



# Running on Empty?

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## Issue

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?

## Summary

San Mateo County and its cities have managed through the recession with aggressive cost cutting to align with revenues, and most have avoided significantly drawing down their reserves over the past three years. They were not “running on empty” as of the end of fiscal year 2010. At that time, all cities and the County still had Unreserved General Fund Balances above the minimum levels recommended by the Government Accounting Standards Board (GASB) and by their own policies, where they exist. All cities and the County are current with their Annual Required Contributions (ARC) for retiree pensions, but some are not making their full ARC payments for Other Post Employment Benefits (OPEB), specifically for retiree health care benefits, and are accruing associated liabilities. It is important to emphasize that their current status with respect to annual payments for these retiree benefits is separate and distinct from their ability to deal with the escalating costs of retiree benefits in the future, and the health of the trusts themselves, issues beyond the scope of this investigation.

The complexities of government accounting make it very difficult for interested citizens to assess levels of reserves or other aspects of fiscal health on their own. In addition, significant differences in how much information cities make available to the public, the way they present it, and the timeliness of its availability vary greatly by city. The Grand Jury recommends all cities establish new or revised reserve policies for improved clarity in alignment with new Government Accounting Standards and develop fiscal health “scorecards” to simply communicate city/County fiscal health to interested citizens. The Grand Jury also recommends specifically identified cities improve the amount and timeliness of financial information posted to their websites and explain why they are not making their full annual OPEB retiree health care payments.

## Background

The recent recession presented significant budget and operational challenges to our County and city governments. In many areas, house prices and property values declined, slowing real estate transactions and receipt of associated property and transfer taxes. Unemployment rose, businesses closed and credit tightened, affecting retail sales and sales tax revenues. Employee pensions, health care and other costs rose unabated during this period. Local governments

were forced to make tough decisions on how to balance their budgets and correct structural imbalances. The recession was long and deep, with a slow recovery still in progress.

Local news reports highlighted significant cutbacks in and outsourcing of services, department consolidations across cities, city worker layoffs and salary reductions, and other attempts to deal with financial challenges facing individual cities. The County and cities were in different starting positions based on their individual financial circumstances and strength going into this recession. Therefore, each had different options available to manage through it, such as cutting expenses via job reductions and service cuts in line with anticipated and actual revenues, and/or drawing down reserves to levels consistent with city policies, recommended Governmental Accounting Standards Board (GASB) standards, and their respective planning assumptions about the future.

The 2011 San Mateo County Civil Grand Jury (Grand Jury) was interested in understanding how cities coped with the recession and how they are positioned for the future. Are they now “running on empty”, meaning have they exhausted all or most of their reserve funds, or have they maintained sufficient reserves to be on reasonably solid footing for challenges ahead? Are they meeting their pension and retiree health care obligations? Attempting to answer these questions would provide the answer to another key question: how easy is it for interested citizens to determine the fiscal health of their cities and County from readily available public information?

## Investigation

**The Grand Jury explored the following areas:**

- **Availability of information** – What information is available on city and County websites for citizens interested in assessing their city’s and County’s fiscal state and performance and how they may have changed over time?
- **Reserves as an indicator of fiscal health** – What are “reserves? Are there different types of reserves and requirements related to them? Which should the Grand Jury look at to understand the nature and impact of decisions made as a result of the recession? Are there related metrics that need to be looked at in parallel for a more complete understanding?
- **Applicable Policies and Standards** – What policies and standards exist with respect to levels and use of reserves for each city and the County? Have cities and the County complied with their policies and standards during this period, and can the Grand Jury see a difference in management response and fiscal health between cities that have reserve policies vs. those that don’t?
- **Data Evaluation** – Is it feasible to compare cities’ and the County’s data for the same level of reserves or other financial metric and draw conclusions of relative health, or are circumstances so different or unique to each city to make that impractical?

**This report was compiled from numerous sources:**

- The primary documents (applicable sections, management discussions, financial statements and explanatory notes) reviewed were city and County Comprehensive Annual Financial Reports (CAFRs). These are standard reports prepared following the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA), and the standards adopted by the Governmental Accounting Standards Board (GASB).
- Responses to a written questionnaire sent to all city Finance Directors or their counterparts, requesting data not available or not found on the public websites, including existence (or not) of governing ordinances and policies and forward-looking data (forecasts). Note: This questionnaire did not go the County because the information sought was clearly delineated in its annual CAFRs.
- Interviews conducted with two current city Finance Directors, a former senior County official knowledgeable of County finances and Governmental Accounting Standards, and two principals of one of the leading independent auditing firms responsible for a significant number of 2010 and past CAFRs of San Mateo County cities. The primary purpose of the interviews was to determine where there was reasonable consensus on key metrics for evaluating a city's or County's fiscal health, and to understand where those data could be obtained and/or how they could be calculated.
- Other public documents found on city and County websites, including Approved Annual Budgets (Budgets) and other financial reports.
- Official publications such as GASB 34 and GASB 54 were used to research and understand applicable government accounting standards and published recommendations with respect to reserves.

*Note: Data used to compile this report was provided to City/County Finance officials for verification, with requests for publicly available document and page number references to enable confirmation. Any errors identified were corrected. In some cases, responses included questions or concerns about the applicability of a specific data element or method of calculation, either generically or to a city's specific circumstances. Those comments were considered and, where appropriate, specifically addressed or noted without attribution in this report.*

One special case involved the city of Brisbane. Brisbane has a limited amount of financial data on its website. (See details in Section A. below). The Grand Jury therefore relied on statistical trend data in the city's 2009 CAFR, the only one available on line, for its analysis. As for other cities and the County, those data were sent to a city finance official for verification before report completion. Unlike for other cities, however, there were significant differences in Unreserved General Fund Balances for all years in the "corrected" data returned.

Follow-up communications led to the explanation that certain Internal Service Funds, specifically the “Rainy Day Fund” and the “Fringe Benefits Fund” have unrestricted net assets that the city considers to be part of its General Fund Unrestricted General fund Balance, even though it hasn’t reported them there. The history and rationale for these funds was provided. It was also noted that their Auditors in 2010 required the city to combine the Rainy Day Fund with the General Fund. The city’s 2010 CAFR is still not available on the city’s website to review.

Incorporating the changes provided would have impacted all charts and tables that depend on UGFB in this report. Given the fact that the documents needed to confirm the “corrections” are not available on the city’s website, as well as a concern for accepting information that is not reported in the same standard source used for the data for all other cities and the County (The Balance Sheet for Governmental Funds), the Grand Jury decided to not change the charts and text to accommodate the Brisbane revisions.

The effect of this is that Brisbane may choose to recalculate its results and positioning in the various charts and tables using its method of determining reserves and make those available to its elected officials and citizens. The Grand Jury believes all funds considered as General Fund Reserves should be reported as General Fund Reserves in the financial statements intended for that purpose.

## **Discussion**

### **A. Availability of Information**

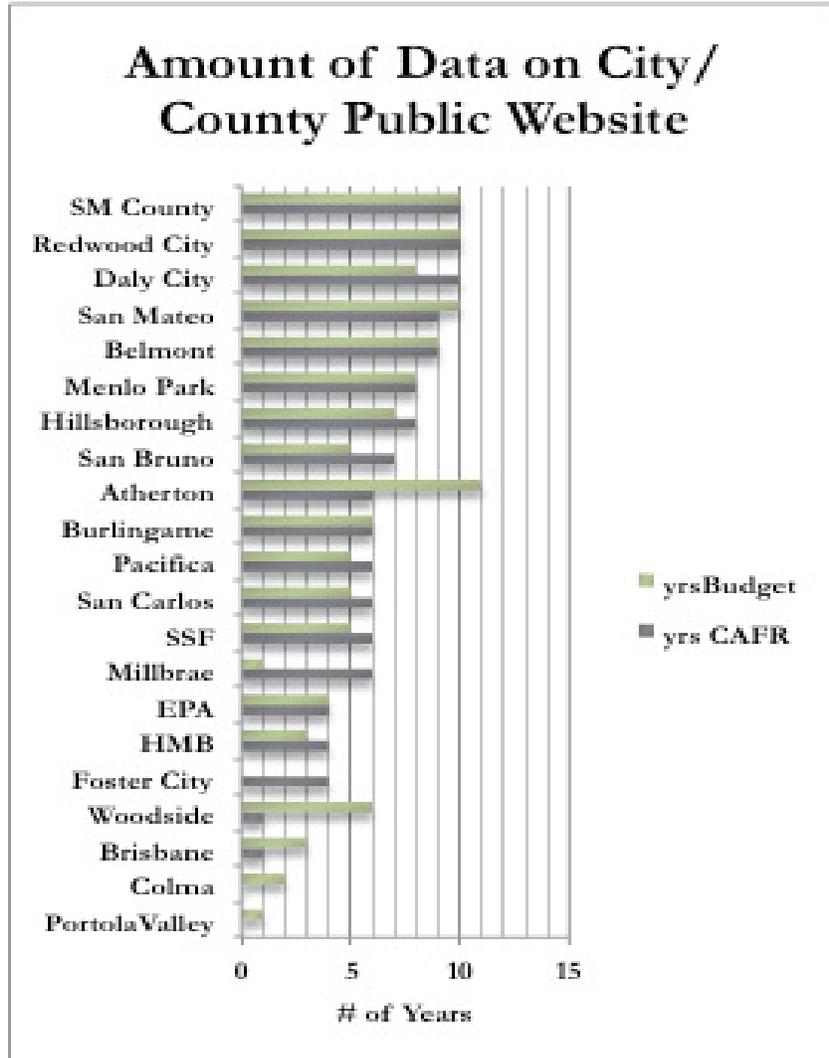
There are significant differences in the amount of information governmental entities choose to make conveniently available to interested citizens. The Grand Jury focused on two specific documents, the CAFRs and the Budgets, as those were most relevant for this investigation.

Chart 1 below shows the documents posted to city and County websites on March 10, 2011, Results ranged from a minimum of the current year’s budget (Portola Valley) to the last ten years of both CAFRS and Approved Budgets (San Mateo County and Redwood City). Brisbane, Colma, Pacifica<sup>1</sup>, and Portola Valley still had not posted 2010 CAFRs or equivalent audited year-end reports as of that date. As a result, their 2010 data is not included in the provided tables or analysis.

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<sup>1</sup> Pacifica posted its 2010 CAFR sometime between 4/14/11 and 5/10/11, too late for all of its data to be included in this investigation report.

Chart 1



Six cities (Foster City, Millbrae, Woodside, Brisbane, Colma, and Portola Valley) currently provide fewer than the last three years of both the Budget and the CAFR documents.

### B. Reserves as an Indicator of Fiscal Health

Based on research and interviews, the Grand Jury selected a set of financial metrics for analysis that were most often recommended as relevant for our purposes. Each of the metrics used is described below with a corresponding rationale.

**Unreserved General Fund Balance (UGFB)** – The *General Fund* is the primary operating fund for the County and its cities. It is one of the *Governmental Funds*, which are that set of funds linked to governmental activities principally financed by taxes and intergovernmental revenues. This contrasts with *Proprietary Funds*, which are linked to business activities primarily financed through user fees and charges, such as for water and sanitation services.

The General Fund has a Fund Balance, which represents the difference between the General Fund's Assets and Liabilities. One value of the General Fund Balance is its use in assessing the ability of the city or County to meet its current obligations and /or its need for near term financing. This General Fund Balance is commonly referred to as "Reserves" and Reserves are designed to protect against the need to raise taxes or reduce services due to temporary revenue shortfalls or unplanned one-time expenditures. The General Fund Balance, and more specifically the unreserved portion of the General Fund Balance, was the appropriate metric for this investigation because "The function of *reserved fund balance* is simply to isolate the portion of fund balance that is *not available for the following period's budget, so that unreserved fund balance* can serve as a measure of current available resources."<sup>2</sup> The Grand Jury was primarily interested in assessing utilization of available resources to meet budget needs over a specific period of time.

Further explanation of reserved and unreserved fund balance may be helpful.

- **Reserved** General Fund Balance is not available for discretionary spending to meet the operational needs of the government in any given year. There are two primary reasons for a Reserved categorization:
  - Those funds are subjected to legal restrictions ("restricted net assets") on spending narrower than the purpose of the fund. Examples include Measure A or gas tax funds.
  - Those funds are not available for spending, e.g. long-term loans receivables.
- **Unreserved** General Fund Balance is available for current appropriation and spending as needed. Cities typically break down their Unreserved General Fund Balance into designated and undesignated portions.
  - *Designated* funds reflect an *intent* to use those funds for the stated purpose (e.g., a capital project for a new park or playground). However, unlike for restricted assets, there is no legal obligation or mandate for them to do so. These funds may be reallocated as city priorities change. This reevaluation and reassignment, if any, occurs with the approval of City Council, usually as part of the annual budgeting process.
  - *Undesignated* funds are those funds not designated for any specific purpose and available for spending without any constraints.

GASB determined that clearer fund balance classifications were warranted and issued new standards as part of GASB Statement 54 in February 2009.<sup>3</sup> They are required to be used for all applicable financial statements for periods beginning after June 30, 2010, although earlier adoption was encouraged. These new classifications "comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the

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<sup>2</sup> Governmental Accounting, Auditing, and Financial Reporting Using the GASB 34 Model, GFOA Publication by Stephen J. Gauthier, p50

<sup>3</sup> GASB Summary of Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions (Issued 02/09)*, <http://www.gasb.org/st/summary/gstsm54.html> (Also, see Attachment 3)

resources reported in governmental funds.” At the highest level, this new hierarchy differentiates amounts that are *spendable* vs. *nonspendable* (such as inventories). Subcategories defined include *restricted*, *committed*, *assigned* and *unassigned* funds. See Attachment 3 for GASB definitions.

As no San Mateo County cities implemented GASB 54 standards early (San Mateo County did), the Grand Jury applied the prior GASB 34 terminology listed above and recognized that some cities may consider some of their unrestricted or designated funds as restricted or reserved even when that legally may not be the case.

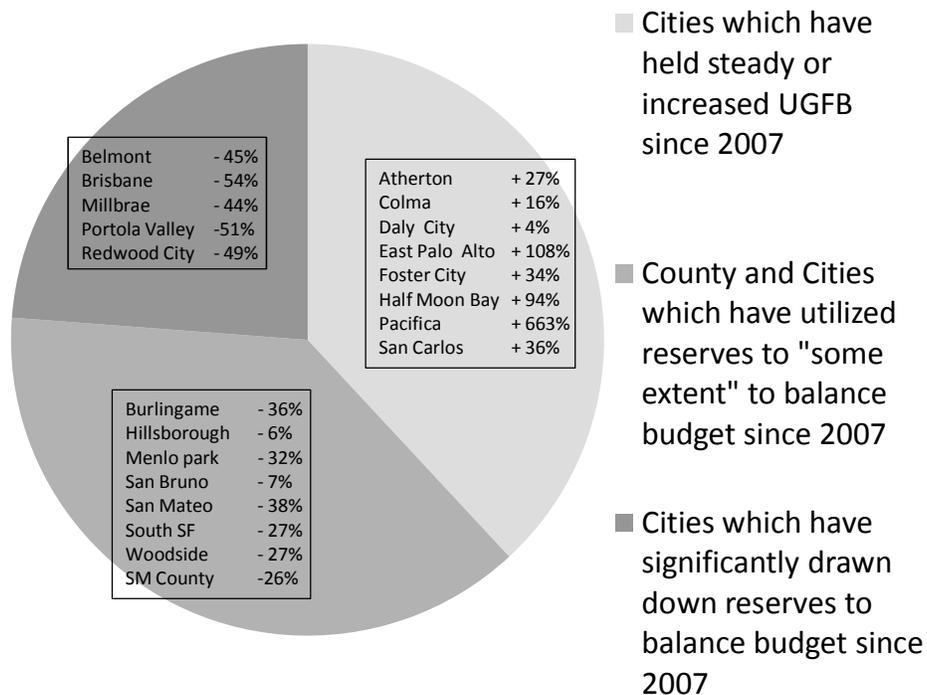
The Grand Jury looked at Unreserved General Fund Balance levels for each city from 2005-2010 for trends. Steadily and significantly declining Unreserved General Fund Balances could suggest these cities or the County were utilizing those reserves to meet short-term operational needs instead of being more aggressive about aligning costs in line with projected revenues.

The Grand Jury then focused on 2007-2010 data to capture trends reflective of actions taken to mitigate the impacts of the recent recession, by illustrating the extent to which the cities and the County opted to draw down reserves. Results are shown in Chart 2 on the next page.

Chart 2

# Unreserved General Fund Balance (UGFB)

## Cities and County



As shown, even in the very challenging economic environment of the last three years, eight cities still managed to increase their reserves as measured by their Unreserved General Fund Balance. Another seven cities and the County utilized these reserves to some extent (6 to 38 percent) to help deal with short-term needs, while five cities utilized their reserves to a significantly greater extent (44 to 54 percent) in this 2007-2010 period.

It should be acknowledged that the levels of UGFB reported represent those levels at a point in time, that of June 30<sup>th</sup> of each year. Levels fluctuate throughout the year due to the timing of tax receipts and certain major expenditures. One city noted that its reserves on June 30<sup>th</sup> can be much higher than at the low points of the fiscal year, and that it specifically designates a portion of fund balance for cash flow in recognition of this timing issue. While accepted as real, it was beyond the scope of this investigation to accommodate such variables for each city and the County. Such explanations can appropriately address any concerns raised by the standard approach taken.

**C. Net Change in General Fund Balance (Revenues minus Expenditures including Transfers)** - Cities and the County attempt to control costs to match anticipated revenues and budget accordingly. In difficult times in which revenue growth is slowing or declining, cities and the County make decisions to cut costs and services to match revenues or draw down reserves to balance the budget.

This measurement allows for proper recognition of certain expenditures, such as debt payments, that for some cities may be shown on their Financial Statements as Internal Transfers. It should be acknowledged that one-time revenues and expenditures are not excluded in our calculations or in the CAFR Statement referenced. As a result, apparent anomalies seen in the data for any particular year(s) when trended over time, may potentially be due to a significant one-time revenue or expenditure. The fact that this Financial Statement does not identify such one-time events, and that a separate standard audited financial statement that includes only annually recurring revenues and expenditures is not provided, is another indicator of the complexity an interested citizen encounters when trying to assess the fiscal health of a city by its numbers.

The table below illustrates the number of consecutive years through 2010 (or the most recent data available) that individual cities and the County increased or drew down their Total General Fund Balance, including both reserved and unreserved portions. As such, it is a view of operating revenues minus expenditures including all transfers into and out of the General Fund, and therefore an indicator of net operating surpluses or deficits in any given year.

**Table 1**

**Net Change in GFB Year to Year**

City	2006	2007	2008	2009	2010
Hillsborough	↑	↑	↑	↑	↑
San Carlos	↓	↑	↑	↑	↑
Colma	↑	↑	↑	↑	na
Millbrae	↑	↑	↓	↓	↑
San Mateo County	↑	↓	↓	↓	↑
San Bruno	↑	↑	↑	↓	↑
Half Moon Bay	↑	↓	↑	↑	↓
Pacifica	↓	↓	↑	↓	na
South San Francisco	↑	↑	↓	↑	↓
East Palo Alto	↓	↑	↑	↑	↓
Belmont	↑	↑	↑	↓	↓
Redwood City	↑	↑	↑	↓	↓
Daly City	↑	↑	↑	↓	↓
San Mateo	↑	↑	↓	↓	↓
Foster City	↑	↑	↓	↓	↓
Menlo Park	↑	↑	↓	↓	↓
Atherton	↑	↑	↓	↓	↓
Burlingame	↓	↑	↓	↓	↓
Portola Valley	↑	↑	↓	↓	↓
Brisbane	↑	↓	↓	↓	na
Woodside	↑	↓	↓	↓	↓
↑	increase to GFB, from previous year				
↓	decrease to GFB, from previous year				
na	data not available				
↑	consecutive increase to GFB, from previous year				
↓	consecutive decrease to GFB, from previous year				

It is noteworthy that while over half the cities (11 of 20) have drawn down their General Fund Balance in the last two or more reported years, three cities (San Carlos, Colma and Hillsborough) have managed to increase it. Fiscal year (FY) 2008-9 was clearly the most challenging, as 15 of 20 cities and the County drew down their GFB that year to balance their budgets.

While examining the number of consecutive years a city or County increased or decreased its UGFB is useful, it is necessary to also evaluate the magnitude of the changes and whether it is widening or narrowing as an indicator of its significance. As noted, there were 11 cities with declining GFB in the most recent two or more consecutive years. Not reflected in the chart is that the magnitude of the decline was greater in 2009-2010 vs. 2008-9 in seven of them: (Belmont, Redwood City, Daly City, Foster City, Menlo Park, Brisbane, and Woodside).

**D. Running Liquidity** – According to interviews with Certified Public Accountants specializing in governmental audits, this is a useful fiscal measure that does not typically appear in city and County CAFRS and Budgets.

Running Liquidity is the number of days a city or County government could continue to operate normally without additional revenue coming in. A typical way of calculating this is by dividing the “Maximum Unrestricted Liquidity” by the city’s or County’s daily spending rate (its annual General Fund expenditures divided by the 365 days in a year). The result is the number of days of spending this cash will cover, its “Running Liquidity”, as shown in Chart 3. Typically, a Running Liquidity below 90 days would trigger a closer examination of the details of this and other fiscal measures to ensure the city or County’s ability to operate at an acceptably low risk. This additional evaluation was beyond the scope of this investigation.

A modified version of this metric was utilized to enable a standard basis of comparison of cities’ and the County’s relative liquidity.

Maximum Unrestricted Liquidity is typically the sum of two main sources of liquid assets – the Unrestricted Assets in the General Fund Balance and the cash in Internal Service Funds. Internal Service Funds are cost pools that can be “charged to” by the General Fund, such as for fleet management, risk management, and workers compensation costs. Cash can be transferred between Funds, and Internal Service Fund cash may be loaned or transferred to the General Fund to, in effect, supplement its revenues.

For the purposes of this analysis, the Grand Jury used the total of *Unreserved* General Fund Balance and Internal Service Fund Cash as the Maximum Liquidity and divided it by the city’s or County’s daily spending rate (General Fund Expenditures/365).

Every city has unique financial circumstances and there is flexibility available in terms of how the details are managed and reported. This underscores the complexity of attempting to perform comparative analysis and why it makes sense for us to present results rather than interpret them.

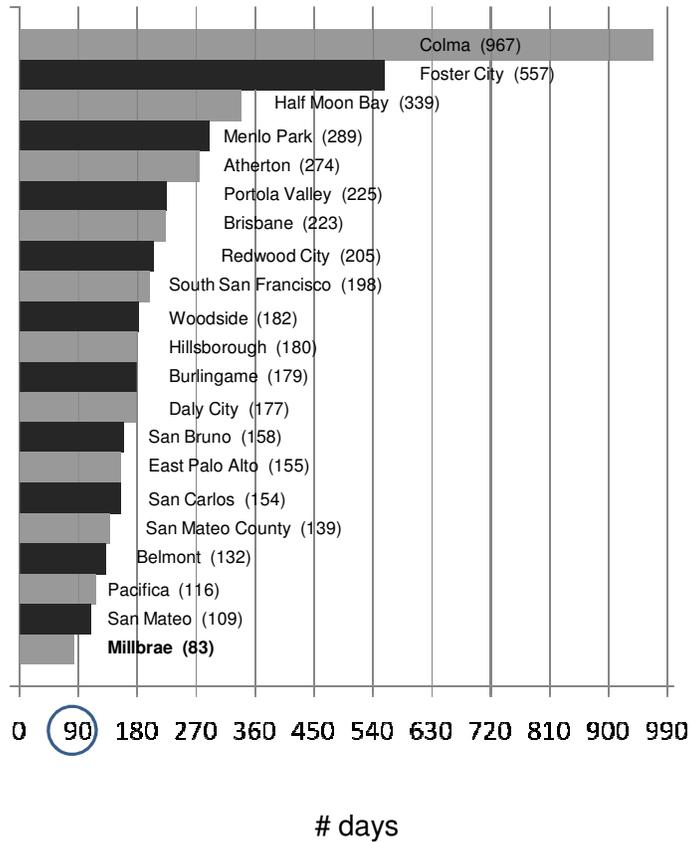
Since neither Maximum Unrestricted Liquidity nor Running Liquidity are calculated or shown in any of the city or County CAFRs examined, reporting standards could not be assessed. The Unreserved General Fund Balance is consistently reported, but there is significant variation in the use of Internal Service Funds. Cities and the County have the legitimate option of setting up Internal Service Funds in numbers and for tracking purposes that work for their particular circumstances. Small cities may have few Internal Service Funds while larger ones may have many (e.g., Hillsborough has one, while Daly City has seven). While the movement of funds between Internal Service Funds and the General Fund is shown in the CAFRs, *it is not trivial to determine with certainty whether all of the cash in the Internal Service Funds is truly available to support operations*. It is accepted that it is not the cities’ or County’s intent to make all of those funds available to the General Fund under normal circumstances; however, that was not the purpose of our assessment. Our purpose was to identify liquid funds that ***could be made available if necessary to support operations***. By using UGFB, the Grand Jury is being conservative since some Reserved Funds may not be legally “restricted” from use and could also be made available in an emergency.

Chart 3

# Running Liquidity

(2010 or Most Recent Data Available)

$$\# \text{ days expense coverage} = (\text{Unreserved GFB} + \text{Cash in Internal Service Funds}) / (\text{GF Expenditures}/365)$$



As seen in the chart, Running Liquidity ranged from a high of 967 days (Colma) to a low of 83 days (Millbrae). Millbrae was the only city below the auditor-recommended 90-day threshold for attention. This is not necessarily indicative of a problem, given the unique circumstances of each city. However, since the same formula was used for all cities and the County, this relative position and value should trigger further exploration.

## E. Applicable Policies and Standards

GASB 34 states that “The adequacy of *unreserved fund balance* in the general fund should be assessed based on a government’s own specific circumstances”. It recommends minimum levels that should be maintained regardless of organizational size. Those minimum *unreserved general fund* balances are given as either:

- (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.<sup>4</sup>

A summary of city policies, evaluated against GASB 34 recommendations, is provided in Attachment 1. San Mateo County reserve policies are clearly listed on page VI of its 2010 CAFR.

In summary, 14 of the 20 cities (70 percent) and the County have reserves policies approved by elected officials (City Councils or Board of Supervisors, respectively) with respect to the level of reserves required to be maintained in their General Funds. Five of the 14 are compliant with GASB 34 in that the cities' policies specified quantitative limits above the minimum 5 percent.

The Grand Jury went another step and evaluated:

1. Did cities and the County maintain Unreserved General Fund Balance levels consistent with GASB 34 recommendations over the time period from Fiscal Years 2007-2010, whether or not they had policies requiring that?
2. Did cities and the County comply with their own policies with respect to reserves during Fiscal Years 2007-2010, whether or not those policies complied with GASB 34 recommendations?

Note: Significantly, the language of some policies specified quantitative levels of reserves to be maintained, but was not explicit in applying them to just the unreserved portion. This allows for the possibility of the County or cities including, in their "reserves", funds that are legally restricted to their stated purpose and not available to support operations.

As noted previously on page 6, there has been sufficient ambiguity in reserve classification and reporting that GASB issued Statement 54 to attempt to improve clarity and make reporting more consistent.

The results of this assessment are diagrammed in Attachment 2. Results are summarized as follows:

1. All cities and the County maintained levels of Unreserved General Fund Balance consistent with the GASB 34 recommended minimum of 5-15 percent of revenues or one to two months (8.3–16.6 percent) of expenditures during Fiscal Years 2007-2010, except Brisbane (2008 only) and Pacifica (2007 only).
2. All cities complied with their own policies during the Fiscal Years 2007-2010

These results suggest that GASB 34 levels are reasonable and achievable even in challenging economic environments. However, it should be noted that the CPA auditors interviewed stated that, in their opinion, the GASB 34 recommendations were low and, in this environment, UGFB levels twice those levels are appropriate for most cities.

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<sup>4</sup> Governmental Accounting, Auditing, and Financial Reporting Using the GASB 34 Model, GFOA Publication by Stephen J. Gauthier, p51-52

Given this context, a quick and useful way to look at cities' and the County's current situation with respect to reserves follows in Table 2 below

**Table 2**

**Cities and County Levels of Current (2010 except where noted) UGFB  
As % of General Fund Revenues**

<b>0 -15% (upper end of current GASB 34 recommended range)</b>	<b>16 – 29% (between current GASB recommendation and auditor suggested range)</b>	<b>30% or higher (auditor suggested minimum for most cities in current environment)</b>
Belmont	Brisbane ('09)	Atherton
Millbrae	Burlingame	Colma ('09)
San Mateo	Pacifica ('09)	Daly City
	Redwood City	East Palo Alto
	San Bruno	Foster City
	South San Francisco	Half Moon Bay
	San Mateo County	Hillsborough
		Menlo Park
		Portola Valley
		San Carlos
		Woodside
<b>3 total</b>	<b>7 total</b>	<b>11 total</b>

Smaller cities in terms of revenues and expenses tend to maintain higher levels of reserves. This is to be expected because larger cities generally have more diverse economies and revenue sources. Smaller cities are dependent on fewer sources for the bulk of their revenue and are therefore at greater risk in downturns. They therefore benefit from higher levels of Unreserved General Fund Balance as insulation.

**F. Retiree Pension and Health Care Payments**

This investigation of reserves and the extent of cost cutting to match revenues occurred during a period of heavy media attention to the impact the cost of retiree benefits were having on local government finances. This led the Grand Jury to examine whether or not cities and the County were fulfilling their annual payments to the systems covering these benefits. This is separate and distinct from the much larger issue of the relative financial soundness of these systems and future costs to the cities and County, which were beyond the scope of this investigation. The results of this assessment of annual payments to California Public Employees' Retirement System (CalPERS) and the San Mateo County Employees' Retirement Association (SamCERA) for pensions and of the health care portion of Other Post-Employment Benefits (OPEB) follow separately below.

## **G. Retirement Pension Benefits (CalPERS and SamCERA)**

All 20 cities participate in CalPERS, for funding pension obligations. Actuarial calculations determine an amount each participating city must contribute annually, based on its labor contracts and commitments, its proportional share of the state pool, and actual earned and assumed earn rates on the fund's assets over the next 30 years.

San Mateo County has its own defined pension (and disability and death benefit) plan, (SamCERA). The County Employees' Retirement Law of 1937 (the 1937 Act) established the basic obligations for employers and members to contribute to the pension trust fund. Statutes require participating employers to contribute the actuarially determined amounts necessary to fund the estimated benefits accruing to SamCERA members not otherwise funded by member contributions or investment earnings.

All 20 cities and the County made their annual required contributions to CalPERS and SamCERA respectively between 2006 and 2010. They have met their obligations through the normal budgeting process while maintaining reserves at minimum GASB 34 recommended levels or higher.

What cannot be determined from these examined reports is the magnitude of future annual pension costs, which will vary based on updated actuarial valuations, investment performance, the changing number of city employees participating in the various plans, and new labor agreements with changes in benefits negotiated over time. What is clear, and what has been reported widely, is that pension costs will rise significantly over time and that cities and the County are concerned about the impacts. They are taking steps, some more aggressively than others, to be able to manage those costs for the long term. Those who came out of the recession in positions of relative strength rather than weakness are better able to manage this next transition with reduced impact on services provided to its citizens.

## **H. Other Post Employment Benefits (OPEB) - Health Care**

Until fairly recently, most cities paid for their retiree's contracted health insurance benefits directly as expenses were incurred. The OPEB trust fund, which operates similarly to CalPERS for pensions, came into effect in 2008-9. Most cities joined this pool. As in the case of CalPERS for pensions, cities contribute to a pool and the trust invests the funds. The trust communicates to participating governments the actuarially determined annual payments needed for them to be fully funded. Unlike for pension financing, however, cities are not contractually required to make annual OPEB payments in full.

Some participating cities have chosen to make their annual OPEB payments in full while others have made varying partial contributions. Failure to keep current on OPEB payments puts cities at risk that their accumulated obligation may eventually grow too large for them to be able to "make up" the difference without significantly impacting city services or jobs.

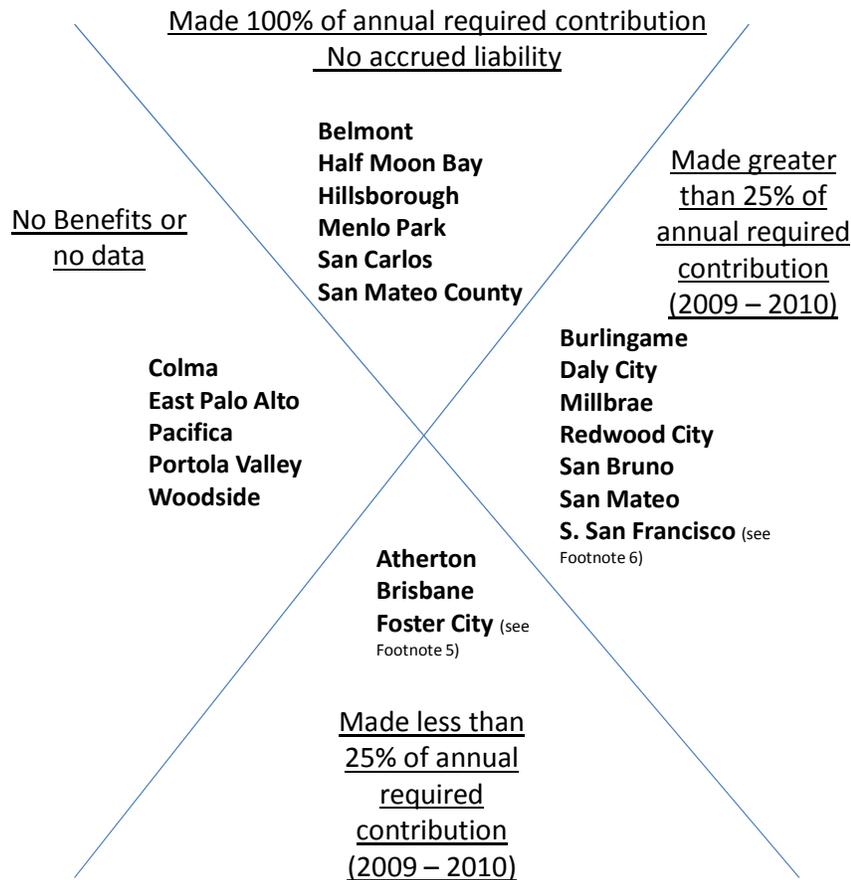
Based on data available, current positions with regard to OPEB funding are summarized as follows and in Chart 5 below:

Categories used are:

- *Made 100 percent of annual required contributions; no accrued liability.*  
It is noteworthy that one city (San Carlos) and the County prepaid OPEB when joining the program and have current surpluses as a result.
- *Made greater than an average of 25% of annual required contributions 2009-10; has associated accrued liabilities*
- *Made less than an average of 25% of annual required contribution 2009-10; has associated accrued liabilities*
- *No retiree health care benefits or no data provided in Financial Reports*

## Chart 4<sup>5 6</sup>

### OPEB ARC Payment Status



<sup>5</sup> Foster City has set aside \$7 million, the full amount actuarially determined in 2009 as necessary to fully fund its OPEB obligation. Although managed separately, because the funds are not in an irrevocable trust, the liability must be reported as unfunded per GASB 45.

<sup>6</sup> South San Francisco has set aside \$6.8 million towards its OPEB liability but it must be reported as unfunded for the same reason as noted for Foster City above.

As in the case of pension benefits, the Grand Jury assessed the level at which cities and the County were making their annual required contributions. It did not attempt to assess the level or rate of growth of future annual payments and the impact those might have on city finances because of the variables involved, the limited time available, and the inability to challenge the assumptions made. These were beyond the scope of this investigation.

## I. Case for Caution

Caution must be exercised in drawing firm conclusions about the fiscal health of a city or county in isolation, or in comparison with others, based on any limited set of data. This is especially true given that governments have some flexibility within GASB rules as to how they organize their finances and report their data. The best that can be done is to highlight potential issues for further investigation. Half Moon Bay served as an excellent example.

Based on the data collected, Half Moon Bay was grouped into the category of cities whose reserves (UGFB) were flat or increased in the 2007-2010 period. The data shows an increase of 94%. It has a city policy currently requiring 30% of annual operating expenditures be held as reserves and it met that higher than minimum GASB 34 recommended standard each of those years. (The city policy was 20% of annual expenditures in 2007-2008). Its maximum Running Liquidity of 334 days was the second highest of all cities in the County. Its revenues exceeded its expenditures the last two years of the recession (*not including internal transfers and one time proceeds or payments*), and it made its contractually required CalPERS payments and is current on its OPEB retiree healthcare payments, with no net OPEB obligation as of June 30, 2010. Based on these indicators, one could conclude that Half Moon Bay was fiscally healthy.

A recent news report<sup>7</sup> highlighted a “fiscal crisis” and stated that the city could potentially run out of its reserves. While the Grand Jury avoided making any judgments about the fiscal soundness of any city or the County for the reasons mentioned previously, and limited its focus in this investigation primarily to the use of reserves, it looked further into Half Moon Bay’s public financial statements and sought additional clarification from a Half Moon Bay official to verify the correctness of the data used and further understand any limitations.

In summary, Half Moon Bay issued Judgment Obligation Bonds to help cover the costs of a legal settlement. The proceeds from the bonds were received and subsequently disbursed in fiscal year 2009-2010 and properly reflected on the appropriate city financial statements. The full payment consisted of \$15 million from the bond proceeds and \$3 million from the General Fund<sup>8</sup>.

The Adopted Annual Budget for 2010-2011 shows a projected deficit (\$504,447) of revenues vs. expenditures, to be covered by its General Fund Balance. The result is that the city’s reserves would fall below its 30% of annual operating expenditures policy. A waiver permitting a one-year exception had been granted by City Council in anticipation of this need.<sup>9</sup> The policy requires the City Manager to “prepare a plan for consideration by the City Council to implement

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<sup>7</sup> “Outsourcing Safety San Francisco Chronicle Editorial”, 4/5/11, pA13

<sup>8</sup> Approved Half Moon Bay General Fund Budget Summary Comparison, pC2

<sup>9</sup> Half Moon Bay City Council Resolution No. C-46-10 adopted 6/15/10

actions within a twelve-month period to rebuild the fund balance.”<sup>10</sup> The City also identified key financial impacts in a Five Year Forecast document included as part of its budget, highlighting its specific challenges.

In summary, the data collected by the Grand Jury was accurate as it related to a limited, defined set of data at a specific point in time. However, the data did not and could not tell the entire story. A more comprehensive examination of all relevant management discussions, financial statements, notes, budgets and forecasts, and changes in them over time, including data not yet published or audited, is needed to really understand the fiscal health of a city, which can change very quickly. This type of effort is beyond the capability of the average citizen and highlights the need for the cities and County to do the best they can to make as much information publicly available in as timely a fashion as possible. In this specific case, Half Moon Bay’s most recent CAFRs, Annual Approved Budgets, Reserve Policies, and Five Year Forecasts were available to the public on its website, enabling interested citizens capable of understanding it to properly educate themselves on the significant impact of a legal settlement, in this case, and of other major financial issues affecting the fiscal health of the city.

## 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.
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.
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.
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.
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.
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.

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<sup>10</sup> Half Moon Bay City Council Resolution No C-38-09, adopted 6/2/09

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.
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.<sup>11</sup> 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.
9. One city (Millbrae) had a Running Liquidity below 90 days.
10. All cities and the County are fully funding their Annual Required Contribution to CALPERS or SamCERA for retiree pension funding.
11. Ten participating cities<sup>12</sup> 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.

## Conclusions

1. There are significant differences in the amount of current and historical financial information governmental entities choose to make conveniently available to interested citizens.
2. The complexities of government accounting could cause interested citizens to misinterpret data or draw incorrect conclusions. Financial information provided by cities and the County could be improved.
3. Cities and the County seemed to have prudently managed their Unreserved General Fund Balance reserves through the recession, making trade-offs appropriate for their individual financial circumstances.
4. Clear and explicit reserve policies add value by providing direction from elected officials, and supporting budgeting actions and decisions that maintain reserves at levels tailored to specific city circumstances.
5. The lack of a statutory or contractual requirement to fully meet annual OPEB health care payments resulted in some cities choosing to defer payments and increase unfunded liabilities in favor of other priorities. There are cities that appear to have ample reserves and liquidity, with revenues that consistently exceed expenditures that are not making their full annual

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<sup>11</sup> *Balancing Governmental Budgets under GASB 54*, Journal of Accountancy, Nov 2009

<sup>12</sup> Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Bruno, San Mateo, South San Francisco

OPEB payments, when future obligations incurred may be more costly than using liquid funds available to them now.

## 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.
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. 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.

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. 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.
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.

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.

### **Appendices:**

- Appendix 1: Table of City/County General Fund Reserve Policies
- Appendix 2: Diagram of Alignment to GASB 34 and Local Policies
- Appendix 3: Summary of GAS Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions

**Attachment 1.**  
**City/County General Fund Reserve Policies**  
**(Excerpted from Written Responses to Specific Grand Jury Inquiry from Cities)**

City/County	GFB Formal Policy?/ Eff. Date	Policy Description	GASB 34 Recommendation Compliant?
<b>Atherton</b>	Yes Resol #10-20 5/19/10	"...the definition of reserves is limited to the portion of fund balance that is <i>unreserved</i> ." "Strive for 15-20% Budget Stabilization Reserve, 15-20% Emergency Disaster Reserve; 5-10% Working Capital Reserve. "In no circumstances shall the total General Fund reserve balance drop below 15% of the Town's operating expenditures for the General Fund."	Yes
<b>Belmont</b>	Yes 6/26/2001	\$2M General Fund Balance Minimum Target, 20% Operating Budget Maximum Target based on adopted operating expenditures, exclusive of transfers and capital outlay.	Language is not explicit with regard to applicability to <i>Unrestricted GFB</i>

<b>Brisbane</b>	Yes Pre 2001	"The City will maintain fund or working capital balances of at least 50% of operating expenditures in the General Fund..."	Language is not explicit with regard to applicability to <i>Unrestricted GFB</i>
<b>Burlingame</b>	No – will be considered as part of five-year general fund plan under development	"...the city does not have a formal, Council-adopted reserve policy for the general fund, but its practice has been to maintain four reserve amounts over the years..."	No
<b>Colma</b>	Yes	*Municipal Code 1.13.150 Reserves: "(a) The budget shall contain reserves within the General Fund as follows." (Six types of reserves are described but no quantitative minimums or ranges are specified).	No
<b>Daly City</b>	Yes "quite old"	"Adequate reserves will be maintained in each of the City's funds...Nominally a cash reserve of 15% of annual expenditures for the General Fund is considered adequate"	Language is not explicit with regard to applicability to <i>Unrestricted GFB</i>
<b>East Palo Alto</b>	Yes "Approved as part of the	The most significant policy objective is to ensure that at the end of each fiscal year, cash is added to the reserve until	Yes

	adopted Budget"	the target minimum level is achieved. For example, it is proposed that the goal would be to ensure that an unrestricted unallocated cash reserve equivalent to 15% of operating costs is available at the end of each fiscal year."	
<b>Foster City</b>	Yes Resol 2010-33 4/5/10	"...minimum reserve threshold of 33 1/3% of budgeted annual operating expenditures with a target range of 33 1/3% to 50% for purposes of the Five-Year Financial Plan" (This replaced an earlier General Fund Reserve Policy of "...a minimum threshold of \$10 million in unrestricted undesignated fund balance.")	New Language is not explicit with regard to applicability to <i>Unrestricted GFB</i> ( <i>superseded one was</i> )
<b>Half Moon Bay</b>	Yes Res C-38-09 6/2/09	"The City shall maintain an unencumbered General Fund reserve equal to a minimum of thirty percent (30%) of annual operational expenditures."	Yes
<b>Hillsborough</b>	Yes "Personnel Policy 409" Last revised 1/9/06	"The Town will strive to maintain fund or working capital balances of at least 30% of operating expenditures in the General Fund..."	Language is not explicit with regard to applicability to <i>Unrestricted GFB</i>

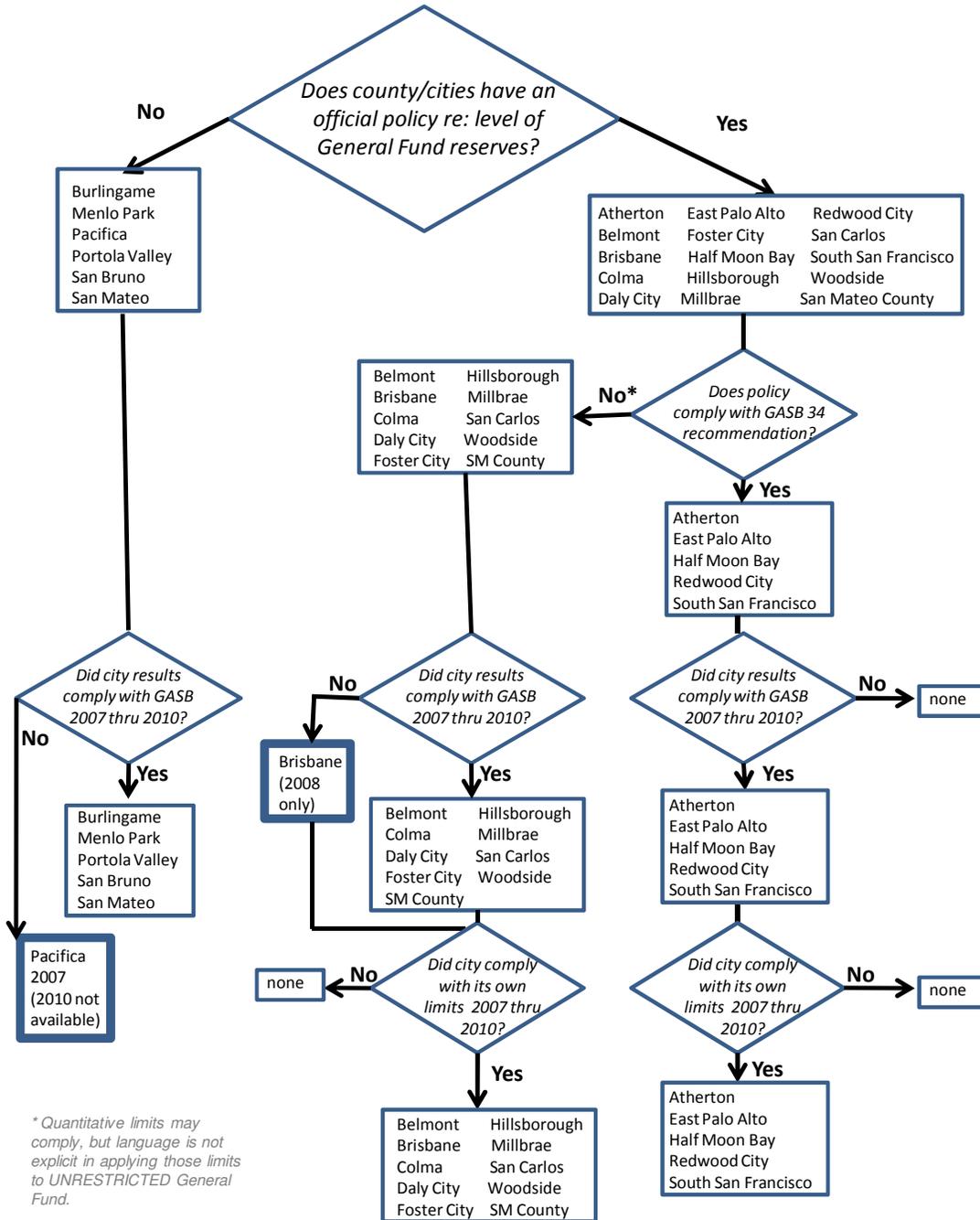
<b>Menlo Park</b>	No (Under Dev't: evaluation ongoing since 10/08, with latest proposal presented 5/4/10)	N/A	No
<b>Millbrae</b>	Yes Resol 08-61 11/25/08	"... the annual budget and 2 year fiscal plans shall include a 15% general fund...reserve..."	Language is not explicit with regard to applicability to <i>Unrestricted GFB</i>
<b>Pacifica</b>	No	N/A	No
<b>Portola Valley</b>	No	N/A	No
<b>Redwood City</b>	Yes Res # 13598 4/5/99	"... the unappropriated balance of the General Fund shall be maintained at a level not less than fifteen (15) percent, nor more than twenty (20) percent, of estimated General Fund revenues in any given fiscal year."	Yes
<b>San Bruno</b>	No Draft Only: Recommended by Staff in 7/2010, will be incorporated	Draft: "The City will maintain a minimum Reserve of at least two months (16.67%) and up to three months (25%) of General Fund operating expenditures"	Language is not explicit with regard to applicability to <i>Unrestricted GFB</i>

		into 2011-12 budget for approval and adoption by City Council in June 2011			
<b>San Carlos</b>	Yes Res 2010-072 8/23/10		“General Fund Reserve for economic uncertainties equal to a minimum of 10% of the General Fund Expenditures with a target of increasing to 20% of General Fund Expenditures.”	Language is not explicit with regard to applicability to <i>Unrestricted GFB</i>	
<b>San Mateo</b>	No 11/5/02 Charter Amendment Business Plan 2010-2012		Charter Amendment 5.05: “The Council shall establish reserves which in its discretion are proper.” Business Plan Current Status of Financial Goals and Policies: “The goal is to work towards increasing two reserves (Emergency Reserve and Service Stability Reserve) to the equivalent of three months’ expenditure.”	Proposed language is not explicit with regard to applicability to <i>Unrestricted GFB</i>	
<b>South San Francisco</b>	Yes 6/03		“The City Council has adopted reserve policies where a certain percentage of the General Fund budget for each year needs to be set aside for emergencies, economic contingencies, and future development as well as for undesignated City reserve...” Reserve for Emergencies 2% of GF Operating Budget; for	Yes	

			Economic Contingencies 7% of GF Operating budget; For Undesignated Reserve 5% of GF Operating Budget; for future development –no target.”		
<b>Woodside</b>	Yes 6/93		“Adequate reserves must be developed and maintained, including a minimum reserve level of fifteen percent of estimated operating revenues for the Town’s General Fund”		Language is not explicit with regard to applicability to <i>Unrestricted GFB</i>
<b>San Mateo County</b>	Yes 2/10		“Maintain a minimum reserve equivalent to 2% of net appropriations for one-time emergencies, unanticipated mid-year losses of funding, and short-term coverage of unanticipated cost overruns.” Also “ <i>General Fund Reserves</i> be maintained at a minimum of 5% of total General Fund net appropriations for one-time purposes or as part of a multi-year financial plan to balance the County’s budget; <i>Appropriation for Contingencies</i> be maintained at 3% of total General Fund net appropriations for one-time emergencies and economic uncertainties...”		Language is not explicit with regard to applicability to <i>Unrestricted GFB</i> . <u>Additionally, since the County implemented reporting General Fund Reserves consistent with GASB 54 provisions in its 2010 CAFR, this policy language was also evaluated against those provisions with the same outcome.</u>

## Attachment 2

# Alignment to GASB 34 and Local Policies



## Attachment 3



### **Summary of Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (Issued 02/09)**

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through

which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

### **How the Changes in This Statement Will Improve Financial Reporting**

The requirements in this Statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the *reserved* component of fund balance in favor of a *restricted* classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance classification approach in this Statement will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources

and how those constraints may be modified or eliminated. The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.



# Town of Atherton

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[www.ci.atherton.ca.us](http://www.ci.atherton.ca.us)

August 17, 2011

Honorable Joseph E. Bergeron  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> 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.**

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.

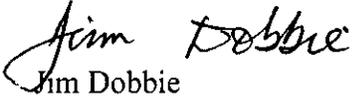
**D.1 By July 1, 2012, the City Councils of Atherton, Brisbane, Burlingame, Daly City, Foster City, Millbrae, Redwood City, San Bruno, San Mateo, and South San Francisco are to explain in CAFR Management Notes, Annual Budget, or other appropriate document available to the public why full annual required 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 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,

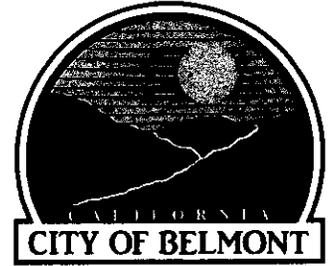
A handwritten signature in cursive script that reads "Jim Dobbie".

Jim Dobbie  
Mayor

**TOWN OF ATHERTON**

August 15, 2011

Honorable Joseph E. Bergeron  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> 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



**COUNTY OF SAN MATEO**  
Inter-Departmental Correspondence  
County Manager's Office



**DATE:** July 20, 2011  
**BOARD MEETING DATE:** September 13, 2011  
**SPECIAL NOTICE/HEARING:** None  
**VOTE REQUIRED:** Majority

**TO:** Honorable Board of Supervisors  
**FROM:** David S. Boesch, County Manager  
**SUBJECT:** 2010-11 Grand Jury Response

**RECOMMENDATION:**

Accept this report containing the County's response to the 2010-11 Grand Jury report: Running on Empty.

**BACKGROUND / DISCUSSION:**

The County is mandated to respond to the Grand Jury within 90 days from the date that reports are filed with the County Clerk and Elected Officials are mandated to respond within 60 days. To that end, included is the County's response to the "Running on Empty" report issued on June 27, 2011.

Acceptance of this report contributes to the Shared Vision 2025 outcome of a Collaborative Community by ensuring that all Grand Jury findings and recommendations are thoroughly reviewed by the appropriate County departments and that, when appropriate, process improvements are made to improve the quality and efficiency of services provided to the public and other agencies.

**FISCAL IMPACT:**

There is no Net County Cost associated with accepting this report.

## Running on Empty

### Findings:

**Grand Jury Finding Number 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.

Agree. Ten years of published CAFRs, Recommended and Adopted budgets are made available to the public on the San Mateo County website.

**Grand Jury Finding Number 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.

Partially disagree. San Mateo County publishes a Popular Annual Financial Report (PAFR) and has received an award for "Outstanding Achievement in Popular Annual Financial Reporting" from the Government Finance Officers Association (GFOA) the last nine consecutive years. In order to receive this award, a government unit must publish a PAFR, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

**Grand Jury Finding Number 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.

Agree. San Mateo County maintains a level of reserves that exceeds GASB 34 minimum requirements.

**Grand Jury Finding Number 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. San Mateo County maintains a level of reserves that exceeds GASB 34 minimum requirements.

**Grand Jury Finding Number 8.** Confusion as to how government 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.

Partially disagree. San Mateo County implemented GASB 54 and the new terminology in its FY 2008-09 CAFR.

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

Agree. San Mateo County is fully funding its Annual Required Contribution to SamCERA for retiree pension funding.

**Recommendations:**

**The 2011 San Mateo 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.**

**Response:**

Agree. The recommendation has not been implemented, but will be implemented by July 1, 2012. The County Manager's Office will work collaboratively with the Controller's Office to update San Mateo County's existing reserves policy to incorporate language consistent with the new GASB 54 statement hierarchy and establish the minimum level of reserves for each classification under complete control of the Board of Supervisors.

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

**Response:**

Agree. San Mateo County's existing Reserves Policy includes specific plans to restore the required level of reserves in the event they fall below minimum requirements.

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

**Response:**

Agree. San Mateo County's existing Reserves Policy is included 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.**

**Response:**

This recommendation requires further discussions with the cities and the County to agree on a set of key financial measures to share with the public and on the frequency with which the measures would be updated and published. We will vet this through the San Mateo County Fiscal Officers Group (SamFOG) in the coming months and report back to the FY 2011-12 Grand Jury on the results of those discussions.

- 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 requires further discussions with the cities and the County to agree that a Running Liquidity metric would be a valuable financial key measure to share with the public. We will vet this through the San Mateo County Fiscal Officers Group (SamFOG) in the coming months and report back to the FY 2011-12 Grand Jury on the results of those discussions.



## 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, 2<sup>nd</sup> Floor  
Redwood City, CA 94063

Re: Running on Empty

Dear Judge Bergeron:

The City of Brisbane 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



## The City of Burlingame

City Hall – 501 Primrose Road  
Burlingame, CA 94010-3997

August 30, 2011

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

RE: Response to Civil Grand Jury Report: “Running on Empty?” Approved by the  
Burlingame City Council on Monday, September 19, 2011.

Dear Judge Bergeron:

As per your request, the City of Burlingame hereby addresses each of the findings presented by the Civil Grand Jury of San Mateo County in their 2011 report entitled, “Running on Empty.”

- 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 adopted annual budgets.*

**City Response:** The City of Burlingame agrees with the finding. The City of Burlingame website contains the city’s Comprehensive Annual Financial Reports (CAFRs) and adopted city budgets for the last six fiscal years. Information is available at [www.burlingame.org](http://www.burlingame.org).

- 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:** The City of Burlingame agrees with the finding. Government accounting standards as promulgated by the Governmental Accounting Standards Board (GASB) can be complex and difficult for the average citizen to understand. As a former member of GASB’s advisory group, the National Governmental Accounting Standards Advisory Council (GASAC), I consistently recommended that the GASB consider ease of understanding and simplicity in developing governmental accounting standards. The city attempts to make the information presented in its CAFRs comprehensible to those with limited or no accounting background while still complying with GASB standards. Part of the difficulty is that the CAFR is meant to provide financial information to a wide range of readers, from sophisticated investors and credit rating agencies to average citizens. The CAFR also must be presented in accordance with GASB standards in order to ensure compliance by the city’s external, independent auditors.

Also assessing the financial health of any enterprise, public or private, requires those who read and use financial information to make certain judgments about future risks and prospects. The average citizen may be interested in knowing simply if the city's financial health is "good or bad." But we caution against answers to that question that are either overly simplistic or that don't spell out the underlying assumptions being made about the future of our economy.

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:** This finding does not pertain to the City of Burlingame.

4. *All cities and the county had unreserved general fund balances (designated 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:** The City agrees 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.*

**City Response:** The City agrees 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.*

**City Response:** The City agrees 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.*

**City Response:** The City agrees 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.*

**City Response:** The City agrees with the finding.

**9. One city (Millbrae) had a running liquidity below 90 days.**

**City Response:** This finding does not pertain to the City of Burlingame.

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

**City Response:** The City agrees with the finding. The City of Burlingame participates in CalPERS for retiree pension benefits. CalPERS statutory rules require all participating agencies to fund their Annual Required Contribution (ARC).

**11. Ten participating cities [including Burlingame] are not making their full actuarially determined 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.**

**City Response:** The City agrees with the finding. The portion of the finding pertaining to the cities of Atherton, Brisbane and Foster City is not applicable to the City of Burlingame.

The City of Burlingame conducted its GASB required actuarial valuation for Other Post Employment Benefits (as per GASB Statement 45 - OPEB) for 2011. The preliminary results indicate that the city currently has a total of 249 retirees who receive health care benefits and a total of 196 employees who may receive health care benefits upon successful retirement from the city. The number of active employees does not include fire personnel because they are now employees of Central County Fire JPA even though the city is still responsible for 60% of the costs of operating the fire JPA.

Based on the 2011 actuarial valuation analysis, the city's annual required contribution is \$6.72 million of which \$2.785 million is paid annually on a cash basis (41%). The cash payments represent the cost of annual health care premiums paid on behalf of retired employees in accordance with current and past collective bargaining agreements. These payments are budgeted annually and paid by the city. This leaves an annual balance of \$3.9 million which is added yearly to the city's unfunded actuarial accrued liability. As of January 1, 2011, the City of Burlingame's unfunded actuarial accrued liability for retiree health is \$76.4 million.

The City of Burlingame proposes to begin funding the unpaid portion of the annual required contribution (\$3.9 million) beginning in fiscal year 2012-2013. The city's strategy is to begin making gradually growing annual payments over the next five fiscal years until the entire annual required contribution is being funded. In addition the city proposes to limit and constrain the growth in the future unfunded actuarial accrued liability by negotiating new health care benefits for future employees. This, of course, is subject to collective bargaining as per State law.

Additionally, the City of Burlingame's responses to the Civil Grand Jury recommendations are as follows:

**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 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, the 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.*

**City Response:**

The recommendation has been partially implemented. The City Council adopted as part of its budget resolution, Resolution 38-2011, the implementation of GASB Statement 54 Fund Balance Reporting. The resolution gives the City's Finance Director the authority to make fund balance allocations as determined by City Council guidance and established financial goals.

The City will fully implement the recommendation, specifically subsections a., b. and c. by July 1, 2012.

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:**

The recommendation has not been implemented but the City will work with other San Mateo County jurisdictions to implement this recommendation by July 1, 2012. Implementation of this recommendation will require coordination and collaboration between the County of San Mateo and its incorporated cities.

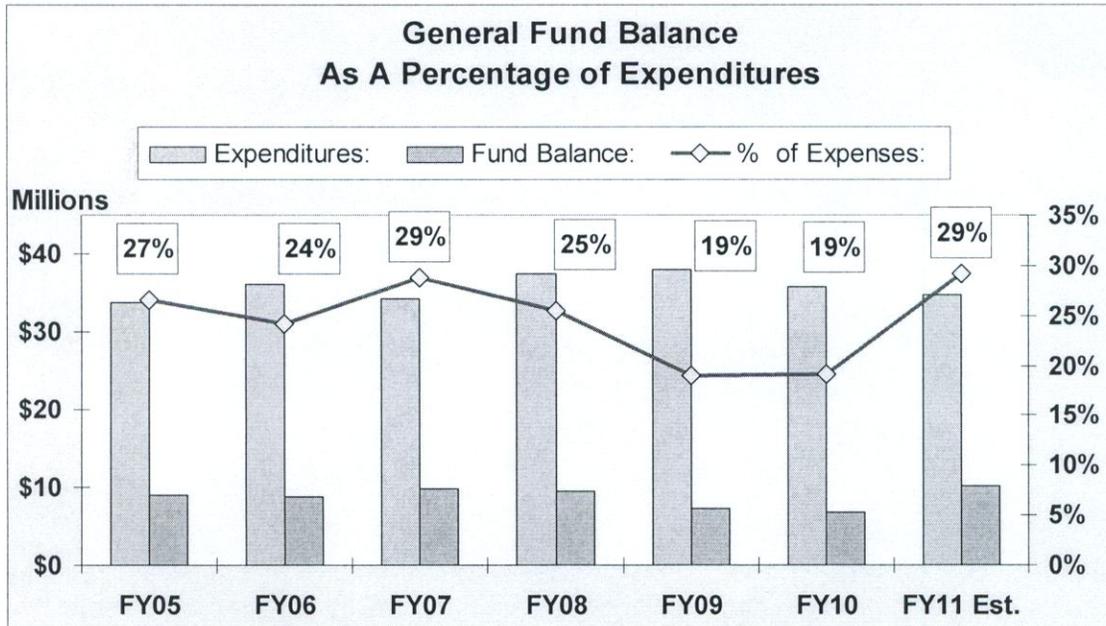
3. *Direct their City/County Managers to formally evaluate the value of a clearly defined running liquidity metric as an additional measure of the City/County's fiscal health with specific target minimums, and make a specific recommendation back to the City Council or Board of Supervisors for action.*

**City Response:**

This recommendation has not been implemented and will require further analysis given the diversity of opinions on what constitutes a "clearly defined running liquidity metric." The County and its cities do not provide all the same services or the same level of services and therefore have different operational costs and revenue needs. In addition, the diversity of city revenue sources among the County and its cities, with some being more sensitive to economic conditions than others, makes pinpointing a specific liquidity target difficult. While the GASB may recommend a certain amount to be maintained in reserve to provide financial liquidity and stability, each jurisdiction must assess its own financial strengths and weaknesses to determine

the level of liquidity that is best for them. In the end, the County and each city must determine for themselves how best to balance providing city services with maintaining cash reserves.

At the end of fiscal year 2010 the City of Burlingame had \$6,855,586 in general fund reserves representing approximately 70 days of operating cash (liquidity). The preliminary 2011 general fund reserves are estimated to be \$10.2 million for an increase of \$3.34 million. This increases the city’s liquidity in the general fund to 107 days. The following graph shows the City of Burlingame’s trend line with respect to General Fund Balance as a Percentage of Operating Expenditures.



**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 audited financial statements within six months after the end of the fiscal year.*

**City Response:** The recommendation does not pertain to the City of Burlingame.

**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.*

**City Response:** The recommendation does not pertain to the City of Burlingame. The City of Burlingame currently maintains six years of approved budgets and CAFRs on the city’s website.

***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.***
- 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:** While it has not yet been implemented, the City will work to implement this recommendation by July 1, 2012.

***E. The City Council of Millbrae by January 1, 2010:***

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

**City Response:** The recommendation does not pertain to the City of Burlingame.

As a final comment, the City of Burlingame would like to inform the Civil Grand Jury that it established a five-year budget forecast in 2011. The forecast provides the City Council with additional data that helps them determine the affordability of current and future city services and capital projects. The forecast will therefore produce more prudent long term fiscal planning.

Based on the forecast, the City Council decided that future city budgets should target an annual revenue growth rate of 2% for the next five fiscal years. Actual revenue growth beyond the 2% will be set aside in reserve to help cushion future economic downturns. Therefore the city presumes that budget reserves will grow in the near term beyond the GASB recommended minimum. We expect that the 2% growth target will maintain budget discipline even in times of higher revenue growth, which we believe puts the City of Burlingame on a stronger, more sustainable long term economic path.

This report represents the City of Burlingame's responses to the Civil Grand Jury's finding and recommendations. The report was reviewed and approved by the City Council on Monday, September 19, 2011. For information please contact Jesús Nava, Finance Director/Treasurer at 650-558-7222 or at [jnava@burlingame.org](mailto:jnava@burlingame.org).

Thank you,



Jesús Nava  
Finance Director/Treasurer

**RESOLUTION NO. 70-2011**

**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"**

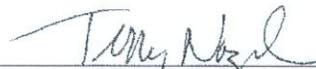
**WHEREAS**, on June 27, 2011, the 2010-2011 San Mateo County Civil Grand Jury issued a report entitled "Running On Empty", which contains findings and recommendations pertaining to the City of Burlingame; and,

**WHEREAS**, the City of Burlingame is required under Penal Code section 933 to respond to the Grand Jury's findings and recommendations in said report; and

**WHEREAS**, the City of Burlingame has prepared appropriate responses to the Grand Jury's findings and recommendations and intends to transmit said responses to the Presiding Judge of the 2010-2011 San Mateo County Civil Grand Jury as required by law;

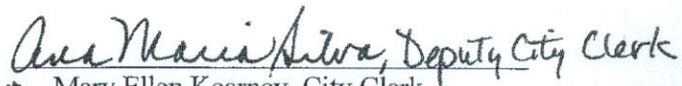
**NOW, THEREFORE, BE IT RESOLVED, BY THE CITY COUNCIL OF THE CITY OF BURLINGAME AS FOLLOWS:**

1. The City Council approves the responses to findings and recommendations of the 2010-2011 San Mateo County Civil Grand Jury report entitled "Running On Empty", pertaining to the City of Burlingame, a copy of which is attached hereto and made a part hereof.
2. The Mayor is hereby authorized to execute and transmit said responses to the Presiding Judge of the San Mateo County 2010-2011 Grand Jury, in accordance with State law.

  
\_\_\_\_\_  
Terry Nagel, Mayor

I, Mary Ellen Kearney, Clerk of the City of Burlingame, hereby certify that the foregoing Resolution was duly and regularly introduced and adopted at a regular meeting of the Burlingame City Council held on the 19<sup>th</sup> day of September, 2011, by the following vote to wit:

AYES: Councilmembers **BAYLOCK, BROWNRIGG, DEAL, KEIGHRAN, NAGEL**  
NOES: Councilmembers: **NONE**  
ABSENT: Councilmembers: **NONE**

  
for Mary Ellen Kearney, City Clerk



## TOWN OF COLMA

1198 El Camino Real • Colma, California • 94014-3212  
Tel 650-997-8300 • Fax 650-997-8308

September 28, 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; 2<sup>nd</sup> 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](mailto:laura.allen@colma.ca.gov).

Sincerely,



Helen Fisicaro  
Mayor

Cc: City Council  
City Attorney  
City Manager



# CITY OF DALY CITY

333-90TH STREET

DALY CITY, CA 94015-1895

PHONE: (650) 991-8000

September 26, 2011

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

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

Dear Judge Bergeron:

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

**FINDINGS:**

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

Response: Concur with the finding.

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

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

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

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

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

Response: Concur with the finding.

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

Response: Concur with the finding.

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

Response: Concur with the finding.

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

Response: Concur with the finding.

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

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

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

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

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

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

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

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

**Recommendations:**

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

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

**Response**

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

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

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

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

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

### Response

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

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

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

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

### Response

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

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

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

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

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

**Response**

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

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

**Response**

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

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

Sincerely,



Patricia E. Martel  
City Manager



# 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, 2<sup>nd</sup> 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.**

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 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.

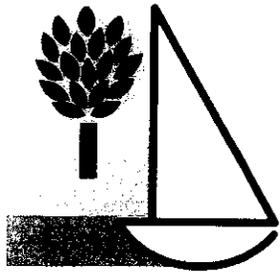
**Response: No planned implementation of the recommendations. It is not clear that a running liquidity metric, on its own, would be valued by users. The City incurs the effort and expense to produce Comprehensive Annual Financial Statements because we believe that the additional reporting requirements 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  
FAX (650) 574-3483

September 19, 2011

Honorable Joseph E. Bergeron  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> 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

# MINUTE ORDER

No. 1243

OFFICE OF THE CITY CLERK/  
DISTRICT SECRETARY  
FOSTER CITY, CALIFORNIA

Date: September 23, 2011

Attention: City Council/EMID Board  
James C. Hardy, City Manager  
Steve Toler, Finance Director  
Honorable Joseph E. Bergeron, Judge of the Superior Court

City Council/EMID Board Meeting Date: September 19, 2011

Subject: Grand Jury Report Regarding City Reserves and Other Post-Employment  
Benefit Obligations

Motion by Councilmember Bronitsky, seconded by Vice Mayor Kiesel, and carried unanimously, 5-0-0, IT WAS ORDERED approving the response letter to the Honorable Joseph E. Bergeron regarding City reserves and other post-employment benefit obligations.



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CITY CLERK/DISTRICT SECRETARY

City of Half Moon Bay



501 Main Street  
Half Moon Bay, CA 94019  
650-726-8270

September 7, 2011

Honorable Joseph E. Bergeron  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> 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.

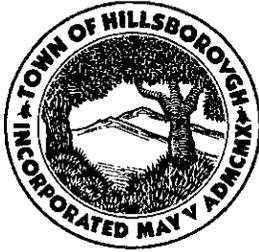
Sincerely,



Laura Snideman  
City Manager

cc: City Council  
City Attorney  
City Clerk

PDF to: [grandjury@sanmateocourt.org](mailto:grandjury@sanmateocourt.org)



# 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, 2<sup>nd</sup> 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*

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 M. Kasten  
Mayor

cc San Mateo County Grand Jury  
City Clerk

RICHARD CLINE  
MAYOR

KIRSTEN KEITH  
MAYOR PRO TEM

ANDREW COHEN  
COUNCIL MEMBER

KELLY FERGUSSON  
COUNCIL MEMBER

PETER OHTAKI  
COUNCIL MEMBER



701 LAUREL STREET, MENLO PARK, CA 94025-3483  
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**City Clerk**

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FAX 650.328.7935

**City Council**

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FAX 650.328.7935

**City Manager's Office**

TEL 650.330.6610  
FAX 650.328.7935

**Community Services**

TEL 650.330.2200  
FAX 650.324.1721

**Engineering**

TEL 650.330.6740  
FAX 650.327.5497

**Environmental**

TEL 650.330.6763  
FAX 650.327.5497

**Finance**

TEL 650.330.6640  
FAX 650.327.5391

**Housing &**

**Redevelopment**

TEL 650.330.6706  
FAX 650.327.1759

**Library**

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FAX 650.327.7030

**Maintenance**

TEL 650.330.6780  
FAX 650.327.1953

**Personnel**

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FAX 650.327.5382

**Planning**

TEL 650.330.6702  
FAX 650.327.1653

**Police**

TEL 650.330.6300  
FAX 650.327.4314

**Transportation**

TEL 650.330.6770  
FAX 650.327.5497

September 14, 2011

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

Dear Judge Bergeron:

The City of Menlo Park 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 September 13, 2011.

The City generally agrees with the findings of the report, although indicating that cities without a fund balance policy as *not compliant* with GASB 34 Recommendation (Attachment 1) seems contradictory to 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." GASB (Governmental Accounting Standards Board) Statement 34 does not require a fund balance policy.

The City of Menlo Park agrees with the Grand Jury report findings beginning on page 19. Recommendation A is the only recommendation not specific to cities other than Menlo Park. The three recommendations in this section of the report (page 21) are 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.***

- a.) This recommendation has been implemented. On June 7, 2011, the City Council adopted a Fund Balance Policy that incorporates the language and hierarchy of Governmental Accounting Standards Board (GASB) Statement No. 54.
- b.) The City partially disagrees with a requirement to develop specific plans to restore reserves, as the extent and circumstances under which reserves would drop below certain levels will dictate a unique plan for replenishment. The City's new Fund Balance Policy states that revenues in excess of expenditures at the end of a fiscal year shall be used to first satisfy committed contingency requirements before appropriating for other uses.
- 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.

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

This recommendation 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. In addition, the workloads of city financial personnel are particularly stressed during this time of State-wide cut-backs. The tasks to which Finance Directors should prioritize vary greatly between the cities in San Mateo County and should be determined by the management of each City.

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.

In an effort to more fully communicate the City's financial status in a timely manner, quarterly financial reports now provide an update of the General Fund to the Council and public. In addition, the first of the City's quarterly public newsletters is devoted to the adopted budget for the new fiscal year, and explains the financial status, budgetary

challenges and long-term fiscal goals incorporated into the most current resource allocation plan. Eight years of CAFRs and Budgets are available on the City's website, as well as a Budget Primer and Budget Q&A Section. These documents explain the fiscal considerations of the City of Menlo Park without introducing the added complexity of the fiscal structures and considerations of other cities.

***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.***

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 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. The City of Menlo Park's Reserve Policy calls for a total goal range for the City's unrestricted fund balance (including commitments and assignments of fund balance) to be 43-55% of General Fund expenditures.

Sincerely,

A handwritten signature in black ink, appearing to be 'Richard Cline', written over a horizontal line.

Richard Cline  
Mayor



# City of Millbrae

621 Magnolia Avenue, Millbrae, CA 94030

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

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.

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	<b>4,022,338</b>	108
2008	16,477,284	45,143	1,684,476	1,040,100	<b>2,724,576</b>	60
2009	16,081,253	44,058	1,567,044	1,040,100	<b>2,607,144</b>	59
2010	16,282,825	44,610	1,675,398	1,040,100	<b>2,715,498</b>	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	<b>1,714,021</b>	1,449,776	1,532,462	<b>2,982,238</b>	<b>4,696,259</b>
2008	176,213	1,040,100	<b>1,216,313</b>	152,014	1,532,462	<b>1,684,476</b>	<b>2,900,789</b>
2009	141,822	1,040,100	<b>1,181,922</b>	34,582	1,532,462	<b>1,567,044</b>	<b>2,748,966</b>
2010	146,835	1,040,100	<b>1,186,935</b>	142,936	1,532,462	<b>1,675,395</b>	<b>2,862,333</b>

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 described 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)

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

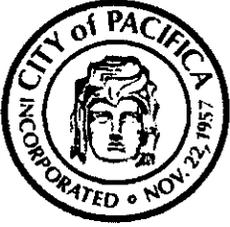
The members of the City Council and City Staff are committed to providing the public complete, accurate, transparent and timely financial information. We appreciate the Grand Jury's time and effort into compiling the report "Running on Empty". We hope you will find our commentary helpful.

Very truly yours,



Marge Colapietro  
Vice Mayor

Cc: Marcia Raines, City Manager



*Scenic Pacifica*

## CITY HALL

170 Santa Maria Avenue • Pacifica, California 94044-2506

www.cityofpacifica.org

### MAYOR

Mary Ann Nihart

### MAYOR PRO TEM

Peter DeJarnatt

### COUNCIL

Sue Digre

James M. Vreeland, Jr.

Len Stone

September 12, 2011

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#### • Code Enforcement

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#### • Engineering

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FAX (650) 738-3003

#### • Field Services

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FAX (650) 738-9747

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

Dear Judge Bergeron:

The City of Pacifica 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 September 12, 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 Pacifica 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, the City of Pacifica was unable to post the CAFR until March 31, 2011.

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: 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

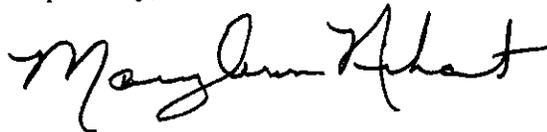
c. Include the policy in the annual Comprehensive Annual Financial Report (CAFR) and budget documents. City's Response: Will Not Be Implemented – While the City of Pacifica complies with this recommendation as part of our annual budget preparation process, the City will not implement the balance of the 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".

The City of Pacifica's response to the Grand Jury report was presented at the City of Pacifica City Council meeting on September 12, 2011 and was subsequently approved. If you have any questions regarding our response, please do not hesitate to contact us.

Respectfully,



Mary Ann Nihart  
Mayor

Cc: City Council  
City Manager  
City Clerk  
Administrative Services Director

# TOWN of PORTOLA VALLEY

## COUNCIL:

Ted Driscoll - Mayor  
Maryann Moise Derwin - Vice Mayor  
F. John Richards  
Steve Toben  
Ann Wengert

September 14, 2011

## TOWN OFFICERS:

Angela Howard  
Town Manager  
Sandy Sloan  
Town Attorney

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.

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,

A handwritten signature in black ink, appearing to read "Ted Driscoll", with a stylized flourish at the end.

Ted Driscoll  
Mayor

cc: Town Council  
Town Manager  
Town Attorney



August 25, 2011

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

Dear Judge Bergeron:

The City of Redwood City Council has reviewed the June 27, 2011 report of the San Mateo County Grand Jury titled "Running on Empty?" and has prepared the following response to the applicable findings and recommendations. This response was approved by the City Council at its regular meeting of August 22, 2011.

Of the eleven findings, only two specifically pertain to the City of Redwood City, and therefore, 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.

Of the eight recommendations, only five were applicable to the City of Redwood City, and therefore, 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.

The Redwood City Council approved the following responses to the findings and recommendations.

## **FINDINGS**

### **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**

### **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.

On behalf of the Redwood City Council, I would like to thank the Grand Jury for their interest and work on this report. If there is additional information that I can provide, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "B Ponty". The signature is fluid and cursive, with the first letter "B" being large and prominent.

Brian Ponty  
Director of Finance

c: Robert B. Bell, City Manager  
Silvia Vonderlinden, City Clerk



September 13, 2011

Honorable Joseph E. Bergeron  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> 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:

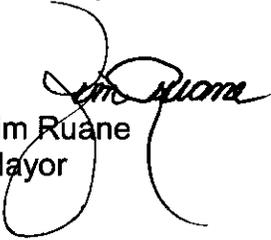
1. City Council agrees with the finding.
2. City Council disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed, and shall include an explanation of the reasons therefore.

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.

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?"**

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**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 FYI 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.

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## 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**

**The 2010-11 San Mateo County Civil Grand Jury recommends to 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:**

**Recommendation No. D1**

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 to Recommendation No. D1**

The recommendation requires further analysis to be completed by December 27, 2011.

**Recommendation No. D2**

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 to Recommendation No. D2**

The recommendation requires further analysis to be completed by December 27, 2011.

**RECOMMENDATIONS - E**

**The 2010-11 San Mateo County Civil Grand Jury recommends to the City Council of Millbrae by June 1, 2012:**

**Recommendation No. E1**

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

**Response to Recommendation No. E1**

No response required from the City of San Bruno.

# CITY OF SAN CARLOS

## CITY COUNCIL

ANDY KLEIN, MAYOR  
ROBERT GRASSILLI  
MATT GROCCOTT  
BRAD LEWIS  
RANDY ROYCE



## CITY COUNCIL

600 ELM STREET  
SAN CARLOS, CALIFORNIA 94070-3085

TELEPHONE: (650) 802-4219  
FAX: (650) 595-6719

WEB:  
<http://www.cityofsancarlos.org>

August 24, 2011

Honorable Joseph E. Bergeron  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> 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,



Andy Klein  
Mayor

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

OFFICE OF THE CITY CLERK  
CITY OF SAN MATEO  
330 WEST TWENTIETH AVENUE  
SAN MATEO, CA 94403

Date: September 7, 2011

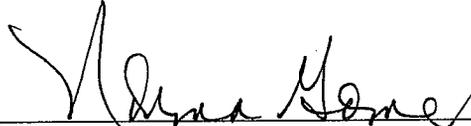
Minute Order No. 152-11

Honorable Joseph E. Bergeron  
Judge of the Superior Court

In the matter of: Response to San Mateo County Civil Grand Jury Report on Policies  
Governing Use and Funding of Reserves

(Agenda Item 9)

At the meeting of the City Council of the City of San Mateo on September 6, 2011, at which were present Council Members: LIM, LEE, GROTTTE, ROSS and MATTHEWS, and, upon motion of Council Member GROTTTE, seconded by Council Member LIM, duly carried and entered in the minutes, it was ordered to approve the letter responding to the report of the 2010-11 San Mateo County Civil Grand Jury on public agency policies governing the use and funding of reserves; and authorize the Mayor to sign and send the letter in response to that report.

  
\_\_\_\_\_  
NORMA GOMEZ, CITY CLERK

cc: Finance Director



OFFICE OF THE MAYOR  
September 9, 2011

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

330 West 20th Avenue  
San Mateo, California 94403-1388  
Telephone (650) 522-7048  
FAX: (650) 522-7041  
TDD: (650) 522-7047  
www.cityofsanmateo.org

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.

Sincerely,



Jack Matthews,  
Mayor

cc: City Council  
City Manager  
Finance Director



OFFICE OF THE MAYOR

CITY COUNCIL 2011

KEVIN MULLIN, MAYOR  
RICHARD A. GARBARINO, VICE MAYOR  
MARK ADDIEGO, COUNCILMEMBER  
PEDRO GONZALEZ, COUNCILMEMBER  
KARYL MATSUMOTO, COUNCILMEMBER

BARRY M. NAGEL, CITY MANAGER

September 15, 2011

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

Dear Judge Bergeron:

We appreciate the Grand Jury's attention to financial reporting and the importance of making financial reporting more understandable to the public. The City of South San Francisco City Council, on September 14, 2011, approved the following responses to the Grand Jury's June 27, 2011 report regarding "Running on Empty":

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. 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.

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 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 Government Accounting Standards Board 34 (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.

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 standard.

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

Honorable Joseph E. Bergeron

Page 5 of 5

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 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.

Sincerely yours,



Kevin Mullin, Mayor  
City of South San Francisco



The Town of  
Woodside

September 14, 2011

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

**RE: 2010-11 GRAND JURY REPORT - *RUNNING ON EMPTY***

Dear Judge Bergeron:

The Town Council of the Town of Woodside reviewed the referenced Grand Jury Report during its meeting of September 13, 2011. On behalf of the Town Council, I would like to offer the following.

The Town Council appreciates the Grand Jury's research and investigation of the various financial issues and practices that are the subject of its report: *Running on Empty*. The Council is staunchly supportive of clear, understandable, and accessible financial reports and of formal policies that govern the financial management of the Town. In 1993, the Town Council adopted a set of twenty Financial Management Policies, which are used in the formulation of the Town's budgets and provide the framework for all decisions that have a fiscal impact. These policies include a minimum General Fund reserve requirement, as well as regular reports placed on the Town Council's agenda to review the financial health and performance of the Town. We also assess and publicly report the Town's adherence to these policies on an annual basis.

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Woodside, CA 94062

*Running on Empty* includes eleven findings and five primary recommendations. The Town Council agrees with all eleven of the Grand Jury's findings. Only two of the primary recommendations are directed at the Town of Woodside. I offer the Town Council's response in the following paragraphs. I have restated the applicable recommendations in near verbatim form, using the Grand Jury's numbering system, and inserted the Town's response for ease of reference.

*Recommendation A. By July 12, 2012, the San Mateo County Board of Supervisors and each City Council should:*

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.*

**Town response: 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"**

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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 will be amended to do so by the targeted accomplishment date established by the Grand Jury. 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 this will be expanded to reflect the full measure of the policy with the 2012-13 Proposed Budget. The Town Council 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 a 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 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.

*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.*

Town Response: The Town Manager (who is also the Finance Director) 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." It is not clear, however, that the results of such an effort will be very meaningful 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). Such comparisons are not very worthwhile without significant analysis provided to ensure that the comparisons are equitable and balanced.

*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.*

Town Response: The Town Manager will be asked to evaluate and report back to the Town Council on "a clearly defined Running Liquidity metric

***as an additional measure of the city/County's fiscal health with specific target minimums" by July 1, 2012, although the Town Council sees only marginal utility in such a measure.***

***Recommendation C. By July 1, 2012, the City Councils of Millbrae, Foster City, Woodside, Brisbane, Colma, and Portola Valley should:***

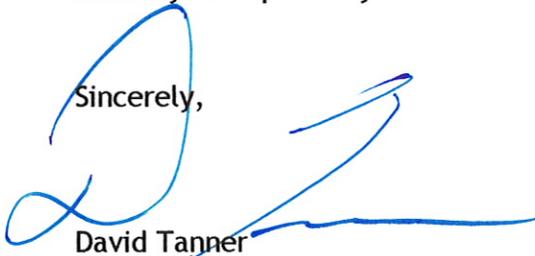
- 1. Provide citizens with timely and comprehensive information regarding the financial condition of their city and County by providing a minimum of three years of approved budgets and CAFRs on their websites and through other communications.***

**Town Response:** 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 additional years' reports and budgets will be included on the Town's website.

On behalf of the Town Council, I would like to extend our thanks for the opportunity to review and respond to the work of the 2010-11 Grand Jury.

Please do not hesitate to call our Town Manager, Susan George, at (650) 851-6790, should you require any further information.

Sincerely,



David Tanner  
Mayor Pro Tempore