



City of Gilroy

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ROLAND VELASCO
MAYOR

January 24, 2017

RECEIVED

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CIVIL GRAND JURY

Santa Clara County Civil Grand Jury
Santa Clara County Superior Court
Attention: Tamara L. Davis
191 North First Street
San Jose, CA 95113

Dear Ms. Davis:

Thank you for your letter dated December 21, 2016 requesting that the City of Gilroy provide a follow-up response to the Santa Clara County Civil Grand Jury's (SCCCGJ) report entitled "An Analysis of Pension and Other Post-Employment Benefits". As you know, the City of Gilroy responded to this report back in 2012 when the report was issued. Your letter indicated that the current SCCCJ would like to know how the City of Gilroy currently views the various recommendations contained in the 2012 report, whether the recommendations were accepted, and if there is a plan for future action.

Back in 2012, and at the current time, the City of Gilroy shares the Grand Jury's concerns regarding pension obligations and continues to evaluate pension costs and changes. Since the 2012 report the Public Employee Pension Reform Act (PEPRA) has gone into effect and the City of Gilroy complies with all aspects of PEPRA. As classic (pre-2013) employees on the more expensive pension formulas retire and are replaced with new members on the lower cost pension plan savings will be realized. The challenge to public agencies is the time it will take to for this cycle to complete such that all employees are on the more sustainable, lower cost plan.

As noted in the 2012 response letter, Gilroy took some pro-active steps prior PEPRA and implemented lower tier pension plans for safety (police and fire) employees. As you likely know, pension costs for safety employees are the most expensive and by implementing a second tier in advance of PEPRA, additional savings have been realized. One challenge Gilroy faces is competition for experienced employees by agencies that did not implement a second tier and are still able to offer the 3% at 50 plan or 3% at 55 plan to classic safety members. However, despite Gilroy's additional lower tier of pension benefits, Gilroy has strived to remain an employer of choice by offering employees a positive work environment with strong community support, employee training and development opportunities, and a financially stable organization.

The following are Gilroy's updated responses to the findings and recommendations from the 2012 SCCCJ report:

CGJ Recommendation 1 – The Cities should adopt pension plans to extend the retirement age beyond current retirement plan ages.

City Response: As noted above, the City of Gilroy adopted a second tier of retirement benefits in advance of PEPRA which extend the retirement age or reduce the benefit in an effort to reduce costs and future pension obligations. For example, the benefit plan reduction to 2% at 50 for Gilroy's police group extends the years of service required to equal the previous benefit level earned under the 3% at 50 formula. The police employees with the new formula reach a maximum of 90% of final compensation with 34 years of service. Similarly, the retirement benefit level reduction to 2% at 55 for fire employees also serves to extend the years of service requires to achieve a benefit level equivalent to the previous plan. Under the second tier formula, fire employees reach a maximum of 80% of final compensation with 40 years of service.

With the implementation of PEPRA as of January 1, 2013, new CalPERS members hired in Gilroy fall under the following set of formulas:

- *Police – 2.7% at 57*
- *Fire – 2% at 57*
- *Miscellaneous – 2% at 62*

The PEPRA tiers extend the retirement age for all new members.

CGJ 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 plans.

City Response: Gilroy did in fact implement a second tier of retirement benefits for the Police and Fire groups in advance of PEPRA. The Police formula was reduced to 2% at 50 and the Fire formula was reduced to 2% at 55. When the Miscellaneous employee labor contracts opened for negotiations, PEPRA had already taken effect reducing the formula for all new Miscellaneous CalPERS members to 2% at 62.

CGJ 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.

City Response: All Gilroy Police and Fire employees pay the full 9% employee contribution (classic members) or 50% of the total normal cost (currently 12% for new members). In addition, Miscellaneous plan members pay the full 8% employee contribution (classic members) or 50% of the total normal cost (currently 6.25% for new members). Further cost sharing may be a subject of future labor contract negotiations with bargaining units as pension cost sharing is a mandatory subject of bargaining pursuant to the Meyers-Milias-Brown Act. Currently, under the PEPRA provisions, and until 2018, further cost sharing of the employer rate may only be achieved through a negotiated labor agreement and cannot be unilaterally implemented following an impasse.

CGJ 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.

City Response: The City will continue to take this recommendation into consideration for any future benefit changes. It is important to note that no retirement plan benefit changes have been implemented since 2012 nor are any planned in the immediate future.

CGJ Recommendation 4A – The Cities should require all employees to pay the maximum employee contribution rate of a given plan.

City Response: Gilroy continues to require all employees (classic and new members) to pay the maximum employee contribution rate.

CGJ 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.

City Response: Changes to pension benefits is a mandatory subject of bargaining under the Meyers-Milias-Brown Act. Cost sharing of the past service credit associated with the city's unfunded liability would fall under the bargaining process. While the City has implemented all aspects of PEPRA in addition to a second tier of benefits for safety employees, the city has not negotiated further cost sharing of the employer's costs. As noted above, cost sharing can only be achieved by reaching a negotiated agreement to share costs. After 2018, PEPRA allows for unilateral implementation of cost sharing following impasse procedures. Further, it is important to note that Gilroy is a Charter City and the voters of Gilroy added binding interest arbitration to the Gilroy Charter. As such, should police or fire labor negotiations reach an impasse, an outside arbitrator will hear and decide the final labor contract.

CGJ 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.

City Response: Gilroy continues to study OPEB costs to ensure proper evaluation of funding options with each budget and audit cycle. In addition, the City has evaluated various options to address unfunded pension liabilities, the most recent report to City Council occurring on April 4, 2016. Currently, the city is developing a ten year financial forecast that will include an analysis of future pension and OPEB costs.

CGJ Recommendation 7 – The Cities should transition from defined benefit plans to defined contribution plans as the new tier plans are implemented.

City Response: As noted above, pension plan changes are a mandatory subject of bargaining under the Meyer-Milias-Brown Act. CalPERS does not currently offer a defined contribution plan to public employers. Exiting the CalPERS retirement program

has an extraordinary price tag making a transition like this very difficult for public agencies.

Please feel free to contact me or Gilroy City Administrator Gabriel A. Gonzalez if you seek additional information or have any questions regarding this follow-up response to the SCCCGJ December 12, 2016 letter.

Sincerely,



Roland Velasco, Mayor

Cc: Members of the City Council
Gabriel A. Gonzalez, City Administrator
LeeAnn McPhillips, Human Resources Director
Jimmy Forbis, Finance Director