



Grand Jury <grandjury@scgrandjury.org>

Re: Managing City Risk Response Packet IMMEDIATE RESPONSE NEEDED!

1 message

Ralph Dimarucut <rdimarucut@cityofsantacruz.com>

Mon, Mar 1, 2021 at 11:17 AM

To: "grandjury@scgrandjury.org" <grandjury@scgrandjury.org>

Cc: Martin Bernal <mbernal@cityofsantacruz.com>, Suzanne Haberman <shaberman@cityofsantacruz.com>

Hello,

Attached is the updated response from the Santa Cruz City Council for the Managers of Risk or Victims of Risk Report.

The response being submitted includes the addition of the following:

- Finding # F6 - An explanation to why the City Council partially disagrees
- Recommendation #R9 - A summary of what was done

These additions were approved by the City Council on February 23, 2021.

Thank you,

Ralph Dimarucut

Principal Management Analyst
City Managers Office

City of Santa Cruz

831.420.5017



Managers of Risk or Victims of Risk - City Council of Santa Cruz - Updated Response.pdf
280K



County of Santa Cruz

Civil Grand Jury
701 Ocean Street, Room 318-I
Santa Cruz, Ca 95060
(831) 454-2099

March 4, 2021

The Grand Jury mislabeled the Managing Risks Report's packet of Findings and Recommendations assigned to the Santa Cruz City Council as a Requested Response. Their response is required under Penal Code §933(c).

The Correspondence Committee on behalf of

Richard H. Goldberg

Richard H. Goldberg, Foreperson
2020–2021 Santa Cruz County Civil Grand Jury



**The 2019–2020 Santa Cruz County Civil Grand Jury
Requests that the
City of Santa Cruz City Council
Respond to the Findings and Recommendations
Specified in the Report Titled
Managers of Risk or Victims of Risk –
Rocked by the Shocks
by September 17, 2020**

Findings

F1. RISK ASSESSMENT: As the Auditor's Office is an authoritative source of studies and assessments for the State Legislature, we find that the risk assessment methodology used by the Auditor's Office is a valid and valuable approach to assessing financial risk for all SCC city jurisdictions and communicating that risk to stakeholders.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

F2. RISK ASSESSMENT: All SCC Cities did not fully consider the calculated high-risk indicators from the Auditor's Office and their potential impacts on city operations, services, and capital assets/infrastructure.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

F3. RISK ASSESSMENT: The state of risk determined for all SCC Cities by the Auditor's Office in 2017 remained largely unchanged through 2019.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

The City of Santa Cruz implemented these items to mitigate risk between 2017 and 2019:

1. Implemented an IRS Section 115 Trust for Pension and Other Post-Employment Benefits (OPEB) for future unexpected increases in these costs.
2. Contributed \$8 million to CalPERS to pay down the City's Miscellaneous Plan unfunded liability, lowering the liability and interest costs for current and future years.
3. Negotiated with all City bargaining units to share in the City's CalPERS employer cost.
4. Annually reduced the City's General fund structural operating costs.
5. Did not increase the General Fund position cost/count.

F4. RISK ASSESSMENT: Pension costs contribute a higher level of financial risk to all SCC Cities than is accounted for by city documents.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

The City includes current pension liabilities in the annual Adopted Budget. The City also has a financial model that forecasts over the next 10 years that includes estimated pension costs. Actuarially determined pension liabilities are included in the Comprehensive Annual Financial Report as required by the Government Accounting Standards Board (GASB).

F5. RISK ASSESSMENT: Financial Risk Indicators alone are not adequate to effectively understand the risks facing all SCC Cities.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

F6. RISK ASSESSMENT: All SCC Cities do not fully identify, assess, track, and report key risk indicators that reflect the state of strategic, financial, operational, or hazard risk.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

The City does fully identify, assess, and track key risk indicators on a management level, but does not report until there is a plan to mitigate the risk.

F7. RISK ASSESSMENT: All SCC Cities do not adequately evaluate the possible interactions between risks that may inhibit or enhance the objectives of each city.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

Some evaluation of possible interactions between risk are evaluated on a citywide level, but most evaluations are done at the program level.

F8. RISK ASSESSMENT: All SCC Cities either do not maintain or do not publish a report card on the state of key infrastructure that can be used to set funding priorities and manage operational and hazard risk.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

The City tracks the age and condition of its infrastructure and prioritizes annual capital funding in the budget based on that evaluation. The City does not publish a report card on the state of the infrastructure as not all types of infrastructure have the same risk or are valued on the same metric.

F9. RISK MANAGEMENT: Although all of the cities of SCC are preparing for increased pension costs due to current amortization schedules, they are not adequately preparing for risk associated with significant or sustained investment shortfalls in CALPERS due to economic shocks (e.g., caused by Coronavirus) or a recession.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

Along with the City's CalPERS actuary, the City of Santa Cruz has factored in a risk assessment for CalPERS future investment shortfalls resulting in the unfunded liability pre-payment of \$8 million for the miscellaneous pension plan.

F10. RISK MANAGEMENT: Except for the area of hazard (i.e., loss) risk management, in all SCC Cities, there is no formal method to define, track, manage, and communicate risks at the enterprise level of SCC city government.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

The formal method to define, track, manage, and communicate risks at the enterprise level is at the mid-year and annual Council budget meetings.

F11. GOVERNANCE: All SCC Cities do not have a publicly articulated pension Unfunded Actuarial Accrued Liability (UAAL) funding policy that recognizes potential pension cost risks and community expenditure/revenue priorities.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

The UAAL is not publicly articulated but CalPERS provides 5-year forecasts that are used to prepare the City's long-range forecast. The total unfunded liability is also provided by CalPERS and reported in the Comprehensive Annual Financial Report per GASB requirements.

F12. TRANSPARENCY: All SCC Cities do not adequately meet key requirements for transparency as defined by the GFOA.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

The City's Comprehensive Annual Financial Report and Annual Adopted Budget meet GFOA standards for communicating financial information. Both documents have received awards from GFOA for the last several years.

F13. TRANSPARENCY: All SCC Cities do not provide standard and understandable reporting with regard to: Pension Costs and Associated Impacts (past, current, and projected); Service Level Performance Metrics; State of Key Infrastructure; Risk Assessments and Mitigation Plans for Finance, Operational, and Hazard Risks.

AGREE

PARTIALLY DISAGREE – explain the disputed portion

DISAGREE – explain why

Response explanation (required for a response other than **Agree**):

The pension information is reported in the Comprehensive Annual Financial Report. Other service level performance metrics are reported in the annual Adopted Budget or other Council presentations regarding the City's infrastructure. Some of the infrastructure evaluations are required to obtain state funding.

Recommendations

R1. By June 30, 2021: All SCC Cities should become familiar with and adopt the Auditor’s Office risk assessment framework or a similar framework to assess financial risk. (F1)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

Under the current economic, health, and social mandates, the City does not have the capacity to evaluate whether this should be implemented, and whether the benefits would outweigh the costs.

R2. By June 30, 2021: All SCC Cities should evaluate and communicate the implications of the financial risk trends indicated in the analyses calculated from the Auditor's Office methodology. (F2, F3)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

Under the current economic, health, and social mandates, the City does not have the capacity to evaluate whether this should be implemented, and whether the benefits would outweigh the costs.

R3. By June 30, 2021: All SCC Cities should publish a standard report annually that is an understandable summary of pension risk, including a narrative on the implications of market valuation versus actuarial valuation of accrued total liabilities. (F4, F12, F13)

HAS BEEN IMPLEMENTED – summarize what has been done

HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE – summarize what will be done and the timeframe

REQUIRES FURTHER ANALYSIS – explain scope and timeframe (not to exceed six months)

WILL NOT BE IMPLEMENTED – explain why

Response explanation, summary, and timeframe:

The City publishes information regarding pension liability and risk in the notes of the Comprehensive Annual Financial Report. It includes a sensitivity analysis showing the net pension liability with a rate change of +/- 1%.

R4. By June 30, 2021: All SCC Cities should identify a suite of risk indicators that support an integrated assessment of all risk types that can inhibit the ability of the city to meet its objectives. Enterprise Risk Management (ERM) provides an example of the risk types that should be considered. (F5, F6)

- HAS BEEN IMPLEMENTED** – summarize what has been done
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- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

Under the current economic, health, and social mandates, the City does not have the capacity to evaluate whether this should be implemented, and whether the benefits would outweigh the costs.

R5. By June 30, 2021: All SCC Cities should adopt the practice of Bowtie Analysis, or an equivalent method, to support the understanding of risk interactions, the establishment of risk controls, and the communication of a city risk profile. (F7, F10, F12, F13)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

The City does fully identify, assess, and track key risk indicators on a management level, but does not report until there is a plan to mitigate the risk.

R6. By June 30, 2021: All SCC Cities should publish their own infrastructure risk report cards and any data they make available to county and state level risk assessments. (F8)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

The City reports on infrastructure risk to various agencies that may need to know. The types of infrastructure vary greatly and not all infrastructure is maintained by cities. Data is made available when completing state reports and applying for grants.

R7. By June 30, 2021: All SCC Cities should evaluate the costs and benefits of implementing an Enterprise Risk Management Framework to better integrate risk management across all types of risks (Strategic, Financial, Operational, Hazard). This could take many forms, one being a shared capability through a risk sharing Joint Powers Authority (JPA). The key will be designating clear authority and responsibility for integrated risk management. (F10)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

Under the current economic, health, and social mandates, the City does not have the capacity to evaluate whether this should be implemented, and whether the benefits would outweigh the costs.

R8. By June 30, 2021: All SCC Cities should develop financial models that project the possibilities of realistic financial scenarios; and use these projections in their risk management practices. (F13)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

The City recently contracted with a consulting firm to develop a long-range forecasting model. The City is using it for budget forecasting, to ensure that reserves are restored and maintained.

R9. By January 1, 2021: All SCC Cities should develop or adopt contingency plans for realistic negative financial performance scenarios associated with CALPERS investment shortfalls (for shock and sustained downturns). (F9)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

The City has included CalPERS investment shortfalls in the forecasting model but it has not included significant shortfalls over the long-term.

R10. By June 30, 2021: All SCC Cities should develop and publish a policy regarding control of retirement costs (pension and Other Pension Employee Benefits) and funding remedies for unexpected bills presented by CALPERS. (F11)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
- WILL NOT BE IMPLEMENTED** – explain why

Response explanation, summary, and timeframe:

The City has taken many steps to control pension and Other Post-Employment Benefits. The City negotiated for employees to pay part of the City’s share of the CalPERS retirement obligation. The City has also limited other post-employment retirement benefits to flat monthly amounts for eligible retirees. If significant shortfalls were projected in the long-term forecast, the City would take additional steps to control those costs, up to and including negotiating with the City’s unions for additional cost-sharing.

R11. By June 30, 2021: All SCC Cities should develop a plan to align with the Government Financial Officers Association (GFOA) Financial Transparency Initiative. This should be extended to risk management transparency. (F6, F8, F10, F12, F13)

- HAS BEEN IMPLEMENTED** – summarize what has been done
- HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE** – summarize what will be done and the timeframe
- REQUIRES FURTHER ANALYSIS** – explain scope and timeframe (not to exceed six months)
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Response explanation, summary, and timeframe:

Under the current economic, health, and social mandates, the City does not have the capacity to evaluate whether this should be implemented, and whether the benefits would outweigh the costs.