



March 15, 2017

Santa Clara County Civil Grand Jury  
Santa Clara County Superior Court  
Attention: Tamara L. Davis  
191 North First Street  
San Jose, CA 95113

Dear Ms. Davis:

Thank you for your letter dated February 14, 2017, follow up to a letter dated December 22, 2016, requesting that the City of Morgan Hill provide a follow-up response to the Santa Clara County Civil Grand Jury's (SCCCGJ) report entitled "An Analysis of Pension and Other Post-Employment Benefits." As you know, the City of Morgan Hill responded to this report back in 2012 when the report was issued. Your letter indicated that the current SCCCJ would like to know how the City of Morgan Hill currently views the various recommendations contained in the 2012 report, whether the recommendations were accepted, and if there is a plan for future action.

Back in 2012, and at the current time, the City of Morgan Hill shares the Grand Jury's concerns regarding pension obligations and continues to evaluate pension costs and changes. Since the 2012 report, the Public Employee Pension Reform Act (PEPRA) has gone into effect and the City of Morgan Hill complies with all aspects of PEPRA. As classic (pre-2013) employees on the more expensive pension formulas retire and are replaced with new members on the lower cost pension plan, savings will be realized. The challenge to public agencies is the time it will take for this cycle to complete such that all employees are on the more sustainable, lower cost plan.

As noted in the 2012 response letter, Morgan Hill took some pro-active and County leading steps prior to PEPRA, to address rising pension costs. As a result of the Council adopted policy and the 2013 labor negotiations, all Management and Represented City employees now equally share in any annual increases to the City's retirement contribution rates (effective July 1, 2013 for Police Officers Association, and July 1, 2014 for all other bargaining units). This significant contribution from the employees has positively impacted the City's ability to meet the community's service level needs and should not go unnoticed.

The following are Morgan Hill's updated responses to the findings and recommendations from the 2012 SCCCJ report:

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

*City Response: With the implementation of PEPRA as of January 1, 2013, new CalPERS members hired in Morgan Hill fall under the following set of formulas:*

- *Police – 2.7% at 57*
- *Miscellaneous – 2% at 62*

*The PEPRA tiers extend the retirement age for all new members. Currently, the City has 34 or 19% of the total 178 benefited employees in PEPRA (28 in Miscellaneous Plan and 6 in Safety Plan).*

**CGJ 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: *See response to Recommendation 1 above*

**CGJ 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: *See response to Recommendation 1 above. In addition, all City employees now equally share in any annual increases to the City's retirement contribution rates.*

**CGJ 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 City will continue to take this recommendation into consideration for any future benefit changes. It is important to note that no retirement plan benefit changes have been implemented since 2012 nor are any planned in the immediate future.*

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

City Response: *Morgan Hill continues to require all employees (classic and new members) to pay the maximum employee contribution rate. In addition, as mentioned above, all City employees now equally share in any annual increases to the City's retirement contribution rates.*

**CGJ 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: *While the City has implemented all aspects of PEPRA in addition to all employees equally sharing in any annual increases to the City's retirement contribution rates, the city has not discussed or negotiated further cost sharing of the employer's costs.*

**CGJ 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: *Since our 2012 response letter, Morgan Hill has strategically earmarked funds for reserves and pre-payment of OPEB liability. The City began to responsibly set aside funds related to OPEB in FY2014-15 with an initial funding of \$110,000, and \$270,000 in FY2015-16. In December 2015, the City set up an irrevocable trust administered by Public Agency Retirement Services (PARS) with U.S. Bank as trustee to pre-fund the OPEB liability. To date, the City has contributed approximately \$700,000 to the trust. The City's five year forecast planned for additional contributions of \$300,000 annually through FY2020-21, with the goal of fully funding the City's OPEB liability within ten years.*

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

*City Response: As noted above, any cost sharing or pension plan changes can only be achieved by reaching a negotiated agreement. CalPERS does not currently offer a defined contribution plan to public employers. Exiting the CalPERS retirement program has an extraordinary price tag making a transition like this very difficult for public agencies.*

Please feel free to contact me or Morgan Hill City Manager Steve Rymer if you seek additional information or have any questions regarding this follow-up response to the SCCCGJ February 14, 2017 letter.

Sincerely,

A handwritten signature in blue ink that reads "Steve Tate". The signature is fluid and cursive, with the first name "Steve" and last name "Tate" clearly legible.

Steve Tate, Mayor