The following transcript is provided for your convenience, but does not represent the official record of this meeting. The transcript is provided by the firm that provides closed captioning services to the City. Because this service is created in real-time as the meeting progresses, it may contain errors and gaps, but is nevertheless very helpful in determining the gist of what occurred during this meeting.

>> Mayor Reed: This meeting is not a substitute for negotiations and should not be allowed to delay the significant work that needs to be done at the many bargaining tables. Given the complexity of multiple negotiations request multiple unions this update will be more extensive than our usual updates but again it is not a negotiating session and not a way for the unions to bypass our negotiating team and deal directly with the council. This meeting needs to be conducted in accordance with the state law, the City charter, the regulations and council policies. For example the Meyers Milius Brown Act which is state law under California law both the city and the unions have an obligation not the bypass the other's designated representatives. Direct dealings interfere with the employer's right to select its negotiators at least according to the PERB handbook on unfair practices. City Charter policy 411 designates the City Manager as the chief administrative officer for the City and prohibits either the Council from interfering with the Manager's duties, either collectively or individually. We have a council resolution that delegates the authority to the City Manager and the team that she puts together we also have a council policy on labor negotiating guidelines. Under that policy, we just note that we have a right to insist that contract negotiations take place at the bargaining table, between the designated representatives of the city and various bargaining employees. Members of the city council shall not negotiate with we also note in that policy that bargaining int representatives are or persons acting on their behalf may comment on the City Manager's open session labor negotiations update. This is ton done during open session to ensure that all the council receives the same information. City council may listen to these statements made in the public forum and may ask questions for clarification purposes but shall not respond to the comments or engage in dialogue or any other form of bargaining with the representatives. I'm going to try to run this meeting in the way that meets the council's need for additional information to receive that information so we all get it at the same time while respecting our ethical obligations to follow the state law, comply with our obligations under the charter and to allow the City's negotiating team to do their work without our interference. With that I'll turn it over to the City Manager.

>> City Manager Figone: Thank you, Mr. Mayor, members of the council. A few opening comments if we can get to the first slide. First of all as a reminder, our labor relations Website contains all information that we present to council, that we receive from our bargaining units, and including correspondence. So that is a requirement. I would also say at the end of today's presentation the presentation you will see has been he posted. We have included and staff is making copies for the council so we'll be distributing those to you kind of mid presentation. But I do want to

seek your indulgence to say that staff has literally just concluded what you'll be seeing. By way of the other thing in front of you are the most recent proposals we have received from our bargaining units so those have also been distributed. So moving on to the next slide. I wanted to share a few thoughts with you before we get started this afternoon. The mayor has outlined basically the governance structure that we operate within, for the labor negotiations process. And some of you have seen this chart that I pulled together a while back, to depict that process. And so I kind of want it up in background as I go through my opening comments. Really, our responsibility as your staff, I as your City Manager, and then the labor negotiators who I point have the responsibility to ensure that council has all the facts and the information that you need to make your policy decisions. We are quickly approaching the end of negotiations and the fact finding and analysis that does go on does come out of these conversations as they happen at the negotiating table. Today's update is based on a point in time that we're at. With negotiations and with the information that we've been able to process and analyze so far on the very, very complex issue and many, many dimensions of retirement reform. Staff as I said has literally been working around the clock and to the start of these negotiations to make this presentation as meaningful to the point we're at. The update is based on the city council's under. Council has at its direction the objective to save services. It is important to come back to this direction and evaluating all proposals whether they be the City's or the unions in order to achieve your goals. This is why you will see the fiscal reform plan used as a scorecard to measure our progress. And finally, in presenting to you today, we are doing our professional best to set aside conflicts that we all have as city employees as we work to evaluate changes to the retirement system. It is ultimately my responsibility as your City Manager to ensure that you have the information you need to make informed decisions about how to achieve your policy goals. Those policy decisions are then yours to make. And so with those opening comments I'll turn it over to Alex Gurza deputy City Manager to begin our presentation.

>> Councilmember Rocha:   Mayor, I did have a question, for give me, I did have a question.

>> Mayor Reed:   Councilmember Rocha.

>> Councilmember Rocha:   Under the agenda given this is a city council meeting, I didn't see orders of the day, or -- so we're moving straight to no approval of the agenda?

>> Mayor Reed: What is the agenda?

>> Councilmember Rocha: Normally under orders of the day we have an opportunity to talk about changes to the agenda.

>> Mayor Reed: We can talk about that now if you want to.

>> Councilmember Rocha: My question is, talking about the minutes from the Rules committee meeting, I saw the five minute rule on comments precedent being proposal.

>> Mayor Reed: Get the staff presentation done take public testimony, allow each of the bargaining units that's got a proposal, I think there are three of them, have five minutes to say whatever they want to say about whatever they want to talk about, take additional public testimony and then council questions if there's anything unanswered, then the council can ask questions at that time.

>> Councilmember Rocha: I guess after I direct dealing not about an actual time constraint of the meeting. And if I might ask the City Attorney a question about that. If it's a presentation, and the council is then actually engaging in the direct dealing, then is there any risk to that issue if there's just a presentation, regards of whether it's one minute or 20 minutes?

>> City Attorney Doyle: No, the short answer is no, if it's purely a presentation. I think the concerns raised by the mayor just want to admonish the council on mead and listen, as opposed to actually negotiations. So it's not inconsistent with any of the charter Meyers Milius Brown or labor negotiations policy to have the presentation given and ultimately it is your meeting, the council, how you want to hear the facts is really your call. Just caution that you don't want to engage in a negotiation or turn its into a negotiation.

>> Councilmember Rocha: So it's really more incumbent upon the council up here not offering alternatives, just so I understand the concerns. Because I'm also concerned about a letter that was sent and signed by Mr. Holtzman I believe, talking about the direct dealing issue. And I was curious who authorized that letter. Because I get the impression reading it that councilmembers have maybe violated the direct-dealing and as a client, it's not very often that your attorney would put in writing that you have maybe compromised something. And the first I saw that letter, I was a bit surprised and taken aback I must admit. So my question is more who authorized that letter and who approved that letter.

>> City Manager Figone: Ultimately I would say I authorized it because Jonathan Holtzman and his firm are supporting our negotiating efforts. So whether it came out of my office or the legal counsel and the consultants that we used, I think it's one and the same, councilmember and I don't know Alex if you have any other comments.

>> Alex Gurza: Yes if I could add for people who don't know, Mr. Jonathan Holtzman who is sitting behind there is with our outside counsel and the letter was coordinated by the City Attorney.

>> Mayor Reed: About the length of the presentation, there is an issue about length of presentation. The reason I felt five minutes is appropriate is the union shouldn't be presenting anything here that they haven't been presenting at the bargaining table. The whole point of the bob new proposals or additional proms or things that they haven't presented to the bargaining table I think raises an issue. Which an extensive presentation a lengthy presentation I think has more risk of getting off into things that haven't been presented. So that's one reason to limit, also it's usually helpful to have a shorter presentation, and then the councilmembers can ask questions about things that aren't covered. And so that was the reason for five-minute.

>> Councilmember Rocha: Okay, thank you, I'll save my last questions for the proposal. Sorry to interrupt you.

>> Mayor Reed: That's all right. Back to Alex Gurza I think.

>> Alex Gurza: Alex Gurza deputy City Manager. Jennifer Schembri to my left assistant to the City Manager, to my right is John BARTel of Bartel of the office of employee relations, Mr. Holtzman who I introduced and assistant City Manager Ed Shikada. So one of the things we wanted to do at the beginning is go through quickly a reminder of the fiscal reform plan goal that the council set for us and the fiscal reform plan is much broader than retirement reform, an overarching goal of preserving services. So the initial city council direction was set earlier on in the spring and the council's direction was to develop a plan to achieve $216 million in General Fund savings in five years through cost reductions and/or new revenues. As part of that fiscal reform, one of the goals was to maintain retirement costs at the fiscal year 10-11 levels. Meaning reduce the City's cost for the benefits to keep them add 10-11 levels. To restore, maned Police and Fire, and to open libraries community centers and fire stations built or under construction, and the police substation within five years. Again the overall goal of trying to maintain services. The council's direction said that cost savings in the fiscal year reform plan could come from a variety of areas. This is on the cost-saving side not necessarily the revenue side. Reducing compensation for the existing employees which we have achieved at the 10% reduction in employee compensation, reforming the workers comp and disability retirement system, reduction cost for sick leave payouts, vacation buy backs overtime, modifying and other organizational changes and efficiencies. Moving on to specifically the retirement cost area, this is a chart we've seen many times and these are based on where the heargt and again on the city side. We had previously received estimates that we would reach the $400 million level in 2015-16. Cheiron who is the actuary for both the Police and Fire department retirement plan and the Federated city employees retirement system conducted that estimate and revised the estimate from 400 upwards to $431 million. In terms of the savings, for retirement, one of the things that we wanted to mention, is sometimes it gefs gets confusing when we shift and use General Fund numbers and all fund numbers. In our retirement system it includes employees that are both General Funded and all of the other special funds. So when we coast quote retirement numbers they are all funds. That's why sometimes it gets a little bit confusing but for retirement purposes we use all funds. And so we've reeivedded the number here in that previously the goal was using the $400 million number in 2015-16. So when we put the 430 million in, subtract out what the City's contribution would have been in 10-11, the 186, the goal actually has increased in the time since the council originally set the goal. Now as we also said many times, we really don't know for certainty what the contribution rate will be in 2015-16. Because once you go out more than one year in advance, it gets adjusted based on every actuarial evaluation. It could be higher than the 413, higher than that, we

got information that it was higher from 413 to 431 million. That would be the goal to adopt retirement very briefly want to provide the council with a brief overview of the budget situation which also clearly drives the decisions that council is make. Jennifer Maguire our budget director a few weeks ago gave the council an update on the budget and these are simply a few of those slides. And on this slide it shows the General Fund forecast. I want to forecast on 12-13 because it is in the process of being updated. But you see the city is facing a shortfall of anywhere from 78 million to $115 million in 12-13. So clearly when we report out on the fiscal reform plan the point is how much savings from the fiscal reform plan both retirement and otherwise would be available in 2013 to help the city council address that shortfall. This is also a slide that the budget director showed which really demonstrates what's left are extraordinarily difficult decisions to make for the city council to balance the budget. It separates out how much discretionary compensations are left. What Jennifer showed is if you take out the discretionary expenditures and you move out to the right it is approximately $400 million but of that 72% is public safety. And the 28% is all of the other services. So to the extent the council wanted to maintain public safety at what it is now, and not reduce it any further, you can see that the 110 million is all of the other services. So with the shortfall in 12-13 up potentially approaching 110 million, it shows a very, very difficult choices and really what was described as unacceptable service reduction and eliminations remain as possible choices. So this is what the City Manager kind of referred to as sort of the scorecard. This shows from the fiscal year romp plan as modified by the city council in the retirement reform where we would currently stand. So I'd like to take a few minutes to go through it. Starting with the 12-13 column you'll see there is a change on the workers compensation offset where we're now showing zero in 12-13. That isn't because we're not still pursuing that but because the savings from doing a workers compensation offset really is savings to the Police and Fire department retirement plan. And so what we don't know yet is how much of that savings would turn into reduced contribution rates, it's not we're sure the savings would be realized in 12-13 for sick leave payoutout eliminate the sick leave payout benefit and the direction is to eliminate it by June 30th of 2012. Which we estimate would be $9.5 million in savings. The SRBR or the supplement retirement rurve would be and then you have the additional retirement contributions/opt-in program in the City's latest ballot measure or proposal, it indicates that for those employees who do not opt in to a lower level of benefits that they would begin paying more contributions to stay in the current level of benefits. This reflects the General Fund portion. So this is General Fund slide by the way of that first 5%. So if the first 5% goes into effect for 12-13 we estimate it on the General Fund side to save $16.3 million. Then you have a 1% cola savings of $30 million. I did want to mention here that we're counting this in 12-13. However there is still a significant question as to whether or not the retirement boards would factor in that savings for 12-13 or whether or not they would wait till the next valuation. The normal course of things is to wait till the next year's valuation. So it is possible we could request a mid year adjustment but it's possible that that savings would not be realized in 12-13 but 13-14. And then you see the revenues that were part of the fiscal reform plan. And then moving to 13-14, there are some changes in overtime that are in the fiscal reform plan. The retiree health care change which is not a change that's being proposed by the ballot measure but separately which is to reduced the price of the low priced plan that serves as the foundation for the cost of retiree health care. On the General Fund side that would save approximately $14 million. And then you'll see a number that we're going to talk a lot about in the rest of the presentation. It is the savings of the -- of an opt-in program. As the council has heard us talk about many times an opt-in program is very hard to estimate the savings because you don't know how many people will opt-in or the demographics of those people so we have provided a range of potential savings. The range of an opt-in program could be either zero for whatever reason it doesn't get or you'll see the range there and so this is the City's current direction on the fiscal reform, both retirement and other items. Okay so now we move into a status of our labor negotiations as I think both the mayor and the City Manager indicated we have many, many different bargaining tables going on at the same time. Some combined on retirement reform. Some separate on the ballot measure. Some on separate items. So there's quite a few negotiations going on. And weed like to give an update on proposed received and where we are on certain of the items. First as I mentioned the sick leave payout, the current council direction is to negotiate a save $9.5 million. And what we are showing here is the 11 bargaining units and the city council has eliminated that benefit completely for four of the bargaining units, as you see listed there and that's effective January 1st of 2012. Keeping in mind the council direction is that it would be eliminated by June 30th of 2012. Police and Fire have provided a proposal to eliminate it but use -- eliminate it as a cash payout but use sick leave payout to purchase retirement service credit. The ALP, the attorney's unit has proposed to eliminate it for future hires and some change we can discuss about for current employees. And the building inspectors made a proposal at the bargaining table this morning, that is when the City Manager indicated this is a very new presentation, this proposal was made during a bargaining session this morning and copies I think are also in front of you. And with the last three bargaining units, AEA CAMP and AMSP, this this bargaining unit to eliminate the benefit. Now moving on to retirement reform. And we wanted to take a moment to mention that these negotiations are being conducted in different ways. We have two different types of meet-and-confer obligations, one is over the seal beach bargaining that's only because there was a court case that involved the city of sale bash so therefore it became known as sale beach bargaining but it references the employers meet-and-confer obligations to ballot measure may affect wages hours and working conditions. Then there is retirement reform which is all other retirement related items that are subject to negotiations that are not intended to be in the ballot measure. Give you an example of that. The retiree health care low-priced plan issue. That's not contained in the ballot measure but we've made separate proposals to reduce the price of a low-priced plan and that is in the retirement reform category. With the five bargaining units that are listed in the first two rows we have an agreement on a framework that we would conclude both of those types of bargaining by October 31st of 2011. With all of the others we don't have such a similar agreement so we have been proceeding separately on the proposed ballot measure and things on the other side of the ballot measure. That's why you see the columns split. On the ballot measure we have a target for the city to complete those negotiations by October 31st. Again to maintain the City's -- the city council's option to go to the ballot in March of 2012. The retirement negotiations don't necessarily have to end on October 31st so those are in different states depending on the particular negotiation. This very briefly is one segment, or one section of the framework we have with the five bargaining units where it indicates the goal to complete the negotiation by October 31st. Also want to point out that that doesn't necessarily mean that the process will end then. If we reach an agreement by October 31st, thn if we don't we will engage in impasse procedures which would happen after October 31st . So the rest of the presentation we're going to get into a lot of detail made by the five bargaining units. But as a brief reminder, we wanted to discuss a little bit about how defined benefit costs are determined. Because we know we have many actuaries involved in the City's plan. We have Mr. Bartel who is the City's negotiator and we also have a very important role of the board's actuaries . We have two retirement boards and they have actuaries that they hire, Cheiron actually now does both and so there are a lot of different actuaries. One of the things that we have leveraged over time is that actuaries as important as they are, don't actually determine the cost of the benefit themselves. And this is a quote we've probably shown many, many times from the Segal company, a firm that used to be an actuary of the Police and Fire retirement program, which in a single sentence makes a very important rote. The the discount rate, earnings assumption and life do not determine the actual cost of the plan. That the actual cost is determined solably the benefits, what benefits are you providing? An the administrative expenses paid offset by income. That's very important. The benefits cost what the benefits cost. What 30 years of service or 75%? Actuaries do their best to predict that cost but the cost is really determined by I think in this sentence here. There are primary components of the benefits that affect cost, things we've talked about a lot. Retirement age. The earlier you can retire the more expensive it is because you're going to be receiving a benefit over your lifetime. So if you can retire at 50 or 55, that definitely has a significant impact on the cost of the benefit. What is the benefit formula itself? How much do you receive per year of service? The two and a half, three, four, makes a big difference. What is the maximum benefit, when do you reach the maximum benefit? Highest one year of service or three years or more. What's the cost of living adjustment, can have a very dramatic impact on the cost. What are the survivorship benefits, retiree benefits, disability benefits and supplemental benefits, these are the narcotics we believe are the primary components of what actually make up the components of a defined benefit pension program. In going over the summary of the association of legal professionals did make a proposal and I'm going to turn it over briefly to Gina to summarize that ploam.

>> Gina Donnelly: Good afternoon. We didn't individual proposal to eliminate SRBR and this sproam similar to the tentative agreement we reached in bargaining with the nonmanagement coalition earlier this summer.

>> Alex Gurza: Okay now moving on to what is the primary part of our presence which is to summarize for the city council what we have learned so far from the proposals made by five bargaining units. The police officers union, the firefighters and the three bargain units that are affiliated with IFPTE local 21. First of all we want to thank these bargaining units for making a proposal on retirement reform and to try and find solution for what is a very, very complex issue. We want to thank them for the recent meetings we've had to thrern most about their proposal the most recent was late Friday afternoon and there's been recent communication even over the weekend with Mr. Bartel and Mr. Lohman, to understand as much as possible about the proposals that we have received. Briefly we wanted to mention the time line of these negotiations did not start when we received this most recent proposal. With these five bargaining units we actually started negotiations over retirement reform back in June, June 3rd, with IFPTE, June 20th was our first meeting with Police and Fire. And in that time, the city has made three separate proposals on a ballot measure. The initial one and then based on council authorization, revised it on two separate occasions. In addition, the city retiree health care, et cetera. We had a meeting on September 27th with Police and Fire late in the day. They had to cancel that meeting on the following day, the 28th. We did receive

the proposals by e-mail shortly before the press conference announcing that and we just want to show what's happened since then. We had a first meeting with IFPTE, on Friday September 30th where we wanted to begin asking questions about the proposal so that we could understand the proposal. And they had asked us to put the questions in writing. We had a second meeting with IFPTE on Wednesday, October 5th. We did start receiving some initial responses to questions and then our first meeting about the proposal with local 230 and POA and you can see here in the following we've had meetings late last week, October 12th and October 14th, very important meetings for us to begin to understand the proposal. The 12th was primarily focusing on the actuaries discussing and I want to mention the meeting was with Police and Fire but Nancy Ostrowsky with IFPTE did attend the meeting because they share an actuary in terms of estimating the proposal although the proposals are different between them. And as I mentioned most recently late Friday afternoon with Police and Fire where we had representatives from Cal PERS and their inviting somebody from Cal PERS to come down and answer questions. It was very, very helpful for us to be able to ask the actuary from Cal PERS some questions about the implications and the process to go into Cal PERS which is part of Police and Fire's proposal. Okay I'm going to go through some slides to summarize this proposal. I've done this before for the council you but I'm going to go relatively swift 30 through this benefits because rks difference between the current benefit that the city provides and the proposal that we received. So for the IFPTE bargaining units, AEA, and their proposal maintains status quo not only with the benefit but also with the cost sharing. So employees wouldn't pay any more, less, currently now the city pays 100% of the in funded pension liability and what we call the normal cost is split on a ratio of 8 to 3. All of that in their proposal is -- proposed to remain as status quo. Now, moving into the opt-in. Now the opt-in you can refer to it as voluntary election program which the city has called it or ballot measure or opt-in, either way. It means is a lower level of benefits or lower cost level of benefits that an employee on their own would decide to opt-in to. The idea is the employee would make a decision whether or not to opt-in to a lower level of benefits. individual decision that would have to be a document, a legal document signed by both the member of the retirement system and their spouse or domestic partner. So here the changes for the opt-in program you'll see here how you can compare from the current benefit to the opt-in. You'll see here instead of two and a half years of service it's two. I won't go down each one but you can see where it changes from the current. We did highlight the cost. The cost stays status quo. If somebody opts into the lower benefit the benefit is somewhat -- was lower but the cost split would be the same. So the normal cost would be 8 to 3 split and the city would continue to pay 100% of the pension unfunded liability. They are proposing to eliminate SRBR as I noted below. Now for new proposals they have 2 and a half percent per year to 2%. Age 60 versus 55, et cetera, highest three months. I won't go through each column. There is a change in the cost-sharing that rather than the 8 to 3 split the normal cost is 50-50. And again for anybody who hasn't heard us describe the normal cost, the normal cost is the cost of the benefit for every year going forward, it is a forward-cost whereas the unfunded liability is a backwards looking cost. The normal cost would be split 50-50, the unfunded liability would continue to be paid 100% by the city on the pension side. Now moving to the Police and Fire proposal, I did want to mention here, in the proposal itself, that Police and Fire had made, police has made an additional proposal more than the retirement reform that's related to the 10% reduction in total compensation that they took last year as the city council knows we could not reach an agreement to make it ongoing and so we are headed towards binding arbitration on that issue as to whether that 10% should continue after June 30th, or whether or not the status quo would be reverted back, meaning the 10% back and then enter negotiations about what it would be in 2012. As part of their the city accepts the retirement reform proposal. The POA is indicating that they would make the 10% ongoing as part of the overall agreement. So going to the current employees, you can see here, the currently benefit and one thing I want to highlight is the current benefit for the POA is different than the San José firefighters. They both end up with 90% of someone's salary after 30 years of service but they get to it differently. And so we tried to summarize it in one chart where you see the accrual rate for POA is anywhere from 2.5 to 4 and for the firefighters union anywhere from 2 to 3. It depends on with when you retire but at 30 years it's the same. The proposal is status quo on everything including cost sharing for kindergartener employees and an agreement to continue negotiation on the SRBR or 13th check. Now in the opt-in program for new employees, this is where there's a very significant difference between the. Different the police officer and the firefighters have proposed that instead of opting out of our current plan and opting into a different level of benefit within the City's pension plan they are proposing that individual police officers and firefighters would be able to opt out of the City's pension plan altogether and into the Cal PERS system which is the state retirement system. And one of the key points that I wanted to mention is that the PERS formulas that they have are very different than the city formula. The City's formulas are very service based. What I mean by that is, you get a better benefit the more years of service you have. As long as you -- you're qualified by age then you get, if you have 20 years of service you're going to get more than if you have 25, et cetera. The PERS formulas are what are called age based formulas. The benefit depends on the years of service you have but also on the basis of age. We're going to have a couple of slides later on to show you that difference. So the Police and Fire proposal is that current employees would be able to opt out into the City's retirement program and opt into the 3% at 55 formula. The first formulas has shorthand versions but really to understand it they have charts that you can look up. Age across and how many years of service and see how much you can get. That's automobile available online. But the 3% at 55 how much an employee gets for every year of service depends on their age. You see there we indicate anywhere from 2.4% to 3% depending on the age. PERS also you're able to retire with a lot less years of service than in our plan. For Police and Firefighters whereas in the PERS plan you can retire with five years of service once you reach 50. That's also a significant difference between the two plans. Then you'll see here that they're proposing to have a highest 36 months final average salary. The cola would still be 3% but would be capped at the CPI. Unlike the City's currently is 3% fixed annually. When we get to cost sharing this is also something that's significantly different than in PERS plans. In similar to the what the city gets. But on the member side it's stated by statute that it's either 7% for what they refer to as miscellaneous, we don't refer to it as miscellaneous but anybody who's not sworn, the city pays 6%, that's id fixed normal cost for example so it's very different. It's either 7 or 9. And there are certain situations in which an employee can pay more. The bargaining units have proposed to pay the 9 but also an additional 1 which would be 10. So that would be the maximum. One of the things however we understand is it may not be possible to pay for having employees pay directly for that other 1 because of the way their statute is written. We get into more detail. There may be potentially other ways the employees could pay that additional 1% but there may be difficulty paying it to PERS directly. That's another important difference of how PERS handles their benefits. Now moving to new employees again the column on the current benefit is the same and on the local 230 side it's a 2% at 50 formula. So again it's a less expensive benefit than the 3% at 55. So rather than being able to get a maximum of 3% for every year of service it goes from 2 to 2.7, depending on the age you get an age based formula and the things below are essentially the same. That would be for new employees. So for every new policeman and firefighter hired, they would all go into PERS. So essentially by having this plus the opt out plan police and Fire retirement plan are those current employees who choose not to opt out and into PERS and all current retirees. And so that's just one difference between not only the IFPTE proposal but also the City's proposal on an opt-in is within the City's current pension plans. Now, I know this is a lot of numbers and we've struggled how to show it. This is trying to show you the difference between the current police formula and the PERS formula for the opt-in program. Because it's age based, it's going to be different at age 50, 51, 52, 53, 54, 55. This is only showing 50 and 55. I can start with the first two columns. Because of a service retirement you can't retire at 50 unless you have 25 years of service. You can see where we don't start until 25. And you'll see it's 70%. It goes up 4% per year under the current police formula up to 90. If you go to Cal PERS you can see you can retire early, can you do this all the way back to five years of service. So 19, 20, 21, 22, 23, 24, an employee would be able to retire there, whereas if they are current employees retiring from current active service here they wouldn't be entitled to. The reddish shaded area shows the formula would be less for these employees 30 years of service 90% under our current plan 72% of the 3% at 55. But it's a very big difference if you move over to the right. So if you move over to the right at age 55 you'll see that the column for the current benefits is the same as age 50, but you can retire with only 20 years of service. So you'll start seeing at 20 years of service you get all the way down the row. Now compared to the right, in every situation it is a better benefit at age 55 at the 3% at 55 for police officers and current. So it really depends on who opts in and whether their benefit might potentially be better under the PERS formula than under the current formula. Since fire has a different formula you have a different result. And when you compare the current to the other benefit. So the current fire formula again at age 50 you have to have 20 years of service, that's why you have the not applicable. PERS at age 55 you see you can be able to retire and at age 25 the benefit is less as it was a little differently but as it was on the police side. On the 50 -- age 55, since under our current fire formula you get 3% for every year once you hit 20 years of service it essentially is the same benefit tall way down the row. So there is really no difference between the benefit if you're a firefighter at 55 and opt into the new benefit. So we hope these couple of slides show you the difference between these, it's somewhat complicated based on the fact that PERS uses an age-based formula. Now, this slide is showing you just a comparison of normal cost. Now, remember what I indicated before is that normal cost is the estimated cost for every year of service going forward. It is not the amortized cost for opportune funded liability. These are just using on the left side our current normal cost based on the current actuarial assumptions that the board uses. And it shows you the current normal cost of the benefit. You'll see police 37.58, fire 38.74. And IFPTE and actually all the Federated employees at 17.44. The numbers on our right are not our estimates, they are the estimates that the provided us. Just so you can get a comparison point. The numbers you see in the first couple of rows for Police and Fire these would be going into the PERS formula. You can see it's still in the 30s and this is not factoring in the cost of the unfunded liability. Een for new employees you're in the 29% range and now these are not costs that have been developed by Cal PERS for us, for San José, but they are typical of what other plans may be paying in normal cost that are using these benefit formulas. And you'll see down below the IFPTE proposal is within our current plan and these are the estimates that they provided. So we have not modified the numbers at all from what they've given us but at least it might give you a sense of comparison. Now in terms of analyzing where savings come from, we have discussed this extensively with the council of where do the savings come from? Where are the categories that you can receive savings from retirement reform? One is new employees. And as we've talked about a lot, having less expensive benefits for new hires is a very important step, but a long range step. In that if you have a new tier for new employees you save nothing until you hire that first employee and then it's small. And this is something I think looking at the bargaining unit's numbers, we agree that it is very modest savings at the beginning and it is a very long range savings. We put tier 3 below, so we don't confuse. These five bargaining units have referred to the new hire references they have used which is tier 3 for new employees. So the question is, is there any other savings possible in other are areas. So we talked about current employees, referred to as tier 1. Clearly, we've discussed quite a bit extensively of what changes can or can't happen with current employees. But one example would be under the current City's proposal having current employees pay more. So have them pay more for the benefit itself is one way to achieve savings under a freer 1 or current employees then you have an opt in program which has been proposed by the city which they're referring to as tier 2 one of these discussions extensively in the past is wanting to ensure that whatever plan we have that provides employees an option, that the contributions that employees put in are pretax. And that has to ensure that the IRS maintains those plans as tax qualified. That's an interest that we all share to make sure that when we create something that it still is able to be -- have employees pay with pretax dollars. So we wanted to set this foundation in terms of where the savings might come from, as we talk about the proposals from -- that we've received from the bargaining units. So this slide is another one, apologize in advance for the numbers. But what we wanted to provide you is the numbers that have been provided to us by the bargaining units. These are not modified in any way by our actuary or anyone else. This is a breakdown of the savings that we got and we understand is a lot of numbers here but we at least wanted to let the city council know where they indicate the savings come from in their proposals. So this is the IFPTE proposal. Before I try explain this chart I want to make a couple of very, very important points about the proposal that I think we included in information memo. IFPTE local 21 represents three bargaining units that are part of our Federated city employees retirement system. Their proposal and their estimated savings is assuming that it covers all employees in Federated. Not just the three bargaining units here. And they make up, these three bargaining units, approximately 16%, 1-6, 16% of the employees in the Federated city employees retirement system. I also want to mention that their opt-in proposals, I'll get to this in a minute, not only does it include all of Federated but the savings assumes that 100% of the employees opt in. So they'll have a 0% opt in but the savings that you've seen that total $467 million that assumes 100% participation by every city employee, even when other city bargaining units would opt in to this opt-in proposal. In walking into where they say their savings comes from, I'd like to focus on the last column on the right, rather than going through every one which is the fiscal year 16 column. You go down to the very bottom, that row is total savings number 7 and at the right it's estimating that their proposal would save $42.2 million in fiscal year 16. We just wanted to walk you through where that $42 million comes from. I'm going to go up from the bottom. If you go to 6, tier 2 savings, that is $19 million. That is a savings they estimate based on the opt-in program and 100% of participation of all employees in Federated would save $19 million in fiscal year 16. Moving up on row 5, it is the tier 3 savings, that is the new hires. So you see it's a modest amount 4.5. As I indicated, we all agree that the savings is modest. So that you'll see there, that there -- how do you get the rest of the savings? There's no changes for current employees and you have the other changes. It actually comes from row number 2 which is what they're referring to as known gains. And that is $20.7 million. If you added the 20.7 with the savings from the tier 3 and the tier 6 you'd get the 44. We wanted to mention the known gains what they've indicated that is. One of the good things in the last fiscal year, is that pension plans have done pretty well including ours in terms of a return. And whenever the plan earns more than had been anticipated, that's considered a positive experience. And so they are counting the savings from that positive experience here. In addition, another positive experience is the fact, and people may not -- current employees may not see this as a positive experience, which is the 10% total compensation reduction. What I mean as positive experience on the actuarial side, is because actuaries assume that pay will grow. So they've identified those two things as gains, as positive experience and counted them as part of the proposal. In terms of the savings. So that's how they get to the $44.2 million. As the council knows, we really don't know yet how, in the end, what our contribution rate will be because there very well is going to be and we're going to discuss a little bit later, experience that negative experience, or worse than what the assumption predicted. And so this is where the known gains are and how they are actually taking sort of credit for it in the overall total savings. One very, very recent information that we wanted to make sure the council is aware is on Friday on the Department of Retirement services Website they have posted a preliminary actuarial report that is available online that actually is for a presentation that Cheiron will be making to the Federated board this coming Thursday. But it is very, very new information for Federated and we wanted to just give you just a few summary points of what we take from that report, clearly subject to discussion by the board, is they're currently at a 7.95% discount rate moving to 7.75 next fiscal year. Cheiron is actually recommending 7.25. They give a range anywhere from 6.75 to 7.75. They are recommending 7.25. There are demographic changes employees leaving the city, reduced refund rates, mortality, et cetera. And although the rates still have not been set, if the board adopts the recommended changes for 12-13 that Cheiron is recommending it will increase what previously the city had anticipated for Federated. We had previously anticipated 90 million, it could be as high as 111, that is really dependent on the issues and the decisions the board has to make. Now, similar to the slide we showed a couple of slides ago, this is information that's for the Police and Fire proposal. It's structured a little bit differently than the other proposal so again I want to walk you through that. We have not changed any of these numbers. Even the asterisk and the writing below is not our writing. We just wanted to present to you what we've been presented. And so we wanted to start with the numbers at the bottom there, and let's again similarly use the fiscal year 16 at $76.16 million. Again I'd I'd like to look where this comes from year 3 that for new hires, you can see it's a modest amount, 2.1, again we all agree that the savings for new hires are modest depending on how many employees we hire. If tier 2 savings you see the 16.9 that's what they estimate would be savings there, that would be for employees that opt out of our system and into PERS. And unlike the IFPTE which are assuming 100% of employees would opt in, Police and Fire estimating two-thirds, that two-thirds of current police officers and firefighters would opt into that plan. They have indicated to us that they actually believe it will be higher than two-thirds but they are estimating 16.9 million savings. You can see if you add up 16.9 and 2.1 there's a lot left to get to the 76.8. So the two areas where they make up the savings in their proposal, the row number 4 which is the savings from known gains which are the same two that I mentioned in IFPTE which is the positive returns that the Police and Fire department retirement plan has experienced last year and the 10% reduction in total compensation, they think that will translate into a savings of $48.6 million. But they also have back on the bottom a row called miscellaneous savings and they are putting 9.2 million from our understanding of it at this point subject to further discussion that most of this is from resetting the amortization schedule when going to PERS. And that's primarily our understanding but again subject to further clarification and discussion. You'll see in the footnote, they talk about a fresh start down below. So as I had mentioned earlier, we had very, very helpful information to Cal PERS to start to understand what it would take if the city were to want to explore going to Cal PERS. Essentially, from the representatives from Cal PERS said he believed it would take a minimum of nine months to go through that process. And that sort of in line with what we've heard. We knew that Orange County went through a much lengthier process but he indicated he thinks it's a nine-month process. What we're going to go through on the next two slides is the steps that the Cal PERS representative told us would be required. One is Cal PERS would develop a team to meet with the city to start talking about this in more detail. He indicated he would need more people from the actuarial team the legal team the contract team to then begin meeting with us to discuss this further. He indicated they would probably not be able to begin these with us for the next couple of weeks and we would begin more in depth discussions. Then the demographic data, all the members of Police and Fire retirement plan, their years of service, all that, what a actuary would need. 3 to adopts a oosms 66% the right number? What about the deem grafntion of that group do we believe would move in? He thinks they could get it done as early as three months but he couldn't guarantee it but somewhere between three or four months where they would do evaluation. They would then provide us in step 5 the contribution rates they believe would be in effect for the proposal, and then 6 and probably most complex would have to be an agreement on a transfer of assets between the Police and Fire board and Cal PERS, because you would have current employees estimated to be two-thirds leaving our pension plan and going to Cal PERS and one very important part to point out about the proposal. If a police officer or firefighter decides to opt out into Cal PERS and let's say they have 20 years of service, under the proposal they don't leave their 20 years of service here, they begin Cal PERS already with 20 years of prior service credit. So clearly that creates a liability on the Cal PERS side, so there has to be some discussion of how much initial funds they would want by taking on that liability at the beginning. So there clearly would have to be much collaboration with the Police and Fire board about how that would all work and how much they would actually require on the PERS side. Number 7 we would have to execute a contract with Cal PERS and 8, there would be a transfer of assets need to be they rarely take assets in kind. In other words if the Police and Fire plan they own assets they very rarely take assets in kind. They normally want cash although they didn't foreclose the possibility given the size of the transaction that would take place, of discussing in-kind transfer of assets. Number 9, you have an opt in period. There is some question as to when that opt in period would occur. He intailgted that the opt-in period would is nir anywhere from 30 to 60 days oop and he also indicated that after everyone actually opts in that they would perform another valuation and they could later adjust the rates based on who the demographics or the numbers of people who actually opted in. And again this is just a very quick summary of the steps that we learned on Friday afternoon of what weed have to go through to pursue this idea further with Cal PERS. And I know it's been a long presentation. I'm getting close to the end. We know one of the very confusing things is when you have various people do cost estimates and they're all using different assumptions. At the forefront of our minds we keep in mind that again, as I indicated before actuaries don't determine the cost of the benefits. If you provide a 90% benefit or an 80% benefit and what all the features are that defines the cost. But we wanted to provide the city council with as best as possible an apples to apples comparison of the City's current savings estimate and the savings from the proposals, but we wanted to mention a couple of very key points. This is why the numbers will not be the same as the numbers you saw earlier. Number one is we're using the same assumptions we used for the City's savings and the City's proposal. One of the key situations there is 6.5 assumption. To compare apples to apples we're using 6.75 open both. We're not factoring in this credit for positive experience and resetting amortization period because those things would happen regardless of whether that was contained within this promote or not. More importantly while also factoring in higher than anticipated contribution rates that could result from the actuarial valuations that are occurring now and I wanted to mention this information we provided about Federated we still don't know yet on Police and Fire because Cheiron is in process of producing the actuarial valuation for the board on that side. So with that, here is our close to final slide. On trying to show a -- at least a -- if you can get a sense of the range of the savings between the City's most current -- the City's current proposal and the union proposals. You'll see here on the city side if you look at the last column on total that's the range you've seen before. The 117.2 million and 161 with the range completely dependent upon the amount of employees, percentage and demographics of the employees who opt in. That's why there's this range, minimum 117 with a maximum of 161. On the union side if we take them one by one we haven't estimated a cost of new employees but clearly we do agree that there would be a small cost. They've indicated 2.9 so you can see it's a small cost savings initially and we're doing by the way single-year as opposed to adding them all up and that's one important piece. For current employees and retirees there's no savings in the union proposals. From the opt-in program you'll see that we have the minimum of 54.9 to 99. Why do we have a minimum there? Not because we have any certainty about the opt-in savings but to the extent somebody does a opt-in they pay more contributions. If we complete on the opt-in side it could be zero. We're not saying anywhere from zero to the 100% participation, we estimated it to be anywhere from zero to 44 million. Again these are subject to change as we learn more information. On the SRBR we're counting savings where we're not there because we don't have necessarily agreement to eliminate it and then you've got retiree health care a small savings. We think though that despite -- no matter how you look at it, the savings are significantly less, there are savings there and the savings categories in the union's proposal are primary from our perspectives in the opt in plan that's where most of the savings that we have identified in their proposal. So with that, the next steps are, continue negotiation per council direction. Thank you.

>> Mayor Reed: Thank you, Alex. You put together a lot of information in a very short period of time. We appreciate that, and we will now take some public comments. I'm willing to allow each of the bargaining units who has proposals to take five minutes however they wish and however other public comments after that as well. And we'll bring it back for council questions and I'm guessing there will probably be a question or two. To begin with Robert Sapien wanted to go first and Robert if that's you or actuary or lawyer or whatever, you know however you want to use it. Go ahead. And then we still of course have the potential for public comment.

>> Good afternoon, mayor, council, and staff, my name is Robert Sapien. I'm the president of San José firefighters local 230. I stand before you today with Kay Denise McKenzie who is the president of the city association of management personnel, John Mucar, Dale dap K association of maintenance supervisory personnel and George Beatty. recommended a study session for the purpose of providing the city council with analysis of the pension reform proposal received from the five city bargaining units. The meeting purpose was to clarify understanding of staff and bargain units of fiscal implication of reform proposals. We understand that today's meeting is not intended to be a negotiating session and should be solution-based and not overly positional. In recognition of the narrowing time line for negotiations, the union's leadership determined that it was best in everyone's best interest to maximize the benefit of today's meeting. To that end, Mr. Tom Lohman from bottleon partners is here from baltimore and is the actuary for local 230 and local 21. Mr. David hillco is here from Chicago and is the actuary for the plfers association. Mr. Platten legal council for greed Adam counsel to the POA is also here to clarify any aspect of our proposals and all of here from an actuarial and a legal perspective. With these experts available, it is our hope that this meeting provides the opportunity to leave no questions unanswered on this critically important topic. In an effort to move expeditiously we will identify who can best annals questions as they arise and we will identify where clarification will be offered by holding up a small placard to request opportunity to clarify on a particular topic. Today

should be seeking the facts and coming together for the betterment of our city and we are committed on our side to do just that. At the chair's discretion Mr. Tom Lohman is prepared to spend five minutes on each of the proposals and of course be available for questions when those ten minutes are up. Thank you very much.

>> Mayor Reed: Mr. Lohman.

>> Thank you. Again my name is Tom Lohman, I'm an actuary. Sort of get to it police and Fire proposal that's okay and because I only have a few minutes I'm going to skip a lot of details. Basically I calculated those savings, those savings are real. I think that certainly happy to work with Mr. Bartel to again refine them and go over some details. I could make a lot of comments again about the presentation that was just made but I think I'll just focus on one and that is that some of the what we call known gains were stated that they were only -- they're going to happen anyway therefore he sort of doesn't want to count them. That's not necessarily true. One of the big numbers is the 10% pay cut in the case of police. Well again what the police have offered is they will keep that 10% permanent if these other changes keep too.

>> Mayor Reed: I will interrupt you there, has that offer been made at the bargaining table?

>> Alex Gurza: Initially we had heard that it had been made publicly and we had asked the POA to put it in writing which they have now done.

>> Mayor Reed: Okay.

>> Understand. Because of time I'm going to list some of the things that I think is are the key points of what they are one is thousand savings were derived, again Mr. Bartel around I will deal with that in some detail. There are some unrecognized savings which we have been talking about as well. They include the sick leave in converting that to credit harders number to come at there's no reason for me to throw out a number and thus argue about it, that is an unknown OPEB changes, that are up on the slides as well, again I would like to work with Mr. Bartel and see if we can agree what those savings are. That is an item we can talk about if you have questions. We can talk

about savings year by year, you've seen the chart about that. We talked about impact of closing the San José plan, that's been talked about before. Wasn't talked about today. The issue of asset splits between the San José plan and Cal PERS which is mostly an issue for others. I'm trying to work it out so if the choice of asset split doesn't affect the city, but is of certainly some interest and work to be done. The issue of the viability of Cal PERS, people have raised that issue and how you're going into what we call an agency multiple employer plan where you have your own assets and liabilities which is different than the plan that the city council members are in which is a cost-sharing plan so we could talk about that as well. The issue of the costing around the transfer process, I think he did a pretty good job explaining that and basically the point there is we really want to sort of move this ahead to the next step which is ask you Cal PERS for savings for tier 2 and tier 3 bit they're the final say in all that. So we would like to get that process started, please. Because every time we delay if we're going to do that, it's going to be that longer to get into Cal PERS and the Cal PERS savings start when you get into Cal PERS which is possible this could happen July 1 of next year, if it goes to August, two months of savings lost and so on. So those are all sort of the topics that I have. I didn't use up my whole five minutes or three minutes I had left but again, I've done the calculations, I'm here to answer questions, we look at these as savings being real. We've got some things we left off the plate we've got to talk to Mr. Bartel about, talk about what they are and assumption changes and things like that, okay.

>> Mayor Reed: I'm sure there will be questions but I want to get tall public testimony done before we get into questions. Thank you for your presentation. We also had a proposal from ALP. I don't know if anybody from ALP is here and wants to speak. Nope. All right. I think that is sort of the opening from the bargaining units that have proposals on the table. I've got other names of people that wanted to speak. Might as welcome on down if you want to speak. I'd just like to get all the public testimony dodge before we get into council questions.

>> I'm going to speak on the Federated plan local 21's proposal, if that's okay.

>> Mayor Reed: That would be next.

>> Basically sort of the same concepts here. I did these calculation savings, I believe they are real savings. As Alex said part of the savings because there were pay cuts that were granted, we're not talking about the direct savings from payroll savings, talking about the pension impact so the members gave this up which is not a good thing like Alex said but it does have a positive effect on the pension plan. This is not as he said not a go to Cal PERS option, simply a new tier in the existing plan. There are tier 2 savings. There are tier 3 savings for people who voluntarily go in and don't go in. What we're looking for here is sort of a different request. For the Police and Fire we want you to sort of move this along to the next step which is ask quail PERS to cost it out. Here what we're asking for as I understand it is the proposal was made by local 21 to look at this proposal for a new future service benefit, a new tier under the San José Federated plan. And my understanding is, the city has sort of said no to that so we want to reopen that and have it seriously considered so we can move into the next phase of negotiations which is okay, 100% assumption. We have done this at 100% assumption, cost at 0% opt in rate. We need to talk about how to get that opt-in rate up. What incentive is offered to that. That is negotiation process I can't get into that today as I understand. We want to move that ahead. We don't have a lot of Cal PERS issues. Sort of here to answer questions and again these savings are real. You can get these savings if we can agree to an agreement here. Not here but --

>> Mayor Reed:   Thank you we'll come back for questions. Others that have cards in Chris platten, Steve Wilson, David Wall now is the time to speak if you want to come down and maybe there are people who haven't put in cards as well. We're going into the two-minute rounds here.

>> Thank you, Mr. Mayor, members of council, Christopher platten, I'm here to answer questions if the council has questions, that's all.

>> Mayor Reed:   Okay, Steve Wilson and David Wall.

>> Good afternoon, Mayor Reed councilmembers. Actually, what I wanted to say, today really isn't on point with labor negotiations. So I don't know if you want me to continue to speak.

>> Mayor Reed: Well, we're here on a specific topic. We're going to have an open forum at the end of this meeting in which you can talk about other matters. If you're not here to talk about labor negotiations it's not the right time.

>> Okay. Thank you.

>> Mayor Reed: David Wall.

>> David Wall: I'm concerned with these proceedings for a couple of major issues. One, is going against what you've bargained for, you being councils and decades of councils and mayors have bargained for with working people who have allocated their entire working lives for this city and as a direction add predominant cause of these decisions up to even this year with the example of Councilmember Campos and Councilmember Rocha who are just new to this group. This is not acceptable and I believe the public is being grossly misled as far as why you haven't met your unfunded liabilities. I also am very taken back, as the costs associated with the people that are off to my left. And a couple of these senior policy advisors from your office, Mr. Mayor. But even more so, the down right evil nature of these ballot statements and the costs of these ballot statements with reference to consultants, legal fees, how people manipulate ballot language to tailor an untruth to the public so the public is not going to know all the intimate details concern what's going on. We've seen the intimate measures of fire department and police department. I'm not sympathetic with these costs and I have to take time and expense to use public record information requests to ferret out these costs. And I also believe that every city employee should get the benefit of their bargain, especially with reference to their sick leave buyout and this includes our City Manager, which six of you gave her the ability to get the 1200 hours needed for the maximum buy-out which she's entitled to every opinion in my opinion. Thank you.

>> Mayor Reed: Okay, those are all the cards I had. Does anybody else want to speak before we get back into council questions? I want to see if City Manager or Alex Gurza had anything they wanted to add before we go to council questions.

>> City Manager Figone: I think we've concluded.

>> Alex Gurza: Yes.

>> Mayor Reed: Okay it was a lot of work to put this together. I know you've worked over the the weekend and still negotiating this morning. When is the next negotiating session?

>> Gina Donnelly: Tomorrow afternoon.

>> Mayor Reed: Okay. I had one question to start with. I've got a copy of a letter from bolton participant dated September 26th to Robert Sapien, president of local 230. I'm curious as to when you received a copy of the letter Alex.

>> Alex Gurza: The letter dated September 26th we received during the bargaining session last Wednesday afternoon October 12th approximately it was in part of the conversation between Mr. Bartel and Mr. Lohman that the bargaining ints provided us with a copy of that.

>> Mayor Reed: Thank you. Councilmember Pyle.

>> Councilmember Pyle: Thank you. Hi a question in reference to a couple of slides. On slide number 40 I don't know if you can find that quickly. In reference to the transfer of assets, could you enunciate a little more on that? I didn't really -- you mentioned the 6.75 assumption.

>> Alex Gurza: Councilmember Pyle two different things. The issue here is that when current employees if they of Police and Fire plan opt-in to Cal PERS they are going to start with all the years they had in San José when they start with Cal PERS. That creates a prior service cost in the Cal PERS system and claps indicates they want currently in the Police and Fire retirement plan and either liquidating them into cash and that would be the money that goes into there.

>> Councilmember Pyle: I wanted to check into that. Could we now go to slide 42 please? In slide 42 we talk about the -- well I'm trying to figure out, it was a total savings if I recall, let me get to my next sheet here, of a minimal amount. Let's see, here we are, zero to 44 million. Is that for one union, for many, is this just for one union?

>> Alex Gurza: It's toll, based on the bargaining unit's proposal which really affects all city employees.

>> Councilmember Pyle: So you're basically saying if I can clarify that there's no more than $44 million in savings with all three proposals?

>> Alex Gurza: In the opt-in program.

>> Councilmember Pyle: Just in the opt-in program?

>> Alex Gurza: On that line of zero to 44, zero would be the low independent, if nobody opted in. Oar if something didn't happen. And 44 is our estimate of the possibilities. Again, we're not using their numbers, we're estimating the savings.

>> Councilmember Pyle: Thank you, and it is annual?

>> Alex Gurza: Yes, that is the important part, Councilmember Pyle, that I mentioned, these are annualized savings. Multiplied by the number of years, but these are annualized savings.

>> Councilmember Pyle: Thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you. I'm in the-d I know on some of the graphs before, of a couple of pages before that where you showed estimated savings and it had for example known gains and what have you. You don't have to move it, you can keep it on page 42 on that slide. But it has -- it shows some of the known gains and other savings and those are all the estimates, those are direct estimates from the bargaining units, correct? On the slides where it shows known gains, it goes from fiscal year 0 to 16?

>> Alex Gurza: Councilmember Kalra the known gains are the estimates I believe the union's actuary developed as to how much the city would save from those two items we mentioned.

>> Councilmember Kalra: But those, the graphs or the charts where we have the list of known gains and all that, those are actually again estimates from the bargaining units themselves?

>> Alex Gurza: Absolutely, those are completely their numbers and their estimates.

>> Councilmember Kalra: So what are the union proposals, so when I look at this chart on 42, it has city proposal, City's estimate of the union proposals. What's the union estimate of their proposals? I mean I could flip back and forth but what's the --

>> Alex Gurza: Yes, if you go back and let's look at Police and Fire and if you look at the tier 2 savings, that's the opt-in savings they're estimating, 16.9. And let's just take the opt-in for a second, if you hold on that you go 16.9 and then you go back to this one and you'd have to look at slide 6, and their tier 2 or opt-in would save 19 million. If you add those two together that's their estimate of what the opt-in program would save.

>> Councilmember Kalra: And you have other estimates --

>> Alex Gurza: You could do the same thing with every line item.

>> Councilmember Kalra: And the known gain which is the differential of the city estimate and the union estimate as to what they're putting forward.

>> Alex Gurza: It is a significant part of the savings especially in Police and Fire if you take a look at the known gains it's a very large amount. 48.6 million from the known gains and the miscellaneous savings is 9.2. So those two items by themselves make up a major of the 76.8 million of savings that they have estimated.

>> Councilmember Kalra: So their proposals, their estimation is around 120 million if you calculate it their way, with the known gains and all that?

>> Alex Gurza: Yes if you take this -- if you wanted to take their estimated numbers in fiscal year 16 you would add up 76.8 and then the other number on the other slide.

>> Councilmember Kalra: Okay.

>> Alex Gurza: And you know that's annualized in fiscal year 16 but it varies depending on what year you look at.

>> Councilmember Kalra: And their argument of known gains is, it is from what I take it, what they're saying is actually happened, in other words, the 10% pay cut is something that's happened. Now why is it that we don't take that into account? Why is it that our -- why wouldn't we adjust accordingly, since that's an ongoing 10% particularly if for example their offer from the POA has a 10% ongoing, why -- and obviously there are ratios for continual pay raise that are adjusted but a 10% all of a sudden down is a pretty significant adjustment down and is a known fact so why would we not factor that in?

>> Alex Gurza: Whether or not it is a known fact, comes from whether the Police and Fire board and the Federated board ooth being bought a deigned benefit plan as you know is made up of actuarial gains and losses. So things that do better than they had planned for and things that do worse. And really in order to know that

that's going to be savings, the city really has to know in the end of the day when factoring in things that did better than expected and things that did worse where is the City's contribution rate.

>> Councilmember Kalra: I understand that, in other words, market losses and market gains you can have assumed numbers, but this is an assumed fact it is a 10% cut in wages.

>> Alex Gurza: Yes but from our look at the Cheiron report it appears that some of the actuarial issues on the other side, more than make up for it. And I don't know if Mr. Bartel if you want to add a little bit to that.

>> Yes, very, very simply when you have a decrease in pay you have other things that are sort of generated for that. So for example, when you look at the number of folks who have retired, during the year, much higher number of retirees during the year than in prior years. Well, if you just look at the salary increase you're not really picking up the other things that might offset that liability. We also have the changes in assumptions that Cheiron is proposing so it just -- it doesn't make any sense to just pick one particular item, and ignore all the other items.

>> Councilmember Kalra: Well, it's not asking them to ignore them but still by bringing up other items, some of which are certain some which are uncertain still doesn't answer as to why it's not an accurate thing to take into account. They're choosing to take into account, you're not but to say that they're choosing to take into account it's not a valid assumption is the question I have especially the counter to it that you just gave has to do with other factors and not the 10%. That's with having people retire and assumption rates, the reality is 10% occurred and it happened and it's a pretty significant event.

>> Well let me also suggest the additional retirements have occurred as well.

>> Councilmember Kalra: Sure.

>> And when you look at the Cheiron valuation we know those numbers. So if you're going to take into account the change in salaries, then I think you should also take into account the other things that you know as well.

>> Councilmember Kalra: Okay. It may be helpful to look at those other things as well but I think if you have other factors you want to bring into account as well that's fine but to say that this is not a known fact, it is a known fact. It doesn't mean that actuarial you always want to take into account, maybe one actuary does one doesn't but there are a number of facts that you said the number of retirements and what have you that also play in, let's bring those numbers in, let's look at all those things too, let's look at everything but to not take that into account doesn't seem to be giving us tall full information.

>> Mayor Reed: City Manager.

>> City Manager Figone: I think Alex and for our purposes slide 42 just selecting one of those factors positive or negative is an incomplete picture so that's why we're not representing it on slide 42.

>> Councilmember Kalra: Okay.

>> Alex Gurza: Clearly we will present more information as we have it. We haven't been able to fully analyze the Cheiron report on Friday. Clearly it looks like other things they know have happened that balance it out so we need to provide you that information as we have it and we don't yet have it for the Police and Fire retirement plan.

>> Councilmember Kalra: Mayor as I asked Mr. Bartel, is it also appropriate to ask Mr. Lohman?

>> Mayor Reed: Yes.

>> Councilmember Kalra: That should be taken into account why is it something you feel competent about having left in there?

>> I think there are multiple answers to it the gains are known therefore they should be taken into account. The one I was up here last was the police officers 10% pay cut because I put into the category of known gains, you could

argue that well the retirement rates are up and that's a known lost perhaps and factor that in but you're not going to get the gain from the police officers salary cut, unless you agree to the pension changes. That was sort of part of the deal. That is a very different sort of situation than some of these others and that's really important. I mean that is part of this package. That what we call a known gain is still contingent upon getting these pension changes. You may still get the losses from the retirement rate changes but you're not going to get this gain unless the package is agreed to. I think that's the first point. The second points though has to do with the selection of a discount rate. I understand that the actuaries made some recommendations. You know one of these slides that was up here was page 34 and he was showing the Federated normal cost of being 17.44%. I think that was at the last year's interest rate of 7.95% I believe. And we did our numbers, that 7.75 to get everybody on the same basis. So we're talking about a big part of this sort of rationale for not using known gains is a desire to lower the interest rate by -- from 7.95 down to what was it 7.25 I think it was. That's a pretty big change. A change that hasn't been adopted by the board of trustees. The plan actuary recommended 7.5, they stayed at 7.75. It is a bit more complicated here part of the actuary's recommendation is to set an assumption the last time I looked that was below what people were calling the 50-50 rate of return. Actually realized more often than not. A lot of the issues I by Mr. Bartel --

>> Mayor Reed: I think we need to stay on the known question. Cp I understand that Mr. Mayor, the 6.75 rate I guess you're answering that, as far as --

>> Right, to tie the two together the point is that there are known gains, and the city would like to not factor them in, because there are other recommended assumption changes because of either past experience in the case of retirement or desire to lower the interest rate. The desire to lower the interest rate really doesn't have to do with past experience as much as a future outlooking different so that's why I'm sort of tying the two together and I think the biggest part that they're trying to use for the asset of known gains to improve the funding of the plan as opposed to sort of count them in our analysis here. The interest rate assumption like I said is you've got some choices about interest rates. You have some ranges to pick from. Cheiron has given a fairly wide range. And one of the things about their selection, their recommendation is that they seem to be wanting to have a rate that happens more often than not. There also is a -- and even if you were at the higher rate the rate as close as 7.5% in case of Federated I think under the Cheiron recommendation, I think it was 7.4 something, that's a higher interest rate, it's a lower cost

and even that rate will be expected to produce actuarial gains. When you sort of do a mean sort of calculation. There's another calculation that will --

>> Mayor Reed: Before you go on. I want to make sure you answered the question. And if there's other questions we'll get to them. But this is not a chance for you to expound on stuff. This is a chance to answer the question.

>> Councilmember Kalra: Thank you. I think you've answered the basic of the issues of assumed rate.

>> Yes.

>> Councilmember Kalra: And I think the main question I had is, people coming back to 6.75% as if that's where we should be.

>> Right. I get a feeling that again the city is trying to take some of our known gains and to make the plan more conservatively funded.

>> Councilmember Kalra: If we have for example we used the recessionary drops and we facial that in and we use -- although we all know that actuary numbers are over a decade's periods or decades but we use the recessionary drops and we change some of our funding schemes and we change our policies based upon this short term event as catastrophic as it was, and I just want to make sure we're using as up to date numbers and accurate number as possible And the 10% pay cut part of the negotiation would be something relevant to that as well. But as far as -- and you -- I don't know if it is you Alex or in the meeting will Cal PERS representative?

>> Yes.

>> Councilmember Kalra: And who was it the actuary from Cal PERS who was there?

>> It was Allen milken their chief actuary.

>> The moving into Cal PERS and the issue of having to liquidate the funds, does that cause greater liability to either the fund or the city and if so, how -- I mean I'm sure thption on occasion when people come in and out of Cal PERS how do they do it in such a matter that provides security to callet PERS and to municipalities?

>> What I heard from the actuary at Cal PERS a little different than what Alex said that generally most of the transfers that occur at Cal PERS are liquidate their assets. We're talking about a transfer here of four or $$5 million, with that size in kind mining take stocks from one to the other or bonds from one to the other. The cost issue there is sort of an administrative cost issue, a liquidation cost issue that we could avoid a few million of expenses to liquidate to give it to Cal PERS to reinvest in the market. What I heard from Allen publicken, he is not the investment person at Cal PERS he is their actuary. But for a plan of this size they would generally take assets in kind and not have to liquidate' and have the overhead to liquidate.

>> Councilmember Kalra: I don't know if you're the person to ask Chris, if you could ask 50 years at Cal PERS does that caw a further risk as far as the cost on our side or risk in terms of having someone vest so quickly as currently the amount of years for a person to vest in terms of retirement.

>> In the case of the Police and Fire policeman most of your employees in the Police and Fire plan are not hired in their 50s, most of them are hired in their 20s so the issue of having people retire and most of the employees stay, most are vested anyway, having a five or ten year vesting issue for retirement is not a big deal here. Most will have 20 years by the time they hit retirement age.

>> Councilmember Kalra: And then the final couple of questions, I don't know if it is appropriate for you, Mr. Platten or another representative, has to do with one, the sick leave disability changes as part of the public safety offers and kind of what that emails as well as any legal IRS or legal issues, I don't know if that, Mr. Lohman you are an actuary if that's appropriate for you or if Mr. Platten wants to answer these questions, one has to do, I don't know if I saw a representation of what the savings may be from a sick leave querns program or what the plafn offers

under radio sick leave conversion. Characterization, and accurate description of what's being put forward by Police and Fire.

>> Well the sick leave first of all again the actuary for the POA has put an estimate of about $8 million per year on the savings due to threamg payout of sick leave and converting to pension credit. It is not a number we had in our slides because really it's one I want to talk to Mr. Bartel about to sort of avoid the issue we have here. I'm always afraid of what's going to happen these known gains, the city is going to want to use toful more difficult number to come up with. It probably is a big number. Is it $8 million per year, I don't know. But instead of having a dispute over i'd like to work with Mr. Bartel and see if we can come up with --

>> Councilmember Kalra: That is a more appropriate please you can come back to us later after our bargaining team has had a chance to work with your bargaining units as well and that's an actuarial discussion and that's fine. But do I have the final question has to be more legally both the IRS, both on the IRS side as far as the PERS whether that will cause a delay or disallow us from practically being able to go forward with that any time soon and then I have a final legal question as well.

>> Thank you, Mr. Councilmember. There is no IRS issue that we have discerned with respect to transferring over to Cal PERS. This has been done and has been done I've negotiated it with other jurisdiction within the state, most recent the city of Oakland when we removed the remaining actives from the Police and Fire retirement system which was closed in 1976 into Cal PERS in 2000 and 2001. We also took a look at it in stoifnt San Francisco a couple of years ag but we have gone through the process long enough to get there. You didn't ask so I won't address it but if I were to be asked I would contrast that with what the city position is and issues with IRS qualification there.

>> Councilmember Kalra: You're referring to -- no you're not -- you're referring to what the city proposal is?

>> Yes.

>> Councilmember Kalra: What do you find as a part of the problem there?

>> Part of the city complex issues which take time to work through as we read the city proposal right now, and I don't have it in front of me by memory I think it's section 7A or sevenY talking about the new capped at 50%, normal cost at 9, capped at 50% with respect to unfunded liability. That effectively changes the plan from a defined benefit plan to a defined contribution plan. You know you're either fish or foul. Once it's changed to defined contribution plan you run into the same problems that Orange County has, when they are moving from a defined benefit plan to defined contribution plan, that's an IRS issue whether or not it can be done, it may disqualify the plan because pretaxed contributions, so those issues I think are raised by the city proem, not by the proposal to transfer.

>> Councilmember Kalra: I guess I'll follow up with our City Attorney on that one. But then the last one and this has to do Alex you referred to the opt-in program and Chris I may have a I.Q. question on this, but the opt-in program that even if no one opts in they still have to pay 54.9 million. Again that coupled with some of the other elements that we're trying to put in place here now keeping in mind that even some of the things that the bargaining units are putting forward may have some legal risk, some of them may have to go to the ballot we're not certain although we should be certain about is that going together collectively to the ballot is more safe than the legal risk as likely the passing of one versus the other, and particularly the legal risk is what I'm concerned about and have mentioned on many occasions both in the capping of the cola as well as current employees as well as those who have vested and the nature of this forced opt-in program and the legal risk of that. So I've expressed it and I know we've talked at least behind closed doors about different legal risks of everything we're trying to do here positive or negative but Chris I wanted to ask you from the bargaining unit's perspective of the legal risk of the city plan and if at ail or how in any way what the bargaining units are putting forward reduces that legal risk?

>> We believe that the proposals put forward by the bargain units are number one legal, number two we don't believe necessarily but we're willing to be persuaded this they don't require a charter amendment. If the parties gray that there is a charter amendment we think it's far more beneficial to the citizens of this agreement based upon an agreement that's mutually breached. On the other side of the fable we think there are large provisions within the

City's proposal which is per se illegal. I will just note Mr. Bartel and I were both participatory in a Northern California issue with respect to what can be done about the pensions in the state of California the public sector. And with respect to current actives and retirees the state treasurer put tonight one word:  Nothing. Those are promises which are legally enforceable. So we've got to take a look at cost savings that come through, ways to incentivize folk to opt-in into other plans which allows them to waive what would be their vested rights and create the kinds of savings that we want to get that is what the union's proposals do.

>> Councilmember Kalra:   Thank you, and Alex thank you for putting a tremendous amount of time into this as well as the bargaining units and the actuaries. I may have a lot of further questions but I imagine my colleagues will v ask a lot of questions that will answer my others. Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera:   Thank you mayor. I'm glad we got a copy of it and I appreciate today the opportunity to have this discussion. I think it's really important. I had a couple of questions and probably will have more later but first of all, just to start out. In terms of the proposal, to move over to Cal PERS. We would have employees moving over and then we would have a lot of employees left in the current plan. What would be the likely impact on our -- on the people that are left in the plan that's left behind?

>> Alex Gurza:   Councilmember Herrera that's one of the many questions that we have. According to Police and Fire they're estimating as they indicated earlier that two-thirds would move if not more and if you think about what would be left, as I indicated it would be left one-third of employees and all retirees and as you know retirees are simply in the process of collecting the benefits, not earning the benefits. And so what we would need to talk to the Police and Fire retirement board is, what would be impact be. For example once you move into more of a payout of benefit, it may cause the retirement board to relook at their investment strategy and all of the above. So those are issues that I think the Police and Fire retirement board would need to tbrap will and then let us know what impacts if any would be on the city side.

>> Councilmember Herrera: I guess would it be sustainable?

>> Leslye Corsiglia: That's one of the questions that we think we need to talk about. We can all sort of estimate what might that one-third who don't opt in be like demographically. Again we don't really know but one might surmise that it might be people closer to retirement that might not opt out. So then you have a system that primarily is closed and simply paying benefits and again there are implications of closing the plan and those are implications that we certainly would want to be able to advise the council of what those are but we think really that conversation would take place primarily with the retirement board and its trustees and going about and analyzing how that would wosht and what impacts there would be.

>> Councilmember Herrera: Do we have examples from other cities where we have closed plans and what their experience has been like?

>> Alex Gurza: Well, I'll let Mr. Bartel answer if he knows about those plans but this is a little bit of a modified closed plan. Because in some cases where you close a plan, again there are many different examples new hires go into something different so you have all of the lifetime of current employees and all current employees. This is where you're taking a big portion of the employees out of the plan and moving over. We definitely know closing a plan has an impact. We actually mention they'd in the City Manager's fiscal reform plan for May. We know that bartel knows of any recent experience.

>> Councilmember Herrera: You're saying it's mostly closed, it's still open for a third of the employees.

>> Alex Gurza: Would go into Cal PERS you're essentially closing the plan but it's going to be open for quite a while because you have the employee that was hired the day before, all of their working lifetime and then all the retirees. Here you're going to be left with a certain segment of the population that chooses to stay and depend I don't know yet, we don't know yet what would really be the implications of that on the current plan.

>> Councilmember Herrera: Depends on who opts in but I'd appreciate the actuary's --

>> There's really a couple that immediately come to mind. Mr. Platten mentioned city of Oakland, Police and Fire retirement system, that system was closed, I'm going to do that a little bit off the top of my head, somewhere around 20 years ago. And most recently, the last active employee just retired. And so that system now is all retirees, there's the Pasadena fire and police retirement system, there is the City of Sacramento system, many of the larger cities around the state had folks who who had moved to Cal PERS. There are significant issues with respect to a plan as it becomes more and more closed. You do night to think about volatility of investment return. You do need to think about cash flow benefit payments relative to assets become a bigger issue than for an open plan. Any of those I think would probably present a reasonable and interesting case study.

>> Alex Gurza: I did want to mention Councilmember Herrera that the IFPTE proposal is not to close the plan because they're not proposing to go Cal PERS they are proposing a plan within our proposal to go to PERS.

>> Councilmember Herrera: And how do we handle the --

>> Mayor Reed: I'm sorry you haven't --

>> Councilmember Herrera: There is an offer to clarify on this issue.

>> Mayor Reed: Who would you like to?

>> Councilmember Herrera: Whoever's holding up the sign and whoever they're sending.

>> Mayor Reed: Mr. Lohman.

>> Mayor Reed: Thank you Nancy.

>> I make a few comments on the fire and police plan that's remaining. The first is to understand when people transfer to Cal PERS there is a smaller fund left behind but people that transfer over the expectation because the later retirement as well as the normal cost. The second thing is to understand the proposal. We were keeping the plan, to he still get both unfunded liabilities paid off over 16 years. Both the plan that's here and the plan that remains. So those, probably the two most important points if not the only important point, not the only point that's raise sewed let me cover a couple others and assume for a second just to make the illustration easy --

>> Mayor Reed: Let me make sure the question gets answered.

>> Councilmember Herrera: Rime I'm trying to understand what the impact of the plan left behind is if that would be sustainable and I'm interested in his answer.

>> The sustainability of the first two parts is unfunded liability goes down in total, including the plan that is left behind, it still gets paid off over 16 years and imagine for ease of illustration the plan left behind is just the retirees, as Mr. Bartel says it will soon get to that point, what you have is the plan is left to the current employees. Like the plan today is not wheub% funded, that plan also will not be 100% funded. Let's assume it's 80% funded. That is really the city's legacy cost for retirees, that there's 20% underfundings. That's why you continue to make payments for the next 16 years to get that unfunded liability is paid off. Part of the city risk in vechg these moneys a siren way. If the city wants kit change the investment profile and put more money in. I think there's another issue, there's plenty of possibilities the city needs to look at. There was a discussion of liquidity concerns. What happens no requirement that it be invested different. There's no requirement that the cost change for that planning that's left behind. If you do are worried about liquidity you should be talking to someone at Cal PERS who could take your assets and actually invest it for you if you could work out a deal with them to Do deal that and Cal PERS has plenty of liquidity so that problem there could be solved I think. So again no cost unfunded liabilities go down it is sort of the City's legacy costs there's different ways of handling, certainly these involve Board of Trustees responsibilities but.

>> Councilmember Herrera: Thank you. I wanted to ask you about we are using in our slides here an interest investment rate of 6.75, right Alex?

>> Alex Gurza: Yes, Councilmember Herrera that was based on discussion and direction by the council several months ago about the city council's risk tolerance. It is separate and apart from what the boards do. How much risk does the city wish to take in estimating the cost of its defined benefits. So you did select a 6.7 five rate, which is independent of necessarily where the boards are and that's how we've estimated the cost/savings of the various proposals.

>> Councilmember Herrera: Refresh my memory the 6.75 was to help us get a 50% chance of actually being able to pay out those benefits based on our investment returns, is that right?

>> Alex Gurza: Yes, according to our Department of Retirement services they have indicated that they believe that's at the point where there's a 50-50 chance but again that really comes down to the risk because the hire the earnings assumption that's made lest say a tier for new hires, right? If the city were to decide to take a higher level of risk you could essentially quote unquote buy a higher level of benefit but if it turned out to be an overrulely optimistic rate of return then the cost would end up being different.

>> Councilmember Herrera: And the difference goes into the unfunded liability?

>> Alex Gurza: Correct but even if you shifted to employees in the future then it would be their liability. To so the city council selected the 6.75 as the rate at which we should estimate the savings.

>> Councilmember Herrera: So that wasn't based on looking at known gains? As has been suggested I mean by the actuary that was talking about --

>> Alex Gurza: No, not at all. There was no connection between our selection of that. It watts really a discussion with the city council on the level of risk you felt comfortable taking.

>> Councilmember Herrera: I remember that discussion.

>> Mayor Reed: Before you go on City Manager.

>> City Manager Figone: Alex wasn't it for the purposes of the changes in the fiscal reform plan, in having a reasonable assurance that the could buy services?

>> Alex Gurza: Exactly it is the risk level taking, if you take a higher level of risk and assume as the City Manager indicated it may not be there because you're estimating too much. What it turns out to be as we know in a defined before plan is known later after you have experience.

>> Councilmember Herrera: We're talking about Cheiron's new investment opportunity towards the end page 37, it looks like if the board adopts those changes we're going to be adding another 21 million in contributions that we haven't anticipated. So that's not on these slides right now in terms of our.

>> Alex Gurza: Yes, that's the potential. The Cheiron presentation has very useful tables, and we'll send this to the council, it's available on the Website. Where they provide a overwhelm chart, depending on what investment return assumption is selected, what wage inflation and what the impact is on contribution rates. So there's a whole variety of sort of options they're presenting to the board. What we've put there on the slide is what would be the impact of the contribution rate be if the board adopted Cheiron's recommendations. Clearly, what ends up occurring is really subject to what the board votes.

>> Councilmember Herrera: So it may just because the Police and Fire is at 7.five. They could go 7.75 and we'd have a different outcome then. What are we basing it on now? Are our numbers based on 7.75? Our estimated contribution is based on -- they currently are at 7.95?

>> In the prior valuation Cheiron also recommended a lower discount rate and the retirement system board said we're going to take that lower discount rate in steps. So the prior valuation is 7.95 but they had a sort of placid direction to go to 7.75 as part of the June 30, 11 valuation Cheiron is now coming back and saying they are recommending 7.25. What they're also saying is their range of reasonable discount rates goes from 6.75 at the low end to 7.75 at the high end, but the 7.25 which is really what the $111 million is based on, is their recommendation.

>> Councilmember Herrera: And what -- currently the city is using 7.95?

>> 7.95 for the current fiscal year but the direction of the board is to go to that 7.75 for the next fiscal year.

>> Councilmember Herrera: But Alex in our budget in looking at 12-13 are we using 7.75? Actually you're using 6.6 the lower --

>> Alex Gurza: The birl the system gives us so when we're projecting forward, for example when the budget office projects forward we're using the information provided 50 Department of Retirement services which is based on the assumption that the board had adopted at the time. So for example, the $430 million chart we didn't project using the 6.75. We used and Cheiron used actually the assumptions that were in effect with the modification of going 7 and 7.75, right? They used 7.75. Again it's the board that determines the assumption that sends the city the bill and that's different than when we're estimating from a bargaining perspective the cost savings that's using a 6.75. So there's two separate decision points.

>> Councilmember Herrera: Thank you for that clarification.

>> Mayor Reed: I have a question before you move on on the Cal PERS part of this. You met with the Cal PERS guy. Is there any discussion about them taking the risk or unfunded liabilities or for future accruals? So that they're the ones who are at risk for the performance of their investments, or their actuarial assumption or the accuracy of whatever they do?

>> Yes, just to be clear, Cal PERS has no source of funds other than contributions. So they determine the assumptions, they set the rates. They determine the discount rate. But if the city joined Cal PERS just like in the City's retirement system, the city would really be on the hook for any unfunded liability.

>> Mayor Reed: So if Cal PERS gets a lower return, not projected but in reality, a lower return than our retirement plans do, we take the hit? If they make a mistake on their assumptions, and get -- just get it wrong, we got to make it up. And if they run out of money, in our plan we're the ones who are going to have to write the check, not somebody else?

>> That's correct.

>> Mayor Reed: Okay, I'm sorry Councilmember Herrera, I thought you were done.

>> Councilmember Herrera: I think they had a clarification of my question.

>> I just have a few things to say about interest rate changes. I have to be careful how I say this because I have a lot of respect for all the actuaries involved in this. few years and they I think believe they had a rate of 7.75% and then they raised it up to 7.95% I think that's what happened now they are recommending to go down to 7.25%. I think there must be reasons for that, I'm not at the board meetings, I don't know what --

>> Councilmember Constant: Mr. Mayor, I'm sorry to interrupt but this gentleman's speculating and that's not what the Cheiron actuary or the Federated board did so I think it would be much better if we just asked questions that are in their specific area, to clarify what they have been presenting. Because a couple of times I've heard this gentleman offer his opinion or assumptions what third parties may have done or may will -- may do in the future and I don't think that's appropriate.

>> Mayor Reed: I agree. So sir, I'm not sure what the question Councilmember Herrera had.

>> Councilmember Herrera: I think that's fine, I tend to agree with that.

>> Mayor Reed: Her questions were about the assumptions Alex was using for costing which had nothing to do about Cheiron or anybody else.

>> Councilmember Herrera: Possibly the city having some other reason why they were lowering the interest rate so that is probably causing the need to respond or the desire to respond. But I think our staff is probably more familiar with why those rates change and I saw some heads shaking no when the -- when that reason was given for why the 7.95 change. So it's probably better that we don't speculate on what the boards did unless we know.

>> Mayor Reed: Okay, Councilmember Constant.

>> Councilmember Constant: Thank you. I just have one question of Russell since he's here. And Russell, can you, as you're walking down, the mayor sort of led up to this but I'll ask the direct question: Can you tell us, in the last four years, Cal PERS and our plans have been in the same investment environment. And offer similar products. Can you tell us approximately the difference in returns we would have seen or not seen if that is the case in just the last four years if we had made a decision four years ago to go to Cal PERS?

>> Russell Crosby: Sure. If four years ago you invested in Cal PERS you would be $356 million short at this point.

>> Councilmember Constant: Thank you. I just wanted to make sure that point was clear because I know people have been looking at Cal PERS as a potential solution. But I recently reviewed a spreadsheet that had been provided by retirement services an analysis of performance of our plans versus Cal PERS and it was exactly as Mr. Crosby said, that we'd have $345 million less to be dealing with in our plans which means we would actually have higher contribution rates. Thank you.

>> Mayor Reed: Councilmember Rocha.

>> Councilmember Rocha: Thank you, mayor. I've been crossing out a lot of my questions as they've been asked. So let me go through my notes. Let's see here. In terms of costing out, I'm trying to make sure that as far as the two different presentations that the understanding of away costing out is consistent, and as far as I guess I'll ask, start here, you're comfortable with that, as far as their proposal and what the costing out has shown?

>> Alex Gurza: I'm sorry from our estimates or theirs?

>> Councilmember Rocha: Uh-huh, yes.

>> Alex Gurza: Would I have to say they were done very quickly, in the very short period of time that we have. Subject to further analysis by our actuary but based on the limited time we have we do think they're adequate estimates.

>> Councilmember Rocha: So we've gone through a couple of proposals on our end and I'm trying to go back through the different proposals we've adopted and positions. Have we don't the normal cost for our proposals, we generally look at cost savings and I'm assuming we have to do some level of what the normal cost would look like in order to calculate that. But can you help me understand, have we done the normal cost for our proposal or the proposed ballot measure? Herrera.

>> Alex Gurza: Well, Councilmember Rocha, the answer is yes, the actuaries have to sort of get to that when they do the savings so for example on a tier for new employees we have developed estimates of the normal cost of that. And also, in an opt-in option that is also an estimate. But when we provide the information here we summarize it as you indicated into the actual savings.

>> Councilmember Rocha: And as far as Mr. Bowman, maybe it's not for you to answer but the bargaining units have made that point they have asked that question and they don't have an answer. And in some cases I've been confused by that statement or maybe I misunderstood the point. So when you did your calculations and compared

the two do you have a good sense of what the proposal from the city side looks like in terms of costed out or the normal cost?

>> It's going to be materially less. When we have a proposal for Police and Fire with later retirement ages and much smaller accrual rates it could be half our normal cost. I haven't been able to sit down and figure out what the normal cost piece is either under the fire and police plan or the Federated plan proposal but it's obviously materially, materially less than both the current normal cost and again I think Ken and John and I are starting to work through this process, validate each others numbers and collect valid data, the City's proposals and the union's proposals.

>> Councilmember Rocha: How long do you think that process is going to take?

>>> It depends on speed of communications and sort of how many constraints we have on us, I think. But you'd think within a week or so we could have a good guess of how our sets of numbers come up. I understand that John's numbers that he is working with didn't start with him, but with another actuary. He himself will have to figure out how these numbers were put together.

>> Councilmember Rocha: So within a week or before that date, we will have a good sense of where people stand on that information.

>> We're starting to exchange information now.

>> Councilmember Rocha: I'm going to probably ask you second, as far as I brought this up a couple of times and asked about what would that benefit look like from our proposal? At the end of the day what is that going to mean to a future employee or current employee when they retire? I'm not sure we've been able to really do that and I understand some of the reasons why but I think the basic assumption that we can make and we can calculate it, and use a clarity, 40% or 60% of their pay, and then add in the colas and all the issues. Have you had a chance to

look at the City's proposal and get a sense of what that benefit's going to look like at the end of the day should that be the direction the council goes?

>> We've just started to do that so I haven't seen the Federated numbers yet, I've seen some of the proposals that the fire union has done so far, different pay levels and part of the issue is, if we're talking about them staying, oh, here's the perfect person to answer it or should I continue?

>> Councilmember Rocha:   Is this just for P and F?

>> This is just for fire, I had a person ask me that very question and she offered me her pay stub September, mid September and she asked me what would happen. Did I my best based upon what my understanding of the City's proposal is, and this was a member who, before the 10% concession was making over $62,000 annually. Based on that person's step or top step firefighter. Now that there's a 10% reduction we're at 55 -- 56,000, according to my understanding of the maximum employee exposure to the 25% of unfunded liability in terms of no opt -- not opting in, this person stays where they're at, doesn't cities opt in plan, stays at I ran into reality a question mark of there's no cap to what the employee might pay. When they opt in. So I didn't know what to tell the member in that case. So we're talking pre10% concession, 62,000 down to 37,000 after.

>> Councilmember Rocha:   And has the -- I'm sorry do you have something to add?

>> Just quickly following up, I'm john tenant council for the POA. I just want to describe when the city describes this as an opt-in this is not this is a Hobson's choice.

>> Mayor Reed:   Rather than arguing the point which you are certainly good at doing is, the Hobson's choice I understand but councilmember had a specific question.

>> I was thinking of the impact on the employee and there is a real impact where they're basically making a choice to opt in to something because they have to bear 50% of the unfunded liability. The dollar amounts I can address yes .

>> Councilmember Rocha: But then the legal side of it, is there any legal risk at approaching it, this opt-in can I.

>> Respective of this council and not sort of go into saber rattling. We all have a common problem to solve. It would be very easy to get up here and begin to criticize the I did want to clarify that this is not really as opposed to the union's proposal which is a true opt-in, we are opting into something based on a voluntary choice to sort of change in the lay of the land the terrain and say you're now going to have obear 50% of the city's unfunded liability, that is not a true voluntary choice, it is a Hobson's choice. It is not a voluntary opt-in. We understand why the city changed the proposal. It gives it more of a feel of a voluntary choice and therefore might emphasize the word might I want to respect this council's time at not go into leg saber rattling but it really is a Hobson's choice.

>> Councilmember Rocha: Thank you. Has the Federated done any kind of analysis of what their benefit or even their pay would look like under this scenario?

>> John Mucar, president of association of engineers and architects, IFPTE local 21. I just got off of calculation, just got on one, with up to maximum of 25% additional retirement contribution to -- for the unfunded liability, the salary drops withhold you know that part of the withholding goes over 50% of the employee's salary. So the employees currently pay out towards retirement of their salaries plus all of the other withholdings that we have, the standard withholdings it goes up to 51%.

>> Councilmember Rocha: Okay, thank you, thank you very much. So I guess from our city staff for me at some point that would be helpful to get that own analysis on our side because I think that would have an effect on whether or not employees opt in or not into whether or not to gauge our estimated savings or forecast what we're going to have in terms of the percent that opt in or not. If an individual is making 50% or even 60% of what their salary is and knowing that we still live in Silicon Valley, whether or not there is a recession, are they going to

continue employment in the City of San José, can they afford to continue employment, really a true measure would be seeing that on paper. If we really at a true point get closer to a decision here, and I brought that up a couple of times. Let me see here. Now the initial proposal, adopted back on June 24th, you had done an analysis on that proposal, the one we've since moved from.

>> I don't recall doing an analysis.

>> Councilmember Rocha: There was an info memo provided an an outside individual came into that meeting, closed session and provided an analysis on that original proposal. I have the info memo here.

>> Oh, are you referring to --

>> Councilmember Rocha: October 7th memo that you signed.

>> Alex Gurza: There was a discussion in closed session but again I defer to the City Attorney about the discussion of that other than was in the info memo --

>> Mayor Reed: Not closed session not that there's a question that can't be answered.

>> Councilmember Rocha: There was a --

>> City Attorney Doyle: Not the closed session discussion.

>> Councilmember Rocha: Who was the individual from the outside that was present?

>> I certainly was current at that meeting.

>> Councilmember Rocha: Okay.

>> But that was actually I think not the question. The question was, whether we did the analysis.

>> Councilmember Rocha: Okay but you spoke on the feasibility of that proposal so you didn't do an analysis.

>> Mayor Reed: Why don't we figure out what your question is so somebody can answer it, I think without regard to who did the analysis back in June or whenever it was that we did that.

>> Councilmember Rocha: Well so if -- I'm trying to understand who did that analysis because if that -- that would then I'd ask the question of did that same person do the analysis of the proposal that we have in front of us from the city side? And have we done that same level of analysis? Of whether or not that proposal is feasible I guess for lack of a better word?

>> Alex Gurza: Councilmember Rocha the hesitation in answering the question as indicated even Mr. Lohman indicated there was proposals initially earlier on we had internal Department of Retirement staff provide some of the proposals and then we transitioned to Mr. Bartel so as I sit here day can't remember exactly the date he transitioned and which one might have been done by him. Any proposal currently he's been look at and getting up to speed on the proposal. So he has been providing us his advice for a couple of months at least but some of the proposals to the extent they haven't changed for example might have been done internally versus some of the more recent ones which he might have done. Without knowing that for certain we have to go back --

>> Just reference to footnote number 1 on page 4 it might help resolve the question of that report. It just say calculate he based on data calculated by Department of Retirement services.

>> Councilmember Rocha: Of what report?

>> Lisa Herrick: Of that report.

>> Councilmember Rocha: Costing out of that proposal versus this one are we having the same actuary do it so thank you, we've kind of got my answer there. Let me see, jump ahead. The difference of opinion on the rate of return confuses me, and forgive me, I feel like I've walked into a movie about halfway in being a new councilmember, I'm continuously having to check up on the new history of how we calculate that. Can you briefly explain to me the difference between their proposal and our proposal or our cost analysis and their proposal and the rate of return how that factors in briefly, we don't have to start from scratch.

>> Alex Gurza: Then in short our understanding is the bargaining units are using a 7.75 assumption and the city is using a 6.75.

>> Councilmember Rocha: 7.75 versus a 6.75?

>> Alex Gurza: Correct however the slides that I showed that are their numbers that we showed those are using their assumptions. It is when we get to this slide that we're trying to get an apples to apples comparison. 7 much 75 it would be very hard to compare so this was essentially trying to do it in an apples to apples way. But when we presented their costing numbers it's simply their numbers that we understand they used as 7.75.

>> Councilmember Rocha: We at one point talked about a 7.25 rate of return analysis now we're not discussing that anymore we're just deciding to go with the 6.75? Lrg as the City Manager indicated, variety of different numbers on there and had a discussion with the council at what level of risk would you like us to take when estimating the cost. And so the 6.75 is the direction we received but I believe at the time we did talk about various numbers and which to use.

>> Councilmember Rocha: Okay so when we adopted the fiscal reform plan at that point we decided to use that as we really look at the retirement reforms or just as an overall city policy that we're going to send forward to the retirement board?

>> Alex Gurza: Couple of thing is, one, I have to look at what council meeting it was, it was estimate the cost of a benefit as we mention it has a huge impact. Using that, so that was specific council direction for our estimates of pricing. And again it bears repeating that what the boards decide to adopt is completely their decision and this is more the internal city decision.

>> Councilmember Rocha: For us, okay, gotcha. I'm assuming these folks have a clarification on maybe the rate of return assumption.

>> Mayor Reed: I'll take that as a question for Mr. Lohman.

>> Supervisor Gage: .

>> Councilmember Rocha: Thank you.

>> Yes just a couple of comments about the rate of return assumption. As for the 2010 both the Federated the fire and police and the Cal PERS. The Federated as I understand your slide showed was at the 7.95 rate and the other at 7.75. When we did our analysis we sort of put everything at 7.75. The first point to make I think I can get everyone to agree to which is the easy one probably, is if you lower the interest rate the cost goes up. The other would be, not just the cost goes up but the savings for tier 2 and tier 3 goes up doing. We're going there for some governance issues, we sort of you know want to be there and sort of independently set the rates just like the board here independently sets the rate. And they do might go down, there was talk last year of going to 7.5. Just as last year there was talk in the plans here to go to 7.5. That would be a fact of life. If rates drop, they dprop. If rates do drop cost goes up but so do the cost savings for tier 2 and tier 3.

>> Councilmember Rocha: Would you say that last part again please?

>> The chart here for savings in tier 2 and tier 3 in the Police and Fire plan there are also savings in the tier 2 and tier 3 in the Federated plan. those savings the dollar amounts of those savings go up lower interest rate because

everything cost more threfer the reduction of benefit is a bigger savings. So we're not here as the Cal PERS actuary talked to us about to try to gain the interest rate. If the rates need to go up they go up. If they need to go down they go down. If the interest rates go up, they go up. As soon as you make the changes the sooner you get those savings . We really don't want to be playing games with interest rates. I do need to note though that again the change that's being proposed in Federated for a one year change is a great big change.

>> Mayor Reed: Let me stop you there. I think you're way beyond answering the question.

>> Councilmember Rocha: Well I'm not sure.

>> Mayor Reed: He is editorialize going the Federated plan.

>> Councilmember Rocha: I might learn something if you don't mind he could finish his thought.

>> Mayor Reed: Okay.

>> Year after year and that's you know I'm concerned that what we call known gains are really a way the city to spend them to lower the rates to become more conservative than they were before that maybe rates should come down. But should they come down by 70 basis points if maybe if I were the city maybe I would argue it should be done last year. But in any case we're taking some known gains to adopt what was more of a conservative point beyond what the market is doing to assumptions.

>> Councilmember Rocha: That's according to our outside counsel potentially I was breaking the law, you had talked about resetting. Could you explain to me that concept because I really don't understand how we can reset unfunded liability.

>> Okay. We are proposing in the -- this is a Police and Fire plan issue only, it's not a Federated plan issue. We are proposing to make two changes in opposite directions. One change was to recognize the asset smoothing method

deferred losses and actually reset to a market value. So for funding purposes the actual value is here the market value is less. Therefore we would put in less money this investment losses in the past. So we recommended that we lower the asset value in the 2011 valuation to match the market value. That would raise the City's cost. We did it partly because the Cal PERS transfer is going to be the market basis. Whether you get assets in kind or you liquidate, you know the earning account what these assets are worth. Having an asset that is higher is going to complicate the calculation. To offset that at least in the first year and outyears, of recognizing this losses good, losses are behind you, you have a nice straight funding line in the future. We said look, we don't want to have a longer amortization period 16 years but you are in layers. In some let's restart that as well. Let's take all your unfunded liabilities in the Police and Fire plan put them in one bucket and amortize it over 16 years. It had my desired effect by doing these two things together. It really didn't change the fiscal 13's contribution in any material way and it made it one less discussion for the assess transfers to Cal PERS. No matter how much assets you transfer to Cal PERS it doesn't materially reflect the proper transfer of asset number is depending once you find out who is moving over, at least this is not one of the things that occurs. Fiscal 17 and beyond this double resetting also is a nonissue but there are some issues for three years, fiscal 14, 15 and 16 where actually by resetting you have a smooth contribution but by not resetting the contribution would have come up and then gone down again. That's in the information that I gave to John explaining that issue.

>> Councilmember Rocha: Okay now I think that's all I have, thank you. I'm not sure I've heard from the City's side or our actuary, the discussion about that concept or maybe it was at some point I was nodding off. But can you give me -- can you give me your sense of what that means to our proposal or how we cost out their proposal? Are we okay with that kind of approach or is that something we're not comfortable doing or is that the norm of the industry? Just help me understand how we view it as well.

>> Let me make sure I understand the nature of the question. If you go to the very last slide Alex where we have the comparison of the numbers 46 or 42. So so I am a -- I'm a fan of the following statement: And that is, whoever is taking the risk, gets to set the assumptions. Because they're on the hook for those assumptions. So the council directed staff to price out the cost of benefit changes using a 6.75 discount rate. And so do we have clients who took that action? The answer is really, no, we don't. Having said that, that action is real recognition of who assumes

the risk. So is -- if your question is, is the comparison you see on slide 42 a reasonable approach, I really think it is. Is it the norm? I will tell you, no, we don't have very many clients who do it that way. That doesn't mean they shouldn't. Just means they don't.

>> Councilmember Rocha: What about the resetting issue for lack of a better term? Are you --

>> To the extent that you have an amortization schedule and an amortization policy, to the extent that you are extending your payment, then you are deferring some interest and deferring some debt, and what you really see here on slight 48, the yellow row there, you're seeing a savings in 14-15-16 because of the extension of that amortization. So would it -- it's no different than an individual restructuring their own debt, would it help short term budget, it could. But it also adds cost later on.

>> Councilmember Rocha: So how are you deferring a debt or a liability, forgive my ignorance --

>> You are not changing your unfunded liability, if you think of this for a second for your home mortgage, if you pay that off over 20 years rather than 20 years, then you pay less in interest, but you pay more in principal sooner. So from a cash flow budget standpoint, you write a bigger check in the short run, but in the long run, you eliminate your debt sooner. And so by eliminating your debt sooner, you pay less in interest, and you help out future budget. So what -- a resetting the amortization period just extends the payment of that debt, and the extension of the debt results in a higher responsibility to a smaller degree a little bit later down the road.

>> Councilmember Rocha: Using the analogy, refinancing your home loan normally you do it to reduce your monthly unless you want to accelerate your payout?

>> Normally what you do it is because of differences in interest rate. So if I've got a 7% home mortgage I'm going to go out and refinance that today because I can get four and a half. That's not what's happening here. The interest rate remains the same. It's the period. So if you went to your mortgage company and they said well, you've got a

5% interest rate. If you reamortize that, we're going to keep your interest rate at 5. To the extent that you reset your amortization period every year, you're really shifting debt down the road.

>> Councilmember Rocha: Last question. So you mentioned that you agree with the approach, but as I see it we're shortening the amount of time to pay it back, reducing the interest that we're going to pay?

>> No, the proposal actually extends the amortization period because you have some components --

>> Councilmember Rocha: Our proposal? No I'm talking about our approach. You said you tend to agree with the City's approach --

>> Yes.

>> Councilmember Rocha: With the more conservative of paying down earlier.

>> That's right.

>> Councilmember Rocha: I guess what I'm struggling with so said that's a good practice and that's fine --

>> City's approach is really not suggesting a change in the amortization period. The only proposal that's suggesting that is really the POA firefighter.

>> Councilmember Rocha: Okay so the approach we're taking is just to consistently look at it as we have been over the period of years this is not a change of policy?

>> That's correct.

>> Councilmember Rocha: I have one more question. Go ahead do your one clarification and I'll be done.

>> Mayor Reed: I have a question Mr. Lohman.

>> Again these are the revment to the comments that were just made. Again the problem we're having with the City's approach if we do transfer to Cal PERS which is our proposal not theirs is it's going to affect the City's contribution. The second thing is John and I will talk about the dual resetting, the EVA and the amortization and understanding I think I'll try to talk to him a little bit about actually what's happening is a little bit about the asset smoothing and timing and john said very important which is sort of in hi view he said whoever bears the risk should sort of set the assumptions I hear that. I also know that in the Cheiron's recommendation in the Federated plan they recommended an assumption they believe was less than the 50/50 rate. When we hear these sorts of things it's one reason why the Police and Fire say gee we'd like to go to Cal PERS and we'd like to have them and their governance structure rather than a structure that seems to be a little different here or emphasizing different things. We don't mind the fact that you know we have an actuary that says it's time to lower the interest rate. That happens. That happens. It has to be lowered, it has to be lowered and cost goes up. But I think the members themselves --

>> Councilmember Constant: Marry, this has nothing to do with the question. This has to do with advocacy here.

>> Councilmember Rocha: Maybe I can ask a question here.

>> Mayor Reed: If you do, then ask your question.

>> Councilmember Rocha: Skip it. I'll ask my last question, it's for staff. This has to do with the City's proposal. I'm struggling to remember whether we discussed it. Did we have a time period where the opt in would be open to employees and if that opt-in period passed employees could no longer opt-in trying to beat my head trying to remember the ballot measure I don't think it spoke to it.

>> Alex Gurza: The opt-in period is not to be determined issue in terms of how much time we want to make sure that we provide employees with sufficient time to be educated and make that decision. What -- when we have sort of discussed it internally, we -- we sort of had the same window that the PERS person indicated opt in have multiple window choices. Our understanding is that does become an issue that we'd need to ensure that it's still compliant with IRS.

>> Councilmember Rocha: What about the POA agreement that we had, did it speak to a time, a window?

>> Alex Gurza: I'd have to come back. opt in program that would go into effect if we didn't reach agreement with an alternative one. I don't believe that that window is determined in the proposal.

>> Councilmember Rocha: Okay.

>> Alex Gurza: That is details that we would work out with the POA if we ended up doing it.

>> Councilmember Rocha: Okay, thanks did you have any? That's -- I have no more questions.

>> It's worth emphasizing that the opt in that was negotiated last summer becomes an irrelevancy, if this proposal is adopted. I want o part and parcel of the proposal plp gur TSA addressed that but that is part of the proposal. It's implicitly included in the cost savings derived from the union's proposal.

>> Councilmember Rocha: Thank you.

>> Mayor Reed: All right, Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. I'm not an attorney or an actuary but I did want -- is Mr. Lohman still here?

>> Mayor Reed: Are you inspired to become an actuary here?

>> Councilmember Oliverio: Maybe, mayor, I think everyone deserves multiple curves in their lives do you as actuaries have a code of ethics that you sign up to in your accreditation that. Some type that a doctor or attorney would have?

>> Yes we are both the code of conduct in the actuary standards of practice.

>> Councilmember Oliverio: And could -- you would concur with that Mr. Bartel?

>> Yes absolutely right.

>> Councilmember Oliverio: Could attorneys disagree all the time, could two actuaries look at the same piece of data, like life expectancy and look at it completely different and I'll let each of you answer that question. I'll let you go first Mr. Lohman since you're visiting.

>> The short answer is yes but I think both of our desires is to make this not about the actuaries but about the facts that there are some real issues here there's some real savings and I think we can agree on numbers if we could agree on assumptions. I mean to the extent the city once used you know 6.75 and we're not there, you're going to get somewhat different numbers but you can be presented, this is a number at this rate, this is the number at that rate and we can start talking about the interest rates. I think that there are issues of how people are going to characterize things differently. I have known savings, the Police and Fire pay cut is contingent upon this, I think the city would say you know we want to lower the interest rate and it's a way of paying for that interest rate dropping. That's the kind of information we both agree we want to sort of get you. How we characterize them you would have to work your way through.

>> Councilmember Oliverio: Any comment about that Mr. Marshal?

>> You get the fact of the matter is is that you don't always agree. We are rarely that -- as far off as you might think.

>> Councilmember Oliverio: In your profession I assume you really admire Greenspan and the way he would answer questions because every time you talk to a actuary is everyone word is very meticulously chosen.

>> Actually do I just to be clear.

>> Councilmember Oliverio: And so when I think we're talking about known gains I assume we have to manage known losses. For example, if we have gains this year we might not have gains the next year but also we may have a lot of people that have recently tweerd that are well compensated that are young that will affect the plan oossmentsdz briefly Mr. Lohman and Mr.--

>> Yes my suspicion though is those issues like turnover documents and twiertd rks desire to lower the discount rate and that isn't so much based on what happened last year because last year you earned 18%. That's about a change in future expectation. And that's where I'm frying to sort of make a distinction.

>> Councilmember Oliverio: Okay.

>> I'll just say yes to your question. I think if you're going to look at known you want to look at known at a point in time as calculated in the valuation.

>> Alex Gurza: Councilmember Oliverio, is mentioned the point you're making about what's known, in the Cheiron report it has very specific numbers comparing June 2010 to June 2011 in comparison to the people that are now retired. First off there is a 14% drop in the active count in Federated, but a 12% increase in the people already retired. To give real number to it, retirees in the Federated system and now June 30th, 2011, 2769. I think from my reading as a nonactuary in this report that is a known fact and that is part of a significant issue that is driving this

report. And what we're saying is that it's not until the retirement system acts open both knowns gains and losses that the city will know what its contribution rate will be for next year.

>> Councilmember Oliverio: And for the actuaries in any given fund whether it's a private sector mutual fund, you'll have gains you'll have losses that's what we have smoothing sharks why we have smoothing because you have highs and Los lows in gains?

>> The purpose in smoothing is to smooth out the contributions, the only purpose in my mind.

>> Councilmember Oliverio: Conyour that sir?

>> Absolutely do I.

>> Councilmember Oliverio: And finally on the generic thing on rate of return. Why wouldn't I or any plan or investor choose a rate of return that they could actually hit, versus it being the -- I mean I think we've covered in other things here the council where different rates of return had like a 20% chance of hitting it versus getting closer to what you might actually hit. Wouldn't it be fiscally prudent to pick a rate of return that you might actually gain versus having some unfunded liability for a younger generation? And this just in the contextual philosophical discussion.

>> As long as you're invested in stocks and bonds and you're trying to set a rate risk in sit Sething your rate. The retirement boards as I've seen it have sort of developed this methodology of looking at percentiles likelihood of making that rate of return. That is one way but surely not the only way of achieving that goal. I think it's a fine waive doing it. I think though that they should be looking way of doing it expected gain or loss. They don't want to weighted dollar basis. I think that's one of the things they should be thinking about. I think that one of the issues though is you've got to look at whatever prior decisions were made by the retirement board or what have you you know I'm focused on the chair a little bit year over year. And if expectations are less this year than last year just at

Cal PERS may want to lower their interest rate how much to sort of get on a new source of position on that is it 50 or sit 60-40? That's where my concern is.

>> Councilmember Oliverio: Mr. Bartel?

>> I have a caveat before I give you my answer. And that is over the last year, year and a half I have spent more time talking with clients about discount rates, what are appropriate discount rates than I ever thought I would. Mr. Lohman has said he wants to settle a realistic expectation. One of the things that's fascinating about discount rates these days is, when you look for example about a component, what actuaries typically do is look at real rate of return above inflation in some form and then general inflation. When you look at bond rates for example, and you look at what investment advisors are saying bond rates, bond rates of return are going to be over the next ten years, you actually have a situation you have a situation where the discount rate may actually yield an expected return that is higher than what investment advisors are going to say the fund might earn in the short run. And so we could actually probably spend several hours just talking about that. I'm not suggesting we do but what happens is, the reason I believe Cheiron is going to a confidence level greater than 50%, is the same reason, by the way, our firm is making that a very, very similar recommendation to our clients, and that is because in the short run, it's going to be very, very hard to get those higher rates of return. So a 50% confidence level may actually yield loss et cetera in the short run. And so that's why I may -- a little bit of a fan of what the folks at Cheiron really have done by coming up with a discount rate. Doesn't mean the retirement system is going to accept that. But it actually by having that lower rate will actually mitigate I believe expected investment losses in the short run. So I'm sorry, it's probably way more technical than they wanted it to be,.

>> Whatever that number was and whatever pension or system you want to talk about. And the fund actually performed better than that rate of return. You don't catch out and go spend the money, right, is that correct in a perception fund like ours if we make a greater rarity of return we don't cash out we just pay off our unfunded liability?

>> The unfunded liability which reduces the city's cost because the city bears the risk on the unfunded liability.

>> Councilmember Oliverio: Mr. Bartel.

>> Ten alex put up on the board and that is the cost is not what the actuaries tell you the contribution rate ask. The cost is ultimately what the benefits aring good to be, offset by expenses and investment return.

>> Councilmember Oliverio: Thank you both gentlemen thank you very much.

>> I agree with that.

>> Mayor Reed: Okay, Councilmember Liccardo.

>> Councilmember Liccardo: Question about slide 37. I haven't looked at the Cheiron report, I understand it just came out a couple of days ago, is that right Alex, I was trying to get it online and see if I could read it from the retirement agenda, retirement board. That $111 million figure, forgive me if you just said that, what it includes and doesn't include. Does it already account for the 10% compensation reductions?

>> Yes it does.

>> Councilmember Liccardo: Okay, and does it already account for the prior year's market gains?

>> Yes it does. Gains through June 30, '11 just to be clear on a smooth basis.

>> Councilmember Liccardo: And on the basis of those gains which share of the seumed savings that we're going to get on the proposal that's been put before us we still see enormous increase in contribution from 90 million to $111 million, is that right?

>> That's correct.

>> Councilmember Liccardo: Now, a portion of that has to do with reducing the downtown rate, I think we all agree to 7.25%, that's going to have a big impact in reducing the contribution, right?

>> Yes.

>> Councilmember Liccardo: Another big portion of that appears to be what Alex referred to earlier in that we're seeing 14% fewer active employees paying in and 12% more retirees receiving, that's a huge shift and a huge amount of that shift we believe was probably caused or significantly caused by the fact that we had 10% compensation cut.

>> Yes.

>> Councilmember Liccardo: So when we talk about really accounting for known gains those are known losses, that huge shift. Is that right?

>> Yes, that's exactly the point I was trying to make earlier, yes.

>> Councilmember Liccardo: I guess the question is for Mr. Lohman. Did you can for those shifts when you were calculating your known gains? Did you also include those very clearly known losses?

>> I'm sorry which known shifts?

>> Councilmember Liccardo: Well in the last year we've seen 14% fewer actives in Federated and 12% more retirees.

>> Again, the -- we didn't make any changes in assumptions. What was there in the 2010 valuation. The fact that there are you know fewer active employees doesn't necessarily generate any reason to change the

assumptions. That has to do with not replacing employees. The issue of rates termination of employment and the rafts retirement that would be relevant and those are thank we haven't taken into account partly because the board has yet to adopt any new assumptions. All we were doing is rolling forward we're talking about the tbrd here --

>> Councilmember Liccardo: The or not the fact that the employees have retired is a fact and the board's adoption doesn't make any difference.

>> And we won't be able to easily quantify that until we get the next valuation report.

>> Councilmember Liccardo: Okay you have now a report from Cheiron. And you've heard the data about the 14% drop in employees -- I'm sorry 12% drop in actives and --

>> We can go back and we can try to build that into our numbers.

>> Councilmember Liccardo: So the known gains might also incorporate known losses.

>> Yes. My expectation is that most of those what you call known losses are really a change in the interest rate. And I'm trying to divide that into two categories. One is because the expectation of return is different this year than it was last year, and the other is because there's a change in methodology of how that rate is set. In other words, if last year, the 7.75 or 7.95 rates were based on a 50/50 rate and this year it's based on a 60/40 rate, 60% time it was exceeded and 40% time it will fall short that's a different discussion we need to have. That's a change in board policy -- not board policy, a recommendation.

>> Councilmember Liccardo: We agree the board hasn't adopted those changes yet.

>> That's right, I haven't reflected them until they adopted them.

>> Councilmember Liccardo: But what we know is who's working and who's not.

>> Those sorts of information I can try to put into our projections but again, I don't have them in the valuation report yet. What I'm rolling forward are the 2010 valuation reports. If I'd have had a 2011 valuation report I would have incorporated them into my numbers.

>> Councilmember Liccardo: Would you agree the is going to affect decisions about retirement?

>> Yes and on a temporary basis. That's one of our problems here. When we are talking about changes in rates of retirement, we're trying to might do and when he goes to retire he's going to be in a different environment. So we always have to be careful everyone got a 10% pay cut this year that doesn't mean they're going to get 10% pea cut every single year in the future. That same issue with things like retirement experience and turnover persons.

>> Councilmember Liccardo: Well, let's talk a minute about other demographic changes from the Cheiron report or anything else we know that's happened over the last year. I show reference to decline nf known losses or known gains?

>> So let me make sure I'm understanding the question. Are you referring to the savings that Tom lohman is showing or --

>> Councilmember Liccardo: No I'm looking at slide 37.

>> Oh.

>> Councilmember Liccardo: Just trying to understand how we watched the numbers move from one year to the next and contribution rates and how they're effected by demographics.

>> Yes, so it would be wonderful if we could actually show the Cheiron presentation but having said that, Cheiron is saying that your contribution with no assumption changes will come down. They are saying that there will be net

gains, the net gains they are showing are lower than what Mr. Lohman but they do show show net gains. And they are then saying you go from that net gain back up to 111, primarily because of the assumption changes. So so I can give you slide numbers from the Cheiron presentation.

>> Councilmember Liccardo: I'll save from you that. Oh, okay. We got something coming up, that's great. Thank you. The reason I ask this, I've been hearing for some time that these changes in assumption were coming and we expected them to come on the Police and Fire side as well and so it seems reasonable for us to at least, we're talking about the known gains, let's talk about the known losses.

>> So what I'd like to do is this happens to be slide 11 of the Cheiron presentation for this coming Thursday. And what I'd like to you do is look at the top row there, it says fiscal year 13, contribution rate at 7.75. The board had taken tokes go to 7.5. If you look at the right-hand column that's the $82 million as compared to the original estimate of $90 million. And what Cheiron is saying is, their recommended demographic and economic assumption changes would increase the 82 to 111. And you see the breakout of those numbers. There's an earlier slide that gets you to the 82, and what is the cause of the reduction to 82. So that's slide 5. So put that slide up here.

>> While on this slide if I can just mention. Just again, that the SRBR, the 2.5%, again that's something that should have been funded in previous years, I don't mind it being there because there's a real cost to it but I would point out under the Federated proposal that would go away because the proposal was to eliminate that 2.5% of pay.

>> So if we could put the slide 5 there. What you see here is, the reasons for the changes from the fiscal year 12, to the fiscal year 13, contribution, and if we look for example at item B change due to demographic experience. So we've been using the term which is not a particularly actuarially precise term, known changes. In Mr. Lohman's question, maybe he can correct me if I'm not remembering this right, but I think that pay reduction was about a 28 million number, the actual number is about 16 million. And so that's really the difference between taking a component of what's known and taking all of what's known.

>> Councilmember Liccardo: Thank you, that's very helpful. Good I would mention again too that when we did our numbers as I said before for the Federated plan we did in our starting numbers reset the 7.75 because we were told the prior year that's likely what would happen in the valuation so we knew about that. And then the other part of the investment return is the other part of the 2. discussion about this interest rate change and are we also changing our policy about how conservative to get in the interest rate.

>> Councilmember Liccardo: And certainly I think based on our experience and recognizing that we've been consistently too high, in our assumed interest rate, makes some sense to be pushing much lower, Mr. Bartel, when we had prior conversation around the idea of exploring defined contribution parts and cost would be of closing the plan, and I recall hearing estimates about the side of that cost the magnitude of that cost. I didn't hear those numbers repeated here again today during this conversation and slightly different context, closing the conversation and moving on to Cal PERS, why not? I understand we're just talking about Police and Fire in this context but --

>> What I, so let me give you maybe two answers to that question. Answer number 1 is, it's a -- it was already a long meeting. That's number 1. And number 2, Alex did say that when you -- and we sort of had this conversation. As you get to the point where you have fewer actives and more retirees, you are in effect moving in the direction, you're not really closing it. But you are shifting the emphasis of the plan. And you are shifting it from one that is setting aside for future benefits to one where future benefits are here. You're talking about future benefits. So that relationship of the shift, it will almost certainly cause conversations at the retirement system board about how the money shouldn't be invested. What sort of risk tolerance. Retirement system boards always talk about risk tolerance. But just like if you're 22 years old and you're saving for retirement, your risk tolerance might be quite different than if you're 65 years old and you're getting ready to retire. To the extent you're moving into Cal PERS you're moving much closer to the 65-year-old and moving away from the younger okay to be a little risky in your investment. So I think those conversations are part and parcel to the conversation about what happens with the Police and Fire plan.

>> Councilmember Liccardo: You're saying the folks who are left behind, who haven't made the decision to opt are older presumably?

>> I don't know that we know for sure but that would be my expectation.

>> Councilmember Liccardo: That's what we expect?

>> That's right.

>> Councilmember Liccardo: As a result you may have very different decisions by the beneficiaries, than I sigh there's a desire to speak.

>> I'm really not disagreeing by the way but I just wanted to make a couple of points. One is the plan is left behind is going to get smaller and smaller over time and the risk to the city gets small esh and smaller as well. The other point is while the conservative investment wise, it's the deaccumulation phase of the plan retainer accumulation of the plan the Cal PERS is a younger plan therefore could take more risk if desired. When you put it all together arguably there's no change but when you compartmental ietz, there could be a desire to do that and I appreciate that.

>> Councilmember Liccardo: Okay. There was described an actual specific cost to a closure. In past discussions we've had. Is there a number? I mean is there some estimate or range?

>> The answer is yes. Unfortunately I don't think I can give you one off the top of my head. But the way that calculation would happen is very, very simple. You would look to if you were good annuitants you would go to an insurance company and that insurance company would take the position that they really don't want to take much risk. So they would sell you annuities, you would buy annuities, at a low interest rate, much lower than the 6.75 that we've been talking about. Probably today, below 4%, to go out and buy annuities. So the settlement cost would be exceptionally high.

>> Councilmember Liccardo: And that would be a cost to be borne immediately unless you could finance it somehow?

>> That's correct.

>> Councilmember Liccardo: Okay, thank you.

>> Mayor Reed: City Manager.

>> City Manager Figone: I've been wanting to ask this question of John. The question is in this closure of the plan or eventual closure of the plan, what is the current reality of having the plan be so underfunded, how does that factor into the results of that closure?

>> There -- there's several ways that it really gets factored in. It depends upon when you close it, when you buy those annuities. It would not be common in the public sector to buy them while you still have active employees at all. It would be much more common, as the plan sort of wears away, probably 20, 30, 40, 50 years from now. But the -- but what you would find, as -- and the the reason I'm making this statement is because we provide -- we're actuaries for several California closed retirement systems. Where there are very few actives. What you would find is the conversation of an unfunded liability of a closed plan is different than the conversation about an unfunded liability for a kindergartener plan. Because taxpayers very quickly begin to understand, this is an unfunded liability for service that was rendered a long time ago. And with volatile investment markets, it just makes that conversation more challenging. So I'm not sure that that did a great job of answering your question, but it's probably the best I can do.

>> Mayor Reed: Pete Constant.

>> Councilmember Constant: Thank you. So in effect, we may not have a closed plan but we definitely have a terminal plan because there's no new intrats entrants and your number of contributors continues to decrease benefit is that correct?

>> That's correct.

>> Councilmember Constant: So as the plan is terminal there's less tolerance for risk. So boards are more likely to lower the assumed rate of return. Which will increase the unfunded liability. Which contrary to what was said that the unfunded liability will become smaller and smaller, in fact it will become larger and larger on a per capita basis or per participant basis or as we like to calculate it for our budget as cost of payroll contribution pr employee, is that correct?

>> That's correct.

>> terminal or moving to Cal PERS are the exact same argument you could move end result for those who stay is going to be the same?

>> I might not go quite that far. But I -- I think I absolutely agree with the point that you're making.

>> Councilmember Constant: Okay. And then I just wanted to clear up something. When Mr. Sapien gave example of the one employee, that what would happen, and he brought down their pay to 50%, that assumes an additional contribution rate of 25% of payroll which is the cap. But in fact given our unfunded liability rates right now, wouldn't that be limited to about 7.5% of payroll Alex, in Police and Fire somewhere in that neighborhood?

>> Alex Gurza: You mean in the Police and Fire plan it could be higher than 7.5 that you're referring to but the maximum is what I think Mr. Sapien referred to if it got to 25.

>> Councilmember Constant: If it got to that point our total contribution point would be in excess of 90% of payroll and we couldn't be able to exist as a city.

>> Alex Gurza: If the city's opt in plan, there is no change in the cost sharing so normal cost would still be 8 to 3. They wouldn't take on that 25% and actually we anticipate that employees cost would go down because the normal cost for the opt-in plan is less than the normal cost for the current plan. So if an employee did not want to incur that increased cost then they could have a lesser cost benefit in the opt-in plan.

>> Councilmember Constant: Okay and then inform the actuary if we move to a plan where there's absolutely no unfunded liability risk-sharing, is there any reason to assume that we wouldn't be in this same position in 25 or 30 years?

>> I'd love to tell you no. But I think the odds are good you could very well be. Because of the nature of -- because of the nature that people have treated retirement systems over the last 20, 25 years, my expectation is that nature probably wouldn't change. Saims position .

>> Councilmember Constant: Any form of risk sharing you'll see almost everyone's in the same boat, most of them are going in the wrong direction. I also wanted to ask a question about slide 38, the footnote is kind of important to me because even if the council were to agree, in fact we can't tell the retirement boards to do either of these things, can we? Maybe that's a question for the attorney.

>> City Attorney Doyle: The boards have the independent obligation to set those assumptions, their rates. So the short answer's no.

>> Councilmember Constant: So if we were to do this and both boards were to say we're not going to asset value, we're staying at market value and we're not going to keep refinancing our debt but we're going to keep it on amortization they have the right to do that and any interference by us would put us in the same position of San Diego a few years past.

>> City Attorney Doyle:   You could ask them and that's the best you could do.

>> Councilmember Constant:   There's no guarantee that we would see those savings even if they're accurate is the point I was trying to get at. So I think that's it. Thanks.

>> Mayor Reed:   Councilmember Pyle.

>> Councilmember Pyle:   Thank you, mayor. It's so hard to make sure that we can find all of the savings that we're looking for. But I had a couple of questions and some of them have to do with health care. Has an increased retirement age been factored into the cost of retiree health care for both public safety and Federated?

>> Do you mind if I ask a very quick question? When you say factored in, do you mean for example, in the POA firefighter savings numbers, or are you talking about some other calculations?

>> Councilmember Pyle:   No, I'm talking about what the presentation has been made, and have those factors been entered into?

>> I will -- I believe the answer is no, it has not been.

>> Councilmember Pyle:   So I hear from the -- Mr. Lohman please?

>> John is right. I've communicated with John that I'd like to get together to sort of put a price on a couple of things. One is the sick leave and the other is the OPEB, because I don't want to have a disputed over the OPEB, sick leave is heart hard toard calculate, I did capture one part of OPEB in the Police and Fire plan but there's the police and Fire plan that I'd like us to get together and quantify that aren't in these numbers and yours is another piece as well, if we go to a different retirement plan with later retirement taidges cost of OPEB would come down as well.

>> Councilmember Pyle: Thank you. In addition to that on the same vein could staff also come back with the cost savings to the General Fund with the elimination of the sick leave payout? And cost increases to the retirement fund, if there are any? Whatever the effects may be, it would be good to know that. And then there's a last one I wanted to mention is, would the sick leave payout for all city employees be converted or could they be converted to the same program as the one in the proposal from Police and Fire? And if they were, wouldn't that make for a less costly situation? I don't know who wants to jump at that one. Nobody?

>> Alex Gurza: Councilmember Pyle you know currently the city council direction is to eliminate sick leave payouts where where the savings is the entire payout. To the extent it retirement credit, it is very hard as Mr. Lohman said purchase and service credit.

>> Councilmember Pyle: I really want to know what we're saving by eliminating the sick leave payout.

>> Alex Gurza: It was 9.5 million as shown on an early slide in the presentation. It's nine.5 million. The question is if we did something service credit.

>> Councilmember Pyle: We are all agreed on the 9.5 million at this point?

>> City Manager Figone: The 9.5 million is based on how we currently budget for those payments so that is what Jennifer has helped us to reflect in the fiscal reform plan would be an ongoing savings.

>> Mayor Reed: We have a question for Mr. Sapien.

>> Councilmember Pyle: Sure.

>> If I can some reasoning here. Mr. Bartel talked about the reduction in pay driving up retirement rates. I think having a great deal of anecdotal experience on that front, says that threatening Draconian changes to retirement

drives up retirement rates. So that point, relative to your question, the savings associated with sick leave, in our proposal, I'll speak for fire specifically, we did not propose a complete disregard of sick leave hours for a specific purpose. In other words, if I am assigned to be on duty tomorrow which I am and I'm on sick leave or vacation, you pay time and a half for somebody to replace me in addition to my sick leave. The importance of maintaining an incentive for personnel especially fire under a minimum staffing obligation is that you will instantly shift cost to the overtime side if you disregard the importance of those hours. So in terms of costing, that is not reflected in savings, in our plan, the overtime side. Nor is the elimination of the sick leave payout which over the last few years has been about $10 million on the Police and Fire side, I would argue because there's threats to retirement plans. And so there's more savings there to be accounted for.

>> Councilmember Pyle: Thank you for that clarification. Did you wish to add anything to that Mr. Bartel? That's it. On my questions.

>> Mayor Reed: I just follow up. I'm not sure I understand the proposal on the sick leave. If somebody has lets say $200,000 worth of sick leave built up with some people do we would give them $200,000 and then they would purchase some time in the retirement system?

>> No. Under the Cal PERS approach, irrespective of what your hourly rate is, what happens is, if you have six months worth of unused sick leave, that six months is converted to an additional six months of service credit. So if I had 25 years at retirement, I've got six months of unused sick leave, I would then have my benefit calculated with 25 and a half years. So that would result in an increase in the cost if the.

>> Councilmember Pyle: There was no payout for the unused sick leave.

>> Mayor Reed: Okay so the cost goes up one other area or the other.

>> Goes down in one and up in the other, that's right.

>> Mayor Reed: I had some other councilmembers with questions. Councilmember Campos.

>> Councilmember Campos: Thank you, mayor. I just wanted to give Mr. LoHman an opportunity to respond to some of the comments or questions that Councilmember Constant had in regards to defined benefit versus defined contribution and the end of 30 years we would be in the same boat and you could expand on that please, thank you.

>> All right. In not total disagreement but just wanted to make a couple of points. One is you don't really want to buy annuities. I don't think anyone is arguing that even if all the retirees you would rush out tomorrow and buy annuities. So I think everyone hopefully would agree with that statements. The issue of risk tolerance I think was brought up in that discussion as well. The plan gets smaller and smaller when you only have retirees. The risk to the city becomes smaller and smaller in a relative since it does. There is a comment I made that the unfunded liability goes down when you do this transaction. And it was a discussion about well the unfunded liability goes up. As I try to make the comment before the city if they closed the plan down all you have is retirees has that legacy cost responsibility that comes with it an unfunded liability and a risk oop profile, I will increase the notional unfunded liability I'll put more money into it. That is sort of a different situation. But in the reality though I wouldn't say the unfunded liability is bigger because of the transaction. Because as I said before you're looking at it compartmentally. You're looking at the plan that's left. You're looking at it in the fact that you have a defined plan and a plan that's very young, you bigger to begin with but you might want to derisk at some point in the future probably not immediately the retiree plan which is mostly retirees you can take more risk on a Cal PERS side if you want. So nothing really in total has changed to the city and that was my point.

>> Councilmember Campos: Did Mr. Platten have something to add?

>> Thank you, two things Mr. Councilmember with respect to risk tolerance because I think it flows throughout the discussion. I think the council has heard today and certainly bargain parties having bargained over these issues for at least 30 years, understand that these assumptions contained within them some policy decisions just like the plan benefits are policy decisions. So for example we have artificially in our negotiations, I'm not negotiate negotiating

now I'm just referring to this in terms of risk tolerance, we've artificially agreed not to talk about risk period contell of our discussions so far. The council, the board of the retirement plans could make a different risk policy decision and lengthen the amortization periods which would dramatically reduce the mountain that we're facing over the short term. As a matter of fact, Cheiron is suggesting that very thing in other jurisdictions. Fresno county simply reported on that recently. But that's also true with respect to risk tolerance we talk about for example the unused sick leave. Right now unused sick leave is an unfunded unaccounted for cost. We don't reflect it and our accountant report the CAFR report every year. We don't know what it is going to be. It is a taxed transaction. So it costs the city more than just to pay off the sick leave. Under the proposal that's been made it's a nontaxed transaction that is actuarially accounted for that's amortized out for a period of time and again in place for 40 plus years in Cal PERS. That becomes then accounted for under the GASB rules unlike you have currently. These are risk tolerance policy decisions and all the discussions we're having here is imbued with those kinds of decisions, I just wanted to make that clear.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you mayor. Councilmember Campos asked the first part and to allow to answer that and then the second part that Councilmember Campos raised and I think Mr. Bartel answered to the point that Councilmember Constant made asking if we -- whether there would be a likelihood of unfunded liability 25 years from now the answer was, odds are good you could very well be in the same position because of the nature of how government -- or time and funds have been treated over the 20, 25 years. Where there have been excess funds they have been spent. I don't think that's underanyone's definition a wise use. That treatment of retirement funds as a slush fund at times for projects and for General Fund --

>> It was certainly part of my response, yes.

>> Councilmember Kalra: And so I mean --

>> Mayor Reed: I don't think that applies to our retirement funds. I don't think they've ever been used as a slush fund. You may be speaking generically.

>> Councilmember Kalra: I'm speaking generically. I'm not speaking just specifically to San José, how they've been treated by governments in general. There have been cases in other jurisdictions where they have been treated in that nature. In our case in San José they may have been used to hire police officers or to help shore up some other spending.

>> Mayor Reed: No, they may not have been. They have not been used to hire police officers. The retirement funds are the retirement funds. The retirement boards are independent, they make their decisions, they send us a bill, we pay the bill. We're not taking money out of there to fund things. Now, other may have, but we have independent boards and so I don't want people watching this on video to think that somehow our retirement funds have been used to write checks out of.

>> Councilmember Kalra: Understood, mayor. I was getting to the point of why that assumption was there and I think that part of it is that there have been times where there have been occasions in the past 20, 25 years where there have been governments or municipalities that have not treated retirement funds the way they should have in a responsible manner.

>> Let me tell you exactly what was in my thought.

>> Councilmember Kalra: Sure. That would be helpful.

>> If you go back ten, 12 years ago, Cal PERS specifically had several plans that had an excess of assets over liabilities. They were amortizing that excess over short periods of time. And now, there are unfunded liabilities which are generally speaking at Cal PERS by Cal PERS being amortized over very long periods of time. And so I was not really speaking of the City's plans. I was really speaking of probably more generic around the state of an interest to use excess assets sooner to pay off.

>> Councilmember Kalra: Whether it's an excess or deficit and treating them different in that case orp times are well I think that happened in the '90s for certainly many parts many jurisdictions throughout the state. Things are going well at the moment so they may have increased the benefits. And so are you referring to those kinds of hactsz in the way the funds have been used?

>> Yes.

>> Councilmember Kalra: Thank you, I just wanted to get a little more clarification as to why the comment was made certainly you would hope that wouldn't be the case going forward because some of the other suggested changes would at the very least diminish the likelihood of unfunded liabilities, the question of not possibility fund from the liabilities but some of the suggestions both from the city side as well as from the bargaining units moved in a direction of limiting the likelihood of unfunded liabilities moving forward. And you know I -- and I think it's been a really good conversation. I do appreciate what's been put on the table and the fact we had an opportunity to discuss it and I also appreciate the kind of back and forth from the actuaries. You clearly have a lot of respect for each other and although we may disagree in terms of what this number might say, what that number might say, the reality is I think these are things that need to be discussed and auxiliary us need to have full information on them because although doing nothing may create a harmonious and short term make us feel good as -- moving forward it creates long term fiscal issues. But I think there are also risks of both the city plans that are risks and what's being brought forward by the bargaining units that's what we have ocost out, that's more appropriate for closed session, that's been brought up and I brought it up earlier, and others have brought it up as well, are the legal risks. We talk about legal risks, we don't talk about the cost. I think what's important for the council even if it's amongst ourselves behind closed doors, is there's a risk of doing this, the risk of A is greater than the legal risk of B, but what the financial consequences cost delta of going down path A versus pathB and the varying balancing of the leg risk as well as the cost. Plan A you might save X amount of money and all actuaries agree you can save X amount of money rather than plan B. Retro actively have great cost and I think those are numbers that we at least although they can't be certain we have to know that those numbers are there and that there's risks in the millions of dollars and we have to find out collectively at least through these questions and getting answers both to the bargaining units plans and

kind of getting more fine tuned on what the real statements are going to be and what the City's plans is what the statements legal risk and then ultimately have to make a decision somewhere in -- on both the legal side as well as what we can financially afford to do, or not to do in terms of we go down a path there's a legal risk that causes us to retroactively do nothing that's a cost as well. That's something that Rick going forward in addition I think you've done some legal analysis but if that's legal analysis coupled with the City Manager's office kind of giving the financial play by play that okay if this doesn't work out what is the cost going to be down the line after all the legal channels are run through.

>> Mayor Reed: Councilmember Rocha.

>> Councilmember Rocha: Thank you, I have one question, it's follow up to a statement you made about he who bears the risk should set the rates. Now --

>> Should set the assumptions.

>> Councilmember Rocha: Assumptions, thank you. What about the scenario with the proposal where the employees are now going to be paying 25% potentially of their salary? Are they now a participant in that?

>> So my opinion is yes, of course.

>> Councilmember Rocha: Well then how would you rectify that statement then? Or not rectify, how would you move forward I guess in that, in terms of equity or fairness or is that still not relative, I guess?

>> The issue really becomes who bears the majority of the -- the majority of the rest, right?

>> Councilmember Rocha: I'm teasing, you can't answer, it's not your policy decision. I was struck when I sat here, if we go down that path, it is the city as the sole liability holder if someone else is offering to pay that, thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Just to be clear, the retirement boards set the assumptions for the retirement plans, isn't that right?

>> That's correct.

>> Councilmember Liccardo: All right. And those retirement boards are represented by both employee groups and the city, well actually, just employee groups are primarily responsible, are represented on those boards, plus independent folks.

>> Yes, the makeup of the boards actually vary from one system to the next.

>> Councilmember Liccardo: Right.

>> Yes.

>> Councilmember Liccardo: In our plan I'm sure Alex can tell us and we've been through this many times in the past employees are represented on the plan.

>> Alex Gurza: Yes, the city has gone through significant changes in the governance structure of the plans by adding in people outside the city that have expertise but there still retains employee representatives and retiree representatives on both boards.

>> Councilmember Liccardo: Question for Russell, I'm sorry to make you come all the way down here Russell, I promise, be all my questions. All these questions based around what 50-50 looks like in terms of assumed rates and so forth. My understanding we have during my time on Police and Fire board we had outside actuaries advising

about what the rate ought to be and then we internally at the retirement, within the retirement department, had Ph.D. folks looking at what the rates are to be and in both cases we saw the 50-50 rate was considerably where wherever it is that the board settled open, isn't that right?

>> Russell Crosby: That's correct. The board didn't go all the way to the 50.

>> Councilmember Liccardo: Exactly. But the 50-50 rate --

>> Russell Crosby: The discussion has been pard of how those rates are set each year.

>> Councilmember Liccardo: The rate that the board always chose was inevitably quite a bit higher than the 50-50 rate.

>> Russell Crosby: Correct.

>> Councilmember Liccardo: It was around 6.9 or something like that?

>> Russell Crosby: In that ballpark, 6.8 and change.

>> Councilmember Liccardo: Considerably lower than the 6.5 that's currently recommended by Cheiron?

>> Russell Crosby: Correct.

>> Councilmember Liccardo: Just want to be clear. Because we've got our own internal views of this and as far as we can tell, 7.25 is far from conservative?

>> Russell Crosby: Oh correct, yeah. And it's important to note that over the last year 15 of the 40 plans in the state reduced their assumption.

>> Councilmember Liccardo: Right.

>> Russell Crosby: It's not like we're alone and off in the woods doing this all by ourselves, everybody else is grappling with the same question and mostly coming to the same answer. You've got to lower the earnings assumption.

>> Councilmember Liccardo: Thank you, Russ.

>> Mayor Reed: I have what I believe is the last question I hope. And that is what have the bargaining units proposed at the negotiating table for current employees in SRBR?

>> Alex Gurza: Okay, thank you for raising that mayor.

>> Mayor Reed: Reading that correctly.

>> Alex Gurza: While I did want to point out, for current employees that affect retirement benefits there have been no proposals. Although I did want to mention one thing that I should have mentioned earlier. In the IFPTE proposal they have indicated that they believe there should be incentives to opt in to their opt-in plans and the incentives depending what they are would cost. They give examples in their proposals for example wage increases or signing bonuses. They haven't made any specific proposals but those would go in a reverse, those would be to be determined. Other than that we haven't received any proposals that would save cost in the fir tier. For SRBR, I think your other question and I'll look to Gina here, in some cases we actually already reached a tentative agreement to eliminate SRBR. But it varies depending on all the bargaining units, so I'll see if Gina can recollect here.

>> Gina Donnelly: That's correct. With our nonmanagement coalition on retirement reform we have achieved a tentative agreement to eliminate SRBR. All of those groups are currently in the Federated retirement system. So to

the extent that there are other bargaining units, as well as unrepresented employees in there, we would need to reach the same conclusions with those negotiations and/or decisions that the council may make in the future.

>> Mayor Reed: Okay, I notice on the overhead that the local 230 and POA proposal on SRBR was meet-and-confer, what does that mean?

>> Alex Gurza: That means to continue, they're willing to continue negotiate over what happens with the SRBR in that example.

>> Mayor Reed: They have not proposed to eliminate it? Do you want to clarify that?

>> Alex Gurza: In some cases in the slides earlier the SRBR is proposed to be eliminated for people in the opt-in plan but not for current employees. So that leaves a lot of quesiton of how that would work and what that would save if you still have an SRBR system, and with some people still being eligible for it, we have not been able to get down to the detail of how that would function when you keep it for a certain population and not for others.

>> Mayor Reed: Mr. Sapien, the SRBR, not on the opt-in.

>> Can enjoy to slide 21 I think is what I recall. I'll be darned, that's the one. So when you look at the list of things that affect costs. Having not had the opportunity to really discuss issue by issue at the table, we went back and we went after this very question, these nine items and a few more SRBR being one of them. But we added a few conditions of our own. One was that whatever we do be legal. And our proposal is based upon these, that legal question and many other conditions that we brought forward. So to answer your question, mayor, the reason we've proposed meet-and-confer for tier 1 is, we're not exactly sure how to handle those assets legally. But we certainly are interested in hearing from the City's team what opinions they have to get us there. Because we're certainly interested in addressing that item. We just want to make sure we do it right and legality of course for the entire proposal is what we're after.

>> Mayor Reed: Okay that's the last of our questions, that's the end of our meeting. We'll have another meeting tomorrow, Tuesday. I don't think the person who wanted to speak is here. And we don't -- we're not agendized for an open forum, right? Okay. Anybody wants to speak to me afterwards to tell me what they had on their mind for open forum I'm willing to do that. We're adjourned.