

MEMORANDUM



THE CITY OF
NOVATO
CALIFORNIA

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DATE: August 9, 2005
TO: J. Patrick Burke, Foreman
Marin County Civil Grand Jury
FROM: Novato City Council
SUBJECT: **Response to 2004-2005 Report of the
Marin County Civil Grand Jury**

Report Title: The Bloated Retirement Plans of Marin County, its Cities and Towns

Report Date: May 9, 2005

Response by: Novato City Council

Findings:

- We agree with findings numbered 2, 5, 7, 8, 9.
- We agree in part with findings numbered 3, 6, 10.
- We disagree with finding number 11.
- We are unable to agree or disagree with finding number 1.

Recommendations:

- Recommendations numbered 3, 7 & 10 have been implemented.
- Recommendations numbered 1, 4, 5, 6, 8 & 9 have not yet been implemented, but will be implemented in the future.
- Recommendation number 2 requires further analysis.

Date: 8/10/05

Signed: Shirley Gremmels

Shirley Gremmels, City Clerk

Number of pages attached: 3

Findings:

Finding 1: We are unable to agree or disagree with this finding because the analysis fails to identify the private sector data the Grand Jury relied upon to make the comparison.

Finding 2: We agree with this finding.

Finding 3: We agree that pension costs have been volatile in recent years and that the volatility has, at times, caused financial stress for Novato. Although recently rates have increased, as the following chart illustrates, prior to FY03/04 pension rates for the City of Novato were at historic lows. Over the last 10 years, the average cost for the city's Miscellaneous Plan was 3.15% of payroll and the average cost for the Safety Plan was 15.17% of payroll. At times, rate volatility can provide flexibility rather than financial stress for cities.

	Misc. Rate	Safety Rate
FY96/97	3.076	10.665
FY97/98	.9	9.447
FY98/99	0	11.688
FY99/00	0	4.806
FY00/01	0	5.253
FY01/02	0	12.178
FY02/03	.46	11.71
FY03/04	4.175	18.68
FY04/05	9.735	30.60

Finding 5: We agree with this finding.

Finding 6: We agree that pension benefits are granted as a result of collective bargaining and cannot be unilaterally changed. We do not have enough information to agree or disagree with the finding that reductions in private sector pensions are common.

Finding 7: We agree with this finding.

Finding 8: We agree with this finding.

Finding 9: We agree with this finding.

Finding 10: We agree that cities will be required to include retiree healthcare obligations in their financial statements. We do not have enough information to agree or disagree

with the finding that private sector employers have discovered obligations that have resulted in reductions to retiree healthcare benefits.

Finding 11: We disagree with this finding. Although an actuarial valuation of retiree healthcare costs has not been conducted for the City of Novato, we believe we can reasonably estimate these costs in the short term. The city currently contributes about \$18,000 annually for 31 retirees (\$48.38 per month for each retiree). Assuming additional retirements and a 10% annual increase in healthcare costs, our obligation will increase to approximately \$76,000 in 2010. The City of Novato does not offer retiree healthcare benefits beyond the minimum required by CalPERS as a condition of participation in CalPERS medical insurance program.

Recommendations

Recommendation #1 will be implemented in the future.

The city has and will continue to support the efforts of the League of California Cities to initiate statewide pension reform, which may include the option of a reduced pension benefit for new hires, that will provide cities the flexibility necessary to attract and retain quality employees and prudently manage the city's resources.

Recommendation #2 requires further analysis.

Employees have bargained in good faith for the compensation package they currently receive. Any modification (e.g. lower level pension for higher level of other compensation) would have to be initiated through the collective bargaining process and the costs of such a proposal thoroughly analyzed.

Recommendation #3 has been initially implemented.

Earlier this year, CalPERS Board approved implementation of a "rate smoothing" methodology in the actuarial valuations for FY05/06 that is designed to lessen the impact of market fluctuations on pension costs. The city will support additional proposals from CalPERS that reduce the volatility of pension costs.

Recommendation #4 will be considered by the City Council in the future.

The city agrees this is a prudent fiscal policy. The City Council will be appointing a Citizens Budget Committee that may be recommending policies such as this for council consideration.

Recommendation #5 will be implemented in the future.

The city has and will continue to support the efforts of the League of California Cities to initiate statewide pension reform that will provide cities the flexibility necessary to attract and retain quality employees and prudently manage the city's resources.

Recommendation #6 will be implemented in the future.

The city has and will continue to support the efforts of the League of California Cities to initiate statewide pension reform that will provide cities the flexibility necessary to attract and retain quality employees and prudently manage the city's resources.

Recommendation #7 has been implemented.

CalPERS routinely sponsors seminars for employees to discuss retirement planning and also meets individually with employees contemplating retirement to help them understand the options and benefits available to them.

Recommendation #8 will be implemented in the future.

The City of Novato agrees that CalPERS should sponsor information sessions for policymakers about pension and retiree healthcare changes and will request that they do so.

Recommendation #9 will be implemented in the future.

Beginning with FY08/09, the City of Novato will be required (per GASB 45) to report retiree healthcare actuarial liability on the city's annual financial statements. Prior to that, an actuarial valuation will have to be performed. CalPERS will assist cities in complying with GASB 45 by either supplying the actuarial data to cities so they can conduct their own studies or by performing the actuarial valuations themselves. CalPERS Board is scheduled to consider these options in March of 2006.

Recommendation #10 has been implemented.

The City of Novato continues to be conservative with regard to retiree healthcare benefits and currently does not offer anything other than the mandatory contribution for those retirees enrolled in CalPERS medical plans.