CITY OF SARATOGA

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Incorporated October 22, 1956

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

September 5, 2012

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

Dear Judge Loftus:

Thank you for the opportunity to review the 2011-2012 Santa Clara County Civil Grand Jury's (CGJ) Report regarding ***An Analysis of Pension and Other Post Employment Benefits*** dated June 13, 2012. The City of Saratoga shares the Grand Jury's concerns and has already implemented some of its recommendations. The Saratoga City Council is also committed to continuing to review ways to appropriately reduce employee costs in the future; as we work to ensure that the public gets the maximum value for their tax dollar.

The following are a few points to note in evaluating the data for Saratoga included in the report (Attachment A):

- As a result of negotiations in 2011, Saratoga retirement costs significantly decreased as a result of all employees agreeing to pay the maximum employee contribution of 7% of wages.
- Saratoga retirements costs will go down over time as the City now has a two-tier retirement plan for employees hired on or after May 12, 2012 (2% at 60 as the second tier) and each employee will pay the maximum employee contribution of 7% of wages.
- Saratoga has no "other Post Retirement Benefit obligations." (OPEB)

Please contact me at 408.868.1216 or Saratoga City Manager Dave Anderson at 408.868.1213 if you seek additional information or have any questions regarding this response to the CGJ report.

Sincerely,

Chuck Page

Chuck Page
Mayor

Cc: Deanna Mouser, Attorney

Attachment A: City of Saratoga Response to Civil Grand Jury Report, An Analysis of Pension and Other Post-Employment Benefits

Finding 1:
Public sector employees are eligible for retirement at least 10 years earlier than is common for private sector employees.

City Response:

The City of Saratoga agrees that the common standard for public sector defined benefit plans is 2%@55, while full Social Security eligibility begins at age 65.

Recommendation 1:
The Cities should adopt pension plans to extend the retirement age beyond current retirement plan ages.

City Response:

This recommendation has been implemented. The City of Saratoga on May 12, 2012 has implemented a second tier plan to the maximum retirement age plan allowed under CalPERS.

The City of Saratoga successfully negotiated and adopted a second tier CalPERS plan with each of its bargaining units to have employees hired on or after May 12, 2012 covered by the 2% at 60 plan, rather than the 2% at 55 plan. Under the new 2%@60 formula, employee groups and unrepresented employees have agreed to have each employee pay the CalPERS employee contribution of 7% of wages. (All employee groups and unrepresented employees under the 2% @55 plan have also agreed to have each employee pay the CalPERS employee contribution of 7% of wages, with that change effective in 2011.)

As a result of the adoption of Assembly Bill No. 34 by the State Legislature, new employees hired after January 1, 2013 will be enrolled in a defined benefit formula: 2% at 62.

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.

City Response:

The City of Saratoga disagrees partially with this finding because the City now has a two-tier retirement plan for employees hired on or after May 12, 2012 (2% at 60 as the second tier). See Response to Recommendation 1.

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:

The recommendation has been implemented. The City of Saratoga now has a two-tier retirement plan for employees hired on or after May 12, 2012 (2% at 60 as the second tier). See Response to Recommendation 1.

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:

Not Applicable.

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.

City Response:

The recommendation has been implemented. The City of Saratoga now has a two-tier retirement plan for employees hired on or after May 12, 2012 (2% at 60 as the second tier). As a result of negotiations in 2011, Saratoga retirement costs significantly decreased as a result of all employees agreeing to pay the maximum employee contribution of 7% of wages. Furthermore, as the City of Saratoga did not enhance pension benefits in the last decade, and does not provide Other Post Employment Benefits, the City has not incurred an unfunded liability burden.

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.

City Response:

Not Applicable because the City of Saratoga did not enact retroactive benefit enhancements to its CalPERS plan, but rather has maintained the 2%@55 plan for its employees hired before May 12, 2012.

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:

The recommendation requires further analysis. The Director of Finance and Administrative Services will discuss the analysis of this recommendation with the City Manager in 2012. The City will take this fiscal policy recommendation into consideration for any future benefit changes.

Finding 4
The Cities are making an overly generous contribution toward the cost of providing Benefits.

City Response:

The City of Saratoga disagrees partially with this finding (as it relates to Saratoga) because the City's bargaining units agreed to economic concessions and partnered with the City of Saratoga to provide more financially sustainable benefits. Employee groups and those employees not represented by an employee group within the City of Saratoga agreed to contribute the 7% employee contribution for CalPERS pension benefits to assist the City of Saratoga in sustaining its ability to provide services to its residents while also allowing the City to recruit and retain qualified and valued staff. The City's cost of providing benefits are much less than other cities because of the reforms that have been implemented and because the City does not offer post-retirement benefits.

Recommendation 4A
The Cities should require all employees to pay the maximum employee contribution rate of a given plan.

City Response:

The recommendation has been implemented. All City of Saratoga employees pay the maximum employee contribution rate of 7% of wages.

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:

The recommendation requires further analysis and would need to be considered within the context of all elements of an MOU as this is an item that is a mandatory subject of bargaining pursuant to the Meyers-Milias-Brown Act, and as such, the City cannot definitely commit to implementing this recommendation. The Director of Finance and Administrative Services will discuss the analysis of this recommendation with the City Manager in 2012.

Finding 5
The Cities are not fully funding OPEB benefits as evidenced by large unfunded liabilities and small funded ratios.

City Response:

Not applicable because the City of Saratoga does not offer OPEB benefits.

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:

Not applicable because the City of Saratoga does not offer OPEB benefits.

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.

City Response:

Not Applicable.

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:

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.

City Response:

The City disagrees partially with this finding. The City of Saratoga participates in the CALPERS retirement system as do most other California Cities. Adopting a defined contribution plan would mean abandoning the CALPERS system and adopting other more expensive plans, which are less common in the public sector. This may put the City at a competitive disadvantage when attempting to recruit experienced staff that have many years vested into CALPERS.

Recommendation 7
The Cities should transition from defined benefit plans to defined contribution plans as the new tier plans are implemented.

City Response:

The recommendation requires further analysis. As noted previously, the City of Saratoga contracts with CalPERS to administer the pension benefit for existing employees. CalPERS *does not currently offer a defined contribution plan, and the City does not have the option of changing to a defined contribution plan outside of CalPERS for new hires. Should CalPERS offer a defined contribution plan in the future, setting up a new tier plan based on a defined contribution is an option that the City can explore. The City of Saratoga meets and confers in good faith with its employee groups, and the recommended change would be subject to meeting and conferring. The Director of Finance and Administrative Services will discuss the analysis of this recommendation with the City Manager in 2012.*