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RECEIVED

MAR 28 2017

CIVIL GRAND JURY

March 20, 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 Ms. Davis,

The following is the City of Cupertino's updated response to the 2011-2012 Santa Clara County Civil Grand Jury's report, entitled "Analysis of Pension and Other Post-Employment Benefits."

If you have any further questions, please contact me at (408) 777-3212.

Sincerely,

A handwritten signature in blue ink, appearing to read "David Brandt", is written over a horizontal line.

David Brandt
City Manager

**ANALYSIS OF PENSION/OTHER POST EMPLOYMENT BENEFITS
FINDINGS AND RECOMMENDATIONS
CITY OF CUPERTINO
September 4, 2012 and February 23, 2017**

FINDING 1

Public sector employees are eligible for retirement at least 10 years earlier than is common for private sector employees.

Recommendation 1:

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

City Response 1:

The City concurs with this recommendation and is currently in negotiations to provide a 2% at 60 plan for all new employees with an effective date of January 1, 2013.

Follow up on Recommendation 1:

- (1) City View on Grand Jury Recommendations: City Agreed with Grand Jury recommendations
- (2) If Grand Jury Recommendations were accepted: Yes, the City adopted a second tier 2% @ 60 prior to the PEPR implementation that was effective January 1, 2013. This tier is for new employees hired on or after January 1, 2013 with no prior CalPERS or reciprocal agency credit.
- (3) Plan for Future Action: There is no plan to add any additional tiers at this time.

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.

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.

City Response 2A:

The City concurs with this recommendation and is currently in negotiations to provide a 2% at 60 Plan for all new employees with an effective date of January 1, 2013.

Follow up on Recommendation 2A:

- (1) City View on Grand Jury Recommendations: City Agreed with Grand Jury recommendations
- (2) If Grand Jury Recommendations were accepted: Yes, the City adopted a second tier 2% @ 60 prior to the PEPR implementation that was effective January 1, 2013. This tier is for new employees hired on or after January 1, 2013 with no prior CalPERS or reciprocal agency credit.

(3) Plan for Future Action: There is no plan to add any additional tiers at this time.

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 2B: Not Applicable

Follow up on Recommendation 2B:

- (1) City View on Grand Jury Recommendations: N/A
- (2) If Grand Jury Recommendations were accepted: N/A
- (3) Plan for Future Action: N/A

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 caps that ensure pensions do not exceed salary at retirement.

City Response 2C:

Cupertino concurs with this recommendation and is currently negotiating a two-tier plan that will raise the retirement age and utilize a three-year averaging in calculating future payouts. We have not yet addressed increasing employee contributions or adopting pension plan caps.

Follow up on Recommendation 2C:

- (1) City View on Grand Jury Recommendations: City agreed with GJ recommendations
- (2) If GJ Recommendations were accepted: Yes, the City adopted a second tier 2% @ 60 prior to the PEPRA implementation of the 2% @ 62 that was effective January 1, 2013. Both Tier 2 and the PEPRA tier use a 3 year averaging. This tier is for new employees hired on or after January 1, 2013 with no prior CalPERS or reciprocal agency credit. In addition as part of labor contracts negotiated in October 2016 the city will no longer pay any portion of the employee's contribution resulting in a 7-8% reduction in retirement costs for the City. These costs savings were offset by increases in employee pay.
- (3) Plan for Future Action: There is no plan to add any additional tiers at this time.

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.

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 3:

The City concurs with the recommendation and agrees that benefit enhancement policies should not be adopted unless sufficient monies are available to pay for the additional costs. The City has a Fiscal Strategic Plan Committee that ensures that benefit increases can be absorbed within the short term and long term budget projections.

Follow up on Recommendation 3:

- (1) City View on Grand Jury Recommendations: The City agreed the Grand Jury Recommendation
- (2) If Grand Jury Recommendations were accepted: Yes, the City has not adopted any benefit enhancements. The City has a Fiscal Strategic Plan Committee that ensures that benefit increases can be absorbed within the short term and long term budget projections.
- (3) Plan for Future Action: There is no plan to add any additional tiers at this time.

FINDING 4

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

Recommendation 4A

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

City Response 4A

The City concurs with this recommendation and will consider including this in future negotiations.

Follow up on Recommendation 4A:

- (1) City View on Grand Jury Recommendations: The City agreed with the Grand Jury recommendations.
- (2) If Grand Jury Recommendations were accepted: Yes, the City has as part of labor contracts negotiated in October 2016 the city will no longer pay any portion of the employee's contribution resulting in a 7-8% reduction in retirement costs for the City. These costs savings were offset by increases in employee pay.
- (3) Plan for Future Action: There is no plan to add any additional tiers at this time.

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 4B:

The City concurs with this recommendation and will consider including this in future negotiations.

Follow up on Recommendation 4B:

- (1) City View on Grand Jury Recommendations: The City agreed with Grand Jury recommendations.
- (2) If Grand Jury Recommendations were accepted: No, this change was not negotiated in the last round of labor negotiations.
- (3) Plan for Future Action: The City will consider including this in future negotiations.

FINDING 5

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

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 5:

The City concurs with the recommendation and has prepaid our OPEB obligations in the past. In Fiscal Year 12/13, City Council authorized the City Manager to pre-fund our entire OPEB obligations as a long-term financial strategy.

Follow up on Recommendation 5:

- (1) City View on Grand Jury Recommendations: The City agreed with Grand Jury recommendations.
- (2) If Grand Jury Recommendations were accepted: Yes, the City paid over \$8 mil toward the City's unfunded OPEB liability in January 2015.
- (3) Plan for Future Action: Continue to monitor costs and may recommended additional lump sum payments as unfunded liability grows.

FINDING 6

The City of San Jose permits the transfer of pension trust fund money, when ROI exceeds expectations, to the SRBR, despite the fact that the pension trust funds are underfunded.

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%.

City Response 6: Not applicable

Follow up on Recommendation 6:

- (1) City View on Grand Jury Recommendations: N/A
- (2) If Grand Jury Recommendations were accepted: N/A
- (3) Plan for Future Action: N/A

FINDING 7

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

Recommendation 7

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

City Response 7:

The City concurs with the recommendation and will consider including this in future negotiations.

Follow up on Recommendation 7:

- (1) City View on Grand Jury Recommendations: The City agreed with Grand Jury recommendations.
- (2) If Grand Jury Recommendations were accepted: No, the City was able to negotiate a second tier for employees hired after 1/1/2013 with prior government agency service and all other new hires will enter the PEPRA tier 2% @62
- (3) Plan for Future Action: The City will consider including this in future negotiations.



David Brandt, City Manager