



**CITY OF CAMPBELL**  
Mayor's Office

September 6, 2012

**FILED**

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DAVID H. YAMASAKI  
Chief Executive Officer/Clerk,  
Superior Court of CA County of Santa Clara  
BY D. ALDYCKI

The Honorable Richard J. Loftus, Jr.  
Presiding Judge  
Santa Clara Superior Court  
191 North First Street  
San Jose CA 95113

Dear Judge Loftus,

I am writing to you on behalf of our City Council which approved the attached response to the Civil Grand Jury's final report for 2011-12, An Analysis of Pension and Other Post Employment Benefits, dated June 13, 2012.

The responses to the findings and recommendations applicable to the City of Campbell are attached. Please know that our City is committed to managing all employee costs, especially its pension and other post-retirement costs. We hope you find our responses helpful.

Please feel free to contact me or City Manager, Amy Brown, at 408-866-2125 if you have any questions or need additional information.

Regards,

A handwritten signature in cursive script, appearing to read "Michael F. Kotowski".

Michael F. Kotowski  
Mayor

Attachment - City Responses

c: Council Members  
City Manager  
Finance Director

FY 2012 Grand Jury Responses  
City of Campbell

**Finding 1:**

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

*Response: The City of Campbell agrees with the finding.*

**Recommendation 1:**

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

*Response: The City has implemented this recommendation for its Miscellaneous Plan by creating a 2<sup>nd</sup> tier pension plan that encourages working to a later age and reduces the incentive to retire earlier. The City has also implemented a 2<sup>nd</sup> tier plan for its Safety Plan members that, in addition to lowering the overall benefit level, encourages working beyond the minimum retirement age of 50.*

**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: The City of Campbell agrees with the finding.*

**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: As noted by the Grand Jury, the City has adopted 2<sup>nd</sup> tier plans for both Miscellaneous and Safety which do extend the retirement ages and include incentives to work beyond the minimum retirement eligibility ages. The City may also contemplate increasing employee contributions to help offset retirement costs. This additional cost containment measure would most likely be addressed during the meet-and-confer process with bargaining groups when their contracts come up for renewal in approximately two years. In any case, the City will continue, as it has demonstrated in the recent few years, to explore all available options for cost containment.*

**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: The City cannot speak to the basis for determination that other cities may have used in implementing benefit enhancements as each city's fiscal situation is*

*different. The City of Campbell disagrees with the finding as it relates to this City's situation. The determination to enact benefit enhancements was based on the best information available at the time the decision was made which included analyses of professional actuaries as well as the most current economic and investment data. This data indicated that the City was super-funded (a term that means actuarial assets far exceeded projected liabilities) and that assumed investment returns were based on actual experienced returns. The information at the time showed there was adequate funding available. It is only with 20/20 hindsight that one can describe the ROI assumptions as "overly optimistic" because, at the time, investment returns were performing well and actuarial assets had grown to very sizable amounts.*

**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:** The recommendation requires further analysis to determine whether such policies are warranted. At this time, the City is not contemplating any such benefit enhancements, and bargaining groups' contracts are not set to expire for another two years. The City's existing policy is to analyze the fiscal implications of any benefit enhancements prior to enacting them. Further, any amount of deposit calculated as sufficient would be based on a set of assumptions at that time, assumptions which could change over time. Thus, there is no guarantee that this would prevent an unfunded liability from arising in the future.*

**Finding 4:**

The cities are making an overly generous contribution toward the cost of providing benefits.

***Response:** The City disagrees with this finding. The finding is a generalization which fails to distinguish one city from the other. Additionally, there is no standard for what constitutes a meager contribution from a generous one or even an overly generous one. It also does not take into consideration each City's ability to fund those contributions. For example, some cities pay a portion of the employee's contribution whereas in other cities, such as Campbell, employees pay their full share.*

**Recommendation 4A:**

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

***Response:** The City already requires all employees to pay the maximum employee contribution rate.*

**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:** The recommendation requires further analysis as to whether this is the best way to proceed. There are other ways to have employees pick up a greater share of the*

*cost of their retirement benefit, such as negotiated cost sharing of the City's portion of cost. It is best determined through the meet-and-confer process which way will work best for both employees and the City. The City will consider implementing additional employee pickup of cost when bargaining group contracts are up for renewal.*

**Finding 5:**

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

*Response: The City agrees with the finding.*

**Recommendation 5:**

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

*Response: The City has implemented this recommendation 3 years ago. The City has chosen to implement a 10-year phase in of the ARC that would increase its contribution each year until the full ARC is funded by year 10.*

**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: The City agrees with the finding.*

**Recommendation 7:**

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

*Response: The recommendation will not be implemented because the City has already implemented 2<sup>nd</sup> tier plans for both its employee groups. It should be noted that both 2<sup>nd</sup> tier plans represent significant reductions in retirement benefit levels from the tier 1 plans which, over time, will bring down considerably the City's pension costs.*