



Incorporated October 22, 1956

# CITY OF SARATOGA

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**RECEIVED**

JAN 26 2017

**CIVIL GRAND JURY**

January 18, 2017

Santa Clara County Civil Grand Jury  
Superior Court  
Attention: Tamara Davis, Deputy Manager of Jury Services  
191 North First Street  
San Jose, CA 95113

Dear Santa Clara County 2016-2017 Civil Grand Jury,

Thank you for the opportunity to provide an update on the City of Saratoga's progress in addressing the 2011-2012 Civil Grand Jury's concerns regarding the financial impacts of Pensions and Other Post-Employment Benefits on local government operations.

The Saratoga City Council has continued its commitment to be fiscally responsible in managing both current and future financial resources, particularly with strategic efforts to contain employee costs. The City successfully modified employee retirement and medical benefits, and accelerated the CalPERS unfunded liability payment to reduce overall costs and provide long-term structural reforms necessary to sustain city operations. Per your request, the City of Saratoga has compiled the following responses to explain the Council's actions:

**1. How the City views the various recommendations.**

As communicated to the Civil Grand Jury on September 5, 2012, the City of Saratoga shares the Civil Grand Jury's (CGJ) concerns. Four of the recommendations were implemented prior to the CGJ inquiry or shortly thereafter. Three of the recommendations were not applicable to the City of Saratoga and therefore could not be implemented. The remaining three recommendations required further review, and our subsequent actions are explained in question 2 under response C.

**2. Whether the recommendations were accepted.**

A. Recommendations applicable to the City of Saratoga that were *accepted and implemented* are as follows:

***Recommendation 1:***

*The Cities should adopt pension plans to extend the retirement age beyond current retirement plan ages.*

Prior to the CGJ report, the City of Saratoga had successfully negotiated and adopted a second tier CalPERS retirement benefit plan for employees hired on or after May 12, 2012 that increased

the retirement age from 2% @55 to 2% @60, with the benefits based on a 3-year final average compensation period. Shortly thereafter, State law (the California Public Employees' Pension Reform Act of 2011, PEPRA) created a third tier for new employees hired on or after January 1, 2013 that established a 2% at 62 retirement benefit plan also based on a 3-year final average compensation period.

***Recommendation 2A:***

*Santa Clara County and the cities of Cupertino, Los Altos, Monte Sereno, Morgan Hill, Mountain View, San Jose, Santa Clara, Saratoga, and Sunnyvale should work to implement second tier plans.*

As noted in Recommendation 1, the second tier (2% at 60) was implemented on May 12, 2012; several months prior to the report date, and the third tier (PEPRA) went into effect January 1, 2013. As of January 1, 2017, 18 of the City's 58 benefited employees (31%) fall into the second or third tier benefit platform. This percentage is expected to increase to more than 50% over the next five years and to more than 70% over the next ten years, thereby providing ongoing reductions in retirement benefit costs.

***Recommendation 2C:***

*All cities' new tier of plans should close the unfunded liability burden they have pushed to future generations. The new tier should include raising the retirement age, increasing employee contributions, and adopting pension plan caps that ensure pensions do not exceed salary at retirement.*

As noted above, implementation of the second and third tiers have raised the retirement age. Additionally, employee negotiations completed in 2011 resulted in significant ongoing cost savings through employees agreeing to pay the 7% employee contribution rather than the City. And lastly, before PEPRA, CalPERS retirement benefit plans did not include salary caps, meaning the City of Saratoga had no ability to implement this recommendation. However, under PEPRA's 2% at 62 benefit plan CalPERS did include a salary cap on final compensation thereby ensuring pensions do not exceed salary.

***Recommendation 4A:***

*The cities should require all employees to pay the maximum employee contribution rate of a given plan.*

As noted above, this recommendation was implemented in 2011. All City of Saratoga employees pay the maximum employee contribution rate of 7% of wages under Tier 1 and 2, and the required employee match as determined under PEPRA for Tier 3 employees.

B. Recommendations that were ***not applicable*** to the City of Saratoga include:

***Recommendation 2B:***

*For Gilroy, Los Gatos, Milpitas, and Palo Alto, which have not implemented second tier plans for MISC and Public Safety second tier plans should be implemented for both.*

Not applicable as this recommendation refers to other cities.

***Recommendation 5:***

*The cities should immediately work toward implementing policy changes and adopting measures aimed at making full OPEB ARC payments as soon as possible.*

Not applicable as the City of Saratoga does not provide Other Post-Employment Benefits.

***Recommendation 6:***

*The City of San Jose should eliminate the SRBR program or amend the SRBR program to prevent withdrawal of pension trust money whenever the pension –funded ratio is less than 100%.*

Not applicable as this recommendation refers to another city.

- C. The final three recommendations required ***further analysis*** and the City subsequently took the following actions:

***Recommendation 3:***

*The cities should adopt policies that do not permit benefit enhancements unless sufficient monies are deposited, such as in an irrevocable trust, concurrent with enacting the enhancement to prevent an increase in unfunded liability.*

This recommendation was not applicable as the City of Saratoga had not enhanced benefits in the past, and with recent pension changes to restrain benefit enhancements the City does not anticipate benefit enhancements would occur in the future.

***Recommendation 4B:***

*The cities should require employees to pay some portion of the Past Service Cost associated with the unfunded liability, in proportion to the benefits being offered.*

On page 10 of the CGI's report titled "2011-2012 An Analysis of Pension and Other Post-Employment Benefits" published as an analysis of the 2011-2012 survey responses, the CGI included CalPERS explanation as to the three primary reasons causing an Unfunded Accrued Liability (UAL):

- 70% of the unfunded liabilities is attributable to market performance
- 15% of the unfunded liabilities is attributable to retroactive benefit enhancements
- 15% of the unfunded liabilities is attributable to other actuarial assumption changes.

At this time, Council has not determined whether employees should contribute toward this liability, or how to assess the UAL against a "proportion of the benefits being offered" as the City's UAL did not include retroactive benefit enhancements. The City will continue to research this as new information becomes available, and the Council will retain this recommendation for further analysis and consideration.

The City would like to note that this recommendation will require bargaining pursuant to the Meyers-Milias-Brown Act, and as such, the City is not be able to definitively commit to implementing this recommendation in advance of negotiations.

***Recommendation 7:***

*The cities should transition from defined benefit plans to defined contribution plans as the new tier plans are implemented.*

As noted in the 2012 response, the City of Saratoga contracts with CalPERS for retirement benefits, and at this time, CalPERS does not offer a defined contribution plan alternative. Should CalPERS make this an option in the future, the City plans to explore the opportunity.

**3. If there is a plan for future action**

The City of Saratoga continues to review ways to appropriately contain ongoing employee costs in conjunction with pension laws, benefit changes, and competitive salary and benefit packages. The fluctuating economy, revenue streams, workplace demands, and employee negotiations contribute to the City's ability to make these changes.

As part of a CalPERS risk pool, the City received Unfunded Accrued Liability balance information in late 2014. In early 2015, the Council directed immediate payment of a significant portion (42%) of the \$7.7 million UAL to eliminate the Pre-2013 liability base. In addition, Council directed annual contributions be increased to \$500,000 to condense the CalPERS payment plan timeline from 30 years to 15 years.

With the recent CalPERS actuarial assumption change and upcoming discount rate reduction, the UAL is expected to grow significantly. Council will revisit the UAL discussion as part of the FY 2017/18 budget discussion, and again consider options to modify the City's debt retirement strategy once more information is known.

The City of Saratoga is strongly committed to being fiscally prudent, not pushing debt onto future generations, and is diligent in addressing long-term liabilities proactively.

Please contact Saratoga City Manager James Lindsay at (408) 868.1213 if you seek additional information or have any questions regarding this response.

Sincerely,

Emily Lo  
Mayor

A handwritten signature in blue ink, appearing to read "Emily Lo", with a long horizontal flourish extending to the right.