Dean Chu, Vice Mayor
City of Sunnyvale
456 West Olive Avenue, P.O. Box 3707,
Sunnyvale, CA 94088-3707

June 15, 2004

Tim Risch
855 Mangrove Avenue
Sunnyvale, CA 94086

Re: Your letter received on May 17, 2004

Dear Mr. Risch:

I apologize for taking so long to respond. In order to respond properly I had to review most of the budget transmittal information for the past seven years, including all four years of budget transmittals that was issued during your term in office. This work was undertaken in addition to, and was secondary to, dealing with this year's budget and my other city council duties. I would be happy to sit down with you and explain how to read the budget material although I am surprised that this skill had not been learned during your term.

I must also apologize as I asked you about changes in the past budgets of "approximately $5 million" and if you were advised of such change.

Well, I was wrong. The amount that I should have asked you about was $3.4 million per fiscal year. I will explain the difference shortly.

The questions in your letter are answered out of sequence in order to provide better clarity.

Question 2: What Specific "Pension Costs?

The "Pension Costs" that I referred to were reduced were a result of California Public Employee Retirement System (PERS) advising Sunnyvale that the City did not have to pay the "employer" portion of pension contributions for several years. These expenses were reduced for four years from fiscal 1999/2000 to fiscal 2002/03. These years include most of the years you were in office. This was mentioned in the budget material from fiscal years 1999/2000 through 2003/04 that were delivered to all council members.

Question 1: Who are "we?"

"We" refers to the entire Sunnyvale City Council, and for that matter, any resident who watched the Saturday April 10, 2004 televised budget hearings when various funds were discussed, including Employee Benefits and Insurance Funds.

It also includes individuals who attended one of the non-televised public hearings on the 6 Point Action Plan for the Fiscal 2003/04 Budget conducted in the Spring of 2003. During that public hearing I first raised a number of questions regarding pension costs portion of the $15 million shortfall.

Question 3: How did I determine that these costs were around $5 million?

The $5 million amount was mentioned to the public in the Year End Report and Future Fiscal Issues City Council Study Session dated January 28, 2003. This was during your final year in office.

The former city manager outlined a number of fiscal issues totaling $15 million facing Sunnyvale, including $9.7 million in PERS retirement costs than had not been budgeted. This $9.7 million number was repeated throughout the spring of 2003 as the former City Manager and City Council conducted public outreach for the proposed budget cuts in the 6 Point Action Plan.

During one of these 6 Point Action Plan public hearings city staff was asked how much of a percentage increase was the $9.7 million compared to the prior year costs. Staff replied that a percentage increase cannot be calculated as payments had not been made for several years. Staff was subsequently asked how the $9.7 million payment compared to payments in prior years when payments were made. Staff replied that the payment rate was about twice as high as had been previously paid to make up for stock market losses that PERS had experienced.

$9.7 million divided by two is $4.85 million, or "about $5 million."

I have now reviewed the actual employer based pension costs paid by the City for the last several years and, unfortunately, the amounts paid differs from the $4.85 million calculation shown above. The actual costs were:

Fiscal 1998/99:	$3.4 million
Fiscal 1999/2000:	$0.0
Fiscal 2000/01:	$0.0
Fiscal 2001/02:	$1.6 million
Fiscal 2002/03:	$1.7 million
Fiscal 2003/04:	$3.5 million through March 2004 (or $4.5 million estimated for the fiscal year)

The costs paid in 2001/02 and 2002/03 were related to the increase in pension costs related to public safety pensions enhancements that the city council had approved. The $1.6 million and $1.7 million only reflect the increase in cost and the city continued to avoid paying the normal $3.4 million per year.

So the real number was $3.4 million per year and not the $5.0 million estimated from last year's 6 Point Action Plan.

During last year's public hearings for the 6 Point Action Plan the city staff was asked how much of the pension costs had been reserved for future pension costs. This is a significant question since the City budgets over a multi-year cycle. Staff replied that they think the City had **not** reserved any of the cost savings for future pension costs.

In the April 10, 2004 budget hearings I asked about Pension funds reserves and was again told by staff that there were no reserves.

I have now reviewed the budget transmittals for the past years and found out that $2.6 million had actually been accumulated into a "Rate Stabilization" reserve over the several years but that last year's budget used essentially all but $100,000.

If we had reserved 100% of the cost savings in the four years from fiscal 1999/2000 through fiscal 2002/2003 we would have $13.4 million set aside for future pension expenses. 50% would have been $6.8 million.

The decision on how much of the $3.4 million cost savings each year is a policy decision that should have been made by the City Council.

Question 4: What City fund were these "costs" charge to?

These pension costs would be normally paid out to PERS.

I have no idea where the "cost" savings went. I know were they should have gone, which is to a restricted Pension Fund Reserve.

I do know that General Fund operating expenses increased from $69.8 million in fiscal 1999/2000 to $92.1 million in fiscal 2002/03 before finally leveling off at $92.2 million in last year's budget. This is an increase in the annual General Fund operating budget of 31.9% or $22.4 million over 3 years.

Question 5: How do you know that Council was not advised?

I **don't** know if the prior city councilmembers were advised of these budget changes. That was why I asked the question on May 4. I had asked two councilmembers who were on the Council during these years and neither could recall being advised of the cost reductions.

Conclusion:

One would ask why any of this is important since these pension fund questions are in the past. One answer is that if there were adequate pension fund reserves then the impact of the $15 million budget shortfall last year and the $5 million budget shortfall this year would have been reduced significantly.

Another answer is that City Councils need to be aware of major budget changes in order to make hard choices in good years as well as lean years. The Council, and public, needs to be aware of significant proposed changes such as the $3.4 million pension expense which was 4.8% of the budget in fiscal 1999/2000 dropping to 3.7% in fiscal 2002/03 only due to increased spending.

The City Council this year held 4 days of public hearings to discuss the City's budget prior to any proposed reductions. This allowed the city council and residents an opportunity to better understand the budget and allowed for public input on the value of various programs. It is better to get the public input before one wastes time creating performance measures for programs that the public doesn't want, and the Council and Staff better understand what the public values such as "private sewer lateral services," or water features at neighborhood parks which were both eliminated last year. These programs, because of public input, were restored in this year's budget and have a minimal effect on the long term financial stability of Sunnyvale.

One final note is that most of the answers to the above questions came out of budget material during the fiscal years 1998/99 through 2003/04. This material is available to the public and the current year budget is provided to all councilmembers each year.

Best regards,

Dean J. Chu
Vice Mayor

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May 11, 2004

Vice Mayor Dean Chu
City of Sunnyvale
456 West Olive Ave.
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Dear Mr. Chu:

This is a follow-up to an issue that you raised at the City Council meeting of May 4, 2004 where I commented on the upcoming City budget. Immediately after my remarks you stated:

"We have recently discovered in our discussions as we ask staff questions that we find out that costs were reduced in the tune of, in the range of around five million dollars per year and Council was not advised."

You later referred to these reductions as:

"… five million dollars of pension costs."

Since at the time I was not aware of any reduction in pension costs where the Council was not advised, I promised that I would review the item and provide comments. In order to accomplish this, I request that you please clarify your remarks and provide answers to the following questions:

1. To whom do you refer to when you use "we?" If you are referring to Councilmembers, please provide specific names.
2. What specific "pension costs" do you assert were reduced and exactly when or over what time period did this occur?
3. How did you determine that these costs were around five million dollars per year?
4. What City fund were these "costs" charged to (general fund, employee benefit fund, etc.)
5. How do you know that Council was not advised of these changes if they did indeed occur?

Your prompt answers to these questions will assist me in reassuring the public in Sunnyvale's commitment to responsive and high quality government.

Sincerely,

Tim Risch

CERTIFIED MAIL

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