



# City of Monte Sereno

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**RECEIVED**

**FEB 14 2017**

**CIVIL GRAND JURY**

February 8, 2017

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

Re: City of Monte Sereno response to 2016-17 follow to the July 2012 report entitled "An Analysis of Pension and Other Post Employment Benefits."

Dear Ms. Davis,

On behalf of the City of Monte Sereno, I would like to first of all thank you for the time extension in submitting this response. The City's response was approved by the City Council at their regularly scheduled Council meeting of February 7, 2017. The response is framed using the questions posed in your letter to Mayor Marshall Anstandig dated December 21, 2016.

If you have any questions, please feel free to contact me at (408) 354-7635 or by email at [dfigone@cityofmontesereno.org](mailto:dfigone@cityofmontesereno.org).

Sincerely,

Debra Figone  
Interim City Manager  
City of Monte Sereno

**City of Monte Sereno Response to  
Civil Grand Jury Request Dated December 21, 2016**

**How Does the City view the various recommendations?**

The City continues to consider the cost of PERS and the cost of OPEB as serious fiscal issues of local and statewide concern. It is for this reason that the City has taken the actions that are discussed in this response.

**Were the recommendations accepted?**

The Civil Grand Jury raised important issues and offered thoughtful recommendations in the 2012 report. The City has followed up on the recommendations and has taken actions that are relevant for our jurisdiction. These actions and the reasons behind them are discussed below. The City's workforce and retiree profile are important to understand as it sets the context for the actions that the City has taken to contain and manage PERS and OPEB costs into the foreseeable future. Should the profile change substantially moving forward, these strategies could be revisited. The City's goal is to ensure that PERS and OPEB decisions are made in the best interest of the City's fiscal health and service delivery viability.

**City Actions Taken to Date:**

***City of Monte Sereno Workforce and Retiree Profile:***

The City's authorized staffing level subject to PERS and OPEB benefits is: 6 fulltime (including 1 vacant City Manager position) and 1 part time employees. Of these current staff members 5 are classic PERS members and 1 is a PEPRAs PERS member. The City currently does not have any retirees collecting OPEB benefits, and expects 1 or 2 in foreseeable future. The PERS designation for the City Manager will be determined when hired. The City has no unionized employees. Compensation (pay and benefits) is established through Council resolution.

***The City of Monte Sereno has paid off its PERS Unfunded Accrued Liability (UAL):*** At their April 5, 2016 meeting the City Council voted to "pay-off" the CalPERS Unfunded Accrued Liability in the amount of \$617,000. Some of the driving considerations for that decision were the City's ability to pay and the savings of nearly \$985,000 in interest payments if the liability had been financed over the 30-year term. Going forward and depending on CalPERS meeting their projected market returns, the City's liability could become an issue again but at a much reduced liability level. The City will monitor prospective changes in its UAL consistent with the biennial CalPERS actuarial report and rate setting process. The cost/benefit evaluation of paying down future liabilities will be considered as part of the City's annual budget process.

***Current "Classic Plan" of 2%@55 will remain in place:***

For the last 25 years the plan has been at the 2% @55 level. The plan is 2%@55, after 5 years of service, retirement age 50-55 with the City paying both employee and employer

share of retirement contributions currently 7% and 8.377%. There have been no discussions with the City Council to make changes to that level. The City does need to remain a competitive employer in the context of the current public sector environment in the bay area. That said, given that the City of Monte Sereno is a small employer, it will have options to provide competitive total compensation packages (pay and benefits) to its employees and does not foresee the need to change its classic PERS plan.

***PEPRA will serve as the City's "2<sup>nd</sup> Tier":***

Any new employees coming into the City that have been CalPERS members will be "classic members" and receive the current 2%@55 retirement benefits that other City classic members receive (as described above). Any new employee coming to the City that has not been a CalPERS member will be a PEPRA (Public Employees' Pension Reform Act of 2013) member and that retirement benefit will be 2%@62 after 5 years of service, retirement age 52-67 with a required employee contribution rate currently at 6.25% of salary and the City pays a contribution rate of 8.512%. Over time, the City's retirement contributions will continue to be reduced as classic members retire. Given the City of Monte Sereno is a small employer and does not experience a significant amount of turnover, it has chosen to use PEPRA as the alternative to introducing a 2<sup>nd</sup> tier. This is a far more practical approach for the City.

***OPEB Benefits and pay as-you-go strategy:***

The City continues to use a pay as you go approach as indicated in its 2012 response to Recommendation #5 of the 2012 Report. As indicated at that time, the Civil Grand Jury's recommendation to "immediately work toward implementing policy measures aimed at making full OPEB ARC payments as soon as possible" is still not warranted for the City of Monte Sereno. The City of Monte Sereno currently provides a very modest OPEB benefit consisting only of Health coverage up to the CalPERS choice single rate. The rate at this time is \$830.00 per month. As indicated in the City's workforce and retiree profile, we are a very small employer with low risk exposure to OPEB benefit costs as we only expect one or two retirees to draw these benefits in the foreseeable future. The City has currently designated in the 2016-17 Budgeted Reserve Funds \$94,000 for OPEB. The pay as you go method will continue to be the City's approach and will be evaluated through annual budget process. Given the City's workforce and retiree profile, this approach allows the City to plan for future OPEB payments while not unnecessarily "tying up" scarce resources.

***City Policy approach to not permitting Benefit enhancements in order to prevent an increase in unfunded liability (2012 Report Recommendation #3):***

As indicated above, the City is taking an approach to ensure that benefits that are committed are funded. This approach is to specifically plan for and designate funding for OPEB in its reserve funds. Once the City has more experience with actually having to pay for these benefits (see workforce and retiree profile), this approach may warrant different budgeting and accounting treatment. An annual review of this approach by the City Council will occur during the budget process.

**Is there a plan for future action?**

The City has taken prudent steps to manage its retirement and OPEB costs. The plans moving forward are to monitor the impact of changes being made by CalPERS on the City. The City will continue to take the steps needed that are within its control to manage retirement and OPEB costs and to remain a competitive employer.

**Conclusion**

The City of Monte Sereno would like to thank the Civil Grand Jury for its attention to this issue. We hope that we have been responsive to this inquiry. If there are any other questions please feel free to contact Debra Figone, Interim City Manager.