



TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832

FAX: (408) 399-5786

September 13, 2012

Superior Court of Santa Clara County
Honorable Richard F. Loftus, Jr.
Presiding Judge
Santa Clara County Civil Grand Jury
191 North First Street
San Jose, CA 95113

FILED

SEP 25 2012

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

Subject: Response to 2011-12 Santa Clara County Civil Grand Jury Report – An Analysis and Other Post-Employment Benefits

Dear Judge Loftus:

On behalf of the Town of Los Gatos Town Council, I am providing this formal response to the 2011-2012 Santa Clara County Civil Grand Jury's Report, "An Analysis of Pension and Other Post-Employment Benefits." This response was authorized in a public Town Council meeting on September 4, 2012.

Should you have any questions regarding the enclosed document, please feel free to contact me at 408-354-6832.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Larson".

GREG LARSON
Town Manager

Attachment

Town of Los Gatos Response to 2011-2012 Santa Clara County Civil Grand Jury Report, "An Analysis of Pension and Other Post Employment Benefits"

Santa Clara County Grand Jury Report: An Analysis of Pension and Other Post-Employment Benefits

Summary of Town of Los Gatos Response

August 30, 2012

Page 1

NOTE: The responses provided below were prepared prior to the announcement of the Public Employee Pension Reform Act of 2013 (PEPRA). Details of the act are not yet known; however it is anticipated that the items marked with an asterisk (*) will be implemented or impacted by via the provisions of the PEPRA.

Finding 1

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

Los Gatos Response: Agree

Recommendation 1

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

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
Los Gatos has implemented for miscellaneous (non-sworn) employees and intends to engage in negotiations for sworn when the current union agreement expires.*			

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.

Los Gatos Response: Agree

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.

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
Not applicable to Los Gatos.			

Santa Clara County Grand Jury Report: An Analysis of Pension and Other Post-Employment Benefits

Summary of Town of Los Gatos Response

August 30, 2012

Page 2

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.

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
<p>Los Gatos has implemented for miscellaneous (non-sworn) employees and intends to engage in negotiations for sworn when the current union agreement expires.*</p>			

Recommendation 2C

All Cities' new tier 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.

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
<p>Re Retirement age, see Recommendation 1. Re increasing employee contributions, see Recommendations 4A and 4B. Re Pension caps, Los Gatos does not have authority to change the pension caps established by CalPERS. However, Los Gatos is open to consideration once CalPERS provides the option.*</p>			

Santa Clara County Grand Jury Report: An Analysis of Pension and Other Post-Employment Benefits

Summary of Town of Los Gatos Response

August 30, 2012

Page 3

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.

Los Gatos Response: Agree

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.

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
	Los Gatos has not implemented this recommendation yet but staff will make this recommendation for Council adoption prior to the end of FY 2012/13.*		

Finding 4

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

Los Gatos Response: Agree

Recommendation 4A

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

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
Los Gatos has implemented this recommendation.			

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.

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Further analysis is required to understand the impacts. The analysis will be conducted prior to the end of FY 2012/13.*	

Santa Clara County Grand Jury Report: An Analysis of Pension and Other Post-Employment Benefits

Summary of Town of Los Gatos Response

August 30, 2012

Page 4

Finding 5

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

Los Gatos Response: Agree

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.

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
Los Gatos has implemented this recommendation and currently has a long-term plan in place.			

Finding 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%.

Los Gatos Response: Not applicable.

Finding 7

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

Los Gatos Response: Agree

Recommendation 7

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

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos does not have authority to change the CalPERS DB plan to a DC plan. However, should CalPERS implement this recommendation, Los Gatos will conduct further analysis.*	