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.

>> I'd like to get started. We'll call to order the meeting. We have a few orders of the day, if I could, please. So if we could shuffle around some of your papers, we're going to take-- there's three things we're going to kind of full forward in categories. We're going to take all of the Cheiron stuff up on the agenda. Items 17, 25, 26 and 27 in that order. So 17, 25, 26 and 27. Then we're going to do the tax qualification stuff, all the other stuff under item 16. And after that, we're going to do the audit stuff, 23, but in this order of B, then C, then A due to decisions that-- approvals that need to be made in that order. If so. Other than that, I don't know of any other changes to the agenda. So if I can get a motion on the orders, I'd appreciate it.

>> So move.

>> And a motion to second.

>> I wanted to ask under orders of the day to go ahead and remind the board that there were a number of items submitted late for this agenda under the sunshine rules. And so you have two choices. At this point, you can wave sunshine for all of the late submitted items so that you can consider them or as we get to each item on the agenda where there was a late submitted item, we can ask you to do a waiver of sunshine so that you can consider the late submitted items.

>> Does the board have the pleasure of moving that to the very first item of the day the orders-- request approval of the sunshine waivers for those that are needed for today.

>> Second.

>> So we have a motion and a second. So the orders of David are revised. So the first thing is going to be the waiver vote.

>> Right. I think on future agendas, I'm going to do a-- I'm going to have a standing item on this. The council rules committee does.

>> For today, though, the order for today will be first to weave the sunshine rules and then the other two items that I just mentioned. All in favor.

>> Aye.

>> Opposed? Okay. Great. So we're going to item 17 first. Of the agenda. That is the discussion of possible action regarding the supplemental retirement benefit reserve. Item A, the discussion of possible action on the SRBR calculations from the CHEIRON company. I believe there's a memo regarding this. Is there a presentation on this point in item or is it just discussion?

>> I think this is really just on your agenda to record back to you that the council did adopt the resolution defending payments from the reserve fund for this physical year. The office of employee relations did send a memo to the council advising the council of your vote and of your request, that you be able to distribute this to do a distribution to the bottom 25%. That was submitted to the council agenda on November 16th, but council went ahead and suspended the distribution. So at this point, you've already adopted your resolution so the transfer in of money has already occurred, so there really is no further action for the board at this point.

>> Okay. Is there any further discussion, either from CHEIRON staff or from the board?

>> Yeah. I'd like to know where does this go from here? Do we wait for further council action and for them to be the moving party, or what do we do?

>> So the distribution has been suspended until June 30th, 2011. So assuming nothing else happens between now and June 30th, 2011, you'll be back to business the way it was before if there are further, you know, changes that come forward, you'll certainly-- you would certainly know about it and hear about it. So it's a temporary suspension. The CHEIRON report, actually, you had it at your November meeting. So there's nothing you need to do with that. You used the CHEIRON report, you adopted the resolution, it's done. The money has gone into

the fund. So after June 30th, you can go back to looking at doing distributions again unless council does something further with it.

>> Thank you.

>> And just a follow-up, the board can make a recommendation to council about distribution.

>> Which we did do last time, right?

>> Correct.

>> We did it at the last board meeting.

>> Right. So that is already done. But I meant you at least have the authored to do that again.

>> Sure. And if the council wanted to change the code, it would come back to you for actually looking at the code change. So I think if there are further changes, they will-- they will come back to you either for a recommendation on a code change or to make a recommendation back on the distribution resolution or as you can make your own further overture to council if you want.

>> Right. Mr. Anderson.

>> Actually, I have country question and a point. It seems like in section two, they're opening the door for us to recommend a subsequent methodology. So it says this approval shall remain in effect until such time as the board recommends a subsequent methodology and the council adopts the resolution approving the subsequent methodology. So it appears as if they've opened up the door to come to them with the methodology to implement what we kind of recommended the last time. So I'm wondering if I'm interpreting that correctly.

>> That's always been-- that was in the previous resolution. There's always been a in this resolution for the methodology to be changed. So--

>> So we are kind of on hold until June 30th from a practical standpoint, until June of 2011 from a practical standpoint. The council got ahead of the process this time by making a recommendation before the board acted. And I was wondering, you know, if that's going to be the order of the day or the order of the year going forward. Are we to consider going back to them at some subsequent period and saying, here is how we would like to see it done?

>> I think that, yes, you're perfectly-- it contemplates that the board could make an affirmative recommendation to the council. And so you certainly can do that. You can certainly make a recommendation on the distribution-- on the distribution permanent fix that you think needs or doesn't need to occur.

>> Well, did they take any affirmative action on our past recommendation or did it just die, for lack of a second?

>> I don't believe there was any discussion of the recommendation at the meeting. They had the memo, I'm assuming, so I can't really tell what the--

>> There was a lot of discussion at the meeting. Some of it was about the methodology. Some of it was about the actual program. The topic of the methodology was more about is it actually achieving the goals and objectives that it was originally stated to do, given the formula that's in place? In other words, is it really providing benefit to those who need it most versus providing benefit to some who may not need it? And it was in context of the entire budget and the increase in contributions and the funding status of the plan. But no specific discussion on the memo or the information from this board.

>> My sense is that as a board, if we want means testing to be a basis going forward, we have until probably June 30th, 2011, to come up with a recommendation.

>> And quite possibly before that.

>> Right, or before that.

>> If we wanted to send something out, if we wanted to take it upon ourselves to move forward as far as a revised methodology and send it to council. I think we would have to have an engaged council on this to see if they-- we would have to find out if they're going to entertain-- rather than spending a lot of time coming up with things, if they're interested in hearing from us about it, we could send off all the stuff. But if it keeps going to deaf ears, it's just a lot of show.

>> I think the council is going to be open to looking at new methodologies for calculation and I think that the sentiment of the council was that the original reasons for the implementation of SRBR were good reasons and that there is a valid purpose for the SRBR program. There was a question, again, whether times when the fund isn't fully funded and there are a significant gap in the funding ratio, is that something that should have greater consideration in whether distributions are going to be made? And also the methodology of calculating the individual distributions to ensure that the original objectives are met more accurately.

>> So that being said, is there any action here that the board wants to take now or send something forward or put something in place? I mean, I didn't have anything in my mind that I actually wanted to do at this meeting about it. But--

>> Put it on an agenda for a future meeting for 2011 methodology.

>> Maybe February or March time frame, so if we wanted to get something down by may. I had one question here that I wanted to ask the attorneys, particularly miss DENN. On the resolution, 17B, in the heading-- or this is a common question I'll ask several other things that came from the city attorney's office. Were noted as the federated city employee's retirement fund and then two sentences down underneath the first whereas, the federal

employees retirement system, I know sometimes in the-- in the code we're referred to as sometimes the plan and then previous to that it was the system.

>> We're trying to get it consistent in terms of system versus plan. The problem is so many people are with the system. And probably maybe don't like the acronym for the federated plan as much. But the fund is-- there is a fund. It's separate. The fund is the money, the system and the plan are the whole scheme of benefits. So this reserve is in the fund. And like I say, we're trying to convert as much as possible, but it hasn't been fully done.

>> I've noticed. Hopefully we'll catch that and make a decision on where to go. So did you want to talk to the item? We had a busy agenda, so we're going to keep moving today. We've got a stand up Mike if you want to you don't have to squat over.

>> Okay. I'm president of the federated retirees association. I appreciate the action you're taking here, recognizing the need to look at this methodology and formula. I think the city council back the when we spoke to them directly a few weeks ago on this item was interested in seeing some options. Maybe reference to the memo talking about the direction to the city manager to work on this, I think many of you people had discussions last month that it was important for us to turn together and I like the idea of putting this specifically on the agenda for February and March and to keep this out of the pension reform committee. We're prepared to sit down with you in the meetings before the agenda to work on options or methodologies and hopefully we can do this quickly because we've got a lot of people out there, as you know, where $75, $80, $90 means a lot to them.

>> Okay. We'll commit to when that subject agenda making sure that you get noticed of that so you are a representative from the retiree association to be involved. Seeing as no action, let's move on. This is item 25. Review an action of CHEIRON's assumptions for 1838.

>> Good morning.

>> Good morning.

>> We have a relatively short presentation looking at the transition from GRS and the assumptions that will be used in the valuation. We don't have valuation results today. I want to go through-- I think the last time we were here, you saw a similar chart with the tank. I won't go through it in as much detail, but funding a retiree health program is very similar to funding a pension program. The tank represents the size of the abilities. The green in the tank represents the level of assets. Typically the asset levels are much lower than the pension fund because most of the plans were not funded at all until the rules were changed. You have investment earnings and contributions from both the city and employees going in to fund it. And coming out of the tank, you have the benefits and the expenses. As we indicated last time, a traditional standard is to be within 5%, recognizing that there are differences in valuation software and other things that could lead to minor differences. This slide just shows that on all the key measures, we're well within that standard and we've replicated their results. I won't go through all the comments on the transition, but there were a few things that might explain some of our differences. There were some items that GRS considered proprietary and so we didn't get examples of their full claims curve and those sorts of things. We got points on the curve and so we made our estimate of what their claims curve was in order to replicate those results. I'd like to go through a little bit of history because I think it sets up where you've been and where we're going and what the assumptions and thoughts might produce. This chart shows in the gray parts the liabilities for the retiree health benefits and the green line shows the assets. You'll notice that there was a big jump up in the liabilities in 2006. That was the first year that the 4345 valuation was done. I believe prior to that, evaluation was based on an estimate of 15 years of payments under the system. So, really, the GASBY 4345 change was a dramatic change in the liabilities and the assets are just rolling along and we're starting to catch up if there's a-- as of the 2009 valuation, the fund was about 11% funded. There is a-- this slide shows the contribution rates, the city's contribution rate and the members rate. Historically and projected into the future, the HASH bars represent the projections. Those projections are from the GRS valuation and the phase in. There's a policy on the contribution to phase into the annual contribution by 2013-'14. So this shows that projected phase-in. When you're looking at a fund that is-- has a very low funded percentage, one of the key things to keep in mind is what are the benefit payments that you're going to have to pay out? And so this chart shows the historic benefit payments and projections into the future where the red bars represent people who are currently retired and receiving benefits and the blue bars represent people who are active who are expected to be

retired and start collecting benefits. You can see that from about 2002 to 2006 or '7, the payments doubled. And that that pattern is projected to grow a bit and that then is projected to slow as the plan matures. The assumptions for the valuation, where they apply, we use the same assumptions as the pension valuation. So that includes mortality rates, retirement rates, termination rates, all of those sorts of things. The expected return on assets that you adopted in the last meeting. We would use that, as well. Claims cost, the participation assumption, which we're not making any change to at this valuation. So we're not going to spend much time on it. The blended discount rate, which is when you're not contributing the full annual required contribution, you have to use a blended discount rate for disclosure, not for the calculated funding, but for the city's financial disclosures. It's a blend between the expected return on assets and the expected return on the city's unrestricted assets, which are usually short-term securities. So we'll show what that blended discount rate is. And then the MOUs define specifically an amortization method and a phase-in, but they leave a piece of the amortization method up to the actuary. And this is the first year that that piece would apply. So we'll have a recommendation shortly on that. On the health care trend rates, GRS used some rates that trended down over about nine years to an ultimate rate of 4.5%. We're proposing lengthening that period to 15 years. But the basic starting and end points are the same. No change to the dental. The pre medicare trend rate that we're recommending is the dark blue line at the top of the graph and the smaller blue line with the open squares was the GRS premed care trend. And then the red similar pattern is the trend for Medicare eligible claims costs. Now, you've probably seen these trend downs in prior valuations. And the concept behind them is that we have current health care trend rates in the market today, but those trend rates indicate that health care costs will be an increasing percentage of GDP every year. And in theory, that cannot go on forever. And so the question becomes at what point will it stabilize as a percent of GDP going forward? And that's essentially what we're suggesting is that you push that out to 15 years and that is based on recent research in the area and I think most firms have been pushing that out to reflect that research that health care costs could be an increasing percentage of GDP for a longer period than we had previously assumed.

>> When you come back with the valuation on this, I would like to see the comparison of the two. I think right now we might say, yeah, it's a great idea, go ahead, it's the right idea to do it. But not knowing the financial

consequences, I think just in theory, it sounds fine. But to see the actual dollar implication, also, I think I'd like to see the comparisons between the two.

>> Okay. Yeah, we can provide that.

>> Thank you.

>> I'm sorry, that's a good idea. Do you want us to hold questions?

>> No, go ahead.

>> My question is, what does this trend rate look like on the part that we don't see to the left?

>> It's flat at 4.5.

>> No, no, to the left.

>> Oh, to the left, the historical trend?

>> Yeah. One of the concerns I had the last time we discussed this was I don't think anybody can find a year where we only had a 4.5% increase in the health care costs. And we continue to hear that it's just only going to go down from here, but we only hear that here. When you look at national trends, when you look at whatever is happening in the media, all the discussion over national health care, everything else, everything indicates that the trend curve is going to stay where it is or increase. And I would really like to see at some point in the near future maybe what the last 15-year trend looked like because I really think that we may be setting ourselves up for 10, 15 years down the line to have a bigger problem again because we're not being realistic in our projections.

>> I haven't told your historical trends. I know from the past looking at national figures, that you do see some significant movement in those trends and there were years where they were low in the not too distant past, particularly as I recall, when the Clintons were proposing health care reform, we had a period of very low trend rates following that. But then they resumed at much higher levels. But we can pull some figures and bring those back in January.

>> Because my biggest concern is I don't know if we could ever look at a 15-year period and see that in a 15-year period we always had a trend going negative. And I just-- I think it would be hard for us to justify this going forward saying, how can we come up with something that says no matter what has happened in previous history, for 15 years we're going to see nothing but downs? So that is my biggest concern going forward. I just don't want to leave a bigger problem for another board, a generation in front of us.

>> Maybe what might be pertinent, you said you have research that says this is the way things are going, that this is the method you're proposing to other clients, I presume, and also in the industry. That's the method other firms are doing. If there's research around that, maybe we should have that further discussion on that, whether it's next month or very soon after have that discussion as to why. We've talked about doing some actuarial training and discussions, very in-depth and detail. So it's not going to make-- we can say this year this is what we're going to do and then very quickly have this discussion so we can bring those education pieces forward to help us understand. I mean, I understand the point that you're making is that if the rates stay this high, increasing at 9%, 10%, the percentage of GDP, we're all working for health care because of the massive growth. But I also understand your point, in recent past, maybe five, ten years, it's been very high and the likelihood of-- what's the mechanism, what's the trigger to make it go lower? Right. So we could agendize that for one of our education pieces and we'll bring it forward in the spring.

>> Additionally, when you're coming back to talk about what's going on is in the industry, I think it would be useful also, I think Medicare has published recently long-term projections, as well, that are significantly higher than 4.5%, something like 6.5% kind of range. So it might be useful and that's just me glancing at news articles. I think it would be useful if you could resurrect what exactly the long-term prediction is, as well.

>> Okay. Yeah. We can bring those back. I think that does make sense to do it in an education session. So that we can go into it in more details.

>> Right. We're not hurting ourselves by setting it up this way now.Any other questions at this point from the board? We'll just let Mr. The hallmark continue. Sorry.

>> Here is a comparison of our claims assumption. So they're-- in a retiree health care valuation, we value the claims that are expected to be paid less the payments made by the employees. The portion of the premium paid by the employees, that's ultimately the liability for the plan. And claims vary by age. And by whether you're eligible for Medicare or not. And whether you're male or female. The column showing 2009 showing the claims assumption that GRS used in that valuation and 2010 shows our claims assumption. You'll notice that there is a larger increase in the female population versus the male population. I believe that reflects more of a difference between our model and GRS's model than an overall increase in the actual claims. But-- so you can see on the male side that the increases are much lower and probably lower than the trend assumption. This year, there was a significant increase in the dental premium and that is what is reflected at the bottom there. That is completely driven by what the premium is.

>> Bill, I have a question. This chart of claim assumption, how does that flow into your valuation? In other words, how is this incorporated into the valuation that you perform?

>> So it's incorporated because we assume, for example, that a 64-year-old male, the costs of providing medical benefits to them is $982 for that individual. And then they pay a portion of the premium and that difference between the premium they paid and the $982 is the liability to the plan.

>> Because this plan, as I understand it, paid what the plan pays is a low cost plan of the plans that are available.

>> Right. Which means that the employee pays that additional piece above the low cost plan.

>> Except that some employees picked the lowest cost plan and pay nothing. A lot of retirees pick the lowest cost plan and pay for nothing. So this would only be for people who-- that's, I think, kind of the question. And for the active employees, it doesn't, of course, vary by age. They just pay a percentage.

>> Right. They pay a premium and a percentage of the premium. The premium is set at-- essentially, the premium is usually set looking at the premed care population and the total expected costs divided by the number of people covered. Ignoring dependent coverage, with if you just looked at employee coverage, for example, it would be the total expected costs divided by the number of people covered, so you get $1 amount that is paid by premium for everyone. But that doesn't reflect the actual costs of providing that coverage for individuals. And the key thing for a retiree health plan is the cost of the retiree benefits is much higher than the average cost for the whole plan. And so that is why we try and reflect the claims-- the actual claims cost by age. And it's weighted based on the coverage that's been elected in the plan so that you can address the different levels of coverage provided.

>> When you're factoring working on this, aren't you considering the plan's liability is the lowest cost plan?

>> Yes.

>> There are no other premiums to the plan except the lowest cost plan, because if you elect anything other than the lowest cost plan, you pay the difference?

>> Right. And that's built into what we consider the retiree paid premiums.

>> Are there more questions on that? Did that answer your question?

>> I don't know if Mike's question was--

>> Yeah, I think he answered-- yes, I think it's-- I'm okay with that answer.

>> So I guess I'm still--

>> They're valuing the low cost plan, but they do look at the actual claim costs to look at the total costs, even though the city doesn't pay that.

>> Because ultimately that will drive costs up.

>> So this is claims cost from the insurers. You're looking at claims costs from the insurers?

>> Well--

>> At what they actually pay out.

>> It's based on an assumption because that information is not provided to us.

>> Just to add to that clarification, it's required that the actuary does this calculation by age to determine the subsidy which is parts of the required disclosure by the 43, 45. So this is required predominantly for that purpose.

>> Right. So it's not our actual. It is-- it's not based on information from our pool necessarily.

>> No. So we've got your total premiums and then your population and we apply an age graded assumption to develop the costs at the different ages. So it ties back to your total premiums, but it's based on an assumption of the difference in costs based on age and your actual population. The blended discount rate, this is used for the GASBY disclosures for the city. The board adopted an expected return on assets for the pension plan of 7.95 for 2010 and 7.75 for 2011. The MOUs require a phase-in to the full arc with contributions of 6.41% this year. Using the methodology that's been established for calculating the blended discount rate, the chart below shows that

calculation. And so we've increased the expected return on plan assets for this year to 7.95. We kept the unfunded discount rate or the expected return on city@assets at 4.5. But the quote/unquote full arc is if the city was paying the full arc this year went up from 8.3 to 9.99 and so that means during this year, the city is only paying 64% of the arc. And so we do a blend, weights the 7.95% at 64% and the 4.5% at 36%. And get a discount rate of 6.71%, which is virtually no change from last year's blended discount rate.

>> Can you explain to everybody why the expected return on plan assets appears to be going up this year?

>> Yes. We had this discussion at the last meeting that when you adopted the phase-in last year, you expected it to be a phase-in at the discount rate of GRS went to the 7.75% discount rate and phased in the contributions on the pension plan.

>> Which created a net pension obligation for the city?

>> Yes. And on the OEP plan they did the calculation using a 7.75% discount rate. And so that is why last year's was 7.75% and it appears that we're increasing this year, but it's really a different interpretation of the phasing. This slide outlines the contribution strategy, which is really detailed in the municipal code and the MOUs. The MOUs dictate a transition to a-- to fully fund the arc over five years, beginning June 28th, 2009, using a straight line phase-in. But the city and member rates can't increase by more than 0.75% of pay each year. So with that limitation, the phase-in rates that I showed you earlier, there will not be much variation in those rates in the near term because, as I recall, they were close to about 0.65% of pay increases each year. So at most, we'll be ten basis points higher. If that's the right number. But then in 2013-'14, we will jump to the full arc. The method that's dictated to be used is the normal cost method, which is a very common method to be used. The other key decision in the MOUs was that the initial unfunded liability as of June 30th, 2009, is amortized over a closed 30-year period. So that is essentially the 90% of the liability because we were about 10% funded as of June 30th, '09. So that 90% of the liability is being am amortized over a 30-year period. Changes in that liability after that initial date, according to the MOUs are to be only advertised as recommended by the actuary. And our recommendation is to use the same 20-year layered amortization that we're using for the pension plan and make

it effective with the-- any changes that we had we see in the June 30, 120 valuation, which matches what's going on in the pension plan. Then retiree medical benefits are split 50/50 between the city's members and the dental benefits following the 8 to 3 ratio that you see in the pension plan. Now, overlaying the contribution rate, the fund is funded through a 401 H account. 401H refers to the internal revenue section that creates those accounts. And it provides strict limits to the amount of contributions that can go into that account. And GRS projected that that limit would be reached by June 30th, 2013. We think actually it will be reached much earlier, but we've posed some legal questions to clarify how that test should be conducted. I also know that GRS calculation was done assuming the fund started in 2007, but it's now been clarified that it started in 1995. So that should help. But the other interpretation has a limitation that really restricts the amount of money that can actually be contributed.

>> Referring to CHEIRON's questions to the outside tax council and we'll expect to hear back from them before the valuation comes back. But they are correct that GRS projected reaching the limit in 2013 based on-- I believe a 2007 plan establishment date. And as you know from our prior discussions on the tax ordinance, we're proposing a planned establishment date of 1995. So that does help a lot. And so we will-- I think we will have a full answer to this when they do come back with the valuation.

>> Yes.

>> And then finally, this is the same recommendation we had made toward the pension plan, that the contribution be the greater of the dollar determined contribution are on in the valuation or the contribution by applying the contribution rate times the emerging payroll and it's the same reasons we had discussion with the pension. I would say it's actually probably a more significant issue with the retiree health evaluations since it's 10% funded and that 90% unfunded is the dollar liability that needs to be paid off.

>> So when you-- we're going to have a more complete discussion, I think, of the dollar value item a little later in the agenda. So I'll hold the comments we have on that until then. But they rise for both of these.

>> Do you have any more you'd like to add?

>> That's really it. This is a picture of our model that we used for the retiree health care. It does not have your information in it, but it's-- just put it here to show you the kind of graphics that we'll bring back in January when we have your full valuation completed.

>> Okay. I have like five topics that are going to come out of this report. I just want to know if there are any questions that the board has of the actuary. Seems like we have five things we might need to give direction or take topics on. These are broad topics and maybe not in this order. But future amortization, after the 30 years, it seems like we need to make a recommendation or make a decision on that. Probably provide direction on the 401H account about reporting that and what we want out of that 401H account. The health care trend rate, it seems like they're make a change there so we need to approve that decision on the health care trend rates. Of course, the discount rate if we agree that that is copecetically what we're understanding. And then five, the contribution, the one that's on the screen right now, the contribution timing and so forth in payment. Whether it should be-- does that seem like anybody can agree with those five topics we need to have a discussion on and/or make a decision or correction? Why don't we take it in that order. Did I miss anything?

>> No.

>> Can I add one thing?

>> Yes.

>> Can we hold the fifth item to 27? Or we can have a discussion now, but I'd prefer not to vote until we have a broader discussion.

>> That's exact think recommendation I was going to make. That fifth item, when we discuss item 27 on the actual board agenda, we can make that apply to the OPEB contribution or valuation, as well. We'll take that off the agenda now and discuss that when we deal with item 27. So let's talk about the future amortization. The

recommendation, I believe, Mr. Hallmark, was to mimic what we're doing with the plan, the 20-year closed for each one going forward, Laird, correct? Laird amortization. We had this long discussion last year about Laird amortization and so forth. What are the thoughts about that?

>> Motion to approve moving to a 20-year Laird amortization for future unfunded liabilities and maintain a 30-year closed period for the current unfunded liability.

>> Well, the 30-year closed thing is not something that was negotiated. That is something we're discussing here. It's just the 20-year Laird for future.

>> The 30-year close applies as of October 30, 2009, and that the 20-year layer would start as of June 30, 2010.

>> Is that the understanding of the motion?

>> I'll second that.

>> Oh, sorry.

>> It's okay. So everybody is clear what the motion is. Any comments or discussion on that motion? Great. Seeing none, all in favor? Aye.

>> Aye.

>> Opposed? It's approved.

>> Sorry. Who seconded?

>> Mr. Compton.

>> Thank you.

>>> On the 401H account, this is probably not a decision or action, it's to provide direction as to how we want to be reported back on this. Is there any thought or discussion on that? Any representations as to how it should be reported, maybe as we founded with actuaries today?

>> I think the actuary would come back with their recalculation of the-- when the limit is going to be reached at the next meeting. This is for discussion because we have to take into account any actions that come back from outside counsel, also.

>> Because the tax ordinance isn't going to be in place and our voluntary compliance isn't going to be in place, we'll have to instruct the actuaries to use the 1995 date just like we instructed GRS to use the 2007 date and we'll have to get our questions to them and they'll be able to make a recommendation to you and they'll be able to make a projection, I mean.

>> So as ice Miller come back with their opinion?

>> They have not. I've talked to them. I've forwarded the question to them. I have not heard back from them.

>> It would be nice when they come back the to get that in writing. That way we could have that as our packet as one of the items.

>> And they do plan to give me something in writing. I might have to turn an e-mail into something to you, but I do plan to get something in writing from them.

>> It would be nice for the document's historical purposes because then we would have that sort of set in stone and we could move forward from there.

>> Depending on the answers to those questions, we may or may not be able to get that recalculated by the January meeting.

>> Is there a-- I mean, you can communicate with staff as to what kind of timeline you need there, but we'll hope and pray, yes.

>> Right.

>> And I was just going to add, when the actuary returns with what the anticipated limit date would be, I would like a sense of what the ramifications are if we have reached the cap and mitigation strategies, because I'm not sure I comprehend what it means for us as a board if we have reached this limit.

>> Yeah. We can explain that at the time, too. It impacts-- it basically tamps down contributions that can be made. And a lot of it is a function of weather pension rates continue to get up. So we can explain the implications.

>> Just a quick question. Given that I'm sure we're not the only plan that's facing these kind of issues with the limitations for the 401H given the fact that all of the attention to the reporting and people, you know, facing the music and starting to come up with the plans and fund it, are we aware of any advocacy or any efforts for the limits that are contained within 40 isH to be changed?

>> I'm not aware of anything on that, and I actually think that-- I'm not certain of this, but I think San José is ahead of the curve quite a bit in terms of full funding. So I'm not sure whether other plans are-- there probably are some that are ahead of the issue.

>> And I believe in the negotiations was that a separate trust would be established, that the 401H issues would probably go away.

>> There are other ways to handle it, yes, there are.

>> Right. That was probably part of the negotiations of the outcome that that would be established and before the 401H limits get released. That would be the intent, at least.

>> And a lot of other jurisdictions have set up those alternatives so that the funding no longer goes through a retirement system.

>> So it seems like a clear direction is to recalculate, get the information and work real hard to hopefully get there in January when that stuff of the stuff comes in. Health care trend rates, are there thoughts and decisions on the health care trend rates contained here? Maintain GRSs, accepts the recommendation from CHEIRON.
Thoughts?

>> Perhaps Carmen could address the industry standards and what other actuaries have done and is what both actuaries have done or are recommending, is that consistent with the industry practice?

>> Yes, it is. Typically, the ultimate medical inflation assumption is somewhere between 450 and 550. This is-- this would be probably in the middle of the range when it comes to the ultimate assumption. So there is nothing in here that's out of the ordinary with respect to what other actuaries or what other health care plans are assuming. So we understand the reasons behind potentially the discomfort with the assumption a lot-- the reason the industry is assuming that ultimately the inflation has to go down is, in fact, there's a specific piece of research that's fundamentally shows that if health care inflation continues to be around 10% over a period of 30 or 40 years, the health care factor will become the dominant factor in the economy and the thought is that the government cannot allow that to happen. Now, we can bring that research back and we can also bring back something that shows where the specific assumption of 450 fits within the industry, so compared to other assumptions made by other actuaries is that in the median, is it aggressive, is it on a conservative side?

>> And ultimately, the trending down from where you are today to that long-term rate is much less important, much less impactful on the final members as in the long-term rate. The long-term rates overwhelms everything else basically as the calculation. So that is really the primary focus is the long-term rate rather than I wouldn't get too hung up on how you trend down from where you are today to that long-term rate because it is the long-term rate that just overwhelms the calculation.

>> So we don't expect that the difference between what GRS had and what CHEIRON was proposing would have a metrial impact on the rates.

>> Okay. Thanks. I agree with that statement. I would like to see, like, in the past where we were deciding on where we want to go on our assumed greater return, that we were able to see, you know, like you said, at X percent, these are the long-term results and kind of a step and I would like to see at least the extremes, given, you know, if you did it as low as you know, 4%, if this is the impact to your numbers, if you tell did it as high as 6.5%, as that's what's Medicare is projecting and given our recommendation, it will be this so that we have that range to look at and you can be better informed going forward.

>> Mr. Perkins.

>> I think that's a good idea. And we'll be revisiting this from time to time. It's not like it's the end of the world today. So I agree, I think that's good to see the range and then we move forward. Who knows, we're going to be tackling this thing forever. But in the interest of getting it done, I would recommend that the board approve CHEIRON's recommendations today, let's get the valuation and they can do the sensitivity analysis and present that at the same time they present the valuation.

>> And I just want to make sure that I'm understanding it correctly. So moving from 15 years to 9 years is not going to have a material impact on rates. So there's not a significant cost implication to this?

>> No.

>> And, say, next month as we bring forth the valuation to the extent that the board would like to consider changing the assumption, that can always be recontemplated. So--

>> Sure. And as we do the education process that we were talking about through the spring, setting this now is not going to put us off on a course that's dent mental. So do we have a motion from the-- to move forward on CHEIRON's recommendation.

>> So moved.

>> And a second. All in favor?

>> Aye.

>> All opposed? None. The blended discount rate, only because it's a change from the past year's discount rate, any discussion or comments or questions from the board, comments further from the actuaries?

>> Comments. It's basically driven by a methodology that is embedded in--

>> Well, the key was that last year we were-- and you exchanged it well, Mr. Hallmark, the reason it says 7.75% is the ultimate rate from last year and now it's 7.95%, it was driven by our discussion from last month. I want to make sure that everybody is clear on that.

>> I'll make a motion. I'm comfortable with it and if I believe it is, I'll make a motion that we approve that to move forward.

>> Second.

>> Second. Any further discussion or questions? All in favor, aye.

>> Aye.

>> Opposed? None. And then my fifth item was the contribution floor that we discussed. That will be pushed to deal with on item 27. Is there any other things we need to talk about here?   On the OPEB presentation? Item 26. Discussion and action on CHEIRON's pension valuation for the period ending June 30, 2010.

>> So I-- you have our final report reflecting the decisions made in the last meeting to have a 7.95% discount rate. I just would direct you to table 1-1 on the very beginning shows the total contribution amount if paid at the beginning of the year. It's 86.888 million. And if paid at the end of the fiscal year, 93.795 million. I'll take any questions you have about other aspects of the report, but it's really very much what we presented last time, just reflecting the decision on the discount rate.

>> Are there any questions from the board and/or comments?   From the staff or anybody on this item? I have some. My thoughts on reading through this and first of all, believe it or not, it's a good read. It's, you know, well presented and as far as actuarial reports go, it's clear, it's concise. The charts are simple and understandable. The language is not in your vernacular. It's in normal vernacular that folks can understand. And I think this is the key next step in our process in getting our books right. I think it is. As the accounting actuarial rules-- pardon me for reading my notes-- evolve the picture of the past practices comes in a better focus. Unfortunately, when we thought everything looked great in the early 2000s, the real picture is we really weren't. And by the lens we were using at that time, the actuarial thoughts, the accounting thoughts, we were. And that's the one key thing that comes back to your point on page 4, the first paragraph that I'm actually going to read. Because I think it's a very well worded paragraph.

>> Which page?

>> Page 4, under historical trends. Despite the fact that most of the attention given to the valuation is with respect to the most recent computered unfunded actuarial liability funding ratio and the system's contribution rates, it is important to remember that each valuation is merely a snapshot of the long-term progress of the pension fund. It is more important to judge a current year's valuation result relative to historical trends as well as the trends expected in the future. Basically, it's a much better way of saying the laymanALOGY I was using a couple of months ago about the curling. It's a snapshot. There's a lot of great information in this report. It's not necessarily a lot of happy news, but the reality is it's a great snapshot and your presentation looked very good and I really appreciate it. I did have one other question, this is more to staff and this is an item on page 12. The investment performance, 14.6% for last year. Is that correct? Because my understanding of the reporting is like 15.1 net.

>> There may be a difference because we're calculating it dollar weighted return and usually the investment consultants report a time weighted return. And the difference being our return is R.ing when contributions go in and when payments go out of the fund whereas the time weighted return takes the cash flow out of the equation so that it's typical for there to be a slight difference between those numbers.

>> 50 basis point is kind of a lot. Do you have any thoughts there or do we want to--

>> I believe it should be the same number, so we'll--

>> You'll look at that?

>> I believe it should be the same number. Weir we'll look at that. Thank you for bringing it up.

>> Any other questions?

>> I just had a question on page 15, table 3-4. Item 7D, it says a portion of 7 due to Val versus expected contributions, is the part of the discussion we're going to be having on the next topic? Is this a differential.

>> It's part of that differential and we had a discussion a little bit in the last meeting. The footnote breaks it into a couple pieces. There's a one-year lag between the time the valuation-- the date of the valuation and when the rates go into effect. And that's a piece of it. And then there's a piece that's due to payroll being different than what was assumed.

>> Anticipated, okay.

>> I just wanted to echo your comments on how relatively easy given the topic this report is from the different reports that I've read, it was-- I don't want to use the word enjoyable, but it was more-- I guess that's the word. It was more enjoyable to read, relatively more enjoyable than previous editions. And I'd be willing to make a motion to accept the report.

>> Second.

>> A motion and second to accept the record.

>> Now, did you-- I just-- did you want to accept the report or did you want staff to look into at least the one issue raised?

>> I think they can hopefully accept the report. But maybe direct staff to work on resolving the issue because the investment consultants should be calculating on the same basis as the actuary. And so the two numbers should be one. So we'll just confirm what the numbers should be and maybe provide a short memo in the market meeting.

>> It has no impact on the liability?

>> No results.

>> We should.

>> Have one item.

>> So I'll impact that motion into the floor.

>> Second?

>> Yep.

>> Further discussion? All in favor?

>> Aye.

>> Opposed? None. Okay. Under item 27, which is discussion and action regarding the implementation of the methodology approved by the trustees at our November 10th, 2010 meeting for the employer annual required contributions being is he the at the greater of $2 amounts. A, the contribution amount reported in the valuation or B, the employer contribution rate times the emerging payroll fort year. So an interesting discussion resulted I believe as a result of our previous meeting and previous discussion and decision. Would you like the staff like to present the topic, pledge just the memos written here?

>> Go ahead.

>> Well, at the last board meeting, CHEIRON recommended that this methodology be implemented and staff had discussed this methodology with CHEIRON beforehand. And we think it's very important policy to have if place when payroll is declining because the unfunded liabilities, especially the unfunded liabilities have grown and the required payments are in dollars. And when payroll is declining under the current methods that have been in

place for many years, those correct dollars are not coming into the plan. So the basic concept was to stop that continual loss on the unfunded liability.

>> Could we give a quick synopsis of that?

>> The decision was the actuary's report, a dollar contribution or arc contribution, if you want to refer to it as that, they show a dollar amount. And most actuarial reports slow a dollar amount and that's the amount that needs to come in to pay the unfunded liability and the normal costs for the year in question. What the city has done in the past is take the contribution rate that's underlying that dollar and apply it to actual payroll as it comes in. So if the payroll that's coming in is less than the actuary assumed in this calculation, then the correct dollars are not coming in. And so the concept behind this, taking the larger of the two to make sure in any case that the right dollars come in. So if payroll could decline, stay steady, it doesn't matter, we need to get those dollars into the plan. And that was the idea behind that. The recommendations on CHEIRON's part and the board action.

>> And clearly there was no cost to the change in methodology if payroll grows by what the actuary is assuming, which is around 4%. Fundamentally, because the biggest amount of the contribution is related to the unfunded liability, which is fundamentally just a flat dollar amount that needs to be paid, even the normal costs, what is currently happening is the normal cost typically is better linked to a percentage of pay. However, when the city lays off its youngest employees, which is currently the practice, the average age goes up and if the average age goes up, then the cost-- then the percentage of pay is no lock longer the appropriate way to provide a cost for even the normal costs. So really, given what is currently happening on the overall contribution and payroll declining and the way layoffs are being structured, really, the way to ensure that the correct amount comes into the plan is to pay for dollar amount, which is ultimately what this change is targeting.

>> At a very basic level. Never contemplated a day when the city would be reducing staff and reducing salaries. And once you've crossed that threshold of actually reducing head count and simultaneously reducing salaries, you introduce this problem of a contribution rate based-- a salary based contribution rate isn't going to generate enough money to actually make the required contribution. That is the problem, that's the issue that needs to be

resolved. That's what the board talked about the last time. And really, the question is at what point do-- well, a couple of issues. But one of the primary issues, at what point do we begin to implement that? I think what has triggered a lot of call it conversation with the city is that after that meeting, we, retirement services, with the actuary performed a calculation and let the budget office know what the amount would be. And it's fairly substantial. So with that kind of background--

>> What is that?

>> I think it comes out to be 15--

>> On page 2.

>> Of CHEIRON's report on page two.

>> Item 6A and 6B, really, the relevant item is 6B, which is an estimate of 16.6 million. The key is, to label this as a cost is the wrong way to look at it. The city is in the process of laying off. To the extent they lay off people, savings that they can realize is really the savings on the payroll piece. When the plan has a huge unfunded liability and the unfunded liability relates to past service, although you may lay off an employee, you still owe him certain pensions. And so the amount of money that needs to come in still needs to meet the obligation. So really, we're saying it's a cost. The result is it's simply a-- trying to communicate to the budget that the payments that were promised to the employees with respect to fast service still feed to be maintained. So it's really just changing the way their view of what is the savings that they can realize.

>> So is it easier understood that the amount of savings in a lay off maybe in the past wasn't factoring in the impact to the pension, the unfunded liability of the pension?

>> Yes.

>> So now, we factor that in, so it isn't as big a savings on the budgets as maybe once had been thought of.

>> Exactly.

>> Okay. I kind of get back to your comment about how you look through things through lenses. What we're doing here is over the past, I don't know, 18 moss, two years, we've taken so many steps to get our arms around reality. So we're looking at things differently. I caution that we go way back and cause other problems. I think we need to do this and I think we need to do it and have people with intelligence so they can make good discussions. It's kind of hard. I mean, I think in a perfect world, we should go back as soon as we can to fix this. I think we have to be cognizant of the fact that people are making decisions. This is real money. They're going to create more layoffs. It starts to get to be a vicious cycle. I don't think we can make these assumptions in a vacuum.

>> And actually, if it's okay, your comment making decisions in a vacuum, I think it's a good segue. When we discussed this on November 10th, conceptually, I understood what was being discussed. I understood that there was a contribution amount that is determined by our actuaries. That's the amount that needs to be funded in order to make sure that we're maintaining the full funding status of the pension plan. However, I must the say that I was a little surprised and understood that there was a $17 million price tag associated with this. As a board member, I felt that I probably voted at a time when I was not fully informed. I would hope in the future going forward, that any discussion on recommendation language will include a cost implication section and a cost implication section before it's brought to the board as opposed to the board passing a recommendation, then staff and the actuary is going back and calculating what that recommendation actually transpires to in a dollar amount. So that is just kind of a-- I don't know if my board members agree with me, but that's where I'm coming from as a board member. I understand conceptually that this is probably the right thing to do. I would have liked to have had the knowledge beforehand of what the actually impact was going to be on our sponsor. Our fiduciary responsibility to the plan and the assets of the plan. But we also are not best served in our sponsor is in a fiscally stressed situation and we don't consider that as part of our fiduciary responsibility.

>> When we took this action, it wasn't contemplated.

>> No, it was not.

>> And so in terms of having all the eggs in the basket, at the time we took the action, I think we had all in the basket that we knew we needed. This is a subsequent action that has taken place apparently because of the difference between A2 and A-4 on CHEIRON's memo. And I'd like an explanation. That's a big number, that difference. How did that happen?

>> The discussion when the actuary started discussing this issue, this recommendation, this was in the context of a $33 million loss that was thrown on the city's contribution. And I believe some of the members of the board ask why, did the city not pay the contribution that it was supposed to pay? And the answer came back, the city paid the contribution it was supposed to, but the methodology basically failed the plan. And then the actuary points to the fact that the recommendation is supposed to address the $33 million loss. Clearly, the 16 million is only a fraction, meaning the methodology is only a piece of the problem. That is the piece that is easiest to fix. So if anything, my expectation is that the amount is significantly lower than what was shown to the board. And that really maybe is a discussion of what further can be done to correct the full 33 million is what we owed the board. I just want to be clear on the fact that the reason this recommendation was taken is because of the $the 33 million loss that was shown in the report and the questions subsequent to that. And in reality, if we are to address the full problem, there is other issues that need to be addressed. So the magnitude should not be a surprise because to the extent that we are trying to address a $33 million problem, the magnitude should be at least somewhere near half that amount and the full amount.

>> And now I will just say that at the time of the last meeting, we've been attempting to gather actually payroll information so we could do a calculation, but we didn't have it at the time. For the current year. Not referring back to the 33, but for the current year. We just did not have all the information we needed.

>> I appreciate that. I just know as a board, we take great pains when we discussion assumptions and things like that. We sit and discuss the sponsor. . I'm just saying I would like to have broader information in the future when I start to evaluation decisions like this.

>> And I would go one step farther. I think we're owed it. Not that we would like to have it, but I think we're owed that.

>> I'm going to have to weigh in. No, you're not owed it. The methodology that has been used in the past is set out in the municipal code. In fact, when the prefund ordinance was done, it calls for the city to receive a credit back when payroll drops below what the projected prefund was based on. So if the board wants to implement this, there are going to have to be changes to the municipal code that council would have to approve. And I'm not commenting on it from a policy level at all. I'm simply saying that the way contribution rates are developed and the board's authority to develop contribution rates is set out in the code. And for various aspects of the overall arc, the code specifies that it be set at a rate of the percentage of payroll. So the code does not contemplate that it would be set at a dollar amount. That's not to say that it's wrong to calculate the dollar amount. It's right to calculate the dollar amount. That's not to say the plan sponsor couldn't pay the dollar amount. The plan sponsor could pay the dollar amount. But if the board wants to make sure that this particular methodology gets implemented, then there would need to be changes to the code, specifically to the prefund section of the code. And I noticed in the report, the actuary had a figure for paying the contributions at the beginning of the year. That's not permitted under the code. So getting your hands around what you want to do when you change this methodology in putting it back into code language is something that certainly can be done. But right now, the rate was properly paid.

>> Unfortunately-- my first point is my point of what we're owed is the information. We're owed the information when we make that decision. I was not talking about the dollar amount.

>> I'm sorry.

>> We're owed the information when we're making that decision. I want to make that perfectly clear. We're owed the information because this sounds like a great policy, but if it causes things to balloon up, then we need to know that information. That is, in fact--

>> I apologize.

>> We'll talk about the dollar amount.

>> From a staff standpoint, we agree and there was no attempt to conceal, delay, drag our feet with the analysis. We are moving as fast as we can to provide you and the city the information as it becomes available to us and as it's understood by us and the actuary what's actually going on here. And if I may, though, the way the municipal code is written today causes a structural unfunded liability to occur every time the city has a reduction in head count or a reduction in salary. So ultimately there needs to be some kind of fix. Otherwise, every year there's a reduction, the city is going to generation further unfunded liabilities unless that code is essentially fixed. 6/.

>> I definitely agree this is something that needs to get fixed. And I be that the city-- the last thing the city wants to do is to do anything that continues to increase the unfunded liability because that goes completely against the objectives that the council has set out and the administrative policies on the city have set out to really address our funding status in both plans. I have questions about where we actually are right now since-- I want to reconcile the action we took versus what can be done. Because my understanding is we took action to accept the recommendation to give a dollar bill versus a percentage of payroll bill. But I also understand that we don't have that authority.

>> So the action that you took was to have the actuary calculate a floor, have it-- and they always have calculated a dollar amount. And they have also calculated a rate. If you want to have that dollar amount truly become a floor for the purpose of establishing the amount that the plan sponsor should pay next year, then the appropriate direction would be to make a recommendation to the council for the municipal code changes to implement it. The dollar amount is still in the calculation. And to the extent that the city wants to avoid unfunded liabilities, the city

can take that dollar amount and pay it. That's a budget action on the part of the city. It's just a matter of do you want this back into the code so that you don't have this discussion every year.

>> Right.

>> And the prefund language is particularly problematic. Because it does contemplate a credit back when payroll drops.

>> Okay. And that's, I think, where I was trying to get so the last paragraph here says they recommend that the approach be applied immediately and I think we should be using it in our challenges and making sure that that number is very clearly communicated to the city that while we know we only have the authority to send you a bill for percentage of payroll, that this is what the bill really is and this is the impact should you choose not to fully fund the dollar amount. But I think I have to take some affirmative steps to he sure given what we know with the fiscal situation that is happening and several more years of red INK on the horizon, I think we need to take some sort of affirmative action making a very clear communication to the city and the council that the change to the MUNI code is needed and why it's needed. And I think especially as it relates to the prefunding and the credits back, I think we just need to make sure that the entire council and the administration has all the information so they understand fully the implications of the decision, whether its be tough luck, we're going to stick with this, or yes, we understand it. And I think Alex is probably wanting to say something here and then I have a couple other comments.

>> Sure. I will-- I will say that in the past when you've had situations like this where the board has wanted to make a recommendation for a municipal code change, what you might want to consider doing-- and it would have to be our office with staff. And the city, too. We can develop an ordinance for you all to look at.Because there are going to be some things that need to be worked out in the development of that. So we can do that and we can develop it at the board's direction with the understanding, of course, that after you've seen it and looked at it, it does have to go on to council. But that's been done in the past. It's not typical. But if you really feel strongly

about it, it is something that is within your-- Well, and quite possibly, it could be something that needs to be negotiated. That's not in my purview to figure out.

>> I think Alex can speak to that.

>> What I'd like to do is make sure that the board gets their points and comments out.

>> Well, actually, my-- I have a couple more questions, but I did want to ask Alex what-- if the administration has discussed this and if they-- what they're planning on doing with the budget that they have right now. Are they contemplating paying the percentage or are they contemplating paying the together payroll or the total dollar amount? So that's a direct question.

>> Yes. Since the board took action on this and we receive the information, this has been discussed at length within the city manager's office and as part of a couple of the comments I wanted to make this morning, it's not an okay time to do that.

>> As long as there's no further comments or questions from the board. I wanted to make sure we get it all out there in case you wanted to react to that, as well.

>> Mine are unrelated to that.

>> I still haven't had my issues addressed, the difference with the payroll assumptions, but it is what it is.

>> Thank you very much. I was here as a board discussion last month. You made very significant decisions, not only on this one, but the earnings assumption and the discount rate. All of these decisions you make have millions of dollars of impact. And I think as I mentioned to you, it would be easy considering the size of the city's budget problems for the city administration to stand here and simply ask you, give us the small bill as possible. But I can't imagination enough on behalf of the city manager is that the interest is properly funding the plan as the

board makes its decisions and we absolutely do not want to request anything that intentionally underfunds The plan. The amount that you set based on the decision that's you make. Having said that, there is snow question that the retirement contribution costs have significant impact. When you made the decision last month, I have to admit that because it was in the context of the actuarial evaluations that establishes rates beginning in 2011, I assumed that the change would take effect in 2011. So that was one of the questions that I had. And I really do appreciate the report that you received from CHEIRON because it answered, actually, many of the questions that I had had. And actually, what it indicates is that the recommendation from CHEIRON is that the change be made immediately. If it were to be made immediately, then that has the impact in the current fiscal year that we are in, which is that 15 $million, $16 million range. And that has not been contemplated.In other words, we have not budgeted for that amount in the current fiscal year that we are in. So if, in fact, it did take effect this fiscal year, we are then short that amount of money because it's not in our budget. So that is one issue. If it goes into effect in '11-'12, that is simply then something more than we bring to the city council. There are some things in here, however. We do note that CHEIRON indicates that if the modified approach is not implemented immediately, than actuarial losses will be merged causing additional funding requirements. That clearly is a concern to us. If a municipal code change is made as required, that gives us, the administration, some time to bring this item before the city council, as well. Because we believe it's very important for us to make the city council aware of this change, the impacts of the change and then begin to plan for that. So to include my comments, I think it would be helpful if the board-- to know whether the board is actually recommending the municipal code change and it's something that the city attorney's office works on at your direction. That would them be brought forth to the city council which we would be able to then have the full discussion with the council on what this is, what this means, what the full implications are if this goes into effect.

>> So just to understand, I understand your comments on the current fiscal year. But the numbers that we see for next year, do they contemplate the numbers of the full arc?

>> The 70 million figure, which is the last official number that the city council has was based on predictions or estimates of what the arc would be a year ago. We knew and we told the city council that those would be updated based on your board and the other board's decisions. So in short, it was still using estimated contribution

rates. However, you may have seen that the city manager has put out budget targets which are higher than the 70 million which is 90 million. In large part, that additional amount is because of increased contribution rates because of other changes that are being made both in this board and the other board because now we're going to have actual rates as opposed to estimated rates. But if this change is made here, we would have to go back. Is it change going to go into effect? What is the implication? And then we'll know what it does in the February budget point.

>> Just to get down to the point, the $90 million number we keep hearing does not have any effect on this decision?

>> Well, in short--

>> If we have layoffs?

>> I would say because we knew that the board did this last month, it was a part of why the city manager decided that she needed to get more budget proposals on the table so I wouldn't isolate just this because, you know, the police and fire board may think made some changes on their earnings assumption. And so I think it's all of those things together, but it's not a precise number. Once we know exactly what the rates are in both boards, we will then be able to update that budget deficit.

>> Okay. And my question is unrelated Well, in tying to that, when the city pays their cleanup for the previous fiscal year retirement contributions, what budget does that come out of? That's coming out of the next year's budget. So if, for example database correct? Let me make it a question.

>> We try to isolate the amount of money we pay into each retirement fund is for that current fiscal year.

>> But then there's a clean up in July in case not enough has been paid. Because you prefund at the beginning of the year, assuming what that money would make. Let's say we make $1 million less on that money than we

supposed we would have, so the city gets paid a bill for $1 million that needs to be contributed for this last year's arc. Does that-- what does that budget come out of?

>> So when the city prefunds, the prefund is based on finances then projected payroll. So it's not necessarily the payroll that the actuary assumed. It's their projection of payroll at the beginning of the year when they're doing the prefund. Right? If that payroll drops below through the course of the fiscal year, if that payroll drops, the city will actually get a credit back. It will receive a-- it will have to make a lower contribution at the beginning of the fiscal year when the true up is done. If the payroll were to increase, then the city would get a bill, if you will, and would have to make an additional contribution. So the true up only takes into account differences in payroll amounts and to a slight extent timing of the prefund. If the prefund doesn't happen--

>> Where does the money come from?

>> It's a credit.

>> Where does the money come from?

>> It's a credit back if the city owes money, it makes an additional contribution. From which budget? That's my question.

>> From the fiscal year budget of the next year.

>> Okay. So that would be the case. Getting to my point of the question is that if we're submitted another bill for, say, 15, 16, whatever the-- let's say $10 million for this fiscal year because of a decrease in payroll, it wouldn't come out of the '10-'11 budget, it would come out of the '11-'12 budget.

>> I believe that's correct. And it would be part of that calculation that Molly is referring to for the '11-'12 contribution amount, which the city would prefund within that prefund amount there will be a calculation to settle up the prior year, as well.

>> If I can jump in, I think that's a big assumption because I think that's a question we need to ask our finance and budget department because while it may get paid, it may come out of balance. I think that's what you're asking, when does it get booked.

>> We have accountants raising their hands.

>> I can tell you from the plan perspective, the true up amount that's done at the end of the year, accounting wise, belongs to the current fiscal year. We post it and it's included in the valuation and the city, as well, posts the liability or the credit back to the plan. They're booking it. Now, when the cash is actually being moved between the two is in the next fiscal year. And what budget does as far as our cash flow projections, that's the part I can't speak to.

>> And that's the reason why I'm asking. I'm not trying to make a gimmick out of it. I'm trying to understand what it is and what the decision should be based on our--

>> I understand that. I was able to confirm along with the city manager that it would come from the current fiscal year's budget.

>> So that's the key because I don't want to create a gimmick here. I want to make that decision based on knowing that, whether we're going to implement it if at all now or after this next fiscal year. That's the reason why I'm asking that question and I hope it's clear. Yeah.

>> So I still have a couple more questions.

>> Okay. We also have Mr. Overton. If there's any question you need to fire at the city, let's do that now otherwise he can be released.

>> Don't go far.

>> Yeah. Who knows. That's fine. So let's finish up and then we'll make sure--

>> So only two more things, I think. One is obviously police and fire is dealing with the same issue. And I would imagine we want to make-- I've mentioned that the city and the council would have to have the same funding status for each. So what in a real briefly, are they in the same place we are?

>> No. They're a month behind you.

>> Okay.

>> So they'll see this question for the first time in January.

>> Okay.

>> Because that's when the valuation is being brought forward. That's to that board.

>> Okay. And my final question, although it's not exactly on this topic, it is almost the exact same situation. I want to make sure I understand it right. Given the way the council negotiated and dealt with its total combination reduction with the employees, a portion of the city's contribution was essentially offset by increased contributions by the employee, so the same amount is getting contributed, just the bill is getting swapped a little bit this year. Now, my understanding is that that employee's contribution, should the employee get laid off, is then refunded to that employee, not truly being credited to the unfunded liability as if it were an employer contribution. So I want to clarify that and then ask what is the impact of that, given the fact that we have-- that really the true deficit for next

year if you get through all the city speak and mumbo jumbo of the fuzzy accounting map is about $112.2 million right now in what we're seeing in services this year versus next year. And that's likely to rise by unfortunately several million. So we know that we're going to have employee reductions next year. Many of those employees will have the employees of least seniority. Which means that their contributions they made in lieu of the city will be getting refunded to them instead of being put on the unfunded liability. How does that play into all this and has the actuary accounted for it?

>> We have no data on that, so we have not calculated it yet. But to the extent the employees do take a refund, it would have an impact. To the extent it stays in the system and is used to pay for their deferred retirement benefits, it would not have an impact.

>> But you do have a refund evaluation built into the valuation.

>> We do. We just don't have the data from this to reflect it.

>> That was my question. How much is-- because what we did this year was completely different than what we've done in any previous years by that cost shift. And I think initially, some people thought it was simply making the payment for the city, which is not exactly what we ended up doing. So just knowing that we could have a number of layoffs given just the severity of the budget deficit, which will probably, in my eyes, exceed last year's, I think that's going to have an impact because it was targeted for unfunded liability purposes.

>> Yeah. We actually addressed that with the actuaries last year. And I believe the MOAs when the cost shares were done did call for the actuary to take a radio at that issue, the equivalency between and specifically at refunds. So refunds do happen. If someone gets laid off. They don't necessarily have to get a refund if they have more than five years of service or if they go to work for a reciprocal agent. But there was a provision in the MOAs for that to be looked at. And last year, the actuaries, I think, said they thought the difference was immaterial.

>> That's right.

>> Now that you have data, this actuary may not feel the differences and materials.

>> That's why I bring it up. Just to make sure that we are looking at it and with increased reduction targets, we don't know what is being negotiated, how it's going to shake out. I want to make sure that from the board's perspective and relative to the other stuff, that's being put in perspective.

>> At the time, the information they said was immaterial because they didn't know if it was a one-time event or if it was going to continue and then they would come back with a reassessment.

>> In general, usually 75% of the plan's liability is people's age, 45 years or older. So whenever there's an event that happens in the younger generation, because they are a very small proportion of your liability. It doesn't usually cause a huge impact on the overall picture.

>> Mr. Overton asked a question about probably 15, 20 minutes ago.

>> My apologies. I just wanted to make sure I understood the question. Your question was on page one of CHEIRON's memo, there was a payroll anticipated in devaluation so that is item A-2 which is $431.7 million, approximately. And on the second page, item four shows the payrolls to be 272.6. And I believe your question was why is there the--

>> Yeah. That's the basic question and it appears that the $15 million is driven by the difference we know the numbers.

>> It is.

>> And so what happened?

>> Basically what the actuary is trying to do is to estimate the cost of the plan.And in doing so, they typically try to set assumptions that will hold over the next 30 years. So when the actuary is setting the payroll growth assumption, he will assume that the plan will go on and usually there's more upswing periods than down swing periods. So the common assumption is to have some payroll growth. And over a 30-year period, one would be hard pressed not to basically assume a significant payroll growth. So bottom line is, that's the assumption that is used to go from, say, the valuation based payroll, which at the time was 230, 2009 to the middle of the year thereafter. So fundamentally what the actuary is doing is looking at what is right over the next 30 years and when he establishes what that is, he uses that as a basis to project the June 30th valuation which is a known figure. The payroll is known to him. But he brings it forward based on his own payroll assumption.

>> And no change in head count?

>> And no change in head count.

>> Yeah. There was two-- I'm sorry. Go ahead.

>> Next what happens, the 272, basically that happens after the fact.

>> The city made the decisions relating to head count and this was the result. This was taken after the fact. So the two didn't happen at the same time and they're really driven by different factors. So this is actually common. It's not uncommon to have the actual payroll come to be a different number than the valuation payroll.

>> So the 272 is actual payroll? That's the estimate done in the prefunding calculation?

>> But doesn't the city make the true up based on the actual payrolls?

>> Yeah. And the actual for like the first seven or eight payrolls and they're distracted closely on an annualized basis 272.

>> This is no the true up. This is basically CHEIRON's estimate of the impact to change the decision of the methodology. CHEIRON suggested a move to $1 arc, which was either the dollar estimates from the valuation or from the emerging payroll time the calculated payroll rates. Basically what CHEIRON is trying to do here is to estimate that impact. And part of the reason we didn't have the estimates ready for last meeting was because we needed to know the city's estimated payrolls and the impact on the city was driven by the emerging payrolls. So ultimately, the final impact would be based on actual payroll. But since we don't know what that number is for the current year, we're using finances and estimates.

>> And can I just say item number two is the actuarial's assumption of what they think payroll is going to be. And then item number four is the payroll that's provided for the prefunding, which is a collaboration between finance department, retirement and the budget office. So I'm wondering since the actuary is the same individual that's run, why wouldn't be keying off of a number that we know is a collaborative effort and probably closer to reality as Mr. Mully said it's tracking pretty close so that in the future we don't get this disparity between an actuarial's assumed payroll and what we know is tracking.

>> Well, the reality is this first calculation is based on applying the methodology of taking the larger of the two amounts and applying it to the current year. So the current year is based on the 2009 valuation. The 20309 valuation, if you look back, payroll is about $223 million. So that's the crux of the issue here is that the actuary does a calculation based on a certain payroll and the resulting dollars need to come in. And now we see payroll comes in and that's maybe a 20% reduction. And that is what is leading to the problem. There's some timing issues and that's the crux of the problem, that the actuary does the calculation, dollars need to come in, and we can see with payroll reduction that they're not coming in.

>> So to answer your question, the reason it isn't done is because the decisions on payroll usually happen at a later stage. The city itself doesn't know what its payroll is for the next year, the year ending 2012 is going to be.

So asking the actuary to use that in his calculation, I think the city would be hard pressed to come up with a number. At best, it's an estimate that's going to be off. Typically, the actuary uses whatever he's assuming, but recommends the change to the art. Fundamentally, if we were to do as you suggest, we wouldn't need to change the methodology. To the extent we can hit what actual payroll comes in, then we can ask the actuary to reflect it. Typically, the city right now, if you ask what is next year's payroll going to be, they wouldn't know. So it's basically the current practice to maintain the valuation payroll growth.

>> They should be able to get pretty close, I would think. They're doing a budget. You have to make certain assumptions.

>> But they're doing their budget start ago year after the valuation is done. And so that there is a lot that took place in the 12 months and what-- even the most recent valuation had 300 million down from 323 to 300 and the payroll reduction took place as to the valuation date. So there are really two sets of reductions here, basically.

>> Well, I mean, again, I'm not going to do the numbers. Nobody ever wants me to do the numbers. But these are long-term, so yes, payroll has dropped this year down to 273, more or less. But it seems to be tracking like that, which is quite a bit less than the anticipated payroll of 341. But they're not assuming that it's going to stay down there forever. And so it-- for actuarial purposes, this is a long, long-term assumption and it's going to trend like that. Now you all can have a conversation about that, but they are supposed to do it. They're not supposed to be doing it, necessarily, based on the actual payroll. They are supposed to be doing it based on a projection. You can have a conversation about what that projection should be. But I think last year when they did have a conversation, the actuaries indicatesed that they would have to-- they would want to see this lower payroll amount stay low. They want to see that the jobs weren't added back over time.

>> Yeah. In answer to your question, some of this issue could be eliminated if the valuation rates could be implemented instantaneously, but they can't. So that would at least close the gap between what the actuary says and what actual payroll is. But it takes a significant amount of time to get that valuation in. But part of that

problem is that the fact that there's at least a year delay here and a lot took place in that year. Normally, this wouldn't even come up. If the payroll wasn't anticipated, there wouldn't be an issue that we're seeing.

>> And not only that, but if anything specific quarter, there's a gain of 25%, do we go back and reconsider the discount rate assumption? If any specific quarter we lose 10%, again, do we go back and reconsider the discount rate? If you know in a quarter, you had a lot more-- that anticipated, do you revisit the mortality table? Because the actuarial valuation is a projection. Six months after the valuation is issued, you always know things do not go according to the projection. The norm not to go back there and revisit them. It's hard to go back and revisit every item as opposed to one thing. If you're doing annual evaluations, that's the whole goal of annual evaluations is to try and be as current on the various assumptions as possible.

>> You brought that up. This really isn't a prefunding issue. I mean, this is a actuarial issue and how many employees and what it's going to look like. This has been going on forever. It's growing, it's dropping. And in the past if there were ever layoffs, we weren't going back and saying, okay, there were fewer people. Pick it up and we would pick it up with the next valuation. And now that we're going to the annual valuations, we're better off than with the biannual. Because it seemed like to me if we had a really good year, so they made more money which probably happened in 2010. So there's an interest credit. Is that factors into the budget? Or could we offset that gain?

>> No. That's factored in.

>> The gain is definitely there's a 1 percentage point gain due to the return being higher than the actuarial assumed discount rate. And so there's a gain of roughly 5%. And because of smoothing, it's 1 percentage point--

>> I understand in the actuarial assumption, but is it factored into the budget?

>> It drives the contribution rate. It will drive the updated numbers.

>> By 100 basis points.

>> I want to make sure Mr. Overton's question was answered the.

>> Yeah, I think it has. I have one further comment. I don't like the answer. But I think it's more than a notion to say that we can go and present the city with a bill for 15 and 20 or 30 million dollars because this didn't happen or that didn't happen and the other. I think there's a way to be more precise about this. And I'd like to see this board tackle that. I don't know whether it's a change in any code or a change in the actuarial assumptions or changing staff input or what. But we just can't run in and say, oh, the assumptions didn't pan out, look what happened, and so here is a bill for $15 million.

>> But that's what we're trying to do by saying at the beginning of the year, city, the arc is the dollar amount. If you don't increase head count, if you continue to reduce salaries, you can look in the valuation as of June 30th, 2010, and you can see the amount that's due. It's 83 million and change. Now, whether you pay that over time or whether at the end of the year you still have something due, Mr. City, the amount that was due is the dollar amount that shows in the valuation from the preceding year. There's clearly-- and it's been there for years and years, have had dollar amounts shown in the valuations. It's just the boards and the staff never collected that amount. And it wasn't an issue until you again getting into a collapsing state. Where you're reducing head count and reducing salaries, that's where the issues rare its head. That's why we're saying it's either the slower, which is the dollar amount, or an emerging contribution rate. That would solve the problem of when the day comes that the city begins to grow again as a head count and increase salaries, then that part of the policy would take over and would generate more money than the pure dollar amount that's shown in the valuation.

>> If the plans were 100% funded, this really wouldn't be such an issue. But the large and fund in liability, that's what began driving a lot of this additional cost. Because those dollar amounts come in pay the unfunded liability. Otherwise, you lose ground on this.

>> And although last year the decision was made by the board to close the 30 year amortization, as of June 30th, 2009, on the pension side, the reality is we're not even-- the contribution amortization that the city is paying on that schedule is even less than the actual interests on the unfunded piece. So what I'm trying to convey is the city on the 30-year amortization is not even paying the interest on what is due. It's very hard under that circumstance to say, yes, let's continue with the practice of allowing things to go through the unfunded liability just because of what is currently has happened in the past.

>> And the concept appears sound and the concept going forward will help reduce volatility to our sponsor. I think the question is how do we implement the concept while respecting our sponsor's processes that are in the middle of a year and we don't necessarily introduce volatility into their lives in this current year. In the past, when we've had discussions on the impact of our sponsor, we've discussed phasing, we've discussed deferral. I think what I'm looking for are suggestions of how we've moved to what appears to be a conceptually sound methodology with the least volatility to our sponsor in an unanticipated way in this current year.

>> Well, I think Mr. Constant in the second phase of this question was that we say to the city through our valuation this is the arc for this year. This is the dollar amount that we believe is owed. We understand the municipal code as, say, you calculate it this way. But are there ramifications for not paying that full amount and put it on--

>> Short of a municipal code change, that seems like a method of communicating very clearly this is the bill. You can choose to pay something less than that at your PERIL or at your consequence that you want to choose, right? And that is sort of what was stated. But that can be simply done. This municipal code needs to be changed. We might want to recommend the change in the municipal code so there is no conflict there and we don't need to make some sort of statement. But that doesn't need to be contemplated somewhat separately. In my mind, it's two items. One, here week go to state our bill to the city. There's your floor. And so we have kind ooh a couple questions. Do we make this change now for fiscal year '10-'11 or do we recommend it gets changed for the '11-'12. And on a statement on that topic alone as far as what was addressed last month, why don't we take that topic and make that some kind of wrapping this thing around here.

>> I can try to make a motion. Are you trying to say something before I make a motion?

>> Yeah.

>> I think the characterization of a bill, I understand what you're saying. I think the characterization of a bill is a little bit maybe problematic. Certainly I think the board can point out to the city the full amount that was supposed to be stated in the valuation is X. I can tell you're not going to pay that full amount and the difference is why. I think that the other thing that the board could have probably pointed out more clearly is that if that amount doesn't come in in '10-'11, it does have implications on '11-'12. I think that is something that could be-- it's not a matter of if you don't pay it now, it will have to be paid in some form of another and I think that's what staff and the actuaries are trying to bring forward. And then I do think that if you want today to make sure that this happens, it needs to be amended. And would want-- would need some direction, would need to know what the board wants to do is, as Mr. Crosby said, a floor of the arc based on the actuarial prompted payroll or the rate times actual payroll. The greater of.

>> So given that, I'm going to take a stab at a motion here. I would like to move that we do make a move to this approach immediately. So that we have it all in our calculations and we understand the full impact that we ensure that when the city is given the final contribution rate for-- that goes along with this valuation, it's clearly communicated both in terms of rate and a statement of the board's preference that a floor amount that is to be determined by the valuation be the actual amount paid. And if that statement includes the dent mental effects that the failure to fund at that floor level would have on the unfunded liability of the plan, and that we further direct staff to return to this board proposed language for an ordinance that we can discuss to refer to the city council for implementation of a change in the municipal code.

>> Can I ask a clarifying question?

>> Sure. I'm not sure if I can clarify, but I'll try.

>> It's very simple. The point I want to clarify is implement immediately on fiscal year 2011 or implement in the rates getting set forth for '11-'12?

>> I think we should do it for '11-'1 the 2. I'm sorry.

>> So this bill that's being contemplated here--

>> Right. Do we delay implementation to '11-'12, right?

>> In concurrence with our valuation for the rates for '11-'12.

>> Is there a second?

>> Second.

>> So we have a motion and a second. I guess what I would like to add to that is that we do let them know what the difference is for '09-'10 if they were going to-- if we-- if it was implemented now for the true up.

>> We've already done that.

>> Okay. So they just know-- because there may be, obviously, around $15 million laying around.

>> I'll check my office. But just so they know what it is.

>> And that is what triggered a lot of this reconsideration and discussion.

>> And quite frankly, just so you know where the staff is on this given kind of the late timing of all this, we don't have a problem with deferring this into the next fiscal year. Clearly it would make a major impact on the city. Our issue in raising it was to raise the issue and to get focused on and to get resolution for the future more than to try to press the city in one particular year. Alex, I think, wants to speak again.

>> And then I'll have a comment on the motion.

>> A motion and a second. Any other comments or questions from the board?

>> I'll just make a comment that I think it's really important, given all the attention that we obviously have on our pension systems and given what is a clear commitment not only on behalf of this board but a clear commitment by the city administration that we've heard Alex to say over and over again and making the arc and I know the commitment that I see from the city council on fully addressing all of the issues that face us in relation to retirement. I think it's really important that we take this step forward.

>> No, I'm glad you clarified. The implementation date of the motion, part of our responsibility, our fiduciary responsibility is mitigating that cost impact on the city and I take that seriously and I know that Allison said over and over again as well as Pete, tell us what we owe and we'll pay it. But I think our responsibility is to mitigate the cost impact to the extent that we can within our fiduciary responsibilities. So I will be for the motion.

>> Any questions or questions from the board?

>> Just one comment and one question. I'm glad that you've heard what I said about wanting to pay the bill. I think the most important part for us is to be able to plan for that bill, to know what it's going to be and plan our budget accordingly. So I just have one clarifying question on the motion. If I'm loot Al CHEIRON's memo that they put out, then going into effect for '11-'12, it's fee that occurs, not-- is that correct?

>> That would be a question for CHEIRON. That's my intent behind my motion.

>> Yeah. That's our understanding.

>> It's phased at the gym beginning of the year.

>> Well, versus A. There's an A and a B. The way I understood it is A has to do with '10-'11 contributions and B has to do with '11-'12. My understanding is if the motion were to pass, it has to do with the '11-'12 arc determination.

>> And I think what Carmen is saying is under AB3 C, we don't have the option of paying at the end of the fiscal year. Is that correct?

>> Unless you want to include that in the ordinance.

>> Yeah. No, I don't think that's reasonable. So just going forward, I don't think we have to bother with analyzing. Before we vote, I'd like to see if we give the city ample shots to-- does anybody else want to adjust things? Seeing none, any further discussion from the board? All in favor of the motion. Aye. Opposed? None. Okay.

>> Call recess for ten minutes.

>> Thank you.

>> I'm going to request moving items 23B, C and A, get them up here to do their stuff and get on their way. Can I change that order? Can I have a motion for that?

>> So moved.

>> So moved.

>> So moved twice. Second.

>> All in favor?

>> Aye.

>> Opposed? Great.

>> So in your agenda, there is a item number 23 audit reports. They pretty much break into two different categories. The first is the financial audit. Rick green is the partner on our financial audit engagement. And later on, we're going to hear from Linda Hurley who is the audit partner on those procedures.   Agreed-upon procedures. So they've finished all their field work and reviewed the financial statements and has now prepared their required communications and has a few other things they would like to present, so I'm going to turn it over to Rick.

>> Veronica, thank you very much.

>> Mr. Chair, member of the board, thank you for the opportunity to present the results of our work today. As Veronica mentioned, my name is Rick green. We're in charge of our Sacramento office and Annie is the senior manager on the engagement right now. We were contracted to perform a financial audit on June 30th, 2010 financial statements as you are aware. And I'd like to make a brief differentiation between our role and responsibility as independent auditor from that of management. And our responsibilities and the professional standards so that we plan or perform the audit to obtain reasonable assurance that the financial statements in all material respects in accordance with the underlying accounting standards. Management's responsibilities endeavor is to compare those financial statements in accordance with the underlying standards and also to set forward a system of internal controls to prevent or detect errors from flowing into the financial statements and to do so, during the normal course of their operations or business. Management is also required to set forth a

system of internal controls to ensure that the system is in compliance for significant laws contract provisions that if there was a lot of compliance that would have a material impact on those financial statements. I am pleased to present to you the fact that we have performed our work in accordance with the standards and we have issued an unqualified opinion on those statements, which effectively means that what was presented last month, I believe, are fairly stated no material respects in accordance with the standards. I'd like to report to you that during the course of our work, we noted no material for significant deficiencies and internal control over financial reporting. Nor did we note any instances of lack of compliance with laws, regulations, contract provisions and other motors that will have an impact on the financial statements, as well. Something new this year within the independent auditor's report if you looked at it were two explanatory paragraphs. The first paragraph refers to the funded status of the pension as well as the OPEB plans and effectively brings attention to the reader to the fact that there are unfunded obligations for both plans and that further detail is-- foot notes go into further detail on those issues within the statements themselves. The other paragraph refers to the implementation of a new accounting standard, the accounting of financial reporting for derivatives was implemented by the system this year and is presented in a separate footnote to the financial statements. And speaking of this new standard, I want to congratulate Veronica and the accounting staff for the implementation and the financial reporting of the standard. It is a very complex disclosure and I audit a lot of public retirement systems throughout the state of California, include CALPERS. I will tell you thaw guys did a real good job, so congratulations, Veronica. Job well done there. It is complicated. So those are the highlights with respect to the audit itself. We also have before you a document for our requirement communications to the board. I'm not sure which document-- is it 23B?

>> 23B.

>> 23B. This document lass certainly elements of information that we are, by virtue of standard, are required to report to you. And I'm just going to hit on a couple of the highlights of this particular document. On the first page, the area called qualitative aspects of accounting practices, there's two elements here that I'd like to highlight for you. The first is that management is responsible for the selection and their use of appropriate accounting policies. And they subject the underlying financial transitions to those accounting policies in order to ultimately present financial statements that were before you. In footnote two, those accounting policies are articulated. We go

through and subject those accounting policies and practices to the underlying transactions that are reported in your financial statements to ensure that they have been properly applied and I'd like to report to you that, in fact, they have been. And they're consistent with that of last year so you know there's comparability between financial reporting from last year to this year. The one exception is the implementation of 53. What you gain is in further detail in a subsection of footnote two. The next area within this particular section of our required communications that I want to bring to your attention is the fact that accounting estimates are used and are embedded in these financial statements. Accounting estimates are important to bring to your attention because of the significance to the financial statements but also that the underlined assumptions and information that is used to establish the estimates for reporting purposes ultimately could be impacted by future events down the line that you don't anticipate. The two areas within your financial statement that I would consider are significant areas of estimates is in the evaluation of certain investments. Those predominantly are real estate and your alternative investments which I consider your private equities predominantly. In this area here, it is the estimates are a little more sensitive because of the fact that these estimates don't consider and trade on an active market. We are considered to look at underlying evidence in order to establish and validate the integrity of the valuation that's embedded in your financial statements. We've done so and feel comfortable that management has properly valued these particular assets on June 30th, 2010. The other area where there is significant estimates is within your actuarial status. What we do to get comfortable in this area is to not only subject this information to our standard audit procedures, but also we hire an independent actuary to look at the assumptions and methodologies that are used by your actuary and that is ultimately report in your financial statements. Our primary objective here is to ensure that the actuarial methodologies and assumptions are in accordance with the GASBY 15 and standards. We believe that as reported, the actuarial information funded is proper and reasonable. The next area within these required communication that I'd like to bring to your attention is item three corrected and uncorrected in these statements. Inevitably during the course of an audit, you will make audit adjustments and at least propose them, some of which are material to the financial statements and that need to be. And we've come across instances where errors may have occurred, but they're inconsequential. We are required to report those to the governing body and we had one in this case here as it is presented to you. Finally, in this area, we are to report to you any disagreements that we have with management. We have had none. But typically when you do have a disagreement, it's generally around the application of accounting principals and ultimately how you report certain types of transactions within the financial statements or due disclosures. We did not have any of those instances in this particular audit. So those are the highlights of this particular document. The last document that I'd like to address and be happy to answer any questions that you may have is the document entitled management comments and recommendations. In this particular document, you've got two components. You've got our independent auditor's report on internal control or financial reporting as well as on compliance. This particular report is in addition to our independent auditor's report that is contained in your financial statements themselves. This particular report is required wherever you perform an audit in accordance with government auditing standards. During the course of our audit, we noted no instances of material weaknesses or significant deficiencies in terms of controller or financial reporting nor any instances of a lack of compliance with laws, regulation and other matters. Had we come across areas of significance or significance in these areas, we would report them in the body of this particular report.

>>> Finally, we have a section here on management comments and recommendations. In the current year, we have one comment. This comment is, again, not considered a material weakness or a significant deficiency, but rather just an observation for improvement. This particular observation relates to form 700 and the fact that there were certain personnel whose form either was not prepared or perhaps it was included not in a timely basis. So management has acknowledged that we need to go ahead and tighten this particular area down and we'll do so. And their response to our recommendation is included in this particular letter. Finally, there were two recommendations, comments or recommendations that we made during the course of last year's audit. Part of our responsibilities is to follow up on those comments. We have done so. That follow-up is articulated in the status. In summary, both of these comments, the recommendations that we have set forth in the prior year have been implemented by management and we consider it to be basically a closed issue at this point in time. So with that said, I would be happy to answer any questions.

>> Comments or questions from the board?

>> I just have one question on the comment you just referred to. When you did the internal control procedure on form 700, does that include board members?

>> That included all board members and management required by the board.

>> Thank you. Any comments or questions from the board?

>> Motion to accept the report.

>> And a second.

>> Any further questions or discussion?

>> Question but not of the account.

>> At the last meeting, we asked that we be updated on the form because there was notification of training needs required.

>> Okay. Similar to--

>> Sent out e-mails to those that were-- who needed to take it.

>> Okay. I didn't get an e-mail.

>> Yeah.

>> It's every two years and we-- they clarified that if you had-- the last time you took it was 2008, you do need to take it this year.

>> So do we have a motion to second?

>> Second.

>> All in favor?

>> Aye.

>> Opposed? None. Thank you very much.

>> Before we move on, I'd like to recognize Veronica. She really with support from Ron and Sierra and investments on tabular material, what you're looking at is Veronica's hand and that's incredible amount of work for essentially one person to put out. Now it's taken all of her time for the last westbound I don't know how many months, but--

>> How about free time?

>> No. Now she can go get caught up on everything else that wasn't be done during that time.

>> Joke. It's a joke.

>> Thank you so much. I also wanted to take a minute to recognize that I had a retiree that returned to work to help out a lot with this audit. Susan retired last year and she came back as a retiree, returned to work to help complete the audit and she is a dedicated federated retiree. So I wanted to point that out. It is a group effort within all of our department, benefits, everyone worked together. MSCS was helpful this year with the four reviews that we went through in our Caffer this year. It was a collaboration and the Caffer this year is really a good read. We'll have those out to all the board members within the next couple of years. Take the time and look at it.

>> Thank you. We're on item 23A, acceptance of the independent auditor's report and applying the pension data evaluation and agreed-upon procedures. This is 23A.

>> So this is the CS's report. The board had engaged MACIAS about two years ago to do an agreed upon procedures as to the information that is slug over from HR, payroll, the city essentially over to retirement services. This is MACIAS's report now to the board. Linda hurry is a partner on the engagement, Annie Lewis, as well. To keep in mind when you're looking at this report, it is a results report. It is commenting on the procedures that MACIAS was asked to review and validate. So this really is their finding-- not findings. It is really their report, the results of what they found. There is still the next step that needs to happen where the staff and city staff need to get back and evaluate these results to come back with more information on how to ultimately resolve the variances that were found in this report.

>> Good morning. I am Linda Hurley and I'm here with Annie Louis. Just to reiterate what Veronica just said, this is not an audit. These are procedures that were agreed to by management, selected by management for our firm to perform in various areas regarding the pension data. So we are not providing you an opinion today. We are providing you the results of those procedures that were performed. The report, I was here in front of you in August, I believe, with a draft report that was very complicated and complex and a little challenging to read. We went back to the table and worked with Veronica and the department staff to revise this report to make it a little bit-- in a more readable form. It's still a complex report. What we had done is we have listed the procedures beginning on page 3 and gone through exactly what management has asked us to do. And then beginning on page 7, we described the results of those procedures and tried to summarize for you in general what those results are and then provide you some detail. In the back of the report is all the details. And we've stripped out all of the sensitive data regarding retiree information or active employee information, but we have provided those files to the department of retirement services as well as shared our findings with the department of finance for further exploration at the direction of the board and management. And just to-- you know, I would be happy to do, to answer any questions or go over the report at your pleasure, but the differences between this report and the draft essentially was the format. We were able to sit down and spend some more time with the city's finance

department and with retirement department staff in terms of resolving several of the items that were open issues. And reduce our exceptions.

>> Okay. Any comments or questions from the board on the report?

>> Mr. Anders.

>> So is the expectation that it would be an audit with findings or not?

>> No, that the audit, since it's not an audit, there cannot be recommendations that come from MACIAS, but there can be recommendations and resolutions to the variances that were found in the report that can come back from staff, city staff and retirement services to look at some of these. Some of the recommendations will be to explore these areas, you know, further, because there are some variances that need to be addressed and need to be looked at in more detail. Unfortunately this was a huge scope. It took almost three years to get the report in front of you. There's a lot more work that needs to be done on a continuous basis and there's more on specific categories that needs to be done.

>> And that's a short-term for you and I think another answer to your question is, yes, once this is done, once the staff has gone through a period of time of trying to resolve issues and finances have had time to fix or not fix problems that reflect here, eventually the trust fund needs to do another audit. And normally it should be a three, maybe four-year schedule, but somewhere in the three year kind of range, every three years, the trust fund should have a regular schedule of having an auditor look at the payroll system and make sure that the pension gold and the payroll system are, in fact, speaking to each other. And that the hours and dollars that are coming across as pensionable are indeed pensionable.

>> And this needs to be in-- this was the first one. So everybody understands, this is the very first time that a trust fund has ever engaged in any kind of process to look at what's behind the scene of the city and issue surface, okay, we'll work on those. And then we need to do another audit on a regular schedule.

>> That was going to be my point. There seems to be a lot of fodder here.

>> Yeah. And I'd like to see more of a traditional audit with recommendations come out of the process on the next go around.

>> Okay. Thank you.

>>> Any other questions or comments from the board? I'll entertain a motion.

>> Motion to accept the report.

>> Motion to accept the report.

>> Any further comments or questions?

>> All in favor? Aye. Opposed? None. Thank you very much. Thank you very much.

>> So still skipping around our agenda here a little bit, we're on item 16. And I'm going to beg forgiveness not to read the entire thing into the record. It's there, item 16 A and 16 B. So I believe this would be an attorney talk first, any conversations or comments?

>> Sure. This was in front of you last month and it was deferred because the city manager's office and employee groups wanted a little more time to look at the tax ordinance. So I did receive minor comments from the city manager's office. I don't know if that's all they'll have. I haven't received any comments from any of the city employee groups. I did go back through the ordinance and clean it out some. And made it-- made the one area more clear than I mentioned at last month's meeting having to do with the ability to do service credit purchases with pretax and post tax dollars which we are going to be phasing out. So it's my recommendation at this point

that in order to stay on target with being able to potentially file with the IRS in January, that the board approve the ordinance it has to go forward to council, but that we move it to the next step. And that you adopt a resolution that would allow us to file the tax determination letter, assuming the ordinance is approved. You don't-- I could bring the resolution back in January if you wanted to discuss it further, but we need to have some movement on the ordinance because it needs to move forward. If we're going to stay with that January filing deadline.

>> What did we do with the police and fire? I can't remember.

>> Police and fire went ahead moving forward with the ordinance subject to the city manager, knowing that as it goes to council, the bargaining units and the city manager's office will still have time to look at it. And provided several dates and they are waiting to hear from one of the unions to confirm the date for December 16th. So the board did, however, move forward and accept and, you know, if there is discussion and some concern with the ordinance when we meet with the unions, then we will still have the opportunity to bring it forward.

>> Would there be a problem in opening up that to federated unions, as well, since the topics are very much the same?

>> Well, we would want to keep it as a separate meeting. We did send an e-mail to the unions on the federated side. However, we have not received a response. What we could do is send another e-mail as a follow-up reminder that this ordinance was brought forward today and whatever action you make and if there is still the request to-- if there's a request to meet, we can try to schedule that as soon as possible. But we would probably want to keep them as two separate meetings and include Molly in those discussions.

>> Just to make it manageable, it probably is better to have two separate meetings. My recollection is that the police and fire board may not have adopted the resolution authorizing the submission. They might have wanted to hear back in January, which I'm okay with that because that's effective immediately when you adopt it. But I really need to at least know that-- I'm going to need to get an ordinance agenda as their council in January. So to put the ordinance off until your January meeting, it really wouldn't work.

>> We would meet the filing deadline because by the time it gets through council, it wouldn't get to the filing deadline we need.

>> Yeah. My-- just so that-- it's not that this ordinance has to be adopted when you file. However, if the-- you don't want to move forward with filing if you think someone is going to stand in the way. I mean, you don't want to be waving your hands and saying, we're fought going to adopt the changes. So I would like the ordinance to have at least a first read, council before the January deadline.

>> Is it always-- that's why we have multiple readings. A question for Mr. Rodriguez. To be clear, so all of this stuff was communicated and copies of the ordinance was sent for the to the bargaining units?

>> Yes. We sent an e-mail that included the ordinance.

>> I just wanted to make sure. Some of these are big, some not to big. They're very complicated and so I wanted to make sure many of them participated in our meeting that we had and the board-- with the police and fire board. Many of them were there to be informed at that time as to what was going on. So I'm not that concerned about the notification. By I want to make sure that they have that so there's a chance that we can voice that before we push forward on this. And I also want to be clear about what is the intent as to what was going on is to modify the existing code to be in compliance with the IRS code and prepare for a potential application for a determination letter. That's the intent here of the code changes.

>> Well, yeah. I would say that I think that we're-- I don't-- I think we're in compliance with the code now. The purpose of this is to get our ordinance into the language that the IRS wants to look at if we want to get the tax determination letter. So it's-- and there is a compliance aspect to it, though. On the 401H account, we are going to be going into the voluntary compliance program because there is a correction on the 401H account that we need to do in order to capture that 1995 date.

>> So, again, the intent is not necessarily to modify, it's benefit. And I guess it's more for a message out as to what the intent and what we're doing here, we're changing a lot of codes and the intent is to IRS compliance and not necessarily to modify benefits.

>> There have been some minor--

>> I just want to make sure that's clear.

>> The intense is to conform our code to the Internal Revenue Service requirements. That's exactly right. It's not just to come up with the benefit modification because we want to. It's to make sure that our code with respect to benefits and other things is reflecting the Internal Revenue Code.

>> I'd like for a plain language document to be prepared on this. And it could very well be very similar to kind of just a little beefed up as to what was presented to us at our joint meeting. Because I think it just-- what is the intense of what each of these changes are? I think most of that is there, but some of it is captured in the words that were said as opposed to what is written. This is a moment in time where five to ten years from now, why did we do that? If we have a simple plain language document on it, again, fill out a little bit of what was presented to us at the joint meeting, I think that's necessary. So I'd like to make that request to staff and we can determine what the--

>> I can certainly-- I can certainly take that direction if you want to have something that sort of summarizes the substantive changes. Yes. Obviously if it's a period here and there, whatever, but so we can understand exactly what was going on through these changes. And the only other comment I had was it seems like in here, again, there's more system planned trying to figure out who we are.

>> Yeah. And part of that is I-- part of that-- and I will-- I'll be glad to take direction from the board on that. Part of that is when we're doing this kind of code amendment, we're really focusing on just doing the tax code changes.

We're not focusing on cleaning the code up completely or anything like that. It's complicated enough to do the tax code changes. But-- so I can run-- I can run back through that and see if there are--

>> I would just like consistency. If we need to make a decision to declare what we are, fine. But this seems like it's inconsistent.

>> Well, we've been trying to convert the plan from the system.

>> Matt, for what it's worth, not that this resolves your problem, but there's a specific definition in the plan that basically says all the same terms, system plan, refer to the 75 plans. So there's at least a definition that acts as traffic cop, even though it might be better just to have one term rather than multiple terms. But at least the multiple terms that are referring to the same common thing.

>> So it isn't just random terms.

>> Got it.

>> That aren't connected with each other.

>> So we have 16A and this is review and recommendation of council so 16 A is the big thick one and has all the changes to the tax code portion of the municipal code and ordinance. I'll entertain a motion of that.

>> So moved.

>> Second.

>> Move for approval.

>> All in favor, aye.

>> Aye.

>> Opposed? None. 16B. Adoption of resolution 6703 authorizing submission of the following applications to the IRS upon council approval of an ordinance containing the required plan tax compliance language. So this will be submitted contingent on this thing getting approved by council. That's the way I read this.

>> Yes. And I should probably say yes, that's through the first reading of the ordinance.

>> Okay. And then a motion to approve.

>> So moved.

>> We have a motion.

>> Second.

>> So we have a motion and a second. And this will meet our January 31st deadline. Is that the deadline for the submission for the qualification letter?

>> That would be the point, to try to get an ordinance in front of council before January 31st, yes.

>> All those in favor?

>> Aye.

>> Awe opposed? None. Okay. I think I got all of the orders of the day shipped around as we go back to the top of the agenda. We're on item 3A, a change of status for Ronald IPPOLITO. Is Mr. IPPOLITO here? Please come forward.

>> Ronald IPPOLITO is an equipment operating requesting a change in status to a service-connected disability based on lower back and negative, 61 years old, 25.8 years of service. Medical issues are listed in your packet. He does not have work restrictions in his work report. He's currently service retired effective 3-2010. At the time of application, he was on full duty. There was no restrictions so there was no modified duty necessary. I also wanted to say that Mr. IPPOLITO asked us to give you two additional documents which were placed on your table. The doctor has reviewed those documents and has indicated that does not change his recommendation.

>> Thank you. Dr. DOSS, is there anything you would like to add to your statements and your report?

>> No, there isn't.

>> Could I ask staff to read just the dates of the documents or something so we have a record.

>> Correct. It's a letter from Dr. LilyAnna SAKIK. Dated December 1st, 2010.

>> Mr. IPPOLITO, would you like to make any comments before the board?

>> Well, I'd like to clarify my work record. After my injury.

>> Okay.

>> August the 28th, I got injured. I worked for five days. Went to work for five days. On the sixth day, I got sent home because I was in pain and there wasn't any light duty work. September the 10th, I was on disability for seven weeks. During this time, I called my boss and HR Ken Wright to ask if there was any light duty work, which

there wasn't. On October the 22nd, light duty work was offered to me by the San José fire department. I worked there for approximately five weeks. Answering telephones, putting in data and working on worksheets. As of December the 1st, I was-- excuse me. From December the 1st to February the 1st, I was on disability again for eight weeks because the job at the fire department had expired and they didn't have no more work for me. During this time, from December the 1st to February the 1st, I was told by my boss and HR that you have to be 100% on light duty work. As of January the 29th, I told my doctor I have to go back to work to try to see if I can do my permanent job. Or I wouldn't have a job to go back to. February the 1st, I went back to work. I worked for nine days. During my-- not doing any regular job because I'm an equipment operator. I was supposed to be cutting to lawns, but they had me doing a special assignment for getting Kelly park for the grand opening, which was planting flowers, moving various stuff around and getting the place squared away. As of February the 11th, so I took five days' vacation and I was recuperating from the nine days that I worked before. February the 22nd, went back to work for three days. I was having pain and stiffness. February the 25th, I took two days vacation to recuperate. I thought I could-- March 1st, I worked ten days, attempted to mow. I used to do about seven parks a day, five to seven. I attempted to mow when the weather was good enough to get on the lawn. When I was having more pain and stiffness. As of March the 15th, I took another five days' vacation to recuperate during this time. What's that? Oh, yeah. And then we go back to the seven parks a day that we usually do and I couldn't even barely do two parks a day. I couldn't give it 100%, so that's why I decided to retire. As of March the 20th, I do so.

>> Anything further you would like to add?

>> No.

>> Any comments or questions from the board members?

>> The information that I received from the doctor that wrote the letter dated November 11th--

>> Which date are you looking at?

>> I'm looking at the Permanente letter that was handed out this morning. And that doctor lists restrictions with no repetitive lifting, carrying, pushing or pulling greater than 50 pounds. And on March 15th, 2010, the same doctor issued a report returning you to full duty and you never worked after March 15th is my understanding from this information. So where were those restrictions prior to March 15th? When you left work on vacation?

>> What happened was--

>> You have to speak into the microphone.

>> Could you say your name, too.

>> I'm Gayle IPPOLITO. I'm Ron's wife. When my husband went to the doctor, prior to his retirement, there was a conversation that she had with us telling us that from her records that she did not think that any of the restrictions should be lifted and that she did not see that he was ever going to be able to go back and do his regular job. At that point, Ron said that he wanted to go back and try. And she said that she didn't think that it was going to be possible. He said the only way that my job will take me back is 100%.You have to lift the restrictions. You have to let me go back and try. And so she agreed to let him go back and try to see if he could do the job and then she said to him, if it doesn't work, then you're going to come back and see me. Well, it didn't work and like you said, he kept taking vacation days to try and get his strength back and try and-- he was trying to do to keep his job and to do his job 100%. And it just wasn't working. And at that point, that's when we went to go find out about the retirement. And everything just happened so quickly. Before you knew it, my husband was retired and then we were kind of in a limbo because we would go-- we went to HR and they said the retirement board is who you need to talk to because at that point, like, we didn't even know if we could go back and see the doctor. And we were getting, like, information from this, you know, you need to go and see that person and you have to see that person. We were going back and forth. In the meanwhile, the ball is rolling and he became retired. And we were kind of trapped. And so that is why there's this big discrepancy of why the doctor writes another note because we didn't get in to see her until then. And the other thing that happens is she goes on

vacation, she becomes ill and every time we're trying to cross paths, nothing is happening. And so that is why we're at. I hope that answered your question.

>> Well, it does partially. I-- there's no indication in the information that I have that she gave Mr. IPPOLITO to go and try, that you have these restrictions, but if you want to work, I'll give you leave to go and try to work.

>> Right.

>> She released him to full duty according to the information we have on March 15th. That's the day he started vacation. And he never went back to work after that. And she said that he's released back to full duty and his neurologic examinations are essentially normal. So that is a huge hurdle to get over.

>> Right. I-- for some reason, it's like the dates are wrong, but right now, I just can't think. I just--

>> Any other questions or comments from the board?

>> Just a comment. I have the same struggle that Ed just noted, that it really seems like up until the time the applicant retired, with there was no work restrictions and it was subsequent to that that we see the restrictions and going through the medical reports, when you look on the memorandum we have from Dr. DOSS, you can see on page three and four a multiple number of doctors, notices returning to work with no restrictions over quite a long period of time. So with that, the overwhelming evidence, to me, does not support a disability retirement. I make a motion to deny the disability-- the change in status.

>> Second.

>> The motion is seconded. Further questions or discussions? All in favor?

>> A.

>> Opposed? None. Thank you very much.

>>> Moving on to item 3B, a change of stud status for James RODOLFA. Is Mr. RODOLFA here? He is not present. So should we present the case and continue on with the hearing?

>> James RODOLFA, request for a change from service retirement to service connected disability based on a triple bypass, traumatic syndrome, 67 years old with 6.47 years of service. Work restrictions are he should be allowed to work at his own pace. He should avoid tasks requiring finger manipulation with his right hand. He's currently service retired effective 2-4-08. At separation he was on full duty and at the time of application, he was separated. According to the letter from the department, there was permanent modified duty available. There is actually a typographical error in the memo on page two that staff presented that says that they could not accommodate work restrictions, but the letter from the department does say that they could have accommodated work restrictions.

>> Thank you for clearing that up. I was looking at page 11.

>> Okay. Dr. DOSS, do you have anything further you would like to add to your report? Any questions or comments from the board?

>> I have a question. A technical issue. On the form RP-7, it says he separated from the city 8-29-07 and his service retirement was 2-4-08. Why is there such a gap or are those dates correct?

>> I don't know and Anna is not here today. So he was out and then--

>> Let me look at the application date because it might be that.

>> Well, the signature on the application on this very next page, page 1, shows an application of January 3rd, 2008, for service retirement, the very next page down at the bottom.

>> Right.

>> January 4th, 2008 by the retirement, so without answers, that would--

>> Yeah. Again, that was the technical thing. I just wanted to make sure for the record that was correct. Close enough, I guess. And the issue that Donna raised that Mr. RODOLFA was working full duty up until the time that he separated, it would be interesting to see clarification on why he separated if he was working full duty. But the fact that he isn't here, I can't get that information and I was move for denial of his change.

>> Second.

>> The motion is seconded. Any further questions or comments from the board? All in favor? Aye.

>> Aye.

>> Opposed? None. Thank you.

>> Under the consent calendar, this is items 4 through 14. I'll entertain a motion.

>> So moved.

>> Seconded.

>> We have a motion and second. Any questions or comments on the consent calendar? All in favor, aye.

>> Aye.

>> Opposed? None. We're on item 14. No, 14 was part of the consent calendar. Item 15, I'd like to have a moment of silence for those that have passed. Thank you very much. Moving on to number 18.

>> Motion to approve.

>> We have a motion to approve-- application to rescind the retirement application for Ann KATASHIMA. I have a motion to approve a second.

>> Second.

>> A motion to second and approve. Any questions or comments? Seeing none, all in favor?

>> Aye.

>> Opposed? None.

>> Number 19, adoption of resolution 6705 denying the rehear requesting of SHIRLeen Lily for a second connected disability.

>> So moved. Second.

>> Aye.

>> None opposed.

>> Number 20, adoption of resolution 6704 denying the application of SEDERAKOLKER.

>> Moved.

>> Second.

>> All in favor?

>> Aye.

>> Opposed? None. Number 21, approval of the second and city attorney to negotiate and execute the first amendment to the agreement with Hanson Bridget LLP the board's external investment counsel to extend the term of the agreement to June 30th, 314 and increase the maximum compensation to an amount not to exceed $250,000.

>> Motion to approved.

>> Second.

>> All in favor?

>> Aye.

>> Opposed? None. Number 22, election of the board chair and vice chair for calendar year 2011.

>> I would like to make a motion that we re-elect the board chair and vice chair fort next year.

>> Second.

>> Motion and a second. Any comments or questions?

>> Assuming you want to do it.

>> I'm willing.

>> You've done a wonderful job.

>> And my support of this motion depends on you not missing any meetings.

>> My attendance is pretty good, so I appreciate that and I appreciate the confidence. Hopefully we'll faithfully serve.

>> Don't make the unwillingness of anyone else to do it.

>> I noticed it's not exactly overconfidence in me. It's the fact that they don't want the job. That's fine. I've got it. I'll accept.

>> That's fine.

>> All in favor?

>> Aye. Opposed? Okay. Item 24, authorization for the city attorney to negotiate and execute an amendment to the agreement with ice Miller LLP, the board's outside tax counsel to include professional services provided by additional personnel effective June 1, 2010, to allow for the addition of personnel subject to the approval of the city attorney's office: To amend the scope of work to include additional services and to increase the maximum amount of compensation payable by $25,000 for a total not to exceed the amount of $60,000 and to increase the 2010-'11 budget by $25,000.

>> Motion to approve.

>> Motion is seconded. Any comments or questions? I have one. Why is this attorney agreement negotiated by the city attorney's office and the previous one we just approved at 21 with a proved by the secretary of the city attorney's office?

>> This one was done just by our office for outside tax under the charter. I don't have a problem with adding the secretary to it. This one is actually managed pretty much through our office where the outside investment council agreement is much more managed through the investment staff.

>> My only interest in that is I would certainly like to have staff involved in that negotiation to the extent that they dire to and to have them available for that.

>> I think Russell actually looks at the bills after I approve them.

>> But more consistently, because we always have a secretary to--

>> Sure. I can add his name to the amendment. That's fine.

>> That will be my motion.

>> That will be my amended motion.

>> So I'll ask for a friendly amendment.

>> So moved.

>> Okay. Any further comments or questions? All in favor.

>> Aye.

>> Opposed? None. 24, 25, 26, 27. 28. We have a summary of minutes-- no, we don't need to approve that.

>> Note in file.

>> Note in file, so hold your motion. 29, none. 30, education and training, for the file, future agenda items, public retiree comments. We've been here a while, please. We would like Kurt and to the point comments.

>> Hi. Tim Callahan retiree and is former member of this board. I must say watching financial news on MSnbc is quite a bit more entertaining than this meeting was, although this meeting had a lot of information. But anyway, I'm here to talk about the roughly briefly about the audit. Which I thought was a good audit done by the city auditor, although I kind of questioned if the numbers looked accurate, but they were old. I might suggest that the auditor consider another audit that had the conclusion and the statement rather than pension sustainability, how about debt service sustainability, rising debt service cost threaten the city's ability to maintain service levels and alternatives for the future such as selling the facility and renting it back, selling the airport and renting it back because I don't believe that the shortfall that we have with the pension really has anything to do with the employees or really has anything to do with those collecting a pension. And I don't believe that the pension as it's underfunded as this audit states, but then again, the pension has been around for 45 years and I know it's a 30-year close amortization entry, so I would suppose anecdotally if we could just take figures from 1980 on and show what the pension shortfalls have been. I don't think there's been any and I think everybody has gotten their pension paid and I would roughly say that if right now the normal cost of paying the pension is about $119 million a year inclusive of the OPEB benefits and that's the highest it's ever been, that if you take the average over the last 30 years, you would probably find out that this pension fund has probably paid out for more than $2 billion in benefits and yet we still have approximately $2 billion in the balance. And actually, I do want to note the book value and the market values as of October 31st, 2010, the book value of this fund federated with 1.72 billion, the

market value is 1.825 billion. The book value of police and fire was 2.4 billion. The market value 2.654 billion. If you add these up, you'll find that the book value-- and that's a real value. That's not an actuarial assumption. The real book value right now of those funds is about 4.125 billion. But I'll take the market value, why not, which is about 4.48 billion and I'm going to round up to 4.5 billion. According to June 30th, 2009, in the report, the auditor's report, the total liability of the pension fund wag 5.4 billion. And at that point, they say that there was only 3.4 billion in pension assets. Now, the market has come back strongly, 18%. Since September. Which is quite a bit. Anyway, doing the simple arithmetic, because I don't believe all this stuff, but I remember simple arithmetic, if you take the 4.5 billion that's on hand in market value and you put that over the 5.4 billion, which is the total liability inclusive to the OPEB, you come up with a funding ratio of 83.3%, which I say is pretty good and the city auditor's report says above 80% is pretty good. So I would say at this point, it's important to note the market value of the combined asset is almost $4 billion. $4.5 billion. It must be noted that it's recovered greatly since the September audit. It may be added that when the November numbers are available, that recovery should be even greater. The market has continued to go up. I don't know what it's doing today because I'm not watching MSnbc. But I assume it's holding its own. Given this more up to date data, one should easily conclude that the report of the pension fund has quickly become irrelevant. The retirement board, here is what I think should happen, and I do have copies of the California constitution, article 16 public finance which we all know about. But I think-- and I do think that the board is doing a good job, too. I'm not saying that the board isn't doing a good job. I think they're living up to their fiduciary obligations. But I think in conclusion the retirement board, I mean, I know the city auditor is going around telling active workers right now that these funds are broke. And that we need to change the way this pension is handled. Although it's worked fine for the last 45 years and there seems to me to be enough money in it to go forward, too. So I really don't buy the conclusions which actually were stated in the title of the audit report. You don't put your conclusion before the data. I think, it's any opinion, the retirement board should outreach to all employees and retirees to make sure that all participants that both funds are in good shape. And our sustainable far into the future as they have been for the past 45 years. And all I have to say and now I'm goal to go back to retirement. Thank you.

>> Thanks, Mr. Callahan. Meeting adjourned.