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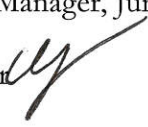
MAR 03 2017

CIVIL GRAND JURY

MEMORANDUM

DATE: March 3, 2017

TO: Tamara L. Davis, Deputy Manager, Jury Services

FROM: Chris Jordan, City Manager 

SUBJECT: 2017 RESPONSE TO THE 2011-2012 SANTA CLARA COUNTY CIVIL GRAND JURY ANALYSIS OF PENSION AND OTHER POST EMPLOYMENT BENEFITS

On August 28, 2012, the Governing Body of the City of Los Altos submitted a response to the Findings and Recommendations in the Final Report by the 2011-2012 Santa Clara County Civil Grand Jury report, "**An analysis of Pension and Other Post Employment Benefits**".

Subsequently, the 2016-2017 Santa Clara County Civil Grand Jury would like to learn:

1. How the City views the various recommendations
2. Whether the recommendations were accepted, and
3. If there is a plan for future action.

This report is an update to each of the recommendation responses that were provided by the City of Los Altos to the 2011-2012 Civil Grand Jury. A plan of action pursuant to the recommendations is conditioned on allowances under State law as a CalPERS member agency, economic trends, direction from City Council and future labor collective bargaining negotiations.

2011-2012 Response by the City of Los Altos to the 2011-2012 Findings and Recommendations

Recommendation 1:

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

Response 1:

The recommendation has been implemented. The City has adopted second tier plans for all new safety and all new miscellaneous employees to extend the retirement age beyond the current ages of the tier-one retirement plans.

2017 Update

In addition to adoption and implementation of a second tier retirement plan on October 1, 2011, through the collective bargaining process, PEPRA (California Public Employees' Pension Reform Act of 2013) tier retirement was implemented for qualified employees. Thus, as a CalPERS agency, the City now has a three-tier retirement system. The second and third tier retirement system increases the age for qualified employees to retire and reduces the retirement benefits.

Finding 2:

Campbell, Gilroy, Los Altos Hills, Los Gatos, Milpitas and Palo Alto have adopted second tier plans that offer reduced Benefits, which help reduce future costs, but further changes are needed to address today's unfunded liability. Santa Clara County and the cities of Cupertino, Los Altos, Monte Sereno, Morgan Hill, Mountain View, San Jose, Santa Clara, Saratoga and Sunnyvale have not adopted second tier plans.

Response 2:

Respondent, City of Los Altos, disagrees partially due to the second sentence in the Finding that states that the City of Los Altos has not adopted second tier plans. On October 1, 2011, the City of Los Altos adopted its second tier plans for all new safety and new miscellaneous employees that include reduced benefits in an effort to address rising costs and unfunded liabilities.

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.

Response 2A:

The recommendation has been implemented by the City of Los Altos with the adoption of second-tier pension plans for new safety and new miscellaneous employees.

2017 Update

The second tier continues to be implemented by the City for qualified new employees.

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.

Response 2C:

The recommendation has been implemented with the adoption of second-tier plans for new safety and new miscellaneous employees within the requirements of CalPERS regulations. The adoption of the second-tier plans raises the retirement age and increases employee contributions. The City of Los Altos, as a contracting agency of the CalPERS pension system, does not have the ability to adopt pension caps beyond those set by CalPERS, which currently caps Safety Pension Plans at 90%.

2017 Update

During collective bargaining discussions, the PEPRA tier retirement formula was agreed to and implemented for qualified members within the employee groups. The PEPRA third tier reduces pension liability, retirement benefits and increases the age required to for retirement benefits and implements pension reforms.

Finding 3:

Retroactive Benefit enhancements were enacted by Cities using overly optimistic ROI and actuarial assumptions without adequate funding in place to pay for them.

Response 3:

Respondent, City of Los Altos, agrees with the Finding.

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.

Response 3:

The recommendation has not yet been implemented, but will be implemented in the future conditioned on economic trends, direction from City Council and future labor collective bargaining negotiations.

2017 Update

City has not enhanced pension retirement benefits.

Finding 4

The Cities are making an overly generous contribution towards the cost of providing Benefits.

Response 4:

Respondent, City of Los Altos, agrees with the Finding.

Recommendation 4A

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

Response 4A:

The recommendation has been implemented on a partial basis in the current labor agreements and it is anticipated this recommendation will be fully implemented conditioned on future labor collective bargaining negotiations. The City has implemented maximum employee contribution rate in the second tier plans.

2017 Update

Through the collective bargaining process, the EPMC (Employer Paid Member Contributions) that was paid by the employer has now been fully implemented and the rate shifted to the employee. Employees now pay the maximum employee contribution rate of a given retirement plan.

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.

Response 4B:

The recommendation has not yet been implemented, but will be implemented in the future conditioned on economic trends, direction from City Council and future labor collective bargaining negotiations.

2017 Update

This recommendation could be considered conditioned on economic trends, direction from City Council and future labor collective bargaining negotiations

Finding 5

The Cities are not fully funding OPEB benefits as evidenced by large unfunded liabilities and small funded ratios.

Response 5:

Respondent, City of Los Altos, agrees with the Finding.

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.

Response 5:

The recommendation has been partially implemented by establishment of an OPEB Reserve Account in 2009/10 with annual contributions. An evaluation regarding creation of a formal trust will be initiated later this fiscal year.

2017 Update:

The City continues to increase the amount funded in OPEB Reserves. Resolution No. 2015-38 approved the California Employers' Retiree Benefit Trust (CERBT) and allocated a total of \$1.5 million in a Section 115 Irrevocable Trust.

Finding 7:

The Cities' defined benefit pension plan costs are volatile. Defined contribution plan costs are predictable and therefore more manageable by the Cities.

Response 7:

Respondent, City of Los Altos, agrees with the Finding. The ability of cities contracting with CalPERS Pension System to implement a defined contribution pension plan is now precluded under CalPERS law.

Recommendation 7:

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

Response 7:

The recommendation will not be implemented because it is not warranted or is not reasonable due to current requirements of CalPERS regulations. The evaluated financial impact on the ability of the City to withdraw from the CalPERS Pension System, along with future labor collective bargaining negotiations and future Council Policy will condition what the City of Los Altos may accomplish in this area. Should CalPERS offer a defined contribution plan in the future, the City would consider this option based upon Council direction and labor collective bargaining negotiations.

2017 Update

As a CalPERS agency, the City would consider this option based upon Council direction and labor collective bargaining negotiations should CalPERS offer a defined contribution plan.