



Councilmember: Marshall Anstandig
Councilmember: Burton Craig
Councilmember: Susan Garner
Councilmember: Lana Malloy
Councilmember: Curtis Rogers

City of Monte Sereno

City Manager: Brian Loventhal
City Clerk: Andrea Chelemengos
Finance Officer: Sue L'Heureux
Building Official: Howard T. Bell

September 5, 2012

Kathryn G. Janoff, Foreperson
Santa Clara County Civil Grand Jury
c/o Honorable Richard J Loftus Jr.
Santa Clara County Superior Court
191 North First Street
San Jose, CA 95113

FILED

SEP 10 2012

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

Dear Ms. Janoff,

Enclosed please find the City of Monte Sereno's response to the 2011-2012 Santa Clara Civil Grand Jury Final Report regarding An Analysis of Pension and Other Post Employment Benefits.

If you have any questions, please feel free to call me at (408) 354-7635.

Sincerely,

Brian Loventhal
City Manager
City of Monte Sereno

City of Monte Sereno Responses
to Civil Grand Jury Report Dated June 13, 2012

Findings and Recommendations

When the term Cities is used below it includes the following: Santa Clara County; the cities of Campbell, Cupertino, Gilroy, Los Altos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, Sunnyvale; and the towns of Los Altos Hills and Los Gatos.

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 partially disagrees with the finding. There are positions in the public sector that do not have comparable private sector counterparts. Therefore, making a broad comparison is not accurate.

Recommendation 1

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

City Response The recommendation has not yet been implemented. The City will consider adopting a two tier pension plan within 12 months.

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 agrees with the finding.

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 not yet been implemented. The City will consider adopting a two tier pension plan within 12 months.

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 of Monte Sereno Responses
to Civil Grand Jury Report Dated June 13, 2012

City Response Not applicable.

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.

City Response The recommendation has not yet been implemented. The City will consider adopting a two tier pension plan within 12 months.

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 The City partially disagrees with the finding. Although many cities may have enacted pension benefit enhancements over the last several years, the City of Monte Sereno has not enacted any pension enhancements for the past 13 years.

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 has not yet been implemented. The City Staff will recommend an update to the City's fiscal policy with a statement that addresses this recommendation during the City's routine budget process.

Finding 4

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

City Response The City agrees with this finding.

Recommendation 4A

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

City Response The recommendation has not yet been implemented. The City will consider adopting a two tier pension plan within 12 months.

City of Monte Sereno Responses
to Civil Grand Jury Report Dated June 13, 2012

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 has not yet been implemented. The City will consider adopting a two tier pension plan within 12 months.

Finding 5

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

City Response The City agrees with this finding.

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 This recommendation will not be implemented because it is not warranted. The City of Monte Sereno has a very small unfunded liability associated with OPEB. For Monte Sereno the annual OPEB ARC payment is only \$58,900. This amount is sustainable for the City to continue with the pay as you go option.

Finding 6

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

City Response The City agrees with this finding.

City of Monte Sereno Responses
to Civil Grand Jury Report Dated June 13, 2012

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 has not yet been implemented. The City will consider limiting the City's contribution toward pension when adopting a two tier pension plan within 12 months. The City contracts with CalPERS to administer the pension benefit for existing employees. The City's ability to offer a defined contribution plan is dependent on the plan options offered by CalPERS.