July 30, 2012

Contra Costa Grand Jury
Attn: Lloyd Bell
P.O. Box 911
Martinez, CA 94553-0091

Dear Mr. Bell:

On behalf of the Antioch City Council, this letter responds to Contra Costa County Grand Jury Report: "City Retirement Plans, An Unsustainable Benefit?" (Report 1209). The City Council authorized this response at its meeting on July 24, 2012.

We appreciate the time and effort that the Grand Jury spent considering these matters. The Report emphasizes the Governor's Pension Reform Plan which has added to the public discourse on this subject. However, please note that it appears that local governments have taken far more steps to implement the provisions in this Plan than has the State of California.

Pursuant to California Penal Code section 933.05, the City will respond to each finding and to each recommendation individually.

Findings

1. Without additional revenue, continued increases in retirement costs may result in further reduction of public services.
   The City agrees with the finding.

2. In some cases, retirement costs consume a large portion of a city's general fund budget, thus limiting funding for discretionary spending.
   The City agrees with the finding.

3. Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.
   The City agrees with the finding and notes that the City of Antioch implemented a Tier 2 for new Miscellaneous hires in September 2007 and has negotiated a Tier 2 for new Public Safety hires which is currently being implemented.

4. Although CalPers administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.
The City agrees with the finding.

5. Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.
Based on Table 1 in the Report and generally available information, the City agrees with the finding that public safety employees have significantly more generous retirement benefits than Miscellaneous employees. The City has not conducted a statewide survey, but based on Table 1 of the Report five cities in the County had a Tier 2 for new public safety employees compared to eight cities with a Tier 2 for Miscellaneous employees. However, as discussed below, the City of Antioch is implementing a Tier 2 for new hire public safety employees.

6. Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.
The City agrees with the finding.

7. Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.
The City agrees with the finding; although, there are legal challenges in modifying "vested" retirement benefits which need to be acknowledged.

8. The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.
The City agrees with the finding. The Governor's Pension Reform Plan has added to the public discourse on this subject. However, please note that it appears that local governments have taken far more steps to implement the provisions in this Plan than has the State of California.

<u>Recommendations</u>

1. Those cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.
The recommendation has not been implemented, but will be implemented in the next several months. A second tier has been negotiated between the City and Safety employees. The City is currently working with CalPers to complete the implementation documents and bring forth the new plan to the City Council for approval.

3. In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

This recommendation has been implemented. The City implemented a medical after retirement savings plan account in 2007 for new hires in which the City contributes a small percentage of salary to an account to be used for future benefits rather than a guaranteed medical after retirement capped cash benefit as is the case for employees hired prior to 2007 that vest in the plan.

4. Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.
This recommendation requires further analysis. The City will review the Plan, and other resources, for strategies as it meets and confers with bargaining units in the future. As noted above, it appears that local governments have taken far more steps to implement the provisions in this Plan than has the State of California.

Sincerely,

James D. Davis

James D. Davis
Mayor

cc: City Council
Jim Jakel, City Manager
Lynn Tracy Nerland, City Attorney
Dawn Merchant, Finance Director

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PARKS AND RECREATION
35 Oak Street
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24 Hr. Dispatch: 925-778-2441
Fax: 925-809-7799

PUBLIC WORKS

Operations Division
2201 Elkins Way
Phone: 925-516-6000
Fax: 925-516-6001

Engineering Division
150 City Park Way
Phone: 925-516-5420
Fax: 925-516-5421

August 14, 2012

The Honorable John Laettner
Presiding Judge of the Contra Costa Superior Court
A.F. Bray Court House, Department 25
1020 Ward Street
Martinez, CA 94553

Dear Judge Laettner:

This letter is in response to the questions asked in Grand Jury Report No. 1209, "City Retirement Plans – An Unsustainable Benefit?", released on June 6, 2012. In accordance with your request and Section 933.5 of the California Penal Code, the City provides the attached required responses to Findings 1-8 and Recommendations 1 and 3-4, as identified in the Grand Jury Report.

In summary, the City substantially agrees with each of the findings and has implemented each of the recommendations. The attached response goes into greater detail on each item.

Please feel free to contact me at (925) 516-5400 should you need additional information.

Sincerely,

Paul R. Eldredge

Paul Eldredge
City Manager
City of Brentwood

Cc: Lloyd D. Bell, Contra Costa County Grand Jury Foreperson
725 Court Street, Martinez, CA 94553

Honorable Mayor and City Council of the City of Brentwood

Damien Brower, City Attorney

City's Required Responses to Grand Jury Findings

Grand Jury Finding #1
Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

City Response: The City agrees with the finding.

Grand Jury Finding #2
In some cases, retirement costs consume a large proportion of a city's General Fund budget, thus limiting funding for discretionary funding.

City Response: The City agrees with the finding.

Grand Jury Finding #3
Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

City Response: The City agrees with the finding.

Grand Jury Finding #4
Although CalPERS administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.

City Response: The City agrees with the finding.

Grand Jury Finding #5
Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.

City Response: The City partially disagrees with this finding. As of the date of the Grand Jury report it appears five cities in Contra Costa County had implemented a second tier, however, subsequent to the issuance of the report the City of Brentwood adopted a second tier and the City is not in a position to know for certain how many other cities have also adopted a second tier over the past few months.

Grand Jury Finding #6
Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.

City Response: The City agrees with the finding.

Grand Jury Finding #7
Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

City Response: The City agrees with the finding.

Grand Jury Finding #8
The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

City Response: The City agrees with the finding.

City's Required Responses to Grand Jury Recommendations

Grand Jury Recommendation #1: Those cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.

City Response: This recommendation has been implemented. The City implemented a new second tier for safety employees for the 2012/13 fiscal year. This new tier includes a 3% @ 55 formula, with a reduced COLA and the highest three year average salary for purposes of determining pension benefits. In addition, employees hired under Tier 2 will contribute the full employee's share of retirement costs as determined by CalPERS.

Grand Jury Recommendation #3: In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

City Response: This recommendation has been implemented. The City's new labor contracts address rising retiree health care costs for both current and new employees. New employees will be eligible to receive only the PEMHCA minimum, while current employees will have a dollar cap on the maximum coverage amount paid by the City which will allow the City to better control future costs.

Grand Jury Recommendation #4: Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.

City Response: This recommendation has been implemented. The City's new labor contracts incorporate many of the Governor's key points, including increased employee pension cost sharing, reduced pension benefits for new employees which includes an increased normal retirement age and the use of three years for calculating final compensation for pension purposes. The City offers a deferred compensation plan which employees can use to supplement their pensions which would allow for an employee hybrid pension strategy. Finally, the City also addressed rising retiree medical costs for both current and future employees through labor negotiations.

CITY OF CLAYTON
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August 22, 2012

Contra Costa Civil Grand Jury
Attn: Lloyd D. Bell, Foreperson
725 Court Street
P O Box 431
Martinez, CA 94553-0091

Re: Contra Costa County Civil Grand Jury Report No. 1209, FY 2011-12
"City Retirement Plans, An Unsustainable Benefit?"

Dear Mr. Bell:

On behalf of the Clayton City Council this letter responds to the Contra Costa Civil Grand Jury's Report No. 1209 concerning public employee pension plans, public employee retiree health care, and Governor Brown's Pension Reform Plan. The Clayton City Council met at its regular public meeting on August 21, 2012 to consider Report No. 1209 and authorized this written response.

Pursuant to California Government Code section 933.5(a), the City of Clayton does hereby respond to its required Findings (Nos. 1, 3, 4, 6, 7 and 8) and Recommendations No. 3 and 4 as contained within Report No. 1209:

FINDINGS

Finding # 1: *Without additional revenue, continued increases in retirement costs may result in further reduction of public services.*

The City agrees with the finding.

Finding # 3: *Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.*

The City agrees with the finding, and notes the City of Clayton had Tier 2 plans for all new hires in both its public safety and miscellaneous plans effective January 2011.

Finding # 4: *Although CalPERS administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.*

The City agrees with the finding.

Finding # 6: *Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.*

The City agrees with the finding.

Finding # 7: *Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.*

The City agrees with the finding but notes there are legal challenges to modifying "vested" retirement benefits for current employees which need to be acknowledged.

Finding # 8: *The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.*

The City agrees with the finding that it represents a good platform for public discourse regarding public employee pension reform and savings yet in some cases it lacks quantifiable analysis that its tenets represent sound public policy. For example, the Pension Reform Plan does not offer any cost-benefit critique or discussion of the risks of injuries, general liability or industrial disability retirements associated with advanced employment of older employees in public safety positions (earliest retirement age of 57), particularly those working patrol or in physical field duties. In addition, similar workers' compensation risks and public expenses could accompany the employment of older employees in certain miscellaneous classifications (earliest retirement age of 67), such as field maintenance personnel and/or public recreation positions. Not all public employee classifications contained within a "miscellaneous plan" are office jobs.

Further, the Governor's Pension Reform Plan does not incorporate other options such as increasing the public employment time before one becomes "vested" in a defined benefit pension plan (for example: roll back the vesting period from 5 years to 10-15 years before one becomes eligible for a public pension). And finally, CalPERS could offer reduced defined benefit plans for employers to consider for additional cost savings (e.g. 1.5% or 1.75% at age 60).

RECOMMENDATIONS

Recommendation # 3: *In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health coverage for future employees.*

The recommendation requires further analysis.
In July 1998 the City of Clayton elected to participate in the CalPERS' Public Employees' Medical and Hospital Care Act (PEMHCA) for the provision of health care for its active employees. At the time, PEMHCA (Government Code section 22857) required a contracting agency to also make available enrollment in the offered health care plans by its retirees (annuitants) at the retiree's sole cost except for an initial maximum one dollar ($1.00) per month contribution by the City. Pursuant to PEMCHA law (section 22892 of the California Public Employees' Retirement Law), the City's contribution per enrolled annuitant is subject to a maximum 5% increase per year. The City presently has four (4) retirees enrolled in PEMHCA for retiree health coverage at a monthly cost to the City of $78.40 for each ($3,763.20 per year), which City-paid amount represents approximately 6.4% of an annuitant's monthly health care premium (for two person enrollment).

Unless the City were to terminate its PEMHCA enrollment for its active public employees and place medical care coverage elsewhere (subject to collective bargaining processes and prevailing market rates), the City is bound by public law to provide its annuitants with access to medical care plans through PEMHCA with the accompanying minimal co-payment. As required by MMB, the City will explore this option during next year's negotiations with its public employee bargaining units.

Recommendation # 4: *Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.*

The recommendation requires further analysis. The Governor's Pension Reform Plan as presently written will undoubtedly be subject to modifications and amendments as it transitions to actual legislation in the coming months or years. As noted above in Finding No. 8, this Plan should not be embraced as the beginning and end-all to public pension reform in California as the Plan must examine other options and evaluate unintended consequences, such those caused by raising the eligible age before pension retirement. Since this Pension Reform Plan is clearly under the jurisdiction of the Governor and State Legislature, those parties control the further analysis. Local implementation of the suggested reforms is also subject to the Meyers-Milias-Brown Act (MMB) good-faith collective bargaining process with recognized public employee bargaining units.

It must be noted, however, that in terms of public pension costs and containment, cities in Contra Costa County (including Clayton) have already outperformed the state of California in this regard.

We appreciate the time and effort the Civil Grand Jury spent researching and considering these matters, and we trust this response will be helpful to its endeavors.

Sincerely,

Howard Geller
Mayor

CITY OF CONCORD
1950 Parkside Drive
Concord, California 94519-2578
FAX: (925) 798-0636

OFFICE OF THE CITY MANAGER
Telephone: (925) 671-3150

Concord

July 25, 2012

Mr. Lloyd Bell, Foreperson
2011-2012 Contra Costa County Civil Grand Jury
725 Court Street
P O Box 431
Martinez, Ca 94553-0091

Re: Grand Jury Report No. 1209, "*City Retirement Plans, An Unsustainable Benefit?*"

Dear Mr. Bell

Thank you for the opportunity to respond to the findings and recommendations of the Contra Costa County Civil Grand Jury with regard to the retirement plans for the City of Concord. The Concord City Council reviewed this letter of response at its July 24, 2012 City Council meeting.

Findings

1. Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

   Response:

   The City of Concord agrees with the finding.

2. In some cases, retirement costs consume a large portion of a city's General Fund budget, thus limiting funding for discretionary spending.

   Response:

   The City of Concord agrees with the finding.

3. Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

   Response:

   The City of Concord agrees with the finding.

4. Although CalPERS administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.

   Response:

   The City agrees with the finding.

5. Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.

   Response:

   Insofar as the City of Concord has knowledge only of its own practices, the City agrees with the finding.

6. Retiree health care may represent a significant future cost for those cities that pay for all or a portion of these benefits.

   Response:

   The City of Concord agrees with the finding.

7. Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

   Response:

   The City of Concord agrees with the finding.

8. The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

   Response:

   The City of Concord partially disagrees with the finding insofar as the City has not thoroughly analyzed the plan, and therefore does not have the knowledge to agree or to disagree with the finding.

Recommendations

1. Those cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.

   Response:

   This recommendation has been implemented in that the City of Concord and the Concord Police Association (POA) have agreed that under certain conditions the existing POA Memorandum of Understanding can be reopened to address the establishment of a second tier retirement formula. The current memorandum lasts two more years, so further consideration of this recommendation cannot occur until then.

3. In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

   Response:

   The recommendation has been implemented, by the implementation of a cost share limit to the increase in the health care cost upon which the benefit is calculated.

4. Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.

   Response:

   The recommendation requires further analysis. As the City of Concord negotiates with its bargaining units the points of the Governor's plan may be the basis of a long term strategy to address retirement costs.

Thank you for your work with regard to this very important issue in municipal governance and for the opportunity to respond.

Respectfully,

Valerie J. Barone
Interim City Manager, City of Concord

cc: Mayor and City Council Members
City Clerk
City Attorney

DANVILLE

August 15, 2012

Honorable John T. Laettner
Judge of the Superior Court
Contra Costa County Civil Grand Jury
725 Court Street
P.O. Box 431
Martinez, CA 94553-0091

Re: Contra Costa County Grand Jury Report No. 1209, "City Retirement Plans An Unsustainable Benefit?"

Dear Judge Laettner:

Pursuant to California Penal Code Section 933.05, this letter responds to Contra Costa County Grand Jury Report No. 1209, "City Retirement Plans An Unsustainable Benefit?" This response was reviewed and authorized by the Town Council at a duly noticed Town Council meeting on August 14, 2012.

As requested in the Grand Jury report, the Town of Danville is responding to its required responses to the Findings and Recommendations contained in the report.

Grand Jury Findings

Finding #1: Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

Response: Danville partially disagrees with Finding #1. The balance of the Grand Jury report and Finding #1 are focused upon agencies that offer defined benefit pension plans and retiree medical benefits. Danville cannot address the practices of other jurisdictions, and does not offer these types of benefits to its employees. As referenced in the Grand Jury's report, the Town offers a defined contribution 401 pension plan to its employees; and, does not offer retiree health care to employees. Under Danville's pension plan, employer contributions are budgeted for and made annually, while employees assume all risks associated with investment performance. The Town is not subject to cost increases due to investment performance, and has no unfunded future liabilities related to either pension or retirement medical costs.

Finding #7: Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

Response: Danville agrees with Finding #7. Danville currently offers a defined contribution 401 pension plan to its employees.

Finding #8: The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

Response: Danville partially disagrees with Finding #8. The use of hybrid plans that incorporate defined benefit and defined contribution components for agencies that are currently operating under defined benefit retirement plans, could offer a good strategic model for limiting future retirement costs. Because Danville is currently operating with a defined contribution 401 pension plan, a hybrid plan could potentially expose the Town to cost increases related to the inclusion of a defined benefit component.

Grand Jury Recommendations

Recommendation #4: Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.

Response: The recommendation will not be implemented because it is not warranted. The defined contribution plan currently offered by the Town to its employees already addresses the key points contained in the Governor's Pension Reform Plan.

The Town appreciates the time and effort spent by His Honor and the Grand Jury in consideration of these matters.

Sincerely,

TOWN OF DANVILLE

Newell Arnerich
Mayor

THE CITY OF
EL CERRITO

Mary Dodge
Administrative Services Director /City Treasurer
10890 San Pablo Avenue
El Cerrito, CA 94530
(510) 215-4312 FAX (510) 215-4379
Email: mdodge@ci.el-cerrito.ca.us
Website: www.el-cerrito.org

August 5, 2012

Lloyd Bell, Foreperson
2008-09 Contra Costa County Civil Grand Jury
725 Court Street
P.O. Box 911
Martinez, CA 94553-0091

Dear Mr. Bell,

This letter is in regards to the Grand Jury Report No. 1209, "City Retirement Plans, An Unsustainable Benefit?" by the 2011-12 Contra Costa Grand Jury. The report has eight findings with seven of them relating to El Cerrito, and four recommendations with your request for responses to three of them. This letter is intended to respond in the format shown in the letter dated June 6, 2012.

Following are responses to the findings made in the report:

1. Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

   City Response: The City agrees with the Finding.

2. In some cases, retirement costs consume a large proportion of a city's General Fund Budget.

   City Response: The City agrees with the Finding.

3. Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

   City Response: The City agrees with the Finding.

4. Although CalPERS administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.

   City Response: The City agrees with the finding.

5. Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.

   City Response: The City partially disagrees with the finding. The benefits for Safety employees are more than what the Miscellaneous employees receive due to the dangerous nature of their employment.

6. No response required.

7. Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

   City Response: The City agrees with the Finding.

8. The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

   City Response: The respondent agrees with the finding. The recently approved Pension Reform Bill will have an impact as will other actions invoked by cities as a result of collective bargaining agreements.

Following are responses to the recommendations made in the report:

1. Those cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.

   City response: The recommendation has not yet been implemented, but will be implemented in the future. The contracts for Safety employees will not be open for negotiation for several years but where the new Pension Reform Bill supersedes City MOU's the new bill will be implemented in accordance with the legally required deadlines.

2. Those cities that have not adopted a second tier with reduced pension benefits for their Miscellaneous employees should consider doing so.

   City response: The recommendation has not yet been implemented, but will be implemented in the future. Negotiations are currently underway to establish a second tier Miscellaneous plan as well as implementation of the newly approved Pension Reform Bill.

3. No response required

4. Cities should review the key points of the Governor's Pension Reform Plan and consider incorporating its points as a long term strategy for addressing retirement costs.

   City response: The recommendation has not yet been implemented, but will be implemented in the future. The recently approved Pension Reform Bill will be implemented.

If you have any further questions regarding this matter please contact me using the information provided above.

Sincerely,

Mary Dodge

Mary Dodge
Administrative Services Director/City Treasurer

Cc: William Jones, III, Mayor
Scott Hanin, City Manager

CITY OF HERCULES
111 CIVIC DRIVE, HERCULES CA 94547
PHONE: (510) 799-8200

August 28, 2012

The Honorable John Laettner
Judge of the Contra Costa County Superior Court
Contra Costa County Grand Jury
725 Court Street, P.O. Box 431
Martinez, CA 94553-0091

RE: Grand Jury Report 1209

Dear Judge Laettner:

This letter is in response to Contra Costa County's Grand Jury Report No. 1209 "City Retirement Plans – An Unsustainable Benefit?" released on June 6, 2012.

We appreciate the time and effort that the Grand Jury spent considering these matters. Although the report emphasizes the Governor's Pension Reform Plan, local governments have taken more steps to implement the provisions of this Plan then has the State of California.

In accordance with Section 933.5 of the California Penal Code, the City of Hercules will respond to each finding and recommendation.

Findings:

Finding 1 – Without additional revenue continued increases in retirement costs may result in further reduction of public services.

City of Hercules Response: The City agrees with this finding.

Finding 3 – Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

City of Hercules Response: The City agrees with this finding and has implemented Tier 2 for Public Safety hires.

Finding 4 – Although CalPers administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.

City of Hercules Response: The City agrees with this finding.

Finding 6 – Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.

City of Hercules Response: The City agrees with this finding. Currently the City of Hercules Miscellaneous employees contribute 4.5% of the 7% employee portion of CalPers retirement and Safety employees contribute the full 7% of the employee portion of CalPers retirement.

Finding 7 – Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

City of Hercules Response: The City agrees with this finding.

Finding 8 – The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

City of Hercules Response: The City agrees with this finding.

Recommendations:

Recommendation 2 – Those cities that have not adopted a second tier with reduced pension benefits for their Miscellaneous Employees should consider doing so.

City of Hercules Response: Hercules implemented a second tier for Public Safety employees. For Miscellaneous employees this recommendation requires further analysis due to other recent cuts to salaries and benefits. Currently, Miscellaneous Employees have taken a 10% pay reduction through furloughs and the Tier 1 retirement benefit is 2.0% @ 55, with 3 year average of base salary. Because of the 10% pay reduction, there is also an automatic saving in the pension benefits.

Recommendation 3 – In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

City of Hercules Response: This recommendation requires further analysis. Currently, the City of Hercules retiree health care pays the lowest amount on the Single Kaiser rate.

Recommendation 4 – Cities should review the key points of the Governor's Pension Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.

City of Hercules Response: The City of Hercules will review the Governor's Pension Plan and analyze the points in the Plan in balance with the City's overall employee compensation program and costs. This will help the City address retirement costs as well as other workforce costs going forward.

If you have any questions regarding these responses, please contact City Manager Steve Duran at (510) 799-8216.

Sincerely,

Dan Romero

Dan Romero, Mayor
City of Hercules

LAFAYETTE
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City Council

Carol Federighi, Mayor
Mike Anderson, Vice Mayor
Brandt Andersson, Council Member
Carl Anduri, Council Member
Don Tatzin, Council Member

8/23/2012

Lloyd Bell, Foreperson
2011-2012 Contra Costa County Civil Grand Jury
725 Court Street
P.O. Box 431
Martinez, CA 94553-0091

Dear Mr. Bell:

Pursuant to your June 6, 2012 letter regarding Grand Jury Report No. 1209, "City Retirement Plans, An Unsustainable Benefit," please consider this to be the City of Lafayette's response.

According to page 10 of the Report, Lafayette is required to respond to Findings 1,6, 7, 8 and Recommendations 3 and 4.

Finding 1: Without additional revenue, continued increases in retirement costs may result in further reduction of public services. *City response:* ***Agree****. The math is indisputable: if revenues stay flat and retirement costs increase, there will be less money available for other public services. The need for cost control is one reason why Lafayette eschews defined benefit plans and instead opts to enroll employees in a defined contribution program.*

Finding 6: Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits. *City response:* ***Agree****. For this reason, Lafayette has an independent actuary calculate its retirement health care cost liability and then fully funds that obligation.*

Finding 7: Defined contribution retirement plans can be an effective way to limit both current and future retirement costs. *City response:* ***Agree****. The need for cost control is one reason why Lafayette eschews defined benefit plans and instead opts to enroll employees in a defined contribution program.*

Finding 8: The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments. *City response:* ***Partially Disagree.*** *Because Lafayette does not participate in Calpers, if the Governor's plan were applied to Lafayette and required that the City have a defined benefit retirement system, it could increase – not limit -- the City's retirement costs.*

Recommendation 3: In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees. *City response:* ***Will not be implemented****. Lafayette has demonstrated that, by conservatively calculating retiree health care obligations and reserving adequate funds to cover those costs, retiree health care costs can be adequately controlled and funded.*

Recommendation 4: Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs. *City response:*

Requires further analysis. *Lafayette agrees that it should review the key points of the Governor's Plan and consider incorporating those points that would result in lower future costs and better financial control.*

We hope this letter is responsive to your request.

Sincerely,

Carol Federighi

Carol Federighi, Mayor

City of Martinez
525 Henrietta Street, Martinez, CA 94553-2394 **(925) 372-3505 / Fax (925) 229-5012**

September 6, 2012

Contra Costa Grand Jury
Attn: Lloyd Bell
P. O. Box 431
Martinez, CA 94553-0091

Dear Mr. Bell:

On behalf of the Martinez City Council, this letter responds to Contra Costa County Grand Jury Report: "City Retirement Plans, An Unsustainable Benefit?" (Report No. 1209). The City Council authorized this response at its meeting on September 5, 2012.

We appreciate the time and effort that the Grand Jury spent considering these matters. The Report emphasizes the Governor's Pension Reform Plan, which has added to the public discourse on this subject. However, please note that it appears that local governments have taken far more steps to implement the provisions in this Plan than has the State of California.

Pursuant to California Penal Code Section 933.05, the City will respond to each finding and to each recommendation individually.

Findings

1. Without additional revenue, continued increases in retirement costs may result in further reduction of public services.
   The City agrees with the finding.

2. In some cases, retirement costs consume a large portion of a city's general fund budget, thus limiting funding for discretionary spending.
   The City agrees with the finding.

3. Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.
   The City agrees with the finding and notes that the City of Martinez implemented a Tier 2 for new Miscellaneous hires and for new Public Safety hires effective July 1, 2012.

4. Although CalPERS administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.
   The City agrees with the finding.

5. Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.
Based on Table 1in the Report and generally available information, the City agrees with the finding that public safety employees have significantly more generous retirement benefits than Miscellaneous employees. The City has not conducted a statewide survey, but, based on Table 1 of the Report, five cities in the County had a Tier 2 for new public safety employees compared to eight cities with a Tier 2 for Miscellaneous employees. However, as discussed below, the City of Martinez is implementing a Tier 2 for new hire public safety employees.

6. Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.
The City agrees with the finding.

7. Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.
The City agrees with the finding; although, there are legal challenges in modifying "vested" retirement benefits, which need to be acknowledged.

8. The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.
The City agrees with the finding. The Governor's Pension Reform Plan has added to the public discourse on this subject.

Recommendations

1. Those cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.
The recommendation has been implemented.

2. Those cities that have not adopted a second tier with reduced pension benefits for their Miscellaneous employees should consider doing so.
The recommendation has been implemented.

3. In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees. **This recommendation requires further analysis. The City will review the financial obligation for retiree health care for future employees as part of a potential strategy next time it meets and confers with bargaining units in the future. However, the City did take an active role in reducing its Other Post Employment Benefit (OPEB) liability when it prefunded its OPEB trust with $4M in 2007.**

4. Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.
This recommendation requires further analysis. The City will review the Plan, and other resources, for strategies as it meets and confers with bargaining units in the future.

Sincerely,

Philip A. Vince, City Manager
City of Martinez

Cc: Mayor and City Council
Jeffrey Walter, City Attorney
Alan Shear, Assistant City Manager

Town of Moraga

TOWN MANAGER

July 16, 2012

Mr. Lloyd Bell, Foreperson
2011-2012 Contra Costa County Civil Grand Jury
725 Court Street
P.O. Box 431
Martinez, CA 94553-0091

Subject: Town of Moraga Response to Grand Jury Report No. 1209, "City Retirement Plans, An Unsustainable Benefit?"

Dear Mr. Bell:

The Town of Moraga provides this response to Grand Jury Report No. 1209, "City Retirement Plans, An Unsustainable Benefit?" pursuant to California Penal Code Section 933.05.

The Grand Jury Report No. 1209, "City Retirement Plans, An Unsustainable Benefit?" makes several inaccurate and misleading statements that do not serve the public interest, especially the Moragan public. The following outlines what we believe are misstatements in the report and then responds to each finding and recommendation as requested.

Misstatement #1:

The report states (under "Key Points" on page 5) that,

- All cities except Clayton, Pinole, Walnut Creek and Richmond (firefighters only) offer 3% at age 50 for Safety employees. These four cities used a reduced benefit of 3% at age 55.

This key point is a misstatement. The report omits the fact that the Town of Moraga uses the lowest benefit formula of all Contra Costa County municipalities for Safety employees at 2% at 50 <u>and</u> with a 3-year average base salary.

Misstatement #2:

The report states (under "Key Points" on page 8) that,

- Danville, Lafayette, and Orinda, which provide defined contribution retirement plans, allocate some of the lowest percentages of their General Funds for retirement costs.

329 Rheem Boulevard • Moraga, CA 94556 • (925) 888-7022 • jkeimach@moraga.ca.us • www.moraga.ca.us

This key point is very misleading for a couple of significant reasons:

1. There are other municipalities, which provide defined benefit retirement plans that also allocate some of the lowest percentages of their General Fund for retirement costs, including Moraga.

2. The report fails to consider the General Fund cost for retirement for those municipalities that provide police services through contract with the County Sheriff. These municipalities, including Danville, Lafayette, Oakley, and Orinda pay the full amount for all contracted Sheriff personnel including all retirement costs, which are also commonly known to be extremely high.

   As shown in the Fiscal Year 2011-2012 Law Enforcement Comparison Survey prepared by the Contra Costa County Office of the Sheriff (see Exhibit A), the Town of Moraga provides police services at the lowest cost per resident in Contra Costa County. A Cost Per Resident comparison of Moraga with the other municipalities the Grand Jury report shows as having the lowest General Fund costs for retirement is illustrated in Table 1.

Table 1. FY 2011-12 Law Enforcement Comparison Survey – Cost Per Resident

Municipality	Cost Per Resident
Moraga	$137.44
Lafayette	$171.57
Danville	$188.33
Oakley	$214.50
Orinda	$227.25

Lastly, the report does not acknowledge the Town of Moraga's leadership in consistently managing its resources in a fiscally prudent manner. As an example, the Town took action to pay in full an unfunded pension liability ("sidefund") to the tune of $1.4 million in 2008 and as a practice uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions.

Findings:

In compliance with Section 933.05(a), The Town of Moraga responds to each of the report's <u>findings</u> numbered 1, 3, 4, 5, 7, and 8 as follows:

Finding #1: Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

Response: Agree with finding.

Finding #3: Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

Response: Agree with finding. The amount of savings in future pension obligations depends in large part by the turnover rate of the jurisdiction or the percentage of new hires annually. This is generally considered a slow and long-term method to reduce costs. In Moraga, all personnel contributed to the anticipated budget shortfall due to increases in current health benefits by restructuring their medical benefits package to keep operating costs for personnel flat.

Finding #4: Although CalPERS administers the defined benefit pension plans, including the investment programs; cities have some flexibility to control their own retirement costs.

Response: Agree with finding. By not having retiree health care benefits, the Town of Moraga has been able to keep its retirement costs low.

Finding #5: Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.

Response: Partially disagree with the finding. The Town of Moraga already provides the lowest benefit pension plan for Safety employees among all Contra Costa County municipalities. The report also fails to recognize a basic difference in caps placed on Safety defined benefit pension plans as compared to no caps on Miscellaneous defined benefit pension plans which, in some cases, allow Miscellaneous employees to retire with higher percentage of salary benefits than Safety employees.

Finding #7: Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

Response: Partially disagree with the finding. According to the National Institute on Retirement Security publication, *A Better Bang for the Buck, The Economic Efficiencies of Defined Benefit Pension Plans. August 2008,* (Exhibit B), defined benefit plans provide better economic efficiencies than defined contribution plans. The analysis concludes that a defined benefit plan costs 46% less than a defined contribution plan to achieve the same level of retirement income.

The Grand Jury report makes a cursory inspection of defined contribution plans without investigating the experiences of municipalities in Contra Costa County that had defined contribution plans for Safety and converted to the defined benefit plan. Both the Town of Moraga and the City of Hercules started their agencies with defined contribution plans and converted to defined benefit plans, due primarily to the problems created by the defined contribution plans. The main problem experienced by the Town of Moraga was excessive employee turnover, which cost the Town significant funds in lost investment (e.g., hiring, equipment, training, local knowledge, etc.).

Exhibit C is a Proposal for Regional City Pension Standard dated January 21, 2010 to the Alameda County City Managers Association and Contra Costa County Public Managers Association from the Pension Reform Task Force of the Alameda County City Managers Association and the Contra Costa County Public Managers Association recommending next steps toward providing adequate and sustainable pensions for long-term employees in Alameda and Contra Costa counties.

Finding #8: The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

Response: Partially disagree with the finding. While the governor's plan is designed to lower future pension costs, there has been no data provided to show the statistical likelihood of higher worker compensation claims for older workers as proscribed by the governor. Lowering the maximum percentage of salary to 75% combined with raising the minimum age of full benefit retirement to 57 for public safety employees could actually cost the state more money in worker compensation claims. Under current law, public safety employees given a disability retirement may be entitled to the percentage of salary earned at the date of retirement, with 50% of that amount awarded tax free. This provision of the governor's plan needs further study and actuarial analysis.

Recommendations:

In compliance with Section 933.05(b), the Town of Moraga responds to each of the report's recommendations numbered 1, 2, and 4 as follows:

Recommendation #1: Those cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.

Response: The Town of Moraga provides the lowest pension benefits plan in the county for Safety employees with the 2% @ 50 plan with a 3-year average and no health care benefit after retirement. The Town of Moraga is currently at or below the second tier pension level adopted by any other Contra Costa city. The recommendation will not be implemented because it is not warranted or is not reasonable.

Recommendation #2: Those cities that have not adopted a second tier with reduced pension benefits for their Miscellaneous employees should consider doing so.

Response: The Town of Moraga currently provides the 2% @ 55 plan for Miscellaneous employees with the 3 year average and no health care benefit after retirement. Potential cost savings of converting to a 2% @ 60 plan would need to be analyzed relative to personnel recruitment, hiring and retention issues. It is not in the best interest of the Town of Moraga to implement reduced benefits at this time. Consequently, the recommendation will not be implemented because it is not warranted or is not reasonable.

Recommendation #4: Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.

Response: The recommendation has not yet been implemented, but will be considered in conjunction with the Town of Moraga's Memorandum of Understanding with employee groups expiring on June 30, 2013 and the development of future budgets. The Governor's Pension Reform Plan will be closely monitored along with CalPERS actuarial changes as they apply to the best interests of the Town of Moraga before any action is taken.

I appreciate the opportunity to provide this response. If you have any questions, please contact me. Thank you.

Sincerely,

Jill Keimach
Town Manager
Town of Moraga

Attachments:

Exhibit A: Fiscal Year 2011-12 Law Enforcement Comparison Survey Prepared by Contra Costa County Office of the Sheriff

Exhibit B: National Institute on Retirement Security publication. *A Better Bang for the Buck, The Economic Efficiencies of Defined Benefit Pension Plans* by Beth Almeida and William B. Fornia, FSA.

Exhibit C: Proposal for Regional City Pension Standard dated January 21, 2010 to the Alameda County City Managers Association and Contra Costa County Public Managers Association from the Pension Reform Task Force of the Alameda County City Managers Association and the Contra Costa County Public Managers Association.

CITY of OAKLEY
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August 20, 2012

Contra Costa County Civil Grand Jury
Attn: Mr. Lloyd Bell, Foreperson
725 Court Street
P.O. Box 431
Martinez, CA 94553-0091

RE: **Responses to Grand Jury Report No. 1209 "City Retirement Plans, An Unsustainable Benefit?"**

Mr. Bell,

Thank you for the opportunity to respond to the Grand Jury's recent Report No. 1209. Below are our replies regarding each Finding and Recommendation requested of Oakley.

Finding #1: Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

City's Response: *We agree. Most local agencies have been significantly affected by the great recession and do not have significant annual operating surpluses. That means without additional revenues, or other cost savings, continued increases in <u>any</u> costs may result in further reduction of public services.*

Finding #3: Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

City's Response: *We generally agree with what we believe is the intent of the finding, but note that the finding is stated absolutely and thus, could ultimately be proved incorrect. While reduced pension formulas are intended to result in reduced future pension costs, pension costs are based on a number of additional factors that can be expected to change – including pensionable employee salaries, investment earnings, inflation, full and timely payment of* *actuarially calculated required contributions, and others. If the finding is intended to state generally that absent material changes to any of these other factors, reduced pension formulas should result in reduced future pension costs compared to greater formulas, we would then agree.*

Finding #4: Although CalPers administers the defined benefit plans, including the investment programs, cities have some flexibility to control their own retirement costs.

City's Response: *We agree.*

Finding #7: Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

City's Response: *We agree. The use of defined contribution plans in an overall compensation plan can be an effective way to limit both current and future retirement costs.*

Finding #8: The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

City's Response: *We do not totally agree. We do agree that the anti-spiking provisions are appropriate, and note that the plans (both Tier 1 and Tier 2) offered to our City's (and most cities') employees already reflect a focus on salary alone, excluding other non-salary compensation and termination payouts from pensionable compensation. The Governor's Plan does change the model; it is just not clear whether the other provisions, if enacted, would in fact limit future retirement costs for local governments. As a result, it may not be a good strategic model for local governments.*

Recommendation #4: Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long-term strategy for addressing retirement costs.

City's Response: *The recommendation has been implemented. We believe existing City staff is already subject to Plans that reflect the best of the options available today. They earn a meaningful pension, but the City does not participate in Social Security nor does it offer retiree health benefits (neither City-provided access to group health insurance, nor any City-provided health* *insurance subsidy). We do note; however, that at some point, the City will likely have its own public safety personnel, at which time the City will need to design a compensation policy for those personnel that includes a retirement plan. At that time, we will certainly consider the legally available options, including any portion of the Governor's Pension Reform Plan that is enacted.*

Again, we thank you for the opportunity to respond to the Grand Jury's recent Report No. 1209. If you have any questions or need any assistance, please contact me directly at (925) 625-7025 or at montgomery@ci.oakley.ca.us.

Sincerely,

Bryan H. Montgomery
City Manager

cc: City Council
Paul Abelson, Finance Director

ORINDA 22 orinda way • orinda • california • 94563

September 4, 2012

Lloyd Bell, Foreperson
Contra Costa County Civil Grand Jury 2011-2012
725 Court Street
P.O. Box 431
Martinez, CA 94553-0091

Dear Mr. Bell,

Thank you for your June 6, 2012 letter regarding Grand Jury Report No. 1209 "City Retirement Plans, An Unsustainable Benefit?" The City of Orinda is very pleased to have the opportunity to review the Report's findings and recommendations as they relate to the City of Orinda, and to provide responses to the Grand Jury regarding both the findings and recommendations.

As directed in the letter from the Civil Grand Jury, the City of Orinda, along with all other cities in Contra Costa County, is to review both the Findings and the Recommendations in the Report. With each Finding, respondent must state that the respondent is in agreement, disagreement, or partial disagreement. With each Recommendation, respondent is to indicate if the recommendations have been implemented, have not been implemented, requires further analysis or will not be implemented.

The following responses are reflective of the City of Orinda's practices as per page 10 of the report.

GRAND JURY FINDINGS

Finding #1: Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

City Response: Agree as it relates to the City of Orinda. Orinda participates in a defined contribution retirement plan, where fixed contributions are paid into an individual account by the City and employees. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employer contributions and, if applicable, employee contributions) plus any investment earnings on the money in the account. The only variability in the fixed contribution is salary expenses which rise as salaries increase and are linked to the contribution amount. Employer contributions to the plan are negotiated via employment agreements. If necessary, modifications to contributions can be made to preserve funds for public services. The City contracts with the Contra Costa County Sheriff's Office for Police Services; the County provides 1937 Act Retirement Benefits through the Contra Costa County Retirement Association. The County Board of Supervisors approves contracts with the Deputy Sheriff's Association relating to retirement benefits for the County Sheriff's Office.

Finding #6: Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.

Response: The City of Orinda does not provide post-retirement health insurance benefits for either employees, or the City Council.

Finding #7: Defined contribution retirement plan can be an effective way to limit both current and future retirement costs.

Response: Agree; the City of Orinda provides a defined contribution retirement plan to employees.

Finding #8: The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement cost for local governments.

Response: The City of Orinda provides a defined contribution retirement plan for its employees and therefore, is able to know and control its costs in both current and future budget years.

GRAND JURY RECOMMENDATIONS

Recommendation #3: In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

Response: The City of Orinda already has a practice in place of not providing post-retirement health benefits, thus this recommendation is already in effect at the City of Orinda.

Recommendation #4: Cities should review the key points of the Governor's Pension Reform Plan and consider incorporating its points as a long term strategy for addressing retirement costs.

Response: The recommendation requires further analysis. Orinda agrees that it should review the Governor's Plan and consider incorporating those points that would result in lower future costs and better financial control. Additionally, the County Board of Supervisors is encouraged to review the Governor's Plan as it relates to the Contra Costa County Sheriff's Office retirement benefits as the City contracts with the County Sheriff's Office for police services.

On behalf of the City of Orinda, I want to thank the Contra Costa Grand Jury for its important work on financial transparency and for the opportunity to comment and reply to the Report No. 1209. Should you need further information regarding our responses, please do not hesitate to contact our City Manager, Janet Keeter at (925) 253-4222 or by email at jkeeter@cityoforinda.org.

Sincerely,

Steve Glazer

Steve Glazer
Mayor, City of Orinda

cc: Orinda City Council

CITY OF

City Manager's Office

2131 Pear Street
Pinole, CA 94564
Phone: (510) 724-8933

August 22, 2012

The Honorable John Laettner
Presiding Judge of the Contra Costa County Superior Court
A.F. Bray Court House, Department 25
Martinez, CA 94553

Re: Contra Costa County Grand Jury Report 1209 entitled "City Retirement Plans, An Unsustainable Benefit?"

Dear Judge Laettner:

We are in receipt of your Contra Costa County Grand Jury Report 1209 "City Retirement Plans, An Unsustainable Benefit?" and this letter outlines our response to the findings and recommendations that are outlined in the report in accordance with California Penal Code Section 933.05.

The City of Pinole appreciates the work that the Grand Jury undertook, and we agree with most of the statements in the Report.

GRAND JURY FINDINGS SPECIFIC TO THE CITY OF PINOLE

- **Finding Number 1**

"Without additional revenue, continued increases in retirement costs may result in further reduction of public services".

Response: The City of Pinole agrees with this finding.

Retirement costs have continuously and significantly increased for the last several years. There are only two contributing factors that we can foresee that will reduce future retirement costs. First, benefit levels for future employees are reduced, either through individual cities meet and confer processes with their labor groups or through legislative changes to the available benefit formulas. Additionally, retirement costs can be positively impacted if CalPERS investment returns rebound to those enjoyed prior to the current recessionary period. Of course, this is beyond the control of any of the contracting cities. The City of Pinole employees share in the risk for fluctuations in the investment returns, through a cost sharing formula for the employer contribution rate. Perhaps this could be done by more employers.

Finding Number 2

"In some cases, retirement costs consume a large proportion of a City's General Fund budget, thus limiting funding for discretionary spending".

<u>**Response:**</u> **The City of Pinole agrees with this finding.**

- **Finding Number 3**

"Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations".

<u>**Response:**</u> **The City of Pinole agrees with this finding** based on the actuarial analysis Pinole had completed to evaluate a second tier. Of course, we note that significant savings will not be realized until the number of employees earning benefits under the new tier is greater than the number earning benefits under the original tier.

- **Finding Number 4**

"Although CalPERS administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs".

<u>**Response:**</u> **The City of Pinole partially agrees with this finding.**

The City can determine what retirement formula to make available, after meeting and conferring with labor organizations. However, there are several legislative restrictions that the City cannot control. For example, a second tier retirement formula is not available to existing employees who may wish to elect to participate. In addition, when benefit enhancements were contracted in prior years, the enhancement was <u>*required*</u> to be retroactive for all existing active employees service with the City. The unfunded liability numbers currently facing many cities would have been significantly reduced had these enhancements been available on a prospective only basis.

- **Finding Number 6**

"Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits".

<u>**Response:**</u> **The City of Pinole agrees with this finding.**

In 2010, the City of Pinole implemented the CalPERS Vesting Schedule for future employee retiree medical benefit determination. This is expected to have a positive impact on our future unfunded liability for retiree health costs.

- **Finding Number 7**

"Defined contribution retirement plans can be an effective way to limit both current and future retirement costs".

Response: **The City of Pinole partially agrees with this finding.**

Based on actuarial data we have reviewed, although defined contribution plans do provide the City with a way to limit some exposure to increasing retirement costs, they are not necessarily the best retirement plans to offer employees. As has been seen in the private sector, employees who do not have a defined benefit retirement plan usually face significant challenges to effectively manage their retirement portfolio and develop it into a sustainable lifetime benefit. In addition, the actuary professionals that we have spoken with have advised that converting to a defined contribution plan does not actually save the significant employer contribution that many people believe it would.

- **Finding Number 8**

"The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments".

Response: **The City of Pinole partially agrees with this finding.**

While there are some good amendments to the current retirement system, such as eliminating retroactive benefit enhancements, the "air time" purchase, and spiking provisions, there are some drawbacks as well. Given the type of work performed by the majority of our employees, we have a concern with raising the normal retirement ages to those proposed by the Governor. We think that there is a legitimate concern for public safety employees working to nearly 60 years of age. There is a serious question as to whether or not employees can safely and effectively perform the duties of their position, and if not, what will be the impact to the community. This question also holds true for Public Works employees who would be required to work until nearly age 70 to receive full retirement benefits. Finally, we feel that the validity of the hybrid plan approach needs further independent analysis before making a determination regarding its viability and economic value.

We would like to note that the report correctly indicates that Pinole was the first and remains the only city in Contra Costa County to have a sharing formula in place for the employees to pay a portion of the employer contribution. Whether or not this should be mandated by legislation or simply negotiated at the local level is another question. We simply reiterate this as a reminder that such sharing of costs is already available under current PERS statutes.

GRAND JURY RECOMMENDATIONS SPECIFIC TO THE CITY OF PINOLE

- **Recommendation Number 2**

"Those cities that have not adopted a second tier with reduced pension benefits for their Miscellaneous employees should consider doing so".

Response: The City of Pinole agrees with this recommendation.

- **Recommendation Number 3**

"In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees".

Response: The City of Pinole agrees with this recommendation.

As stated in the Findings Section above, the City of Pinole implemented the PERS Vesting Schedule to reduce our financial obligation for retiree health care costs in 2010.

- **Recommendation Number 4**

"Cities should review the key points of the Governor's Pension Reform Plan and consider incorporating its points as a long term strategy for addressing retirement costs".

Response: The City of Pinole agrees with this recommendation.

In closing, I would like to thank the Grand Jury again for their effort at these municipal service reviews and annual reports. I hope that this response meets the expectations of the Grand Jury and that transparency in local government continues to be a focal point. In an effort to maintain transparency, the Pinole City Council received and reviewed this report in the public arena at our August 21, 2012 City Council meeting.

Respectfully Submitted,

Pete J Murray, Mayor

C Lloyd Bell, Contra Costa County Grand Jury Foreperson
Pinole City Councilmembers
Belinda B. Espinosa, City Manager
Ben Reyes, City Attorney

City of Pittsburg
65 Civic Avenue • Pittsburg, California 94565

August 31, 2012

Contra Costa Grand Jury
725 Court Street
PO Box 431
Martinez, CA 94553

Attention: Lloyd Bell, Foreperson

Subject: City of Pittsburg Response to Grand Jury Report No. 1209
"City Retirement Plans, An Unsustainable Benefit"

Dear Mr. Bell:

As requested, the following is a response to Grand Jury Report No. 1209 "City Retirement Plans, An Unsustainable Benefit" in the format you have requested. Please note that we agree with the Grand Jury's findings because they are general and not necessarily specific to the City of Pittsburg. As such, we do not have a basis to disagree since we do not have all of the information to review from the cities in Contra Costa County as the Grand Jury did when they prepared Report.

List of Findings

1. Without additional revenue, continued increases in retirement costs may result in further reduction of public services.
   ***City of Pittsburg Response* - (1) Agree with the finding**

2. In some cases, retirement costs consume a large proportion of the city's General Fund budget, thus limiting funding for discretionary funding.
   ***City of Pittsburg Response* - (1) Agree with the finding**

3. Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.
   ***City of Pittsburg Response* - (1) Agree with the finding**

4. Although CalPers administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.
   ***City of Pittsburg Response* - (1) Agree with the finding**

5. Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.
   ***City of Pittsburg Response* - (1) Agree with the finding**

7. Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.
   ***City of Pittsburg Response* - (1) Agree with the finding**

8. The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.
   ***City of Pittsburg Response* – (3) Partially disagree with the finding.** We feel uncomfortable commenting on proposed legislation without analyzing its impact. However, reviewing the bullets listed in the report it appears to reduce future retirement costs.

<u>**List of Recommendations**</u>

2. In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

***City of Pittsburg Response* – The recommendation has been implemented**

The City of Pittsburg reduced its financial obligation for both current and future employees. For non-safety employees: all employees hired on or after January 1, 2012 do not receive retiree health care benefit from the City. Those non-safety employees hired before January 1, 2012 get a retiree health plan that covers 100% of retiree health benefit expenses after 25 years of service for the employee and spouse until the age of 65 and then the benefit ends.

Sworn new hires do not receive retiree health benefit while existing sworn employees continue to receive the same retiree health benefits. However, new sworn hires receive a Retirement Health Savings Account to which the City contributes $75 per month and the employee contributes $75 per month. This account is tax exempt.

4. Cities should review the key points of the Governor's Pension Reform Plan and consider incorporating its points as a long term strategy for addressing retirement costs.

***City of Pittsburg Response* – The recommendation requires further analysis**

The City's most recently negotiated and finalized MOUs reflect changes in pension benefits. Any proposed additional changes to Pittsburg's pension benefits are subject to

Memorandum of Understanding (MOU) negotiations with the unions representing the City's employees. The City has not yet developed a strategy regarding future MOU negotiations. However, we will take into consideration the key points of the Governor's Pension Reform Plan during labor negotiations. MOUs with miscellaneous employees will be finalized in June 2013 and MOUs with safety employees will be finalized in June 2014. Thus, the time frame will exceed six months.

Thank you for providing us with the opportunity to respond to the Grand Jury's findings and recommendations. If you have any questions, please call me at (925) 252-4923 or Tina Olson, Director of Finance and Administration, at (925) 252-4848.

Sincerely,

Joe Sbranti
City Manager

cc: City of Pittsburg City Council Members recycled paper

City of Pleasant Hill

August 20, 2012

The Honorable John Laettner
Presiding Judge of the Contra Costa Superior Court
A.F. Bray Building, Department 25
1020 Ward Street, Martinez CA 94553

Re: **Contra Costa County Civil Grand Jury Report: "City Retirement Plans, An Unsustainable Benefit?" (Report 1209)**

Dear Judge Laettner:

On behalf of the Pleasant Hill City Council, this letter responds to Contra Costa County Civil Grand Jury Report: "City Retirement Plans, An Unsustainable Benefit?" (Report 1209). The City Council authorized this response at its meeting on August 20, 2012.

We appreciate the time and effort that you and the Grand Jury spent considering these matters. According to page 10 of the report, Pleasant Hill is required to respond to findings 1, 2, 3, 4, 6, 7, 8 and Recommendation 4. Pursuant to California Penal Code section 933.05, the City will respond to each finding and recommendation individually.

Grand Jury Findings

Finding #1: "Without additional revenue, continued increases in retirement costs may result in further reduction of public services."

> Response: The City of Pleasant Hill agrees with the finding. The need for cost control is one reason why the City of Pleasant Hill pursued and successfully negotiated changes with all bargaining groups during the past 18 months in order to reduce retirement costs.

Finding #2: "In some cases, retirement costs consume a large proportion of a city's General Fund budget, thus limiting funding for discretionary spending."

> Response: The City of Pleasant Hill agrees with the finding.
>
> Due to an inadvertent error, the percentage of General Fund for total retirement costs reported on Table 3, Page 7 was misstated. The percentage is estimated to range from 12.66% to 13.08% over the next five years (rather than 25% reported on Table 3).

100 Gregory Lane - Pleasant Hill - California 94523-3323 - (925) 671-5270 - FAX (925) 256-8190

Finding #3: "Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations."

> Response: The City of Pleasant Hill agrees with the finding. For this reason, the City pursued and successfully negotiated lower pension formulas during negotiations with all bargaining groups.

Finding #4: "Although CalPERS administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs."

> Response: The City of Pleasant Hill agrees with the finding. By not providing retiree health care benefits, the City of Pleasant Hill has been able to keep its retiree health care costs low.

Finding #5: This finding relates to cities where "Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires."

> Response: The City of Pleasant Hill agrees with the finding, however, the City lowered the retirement benefits for new Safety hires to 3% at 55.

Finding #6: "Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits."

> Response: The City of Pleasant Hill agrees with the finding and does not offer retiree health care.

Finding #7: "Defined contribution retirement plans can be an effective way to limit both current and future retirement costs."

> Response: The City of Pleasant Hill agrees with the finding.

Finding #8: "The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments."

> Response: The City of Pleasant Hill agrees with the finding. The City has not thoroughly analyzed the Plan but it potentially offers a good strategic model for further review.

Recommendations

[Pleasant Hill is not required to respond to Recommendations 1, 2 and 3.]

Recommendation #4: "Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs."

Response: The City agrees with the recommendation that it should review the key points of the Governor's Plan. As the City of Pleasant Hill negotiates with its bargaining units, points of the Governor's Plan may be incorporated as a potential strategy to achieve lower future costs and better financial control.

We trust that the Grand Jury will find these responses helpful to its endeavor.

Sincerely yours,

John Hanecak
Mayor, City of Pleasant Hill

cc: Linda Chew, 2010-2011 Contra Costa County Civil Grand Jury Foreperson, 725 Court Street, Martinez, CA 94553, jcuev@contracosta.courts.ca.gov
June Catalano, City Manager
Pleasant Hill City Councilmembers

September 20, 2012

Mr. Lloyd Bell, Foreperson
Contra Costa County Civil Grand Jury
725 Court Street
P.O. Box 431
Martinez, CA 94553

Re: Response to Grand Jury Report No. 1209, "City Retirement Plans, An Unsustainable Benefit?"

Dear Foreperson Bell:

In accordance with California Government Code Sections 933.5(a) and 933.5(b), please find below the responses of the City of Richmond to the findings and recommendations of the Grand Jury included in your letter of June 6, 2012. For ease off reading, I have incorporated the language from the report for each finding and recommendation that the city has been asked to address. The City's response is in italics directly below each finding or recommendation. Please note that in each case the response reflects only the information as it applies to the City of Richmond. We do not have knowledge of the financial information of the other responding organizations.

FINDINGS

1. Without additional revenue continued increases in retirement costs may result in further reduction of public services.

   Response: *The City of Richmond agrees with this finding.*

2. In some cases, retirement costs consume a large proportion of a city's General Fund budget, thus limiting funding for discretionary spending.

   Response: *The City of Richmond agrees with this finding.*

3. Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

   Response: *The City of Richmond agrees with this finding.*

4. Although CalPers administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.

   Response: *The City of Richmond agrees with this finding.*

5. Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.

   Response: *The City of Richmond agrees with this finding.*

6. Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.

   Response: *The City of Richmond agrees with this finding.*

7. Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

   Response: *The City of Richmond agrees with this finding.*

8. The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

   Response: *The City of Richmond agrees with this finding.*

RECOMMENDATIONS

1. Those cities that have not adopted a second tier with pension benefits for their Safety employees should consider doing so.

   Response: *The City of Richmond partially disagrees with this recommendation. The City Council has not given direction to staff to pursue a second tier pension plan for Safety employees. At the present time, the Memorandum of Understandings (MOU) with the Safety bargaining units are closed. In order for the city to get an agreement on a second tier plan, the bargaining units would have to agree to reopen their contract. Such an event is highly unlikely.*

   In any event, a second tier pension plan would not provide any immediate relief to the City as most of the current employees are already vested in the current pension plans. Any savings would not be realized for some time after new employees are hired.

2. Those cities that have not adopted a second tier with reduced pension benefits for their Miscellaneous employees should consider doing go.

Response: *The City of Richmond partially disagrees with this recommendation. The City Council has not given direction to staff to pursue a second tier pension plan for Miscellaneous employees. At the present time, the MOU's with the Miscellaneous bargaining units are closed. In order for the City to get an agreement on a second tier plan, the bargaining units would have to agree to reopen their contract. Such an event is highly unlikely.*

In any event, a second tier pension plan would not provide any immediate relief to the City as most of the current employees are already vested in the current pension plans. Any savings would not be realized for some time after new employees are hired.

3. In order to control unpredictable, future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

Response: *The City of Richmond partially disagrees with this recommendation. The City Council has not indicated a desire to eliminate retiree health care benefits. For the most part, the City of Richmond pays a fixed monthly dollar amount for retiree health care. Consequently, the city's liability is not affected by changes in the cost of medical coverage. The only bargaining units whose benefits are affected by changes in the markets are Safety because they get a percentage of the benefit amount. As with the pensions, any changes would have to be negotiated and the unions currently have closed contracts.*

4. Cities should review the key points of the Governor's Pension Reform Plan and consider incorporating its points as a long term strategy for addressing retirement costs.

Response: *The City of Richmond partially disagrees with this recommendation. The pension reform plan that was ultimately passed by the Legislature and signed by the Governor is still being analyzed. Many of the experts in the area anticipate that there will be additional legislation clarifying certain aspects of the reform package. The City of Richmond will begin exploring the process of negotiating with its employee bargaining units on certain aspects of the legislation that apply to current employees. Currently only two of the bargaining units have open contracts. Should the City Council decide to implement those portions of the legislation, staff will attempt to obtain an agreement with the bargaining units. The portions covering current employees are not mandatory for a period of five (5) years, so if the employee bargaining units do not voluntarily agree to them nothing can be done for that time period.*

Thank you for the opportunity to respond on this very important issue. Please contact the City's Finance Director, James Goins at 510-620-6935 or at james_goins@ci.richmond.ca.us if you have any additional questions.

Respectfully,

Bill Lindsay
City Manager

ADMINISTRATION
City Council

CITY OF SAN PABLO
City of New Directions

September 5, 2012

Via US Mail and Email: clope2@contracosta.courts.ca.gov

Lloyd Bell, Foreman
Contra Costa County
Civil Grand Jury
725 Court Street
P.O. Box 431
Martinez, CA 94553-0091

Dear Jury Foreman Bell:

This letter is in response to the questions asked in **Grand Jury Report No. 1209, "City Retirement Plans, An Unsustainable Benefit?"** released on June 6, 2012.

In accordance with your request and Section 933.5 of the California Penal Code, the City provides the attached required responses to Findings 1-8 and Recommendations 1-4, as identified in the Grand Jury Report.

In summary, the City has varied responses to the findings and has implemented the recommendations, as feasible. The attached response goes into greater detail on each item.

Please feel free to contact me at (510) 215-3000 should you need additional information.

City's Required Responses to Grand Jury Findings

GRAND JURY FINDING #1

Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

Response: The City partially agrees with the finding. The City of San Pablo has done all it can to reduce its pension cost by paying off its unfunded pension liability (side fund). The City does recognize that increased costs passed on by CalPERS due to investment shortfalls could strain resources.

GRAND JURY FINDING #2

In some cases, retirement costs consume a large proportion of a city's General Fund budget, thus limiting funding for discretionary funding.

Response: The City agrees with the finding. This is not the case for the City of San Pablo.

GRAND JURY FINDING #3

Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

Response: The City agrees with the finding. In the next round of negotiations the City will propose this.

GRAND JURY FINDING #4

Although CalPERS administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.

Response: The City agrees with the finding.

GRAND JURY FINDING #5

Safety employees have significantly more generous retirement benefits than miscellaneous employees, yet few cities have lowered benefits for new Safety hires.

Response: The City partially agrees with this finding. Prior to the date of the Grand Jury report the City of San Pablo required all new hires to pay the employees share of retirement costs, whereas before they didn't pay. Miscellaneous employees pay 10.3% and Safety pay 12.3%.

A two-tier analysis was done by CalPERS which did not identify significant savings and not recommended by CalPERS. This was basically due to the CalPERS laws in effect at that time. We understand that CalPERS has changed their laws and we will consider implementing lower benefits during the next round of negotiations

GRAND JURY FINDING #6

Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.

Response: The City agrees with the finding. The City of San Pablo has very restrictive instances where the City will pay 100% of the retirees' health care.

GRAND JURY FINDING #7

Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

Response: As long as it is structured correctly the City agrees with the finding.

GRAND JURY FINDING #8

The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

Response: The City partially agrees with the finding. Local jurisdictions are in varied financial positions. The strategic model has several issues such as the retirement age of 57 for safety employees and 67 for miscellaneous employees to receive their full pension benefit. These numbers seem high and arbitrary.

While other provisions such as the elimination of purchasing "airtime" have a tangible and recognizable benefit.

RECOMMENDATIONS

GRAND JURY RECOMMENDATION #1: Those cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.
Response: Prior to the date of the Grand Jury report the City of San Pablo required all new hires to pay the employees share of retirement costs, whereas before they didn't pay. Miscellaneous employees pay 10.3% and Safety pay 12.3%.

A two-tier analysis was done by CalPERS which did not identify significant savings and not recommended by CalPERS. This was basically due to the CalPERS laws in effect at that time. We understand that CalPERS has changed their laws and we will consider implementing lower benefits during the next round of negotiations

GRAND JURY RECOMMENDATION #2: Those cities that have not adopted a second tier with reduced pension benefits for their miscellaneous employees should consider doing so.
Response: Prior to the date of the Grand Jury report the City of San Pablo required all new hires to pay the employees share of retirement costs, whereas before they didn't pay. Miscellaneous employees pay 10.3% and Safety pay 12.3%.

A two-tier analysis was done by CalPERS which did not identify significant savings and not recommended by CalPERS. This was basically due to the CalPERS laws in effect at that time. We understand that CalPERS has changed their laws and we will consider implementing lower benefits during the next round of negotiations

GRAND JURY RECOMMENDATION #3: In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.
Response: The City agrees with the finding. The City of San Pablo has very restrictive instances where the City will pay 100% of the retirees' health care. No increases in retiree health, above which is required by CalPERS Health are being considered.

GRAND JURY RECOMMENDATION #4: Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.
Response: Some of the recommendations have been implemented. The City's labor contracts incorporate at least one of the Governor's key points, increased employee pension cost sharing. The City also offers a deferred compensation plan which employees can use to supplement their pensions which would allow for an employee hybrid pension strategy. Finally, the City has also implemented cost sharing for employee health care plans.

During the next round of negotiations the City will consider incorporating additional key points.

We thank the Grand Jury for the opportunity to respond to its concerns.

Sincerely,

Cecilia Valdez

Cecilia Valdez
Mayor

cc San Pablo City Council
City Manager
City Attorney

CITY OF SAN RAMON

2222 CAMINO RAMON
SAN RAMON, CALIFORNIA 94583
PHONE: (925) 973-2500
WEB SITE: www.sanramon.ca.gov

August 27, 2012

The Honorable John Laettner
Presiding Judge of the Contra Costa Superior Court
A.F. Bray Court House, Department 25
Martinez, CA 94553

RE: Contra Costa County Grand Jury Report No. 1209 "City Retirement Plans, An Unsustainable Benefit"

Dear Judge Laettner,

On behalf of the City of San Ramon, this letter responds to the Contra Costa County Grand Jury Report 1209: "City Retirement Plans, An Unsustainable Benefit". The City of San Ramon appreciates the time and effort that you and the Grand Jury spend considering these matters. As required, by California Penal Code §933.05, the City's response to the overall findings and recommendations is provided below.

Finding #1: Without additional revenue, continued increases in retirement costs may result in further reduction of public services.

City Response: The City of San Ramon agrees with the finding.

Finding #2: In some cases, retirement costs consume a large proportion of a city's General Fund budget, thus limiting funding for discretionary spending.

City Response: The City agrees with the finding.

Finding #3: Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations.

City Response: The City agrees with the finding.

Finding #4: Although CalPers administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.

Finding #5: Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for new Safety hires.

City Response: The City agrees with the finding. The City of San Ramon is in the process of creating a new lower benefit tier for new Safety hires.

Finding #6: Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.

City Response: The City agrees with the finding. The City of San Ramon has an independent firm prepare an actuarial to ensure costs are appropriately budgeted. Retiree health care is offered on a sliding scale percentage based on years of service and only until the retiree reaches age 65. A lower benefit tier has been implemented for new hires.

Finding #7: Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.

City Response: The City agrees with the finding. The City of San Ramon does not currently pay for a defined contribution retirement plan, but does offer an elective plan to employees.

Finding #8: The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.

City Response: The City agrees with the finding.

Recommendation #1: Those cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.

City Response: The recommendation has not yet been implemented. Effective July 1, 2012 an addendum (#4) to the Memorandum of Understanding (MOU) between the City of San Ramon and Police Services employees was executed to include adding Tier 2 for all new hires to be 3% at age 55, calculated based on 3 years compensation. The City is processing a plan amendment with CalPers which should be completed during 2012.

Recommendation #2: Those cities that have not adopted a second tier with reduced pension benefits for their Miscellaneous employees should consider doing so.

City Response: The recommendation has not yet been implemented. Effective July 1, 2012, new MOU's include an agreement to reduce the pension formula to 2% @ 60 calculated based on 3 years compensation. The City is processing a plan amendment with CalPers which should be completed during 2012.

Recommendation #3: In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

City Response: The recommendation has been implemented. Several years ago the City created a 2nd tier of benefits for new hires. The vesting period was increased and coverage was limited to employee only. Retirees are required to leave City medical plans at Medicare age.

Recommendation #4: Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long-term strategy for addressing retirement costs.

City Response: The recommendation will not be implemented because it is not warranted or reasonable. The Governor's Plan requires statutory changes in laws governing the PERS system The statutes need to be amended before many of the Governor's key points can be legally implemented.

The City of San Ramon appreciates the work performed by the Grand Jury and acknowledges the importance of the role served in oversight of local government activities.

We trust that the Grand Jury will find these responses helpful to its endeavor.

Sincerely,

Greg Rogers
City Manager

(1) Mayor & City Council

(2) Lloyd Bell, Foreperson
Contra Costa County Grand Jury
725 Court Street
Martinez, CA 94553

CITY OF
WALNUT
CREEK

August 29, 2012

Mr. Lloyd Bell, Foreperson
2011-2012 Contra Costa County Civil Grand Jury
P. O. Box 431
Martinez, CA 94553-0091

RE: City of Walnut Creek Response to Contra Costa County Grand Jury Report No. 1209, "City Retirement Plans, An unsustainable Benefit?"

Dear Mr. Bell,

On behalf of the City of Walnut Creek, this letter serves as the City's response to the Contra Costa County Grand Jury Report No. 1209, "City Retirement Plans, An unsustainable Benefit?" , Our letter was reviewed and authorized by the City Council at a duly noticed meeting on August 29, 2012. Pursuant to California Penal Code Section 933.05, the City is responding to each finding and to each recommendation individually.

Prior to offering the specific responses to your findings and recommendations, I wanted to note this Grand Jury Report contained two inaccuracies, which should be corrected. Doing so is critical to making sure the public has the facts, and these changes are reflected in the City's formal response to your report.

Correction #1

Table 1 in the Grand Jury Report denotes the City of Walnut Creek currently providing (as of the report date) the 3%@55 retirement formula to safety members. In fact, this should be the 3%@50 formula. Subsequent to this report, and as explained below, the City has negotiated a 3%@55, three year average second tier with our police bargaining groups.

Correction #2

Table 3 denotes the City providing retiree health insurance. The City has never offered retiree health insurance to our employees. The 'yes' to this questions should be changed to 'no'. Because we do not offer retiree health insurance, we have no Other Post Employment Benefit (OPEB) liabilities for retiree health coverage. This change would also require a correction to the first 'key point' on page 8 of the Report, noting we are one of six cities who do not offer retiree health insurance.

Findings

1. Without additional revenue, continued increases in retirement costs may result in further reduction of public services.
   The city agrees with the finding.

2. In some cases, retirement costs consume a large proportion of the city's General Fund budget, thus limiting funding for discretionary spending.
   The city agrees with the finding.

3. Cities that have implemented lower pension formulas for new hires (Tier 2) have reduced their overall future pension obligations
   The city agrees with the finding.

4. Although CalPers administers the defined benefit pension plans, including the investment programs, cities have some flexibility to control their own retirement costs.
   The City agrees with the finding within the constraints of the Meyer-Milias-Brown Act requirement to bargain with employee groups. As a contracting agency, Walnut Creek (like all other member agencies) must abide by CalPERS' rules, procedures and policies. In doing so our flexibility is quite limited.

5. Safety employees have significantly more generous retirement benefits than Miscellaneous employees, yet few cities have lowered benefits for Safety hires.
   The city agrees with this finding (based upon the data provided in Table 1 of your report).

6. Retiree health care may represent a significant future cost for those cities that pay for all or a portion of those benefits.
   The city agrees with this finding. NOTE – The City of Walnut Creek does not offer defined benefit retiree health care programs to any employees.

7. Defined contribution retirement plans can be an effective way to limit both current and future retirement costs.
   The City agrees with this finding for cities that currently have defined contribution retirement plans. For cities that participate in CalPERS, the cost of closing the existing plans and withdrawing is extremely high and the total impact on retirement costs and city budgets is unclear.

8. The Governor's Pension Reform Plan offers a good strategic model for limiting future retirement costs for local governments.
   The City agrees with this finding. To the extent the Governor's Plan provides implementation ideas at the local level, the City of Walnut Creek has taken local actions through the collective bargaining process. The majority of these reform are directed to addressing the systems in place (CalPers, 1937 Act systems in counties). Statewide reform elements included in the Plan

offer strategic changes that could limit future retirement costs to all levels of municipal government across California.

Recommendations

1. The cities that have not adopted a second tier with reduced pension benefits for their Safety employees should consider doing so.

This recommendation has been implemented. Walnut Creek adopted a second tier reduced pension formula benefit for the second of its Safety employee groups at its August 7, 2012 council meeting. With this action, all Safety employees have agreed to a 3% @ 55 plan using a three-year average for calculating the highest salary for new employees hired after a future date, pending completion of CalPERS' process for establishing second tiers. The City is working through CalPERS' process now to implement this second tier and expects it to be in place no later than December 2012.

The current tier is 3% @ 50. (As noted above, there is a typographical error in this number in the report, which was reported to you on June 12, 2012.)

In addition, the City has negotiated with the Police Officers' Association to have current and future employees begin paying the full 9% member contribution to retirement cost over the term of the agreement. The Police Managers' Association currently pays 7% of the member side and is in negotiations now for a successor agreement. Employee paid contributions toward pension costs means the City will save additional dollars associated with the elimination of the Employer Paid Member Contribution (EPMC) to the highest salary, as noted on page 3 of the report.

2. Those cities that have not adopted a second tier with reduced pension benefits for their Miscellaneous employees should consider doing so.

Note: The City is not required to respond to this recommendation, but we have offered to do so to assist the Grand Jury in understanding how this recommendation has been implemented.

Walnut Creek adopted a second tier reduced pension formula benefit for Miscellaneous employees in 2011 which became effective on March 2, 2012. The current tier of 2%@ at 55 is the second lowest formula PERS offers. The current formula also includes use of the single highest year for calculating the highest salary. The second tier for employees hired on or after March 2, 2012 is 2%@ 60, using the three-year average for calculating the highest salary.

As with the Safety employees' second tier, the city will save additional dollars because the cost to the City of adding the 7% Employer Paid Member Contribution (EPMC) to the highest salary, as noted on page 3 of the report, is eliminated.

3. In order to control unpredictable future expenses, cities should consider reducing or eliminating their financial obligation for retiree health care for future employees.

   The recommendation cannot be implemented because Walnut Creek has never provided defined benefit retiree health insurance. Therefore, the City does not have any "Other Post Employment Benefit" (OPEB) liabilities.

4. Cities should review the key points of the Governor's Pension Reform Plan, and consider incorporating its points as a long term strategy for addressing retirement costs.

   The City agrees with this recommendation. Cities across the State have been leading the efforts for sensible pension reform. Also, this past year a volunteer citizen's group produced the Community Blue Ribbon Task Force on Fiscal Health. After their extensive review and information gathering regarding CalPers and retirement systems, the Task Force did recommend the City support statewide efforts on pension reforms.

   The City has reviewed the Governor's Plan and implemented provisions contained therein which can be negotiated at the local level. One example is utilizing three year averaging in all new pension tiers. However, the majority of the proposed elements of the Plan require system wide restructuring to the rules, regulations and policies which govern CalPers. Implementation of strategies such as hybrid plans and changes in retirement age would best serve Californians across the State with one set of regulations and standards for all of us in public service.

On behalf of the City of Walnut Creek, we appreciate the opportunity to provide responses to the Grand Jury's findings and recommendations. Feel free to contact me at 943-5812 should you have any questions or need further explanations.

Sincerely,

Ken Nordhoff

Ken Nordhoff
City Manager

CC: Walnut Creek City Council
City Attorney Bryan Wenter
Assistant City Manager Lorie Tinfow
Assistant Administrative Services Director Sally Rice
Finance Manager Cindy Mosser

O:\CITY MANAGER\Ken Nordhoff\Letters\2012\2012 Response to Report No 1209_kn final.doc