



## City of Biggs

### Agenda Item Staff Report For the Regular City Council Meeting: July 14, 2013

TO: Honorable Mayor and Members of the City Council  
FROM: City Administrator  
SUBJECT: Responses to the 2015-2016 Grand Jury Report

**Background:**

A Butte County Grand Jury report was issued June 24, 2016 which requires responses from the City of Biggs within 90 days.

The entire Grand Jury report can be view at the following link:  
<https://www.buttecounty.net/administration/grandjury.aspx>

Attached are the portions of the Grand Jury report related to the City of Biggs and the response requirement.

**Recommendation:**

Consider the attached draft response and any edits suggested by Council. Authorize the Mayor to sign the written responses to the 2015-2016 Grand Jury report.

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Mark Sorensen, City Administrator



# CITY of BIGGS

465 C Street  
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July XX, 2016

Honorable Robert A. Glusman  
Presiding Judge  
Butte County Superior Court  
One Court Street  
Oroville, CA 95965

Re: 2015-2016 Butte County Grand Jury Report, City of Biggs Responses

Dear Judge Glusman:

The Biggs City Council has reviewed the 2015-2016 Grand Jury Report, and is providing the following responses to the findings and recommendations.

## **GASB Gasp! Grand Jury Findings:**

F1. Calculation of the unfunded liability is complex and unique to each municipality.

Response: Agree.

F2. The five Cities in Butte County and the County itself have unfunded liabilities primarily due to CalPERS pension costs.

Response: Agree.

F3. Additional unfunded liabilities exist for retiree health care, but these are not yet on the balance sheets.

Response: Agree, however, any unfunded liabilities which exist for retiree health care are described in the OPEB (Other Post-Employment Benefits) portion of the annual CAFR (Comprehensive Annual Financial Report).

F4. Increases in a governmental entity's unfunded liability would impact its financial status and credit rating.

Response: Agree in principle. Please see F1. The significance of the impact would depend upon the amount of the increase in unfunded liability, and the proportionality to revenues. An increase in a governmental entity's unfunded liability *could have a material impact to* its financial status and credit rating.

F5. Municipal contributions to CalPERS are projected to continue to rise which will result in pressure to cut services and/or require additional revenue.

Response: Agree, however, again the amount of the rise and its size relative to available sources of funding varies widely among Butte County agencies. A review of a three years of CalPERS annual valuation reports of various entities within Butte County reveals a very wide variety of CalPERS employer contribution rates, and a dramatic difference in the rate of rise in those employer contribution rates.

F6. The unfunded liability is likely to increase for many years before it begins to decrease.

Response: Agree.

**Grand Jury Recommendations:**

R1. The County and Cities should post their CAFR and CalPERS Actuarial Valuations Reports on their websites.

Response: Implemented. City of Biggs CAFR's have been posted on the City website for many years. CalPERS Annual Valuation Reports have been easily accessed from the CalPERS website for many years. The past three years of CalPERS Annual Valuation Reports have been added to the City of Biggs website.

R2. The County and Cities should report on their unfunded liabilities, contribution rates and trend lines.

Response: Implemented. The City of Biggs has posted the past 3 years of CalPERS Annual Valuation Reports on its website.

R3. The County and Cities should conduct an analysis similar to the Bartel report and make that information available to the public on their websites.

Response: The City Council will evaluate the cost and benefit of such an analysis. While that \$5,000 analysis clearly has value to that organization with \$99 million in unfunded liability, 40% employer contribution rates and significant rate volatility, the cost benefit may be different for an agency with \$376,344 in unfunded liability, 9% employer contribution rates and a much lower level of rate volatility.

Sincerely

Roger Frith  
Mayor

## Responses to Findings and Recommendations

933.05.

(a) For purposes of subdivision (b) of Section 933, as to each grand jury finding, the responding person or entity shall indicate one of the following:

(1) The respondent agrees with the finding.

(2) The respondent 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 therefor.

(b) For purposes of subdivision (b) of Section 933, as to each grand jury recommendation, the responding person or entity shall 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 head of the agency or department being investigated or reviewed, including the governing body 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 is not reasonable, with an explanation therefor.

(c) However, if a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the agency or department head and the board of supervisors shall respond if requested by the grand jury, but the response of the board of supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

(d) A grand jury may request a subject person or entity to come before the grand jury for the purpose of reading and discussing the findings of the grand jury report that relates to that person or entity in order to verify the accuracy of the findings prior to their release.

(e) During an investigation, the grand jury shall meet with the subject of that investigation regarding the investigation, unless the court, either on its own determination or upon request of the foreperson of the grand jury, determines that such a meeting would be detrimental.

(f) A grand jury shall provide to the affected agency a copy of the portion of the grand jury report relating to that person or entity two working days prior to its public release and after the approval of the presiding judge. No officer, agency, department, or governing body of a public agency shall disclose any contents of the report prior to the public release of the final report.



## Cities Report

### GASB GASPI<sup>1</sup>

#### SUMMARY

This is the first year that unfunded pension liabilities must be included on municipal balance sheets. Butte County and its five Cities have thus reported roughly \$275 million in unfunded pension debt. Annual payments to the California Public Employees' Retirement System (CalPERS) are growing, adding additional pressure to current budgets. As annual costs rise, the pressure to find additional revenue and/or cut current services will grow. Additionally, the unfunded costs of retiree health care will add a total of \$75 million of debt to the balance sheets in 2017.

#### BACKGROUND

The Grand Jury is required annually to review the Audit of the County. As part of this process, the Grand Jury learned of significant changes in governmental accounting policy. The Government Accounting Standards Board (GASB) issues rules and standards for municipal financial reporting. This year, GASB statements 68 and 71 required inclusion of unfunded pension liability in municipal balance sheets. Previously these were in the Notes. A similar liability is retiree health care costs, listed as Other Post Employment Benefits (OPEB). The Grand Jury wanted to know how much debt was added to the City and County balance sheets, to understand how much money was being spent annually on these debts, and to determine the trendlines for those costs.

#### APPROACH

The Grand Jury recognizes this is a political issue. There are opinion pieces stating this problem is overblown or that the promises are unsustainable. The Grand Jury does not take a position on these issues; reconciling those opinions is beyond the scope of this report. It is our intention to inform the citizens of Butte County of liabilities on their municipalities' balance sheets due to employee pensions, their annual costs, and the assumptions made to generate these numbers. The Grand Jury studied the financials of the County and its five Cities. (Although financials for the City of Biggs were studied, final numbers were not available at the time of this report.) There are other districts throughout the county that may have unfunded liabilities not included in these numbers.

#### Documents

The Grand Jury reviewed the following documents:

- Butte County Comprehensive Annual Financial Report (CAFR)  
[http://www.buttecounty.net/Portals/4/Financial Reports/2015ButteCAFR\\_Final.pdf](http://www.buttecounty.net/Portals/4/Financial%20Reports/2015ButteCAFR_Final.pdf)
- City of Chico CAFR



- <http://www.chico.ca.us/finance/documents/CAFRFinal.pdf>
- City of Chico CalPERS Actuarial Issues Presentation  
<http://www.chico.ca.us/finance/documents/2016-17Miscellaneous.pdf>
- City of Chico CalPERS Annual Valuation Reports  
<http://www.chico.ca.us/finance/documents/BAChicoCil6-03-15CalPERSMiscSafety14.pdf>  
<http://www.chico.ca.us/finance/documents/2016-17Safety.pdf>
- City of Oroville CAFR
- City of Oroville, CA : Comprehensive Annual Financial Report (CAFR)
- City of Gridley CAFR
- Town of Paradise CAFR  
<http://townofparadise.com/index.php/forms-and-documents/finance/1346-audit-06-30-15/file>
- CalPERS CAFR  
<https://www.calpers.ca.gov/docs/forms-publications/cafr-2015.pdf>
- Upcoming CalPERS Issues Presentation (Bartel Presentation Chico)  
[http://bartel-associates.com/docs/default-source/articles/10-19-15---calpelra-\(monterey\).pdf?sfvrsn=6](http://bartel-associates.com/docs/default-source/articles/10-19-15---calpelra-(monterey).pdf?sfvrsn=6)

## Interviews

The Grand Jury interviewed City Managers from the five Cities in the County. Other executives from the City of Chico were also interviewed as was the County Auditor.

## DISCUSSION

What is an unfunded liability? How is it calculated? Who determines the payments? How does the liability affect the annual budget? How will this shortfall be paid? What are the requirements to pay this off? And finally, what does this mean for the public?

As the Grand Jury explored the different financial reports, it discovered that municipal accounting is quite different from corporate accounting. Some rules and terminology may be different than everyday usage. The Grand Jury will use everyday language as much as possible to explain these issues.

Every year the County and each City produce annual financial reports along with audited financials, known as the Comprehensive Annual Financial Report (CAFR). Credit rating agencies use information found in the financial reports to assign credit ratings which are then used to determine the cost of borrowing. The annual reports contain both the Statement of Net Position (balance sheet) and the Statement of Activities (income statement). The Required Notes to the Financial Statements (Notes) explain unfunded liabilities along with details behind the calculations. The unfunded pension liability is calculated as the total pension liability minus the pension plan's net position. Essentially it is the difference between the total actuarial liability (cost) and the projected total assets of the plan. These totals are included on the entities' year-end balance sheet.



CalPERS is the pension plan for the County and each of its five Cities. Most municipalities have more than one plan. The safety pension plan includes police and fire, while the miscellaneous plan includes all other public employees except public school teachers. CalPERS employs actuarial professionals who analyze and project both the future liabilities and asset value of their investment portfolios. A summary of the principal assumptions and methods are outlined in the plans.

One of the critical assumptions in determining future unfunded liabilities is the discount rate. The discount rate is the long term projected return on investments and is set by the Board of CalPERS. They recently reduced this metric from 7.75% to 7.5% which projects a reduction in total asset value and, therefore, an increase in the unfunded liability. The Required Notes on pension plans include a report on the change to the unfunded liability based on a 1% shift in the discount rate. A 1% decline in CalPERS's portfolio's performance over time would result in a total unfunded liability of \$448,582,980 for the six entities studied, a 63% increase. Last year's CalPERS's total return was 2.2%; the return over the past 10 years was 7.3%.

CalPERS determines the payments for the pension funds of each participating municipality every year through a report called the CalPERS Actuarial Valuation Report. The annual contribution by each entity is based on a contribution to their unfunded balances and what they call "normal cost." Normal cost is the annual cost of pension liability without any of the additional charges added to pay for the plan's unfunded liability. This report sets the next fiscal year's contribution rate and also gives an estimate of the following year's contribution percentage. Municipalities are not given a total cost, only a contribution percentage against projected pensionable payroll. For example, in FY 16 the City of Chico will incur a 39% pension charge against every dollar of pensionable payroll. In effect, a \$100 payroll cost will end up being \$139. CalPERS has been raising the contribution percentages over time to help pay off the unfunded balances. These increases are expected to continue.

Pension commitments are considered unchangeable under California law and must eventually be paid. Recent municipal bankruptcies have not changed or challenged this.

Details on retiree health care coverage and costs can be found in the Notes to the financial statements Other Post-Employment Benefits (OPEB). An explanation of the specific coverages and costs are listed, and separate assumptions are described. No prefunding of these costs is required. Many of these liabilities have been calculated by the County and Cities at a significantly lower discount rate than CalPERS is using, resulting in a higher total liability. For uniformity throughout this report we have used the Unfunded Actuarial Accrued Liability (UAAL). These unfunded liabilities are due to be added to the balance sheets in 2017.



**Summary and Analysis**

	Butte County	Gridley	Chico	Oroville	Paradise
<b>Assets</b>	\$ 394,085,263.00	\$ 41,317,195.00	\$ 581,477,622.00	\$ 99,303,857.00	\$ 23,205,572.00
<b>Pension Liability</b>	\$ (141,255,313.00)	\$ (7,778,821.00)	\$ (99,448,365.00)	\$ (12,987,351.00)	\$ (12,901,028.00)
<b>Health Care Liability (UAAL)</b>	\$ (47,629,292.00)	\$ (2,262,968.00)	\$ (10,993,717.00)	\$ (972,979.00)	\$ (13,495,020.00)
<b>% of Assets</b>	-48%	-24%	-19%	-14%	-114%
<b>Revenues</b>	\$ 94,281,949.00	\$ 1,901,415.00	\$ 53,475,552.00	\$ 8,734,594.00	\$ 10,232,314.00
<b>Annual Pension Contribution</b>	\$ (14,342,603.00)	\$ (706,316.00)	\$ (7,697,008.00)	\$ (1,646,163.00)	\$ (550,258.00)
<b>Annual Health Care Contribution</b>	\$ (2,403,577.00)	\$ (94,644.00)	\$ (255,955.00)	\$ (58,173.00)	\$ (730,096.00)
<b>% of Revenues</b>	-18%	-42%	-15%	-20%	-13%

**Butte County**

Butte County provided detailed information on its unfunded liabilities in Notes 7 and 8 to its financial documents. In addition, Note 5 outlines additional liabilities related to Pension Obligation Bonds that are not included in this report. The County of Butte’s unfunded pension liability is \$141,225,313, and is 81% funded. Should the CalPERS discount rate fall to 6.5%, the liability would rise to \$246,338,164; if the rate rises to 8.5%, the country’s liability would fall to \$65,935,733. The County’s latest reported (2013) OPEB liability is \$47,629,292, based on a 5% discount rate. The total unfunded debt is 48% of current assets. This fiscal year’s contributions for both CalPERS and OPEB are \$16,746,180 and are 18% of current revenue.

**City of Biggs**

Unfortunately, data from the City of Biggs was not available at the time this report went to the printer.

**City of Chico**

The City of Chico provided detailed information on these items in Notes III-C and III-D to its financial documents. The City’s unfunded pension liability is \$99,448,365 and is 71.5% funded. Should the CalPERS discount rate fall to 6.5%, the liability would rise to \$146,304,775; if the rate rises to 8.5%, the City’s liability would fall to \$60,719,118. Chico’s current reported OPEB liability is \$10,993,717, based on a 4% discount rate. The total unfunded debt is 19% of current assets. This fiscal year’s contributions for both CalPERS and OPEB are \$7,952,963 and are 15% of current revenue.

**City of Gridley**

The City of Gridley provided detailed information on these items in Notes 7 and 8 to its financial documents. Gridley’s unfunded pension liability is \$7,778,821. Should the CalPERS discount rate fall to 6.5%, the liability would rise to \$11,746,656; if the rate rises to 8.5%, the city’s liability would fall to \$4,495,180. Gridley’s current reported OPEB Liability is \$2,262,968, based on a 5% discount rate. The total unfunded debt is 24% of current assets. This fiscal year’s contributions for both CalPERS and OPEB are \$800,960 and are 42% of current revenue.



### City of Oroville

The City of Oroville provided detailed information on its unfunded liabilities in Notes 9 and 10 to its financial documents. In addition, Note 8 outlines additional liabilities related to Pension Obligation Bonds that are not included in this report. Oroville's unfunded pension liability is \$12,987,351. Should the CalPERS discount rate fall to 6.5%, the liability would rise to \$22,630,303; if the rate rises to 8.5%, the city's liability would fall to \$5,020,511. Oroville's current reported OPEB Liability is \$972,979, based on a 4% discount rate. The total unfunded debt is 14% of current assets. This fiscal year's contributions for both CalPERS and OPEB are \$1,704,336 and are 20% of current revenue.

### Town of Paradise

The Town of Paradise provided detailed information on its unfunded liabilities in Notes 8 and 9 to its financial documents. The Town's unfunded pension liability is \$12,901,028. Should the CalPERS discount rate fall to 6.5%, the liability would rise to \$21,563,082; if the rate rises to 8.5%, the City's liability would fall to \$5,468,271. Paradise's current reported OPEB liability is \$13,495,020, based on a 4.3% discount rate. The total unfunded debt is 114% of current assets. This fiscal year's contributions for both CalPERS and OPEB are \$1,280,354 and are 13% of current revenue.

### Further Discussion

As the Grand Jury finished gathering these numbers, questions remained unanswered. How much are contribution rates going up and for how long? With these additional funds coming into CalPERS, are the unfunded balances shrinking and when will they be fully funded?

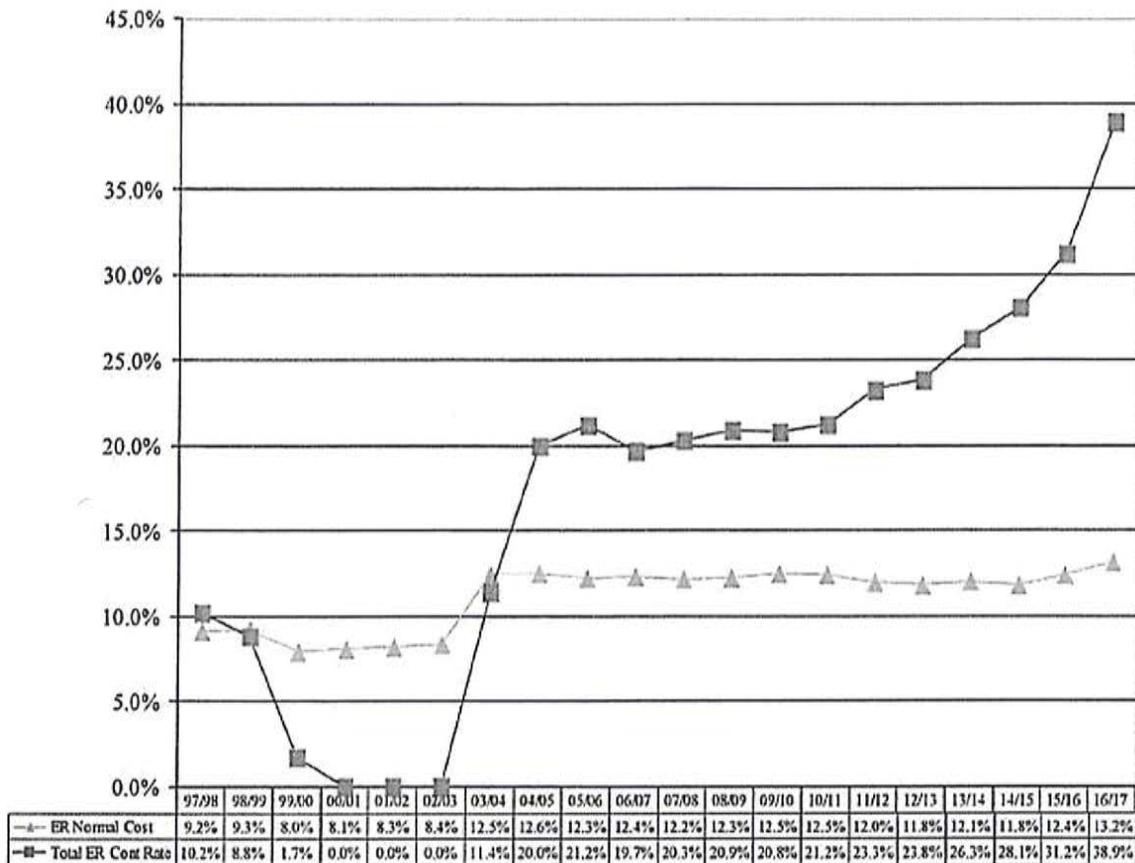
The City of Chico recently commissioned a study by Bartel Associates, a pension consulting firm, to answer questions about retiree medical and pension GASB valuations. On March 15, 2016, Bartel gave their report to the City of Chico. This study only concerned the City's pension liability; it did not include the OPEB unfunded liability. This analysis is specific to the City of Chico. However, Grand Jury conversations with other City Managers confirmed the general trends in their cities are similar to those in Chico. The following graphs address our specific questions. More information and comparative data are available within the Bartel report.

### HISTORICAL AND PROJECTED CONTRIBUTION RATES

The first graph, **Contribution Rates-Miscellaneous**, plots the historical contribution percentage from fiscal years 1997/1998 to 2016/2017. Contributions are shown as both the total costs (dark green squares) and the normal cost (light green triangles). The rates billed for repaying these unfunded liabilities have risen significantly.



### CONTRIBUTION RATES - MISCELLANEOUS

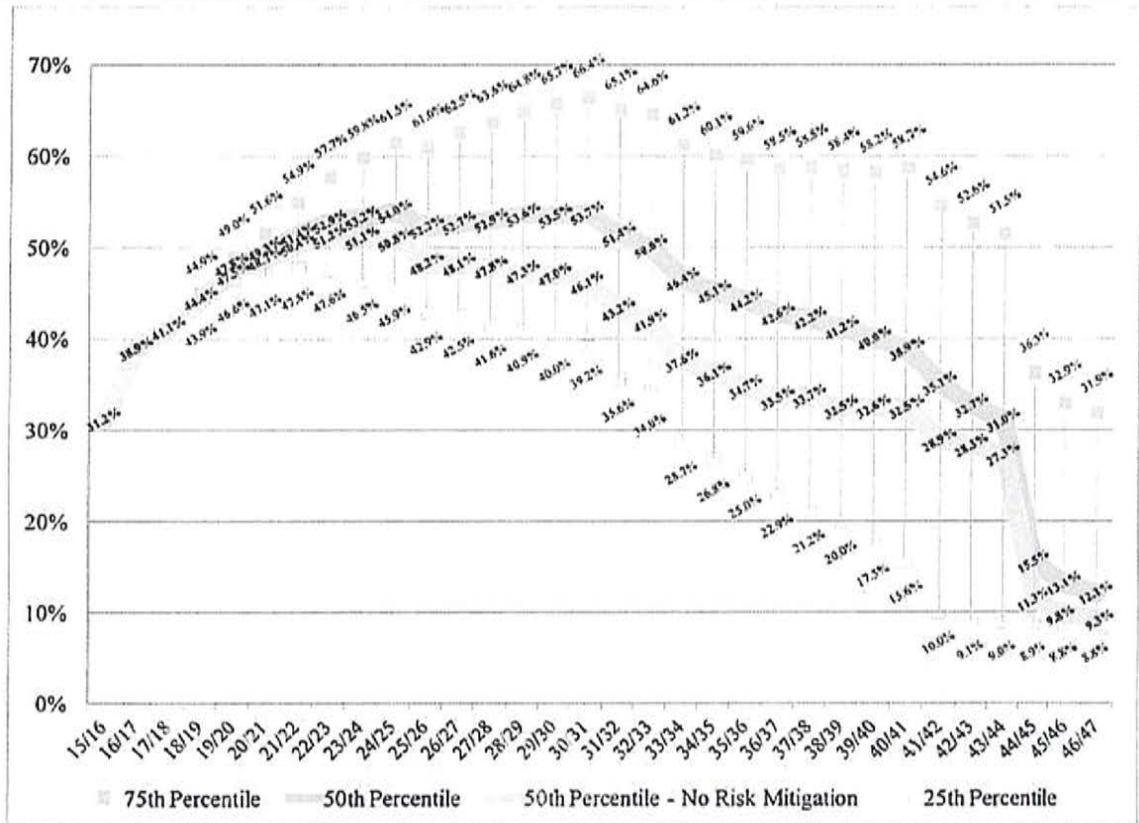


The Bartel report has graphs for both the safety and miscellaneous plans for the City of Chico. Overall they show roughly the same trends. For brevity, the Grand Jury has chosen to only include the miscellaneous plans, but invites a further review of the Bartel report.

The next graph, also labeled **Contribution Projections- Miscellaneous**, also plots the contribution rate over time. However this graph now shows the projected long term contribution rates from FY 2016-2047. Bartel shows CalPERS expected rate of return in the bold trend line labeled 50<sup>th</sup> percentile. Bartel also provides projections based on positive and negative scenarios. These results are shown on these graphs as the 75<sup>th</sup> and 25<sup>th</sup> percentiles



### CONTRIBUTION PROJECTIONS - MISCELLANEOUS

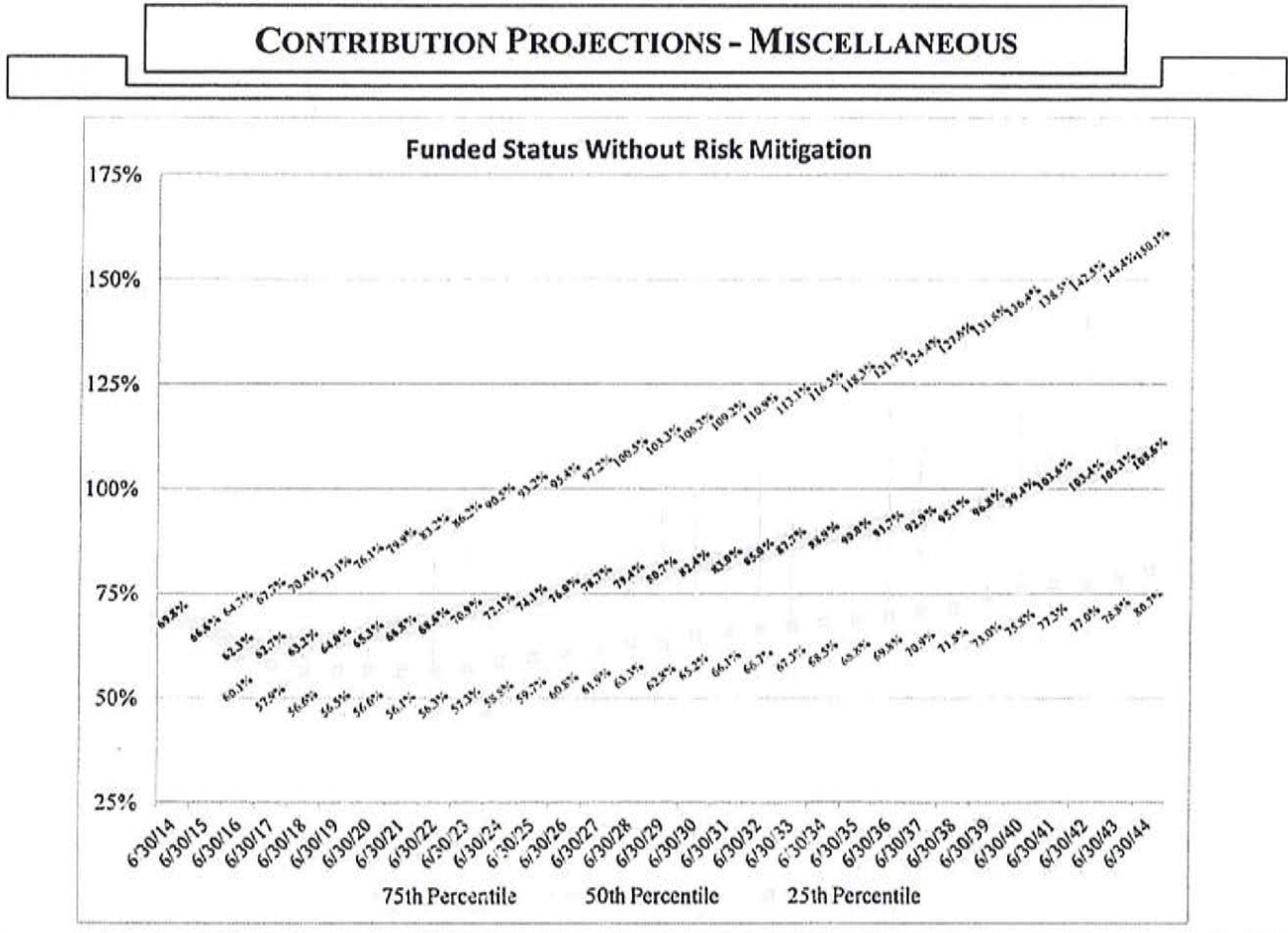


This graph shows that these rates are projected to rise until roughly 2030.

Our next question was how will the additional contributions work to lower total unfunded balances?



The graph below labeled **Funded Status Without Risk Mitigation** give us that answer. Here we have plotted the unfunded percentage of the plan over time.

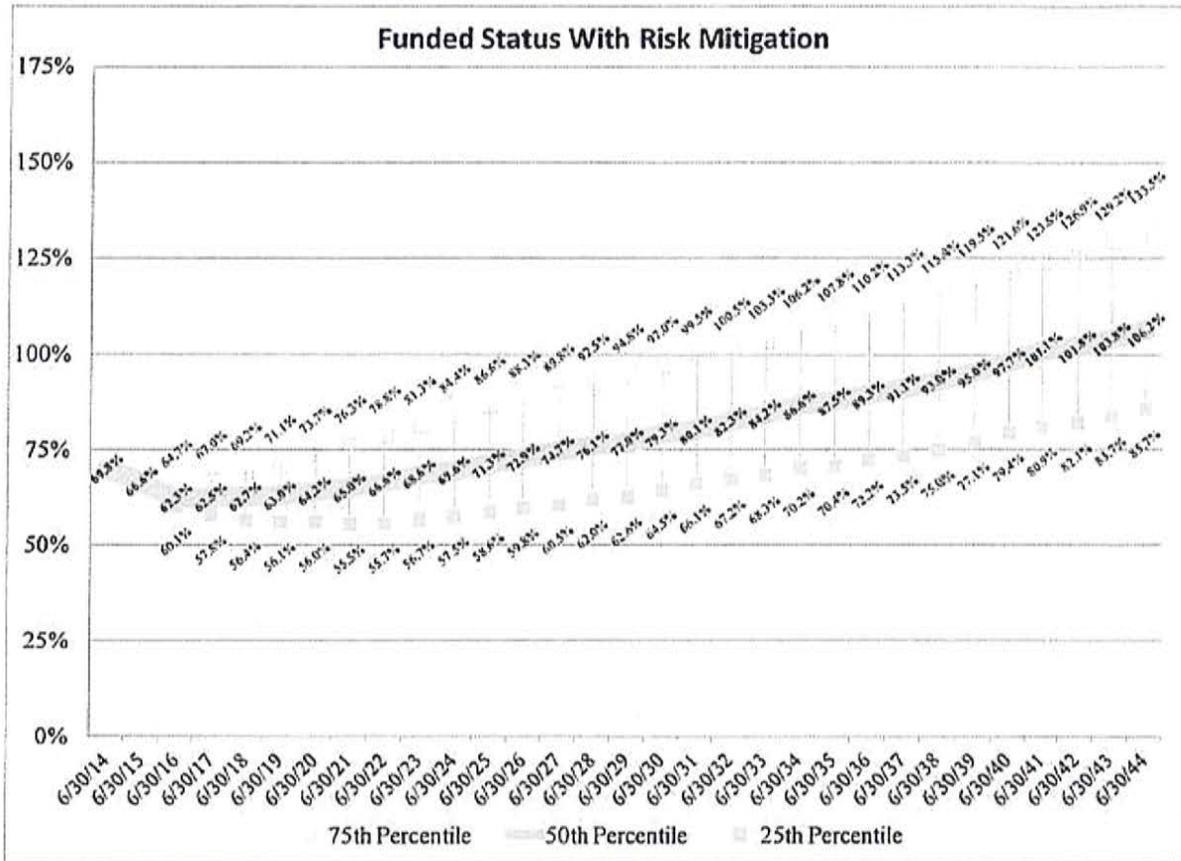


Based on these projections, the funded debt percentage declines until 2023 when it returns to today's levels.

The term Risk Mitigation in the title is new. CalPERS has recognized that its portfolio's historical results have been quite volatile. They have proposed several changes to their investment strategies that they expect will reduce this risk. They call these changes their "risk mitigation strategy." The next graph plots the funded percentages over time if the risk mitigation strategies are put into place.



## CONTRIBUTION PROJECTIONS - MISCELLANEOUS

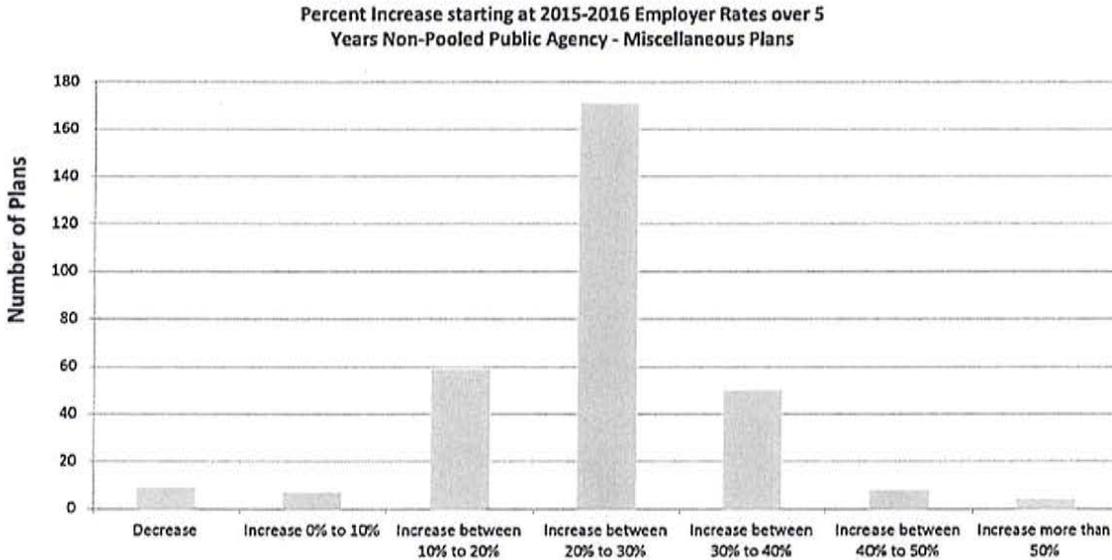


Chico's funded debt percentage would return to its current level in 2022, a one year improvement over the current projections.

The last Comprehensive Audited Financial Reports have only come out in late spring, and the Grand Jury has not been able to follow up with the County or other cities mentioned to see what their projections are for both upcoming contributions and unfunded percentages. Another presentation by Bartel given with Alan Milligan, Chief Actuary of CalPERS, analyzed all of CalPERS plans, and provided further information on CalPERS's risk mitigation plans. The following graph shows the five year outlook for all miscellaneous plans within CalPERS.



## Five Year Outlook for Miscellaneous Plans



Based on these estimates, the Grand Jury anticipates most of the studied entities will be facing similar challenges to those of the City of Chico. Since we expect the annual contribution rates to grow over the next two decades, the requirement to manage annual budgets with these additional costs may result in difficult decisions whether to reduce current services or pursue additional revenue.

### FINDINGS

- F1. Calculation of the unfunded liability is complex and unique to each municipality.
- F2. The five Cities in Butte County and the County itself have unfunded liabilities primarily due to CalPERS pension costs.
- F3. Additional unfunded liabilities exist for retiree health care, but these are not yet on the balance sheets.
- F4. Increases in a governmental entity’s unfunded liability would impact its financial status and credit rating.
- F5. Municipal contributions to CalPERS are projected to continue to rise which will result in pressure to cut services and/or require additional revenue.
- F6. The unfunded liability is likely to increase for many years before it begins to decrease.

### RECOMMENDATIONS/CONCLUSION

- R1. The County and Cities should post their CAFR and CalPERS Actuarial Valuations Reports on their websites.



- R2. The County and Cities should report on their unfunded liabilities, contribution rates and trend lines.
- R3. The County and Cities should conduct an analysis similar to the Bartel report and make that information available to the public on their websites.

## RESPONSES

Pursuant to Penal Code section 933.05, the following responses are required within 90 days:

- Board of Supervisors F1-F6 and R1-R3
- Chico City Council F1-F6 and R1-R3
- Biggs City Council F1-F6 and R1-R3
- Gridley City Council F1-F6 and R1-R3
- Paradise Town Council F1-F6 and R1-R3
- Oroville City Council F1-F6 and R1-R3

Responses are to be submitted to the Presiding Judge of the Butte County Superior Court in accordance with the provisions of Penal Code section 933.05.

## FOOTNOTES

<sup>1</sup> [HTTP://WWW.FOXANDHOUNDSDAILY.COM/2016/03/DOING-THE-GASB-GASP/](http://www.foxandhoundsdaily.com/2016/03/doing-the-gasb-gasp/)



## Appendix 1

### Summary of Required Responses

Report	Respondents
Butte County Animal Shelters	Gridley City Council Paradise Town Council Paradise Police Department
Butte County Audit	None Required
Butte County Grand Jury Jail and Juvenile Hall Tour	None Required
Butte County Public Works	Butte County Board of Supervisors Butte County Department of Public Works Butte Regional Household Hazardous Waste Facility Neal Road Recycling and Waste Facility
Butte Water District	None
Cities Report GASB GASP!	Board of Supervisors Chico City Council Biggs City Council  Gridley City Council Paradise Town Council Oroville City Council
Homelessness in Butte County	The Local Government Committee Butte County Emergency Services The Sheriff's Office Police Department of Chico Police Department of Oroville Police Department of Paradise Police Department of Gridley/Biggs
How Does Butte County Employee Compensation Compare?	Butte County Board of Supervisors