

**OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M**

No. 07-6

DATE: May 1, 2007

TO: Honorable Council President and Members of the City Council

FROM: Andrea Tevlin, Independent Budget Analyst

SUBJECT: Amendment to agreement with Actuarial Services Company

On Monday, April 30, a request for amendment to the agreement with Actuarial Services Company was presented to the City Council. The amendment would authorize expenditures up to \$900,000. The funding requested is as follows:

	Previously authorized: already expended	Increase requested: already expended	Increase requested: not expended	TOTAL REQUEST
General Fund (Reserves)	\$149,751	\$290,945	\$201,094	\$648,921
Enterprise Funds	\$60,249	\$117,055	\$80,906	\$261,079
TOTAL	\$210,000	\$408,000	\$282,000	\$900,000

This action specifically requests authorization of funds in the third and fourth columns (“Increase requested”) for a total increase of \$690,000 (\$408,000 + \$282,000) and a withdrawal from the reserves of \$492,039 (\$290,945 + \$201,094), which is the General Fund portion.

Funds are needed to pay the company for services rendered. In addition, we support the ongoing work of the actuary, including projects that will assist our office in responding to requests by the Rules Committee for pension plan options and design analysis. However, we have several concerns to raise.

As we mentioned at the City Council meeting of April 30, 2007, the FY 2008 Proposed Budget includes an allocation of \$500,000 across City funds for these actuarial services. Since reserve funds are requested for the first \$900,000, this would be a total allocation of \$1.4 million for these services, pending another City Council-approved amendment to the agreement. The CFO stated at that meeting that the \$900,000 allocation is intended to cover services and projects for the duration of FY 2008, thus we recommend removing the allocation of \$500,000 from the FY 2008 Budget. If additional funds are required in excess of the \$900,000, the CFO should return to Council next fiscal year.

There are a couple of concerns we wish to raise with the current contract as well. We were

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unable to identify a specific hourly rate or the number or positions of all staff that would be working on this contract. This may be because the original contract does not appear to have been provided as back-up documentation for this item. The back-up we received was only the proposed amendment to the agreement. In Section 2.A.(1) of the amendment, a rate of \$240 per hour is referenced for providing expert testimony. If this is the rate that is applied for all services, the IBA points out that the charges to the City thus far (\$618,000) constitute one person working full-time (40 hours per week) for over 60 weeks, or approximately 14 months, straight. We know this has not been the case, and we suggest that more detailed billing, staffing and expense information be provided.

In addition, we are concerned that the work products of the company have not been provided to all concerned parties. We are aware that the company has provided expert testimony, made two presentations in front of the City Council, replicated the SDCERS valuation, performed an analysis of DROP and may have assisted with labor negotiations. However, we are unaware of other work products that may further justify the to-date expenditures of over \$600,000 in such a short amount of time. We request that a comprehensive list of work performed be provided.

We also draw attention to Section 2.A.(1) as it references future possible contract amendments that may be required should the company's services be required for expert testimony for ongoing litigation. The City Council may wish to specify that these services must be brought forward to the City Council prior to incurring the expense.

The IBA further suggests that, in the case of future overexpenditures, the City department receiving the benefit of the work should be required to absorb those costs into their normal operating budget, unless extraordinary circumstances exist. It is not consistent with the need for accountability to return to withdraw funds from the reserves of the General Fund and Enterprise Funds throughout the year for routine expenses.

As we have stated before, we are concerned that contracts and expenditures are often not brought back to the City Council until the previously authorized limits are far exceeded. In this case, the services billed exceeded authorization by almost 300%, and the IBA is unaware of a reason that this contract could not have been brought to the City Council for discussion and amendment in a more timely manner. We suggest that the Mayor, the City Attorney and the City Council come to an agreement on when contracts should return to Council to enhance accountability.

[SIGNED]

Andrea Tevlin
Independent Budget Analyst