Dear Mayor Vandever,

Thank you for taking the time to answer our questions.

We, like you, are motivated by genuine concern for the future financial well-being of our City. We trust that you, our City leaders, have long term financial plans and that Measure E fits in with those plans. As such, we are disappointed that you dismissed some of our questions as asking for "speculation" on your part. We are not looking for speculation, just specifics that show there is a long-term plan.

We have a very simple and straightforward additional question:
If Measure E does pass, is Council planning for a second parcel tax in the near future?

Below are some additional comments and questions regarding your previous answers. We appreciate your Direct ANSWERS.

Question #1: Would you be willing to have staff calculate the Deficit results (using the League of CA Cities calculations) and share their findings?

Mayor's Answer:
The premise that the City has a deficit is not accurate. The City annually prepares and follows a balanced budget. I believe you might be referring to pension obligations. Like a mortgage, every City in the State has an unfunded liability for pensions; Palos Verdes Estates is not alone and the League of CA Cities is working on behalf of all of us to bring these costs under control. Like a mortgage, cities "pay as you go" to cover regular (normal) costs, and Palos Verdes Estates additionally pays-down (pre-pays) a portion of the unfunded liability annually to avoid interest. The largest component of our pension obligation is for Police. The City's contribution to employee pensions, calculated by the statewide system, currently comprises $976,000 of the Police Department $7.1 million budget. This figure will decrease and increase based on multiple factors used by the state system for calculating rates. The unfunded liability (aka the outstanding mortgage) for Police Department personnel over 30 years is approximately $10.7 million, approximately 357,000 per year. This figure will change (decrease and increase) based on multiple factors used by the state system for calculating rates. I believe the City will be posting additional pension information on our website.

PVrrg Follow-up:

- We fully understand your point that the annual statements of changes in the General Fund have not shown "deficits". But we are concerned that the bigger picture shows that overall expenditures combined with increases in liabilities are exceeding our revenue sources even after considering some of those expenditures are against funds that have been raised or set aside in prior years. The City has claimed that the only thing that matters is balancing the General Fund every year. Yet the other funds have been drawn down and the City's Net Financial Position has declined from $90 million in FY 15 to $60

M in FY 17. This is like saying all is well because the balance in our checking account has grown while refusing to acknowledge that we are depleting our savings account and selling stocks to transfer money into the checking account.

- The League of California Cities has a “California Municipal Financial Health Diagnostic” tool that is intended to help cities get a truer picture of their financial situation. **Click here** for the tool. We would like to hear your perspective on the relevance of this tool, and we’d like for the City to either review our pro-forma using the tool, or use the tool and perform the City’s own analysis. Desiree Myers, with the help of David Rice (who has taught municipal accounting at multiple colleges) applied the tool and concluded the actual deficits as this Diagnostic defines it were are follows: 2017: $6.7 Million -- 2016: $4.3 Million -- 2015: $4.8 Million. Can we meet with someone from the City and go over that?
- Your mortgage analogy is good, but we don’t see why you don’t consider a “mortgage” as “debt”. Anyone who is a homeowner certainly considers their mortgage as debt. Investopedia defines “debt”(**click here)** as *“an amount of money borrowed by one party from another. Debt is used by many corporations and individuals as a method of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.*” In this case, PVE has an obligation to pay future pensions of retirees and the difference between the value of the fund currently and the AAL (Accrued Actuarial Liability) is a debt that PVE has to CalPERS amounting to about $14 million. We pay interest as well as some principal each year on that obligation. Why is the $14 million not “debt”? Yes, there is an unlikely chance that CalPERS will start consistently exceeding its 7.5% target, but any reasonable person would conclude that is not likely given that we are closer to a cyclical high in the stock market than a cyclical low.
- In some ways, this debt is worse than a mortgage because the principal balance is likely to grow even if we continue to make payments. The recent experience in Orange County is a precautionary tale of how this can skyrocket even when the principal is being paid down on a much more aggressive basis:
    - *"How 5 O.C. cities are working to pull down the rising cost of a pension ‘mess’"* -- **click here**
    - **"***How Fraudulently Low “Normal Contributions” Wreak Havoc on Civic Finances"* -- **click here**

We should not be dismissing the problem because other cities have similar challenges. As indicated above, other cities (like those in OC) are proactively tackling the problem rather than relying on “the League of CA Cities is working on behalf of all of us to bring these costs under control.” They are not going solve the problem – we have to.

Therefore in summary, are you willing to ask the staff to either review our use of the “California Municipal Financial Health Diagnostic” or do their own calculations and share them?

Question #2: Would you be willing to provide a projection to the residents of the total PVE Police costs including pension costs funded by debt or otherwise for the term of the tax and inform the residents of how it will be funded (mostly debt)?

Mayor's answer:
The premise that there is debt (like a loan) is not accurate. The 2017-18 fiscal year budget for the Police Department is $7.1 million. Since then, approximately $630,000 of savings has been identified and will be implemented resulting in an annual budget of approximately $6.5 million. If Measure E is successful, the Palos Verdes Estates Police Department will be sustained; the funding can only be used for the Palos Verdes Estates Police Department and through the combination of on-going cost reductions, the implementation of efficiencies, use of General Fund money, and the cost-conscious management of resources, the City will maintain a local, community based police department and cover regular, on-going costs (pensions, etc.). No debt has been considered or contemplated for the Palos Verdes Estates Police Department.

PVrrg Follow-up:

- Thank you for the information. You answered questions we didn't ask but not the question we did ask. So we will restate it: What is the City's best calculation for the total projected costs of PVE police, broken down year by year and including the total cost of the unpaid pension obligations to CalPERS for the next 9 years?
- Should not the baseline for FY18 should be $7.5 million not $7.1 million? We understand that the amended budget is $7.1 million; however per the dialogue between Councilmember Kao and City Manager Tony Dahlerbruch on January 10, 2018, there seems to be an acknowledgement that these were one-time reductions and that the growth was likely to resume from the higher number, and that the $630,000 you mention might be realized over 3 years yet would be overcome by the escalation in other costs. Further, the Union has made it clear that they will fight any reductions in personnel, and that is the basis of the $630,000 "savings". See the September 26, 2017 City Council Meeting, where PVE PD Union Rep Steve Barber stood up and said "The POA [Police Officers Association] is firmly opposed to any recommendation that involves police staff being cut." For the video, **click here** and go to 3:08:00.
- Does the City have the concurrence of the Union now on these savings; if not, why are they in the "Plan" going forward?

Question #3: If Measure E does pass and the cost of PVEPD is unaffordable, what is the City's plan right now? Would Council then consider to get a real bid from the Sharif's? And another parcel tax to pay for it?

Mayor's answer:
Measure E, combined with Council oversight and Staff management, provides that **there is funding to sustain the Palos Verdes Estates Police Department for 9 years – the duration of the tax**; this is because the Measure E tax can only be used to pay for Palos Verdes Estates Police Department services. A premise that the Palos Verdes Estates Police Department cannot

be maintained with the passage of Measure E is inaccurate and thus, there is no way to answer your question further.

PVrrg Follow-up:
Even if Measure E passes, the sloppy wording in the City Attorney's official letter may be problematic and become a source of litigation. She states: *"The revenue from the proposed tax **could** be used solely to obtain, provide, operate and maintain local and independent community-based law enforcement services in the City."* Why was the word "could" used? Our understanding is that Measure E is intended to be a referendum on an internal PD, and this is the way the Measure is being promoted by the POA and groups supporting it. Introducing the word "could" sends a mixed message. We anticipate the ambiguity may cause the Measure to lose "yes" votes. It is odd (and inappropriate) that Ms. Hogin's law firm would benefit from any litigation that might result from this sloppy wording. Given that Ms. Hogin advised and led the City into the illegal Parkland sale, we don't understand why PVE is not seeking more competent counsel. We also don't understand why the three Councilmembers who are lawyers did not pick this up before it showed up on the Voter Information Guide.

Question #4: If Measure E does pass, Can the City repudiate the current PVE Police contract and the 9 year commitment, and turn to the only other alternative, LA Sheriffs' outsourcing?

Mayors answer:
The current contract with the POA expires June 30, 2018. In the spring, the City will meet with the POA to negotiate a new agreement. The City Council and I are well aware of the City's limited resources in reference to negotiations. **Measure E will secure funding for the Palos Verdes Estates Police Department for 9 years.**

PVrrg Follow-up:
Apart from the above question about "could", what is the status of the Police Union Contract? Our understanding is that the City Council was prepared to approve the contract last fall until someone pointed out that it should not be approved until Measure E passes. Therefore, if it has already been agreed upon, why can't the City project out police costs (including whatever cost escalations are agreed upon in the Union Contract)? If that is the case, why isn't any of this being communicated to voters in advance of the Measure E election? If it is not the case, please provide that information.

Question #5: If Measure E doesn't pass, what fund would the City use to cover the deficit?

Mayors' answer:
The premise that the City has a deficit is not accurate. However, if Measure E fails, there will be many changes to the services our residents currently expect and enjoy. I don't think it is helpful to speculate about how the City will deal with the loss of 25% of its revenue on an ongoing basis. The City Council created the Finance Advisory Committee (FAC) to, in part, develop a long

term fiscal plan. Whether or not Measure E passes, the FAC will be developing a recommendation to the City Council for maintaining the City's fiscal sustainability.

PVrrg Follow-up:

- We obviously are very supportive of the FAC. Thank you for implementing that. But the City must have made some assumptions in a long-range plan used in developing this Measure. There must be some sense of the options if the Measure fails. For instance, have you considered a $14 M tax-free bond for 2-3% interest that would be far preferable to paying the $14 million "mortgage" off over 30 years at 7.5%? That would be an attractive investment for our residents and others, and it would save the City a lot on interest payments.

- Given the chance that passage of Measure E is clearly not 100%, shouldn't the City request the Sheriff Feasibility Study (SFS) now so at least the City and residents would have a better understanding of what that option? To embark on that in April if Measure E fails puts us in a very weak negotiation position relative to the LASD. In addition, the failure to request an SFS last year hurt our negotiation position with the PVE Police Union. In our opinion, rejecting the recommendation of the City Manager and City Treasurer in April 2017 to start the SFS was one of the poorest decisions City Council has made in recent years.

Question #6: Have the City Council made commitment to fund the local PD regardless of the outcome of Measure E votes?

Mayors' answer:

I don't think it would helpful to speculate about what the Council will do in that difficult circumstance.

PVrrg Follow-up:

- We think that this is a simple "yes" or "no" question, not a call for speculation.   As the Mayor of the city, are you saying that prior to submitting this tax to the residents, you didn't consider the possibility that the tax might not be approved and therefore make the appropriate plans to handle the city's finances given that possible outcome?
- Or are you saying that the City doesn't have a plan B for police services if Measure E fails other than creating a Finance Advisory Committee?

Question #7: How much raises has the City agreed to pay the PV Police Officer's Union members during the last negotiation? What amount of raise has the City promised the PV Police Officer's Union for June 2018 if Measure E does pass?

Mayor's answer:

The City Council did not approve any raises for any staff for 2017-18. Moreover, the City was successful in achieving a significant concession from all staff. Over the past 4 years, the City has incrementally required employees to pay the "employee portion" of pension costs. In 2017-18, the City completed the process where now, all employees pay the entire "employee portion" of pension costs. The "take-back" from employees has reduced costs most significantly in the Police Department; annualized, the savings is approximately $100,000. There has been no salary adjustments or benefits promised or commitment to police officers for 2018-19 or beyond.

PVrrg Follow-up:
These moves give the appearance of cost reduction, but our impression is that after Tony Dahlerbruch became City Manager, he accelerated the shift from outsourced positions to internal positions which would have CalPERS requirements. At that time, we understand that there were some one-time upward adjustments of salary to help employees pay for a bigger share of the contributions. Also, the very nature of aggressive investment return assumptions by CalPERS (whose Board is made up of Union reps) is partly intended to make Cities accountable for a bigger part of the funding of pensions than their employees. Even when Employees pay half of the normal contribution, the unfunded part gets paid entirely by the City – so the employee pays much less than half.

Question #8: What is the projected/estimated costs of PVEPD for FY18/19 including CalPERs based on the City's current commitment?

Mayor's answer:
In April, we will begin the preparation of the 2018-20 budget. The City Council will adopt the budget at its meeting on June 26, 2018. In the intervening months, the 2018-19 and 2019-20 budgets will be developed inclusive of pensions and all other costs. The City Council will hold several meetings at which we hope you, members of the PVRRG, and other residents attend and provide input. As previously noted, the 2017-18 budget for the police department is $7.1 million. We've identified $630,000 in reductions to be made.

PVrrg Follow-up:
The $630,000 "savings" was described as one realized over three years based on attrition, and the $7.1 million included about $400,000 of one-time reductions. So what is the budget for FY19 that the Council has approved, since there is a two year window on budgets approved going forward? Why has this FY 19 budget not been disclosed as part of educating the public on the true cost of Measure E?

Rose Ramsay
On behalf of the PVrrg Steering Committee

PVrrg

PALOS VERDES RESIDENTS FOR RESPONSIBLE GOVERNMENT