



FILED

SEP 04 2012

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

17555 Peak Avenue
Morgan Hill, CA 95037-4128
TEL: 408-779-7271
FAX: 408-779-3117
www.morganhill.ca.gov

STEVE TATE
Mayor

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

RE: City of Morgan Hill response to “An Analysis of Pension and Other Post Employment Benefits”

Hon. Judge Loftus:

Thank you for the opportunity to respond to the civil grand jury’s report on pensions and other post-employment benefits, and resulting recommendations.

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

City of Morgan Hill response: Agree with recommendation. The City Council has already adopted a policy of negotiating with our three bargaining units an increased retirement age. The City’s Long-Term Labor Policy, Principles and Strategies say, “The City will strive to implement a two-tiered retirement system [one component of which is almost always an increased retirement age] and explore the option of a ‘hybrid’ system that uses both defined benefit and defined contribution formulas.” Formal negotiations will begin next year with all three bargaining units, whose contracts expire June 30, 2013.

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 of Morgan Hill response: Agree with recommendation. See response to Recommendation 1 above.

Recommendation 2B: 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 of Morgan Hill response: Agree with recommendation. See response to Recommendation 1 above.

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 of Morgan Hill response: Agree with recommendation

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

City of Morgan Hill response: Agree with recommendation. The City already requires all public safety employees to pay the maximum employee contribution rate (9%) of the 3% @ 50 Safety Plan, and all employees represented by the Community Services Officers Association, and all management employees, to pay the maximum employee contribution rate (8%) of the 2.5% @ 55 Miscellaneous Plan. For the remaining employees, the City Council has already adopted a policy of negotiating this arrangement; the Council's Long-Term Labor Policy, Principles and Strategies assert, "The City will strive to require employees to pay 100 percent of the employee share towards retirement."

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 of Morgan Hill response: The City's Long-Term Labor Policy, Principles and Strategies do not specifically address this issue, but the City Council will consider it in light of the Governor's pension reform proposal that would have public employees pay at least half of the *normal cost* (not the unfunded liability) of their pension benefit going forward in time (not back).

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.

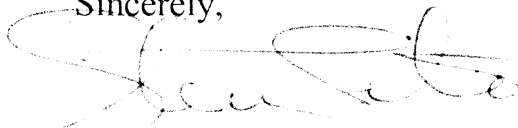
City of Morgan Hill response: Agree with recommendation

Recommendation 6: not applicable

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

City of Morgan Hill response: Agree with recommendation to the extent it applies to the grand jury's other recommendation that "public employees must contribute a greater share towards their benefits," but without necessarily abolishing defined benefit plans, which may be useful to the City for recruitment and retention. The City's Long-Term Labor Policy, Principles and Strategies already assert that "The City will strive to pay a fixed amount towards employee retirement to limit exposure to volatility of the market" and "The City will...explore the option of a 'hybrid' system that uses both defined benefit and defined contribution formulas."

Sincerely,

A handwritten signature in cursive script, appearing to read "Steve Tate".

Steve Tate, Mayor