



CITY OF MOUNTAIN VIEW

OFFICE OF THE CITY MANAGER

500 Castro Street • Post Office Box 7540 • Mountain View • California • 94039-7540
650-903-6301 • Fax 650-962-0384

September 13, 2012

The Honorable Richard J. Loftus, Jr.
Presiding Judge, Santa Clara County Superior Court
191 North First Street
San Jose, CA 95133

FILED

SEP 20 2012

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

Dear Judge Loftus,

Enclosed is the City of Mountain View's response to the 2011-12 Santa Clara County Civil Grand Jury report, **An Analysis of Pension and Other Post Employment Benefits**. This response was approved by the City Council on September 11, 2012.

Please contact my office should you have any questions.

Sincerely,



Daniel H. Rich
City Manager

cc: ACM, City Council

**City of Mountain View Response to Santa Clara County Civil Grand Jury Report,
*An Analysis of Pension and Other Post Employment Benefits***

The City of Mountain View has the following responses to the Findings and Recommendations in the 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 Mountain View agrees with this finding. For many nonpublic safety job classifications, employees may retire at an earlier age than their private-sector counterparts. However, in the case of public safety positions such as Police and Fire, there are no comparable positions in the private sector. Additionally, it is worth noting that retirement benefits are only one part of employee compensation.

Recommendation 1

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

City Response: This recommendation will be implemented effective January 1, 2013. Recently approved State pension legislation has established pension formulas for new employees which will extend retirement ages. The City of Mountain View has focused on increased employee pension contributions rather than adopting a second tier of benefits which could include higher retirement ages.

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 Mountain View agrees with this finding; however, while it is true that the City of Mountain View has not adopted second-tier pension plan, this is not the only mechanism for addressing pension liabilities.

As noted in the Grand Jury report, "Comparing the Sunnyvale pension costs expressed in percent of payroll to Mountain View (same plans) demonstrates that employee contributions toward the cost of pensions is just as effective at keeping the cost under control as curtailing the level of pension benefits being offered. Mountain View actually compares favorably to other cities offering lower benefits."

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: This recommendation will be implemented effective January 1, 2013, as the City implements the terms of new State pension legislation. Additionally, the City of Mountain View has negotiated significantly greater-than-normal employee pension contributions which are an effective tool for addressing pension liabilities.

Recommendation 2B – Does not apply to the City of Mountain View.

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: This recommendation will be implemented effective January 1, 2013. As noted in the response to Recommendation 2A, the City of Mountain View has negotiated significantly greater-than-normal employee pension contributions in order to address pension liabilities.

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 agrees with this finding as ROI and actuarial assumptions have not been realized in recent years. However, the City of Mountain View did work to ensure adequate funding existed for benefit enhancements, negotiating with Mountain View employees to contribute toward the cost of enhanced retirement benefits. These additional employee contributions have helped moderate cost increases associated with lower-than-projected investment returns and longer-than-projected retiree life spans.

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 does not anticipate any Benefit enhancements for the foreseeable future. If this changes, the City will implement this recommendation.

Finding 4

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

City Response: The City of Mountain View disagrees with this finding as City employees pay between 9.5 percent and 15.4 percent of their salary toward pension benefits, a notably higher rate than most other public agencies.

Recommendation 4A

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

City Response: The City of Mountain View has implemented this recommendation. City employees pay both the maximum employee contribution rate as well as a portion of the employer contribution rate for pension benefits.

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 City of Mountain View has implemented this recommendation. As noted previously, the City of Mountain View has adopted a different strategy for addressing costs associated with pension benefits with employees paying part of the employer contribution for pension benefits. The employer contribution is based on both the normal cost of benefits and the Past Service Cost.

Finding 5

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

City Response: The City of Mountain View partially agrees with this finding as the OPEB funded ratio is indeed low for many agencies. However, the City of Mountain View has the highest funded ratio of all agencies in the County; significantly more than the rate of the next highest city as noted on Table 6. Additionally, the City has negotiated with bargaining groups to reduce the costs associated with retirees' health benefits by offering an optional defined contribution plan for miscellaneous employees, and by negotiating employee contributions to the City's retirees' health trust. As a result, this funded ratio is expected to increase in the future.

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: The City of Mountain View has implemented this recommendation and already contributes full ARC payments.

Finding 6 – Does not apply to the City of Mountain View.

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 agrees that defined contribution plan costs are more predictable.

Recommendation 7

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

City Response: The City of Mountain View has implemented this recommendation for OPEB, instituting a defined contribution plan option for retirees' health benefits for nonsafety employees. As noted above, the City of Mountain View has focused on working with bargaining groups to increase employee contributions toward pension benefits in order to manage the City's costs associated with these benefits. Additionally, the City of Mountain View, as a member of the California Public Employees Retirement System (CalPERS), can only offer benefits as allowed under CalPERS law. Currently, no defined contribution plans are available to employers contracting with CalPERS for pension benefits.

MSD/4/MGR/602-09-12-12R-E