the City has developed, and presented a five-year financial forecast of revenues and expenditures. The purpose of the five-year financial forecast is to take a forward look and evaluate the City of Millbrae's financial condition. It is important to stress that the Financial Forecast was not a Budget, nor a forecast of what is certain to happen, but rather a device to highlight significant issues or problems that must be addressed if goals are to be achieved and service levels maintained. Developing factually, accurate, timely, and objective information about the City's financial condition, provides the opportunity to identify financial trends, shortfalls, and proactively address potential issues. The forecast did identify budget events that are likely to occur in more than one year out, and demonstrated there are significant challenges ahead, and corrective action is required in order to ensure the long-term fiscal health and viability of the City.

The members of the City Council and City Staff are committed to providing the public complete, accurate, transparent and timely financial information. We appreciate the Grand Jury's time and effort into compiling the report "Running on Empty". We hope you will find our commentary helpful.

Very truly yours,

Daniel F. Quigg
Mayor

Cc: Marcia Raines, City Manager

CITY OF PACIFICA
CITY COUNCIL AGENDA SUMMARY REPORT
September 12, 2011

Agenda Item No. 15

SUBJECT:

Consideration of Response to 2010-2011 Grand Jury Report – Running on Empty?

ORIGINATED BY:

Administrative Services

DISCUSSION:

On June 27, 2011, the San Mateo Grand Jury filed a report titled, "Running on Empty?" which contains findings and recommendations pertaining to Pacifica. Under state law, the City has 90 days to provide a written response to reports forwarded to the City by a Presiding Judge. In this case, the City's written comments are due by September 26, 2011.

BACKGROUND

The 2010-2011 Grand Jury studied the following issues: "To what extent have San Mateo County and the cities relied on their reserves to get through the recession and how are they positioned for the future? Have they deferred expenditures, such as annual retiree health care payments, that will result in even higher future costs? How easy is it for interested citizens to determine the answers to such questions from publicly available information?"

In summary the Grand Jury explored four areas:

- Availability of information
- Reserves as an indicator of fiscal health
- Applicable Policies and Standards
- Data Evaluation

To study this issue, the Grand Jury requested information from each agency via questionnaire as well as agency documents including the Comprehensive Annual Financial Report (CAFR) and annual approved budgets.

The findings include:

1. Financial information available on agency websites varied widely.
2. Government accounting systems and financial statements are complex and not always readily understandable to the average citizen.
3. All but four cities posted their CAFR by March 11, 2011 on their respective website.

4. All agencies had Unreserved General Fund Balances (reserves) consistent with GASB 34 recommended standards (5-15%).

5. All agencies maintained the GASB 34 recommended levels of reserves whether or not there were approved policies requiring maintenance of defined levels of reserves.

6. Some reserve policies are written to apply to "reserves" and not explicitly to the unreserved component of them as recommended by GASB 34.

Recommendations include:

A. The San Mateo County Board of Supervisors and each City Council should 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.

City's Response: Will be implemented in the future – GASB Statement 54 will be adopted after the City's Financing City Services Task Force makes recommendations to the City Council in February 2012. Staff is recommending language that complies with General Fund balance budgetary policies.

b. Requires in the policy development of specific plans to restore the required level of reserves in the event they fall below that level.

City's Response: Will be implemented in the future – The City's Financing City Services Task Force is revising the City's Five Year Financial Plan that maintains minimum levels of reserves and provide for balanced budgeting. The revised Plan is scheduled for Council consideration in March 2012

c. Include the policy in the annual Comprehensive Annual Financial Report (CAFR) and budget documents.

City's Response: Will Not Be Implemented – While the City of Pacifica complies with this recommendation as part of our annual budget preparation process, the City will not implement the balance of the recommendation pertaining to the CAFR until it is promulgated by a standards setting authoritative body, which include GASB, the Financial Accounting Standards Board (FASB) and/or the American Institute of Certified Public Accountants (AICPA).

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 websites. Update it at least semi-annually or when major changes occur.

City's Response: Will Not Be Implemented – The City of Pacifica will not implement this recommendation until it is either promulgated by a standards setting authoritative body, which include GASB, FASB, and/or AICPA, or when other non-authoritative accounting literature, such as publications of GFOA/CSMFO and others, become widely accepted as a "best practice".

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 for action.

City's Response: Will Not Be Implemented – The City of Pacifica will not implement this recommendation until it is either promulgated by a standards setting authoritative body, which include GASB, FASB, and/or AICPA, or when other non-authoritative accounting literature, such as publications of GFOA/CSMFO and others, become widely accepted as a "best practice".

It should be noted that the Grand Jury report lists Pacifica as one of eight cities that increased or held steady an Unfunded General Fund Balance (UGFB). The report is misleading in that Pacifica had a one-time increase in the General Fund balance in FY 2008 with the settlement of a lawsuit but has operated with a significant structural deficit and continues to rely on reserves to balance the budget.

FISCAL IMPACT:

There is no fiscal impact to authorize the Mayor to send the attached letter.

ATTACHMENTS:

- 2010-2011 Grand Jury Report – "Running on Empty"
- Draft City Response Letter to Grand Jury Report

COUNCIL ACTION REQUESTED:

Staff recommends that the Council review the Mayor's draft letter and response to the Civil Grand Jury report, discuss and adopt any changes to these documents and then authorize the Mayor to sign and send this material to the Presiding Judge of the Superior Court.

September 14, 2011

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

**Re: Response to 2010–2011 Grand Jury Report
Running on Empty?**

Dear Honorable Bergeron:

The Town Council for the Town of Portola Valley ("Town") has reviewed the recommendations in the 2010–2011 Grand Jury Report that affect the Town and approved the following responses at the public meeting on September 14, 2011:

Running on Empty?

Recommendation No. A.1

By July 1, 2012, 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 No. A.1

The Town agrees with this finding. The recommendation has been implemented. At its July 27, 2011 meeting, the Town Council adopted a Minimum Fund Balance Policy for the General Fund, using language consistent with the new GASB Statement 54 hierarchy. Per the new policy, the Town will maintain a minimum of 60% of its annual budgeted operating expenditures within its unreserved and spendable general fund balance. Compliance with this policy will be noted annually in the Town's annual financial statements.

Honorable Joseph E. Bergeron
Page 2

Recommendation No. A.2

By July 1, 2012, direct the 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 No. A.2

The Town agrees with this finding. The recommendation has been implemented. The Town's current Financial Summary is a report that is presented to the Council monthly via the Digest, which is a weekly compilation of documents. This Financial Summary will be amended to include 1) the current month's compliance with the 60% minimum general fund balance, and 2) the Town's current Running Liquidity metric. In addition to being presented in the Digest, this monthly Financial Summary will also now be uploaded to the Town's website at its new "Town Finance" page.

Recommendation No. A.3

By July 1, 2012, 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 No. A.3

The Town agrees with this finding. The recommendation has been implemented. The Town already has a Running Liquidity metric.

Recommendation No. B.1

Post FY 2010 CAFRs and or other FY 2010 audited financial statements to public websites by September 1, 2011. Implement systems/processes to enable a more timely posting of CAFRs and/or other audited financial statements within six months after the end of the fiscal year.

Response No. B.1

The Town agrees with this finding. The recommendation has been implemented. Historically this item not been presented on the Town's website because it has typically not been requested for review by the public. With the findings and recommendation of the Grand Jury, however, the Town has since made available the Financial Statements for the prior three years at a new "Town Finance" page and will continue to do so going forward.

Recommendation No. C.1

Provide citizens with timely and comprehensive information regarding the financial condition of their City and County by providing a minimum of three years of approved budgets and CAFRS on their website and through other communications.

Response No. C.1

The Town agrees with this finding. The recommendation has been implemented. The Town has made its current adopted budget available via its website for many years. With the findings and recommendation of the Grand Jury, the Town has included the current and two prior years' budgets at its new Town Finance page. In the future, this

Honorable Joseph E. Bergeron
Page 3

webpage will host three years of adopted budgets and financial statements. In addition to the Town's website, an informational postcard is mailed to each resident in July with a summary of the current year's adopted budget.

The Town thanks the Grand Jury for bringing this complex issue to our attention in an informative and thorough manner. Please let me know if you require additional information.

Sincerely,

Ted Driscoll
Mayor

cc: Town Council
Town Manager
Town Attorney

REPORT

To the Honorable Mayor and City Council
From the City Manager

August 22, 2011

SUBJECT

Response to the San Mateo County Civil Grand Jury Report "Running on Empty"

RECOMMENDATION

Approve by motion the Director of Finance's Response to the San Mateo County Grand Jury Report "Running on Empty"

BACKGROUND

On June 27, 2011 the San Mateo County Civil Grand Jury filed a report pertaining to the use of reserves by cities and the County during the recession, the deferral of expenditures such as annual retiree health care payments and the ease of reviewing agencies' financial information by interested citizens (attachment one). In compiling the report, the Grand Jury explored the availability of financial information provided by each agency on its website, the level of general fund reserves of each agency, and reserve policies and standards within each agency. The report concluded, among other things, that the agencies seemed to have prudently managed their Unreserved General Fund Balance reserves through the recession, financial information provided by the agencies could be improved, and the lack of a statutory or contractual requirement to fully meet the annual retiree health care (Other Post Employment Benefits or OPEB) payments resulted in some cities choosing to defer payments and increase unfunded liabilities in favor of other priorities.

The report produced eleven findings and eight recommendations. Regarding the findings, the City of Redwood City was reflected favorably in all but two findings. Of the eight recommendations, only five were applicable to the City of Redwood City.

The Superior Court has directed the City to submit comments regarding the report's findings and recommendations to the Superior Court no later than September 26, 2011, and that the response must be approved by the City Council at a public meeting. The response to the Grand Jury Report is submitted for your approval (attachment two).

Findings

Of the eleven findings, only two specifically pertain to the City of Redwood City. The City must indicate one of the following for each applicable finding:

1. The Council agrees with the finding.
2. The Council disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

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: The City agrees with this finding in acknowledging that the new GASB 54 standard is in effect for all financial statements beginning after June 15, 2010. As a first step towards implementation of GASB 54 the City Council recently adopted at its June 27, 2011 Council Meeting the classification of certain amounts as "committed" pursuant to the new reporting requirements of GASB 54, along with delegating authority to the City Manager to "assign" amounts to be used for specific purposes. The City will be implementing GASB 54 with the issuance of the 2010-11 Comprehensive Annual Financial Report (CAFR).

Finding #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: The City disagrees with this finding as the City began fully funding its actuarially required contribution (ARC) in fiscal year 2009-10 with its payment of the full amount to the California Employer's Retiree Benefits Trust (CERBT). The City continues to make and budget for the full ARC payment in the most recently completed fiscal year 2010-11 and budget year 2011-12.

Recommendations

Of the eight recommendations, only five were applicable to the City of Redwood City. The City must report one of the following actions for each applicable recommendation:

1. The recommendation has been implemented, with a summary regarding the implemented action.
2. The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
3. The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussions by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the Grand Jury report.
4. The recommendation will not be implemented because it is not warranted or reasonable, with an explanation therefore.

Recommendation A.1.

The City Council, by July 1, 2012 should 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 by the City Council on June 27, 2011, at which time the City Council adopted by resolution the classification of certain amounts as "committed" pursuant to GASB 54, and reviewed its previously adopted policy of maintaining minimum General Fund Balance at 15-20% of estimated General Fund revenues.
- b. This recommendation will not be implemented because the City believes that it is not reasonable to develop specific plans to restore reserves, as different actions may be necessary to restore reserves depending upon the severity and circumstances which will dictate a unique plan for replenishment.
- 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.

Recommendation A.2.

The City Council, by July 1, 2012 should direct their City Managers to direct their Finance Directors to collaboratively develop a standard "scorecard" that shows how the City is doing with respect to key measures of fiscal health and make this available on City website. 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" will be productive in achieving a better understanding of a government's financial health. The City has always complied with the financial reporting requirements established by the Governmental Accounting Standards Board (GASB) and other authoritative guidance. In doing so, the City's CAFR format is consistent with and comparable to those CAFRs produced by other cities. The external audit annually ensures that the standards and guidelines promulgated by GASB are appropriately applied.

In an effort to more fully communicate the City's financial status to the public, the City has ten years of CAFRs and adopted Budgets available on the City's website.

Recommendation A.3.

The City Council, by July 1, 2012 should direct their City Manager to formally evaluate the value of a clearly defined Running Liquidity metric as an additional measure of the

City's fiscal health with specific target minimums, and make a specific recommendation back to the City Council for action.

Response: This recommendation will not be implemented as the City does not agree that development of an additional calculated metric will provide added value in measuring the City's fiscal health unless the metric is understood fully by the users of the financial statements. As noted in the Grand Jury's report, a Running Liquidity metric could be defined and calculated in a variety of ways, whereas the GFOA clearly outlines minimum unreserved general fund balances at 1) no less than 5-15 percent of regular general fund operating revenues, or 2) no less than one to two months of regular fund operating expenditures. The City already calculates and maintains its minimum general fund unappropriated fund balance at 15 – 20% of estimated general fund revenues, in line with the GFOA recommended policy.

Recommendation D.1.

The City Councils of Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Bruno, San Mateo, and South San Francisco by July 2012 explain in 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 not be implemented because it is not warranted. The City of Redwood City was erroneously included on this list, as beginning with fiscal year 2009-10 the City entered into a trust agreement with CERBT and has made its full annual required OPEB payment (ARC) in fiscal years 2009-10 and 2010-11. The City continues to budget the full annual required OPEB payment in future years as well.

Recommendation D.2.

The City Councils of Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Bruno, San Mateo, and South San Francisco by July 2012 explain in CAFR Management Notes, Annual Budget, or other appropriate document available to the public the city's planned strategy for addressing accumulated unfunded OPEB retiree healthcare obligations.

Response: The recommendation has already been implemented as the actuarial valuation performed to determine the ARC builds into the ARC an amount that will fully amortize the unfunded OPEB liability, which the City has interpreted to be the Net OPEB Obligation (NOO). This methodology is explained in the CAFR Notes to Financial Statements.

ALTERNATIVES

The City Council may elect to not approve the response as submitted, and may make changes to the response.



BRIAN PONTY
FINANCE DIRECTOR



ROBERT B. BELL
CITY MANAGER

ATTACHMENTS

1. San Mateo County Civil Grand Jury Report titled "Running on Empty"
2. Director of Finance's response to the Superior Court

RELATED DOCUMENTS IN CITY CLERK'S OFFICE

None



September 13, 2011

Honorable Joseph E. Bergeron
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 95063-1655

Dear Judge Bergeron:

This letter serves as the City of San Bruno's formal response to the June 27, 2011 letter from the Superior Court transmitting the San Mateo Civil Grand Jury Report "Running on Empty?" The San Bruno City Council authorized this letter and the attached response at its meeting on August 9, 2011.

The City Council was requested to submit comments within 90 days. For the seven findings, the City Council was to indicate one of the following:

1. City Council agrees with the finding.
2. City Council disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed, and shall include an explanation of the reasons therefore.

Additionally, for the Grand Jury's recommendations, the City Council was requested to report one of the following actions:

1. The recommendation has been implemented, with a summary regarding the implemented action.
2. The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
3. The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing board of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the Grand Jury report.
4. The recommendation will not be implemented because it is not warranted or reasonable, with an explanation thereof.

Honorable Joseph E. Bergeron
September 13, 2011
Page 2 of 2

Thank you for the opportunity to comment on this report. If any additional information or response would be helpful, please feel free to contact me.

Sincerely,

Jim Ruane
Mayor

cc: City Council
City Manager

**City of San Bruno Response to
2010-11 San Mateo County Civil Grand Jury Report on
"Running on Empty?"**

FINDINGS

The 2010-11 San Mateo County Civil Grand Jury finds that:

Finding No. 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 the Approved Annual Budgets.

Response to Finding No. 1

The City of San Bruno concurs with the Grand Jury Report that San Bruno has posted on the City's website the approved budgets for the last five fiscal years and has posted the City's CAFR's for the last seven years. The City of San Bruno has not verified independent information, which agrees or disagrees with the Grand Jury's findings for the other San Mateo agencies.

Finding No. 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 to Finding No. 2

The City of San Bruno agrees with the finding that financial statements are complex. Notwithstanding, upon completion of the annual financial statements, City staff reviews the financial statements with the City Council in a study session where the public is invited to attend. San Bruno has no independent basis on which to agree or disagree with the finding regarding the level of understanding of average citizens.

Finding No. 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 to Finding No. 3

The City of San Bruno has posted its 2010 CAFR to the City's website.

Finding No. 4

All cities and the County had Unreserved General Fund Balances (reserves) consistent with the 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 to Finding No. 4

The recommended standard is a minimum of 5-15 percent of revenues or one to two months (8.3-16.67 percent) of expenditures. The City of San Bruno has met the minimum levels, and its General Fund reserves were at 22.77 percent of expenditures as of June 30, 2010. As a result, the City of San Bruno agrees with the finding as it relates to the City of San Bruno. However, the City has no independent basis on which to agree or disagree with the finding as it relates to other agencies.

Finding No. 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 to Finding No. 5

The City of San Bruno's minimum reserve level is two to three months (16.67-25.0 percent) of expenditures, which is higher than the government standards recommended minimum level of one to two months (8.3-16.67 percent) of expenditures. San Bruno has and will continue to meet the City's minimum reserve level and therefore agrees with the finding as it relates to the City of San Bruno.

Finding No. 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 to Finding No. 6

The City of San Bruno uses only the unreserved component to calculate its reserves, and it only includes funds available for discretionary spending in its calculation. The City of San Bruno has no independent basis on which to agree or disagree with the find as it relates to other agencies.

Finding No. 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 requires higher levels than those recommended by GASB 34.

Response to Finding No. 7

The City of San Bruno has complied with its minimum reserve level of two to three months (16.67 -25.0 percent) of expenditures, which is higher than the government standards recommended minimum level of one to two months (8.3-16.67 percent) of expenditures. The City of San Bruno has no independent basis on which to agree or disagree with the finding as it relates to other agencies.

Finding No. 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 FY1 2010 CAFR. No cities in San Mateo County implemented early.

Response to Finding No. 8

The City of San Bruno agrees with the finding that a new GASB 54 standard became effective for all financial statements after June 30, 2011. As it relates to the City of San Bruno, the City did not implement GASB 54 standard early. San Bruno has no independent basis on which to agree or disagree with the finding as it relates to other agencies.

Finding No. 9

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

Response to Finding No. 9

The City of San Bruno has no independent basis on which to agree or disagree with the finding.

Finding No. 10

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

Response to Finding No. 10

The City of San Bruno agrees with the finding as it relates to the City of San Bruno, and has no independent basis on which to agree or disagree with the find as it relates to other agencies.

Finding No. 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 to Finding No. 11

The City of San Bruno agrees with the finding as it relates to the City of San Bruno. San Bruno's payments are based on a pay-as-you-go basis (i.e. as medical insurance premiums become due), which is less than the full actuarially determined OPEB obligation.

RECOMMENDATIONS

RECOMMENDATIONS - A

The 2010-11 San Mateo County Civil Grand Jury recommends to the County Board of Supervisors and the City Councils of all cities in San Mateo County the following be completed by July 1, 2012:

Recommendation No. A1

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 to Recommendation No. A1

The recommendation has not yet been implemented, and the City of San Bruno will consider potential implementation using language consistent with the new GASB Statement 54 hierarchy by July 1, 2012

Recommendation No. A2

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 to Recommendation No. A2

The City will continue to comply with national standards on financial reporting as established by the Government Accounting Standards Board (GASB) so that they are consistent and uniform with financial statements prepared by other cities/agencies. This uniformity of reporting allows a broad range of the public (citizens, government officials, bond holders, creditors) to assess and evaluate the financial condition of respective agencies based on such national standards and not on local or regional standards/metrics. As a result, the City of San Bruno does not plan to adopt the recommendation at this time.

Recommendation No. A3

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 to Recommendation No. A3

The City will continue to comply with national standards on financial reporting as established by the Government Accounting Standards Board (GASB) so that they are consistent and uniform with financial statements prepared by other cities/agencies. This uniformity of reporting allows a broad range of the public (citizens, government officials, bond holders, creditors) to assess and evaluate the financial condition of respective agencies based on such national standards and not on local or regional standards/metrics. As a result, the City of San Bruno does not plan to adopt the recommendation at this time.

RECOMMENDATIONS - B

The 2010-11 San Mateo County Civil Grand Jury recommends to the City Councils of Brisbane, Colma, Pacifica and Portola Valley

Recommendation No. B1

Post FY 2010 CAFRs and/or other FY 2010 audited financial statements to the public websites by September 2, 2011. Implement systems/processes to enable a more timely posting of CAFRs and/or other audited financial statements within six months after the end of the fiscal year

Response to Recommendation No. B1

Although the recommendation is not applicable to the City of San Bruno, it is noted that San Bruno already posts its annual CAFR to the City's website and will continue to do so.

RECOMMENDATION - C

The 2010-11 San Mateo County Civil Grand Jury recommends to the City Councils of Millbrae, Foster City, Woodside Brisbane, Colma, and Portola Valley by July 2, 2012:

Recommendation No. C1

Provide citizens with timely and comprehensive information regarding the financial condition of their city and County by providing a minimum of three years of approved budgets and CAFRs on their websites and through other communications.

Response to Recommendation No. C1

Although the recommendation is not applicable to the City of San Bruno, it is noted that the City of San Bruno has posted on the City's website the approved budgets for the last five fiscal years and the CAFR's for the last seven years.

RECOMMENDATIONS - D

August 23, 2011

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

Re: Civil Grand Jury Report – Fund Balances

Dear Judge Bergeron,

I am writing to you on behalf of the San Carlos City Council. This will serve as the City of San Carlos' formal response to the letter from the Superior Court communicating comments made by the Civil Grand Jury about Fund Balances entitled "Running on Empty". The City Council has reviewed this letter at a public meeting of the Council and has authorized that it be sent.

In the report from the Civil Grand Jury on Fund Balances in cities in San Mateo County and the County itself, a number of recommendations are made. Here is the City of San Carlos response to the findings in the report and the recommendations for San Carlos:

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: We agree with the finding. San Carlos provides the Annual City Budget, the Comprehensive Annual Financial Report (CAFR) and Quarterly Financial Reports on the City Web Site in addition to providing this information to the City Council, City Department Heads and the public.

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: We partially disagree with the finding. As noted in Finding # 1, the City provides the Budget, CAFR and Quarterly Financial Reports to the public. The City has added information to these documents designed to increase public understanding of City finances. In particular, the Quarterly Financial Reports and the City Budget provide a wealth of information for the public in a comprehensive yet easy to understand way.

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: We agree with the finding. The CAFR is posted annually on the City of San Carlos Web Site.

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: We agree with the finding. As the Grand Jury report notes, San Carlos reserves are above the GASB 34 recommended levels. In addition, San Carlos is one of 8 cities in the County where these reserves have increased during the period since 2007 (+36%) while 7 cities and the county utilized some reserves (-6% to -38%) and 5 cities used a "significantly greater" amount of reserves (-44% to -51%) during this period.

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: We agree with the finding. San Carlos reserves are above the GASB 34 recommended levels as noted in Finding # 4. They are also above the City Council's policy of a minimum level of reserves of 10% of the General Fund.

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: We agree with the finding. San Carlos has in excess of 10% of reserves in the unrestricted (or unreserved) portion of the General Fund.

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: We agree with the finding. San Carlos is in compliance with GASB 34 and the City Council reserve policy.

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 have implemented GASB 54 early.

Response: We agree with the finding. San Carlos will implement GASB 54 on or before the date set in the GASB standard.

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

Response: We agree with the finding. The Grand Jury report shows that San Carlos had 154 days of Running Liquidity as of 2010 and the number has increased since that time.

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

Response: We agree with the finding.

11. Ten participating cities are not making their full actuarially determined Other Post Employment Benefit (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: We agree with the finding. The Grand Jury report notes that San Carlos is one of the cities in the County that is making their full actuarially determined OPEB payments for retiree health care benefits. In addition, San Carlos has reduced the future cost of these benefits by ending the retiree health care benefit for newly hired employees in several employee groups including the Management Unit and the San Carlos Fire Department.

Recommendations

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.

Response: We agree with the finding. The City is developing a policy to respond to GASB Statement 54.

2. Direct City Managers & the County Manager to direct their Finance Directors to collaboratively develop a standard “scorecard” that shows how the City is doing with respect to key measures of financial health and make this available on the City website. Update it at least semi-annually or when major changes occur.

Response: We agree with the finding. The San Carlos Finance Division has prepared a Quarterly Financial Report on the City’s revenues, expenses and financial trends for many years. This report is provided to the City Council and is posted for public view on the City Web Site. The City plans to continue this program in to the future.

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

Response: We agree with the finding. The San Carlos Finance Division will review the potential of adding Running Liquidity to annual financial documents including the City Budget and the Comprehensive Annual Financial Report (CAFR) in the future.

Sincerely Yours,

Andy Klein
Mayor

cc: City Council
City Manager
Assistant City Manager
Administrative Services Director
City Attorney

City of San Mateo

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

Dear Judge Bergeron:

Re: City of San Mateo response to Grand Jury Report "Running on Empty" filed June 27, 2011. The response to both findings and recommendations was approved by the City Council at their September 6, 2011 regular meeting which was duly noticed as requested by the Grand Jury.

Each of the **FINDINGS** of the Grand Jury's report is addressed below:

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: The City agrees with this finding. The City of San Mateo has a long standing practice of providing budget and audit information on its website.

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 agrees with this finding. However, the City of San Mateo has taken steps to address this issue locally. The City of San Mateo publishes a "City Finances at a Glance Summary" which gives a primer on City finances. In addition, the City of San Mateo offers a City Services Academy at no charge to anyone who works or resides in San Mateo. The City Services Academy provides an interactive learning opportunity about the full spectrum of services offered including the accounting, budgeting and reporting of municipal finances.

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 has no comment as the finding does not pertain to the City of San Mateo.

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: The City agrees with this finding as it pertains to the City of San Mateo. However, GASB 34 does not require governments have specific reserve policies and recommended amounts of reserves. The Government Finance Officers Association (GFOA) does recommend certain best practices in the case of fund balance policies and minimum levels of reserves consistent with the Grand Jury findings. GASB 34 required that the reserved and unreserved portions of fund balance be reported separately, but does not dictate any minimum amounts be established by policy. GASB 54 amends GASB 34 in the way fund balance is reported as acknowledged by the Grand Jury.

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 reserve.*

Response: The City agrees with this finding as it pertains to the City of San Mateo as qualified in #4 regarding GASB 34.

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: The City agrees with this finding as it pertains to the City of San Mateo. Reference to the amount in reserves in official San Mateo documents does refer to the unreserved, or spendable portion of fund balance.

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: The City agrees with this finding as it pertains to the City of San Mateo.

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: The City agrees with this finding as it pertains to the City of San Mateo.

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

Response: The City has no comment as the finding does not pertain to the City of San Mateo.

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

Response: The City agrees with this finding as it pertains to the City of San Mateo.

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: The City agrees with this finding as it pertains to the City of San Mateo.

Each of the significant **RECOMMENDATIONS** of the Grand Jury's report is addressed below:

A.1 By July 1, 2012, the City Council should 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.1: This recommendation has been partially implemented and will be implemented to be in compliance with GASB 54 hierarchy by July 1, 2012. The City Council adopted Resolution No. 70 (2011) on June 20, 2011 which restated 2010 governmental fund balances in conformance with GASB 54 hierarchy and will be fully implemented in the June 30, 2011 financial statements.

- a.) The General Fund reserve policy goal adopted with the budget is to maintain a reserve equal to three months of operating expenditures. The City has partially implemented GASB 54 and 2010 fund balances have been restated shown in spendable and non-spendable classifications which identifies amounts that are spendable and within the complete control of the government's local decision making authority.
- b.) This recommendation will not be implemented because it is not warranted or reasonable at this time. The City's policies already address the conditions for supplementing reserves and will be implemented as the economy recovers. For example, policies are in place to use one-time revenue and excess property transfer funds at specified levels to supplement reserves.
- c.) The City utilizes various approaches during the year to update financial status and compliance with policies including a semi-annual review of financial policies at budget adoption and the annual City Council goals session. The City's policy is included in budget documents.

A.2 by July 1, 2012, the City Councils should 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: A standard scorecard will not be implemented, as the City does not agree that development of a standard "scorecard" would be productive in achieving a better understanding of a government's financial health. In fact, due to the complexities of government accounting acknowledged by the Grand Jury and the variable circumstances of each City, such information could further confuse the reader/public. Instead, a focused review of long-term City finances better meets the objective to evaluate the City's fiscal health. During the last fiscal year a Financial Sustainability Plan was completed to assess the City's projected revenue and expenses over the next eight years and develop a strategy to ensure sustainability.

The City has always complied with and exceeded the financial reporting requirements established by the Governmental Accounting Standards Board (GASB) and other authoritative guidance. In doing so, the City's CAFR format is consistent with and comparable to those CAFRs produced by other cities. The external audit annually ensures that the standards and guidelines promulgated by GASB are consistently and appropriately applied.

In an effort to more fully communicate the City's financial status in a timely manner, quarterly financial reports available on the City's website and provide up to date information about the General Fund financial position (and other funds) to the Council and public. Nine years of CAFRs and ten years of Budgets are available on the City's website. These documents explain the fiscal considerations of the City of San Mateo without introducing the added complexity of the fiscal structures and considerations of other cities. In addition, the City's website also displays the Financial Sustainability Plan formally adopted by City Council that forms the basic policies and plan for a sustainable financial path for the City organization in a new normal economy.

A.3 By July 1, 2012, the City Council will direct their City/County Manager 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/County's fiscal health unless the metric is understood fully by the users of the financial statements. As noted in the Grand Jury's report, a Running Liquidity metric could be defined and calculated in a variety of ways. In actuality, the GFOA's recommended best practice of maintaining an unrestricted fund balance in the general fund that represents no less than two months of General Fund operating revenues or operating expenditures (whichever is less

volatile), is a very practical guideline. The percentage of annual revenues (or expenditures) "covered" by a City's unrestricted fund balance can be easily calculated and understood, and assures a level of liquidity for the City.

B.1 The City Councils of Brisbane, Colma, Pacifica, and Portola Valley post FY 2010 CAFRs and/or other FY 2010 audited financial statements to public websites by September 1, 2011. Implement systems/processes to enable a more timely posting of CAFRs and/or other audited financial statements within six months after the end of the fiscal year.

Response: This recommendation does not pertain to the City of San Mateo.

C.1 The City Councils of Milbrae, Foster City Woodside, Brisbane, Colma, and Portola Valley by July 1, 2012 provide citizens with timely and comprehensive information regarding the financial condition of their city and County by providing a minimum of three years of approved budgets and CAFRs on their websites and through other communications.

Response: This recommendation does not pertain to the City of San Mateo.

D. The City Councils of Atherton, Brisbane, Burlingame, Daly City, Foster City, Milbrae, Redwood City, San Bruno, San Mateo, and South San Francisco by July 1, 2012;

- 1. Explain in CAFR Management Notes, Annual Budget, or other appropriate document available to the public why full annual required OPEB payments are not being made.***
- 2. Explain in CAFR Management Notes, Annual Budget, or other appropriate document available to the public the city's planned strategy for addressing accumulated unfunded OPEB retiree healthcare obligations.***

Response: This recommendation requires further analysis. The City is currently working on funding strategies to address the OPEB liability and when approved by City Council and implemented will be communicated in the appropriate section of the CAFR.

E. the City Council of Millbrae by January 1, 2012 direct the City Manager to evaluate and report on the implications of a Running Liquidity below 90 days, as calculated in this report.

Response: This recommendation does not pertain to the City of San Mateo



Staff Report

DATE: September 14, 2011

TO: Honorable Mayor and City Council

FROM: Jim Steele, Finance Director

SUBJECT: RESPONSES TO THE FINDINGS AND RECOMMENDATIONS OF THE 2010-11 SAN MATEO COUNTY CIVIL GRAND JURY REPORT TITLED "RUNNING ON EMPTY"

RECOMMENDATION

It is recommended that the City Council approve staff's response to the San Mateo Grand Jury Report "Running on Empty" for the Mayor's signature.

BACKGROUND/DISCUSSION

On June 27, 2011 the San Mateo County Civil Grand Jury (the Grand Jury) issued a report on the financial reporting of all cities in San Mateo County. The report is attached for Council's information.

Findings:

The findings, and staff's response to them, are below.

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:

We agree with the finding. South San Francisco provides the Annual City Budget, the Comprehensive Annual Financial Report (CAFR) and Quarterly Financial Reports to the City Council. There are six years of CAFRs and six years of budgets posted on the City's website.

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:

We agree that government accounting standards are designed to be standardized across all reporting entities, and as such, financial statements do not always provide financial information in accessible ways.

Staff Report

Subject: Findings and Recommendations of the Grand Jury Regarding Financial Reporting

Page 2 of 5

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:

We agree with the finding. The CAFR is posted annually on the City of South San Francisco website after our auditors produce a printable version.

4. All cities and the County had Unreserved General Fund Balances (reserves) consistent with Government Accounting Standards Board 34 (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:

We agree with the finding. As the Grand Jury Report notes, South San Francisco reserves are above the GASB 34 recommended levels. In addition, for both of the years that the Grand Jury shows South San Francisco reserves declining in the report, the decline was really a shift of General Fund Reserves to two Internal Service Funds. In 2008 and 2009, \$4.5 million was transferred to the Health and Benefits Internal Service Fund to cover Other Post Employment Benefits (OPEB), specifically, the retiree health benefits the Grand Jury points out is a looming danger on the horizon. In 2010, a total of \$2.7 million was shifted from the General Fund Reserve to the Self-Insurance Internal Service Fund to cover higher anticipated health costs associated with workers' compensation claims. Both of these reserve shifts were prudent, and speak to the responsible budgeting and financial planning the Grand Jury has pointed out is important.

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:

We agree with the finding. South San Francisco reserves are above the GASB 34 recommended levels as noted in Finding # 4.

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:

We agree with the finding, which was clarified by the implementation of Government Accounting Standards Board 54 (GASB 54) on June 22, 2011, in compliance with Government Accounting Standards Board (GASB) requirements.

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:

We agree with the finding.

Staff Report

Subject: Findings and Recommendations of the Grand Jury Regarding Financial Reporting

Page 3 of 5

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 have implemented GASB 54 early.

Response:

We agree with the finding. South San Francisco implemented GASB 54 before the date set in the GASB requirements.

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

Response:

We agree with the finding. The Grand Jury Report shows that South San Francisco had 198 days of Running Liquidity, well above the minimum recommended level of 90 days, and as pointed out in our response to Finding #4, if other internal service funds (Health and Benefits and Self Insurance) are included, South San Francisco's liquidity is even higher.

10. All cities and the County are fully funding their Annual Required Contribution to California Public Employees Retirement System (CALPERS) or San Mateo County Employees Retirement Association (SamCERA) for retiree pension funding.

Response:

We agree with the finding.

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

Response:

We agree with the finding. South San Francisco has reduced the future cost of these benefits by ending the retiree health care benefit for newly hired employees, and has taken steps to put money aside in the Health and Benefits Internal Service Fund, as the Grand Jury Report notes. Staff will be recommending before the end of the fiscal year 2011 to the City Council that a fully compliant OPEB trust be set up and that the funds in the Internal Service Fund be invested in that trust.

Recommendations:

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.

Response:

We agree with the finding, and the City has adopted a Reserve Policy compliant with GASB 54.

2. Direct City Managers & the County Manager to direct their Finance Directors to collaboratively develop a standard "scorecard" that shows how the City is doing with respect to key measures of financial health and make this available on the City website. 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 an additional calculated metric would provide added value in measuring the City/County's fiscal health unless the metric is understood fully by the users of the financial statements. Such an understanding would require a change in the GASB standards so that those reporting standards would be consistently applied by all public agencies, and staff does not recommend such an undertaking at the County level.

Having said that, in actuality, the Government Finance Officers Association's (GFOA) general rule of maintaining an unrestricted fund balance in the General Fund that represents no less than two months of General Fund operating revenues or operating expenditures (whichever is less volatile), is a very practical guideline. The percentage of annual revenues (or expenditures) "covered" by a city's unrestricted fund balance can be easily calculated and understood, and assures some level of liquidity that a city's Council can be comfortable with. Finally, the City has always complied with the financial reporting requirements established by the Governmental Accounting Standards Board and other authoritative guidance. In doing so, the City's CAFR format is consistent with and comparable to those CAFRs produced by other cities. The external audit annually ensures that the standards and guidelines promulgated by GASB are appropriately applied.

3. Direct the City Managers & the County Manager to formally evaluate the value of a clearly defined Running Liquidity metric as an additional measure of the fiscal health of a city or the County with specific target minimums, and make a specific recommendation back to the City Council or the County 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/County's fiscal health unless the metric is understood fully by the users of the financial statements. Such an understanding would require a change in the GASB standards so that those reporting standards would be consistently applied by all public agencies. Such an understanding would require a change in the GASB standards so that those reporting standards would be consistently applied by all public agencies, and staff does not recommend such an undertaking at the County level.

Having said that, in actuality, the GFOA's general rule of maintaining an unrestricted fund balance in the General Fund that represents no less than two months of General Fund operating revenues or operating expenditures (whichever is less volatile), is a very practical guideline. The percentage of annual revenues (or expenditures) "covered" by a city's unrestricted fund balance can be easily calculated and understood, and assures some level of liquidity that a city's Council can be comfortable with. Finally, the City has always complied with the financial reporting requirements established by the Governmental Accounting Standards Board and other authoritative guidance. In doing so, the

Staff Report

Subject: Findings and Recommendations of the Grand Jury Regarding Financial Reporting

Page 5 of 5

City's CAFR format is consistent with and comparable to those CAFRs produced by other cities. The external audit annually ensures that the standards and guidelines promulgated by GASB are appropriately applied.

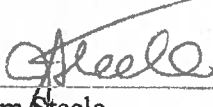
FUNDING

There is no fiscal impact related to the Grand Jury Findings or staff's response.

CONCLUSION

The City's Annual Financial Reporting complies with the Government Accounting Standards Board's (GASB) standards and policies. Until an authoritative body like the GASB makes changes to financial reporting, it would be inconsistent for the City or a group of cities in San Mateo County to work on new reporting standards independently from GASB standards.

By: _____


Jim Steele
Finance Director

Approved: _____


Barry M. Nagel
City Manager

Attachments: Grand Jury Report "Running on Empty"
Draft Letter to Grand Jury

TOWN OF WOODSIDE

Report to Town Council
From: Susan George, Town Manager

Agenda Item 3
September 13, 2011

**SUBJECT: APPROVAL OF PROPOSED RESPONSE TO THE 2011 SAN MATEO COUNTY
GRAND JURY REPORT: RUNNING ON EMPTY**

RECOMMENDATION

It is recommended that the Town Council discuss this report and approve the attached draft letter of response to the 2011 Grand Jury.

BACKGROUND

On June 27, 2011, the San Mateo County Grand Jury issued a report entitled *Running on Empty?* (**Attachment 1**). The report includes a series of findings, conclusions, and recommendations addressed to the County of San Mateo and the twenty cities within the County, including the Town of Woodside. The Town has until September 26, 2011, to respond to the Grand Jury Report.

DISCUSSION

The report was prepared by the Grand Jury following the completion of its research and investigation into various financial issues and practices as regards the County and the cities within it. As the report indicates, the Grand Jury explored the following questions:

- To what extent have San Mateo County and the cities relied on their reserves to get through the recession and how are they positioned for the future?
- Have they deferred expenditures, such as annual retiree health care payments, that will result in even higher future costs?
- How easy is it for interested citizens to determine the answers to such questions from publicly available information?

The report makes a series of observations and findings based upon the Grand Jury's investigation. Only those that are applicable to the Town and that require specific response will be discussed in this staff report.

Chart 2 in the Grand Jury's report depicts changes in "Unreserved General Fund Balance" from June 30, 2007 to June 30, 2010. The Town is included in a category labeled as "Cities which have utilized reserves to some extent to balance budget since 2007." It indicates that the Town's reserves have decreased by 27% during the period under review. The Grand Jury makes the assumption that this decrease in reserves is attributable to the recession and that it signals that reserves are being utilized to deal with short-term needs.

While the fact and amount of the Town's decrease in reserves is accurate, the assumption that this decrease is at least in some part because of the recession is not. During the period under review, the Town Council made several deliberate allocations of its reserves, all

in keeping with its own Financial Management Policies. All allocations were for one-time expenditures and none supported the ongoing operation of the Town. For example, during this period the Town paid off all of its remaining General Fund debt in a lump sum payment, using almost \$1.9 million of reserves to do so. Becoming debt free was a high priority for the Town and this was considered a prudent use of the available reserves. Annual debt service payments of about a quarter of a million dollars were eliminated from the budget with this action. Another example of the deliberate allocation of reserves during this timeframe was the Town Council's contribution of \$1.919 million to the construction of Barkley Fields and Park, a top community priority. Other examples, although less dramatic in amount, include the purchase of the *Trakit* system software and related hardware acquisitions and, more recently, the allocation of available reserves to the support of the General Fund Update project, which taken together had utilized about \$600,000 of reserves through June 30, 2010.

The report also discusses retiree pension and health care payments. The Town, at June 30, 2010, had just established its policy regarding "Other Post Employment Benefits" (OPEB). The Town's liability was duly noted in the 2010 Basic Financial Statements in accordance with Government Accounting Standards Board (GASB) Statement No. 45. As of July 1, 2011, the Town began to fully fund the Annual Required Contribution (ARC) for its OPEB liability and was no longer on a "pay as you go" basis. The Grand Jury's report includes the Town as having either "no benefits or no data" regarding the OPEB ARC payment status.

The report includes a series of specific recommendations. Those that apply to the Town are provided verbatim below. The staff's response/reaction to each is included in a following section.

The 2011 San Mateo County Civil Grand Jury recommends:

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 Balances 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.*

- 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.*

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.

B. (Not applicable to the Town).

C. the City Councils of Millbrae, Foster City, Woodside, Brisbane, Colma, and Portola Valley by July 1, 2012:

1. Provide citizens with timely and comprehensive information regarding the financial condition of their city and County by providing a minimum of three years of approved budgets and CAFRs on their websites and through other communications.

D. (Not applicable to the Town).

Staff Reaction/Response

This Grand Jury report was developed without making any direct contact with each city and the County other than to verify the financial data collected from the various websites or other sources and to inquire whether there was a reserve policy in place. While the Grand Jury's intentions are laudable, the specific circumstances of each jurisdiction are not considered and a set of "one size fits all" recommendations was promulgated. Using the Grand Jury's recommendation numbering system, staff offers the following specific reactions and responses.

Recommendation A.1 (a through c): On June 28, 2011, the Town Council adopted a resolution that established a "Fund Balance Policy Under the Requirements of Government Accounting Standards Board Statement 54" and in doing so accomplished the intent of Recommendation 1.a. The policy refers to the Town Council's minimum General Fund reserve policy, as set forth in the Town Council's Financial Management Policies. It does not include a specific number or target, but can easily be amended to do so. Recommendation 1.c. has already been implemented, independent of the Grand Jury's report and the policy will be included in the Notes to the Basic Financial Statements as of June 30, 2011, in accordance with GASB 54. A part of this information is already included in the budget documents and can be expanded to reflect the full measure of the policy. Staff does not agree with Recommendation 1.b. The Town has a regular financial reporting procedure and utilizes a five-year forecasting model to ascertain estimated future financial position for the General Fund. It is updated on regular basis, both when the Council undertakes its quarterly budget reviews and when the budget is being considered for adoption each year. To develop a plan for some potential future drop in reserves in a vacuum appears to be a futile exercise and ad to usurp the discretion of the Town Council that is in office if and when such a drop should occur. The circumstances in play at the time the reserve decrease is projected should be an integral part of a response plan and the priorities of the Town do shift over time.

Recommendation A.2: The Town will work with the San Mateo County Finance Directors Group on any collaborative effort that ensues during the fiscal year to attempt to develop a standard financial "scorecard." Staff is skeptical that the results will be very meaningful, however, because of the significantly different circumstances under which the various cities and the County operate. Adjustments to account for these differences will have to be included. For example, there are other jurisdictions in the County that have tax bases not enjoyed by the Town (e.g., Portola Valley has a Utility Users Tax and Atherton has a parcel tax). In staff's opinion, such comparisons are not very worthwhile without significant analysis provided to ensure that the comparisons are equitable and balanced. Further, if staff time is to be expended on any such undertaking, it would most likely be better spent working on financial health measurement systems that are tailored to the needs and desires of the Town's constituency, not that of the other cities.

Recommendation A.3: If the Town Council is interested in looking at "a clearly defined Running Liquidity metric as an additional measure of the city/County's fiscal health with specific target minimums" then the staff will certainly evaluate the idea and report back to the Town Council by July 1, 2012. Staff sees only marginal utility in such a measure. The Grand Jury calculated this factor for all the cities and the County by taking what was spent in the General Fund as of June 30, 2010, dividing it by 365, and then dividing the General Fund's fund balance at June 30, 2010 by that result. To make this a meaningful measure, some analysis should be applied (even though the Town's 182 days of running liquidity that resulted was twice the auditor-recommended threshold of ninety days). If the Town Council wishes to develop additional reporting measures for the Town's financial status, there are other more tailored measures that could be explored. The International City/County Managers' Association (ICMA) has produced a series of handbooks on financial trend monitoring and financial condition evaluation. The ICMA handbooks, in fact, were utilized when the Town Council's Financial Management policies were originally developed in 1993. The staff will take its direction from the Council on this matter.

Recommendation C: The Town's practice has been to provide the most current budget and audited financial reports on the Town's website (the 2011-13 budget and the 2009-10 Basic Financial Statements are currently posted). As a rule, people are usually looking only for the most current information. There is no problem, however, providing additional years' documents and the staff can add these going back as far as the Town Council wishes.

In summary, while the staff appreciates the work of the Grand Jury and understands the reasons it worked to answer the questions that were the basis for its investigation, parts of the resulting recommendations do not appear to be of merit or worth the investment of staff time, given other Town priorities. If the Town Council is interested in developing its own "metrics" for evaluating the financial position of the Town, then a more focused effort may be more fruitful. On balance, however, with its Financial Management Policies