

**To:**  
**The Honorable Terrence Boren**  
**Marin County Superior Court**  
**PO Box 4988**  
**San Rafael, CA 94913-4988**

**J. Patrick Burke, Foreman**  
**Marin County Grand Jury**  
**3501 Civic Center Drive, Room #303**  
**San Rafael, CA 94913-4988**

### **RESPONSE TO GRAND JURY REPORT**

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

Report Date: May 9, 2005

Response By: Dennis Scremin                      Title: Mayor, City of Sausalito

**FINDINGS:** We agree with findings numbered 3, 7, 8 and 9.  
We do not have sufficient information to agree or disagree with findings  
numbered 1, 2, 5, 6, 10 and 11.  
Finding 4 does not apply to the City of Sausalito

Finding 1: We do not have sufficient information to agree or disagree with the Grand Jury's finding. Its unclear whether it is reasonable to limit the comparison to "major employers" in the private sector, or which employers were used for the comparison. Including other employers might increase the difference in pension benefits between private sector employers and public employees. Conversely, with respect to private sector employers that were reviewed, it does not appear that this finding considered other benefit and incentive programs such as stock options, employer contributions to IRS Section 401 plans, employer subsidized stock purchase programs, profit sharing plans, etc. Programs such as Section 401 plans are intended to operate as retirement programs. The other identified programs, although they may not explicitly be categorized as retirement programs, do provide private sector employees with a source of funds which can be utilized as retirement income. Consideration of these programs would reduce the difference in pension benefits between private sector employers and public employees.

- Finding 2: We do not have sufficient information to agree or disagree with the Grand Jury's finding with respect to non-Sausalito employees. We agree that public sector employees in Sausalito do not participate in Social Security. Management, confidential, police and general employees in Sausalito do, however, contribute 100% of the employee share of PERS costs towards retirement. This costs the employees 8% of salary for non-safety employees and 9% of salary for safety employees.
- Finding 3: We agree with this finding that employer costs for public sector pensions have been extremely volatile in recent years. This volatility is a result of stock market fluctuations. California Public Employees' Retirement System (CalPERS) funds are invested. The rates of return on such invested funds fluctuate. As a result, employer costs also fluctuate in accordance with the CalPERS rate of return on its investments.
- Finding 5: We do not have sufficient information to agree or disagree with the Grand Jury's finding with respect to non-Sausalito employees. We only have knowledge of Sausalito's union activity. We do not believe that the unions representing public sector employees in Sausalito are presently applying pressure to increase pensions.
- Finding 6: We do not possess sufficient information or expertise to either agree or disagree with this finding.
- Finding 10: We agree that as a result of GASB, public sector retiree healthcare obligations will have to be disclosed in the same manner as public sector pension obligations. We do not possess sufficient information or expertise to know whether similar accounting standards applicable to the private sector have resulted in the reduction of retiree healthcare benefits.
- Finding 11: We do not possess sufficient information or expertise to either agree or disagree with this finding with respect to non-Sausalito employees. We disagree with the statement that the City of Sausalito has no idea about the size of its retiree healthcare obligations. We believe we can project fairly accurately the budgetary impacts of those obligations since we can estimate the number of projected retirees and we can track historical healthcare premiums. However, to produce financial projections which satisfy actuarial standards would require the retention of an outside consultant. This is because the City's healthcare program is managed by CalPERS through an insurance pool comprising all participating public agencies comparable to Sausalito in terms of the number of active employees and annuitants covered by CalPERS. Therefore, the production of data which would satisfy actuarial standards would require projections of healthcare costs for the entire pool, data regarding active employees, life expectancy data for retirees and their dependents, projections regarding medicare, etc. A municipality

such as Sausalito simply cannot produce this data without outside assistance. CalPERS is preparing this data for each member agency including Sausalito because such data is necessary for GASB compliance. Therefore, such data should be available to member agencies when CalPERS completes its projections.

**RECOMMENDATIONS:** Recommendations numbered 4, 7 and 10 have been implemented. Recommendations numbered 1, 2, 3, 5, 6, 8 and 9 have not yet been implemented, but will be implemented in the future.

Recommendation 1: The agencies in Marin County, and throughout the State of California, operate under a program of coordinated and reciprocal pension programs. We also compete in the marketplace with both public sector, and in some cases private sector employers for qualified personnel. As a result, pension reform can only be accomplished through a comprehensive effort involving the Governor, State Legislature, Local Governments, CalPERS and employee groups. Municipalities such as the City of Sausalito coordinate lobbying activities for modifications to State legislation through the League of California Cities. The League is currently studying potential pension reforms including the rollback of public retirement plans to historically lower levels. We will participate with the League in lobbying for League supported pension reforms. However, at this point in time, since the League is still studying the matter, we cannot identify a timetable for the commencement of this lobbying activity.

Recommendation 2: Implementation of this recommendation will first require pension reform legislation at the State level. We will work with the League of California Cities in seeking such pension reform. Since the League is still studying this matter, we cannot identify a timetable for the commencement of this lobbying activity.

Recommendation 3: We have begun working with the League of California Cities and CalPERS to develop actuarial methods to limit contribution volatility while maintaining a sound funding policy. It is our hope and expectation that these actuarial methods can be developed and implemented within the next 12 months.

Recommendation 4: The budget policy of the City of Sausalito has been to utilize found or temporary money only for non-recurring obligations. We do not believe it makes sound financial sense to utilize one-time funds for recurring obligations.

Recommendation 5: We will work with the League of California Cities in developing sound pension reform legislation. Since the League is still studying this matter, we cannot identify a timetable for the completion of proposed legislation or the commencement of lobbying activities.

Recommendation 6: We will work with the League of California Cities in developing sound pension reform and disability retirement reform legislation. Since the League is still studying this matter, we cannot identify a timetable for the completion of proposed legislation or the commencement of lobbying activities.

Recommendation 7: The City of Sausalito has regular communications with its employees and labor unions regarding their retirement benefits and retirement planning. We offer employee-funded deferred compensation programs and long-term care insurance at group rates to our employees. CalPERS, in cooperation with California public agencies, schedules regular programs with public sector employees to help them understand the retirement programs available to them in order to facilitate their ability to take an active role in their retirement planning.

Recommendation 8: CalPERS is in the process of preparing actuarial data regarding the retiree healthcare obligations of its member agencies in order to meet GASB requirements. The GASB requirements will go into effect on June 30, 2009. It is our expectation that CalPERS will provide actuarial data to member agencies well before that date although CalPERS has not yet identified a firm date by which this data will be completed.

Recommendation 9: As stated in response to Finding 11, we believe we can project fairly accurately the City's retiree healthcare obligations although we acknowledge that our projections do not satisfy actuarial standards. Since CalPERS is preparing actuarial data for the City regarding retiree healthcare valuations, it does not make sense for the City to hire an outside consultant to prepare such actuarial data. As stated in response to Recommendation 8, CalPERS has not provided a firm date by which this data will be completed and will be made available to member agencies.

Recommendation 10: We have long been concerned about the financial impact of retiree healthcare benefits. Currently, the City only provides employee-only healthcare benefits to employees who have provided 20 years or more of continuous service to the City of Sausalito. This benefit has been in place for at least 30 years and could not be changed without the agreement of the

City's bargaining units. We have made knowledgeable decisions about such benefits and the financial repercussions of such benefits.

Date: July 12, 2005

Signed: Dennis Scremin  
Dennis Scremin, Mayor *by DSW*