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>>> Good afternoon, everybody. Welcome. Let's try to get this study session started because we got a lot of studying to do, as if we haven't been studying already, but this is the kick-off to the preparation of the march budget message and ultimately our budget approval process in May and June. This is a combination council/senior staff discussion and study session. We're all in this together and it's a chance for us to collectively get the information and talk about what it is we're going to have to do in this budget cycle. There are several things that we'll cover today. Of course, it will be an update on next year's budget, but we'll also talk a little bit longer term about some of the longer term budget problems, talk about some of the alternatives that we can consider, and then do a prioritization process over some of the existing workload that the council and the staff have created for the staff. We always create work for the staff, right? Hardly ever create work for the council. Our primary focus will be the $110 million problem that we face in next year's budget and that's the gap. Once again we're over $100 million, even before we really get into the discussion. $110 million doesn't include everything, and a reporter asked me if this was the worst case scenario. I said no, that's the likely scenario. Worst case could be a lot worse because the state of California legislature is in session and looking at taking some of our money, particularly redevelopment dollars that support the general fund. The economy is not necessarily going to get better, although we think it is and hope that it is but this is not a worst case scenario. This is just the staff's best projections of where we're likely to be, so the $110 million number does not include the $23 million of services that were only funded through the end of the year, that are scheduled to terminate. It doesn't include funding for the $500 million structural maintenance, whatever we're calling that, maintenance problem, deferred maintenance list, and it doesn't include what the state might do around redevelopment, so that redevelopment number this year, that we're in now is about $34 million that comes from the agency into the general fund, $25 million to cover debt service, another $9 million for services, and depending upon what the state does, the impact on the $110 million problem could be zero or $34 million, depending on what the council does with the redevelopment budget, which we also have to deal with, the impact on the general fund could be zero, or $34 million. So the $110 million is not the worst case scenario, unfortunately. One of the things that you'll see noted on the board is the calculation of what 10% of concessions could yield. We've asked everybody to give us 10% that will yield about $38 million in savings, that's by no means enough to cover the $110 million gap, although it's a very important number to avoid additional cuts in positions and services. We'll talk a little bit about what I'm calling the $400 million problem, and that is the $400 million that our professional staff are now

estimating will be the amount that we have to pay for retirement benefits in about five years. So ten years ago it was $63 million. This year it's around $150 million. Next fiscal year, the one we're getting ready to talk about will be around $250 million, and then it's going up by $50 million after that and $5 million after that and $5 million after that and unfortunately that's not even the end. The $400 million is not the end of the increases and we'll hear about what the future might bring. These are all problems to deal with. I have asked the staff as part of this presentation to tell us how we could solve the $400 million problem, specifically how can we keep the retirement contributions flat at next year's level? Flat at $250 million. And what are the things that we might have to do in order to keep it flat by way of just framing the question and the issues and the beginning of a discussion of what we might have to consider doing. So we'll talk about next year's budget. We'll talk about the retirement contribution increases, and we'll do workload prioritizations and we'll be grateful to Kim Wallace, who has agreed to try to facilitate this between the senior staff and the council members, and Kim is of course you all know does an excellent job at facilitating but I don't know if facilitating council members and senior staff is the easiest one she's ever done. Kim will lead us through this. We need to get done by 5:30 so you can go on to your next events and schedules and we'll stick to that schedule. We may have to squeeze parts of this along the way and if we don't get everything done we need to do there's plenty more opportunities to get the information to us. But I'm going to turn it over to Deb Figone to add her comments before we start into the presentation.

>> Thank you, mayor. You actually set this up pretty well so let me add a few more thoughts about what's important to me about this session this afternoon. You know the numbers, last year we closed $110 million or we're facing at least $110 million problem this next year. We just closed 118.5 million, which means from my perspective and I think the council would agree our choices for dealing with next year's problem are few, and are very, very difficult, and you'll see in a moment when Jennifer goes through the numbers, they're really stark. Last year we cut 800 positions out of the budget, which documents the number of positions lost since the downturn started about ten years ago, and right now our employee count sits at roughly a level that's equal to the number of employees that we had 15 years ago when our population was under 900,000 people. So as the mayor already alluded to and you'll see on this chart, if we have to close this deficit with all cuts we're going to easily lose at least 1,000 threes next year, which is really unbelievable, I think, from a workforce capacity perspective. So today is about difficult decisions, about difficult conversations, but it's not just about the numbers. In a more profound way,

as somebody who has been in public service for 42 years, because our world has changed, I think that we are being confronted with questions about the role of government, and those questions include what services are absolutely core to the city and what are those things that we may no longer be able to provide. Numbers like the ones that you'll see here today signal profound changes in the service that we will be able to offer our residents today and into the future, and also I think what will be called into question is how we can provide the services that we do deliver, and the mayor's already touched on the 10% concessions, if we did achieve those concessions. We will barely be one-third of the way of our, of the current deficit of $110 million. So again, we have very, very difficult discussions and decisions ahead. These include what services can we afford to provide, which ones maybe can be provided but at modified levels and in different ways, which ones need to be eliminated, and also there are questions of what our compensation and benefits structure should be. So my goal today is that we walk away with a shared understanding of the scope and magnitude of the problems that we're facing and clearly confronting them won't be easy. It will take courageous leadership on the part of the administration to bring you forward the difficult options and clearly ultimately courageous leadership on the part of the council to resolve the problems that we face, because as you know, everywhere we are going to turn, we will confront the values, the beliefs or the interests of some individual, some entities, some parties who would argue for a different solution. So in confronting these realities, as the mayor indicated, we are going to talk about the scale of the problem and some of the options that we're already seeing that likely will be coming before you, because Jennifer is in the process of reviewing the department budget proposal. We're also going to talk about the difficult conversation of escalating costs of retirement contributions, which is the single biggest factor driving our deficit, as the mayor has indicated and let me just say again as a long time city employee, that I want to be clear that I believe we have a wonderful retirement system, and speaking personally, I feel very fortunate to have this benefit and I know other employees do as well, and just as the thought of losing the current package of benefit concerns me personally, it understandably concerns our employees as well, but at the same time, we cannot ignore the fact that the cost of maintaining our current system is simply unsustainable and we must come to grips with this and begin identifying solutions immediately. So this afternoon, we will be looking at some options with you, and certainly we are going to want council's initial thoughts and feedback on the options that we are presenting. And as the mayor indicated we're also going to be talking about workload, given all that's on our plates. The shrinkage of the workforce that has happened and the very, very difficult things that we are still trying to get over the goal line, the big projects transitions, execution of last year's budget balancing actions. It's time to really think long and hard about what additional we can add to the plate so that whatever it is that we do take on we can do it well, and so we are going to be looking for your help in focusing our very precious and limited capacity and targeting it where it can do the most good on the highest priority items. So again in closing let me just say this will not be an easy discussion but these are critical issues and they must be addressed in order to ensure that we stabilize the fiscal health of our city. So with that I'll turn it over to Kim.

>> Thanks, Deb, and welcome, everybody, to the study session. It is really true what Deb said is that this is a very significant problem and is the beginning of some very difficult conversations. I just ask you all to remember that it is Valentine answer day today, and so to speak lovingly and remember we are all here because we love this city, and that is something we very much share in common. I think the mayor and Deb did a great job of laying out the topics of the agenda. I just wanted you to see the sequencing of the time. We're going to spend about a good hour looking at the next fiscal year. We're then going to spend an initial hour and 15 minutes looking at what the mayor referred to as the $400 million problem, so looking out the next five years at that growing retirement contribution, and then 45 minutes looking at the list of 43 referrals and ordinances that are sort of on the work table here, and getting your input on prioritizing those. We will have time for public comment starting at 4:45. There are handouts in the room of everything that is on the boards here, and the PowerPoint and the materials will all be posted to the website. So with that, are there any questions how we're going to proceed? There's obviously a lot of material here. I think we've designed this in a way that we'll have presentation and we have discussion questions in each segment but we're going to need to stick to the time frame. All right? Okay. So Jennifer is going to kick off the first section, and there's really two outcomes from this conversation that we're looking for. The first is really the shared understanding among all of us of the magnitude of the required reductions to services and staffing levels that we are going to face, even with complete implementation of labor concessions, so the magnitude of what we're facing is very different from last year, and then we are looking for your initial feedback on what we're calling significant community impact budget proposals, and then some alternative budget balance options that Jennifer is going to Brent. So Jennifer McGwire, budget director.

>> Thank you very much, good afternoon. I wanted to remind everybody about our preliminary general fund forecast because we've been taking you through iterations of it the last few months. Back on November 18th when we had our initial budget planning session we presented a shortfall of about $70 million. It had several components to why we have a shortfall and basically looking at what will happen in '11-'12 from an expenditure or revenue perspective that's not happening this year. First and foremost a carryover problem of $20.5 million because in '10-'11 we used one-time solutions to balance the budget. The next component in the area of expenditure changes which totaled about $40 million. The biggest component was increased retirement contribution.

>> Is it possible for to you stand on this side?

>> Absolutely, sure. Is our increased retirement contributions, there we go. Everybody can see it? Totaling about $20.5 million. This is based on February's data from when we did the last forecast on increasing retirement contributions but had not been updated because both the federated and police and fire retirement boards were actively going through their fiduciary responsibilities looking at what the contributions should be for next year. We have increased health care costs, salary steps and performance pay increases. We had what we call committed additions, the new facilities coming online. There's four branch libraries, the police substation, a new community center among the mix of those capital projects that would be new O&M costs, operating and maintenance costs for next year, we had fire safety vehicles replaced due to delays we did on the police side and fire side. We need to replace open cab engines and we have a few little other adjustments. On the revenue side we were seeing decreased revenue estimates of about $9.5 million. Not the real driver here of this forecast. We did just resolve the current year problem with the revenue at mid year last week, but this was the number they were seeing and it's consistent. We were showing a revenue shortfall of $70 million at that time. Fast forwarding in December, we talked about a $90 million shortfall. That was because we had some preliminary indication those retirement rates were going up so when we were targeting the departments to figure out what budget proposal level they should be bringing forward we used the $90 million number, knowing very well it could be higher. When the police and fire and federated boards pretty much completed their work the number ended up being $61 million on the fire line. If we had known this information back when we put out the forecast in November we would have been

reporting almost $110 million shortfall. Right now we're in the process of updating our forecast and we're going through every revenue estimate, every expenditure line item and releasing that the end of this month and doing a five-year forecast but for planning purposes, this is a real scenario I think of where the shortfall may very well end up for next year. It's important to note a couple things, that the shortfall of the $60.9 million is broken down into police has $26.7 million of the total for that plan, the fire plan is $18.7 million, and federated is $15.5 million. We still don't have some final rates on the police and fire retiree health care changes. We do not have the redevelopment agency impact in our $110 million number so that remains to be seen and that will only put upward pressure on this number. It also does not include the $23 million of services, which we keep reminding everybody is going to be hard with these--- are very important services that we managed to have in our budget for one last year this year, but obviously very important services to our community, patrol staffing, and another engine company scheduled to be eliminated July 1st, branch library hour reductions, senior nutrition program, what have you, totaling 223 positions and $23 million. So in the context that's the backdrop of what we're facing here and trying to solve our 2011-2012 general funds shortfall problem. So what we have here moving on is what I think is a very plausible budget balancing scenario given we are in the year '10. Our options are not very much anymore, and these are the very, very difficult decisions that need to be made over the next several months. We have a PowerPoint slide up here that's going to also kind of walk, Tom will help me walk through this on the PowerPoint for those of us that want to see as I run down here how one budget balancing scenario could look like. Okay, starting with the top line, with the $110 million general fund shortfall, preliminarily, I'm seeing about $5 million of user reserves, transfers, small additional revenue and net overhead impacts that would total to $5 million off of the top of the $110 million. If we count on the concessions of $38 million, which was the level that the City Council directed back on the November 18th special City Council meeting, we would be looking at a balance of $67 million to resolve in the upcoming year. That translates to on average 635 positions, if it was solved on the personal services side on the average. If we don't get concessions, I can direct your attention to this box, this is a concessions alternative box, it breaks down the $38 million by the POA, the police officer's association, the international association of firefighters, the sworn and rest of the non-sworn employee group. You can see in total there's another 335 positions that could be added to that 635 positions, long with the 223 positions that are scheduled to be eliminated July 1. So in total if we don't get concession we could be looking at a scenario as the city manager pointed out almost 1,200 positions eliminated out of the city, not taking into account redevelopment city pacts that could make that grow. That's about 20% of the workforce. One scenario just if you look at the police department and I'll get a little bit more specific into this, in total it would be 350 sworn police officers or sworn members, about 27% of the sworn in the police department and about 145 of those in the fire department or 22% of their workforce and that is a real scenario and there's not very many vacancies in either one of those two units. Right now we sit with 27 police officer vacancies and 33 in the firefighter world. I've broken this balancing scenario into two, in two ways, two categories. One is called general proposal and one is called significant community impact proposal. General proposals are by no means going to be easy but we've broken this out because these are the more talked about proposals--- talked about items that the community comes when they're talking to us at study sessions or what have you. The general proposals will take significant council discussion. There will be meet and confer implication on the general proposal. There's a necessity to look at higher risks the city must take on in order to do the $30 million. It's the kind of proposals up here would be like deferring all of our facility openings, all of the new facilities coming online, we can't open them again for another year. We'd be looking at more strategic support and appointee reductions. There's not a lot out there after nine years of cutting, certain levels you can't take your payroll down to base levels or you're not going to be able to produce a payroll, for example. This has civilianization of police positions in here, service department reorganizations, it has outsourcing proposals for example in our park's maintenance, it has police, fire and other service reduction maintenance, like suspending our helicopter, reorganizing our hit team in the fire department, taking, reducing hours and I asked our friends at the police department to give you examples. I don't want to mislead you by lumping them in this category. If you move down the line, what are the significant community impact proposals after nine years of cutting this is what I think it might take to resolve this budget, and these are the policy choices among the policy choices up here that really need to be made, because they're so significant and ugly. One is, if you start going down and take the $30 million off the table, we have $37 million to resolve. We've got eliminating the HNVF program which includes the children's health initiative of $2.1 million, doing a further code enforcement reduction which would leave 2.25 positions in the entire general fund for code enforcement outside CDBG areas, eliminating the school crossing guard program, pavement maintenance reduction, this is our last remaining general fund money that's not gap fund money tax fund. Looking at half night shutoff of our neighborhood street lights, eliminating the rest of the park ranger program, we've already been reduced July 1 but that would be the rest of the program, another 15 positions. Reducing some of our gang prevention programs or eliminating them, specifically the S.T.A.M. or B.E.S.T. program. We have two of ten hubs around the city, the larger community centers, we'd be left with eight in total, closing grace community center and reducing hours on the remaining eight hubs. The community center Reeves program would be eliminated, 42 sites no longer operational, library branch hours would go to three days a week. Right now they're at four and a half days a week, scheduled to go to four with the July 1 implementation of those actions we'd have to take them down to three days. The police school liaison program would be eliminated, nine positions. We'd be grounding out a fire engine for about five months out of the year. We would be eliminating another engine so this would be engine number six, the sixth engine in the city. The fifth engine is coming July 1 and two more trucks, we already eliminated the truck this fiscal year, a total of 48 sworn fire positions and police patrol investigations approximately 90 positions would need to be eliminated, so that is how you get to $37 million. It's extremely difficult, and almost unbelievable how much level we would have to go to, but this is the level that it would take to close this 110, even with the $38 million concession. These numbers only get worse and the services get worse if we don't get the concession. One thing I do want to note here is that what's not shown here is any impact to our unemployment insurance claims costs. As you recall last year we had to cut more to put money to pay for unemployment insurance claims. Depending on how we end up balancing this budget we have to pay for unemployment insurance claims which right now are for 12 months' time period so that will be factored in as we go along the budget balancing over the next several months. Okay. So what it are some alternatives to these options? These are some alternatives that we put down that, not easy either, but some that we wanted to discuss with you today. We broke them out in the way the general fund structural deficit program did in cost saving strategies and under cost saving strategies we reduced the rate of personnel costs, beyond the direction the City Council gave us in November related to compensation reduction. You could eliminate the sick leave payment upon retirement line item, it's $10.5 million in the forecast, about half of it is for sworn employees and the other half is for non-sworn employees. Could you look at modification of overtime eligibility, depends on how that was structured, how much dollars that would be worth, and looking at elimination of our disability leave supplement for non-sworn employees. We are actively looking at our fire apparatus minimum staffing levels so as an alternative to those, the fire engines and trucks as you see over there, we're working with the fire chief to look at the feasibility and what the operational impacts could be if we took our truck staffing levels from five to four on our trucks and from four to three on the engine, and we're also going to be looking at others as well. We're looking that under study as we speak so that will be something that will be undergoing for the next several weeks, the study on that. We also are looking at our city-owned facilities and our operating agreement. As you know, we've been looking at the Hayes mansion and municipal golf course subsidies $5.9 million for Hayes and $1.1 million for municipal golf. I believe the $1.1 million will be higher when we produce our next forecast but also looking at these other operating agreements with the tech museum of innovation, at $1.3 million, San Jose art museum $915,000, history of San Jose at $825,000, Mexican heritage plaza at $550,000, children's discovery museum at $370,000 and San Jose repertory theater at $330,000. In total these are about $4.3 million. We really need to analyze our agreements with these entities, understand the impact of reducing, so those also will be under study as well. Also there is also the sale of assets, which has also been brought to council separately as another cost-saving strategy, although these are generally one-time in nature. As far as revenue strategies go, there's two here that looked like they could be likely with the voters, a sales tax increase of a quarter percent at $34 million, and municipal water system transfers to the general fund which would be worth about $2.5 million. In order to put these forward, there has to be a state of fiscal emergency that the council would have to declare and unanimously agree to put this on a June ballot in order for it to count for next year's budget process. So with that I'm going to stop here and Kim, are you going to ask some questions and clarify anything related to these slides?

>> We're going to start by saying especially with council, if there's any questions you have of a factual nature about the really difficult budget situation that we're facing. Then we're going to ask for your input on the reaction to these significant community impact proposals, and then we're going to get any feedback on the importance of the concessions here in light of this $38 million that is being counted on, even under this scenario here, and then last we're going to ask for any input on any of these alternative budget balancing proposals that you think should be explored. So let's just start with any questions about the situation we're in, and we have two microphones. I can probably do the one right in front. Great.

>> [Inaudible]--- let's look at the park ranger program, for example. They bring in a half a million in revenue, because they charge as people come in and they collect the monies. There would be no one there to collect, so there is, we're doing away with that program and we will be forfeiting at least half of that, so I don't know how

many other situations of that type are here. In other words, what is the final figure? Is that just an anomaly or would there be others that would be---

>> You're absolutely correct and we do take that into consideration so we may need to add back an account clerk to man or woman those booths to help with that but we absolutely will take all of that into consideration.

>> The other side of it, too, on any of these, the damage, the problems, homelessness in the parks, all of that has an intrinsic value that may be far greater than what we would be eliminating.

>> Question for Jennifer. We know we still have a lot of unknowns between now and ultimately getting to June 30th. You mentioned that the golf course number is going to be changed upwards most likely.

>> Um-hum.

>> You mentioned the unemployment insurance, you didn't reference the number but I remember last year it was a large number and this year we're talking about a significant larger number of employees that will be affected. And then we have the revenue estimates that will get updated numbers. What other variables are we facing? Because I know that there are more, just so we can kind of have a picture.

>> By far the largest in my mind is the redevelopment agency impact to the city, so I feel like, that our revenue estimates are, I feel like they're fairly in the range. I don't expect any big surprises on the negative side on the revenue, but I think it hits the unemployment and [áinaudibleá] part of the main ones.

>> Can you remind us how much was that unemployment hit last year and how many employees got us to that number?

>> Yes, well, this year, it looks like, it's hard to tell you, because their state is in such arrears, I don't have a particularly true good first quarter of unemployment claims so I'm hesitant to give a number. We have $6 million

in reserves and hopefully we'll be able to retain a lot of it. I'm not trusting what the state is giving me in numbers yet and I don't have a final number, at least $3 million to $4 million here at a minimum is what we'll be expending and hopefully I'll be able to carry over some of the money we couldn't reserve last year based on the sworn buy-backs that happened with the police officers in July and what have you, but I think it's about $23,400 per person, and you can easily, if you had 1,000 layoffs that's $23 million. It can ramp up quickly.

>> I knew it was going to be a really large number.

>> That's significant.

>> As we look at this and like in previous years we're seeing a lot of individual programs being affected, have we gotten to the point yet where we've had discussions about completely eliminating departments and saying this department as much as we love them all, is not a core service, we're just going to hack this one off and amp future versus cutting off appendages?

>> I think we're looking at that. Nothing from our perspective is off the table. We've moved forward with the consolidation of general services and public works, we're eliminating a department at the get-go from that perspective. That's actively being looked at especially with, you know, key vacancies and senior staff and giving opportunities of how we might reorganize that work.

>> My last final question, if local 230 were to say okay, we are going to pre-fund retiree health care, what is our obligation immediately from that?

>> If anybody that gave the 5% last year, it would keep that permanent, so you'd get another, the 5% has been taken out of our forecast, so you would get that value of that, basically it affects every--- it's part of that.

>> Essentially we're relying on the agreements?

>> And obviously management as well.

>> Right. Okay. And I recognize as you said that RDA is the biggest variable at this point. I guess we all learned a couple weeks ago that there was about $9.4 million that RDA at least internally was zeroing out with regard to city expenses. The reason why we wouldn't include that in the current estimate at least the $9.4 million?

>> Well the City Council, when the City Council approved the RDA's budget back in the fall, late fall, there was direction for the city and the agency to work together to look at what are the costs of doing business and what are discretionary items that they pay from the city that they may not be able to afford given they may have code enforcement, extra code enforcement in the area, maybe they cannot afford that, maybe they need to pay for the rent like all of the other funds do on city hall or own staff, mayor, City Council expenditures. We've been directed to work together on that and we'll bring that forward so that's why we've not zeroed that out on our side.

>> Okay, and I know we just had the mid year budget check-in with RDA and certainly I was hopeful we were going to have a number, at least a range of numbers from RDA at that point to understand what the impact's going to be since we're all facing it today, in our general fund budget. Has there been any schedule for when those numbers are going to be provided to your office?

>> Well, we're actively reviewing different scenarios with the redevelopment agency now, our finance director is taking the lead on that and I think we need to come out with a schedule quickly how we'll get that and look at their budget and context with the city's budget.

>> I hope so, we see a problem anywhere from $10 million to $10 million. We need to know how large that is.

>> Correct.

>> Thank you.

>> Thank you. In reference to what we've discussed recently with looking at the revenue side there, can you remind us how much it would cost just so we have the total figures, putting those measures on the ballot, just either one or both, just so we know?

>> I'm not sure, I don't know where Dennis Hawkins is here.

>> I thought we discussed it.

>> I don't remember what those were.

>> We have not gotten a current estimate from the registrar of voters.

>> Is there any guess based upon the past given the fact there would be a special?

>> It depends whether or not the Governor has anything on the ballot in June. If it's a consolidated election with the Governor or anybody else that would be substantially less expensive than if the city does it alone. We can get that nun for you and issue a memo.

>> Thank you.

>> Let's move on to question number two, and any other reactions to what we're calling significant community impact proposals here that add up to $37 million.

>> They're all significant.

>> I know that. I know that. [áLaughterá]Any other reactions? Questions? Comments? I think this is unfortunately where we're at.

>> Question on the gang prevention programs, $1.5 million reduction. What would be left? After a reduction?

>> Albert? I'm going to have Albert speak to that.

>> On the S.C.A.N. initiative would be removed, and San Jose reduced back to 28% to non-profit community-based organizations.

>> Question to you, Albert, would that mean having to reprioritize what San Jose B.E.S.T. does meaning higher priority intervention?

>> Absolutely. We would look to glean what are the highest priorities based on the work plan we're reviewing at this point in time.

>> Any other thoughts or questions or reactions?

>> On the HNVF program elimination, help me with the math that's all the funding going to the general fund?

>> Yes.

>> That's the total amount we get annually.

>> Yes that would be the remaining program out of the HNVF, the administration, the children's healthy initiative, health initiative as well as the money that goes to the non-profit.

>> Councilmember Oliverio?

>> First of all I think the presentation is done in a concise way that lets people know that you got to get to a number zero because I think a lot of times, whether it's $800,000 or $1.4 million we assume it's going to get done

but I like the way it's laid out. It's imperative you make it very clear, there's no concession, it's just more layoffs. Your general proposals, if the council, so for example last year we outsourced janitorial for $4 million. If the council did not want to outsource landscape maintenance, therefore there would be another significant community impact.

>> Yes.

>> Okay.

>> That would be the case. I mean, these--- that's why I don't want to sugar coat these. These are going to be difficult policy decisions, meet and confer implications, like I say, risk and really tightening more on the strategic support side, but if you don't--- to the extent we don't get it here I don't see a lot of other opportunities up here, then it's going to have to fall down here and then it's the new, do you go to library hours, do you go to more community centers or police, fire, you name it?

>> And then my preference on HNVF program elimination, you know, on a feedback, if it could be, you know, keyed toward school crossing guards and library hours because it's staying with some of the ideas but it is a general fund and never been required so thank you.

>> The total enforcement reductions, the 525 is that the current number of officers we have?

>> No, I believe we have 7.25. Am I correct? 7.25. We did a one-time shift last year to give it two more code enforcement staffing due to some realignment of community--- these two go away, reduced automatically July 1 and another three so five from a community perspective.

>> You have 2.25 remaining for the whole city?

>> For the whole city.

>> Is that feasible?

>> That's a good question. It significantly changed the way they do their service delivery, by letter, not making the visits they're doing today. I don't know if Joe you want to add any more? Did I get that accurate?

>> We would still have our goals met on emergency and priorities but everything else beyond that, we would essentially go to writing letters and depend on the neighbors to verify something's happened but we'll still deal with sewage type issues or refrigerators on the street that are eminent hazard.

>> Let's move on to question number three then, which focuses on this box here. What observations do you have about the importance of achieving the 10% concessions for everyone, and rolling back of wages to '09-'10, Jennifer, that's a reference to MEF and CEO?

>> Correct.

>> And the recent salary increase that they just had.

>> Yes.

>> Is that rolling back included?

>> That is---

>> In the concessions here?

>> That was part of the council direction in November.

>> Just to be clear when you see the trade-off how important do you feel achieving this is?

>> I would say that it is the most important thing. We look and see how painful the $23 million, the $37 million and the other $30 million cuts are going to be. It would be unimaginable if you try to come up with another $38 million. I would venture to say we're barely going to be a functional city as it is, let alone if we have to do that. I think we have to be realistic with ourselves. I don't think 10% is going to do it and I think we have to really reevaluate our position, and this is serious numbers. I know we've had several comments already about what are going to be the impacts, two code enforcements for 178 square miles or however big we are is, you know, we're not going to be able to do the job and I think what we're going to see look through the city and we are going to see none of our departments will be able to function barely at all, and just keeping a few bodies in there to say we have a program I don't think is of much benefit to us. And we will continue to become more dysfunctional, not because of the people that we have, but because the people we don't have, that we just won't be able to get the work done. If you contemplate what the city would be like when we're already 500 police officers short to take away another 300 or so police officers, I forget the number already, was it 350 or something like that, it's a significant number, we'll be close to 1,000 police officers short, and I know, if you just carry it out only to the health and safety areas, we are going to be really, really, really, really, really, really, really, really, really, really thin, and I think we really as a council, we have to look at, is it appropriate for us to only be asking for 10%, given the impact to the city? Because it's going to be brutal, and I know we've been talking about this for a long time. I think we have to face the facts, we're broke, and we have a lot of work to do, so I think that's a discussion that we're going to have to have. I think 10% is critical. I think we should be talking about more.

>> If I just may add looking forward at least one year which it's going to be discussed more in the retirement section coming up, the retirement number which I show here at 61, we can't really see it, almost $61 million, that number in the general fund will increase if we do nothing right now, retirement will go to another $43 million next year, so I expect us to be in the red for many, many years, in our general fund. I'm not sure where you go next after this.

>> Other thoughts or feelings?

>> I agree what he expressed. We're at a painful time in our city's history and it seems to me asking everyone to give 10% when we know that in itself is going to result in the layoff about a fifth of our workforce, is not a way, not a path to sustainability. I think we probably need to be more honest with all of our employees and say that we're no longer talking about a second tier, that we need to be focused on the first tier, and that we really need to strike a new bargain with our employees and be frank about the fact that whatever bargain we struck before, this is something we absolutely can't sustain, and if that means that every one of us takes, departs from our job and makes a decision individually to be rehired at a different level, then that's what it takes. I think taking 10% concessions out of wages is very painful, but allowing people to make a decision about how they could restructure that, that is to take a larger cut out of retirement benefits to maintain wages so they can keep their house, so they can continue to pay rent, is I think ultimately one that's probably more fair individually to the employees, and far more sustainable to our organization, to be able to keep everybody aboard. So I think we need a more dramatic approach than simply hoping for 10% concessions. I think ultimately it means we all need to leave employment and strike a new bargain.

>> Councilmember Pyle?

>> I agree but there's always the unintended consequences that come about. We've already lost a tremendous number of very, very talented people who have left for one reason or another but I think some of them saw the handwriting on the wall before we basically announced it. I'd like to see something in the way of income. That's been our problem all along the way, the less income we got, the more cuts we made, and we're just looking right now like a fourth world city, if we do away with all of these things. I shutter to think what the city would look like after a year of that. I don't know what other cities have done. I don't know all the suggestions in the world. I just quickly wrote three of them but I would like to start with Russell to see, Russell, if you see any future for the group that you've put together and some of the ideas that you've been bouncing around in reference to the retirement or is that too premature?

>> I think that's maybe in the next section when we talk about retirement cost increases over the next five years. We will talk about that.

>> All right, but has anybody ever done a city lottery or have we talked about naming rights for city hall for example? I mean we have to start thinking creatively. I can't go along with the doomsday approach. That is really I think not what we want to do.

>> It is very frustrating in the short term. We can't do a lot to increase our revenues.

>> I want to go back to the concessions question. We have $38 million over here, 10% concession. How much in the cost savings strategies really are concessions in one form or another, not across the board but you've got the sick leave payouts upon retirement 10 million, vacation buy-back, sell-back whatever you call it, not on the list.

>> That's not on the list and I don't have that budgeted. That would certainly help our fiscal situation. I think it's around $4.5 million over this last fiscal year that we're into that vacation sell-back.

>> The eligibility and elimination disability supplement, I'm trying to get an idea if you did all of those how does that compare to the 10% concession number because that's on top of the 10% concession.

>> Right.

>> That another 15 million or 20 million?

>> No, I think these are pretty small. The overtime is primarily I think in the fire rank for the most part, maybe in police a little bit, I'm not sure. The disability lease supplement I don't know if you have a handle on that one, Alex.

>> Mayor, the savings here is really in the sick leave payout. The elimination of disability supplement we're applying to non-sworn employees because for sworn we're preempted by state law so it's a relatively small amount so the main change here that would add up the most dollars is the elimination of sick leave payment.

>> And just again about half of that from our analysis is related to the sworn employees, half nonsworn that could be something that could be going to arbitration just another complication of the matter. Let me just check are there any other questions or comments on question number three and we'll move fully to question number four. Where is the microphone? There it is.

>> Just to summarize, 10% is critically important. I do, what councilmember Liccardo was saying, I think it's a harder animal to get around and councilmember Campos, above and beyond the 10% you have to look at the city charter and if employee groups want to offer more than 10 maybe there's incentive for them to do that. I don't know how that would be structured but it's clearly everything that's given the concession is retainment of the job and individuals have to make that choice. Do I want to give up more to stay employed or lose my job? I think that's out there.

>> Okay, any other? Let's move to question number four then, Jennifer had presented some alternatives, cost saving strategies and the revenue option, looking for reactions to those. Are there any of those you'd say yes, please explore that, no, not interested in that.

>> On the elimination of sick pay I think that's where it brings up the comments on the legality of the case. I think we have to look at it and the options of paying it out over five to ten years or not paying anyone over a certain amount. This was a fair amount that you got and that's all you're going to get. Fire staffing we have to look at. It's unfair and unjustified to close a station when we know we don't have to when you can change the staffing levels as they do in other cities. May not be the preferred but I'd rather look at changing staffing levels in fire rather than laying off officers. City facilities, I'd like to see Hayes and golf moved. On the museum subsidies, so when we give any of those facilities money, do then we require that they have to pay a living wage or prevailing wage on the maintenance of the facilities?

>> I do not know the answer, no. I don't know the answer.

>> I think that's something that should be examined because if they can lower their costs by doing the market price much the same way we were able to lower our costs of janitorial that should be looked at.

>> We have to look at agreements, for the tech museum of innovation we need to give them 12 months' notice if we're planning on doing any type of reduction in that regard.

>> Other comments? Questions? Reactions?

>> One more thing on that list the Hayes mansion, $5.9 million subsidy. I'm well convinced there's not a real savings there because that's mostly debt service that even if we were to close the facility, we still got to pay debt service so the amount of savings potential there is unfortunately pretty small.

>> Councilmembers any other reactions or questions? Then if we have a few minutes to ask senior staff do you have any comments that you'd make not to advocate for any particular program but especially on question number one the overall situation we're facing and how you see it?

>> Following up on what the mayor said with Hayes mansion, is there a way for us, though, to re-explore these contracts so that we don't have all the risk when things go bad in the business operations? I think one of the problems we have with almost all of our agreements with these outside vendors is that we take on most of the risk, if not all of the risk, and there might be a way where we can renegotiate them where what we put in is what we put in. Anything after that is subject to their business operations like what happens in the private sector, and then following up on Pierluigi's, I think we do need to look at the living and prevailing wage policies and analyze what that costs our city. I know Palo Alto, which is a close by neighbor of us, they've changed their policies on the prevailing wage and so have some other cities and we have to really look at what the costs of those policies are, and quite frankly, all of the policies that we have at the city. I think we need to examine the

implementation costs in each of those policies, because we have policies that are under our control as a council that equate to FTEs and services that we could be providing our residents.

>> Councilmember Chu?

>> The question is about double dipping, that showed up in the newspaper a couple of times over a couple of weeks ago, is there a way that we'd be able to eliminate the double dip and reduce the cost of retirement, so in other words, if the retiree found another job and is gainfully employed, can we somehow reduce their retirement benefit?

>> Councilmember Chu that's an excellent question. Because we have independent retirement plans there isn't currently a way to do that. You can't be a PRNS retiree in one city and work for another city in the same job. You have to unretire. Because we're an independent retirement plan, somebody can retire here and it's not uncommon and collect a retirement check and go work for a PRNS agency for two full time job collecting a retirement check from us and being a full time employee in a different city. We have to explore what would need to be changed, legislative level, to be able to do that.

>> Thank you. I'd like to get back to the Hayes mansion. We wouldn't realize much of a profit if we sold but if we were able to lease to, well I've been approached several times about Hayes becoming a senior care type of facility, is that something?

>> Councilmember, we have an analogy on staff of different departments still working on that will be coming back to the City Council shortly. I think in order to give you a flat straight out answer though I think our sense is that there is not, at this point in the market there's not likely to be an easy conversion primarily because of the costs to receipt fit the infrastructure in order to serve alternative people.

>> And if I can follow-up, something I raised this issue last year's budget as well as today's, since it is constructed and currently operating as a hotel conference center that there may be an opportunity, there is an opportunity for

a lease to a national chain or what have you that has a better, think they can market it much more easily, than remain an independent facility as well as dolce is doing the best they can, in the tough economy they've improved their numbers. I think if there's an opportunity to get some kind of chain that can instantly connect it to their network, that can offer at least a little bit more of a return than we may be getting right now, so again it's all about just offsetting the subsidies as much as we possibly can without having to receipt retrofit the cost. The way it's built and constructed, you can see now, it's appropriate, because you need to find the best organization to move forward.

>> Any other questions or comments from councilmember's? Max, thank you. He's good. So let me ask my senior staff colleagues, are there any comments that you would like to make on the situation? I think many of you have some good year-by-year perspectives about where we've been, where we're at now and maybe where we go next with this problem that we face. It's a great opportunity. You're on camera, in front of all of your decision-makers. Anybody? Kay, did you just raise your hand? [áLaughterá][áINAUDIBLEá]

>> okay. Okay. Well, we'll move on to the next Section then which is equally juicy and difficult. Alex Skurza is going to give us a presentation about the next five years, and the escalating city retirement contribution, and some potential options about how to keep that at a lower level than it's going to go otherwise. Can you go to the outcomes? So we have two outcomes from this section, and the first is--- why is it not working? So the first is--- is the microphone working? No? What will make it work, if there's somebody here can make it work. Okay, maybe we can check into that. Two outcomes, one is sort of shared understanding of what this problem is, and then Alex has constructed this to talk about the problem and what the levers for change could be, a way to get the level to stay even for the next five years, rather than escalate precipitously.

>> Okay, let me check this microphone. Is it on? Keep talking. I don't think I'm in that line of work either. I will try to hold the microphone. Let me see. That's going to be difficult. How about this? The whole system is down. [áINAUDIBLEá]

>> talking about first year benefits. [áLaughterá]The employees that run the system are also in the retirement system as well. I guess we should hold, right? Running out of time? Is this working now? No. It is on the, this one.

>> Is it working on the webcast? Then we're fine. We're fine. Just talk loudly.

>> Ahhh, it's working on the webcast, okay. Well--- you know. Okay. So I am the director of employee relations in the city manager's office and take you through the next section on retirement. Russell Cosby is here, director of retirement services so if there's questions that come up he can handle. I want to let anybody who may be watching this retirement again is an extraordinarily complex subject and there is just a wealth of information available everywhere if anybody wants to research it. Recreated a website just on retirement benefits, everything you want to know and that's how to access it, go to the internet site, click on the city manager's office, office of employee relations and retirement benefits information section, and the other thing I wanted to let you know is that the presentation, the PowerPoint presentation that I'm going through this afternoon will be posted by the end of the day on that very internet site. So as has been discussed already today, the council on November 18th gave us direction on the 10% total compensation reduction and in addition to that as we've talked about several other items, including sick leave payout that was discussed. The council also gave us direction on retirement so I bolded that here. Second tier was one of those things, and we were before the City Council seeking more specific direction on that, very recently, and the other thing--- [áaudio cut outá] President---

>> It's a new line we've worked with the budget office we showed previously which shows the portion of that. When we hit $400 million, $308 million of that is general fund money. So this is kind of what we referred to as sort of the frightening slide. These are things we've shown--- [áinaudibleá].

>> Sure. [áINAUDIBLEá]

>> well, it would stay at that same level for at least 20 years, and that's probably a best case picture, you're not looking at something that's a balanced picture. That's probably the best case.

>> Do you think it works?

>> Oh yes and probably will, and the 400 stays for 20 years. It doesn't come back down for some period of time.

>> The one thing people would say sometimes is oh this is just a worst case scenario and it actually isn't. This is what we call the best case scenario and it could be worse than the numbers that are seen here. I'm going to go over these quickly but these are funding ratios. We've shown these many times indicator of the fiscal health of a plan, when you're 100% funded it means your assets match your long-term liability. 100% is the best, the target, what it you'd like to be at. You compare where are you and what direction are you headed in? Unfortunately, not unlike other pension plans, we're headed downwards in terms of funding ratios and so you see you're in federated, 60% range and police and fire 70 to 80 depending on how it's calculated. In retiree health care a much more serious issue, 12% funded in federated and police and fire about 7 or 6. Again that's low fiscal health. Our liabilities are much, much, much greater than the assets that are available to pay benefits. More numbers that we've shown quickly is what is the unfunded liability numbers are, roughly $3 billion in unfunded liability. So a lot of people like us talk about the pension problem here in San Jose, whether it be the city manager, myself, the director of retirement services, this is not a topic that is just us talking about. Very timely yesterday the ""San Francisco Chronicle" had an editorial, mentioned a video put out by the analyst office, 15-minute video on pensions and they indicate Mr. Sisne from that office minces no words. The disparities and flaws can be sustained no longer. They are outstripping necessary revenue. We thought doing something different and I'm glad the system is up again. We'll show you a brief clip from that 15-minute video. There's more to it but to share a couple of things rather than listening to us about the pension problems.

>> There are a number of problems with the current public employee retirement system. First, there's a tendency to defer cost to future generations. California governments in general have paid the normal cost of pension benefits for many decades. The normal cost, that's the amount that needs to be set aside each year and invested in order to cover all the future costs of benefits that public employees earned while working in that year. California governments have been contributing those normal costs for a long time for pensions, but even when

they do, unfunded liabilities can emerge for a variety of reasons, changing demographics in the retirement system, the granting of retroactive benefits, that is benefit increases applied to previous years already worked by employees, and excessive optimism by pension systems about their future investment returns. So even though California governments have been making very large payments to pension systems in most years, these unfunded liabilities have emerged recently and that's been one of the key drivers of the increased costs that we talked about previously. Unfunded liabilities in pension systems really are like a credit card balance, and when a consumer pays the minimum balance each month or less, the balance in those credit card accounts can really grow, and that's essentially what's happened to a number of our pension systems. Unfunded liabilities have grown and state and local governments as well as the University of California and others have not been contributing enough to keep those unfunded liabilities from growing even further.

>> So we talked about earlier and mayor, you asked Russell about whether it could get worse than the $400 million. We are already aware by reading very closely the actual reports and talking to our retirement staff. There are some changes that could make us need to put more money into the retirement system over the next five years. One is it if the boards make further changes to the assumed rate of returns and the actuaries have already indicated they maybe need to further lower those assumed rate of returns down to the 7% or even lower levels. Although those things, well if they don't change it, that might not be a good thing. Not necessarily so. It pushes out the cost of future generations so it may make the cost greater today but exponentially greater cost down the road using the credit card analogy. It is something we used in the past when we started on retiree health care benefits. Think about the VISA or MasterCard and you bought something and just paid the minimum payment, how much that item would cost you down the road. It's similar but with much, much greater numbers when you talk about retirement benefits. There's also things that changes to make, technical actuarial systems so that's why we don't think the $400 million number is a worst case the sky is falling scenario. The other thing is that in terms of whether things could get worse is that only potentially get worse for us. This is a topic where I'm not sure misery loves company but we're not alone in discovering that not enough money had been put in to our retirement system. Again, this is what I talked about, this number here might end up growing significantly more than what it is, what it shows here. So we're going to hear the last short snippet again from Mr. Sydney from the legislative analyst's office.

>> Local governments actually have sometimes even greater costs as a percentage of their general funds, because local governments spend a much greater percentage of their budgets on payroll and personnel. Under current law, the laws that are in effect today, it's very easy to foresee that state retirement costs could grow to $7 billion or more within just a few years, but even that's not enough. The state and other governments have made decisions that essentially have led to a number of pension systems being underfunded. Cal stars would require over $3 million per year to fully fund all it needs. University of California retirement system needs hundreds of millions of dollars more from the state.

>> Cut that off there but we also are going to post on our website the link if anybody wants to listen to his entire presentation. So what can we do about it? We showed out our council meeting when we talked about second tier, five primary reform categories from the pew center on the states to talk about sort of major categories of options of what can be done about public employee pension. So one is improving the governance and investment oversight. The City Council made tremendous strides in that reconstituting the board, by putting people on the board that have experience in running pension plans, we have an extremely well qualified Department of retirement services staff so I think we're addressing that issue. Number two keeping up with funding requirements. That's essentially just paying that bill, keeping up paying that bill as it gets there. It doesn't actually lower the cost, it just says pay it. Number three, sharing the risk with employees currently in the pension system, the city ultimately the taxpayer's bear 100% of the risk when things don't turn out the way we thought so when an actuary or plan assumes it will earn a certain rate of return, when it doesn't, that becomes an unfunded liability and the pension system, that is borne 100% by the city and taxpayers. Number four is increasing employee contributions. Now one thing I wanted to point out about three and four it doesn't reduce the underlying costs of the pension system. It simply shifts costs from one to the other. So what's left? Reducing benefits or increasing the retirement age and we've talked about that as it relates to new hires and we're going to talk a little bit about what about current employees? Sharon Ericson, city auditor did a report that went before the council already which says there is considerable discussion how limited the city or other local governments are in changing certain benefits for active members of retirement plans and the city auditor report recommended that that be looked at and studied further. Clearly there is a lot of concern even about this topic being discussed

today, as it could relate to the legal issues that surround. The City Council received a letter from one of our bargaining units, the association of legal professionals, the attorneys in which they indicated the fact that there are legal constraints affecting the city's ability to reduce vested benefits of employees and retirees is not new information and has been mentioned numerous times in public but seems to be dismissed or discounted by the administration without substantial analysis. On behalf of the city manager and the administration, I want to tell you that we are in no way by discussing this today discounting the significant legal issues that would have to be looked at when looking at current employees. We want to at least to have an initial discussion with the City Council today about what would it do, what could happen if we started to look at that, understanding there are significant legal meet and confer issues that would have to be dealt with. So what are the categories of who you can change benefits to, if the city so chose? One is future employees so we talked about that. That is changing it for employees who don't work here yet. Then you have current employees, those of us that work here now. And the last category of where you could change benefits is retirees. Clearly again, many policy and legal issues surrounding all of those things. But to the extent you took options off the table, we're not going to change things for people that are already retired. That option's gone. Current employees, whether we could or couldn't, let's take that off the table. What else' left is future employees, so what we've talked about with second tier, second tier doesn't do anything about the mortgage payment, or that $400 million number. So really the options I talked about in the prior slide are simply to pay the bills or shift the costs to employees. And it doesn't do anything to address the actual underlying long-term costs of the pension benefits. We showed this slide in the open session discussion about a second tier benefit and we separated it out, these are contribution rates for federated police and for fire, separated it into the blue portion which is the normal cost, which is we've explained and Mr. Sisne explained in the video which is really to pay for the benefits as the employee earns the service. It's a critical component of the pension system. If everything was set, the assumptions were all correct the normal costs would cover the costs and that's the idea. The idea is that as the services are being rendered to the community, the money is being set aside so that by the time somebody retires, the money plus investment will cover those costs. But when that doesn't happen for a whole variety of reasons, whether it's retroactive benefits, what I mean by retroactive is increasing the benefits as the city has in the police and fire plan, and increase benefits for all the years somebody has already worked, on that day that it's done, creates significant unfunded liability, or when the plan doesn't earn, the assumption that is does, that all creates these red portions, which are really the unfunded liability and so when we look at what we can do about new hires, talking about new hires, that affects only the blue portion and then again only for those new employees as they are hired. When you start looking at potential, if it's possible and the city so decides to pursue it, changing benefits for either retirees or for actives, you can---that's when you start to address the red portion and the blue portion. So we're going to go through some scenario here again just to give you some idea of what the changes could be. The changes could be varied but as the mayor indicated, the scenarios we're coming up with is if the city wanted to try to at least keep the costs at $250 million, knowing that they could go up anyway, if the goal was what could we do to benefit that would keep it at the $250 million level which is what is expected in '11-'12, what are the options and what would the changes have to be like? Again these are not necessarily recommendations of any type, these are simply scenarios to give you a sense of what would happen. What are the key areas to reduce costs? These are not all of them but one of the most important ones that has the biggest impact on costs is retirement age, how, when can you retire. The benefit formula, how much do you get for every year of service, the maximum benefit after a full career, 30 years is the maximum benefit 75 as it s in fed rate the 90 and public safety. The final calculation, once you use a calculation of the single highest year, then that's the benefit you get nor life. A lot of places are looking at averaging it over a longer period of time, three years, five years. The cost of living adjustment a very significant cost of a pension plan how much of a C.O.L.A. they give. We give 3% fixed C.O.L.A., not tied to CPI at all. Survivorship benefits and lastly but not least what level of retire Yee health benefits do you give. There is an infinite number of variations you can do. You can change one and not the other, one degree and not the other so there are limitless amounts of options and so we've tried for the purposes of these scenarios to kind of make it a little bit more simple so that you can at least get a sense of the changes that could happen. Retiree health care, we're unique in the sense of the structure of other retiree health care in that the benefit the retirees receive is tied to the benefit that active employees receive and the way it reads is that retirees receive 100% of the lowest priced premium that actives receive. For single or family coverage. So if family coverage for Kaiser, the lowest priced plan, I would put that in quotes is $1,400 a month, then the retiree's premium is paid up to that level, and so it's tied. If we were to change the lowest priced plan and have that plan cost less, let's say we were able to change it by 50%, that has almost an immediate or pretty close to the next valuation impact on the unfunded liability. So that is one thing that could be done is trying to change the lowest priced plan so that it is less. 50% is an example, replace the number with whatever number you want to do for purposes of calculating what impact might it have on that unfunded retiree health care liability. You reduce the cost by 25%, it would have a corresponding reduction in the unfunded liability. The retiree health care is a little bit different in the sense of how it is structured. Co-pays is a small example of the changes we have made. We've made changes to our co-pay plan that makes it the lowest priced plan and that drives the retiree health care benefit if that makes sense. We're going to get into the pension side and we separated it out into four categories and we're going to go through one by one. What would happen if you changed the benefit for current employees but then only for future years of service? So if you didn't make any change to what was accrued in past years of service but only changed it in the future and again, all to try to keep it to the $250 million mark so could you see the changes that would be required. The next example, let's keep that the same, you change it for the future years of service but you had some corresponding savings on retiree side. The next example is let's say you didn't affect the retirees at all but changed benefits for current employees for all years of service. Prior years and future service and lastly if did you that and also made changes to retirees? We give thaw scenario, every single one of them estimated to keep the costs at $250 million a year. So the first one, if you changed it for future years of service and keep it at the $250 million mark in federated it's an extreme change. It's almost hard to come up with a scenario that gets you there, but it would be 1% for every year's service and wouldn't be able to retire until 70. On the police and fire side it's 1% for every year of service at 65 and again see my comments earlier about these aren't recommendations, these are simply saying this is the kind of change, because I know from public safety, the issue comes up, do you really want a public safety at 65 years old, so these are again scenarios to show you if you kept past years of service without change and didn't change retirees, what kinds of change you'd have to make and again these aren't the only options to get there but probably the most simple to show. The next example then is, taking on future years of service, now having changes on the retiree side. You'll see here this number on federated side can be 1.25% per year and 60 years old as opposed to 70 and on the police and fire side, retiring at 55, at 1.75 for future years. On the retiree side, what it would take is changing the C.O.L.A. from 3% down to 1%, and doing those combination of things would keep the contribution at that $250 million mark. Now, let's leave retirees out of it, no change in retirees, but change past and future service. Federated could be 2% per year of service at age 60, and police and fire 1.75 at 55. What you'll start to see is if you don't change this box at all, it requires much bigger changes over here. Again to keep it at the $250 million mark. Then you take current employees, past and future service and retirees, you can see now 2.5% is actually the amount that federated currently gets, 2.5 per year of service but the retirement age would increase to 60, and police and fire would be 2.25 at 55. With that 1% C.O.L.A. that I talked about, also gets you to the $250 million mark. Let's compare them here on one slide. So you can see here, what we've done is if you changed it for current employees here and you left this time unchanged you can see what I was saying that the extent you take options off the table and you want to try, the city wanted to try to control its costs escalating it from the way that it is, change has to be much greater and again whether you want it to do a scenario or ended up that legally that scenario was off the table, it just limits the city's options, and you may be just having to pay the benefits, as we talked about before or shifting the cost, as it turns out, as in what options may be available, what options the city decides to pursue. So we hope this was at least somewhat helpful to be able to show what kind of changes might be able to control the costs but again, infinite number of choices within these. It doesn't factor in other things that could be changed that might also achieve a change, for example, the final average salary calculation, other things could have an impact as well. So with that, I turn it over to Kim to lead you through the discussion.

>> Thank you, Alex. So this is the beginning of a conversation about a problem that's obviously very complex and very serious for us all. Again we have two questions here. The first one is just, you know, what questions do you have about this problem? And then the second question is, what reactions do you have for some of the scenarios that Alex suggested? Again, just to give you a sense of potential levers and order of magnitude benefit that could be received? I guess I would suggest those scenarios versus the option of planning to pay the bill or shift more and more of the cost to employees. So open discussion, mayor, would you like to kick us off?

>> A question about the $400 million in what happens, the other scenarios, et cetera. I just want to make sure I'm understanding it right. Could you put the $400 million slide back up there? If we can get back to it? It was in there a couple of times. There, that bun. So if I understand what we heard today, the $400 million in this five-year time period could be, could go up, it could be more than $400 million, because things are changing. And Russell is saying it's highly unlikely to be less than $400 million? Right, and then the other piece of that was what I heard about the federated's briefing for the next 15 years after that it's highly likely that number is going to continue to climb. So this isn't just leveling out. Okay. So it could always get worse apparently. That was it.

>> So I wanted to follow up a little bit, because I'm the counsel liaison to both retirement boards. Russell, in our last meeting we had the 20-year projections and quite frankly, it scared the crap out of me when I read them, and in a nutshell, I don't know if you have those numbers with you right now but I think they're important to share with the council and correct me if I stray here, in a nutshell we received a 20-year projection just for the federated retirement system with a realistic scenario, an optimistic and a pessimistic scenario, and the optimistic/pessimistic were approximately 25th percentile and 75th percentile for performance, best case, worst case and what that shows is in 20 years the federated only contribution in a realistic scenario is about $400 million annually, and knowing that the federated plan's payments are about 40% of the overall city payments into retirement, it could be that if things don't get worse, we could be looking at $900 million a year contributions between both plans in a 20-year format. Am I on track so far?

>> You're correct.

>> Okay. And then if we just did moderately worse in the pessimistic circumstance, not worst case those numbers could sky rocket to four to five times that level, is that correct?

>> That's correct.

>> So when I saw that, that really concerned me, because we tend to look in one, three and five-year perspectives, but I think we really owe it to everybody, the taxpayers and the employees, we have employees starting today that won't even be close to retirement yet in 20 years and they'll be facing a city budget where a billion bucks or so a year is going into pension contributions and that's a serious issue. I tried charting out where our revenue stream could be. I'm no budget person like Jennifer but it didn't look like it was going to be a match for the confounding nature of the problem that we're seeing. So what I'm leading up to is what are we doing on the impact of closing the system's A.R.M.? We know we have a problem. We need to close the system to new employees and just completely get out of the defined benefit plans and how does that affect? I know it will--- our unfunded liability doesn't go away, our normal costs are going to stay the same for our current employees, but does that make the problem bigger or smaller in the different five, ten, 15, 20-year prospectus?

>> In the short term it makes it worse.

>> Hold it closer.

>> It's on. Just hold it close to your mouth.

>> In the short term if you close the plan the contributions spike up so it would make things worse in the near term

>> What about a 20-year horizon?

>> On a 20-year horizon it would reduce, and it's important to note, too, when you're going through the scenarios to hold the 250 for the next five years, all we're talking about is you would get back to a 250 in the fifth year, so you might still have a spike up, as you were running through those scenarios over the short term. I do think that's something we need to look at. Those of us elected are only here for four or eight years, if you're lucky and become mayor you could be here 12 or 16 years to deal with the problems for a longer period of time.

>> Do you feel lucky, mayor, dealing with these problems?

>> And I worry that when we only look at the five-year segments, we might be contributing to a bigger problem down the line, and I think that's a serious issue that we got to continue to analyze, and then going back to the numbers that we have here, this assumes that the expected rate of return stays where it's at, right? And we know that's going to go down at least 25 basis points, maybe up to 50. Is that correct?

>> Billion, it depends on the decisions of the board and the actuaries, but it's likely that it's going to go down below 7%, yes.

>> So because we do know in the past, actuaries have continued for the returns but our pension plan trustees have continually kept them up against the advice of our actuaries. I just think it's something that we need to keep looking at because those are real problems not only in the short term and not only in the medium turn but in that long 20-year perspective which I think we have to keep our eye on.

>> Thank you. I'd like to get some help with a problem I'm trying to get the math on. Every time we lay off people, don't we indirectly make the problem worse in reference to the retirement fund? Because they're no longer contributing but they are getting money out. I'm assuming that when somebody is let go, they retire.

>> That's a good question, how should we think about that?

>> The rates go up but not the dollars. The dollar amount due, regardless of whether you have the staff working and you've done it on a payroll basis or anything, the plan needs a certain amount of money each year, dollars. It's calculated in dollars, and the city, for convenience purposes, has converted that into a payroll contribution amount, but what the plan really needs is dollars, and those dollars stay the same. So if you needed $50 million, you can lay off all the staff, and you still need $50 million.

>> So it doesn't behoove us. It behooves us to try to do whatever we can to keep the staff that we have. I mean I would think in the long run we'd be far better off.

>> Well, ultimately you have to pay through the bill, and at some level there is a balancing act that all employers have to go through to balance the number of staff they've got to the dollars that they can support.

>> That they have to pay out. Okay. That helps me.

>> One other thing I wanted to point out and the reason I asked about the $250 million, if you do all of these uglies, and all of these uglies, that takes you to here. The 250. And then every year after that, there's more of

these things to do, so I thought for analytical purposes let's see if we can keep it flat so I asked the staff to do it. There's no magic to the numbers or any of that, just to begin to understand the scope of the problem.

>> Councilmember Liccardo?

>> Just to be clear about the 400 million, this came up before, Alex, when you were last in front of us, as has already been referred to, the rate of return assumptions I think we're all expecting them to come down, we'll see a much larger number than 400 million. My understanding is, as our city staff gets smaller and smaller, that $400 million contribution from the city, the city's share will also increase because we'll have fewer employees paying their share. Is that what I essentially heard Russell saying?

>> I think what we're talking about when it relates to the unfunded liability treat it like a mortgage payment. Whether you laid off one employee or 1,000 employees the mortgage payment still has to be made.

>> Right.

>> So in future years if you have less employees the normal cost you might save going forward but not the mortgage payment for that 3 billion of unfunded liability still has to be paid because that's unfunded liabilities that have already been approved.

>> But just to be clear about that $400 million assumption in fiscal year '15, that assumes the current number of employees are paying their share, and that the city's share will not increase as a result of a lot of layoffs which we know are speculative as to how many layoffs we have to make between now and 2015. Is that correct?

>> The city's portion is already there in the sense that what you're paying for is your share of the normal costs within the big bucks, the big chunk is the unfunded liability going forward, and that's going to remain there, no matter what you do to the head count, that piece going forward, the city's going to have to pay the biggest piece of that $400 million is the unfunded liability.

>> I understand we pay 100% of unfunded liability on the pension side but we only pay 50% on the health care side. Seems to me if you've got fewer employees kicking in, the city's share should increase, shouldn't it?

>> Well, except that--- no.

>> Okay, I won't---

>> Let me come back to you on that. The answer would be no.

>> Okay, that's helpful. At the very least we know just from the, the rate of return assumptions, that we expect to see a number north of 400 million by fiscal year '15.

>> Correct.

>> I think we probably all agree that puts us on a path of mutual destruction in the city. We're looking at a reduction of a fifth of our workforce this year and much more in the future. It's time to hit the collective reset button, I think it's challenging to negotiate over tier one but we'd probably all agree at some level as we look down the road at what the layoffs would be, that we'd all probably rather take a pink slip on Friday and come back on Monday and talk about what kind of pay structure we would all agree to come back to work with, that would be sustainable so that we're not watching half of our co-workers walk out the door. Seems to me that's the only path I see forward here other than dwindling to the point where we'll have 25 employees reduced now.

>> Alex could you clarify a couple of things? First of all the 400 million, is that the mortgage as well as the normal costs?

>> It is.

>> Okay for the pension side?

>> And that includes total city contributions and also retiree health care, the city's chairing of the retiring health care costs.

>> Picking off of councilmember Liccardo's comments and what we've been hearing about tier one what we didn't talk about is if we just looked at future hires which we've gotten council direction on to explore second tier at a pretty minimal starting level, what kind of numbers would that get us in particular in the context of this problem?

>> Sure, compared to these numbers, it seems small, although we certainly think a second tier is really important, it all does depend when we discuss this in the council discussion on second tier of how many people retire in the next five years but the estimates that we gave is that a third of our employees are going to be able to retire in the next five years. Say they all did leave and we were able to replace them, if we did a second tier at the level of the council direction, which is not to exceed a total normal cost of 12.4, it would save approximately $20 million. So comparing $2 million to--- $20 million to $400 million only reduce it is to $380 million. You can't rely on the second tier for time that has already happened.

>> Councilmember Kalra.

>> Thank you. In looking at, looking out in the next five years, and let's start with this year, what is the number if you can remind me 21.5 and then moving at the of 0 point number what was the base number that was added to, the 60.9, before we got those increased contribution numbers?

>> So what is the overall amount that the city is paying out?

>> The total number I guess is the 156 number?

>> Just look at the general fund number on the chart. 122 million.

>> Okay

>> Going from the 122 plus the 60.9. For '11-'12.

>> So right now the 197.2, okay. That's the 50.9 increase that was, that we're seeing now.

>> It could be because of the prepayment.

>> Yes.

>> More or less it's going from here to here, the 60 plus.

>> In our shortfall analysis we calculated for '11-'12 about 22% of our total costs in the general fund.

>> And clearly we saw the interview clips this is something all public agencies in the state and likely in many parts of the nation are going through, and I know other cities are going through the same process and some of them have taken steps to try to mitigate it, some maybe haven't yet and we're doing what we can here and so I'd be very interested just because I think we have to have all creative solutions out there, very interested to see what other cities are doing with the same issue, if some have come up with creative solutions, if they're just laying people off, if they're finding some kind of agreement with some of the bargaining units and if so what. Clearly we are into this position similarly to other jurisdictions. I think there are a lot of other state level or city level, a lot of other municipalities and jurisdictions giving similar benefits and now I guess we're now seeing the result of that and so the question then is if we contemplate certainly second tier but also some of the suggestions Alex put up there regarding different things to do to adjust the retirement compensation that will have an impact. I'd be curious to know what other jurisdictions are doing as well. Because since we've been more or less aligned, when I look to public safety it's similar to what a lot of other jurisdictions over the last 10, 15 years that spiked some of

the costs and I guess the concern would be, first of all, losing 300 police officers is just one of many cuts that I think will have devastating impacts to the quality of life in our city.

>> Um-hum.

>> I think a lot of other cuts, do you that and couple it with the gang prevention programs, getting rid of library and community centers, all adds up. We have to find the balances point using all creative solutions because if we simply go to some of these or look at some of these suggestions, some of which may not be legal anyway, but something we'll be looking at, are we going to then become just, for all departments not just police and fire but are we just going to become a training ground for other cities, people come here just on the way to another city?

>> Right.

>> We've been kind of the final stop or the place people wanted to come for many years because we offer comparable compensation, and so I think that has to be balanced as well as the impact to public safety and other departments in terms of whether this will be a place people want to live, let alone work in. So I think we have to look at what other jurisdictions are doing to see how they're sustaining thinker city or if they're not. If they're just kind of swimming along and everything in between. Because at some point you cut so much and have devastating impacts and you can't return from it, no matter responsible you are, you get into a position where the loss of quality of life and the damage you create is so great that you don't--- that you end up kind of going over, tipping over this scale, and so that's why I really would be interested to see what other jurisdictions are doing and how they're coping with this. A lot of them are facing even worse problems than we are, frankly, and so whatever we can do to get as much feedback in and outside of our jurisdiction I think will be helpful.

>> Good, I think that's a very good question. I know there's probably a lot of knowledge in the room about that. Russell, can you give us a sense of the range of ways that we know other cities are approaching this?

>> Alex will address that. To give you some dimension, San Jose is looking at increase of roughly $50 million a year going forward for the next few years. San Francisco is over $100 million. Los Angeles is even bigger than that. So all of the big cities are facing exactly the same problem, and they seem to be addressing it much as Alex is addressing it here.

>> The categories, the options there may be many but they have to fit within the options. Think of it another way. For example there are different ways to make the payment, but you know, a lot of cities have done this second tier. As we've talked about it, it isn't going to help with the unfunded liability issue. Many cities in California are in PRNS. They're limited in the options available to them, limited to choosing what's on the menu, even in second tier. The question not in PRNS, our independent plans, being governed by a charter, we may have options available to us that maybe others do not but again we don't think there's a lot of magic involved in it. It's a matter of if you're not going to do some of these, if you take some of the whole categories off the table like reducing benefits, you take that off the table and say let's keep everything the way that it is you really then are looking at simply how do you pay the bill, and how do you share that bill among employees, and at a certain point if you can see 400 million, how much cost shifting do you do? Employees are already feeling the retiree health care contributions we share are 50/50 and how much it being taken out of the city employee's paycheck. There's a limit to that. I think it's a combination of these options that we really think is what may work in San Jose.

>> City attorney Rick Doyle?

>> Alex, can you put back on the 400 million chart for lack of a better word and just for the record, the per counsel direction the last time we talked about tier two we are looking at the legal issues and we'll be coming back to council with the analysis so that's a work in progress. But just a couple questions. First, one way to look at this also, the 156 million paid out this year, how much did or did the city paid in, how much did we pay out or how much is the retirement system pay out?

>> In benefits you mean?

>> Benefits.

>> For the people that couldn't hear about 220 million, Russell, in pension benefits only, not in retiree health care.

>> We're paying a lot less in than being paid out. That's another way to look at this. One thing also, we talk about actuarial assumptions. The more I get into this, I was watching C-span and there was a congressional hearing on public pensions and sort of sick I happened to be watching it but I get interested in watching it, but they were talking about assumptions, this is nationwide, of 8.25%, 8%, and actuarial is saying it should be more like 4% which I think is more consistent with private plans, so runs the gamut. Is there any record, do we have over the last five to ten years of what our actual rate of return is? Do we know what that is and can we get that information? That would be interesting to know. That would be interesting to know, because that puts an asterisk or exclamation mark on the point.

>> Can we use the, is there another second mike? Hold on one second, Russell, so people can hear. Russell can you repeat the portion did you so people can hear what you said before about the rate of return, what it has been over the last---

>> Over the last ten years is roughly five. But it's more important when you're looking at the return assumption, you also have to look at the funded stat us of the plan, and 7% or 7.5% or 7.75%, 8% would all work if you were a fully funded plan but the minute that you're underfunded and we're down like 60% funded, that means that if you're assuming a 7.5% or a 7.75% return, what you really have to have to keep the plan steady is 7.75 divided by 0.6, which means something on the north of 13%. That becomes impossible to do, and just to address Nancy's question from earlier, the new investment staff is performing and actually we gave you about $100 million more last year than any other comparable plan in California when you take our asset size and our performance, and we cut our costs by about 12 million. That's a drop in the bucket, yes, and in future years it reduced your contribution rates slightly. But 100 million and a hundred million there is not going to do it. It will not make up the difference.

>> Rick, did you have any other comments?

>> Alex, approximately what are our employee side contribution rates right now?

>> Employee side contributions, I'm going to get those for you in one second. Councilmember Kalra, this year or '11-'12?

>> Give me '11-'12.

>> Pension and retiree health care?

>> Or total out of the employee's check.

>> In the federated system in '11-'12, 11.19. In police, 16.22.

>> That's a percentage.

>> Percentage of payroll, pensionable pay, and fire, 14.37, you might ask why fire is less, because they're currently not ramping up to pre-funding retiree health care contribution so the contribution is a lot less.

>> I ask that because there's a point where we hit a tolerance level that obviously the city is at its tolerance level. We're looking at this saying we can't keep going on. We can't afford this increase. It's going to be a herculean task in the short term, let alone the long-term and we have employees who are also feeling the squeeze in their pockets. So I think following up with what Sam said, and I think there's an opportunity to maybe do things in parallel and one is to, when you create the second tier, and I really do think the more I learn and the more I see these long projections, I think we need to be going into defined contribution not defined benefit, but as we go there, with the current employees, as we renegotiate with them, and I think we need to do that on a one on one basis and say look this is all we can afford to pay going forward, I think there's going to be a lot of employees that

would choose to go to a new system just to see their percentage drop because that's real dollars out of their pocket every day and there's no relieve for these numbers in sight any time in the future so I think a combination of building the second tier and looking at how we can incent people to switch from what they have now into the second tier. I know that's been done in the private sector in the past. It's something I think we need to do and a combination of what Sam is saying plus a second tier can be the solution that we need going forward but we need to get real serious about what those options are.

>> Councilmember Chu?

>> Thank you. Thank you, Alex, for providing the menu of various options. One thing, in other words it's possible to have for the retiree to have a two-tier system for the retiree. By that I mean if people retired 10, 15 years ago on a fixed income, we can give them a different pension than those people that just retired last year.

>> Sure, and clearly that's one of the options that could be analyzed as we move forward. So thank you.

>> I have a few questions and couple of them have been asked. But one of them just as a general question in terms of the information and PowerPoints being available ahead of time. We had a discussion on the second tier at a council meeting and there was a slide of 30, 40 slides in this one, 20, 30 slides. This just, again, maybe a rookie question, is this a procedure or just surprises?

>> Councilmember Rocha it is a workload issue. I worked personally on the presentation over the weekend to finalize it and finalized it about 11:30 this morning so we would be--- I mean it took a lot of work to get this done. It's a function of the work involved in making a presentation like this. And once we make it to you, we make it available on the internet to anybody. So again, I kid you not that this was finished this morning, including as you saw a quote from yesterday's editorial that I added in, we were working on the equips and retirement staff. It wasn't withholding information and not letting people know in advance or employees. We make an unprecedented amount of information available on retirement. If you look at the information on the retirement

website of what's available and looked at any other city you would be hard to find another city that provides more information about retirement and everything else so we will do the best we can as we move forward.

>> That's not really my question. My question is more timing, as you can imagine it might be a little difficult when you started this, the complex issue that this is, expecting me to go through slides and write down questions and the slide number and to be educated on this issue and ask you quality questions, it's a little difficult to try and keep up, as you can imagine, so this is just a point I was asking and I guess the point going forward, these are significant discussions and significant policy issues, and maybe it's just that I'm a new council member, but I am having a tough time keeping up and also trying to be prepared is really important to me, because I'm trying to read all the material I'm getting.

>> We'll do the best we can.

>> To walk into a meeting these are significant issues. Let me roll through some of these questions I guess. This is a random question I guess for the gentleman, I haven't had a chance to meet yet.

>> Mr. Crosby?

>> Yes.

>> He's our director of retirement services.

>> Legal requirements in terms of paying our liability or a contribution amount say the 156 million, are we required to pay that or can we take a vacation for a year?

>> As Alex said it's like a credit card, what you don't pay this year you pay next year and you pay more.

>> Actually we are not required to pay in.

>> There are some legal requirements we wouldn't have to pay at that level but it is a credit card.

>> What would that level be?

>> I don't know. I'd have to figure that out.

>> And you kind of, sorry---

>> Thank you. Councilmember Scott Johnson, director of finance. I wanted to add to the response these are the annual required contributions for the actuary. To the point the city doesn't make the annual contributions we would receive a qualified or qualified opinion from our auditors and that could have significant ramifications related to our bond documents and our bond ratings. There are other factors other than the legal, they're what our fiscal requirements are and issues related to our audit, our financial audit.

>> Is that for state reporting purposes?

>> That's the Governorial accounting standards board that we have to follow on national standards.

>> Thank you.

>> Okay.

>> And the question was asked about how much we're paying out of the current system right now and I think it was 220 million?

>> Yes. 220 million in pension benefits.

>> And that includes then the health care?

>> No. Pension only.

>> That was purely 220. How many employees are currently in the system as a whole, retirees and current employees?

>> That was a slide we had, let's see, right there. So we have total in both systems 5,800 or so, June 30th, 2010, based on actuarial information which may not, when you look at it, it's from the actuarial report so it doesn't always correspond with exactly our budgetary counts but about 5,800 and the number of retirees and beneficiaries at about 4,900.

>> So the 4,900 we're paying out the 220 million.

>> Exactly, this number of retirees and beneficiaries.

>> We project the number somewhere around 400 million at a certain point and currently paying out 220 million, that jump can you help me understand a little bit?

>> Oh the jump between paying 220 now and the difference between what we pay out and pay into the system in contribution versus what we pay out in benefits.

>> Yes.

>> Most of the increase is deferred asset losses, the losses from 2008.

>> Most?

>> Yeah, most. The vast majority, um-hum.

>> 100%? 80%? 50%? I know it's a tough question.

>> This year in federated is probably 90% and probably about 50% in police and fire and in future years it goes up significantly. It would become more and more would be related to the loss in 2008. Of the things we know so far, with each valuation you're going to true up demographics, true up the age and true up the retirements and all of that is affected by the number of retirements that occurred during the period and there are lots of moving factors there that you can't just say oh well it's all deferred losses. What you see in the 400 is deferred losses and we know about those and that's why we can project them so accurately.

>> In a word, is it a policy decision to make those payments early?

>> No. That's the way that pension plan works in that you're funding the plan so that over time, the employer's contributions aren't supporting all of the benefit payments that come out of the plan. Plus as Scott indicated, if you don't pay the required amount, then the city will begin to build up large pension obligations that will reflect in its bond issuance.

>> So the 400 million that we projected, is that the total number paid out to retirees or just the city's obligations? If it's the total amount that would be around $550 million? So the system is paying out another, could you give me an estimate?

>> Russell could you stand up?

>> It's the city's obligation to the pension plan and disconnected from what comes out of the pension plan in terms of payments.

>> I against I should use the 220 million number that we're paying out annually.

>> Um-hum.

>> Is that the total amount we're paying out of the system or just the city's contribution?

>> We're not paying that.

>> No, the city doesn't pay that. That's the pension plan's payout in terms of pensions.

>> Okay, thank you. Have we done a projection looking backwards based upon the ratios that we have, the 65%, the 90%, police and fire, the 70% federated, what numbers could we have sustained looking backwards in terms of where our revenue were and contributions. Could we have paid out a defined benefit of 50%, 30%? What would that number look like?

>> I think the key to the question was that, as the plan particularly police and fire, became fully funded back in we call it the '80s--- '90s, that if the assumptions had been made more conservative at that point then when the crash came in 2007-'08, the sustained losses would not have been nearly as high.

>> I heard losses twice now so a lot of this unfunded liability is coming from losses, not a system that wasn't, I don't know, working right, I don't know the right term there. Help me, please.

>> The system lost $1 billion in one year, between the two systems, between police and fire and federated, it lost $1 billion of your $4 billion in one year. And everything else follows from that. It's having lost $1 billion in one year out of a $4 billion system.

>> And our plan to pay that, make up that billion is based upon how many years?

>> Well, in federated it's based on 30 years, within any additional losses beyond that, amortized over a 20-year period and police and fire in 16 years.

>> I think it's probably best for me to get a meeting with you rather than suffer through these questions. Sorry, go ahead, Deb.

>> They're good questions and not all of us have the answers.

>> They're excellent questions. Can I just seek a clarification?

>> Please.

>> Russell, the billion-dollar loss is an important piece. 'My understanding also if we go back to the list of issues, providing increased benefits, and then retroactively giving those benefits to employees or retirees who were never part of the funding stream, isn't that also another part of what we're seeing here?

>> Correct, and as well what we're seeing particularly with police and fire is the demographic assumptions are not correct. They don't hold up over time and you have constant negative variances with every evaluation so it's all of those pieces coming together. But the benefit increases were more in the hundreds of millions, where the loss was a billion.

>> So as we go forward and establish this second tier system that we expect to be fully funded and to share the cost in terms of any future unfunded liabilities, we can take into account now any potential losses as significant as this and establish a system looking backwards that I would hope we could look at what could have been sustained and at least use that as a measuring stick as opposed to dismissing what we could have done. I'm assuming that's how we're going forward?

>> The important part and discussing second tier is to use the best assumptions possible that are going to predict the actual cost of the plan. For example if we were to take an assumption and use an unrealistic assumption it may look like it's actually cheaper than it really is. So if you consider to use the 7%, 8% assumption, it doesn't, the assumptions don't determine the cost of the plan. So the actual cost of the plan are the benefits that are given with investments and how it does. So I think the key on a second tier as we move forward is to make sure we're using the best estimates possible, so that as the city and employees are contributing the normal costs it's going to hopefully come as close as possible to the actual costs of the plan.

>> And your point is very good, and that's what we're trying to do, is bring more, look historically at what actually happened in these plans in terms of demographics, in terms of performance, in terms of salary, all of the pieces and when, say three years ago, if you'd looked at the valuations and there are maybe 11 major dials on this machine called an actuarial evaluation, all of the dials have been set to the lowest possible point. You've got an answer that yielded a contribution rate based on setting all of the dials to the lowest point. If you go back and take the 11 dials and set some to a high point and some to a low and some in the median, you get an entirely different answer. And that's what we're trying to do going forward and why we can say that of that list of things there, these are things that still need to be fixed inside these valuations. The benefits are going to be whatever the benefits are, but in order to fund them and accurately project for them, to actually project forward how much it's all going to cost, we need to fix all of these things inside the valuations that we already know about, and we're nowhere near fixing those. If you fixed all of that, you're looking at probably another 250 million above your 400 million. So the 400 is really just a basic starting point that recognizes the losses that have occurred and doesn't really fix anything going forward.

>> Last question.

>> Okay.

>> The actuarials that we've talked about, the retirement boards established that we're now basing our contributions to the unfunded liability for the system, are we bound by those changes that they've made to pay that amount? Legally?

>> I don't know, Rick, if you want to answer that question? Every time that question comes up I always think about the city of San Diego and the challenges that they got into.

>> I've always said the city charter requires specifically with respect to police and fire that the plan be actuarily sent. You have a legal requirement to make those payments. Federated, there isn't a specific requirement. I think, though, there are code issues and there are practical non-legal issues that Scott has talked about. I think we owe you and the council something in writing that explains what the obligation is, I think I'm going to work with retirement staff because retiree health, to the extent is part of that, that's more of an accounting requirement but we need to get those answers to you. [áInaudible commentá].

>> Can you repeat the question?

>> The city's credit ratings. I think we can get it. We can get an info memo.

>> Councilmember Oliverio and then councilmember Liccardo.

>> I think not paying is passing the problem on to someone else and I think you have to take that. We do that every time pass on the debt to a younger generation and other people. The only thing that's sustainable where we don't have to do this is a 401(k) because it's based on what the person wants to save and that is 100% based, the plan itself is to that individual and the city can afford the employer match in the year that the financial ship is in. Doing anything on a second tier that still has a scheme of a pension, in my opinion, is going to lead to future problems we're never going to get to the solution and with the dire straits we're in, we're going to have layoffs and possibly very significant and because we layoff based on seniority you're going to lose a lot of people which

makes the second tier savings opportunities in the future even more vital, so that's why I say on the second tier. Moving forward, Rick, on your legal analysis, is it going to contain things about C.O.L.A., for example?

>> Yes, we're going to address the specific, sliding out there with future employees, current employees and retirees. With respect to tier one, what we call tier one deals with current employees and retirees and we'll be addressing issues with respect to those.

>> I think so everyone knows the state of Colorado actually changed the C.O.L.A. on every retiree. They figured they can't afford it anymore. If you look at our plan we paid out 6% guaranteed the last two years, 3% this year, 3% last year. All those, the rest of the public Social Security got a zero percent C.O.L.A. the last two years. I think if the combination you laid out there we have to look at it, whether or not we make that move or not but it has to be on the table and Rick do we have the ability to get rid of any decision that was made that caused a retroactive benefit or unfunded liability?

>> If you're talking about rescinding an agreement, well you'd have to look at the specific agreement. I'm going to talk to new general terms. There's also conferring issues with respect to some of the issues. There is a case pending, and it involves the county of orange. It had to do with the challenge to retroactive benefits. The court of appeal ruled that they were legal, but the county is deciding whether or not to appeal that decision to the Supreme Court so there is a case that is pending at this point, but in the meantime, it really depends on what the benefit is. Generally to the extent you've made it an agreement and you have a contract, you need to live by the contract, subject to maybe meet and confer and the ability to renegotiate.

>> Councilmember Liccardo?

>> Russell, just to clarify from the earlier conversation and sort of expand on the notion. I know you were trying to simplify an answer for purposes of discussion but in terms of attributing where we were to the billion-dollar loss that we had roughly in '08, I can remember coming in in '07, my first month learning about the $1.5 billion in unfunded retiree health care. Clearly this problem was with us for some period of time, is that fair to say?

>> Correct and I'm more focused on the pension plan where we've lost the billion bucks.

>> Right.

>> It's 100 million or so in the health care side.

>> Stand up.

>> There was no money to be had or lost on the health care side.

>> It's less exciting.

>> Much bigger on the pension side.

>> Agreed, okay, and then I guess, just in terms of how we're looking at this and where it's sort of taking us as a city, I mean, as we look at it now we're sacrificing everything for this pension beast. We're laying people off. We're cutting their pay. We're cutting city services that are vital to our residence and I think for all of this I think we're recognizing pretty clear this is a retirement system that very much depends on future councils continuing to have the stomach to basically cut everything in order to keep the beast fed. At some point we have to say okay, it's time to let this go. I think this is, I mean there's no time like a crisis and this is it.

>> Councilmember Pyle?

>> Russell, you explained something to me once and I don't remember all the particulars, but in the stock market and other investments, things have come back to a very large degree but our billion dollars didn't. It's just down at the bottom of the sea. And part of that was because the investments were made in businesses that failed?
[áLaughterá]

>> The whole market went down. And when you lose, call it 30% of your money it takes, you've got to have a 60% upswing to get even again. It didn't happen. Now, markets have come back, but not that strongly, and yes, we've performed very well, and particularly in comparison to other public plans, we won the socks off just about everybody particularly in federated but it just, you can't invest your way out of the problem. There just is no way to invest your way out of the problem.

>> It's just absolutely incredible that $1 billion was invested that poorly.

>> Um-hum.

>> And what are we doing to prevent poor--- well you're in charge now so we won't have that. [áLaughterá]

>> Well, don't go there. We have a better asset allocation now, much more diversified including alternative assets, particularly commodities, about 10% commodities in each fund and those tend to move in opposite directions to stocks and bonds so what we've done is stabilized the portfolios with a broader diversification that in theory has much less risk associated with it. We're not going for knock the socks off with performance, but to reduce the risk out of the plans, because what killed you wasn't performance. It was risk. It was the risk of losing the billion dollars or having another downdraft, and that's what we're trying to work on and prevent.

>> Thank you. I think people out there needed to hear that.

>> That's a good question. Let's take any final comments on this, Scott, and then councilmember constant, and let me know if any of you want to speak.

>> I'd like to get clarification on statements earlier. First I think it is true if there was information produced in info memos in regards to the rates how they've increased over the years it's not only the investment losses that we had, actually the majority of our rate increases were due to other assumptions and corrections that the two boards

had been working on and I think it's a work in progress to the credit of the retirement staff and the retirement boards. More than 50% of the rate increases are due to either economic assumption changes or non-economic assumption changes so we are correcting those assumptions to Russell's point earlier.

>> What it is a non-economic assumption change in.

>> Things like demographics.

>> Demographics.

>> Age of retirement, how long people live in retirement, that sort of thing. And I think just to add to Scott's comment, that that's true to this point in time, but go forward to take us from the 250 to the 400, what we're really looking at there is the integration of the losses more than anything else.

>> The other thing I do want to point out I guess in the city's finance structure they're sensitive to our disclosures and financial statements and what we have in the financials. In the audited financials we have good information, a lot of information about our retirement plans, and we talk about how rates have changed, what the impacts on the rates have been, how we have either investment losses or gains, we have had some recovery over the last couple of years but we're not there yet so there's a lot of good information there and I think some of that information has been produced in an info memo, so one final comment I want to make, I'm thinking about an earlier question, and that is, just as we go to the market so often, collectively between the city and the redevelop agency we have about $5.8 billion in debt, so the financial community, they pay attention to these meetings. These are public meetings. They want to know what we're talking about and how we're solving problems. To the credit of the mayor and the council, the good news is, these are very difficult choices, but over the years, we've been able to tell a very good story that the mayor and the council are making those tough decisions and that's why we have the excellent credit ratings that we have that save us millions of dollars in regards to our debt program so I just kind of want to put that in context.

>> That's a really important point.

>> Thank you.

>> You know, recognizing all of us have a conflict, all the employees and our retirees. My hard question for Russell is, why should an employee an active employee and a retiree care about this subject, recognizing the council isn't giving us direction right now, but I think that's a very important point for our workforce and our retirees to understand. I can give you a cost example. There are five of us who will never be eligible for retiree health care. Between the five of us we're paying $50,000 for a program that we'll never see. This is the real effect of cost shifting out of one generation of workers off to another, is that somebody gets stuck holding the bag down the line and I can show you five people who will never have retiree health care but paying $50,000 a year for it. Just as one example.

>> I think there's a couple of things that have been said that are really key here, and one, well a lot of what Russell said is key but one that really stuck out is we're not just going to invest our way out of this problem. This problem has been many, many years in the making, and we have historically had a system that was really one-sided. We had retirement boards, the two retirement boards that were comprised of all people with conflicts of interest, and to the council's credit, we've made a significant change there, and the boards are almost fully seated. To the board's credit, the fed rate the board, the one I have the most experience with, the two employee representatives on the board take the job so seriously and are both very highly qualified, and are really determined to help, you know, change how we go forward, and I think that's critically important, but we still have to face the fact that we have a program in place in our retirement systems where, as you go forward, and you set your assumptions, there's an employee/employer risk sharing going forward for the normal costs, but the moment that day passes, every day that passes, the risk completely shifts 100% to the city, and when there's no cost sharing on that side, it makes it very difficult going forward, especially for the taxpayer, and you're seeing the implications in these cuts and services. I mean you can look at the retirement number and you can identify clear services that are being cut because we don't have that risk sharing, and we compound it when we have a program like the SRBR, where we pay out money to the detriment of the fund year after year. We have this big

hole that we're sitting in, yet we continue to have a program that pays out money, skims money off the top, which makes it very difficult to ever achieve full funding, especially when we're in such a deep hole. So going forward, as we talk about second tier, no matter what form it takes, it really needs to be clear that the risk sharing has to be on both sides of the equation, both looking forward and looking backwards, and that we make sure that we don't have anything that skims off the top, because that really, really has a negative detriment to the fund, and if you look at the report that Sharon did, you can see the costs of the SRBR program. They're significant. The most recent I saw is 0.3%, which is significant percentage every year, that comes right out of the fund, just to feed the SRBR. So I think we really need to be conscious of that going forward. We have to build a program that is going to be, well, minimal risk but the risk has to be shared on both sides, so that we move forward and we don't continue to dig a bigger and bigger and bigger hole.

>> Okay. Thank you. I'm getting my cue from mayor reed it's time to go to the next section. It's an initial conversation about a very important and complex topic. So we spent a lot of time talking about the budget, but we also do other work around here, and so one of the issues we want to focus on is how do we prioritize workload for new items that come up often after a budget is adopted and after major projects and work plans are agreed to? So for this section, I think we're going to have mayor reed open this section and then Ed Chikada is the lead on this. The lead that was the memo on this section, we're focused on attachment "A" and attachment "B." I would encourage you to have this in front of you. Mayor reed?

>> This is something that we haven't done in a long time, I can remember doing something like this when I was first on the City Council more than ten years ago I think. We have much more work to do than we have staff to do it. What I'm trying to do with this session is to give rough prioritization to the workload. Some of the items we have to do whether we like it or not. There's not a need to prioritize them so much, but some of them we'll have some time to work on and some that we won't so this is an effort to try to give staff some guidance, and what I would anticipate doing is, I think we're going to do by dots, when we get to the end senior and staff council members will get dots.

>> Right.

>> I'm doing good so far, and that will help us understand the various rankings of the various tasks, and then that will become part of the budget message process, so in march with my budget message and ultimately how we fund the programs because if we decide some things are a priority we may have to put more money in one or more of the places in order to do it and that is really a budget decision so we're trying to figure this out with some guidance today. This is not the answer ultimately, the answer is in the budget. We approve a budget document in June, but we are going to of to make decisions before that, as we get into the march part of the process. So we're going to ask the staff to explain what all of these, not all of them but answer your questions about these assignments, and some of these assignments went from council to staff and some of them were generated by staff and some of them were generated by circumstances beyond our control, et cetera, so it's not so important how they got on the list. The question is which one will the staff be able to work on in the next year. And then what I anticipate doing is, of course we're not going to get done with all of them in the time frame that we have. That's why we're prioritizing them but in August to come back, have another look at the list, see what's on it, what's gotten done and anything that's come up new in the meantime goes to the, into that process to the workload and making the assessments the council basically twice a year setting the priorities for this kind of work that needs to be done. So that's how I anticipate using it. This is experimental just like a lot of the other things we do. Let's see if it works. I'll turn it back over to Kim.

>> Okay, great. Ed Chikada?

>> The reason you have the handout is that this eye chart even standing directly in front of it I can't read, so bear with us and I think we can get into some of the details. Just perhaps to make that transition, all of us recognize it's a difficult opportunity to switch gears from talking about the global challenges facing us as an organization through the very specific challenges that are facing us as departments, as programs, as services, but that said, I think the mayor put it quite well, we do need to continue the business of the city but at the same time focus on achieving what we can, given the limited resources. Let me also point out for the mayor and council, this is a very difficult council for your department's staff to have, your professional staff. Really pride ourselves, themselves in being able to meet the challenges, whatever challenges that are thrown in front of them. With that said, we as an

organization have spent quite a bit of time recently in what it we are calling aligning expectations, and recognizing that, given the significant reductions that have happened over the past few years and in particular, getting through this current fiscal year, that the reductions across the city have equaled the prior eight years combined. So with all of that recognition that we do need to do a reset, as was mentioned earlier, and realign the expectations of what can be accomplished with the resources that are available. So that said, let me do a little bit of an overview and then we can start talking about some of the specifics, open it up for discussion. First off, the eye chart and again, you have the hard copies in front of you hopefully, talk about within each of our city service areas, some of the major work plan items, these are items that were either referred by the council or generated through our base and proposed budget, but that said, what you won't see on here is the significant effort around managing through transition, and while there are some specific examples, the disruption caused by the reduction in force, the resulting bumping, the turnover and having much of your professional staff learning new jobs, for which they may have had similar classifications but are wanting and attempting to ramp up to the work required, while at the same time delivering the service really aren't specifically recognized here. That said, another area that you will see some of in the chart is the changing, changes in service delivery models. Again, a significant source of discussion with the City Council but throughout the city, every department, every office is undergoing either evaluations or proposed budget adoptions, or changes in service models. We see in particular I think the neighborhood city service area. A majority of the items listed are in one way or another related to transitions and service delivery models. Finally, let me also point out that, given the challenges that we've just gone through, a significant effort is being put into the development of your fiscal year '11-'12 budget proposals and budget strategies both in the preparation for today's session as an example, as well as the, we'll call it the list of horrors, is my description of this, that have had to be vetted to the extent that they could really, while running and providing the services is just the latest example, and more specific example of the capacity and the need for staff to continually look at the ways that we can meet the challenges of today. So with that, I'm going to turn over to the--- we have here a summary version of the, I believe it's eight-page or so listing of the pending ordinance revisions and major referrals, and at the risk of oversimplifying what we have attempted to do in the detailed version that you've got also in your agenda package is a listing of the ordinance or the referral itself, initial really high level estimate of the level of effort required to complete the assignment, and again, an order of magnitude assessment of the time sensitivity of the completion of the work. So as you may see, as was quite obvious to Joe

Horwittal and Rick Doyle a large majority of these fall within enforcement and the city workload. I'd like to turn it over to Joe to give us perspective on the capacity issue as well as the referral.

>> Thanks, Ed. We pride ourselves on doing a lot of code changes, it's part of our continuing reinventing and we do that with an army of one, that's one of the challenges you've heard me say at council as we've worked on some important issues but it's a matter of prioritization and that's why we created this list a year ago internally to the department is that there are things we know are important to the council, things important to the community. There's some things that are important to our business customers, and we want to make sure that as we're thinking about how we prioritize these, that we're thinking about all of those to make sure that it's really moving us forward especially as we go through limited resources. The one other thing I do want to point out is, we are very dependent upon the capacity in Rick's office to help us deliver on that, and I'll give one example before I turn this over to Rick, is that we are working on our general plan update, it's one of the things listed on that chart up there in the little, itty bitty point but that guides the city forward. We're doing the draft DIR. The city who then works for me pretty much full time is going to be spending about two months reading that draft, which means I'm pretty much shut down on all of these types of activities so it is a really important task that we go through and make sure we're really working on things that are moving us forward. It's not to say that things aren't important. There's a lot of things that staff would like to move forward but we know there's just not going to be the resources to do it, so today's exercise we're really looking forward to, to see what is important to the council to make sure we keep focusing that army of one on the right thing.

>> I'll be brief. I think I was here ten years ago, mayor, when we did this the first time and trying to think if any of the problems are left over from ten years ago. [áLaughterá]Quite honestly the sign code might be one of them. But we're almost done with that, right, Joe? Anyway, on the workload, what happens frequently is you get one or two or three people in the various departments who are stuck with doing the bulk of these ordinances. It is a workload management issue but usually their specialty so that's why they get the privilege of doing these things, so on top of just day-to-day work or day-to-day compliance, code enforcement, planning, whatever issues come up, so my--- look my take on this, the sign code is in the home stretch. We're using outside council to help us as well which has made a tremendous difference in terms of moving it forward. My focus is health and safety issues

to the extent we have to do something and it needs to get done correctly, that usually takes precedence and then beyond that it's this is your policy. Your policy statement I always say is the budget but where you want to put your money and where you want to put your focus, that's why we're here to tell us what you want us to do and work on first, and last. Mayor?

>> Okay, thank you, Joe and Rick. The next slide, Tom go? Oh, Kim's got it, okay. In the interests of time and recognizing, I believe that we're at various levels of familiarity with these items, many if not most of them have either gone to council or have been discussed at a committee level, we'll leave that open for questions as you may want to pose them. With that said, in order to take first cut at how we prioritize, staff has put together a few examples, some thoughts as to what some of the criteria might be for identifying those items that might rise to the highest priority, first being whether the elements or the item would increase revenue or reduce cost to the city. Second, whether there is a mandate associated with them and related to my earlier comment on the matrix that we provided, giving an assessment of the level of effort as well as the relative time sensitivity, we recognize that both of these, one and two, are really in shades of gray, that there could be a monumental effort that generates a dollar, or a hopefully actually I don't think there are any small efforts that generate lots of dollars. I think we've already identified those and implemented them. But the same is true also with the mandates, and to the extent that we have a regulatory mandate it often comes down to the extent, the method and the magnitude of our implementation efforts. And then finally, in terms of the larger policy concept, how do the elements or the items on the list relate to impacting our overall city goal, which I'll repeat, because I think they bear repeating, safe city, a prosperous economy, reliable, well maintained infrastructure, a green and sustainable city, and vibrant attractive community. So how do they connect to those very top line goals that we've discussed and we've had some feedback from the community? So that effectively sets up the exercise that we've got, and I think we'll open it up for discussion or questions on the items as well as how we proceed.

>> I think questions on any of those, where you want clarification, because we are going to ask each of you councilmembers and senior staff to identify your top ten. We're also looking for ideas about what factors you would use to prioritize. We don't need to get consensus on this. Ed suggested three. You may have your own if you'd like to share how you would prioritize it, feel free. Microphone here.

>> From anyone on city staff that these ordinances might be in your department, could you help sell any of them to the council, I.E., which ones bring in revenue.

>> That's good.

>> Which ones have the potential to stimulate business of some type of investment from someone.

>> You really asked that question. Okay.

>> I started putting dollar signs and arrows. Numbers four, five, six, 11, 12, I think all have the potential to generate revenues, that they would make us more business friendly. Four, five, six, 11 and 12.

>> Say what it is. Four is---

>> Sign code the two pieces to are that, the zoning quarterly update, where we take care of the things that come up that businesses identify, offsale alcohol, as well as the denial fixing that and then and 15 and 16, ways of reducing cost, trigger removal and standards for Alan rock the pilot, I think both are ways that we can control costs.

>> 14 says San Jose open for business, would that be---

>> Yeah, I'm trying to figure out what that one is. It has my name up. I have to look and read up on it.

>> Streamlining. [áInaudible commentá]

>> we'll put dollar signs under that one.

>> Could you guys clarify the prioritization criteria? Are you thinking of those helping us moving forward and today or is it more about moving forward? As I was looking at this work as it was coming together, the time sensitivity on level of effort combo kind of got my attention, the time sensitivity which seems to express a sense of urgency for one reason or another, so I guess the criteria, what's our view of these principles and how should we think about the time sensitivity level of effort scores?

>> Well, specifically, in terms of the criteria it really is both for today as well as going forward, the time sensitivity measure was really our attempt to try and reflect the time sensitivity as defined, as the individual assignment has been described and to the extent it's related to a regulatory item that needs to happen quickly. That said, something, what's the phrase, something urgent is not necessarily important, and as a result, while we may show and in fact we do show a number of elements that are urgent, the question of how important they are is where it gets much more qualitative.

>> I would add just on the number one which may help us become more efficient and business friendly, number 25 is our development agreement ordinance. I think it's something that one we want to codify it and two we want to make it a little bit more consistent with what other communities do statewide. We have a fairly restrictive development agreement. Developers have to show some significant increase, benefit to the city in order for us to do this. The other thing is it's not codified so it's one of our better kept secrets in the city and been that way for 20 years and something we've been talking about. Number 34, the water system something we've talked about in the past as ways to get revenue through the general fund or structure.

>> Good. Any other questions, any other pitches or cases? Let's go to the back.

>> Thank you. In regards to the exercise whether it's deciding what the top ten is, putting our stickers up there one of the issues with the exercise and I understand we have to do something to prioritize, it's certainly topic of discussion and conversation. Are there some things that will move forward whether they're having a dot on there or not? The habitat conservation plan has been in the works for years and years. We're part of it whether we like it or not and move forward and have some level of staffing involved with that, whether any of us put a dot on it or

not. The same can be said about some of these things, medical marijuana we're at the point nobody can drop it all right now but it's probably unlikely, right, given what's happening out in the community and dispensaries out there. Whether anyone puts a dot up there or not. I think certainly it's important for us to do exercises like this to get a sense of where people are but there are some ordinances or some suggested ordinances that it may be more valuable to the other, regardless of whether we have to go forward with it or not, I'm putting something forward or another council member is putting something forward. In terms of factors prioritized, what's missing, and this relates directly to the meeting with he had on Friday, Ed, with supervisor Yeager and others in the county, how much cooperative resources were getting on a particular policy, I'm referring to the smoking in outdoor areas where up until the county had about 19,000 and now looks like they may have another couple hundred thousand dollars for us to work on that and we had a good discussion on Friday in terms of trying to figure out exactly how we would move forward in collaboration with the county and nonprofits. That's not reflected in the prioritization and needs to be because there's urgency in regards to getting that money. It's a goal shared with the county and if we don't know if we'll ever have an opportunity to have those funds again to do this, and so without that being factored in, someone could say it's not urgent to do that. But that's number 36. So you know, that's another factor is partners out there, the leverage of funds, even if it's not something that has to be done tomorrow the reality is it becomes a couple hundred grand to help put that forward.

>> So the ability to access resources in a timely manner.

>> Also the partners are out there. The county shows a great willingness to work with us on that issue, evidenced by the number of staff and folks we have working on it, including supervisors that are very interested in moving forward with us on a policy similar so there's consistency there. Another one access to grants, we definitely worked a lot over the poll days and end of January on the grant for payday lending just to see if an analysis can be done to see if it's necessary or not. That grant comes in to do that analysis that is relevant. We have to have that discussion because as we discussed, resources are extremely limited and we all try to be sensitive to staff but whatever we can do to bring more resources and to push forth some of the policies, which may apply to some of them but may not be outside resources for a lot of them even though they may be valuable in terms of sign code.

>> We're talking about the sequencing of getting things done, given real capacity constraints and it is difficult to think of certain things as higher priority and timeliness and others get to eventually.

>> Joe, could you elaborate on number 22, pipeline projects, and also educate us on the impact of number 20, north San Jose forum.

>> Number 22 is a referral that came up several times for as we've done park fees and a couple other similar sorts of things that councilmember constant asked do we have a standard way of defining what is pipeline so that's that referral, and number 20 that's the north San Jose form base code. I'd say it's similar to what we have number 16, I think number 16 is our prerequisite to doing number 20, our goal when we did the north San Jose plan was to come up with zoning districts that would make it faster for developers to be able to build under that plan and not have to rezone separately so we're working, learning that one. I don't have any dollars lined up to do that one but it's on our list.

>> Yep?

>> So I have a couple of questions and then some process comments. I see some stuff on here like the senior commission policy update number 43, but what I don't see is like the boards and commission review that I think was more expansive, might have more opportunity for consolidations and potential cost savings, is there a reason one's on and not the other?

>> I'll take a shot. The boards of commission review is part of the current workload between a few departments. This is more about ordinances that are the result of some prior direction.

>> And then there are some things that I don't see on here like some of the cleanup work that needs to be done on the retirement board ordinances that are pretty urgent. Does that mean they're getting done and not part of the priority?

>> They should be coming shortly.

>> Okay, good. And then I had a question about ash's comment about outside resources. And my question is, even though we have extra money, does that mean we're going to have extra bodies or do we still have the same bodies working on it so that there will be an opportunity cost if something else of higher priority ends up not getting done?

>> At the risk of speaking for Joe and perhaps for both of us, that particular example may ultimately be a bit of a hybrid in that we'll contract for assistance where we could but at the end of the day there would be a measure of capacity, taking up from Joe's time, Laurel's time, city's time for a period where it's a big enough undertaking for contract or allocate staff to full time, then it gives the possibility of adding resources but it's the fractional pieces of each of us that are much more challenging from a capacity standpoint.

>> I think that's something that we have to take into consideration. When we have cops grants and safer grants that's a big discussion we have, the capacity to deal with it and if the opportunity cost is going to be some of the higher priority items, then I think we have to be very cautious and then on process of getting things done, we have the percentage of completion in our packet, but if we do this again it would be nice to have it where we put our dots, because we'll be shuffling through a lot of pieces of paper. If something is 80% done I might put a done versus something that's zero percent done. I know we'll have council giving their priority dots up there and staff. Are they different colors?

>> We decided not to make them different colors. You all have random colors.

>> I'm not so sure that's necessarily a good idea. Because you know, no, just to be blunt, just because some think it's a staff priority doesn't mean it's a council priority and it is the council that decides where we put the funds. To mix them all up there I don't think is fair especially when we have more staff in the room than council members.

>> You figured that out, yes.

>> I honestly think that's something we continually struggle with. We struggle with it at rules and the committees, we're not always going in the same direction. When it comes down to it we're responsible for making the decisions where we're going to put our money and resources and I think there should be a difference and I don't know what my colleagues think but that's what I think. [áComment made away from the microphoneá]

>> we talked about this before, we're not making a decision here today. This is a sense of sort of the institution of the importance of these things. The real decision will be made in march, the council decision then and this is to give us guidance, an experiment. I decided that would be a good way to go. I don't know what colors my dots are, green or red. What color are yours?

>> Green.

>> I'm going to go here and here.

>> D.O.T. in the house? Hey, on the installation of parking meters, after you do the planning and the outreach and you pay for the parking meters, when would the city actually recover revenue?

>> [áComment away from the microphoneá]

>> 39 and 40?

>> 39 and 40 look at creating possibility new metered parking districts. The effort here is really to study these, this came out of a council referral I think in last June that was responding to increasing parking meter rates in Japantown so the issue was raised, should we look at parking meter districts in other parts of the city, so this is---thanks for the update. So this is really to look at them, so one effort is in the civic center area, and the other is

other business districts but likely they would include the Almeida and Lincoln avenue. I'm not going to advocate for these, so I'll just sort of put that out there. Generally, where we have successful metered parking districts is if we have a real problem in the area that the business district wants to have solved, because there's a lack of turnover or a problem with parking, and so in order to successfully implement these, we usually, you want to have a business district that wants to have the metered parking within the area. Based on what we know now, that's not the case in any of these other areas.

>> Could you pass the microphone to councilmember Liccardo?

>> Thank you. With regard to the second criterion, the federal state and regional mandate, Rick, if we've got, let's just say, imagine a moratorium on a particular issue, say it's bail bonds, and we're taking that 22-month moratorium. My understanding is the state law provides for the moratorium with the expectation there is going to be in fact a change in legislation. Does that mean there is in fact a state, there's an obligation under state law for us to create the new ordinance?

>> We enacted it the ordinance, the moratorium on our own powers.

>> Right.

>> Because we had problems. And I think that's something we need to get back before the expiration of the moratorium.

>> Right, which expires I think in October or November.

>> Yes.

>> Okay.

>> So I think that's on our--- we're aware of the time sensitivity.

>> Okay.

>> I don't know of any state or federal mandate at this point.

>> My perception is we're able to get the moratorium under state law precisely because of the language of the statute allowed us to get a moratorium if there was going to be contemplated change in the ordinance.

>> There is, yes. That's why we did it. You can't just put things on the stand, without cause and the cause was we were going to come back with more implications.

>> There's something that may be driving that?

>> Yes.

>> Okay, thank you.

>> It would seem to me if we're going to prioritize the issues, there should be some kind of a check sheet that we would fill out when we make the request that brings up these factors. For example, so you'd know which ones should receive the greatest urgency. Is it a health and safety issue? That would seem to be a fairly good one. Is it business friendly, is it a city-wide issue? Are there identified partners for this project? Do the partners bring money with them? And then also, I think a stamp dating when the referral was received, so that everybody knows you how long this has been in the pipeline would action extremely valuable not only to us because it gives us more of a sense of how long we'd be waiting but also would that be helpful to you, as a group, in reference to figuring out the true priorities?

>> Probably to be honest, we had to scramble to pull together all this information, if we have it coming in, it would probably be, yes.

>> Okay, thank you.

>> Anybody else? Okay. So what we're going to do is we are going to ask you to identify ten on this list of 43 that you think should be prioritized. This is input, it's not a final decision of any sort so it's a sense of the group and we'd like you to take each of your ten and just put them by ten of these, and you can just put it in the blank space here, for some reason this gets crowded, overflow. I'll give you a few minutes to think about it. You have a blank worksheet if you want to circle ten of these or use what was in your packet, I just want to prevent a log jam so think about it, at your chair, come up, put your dots, and sit back down, please, because we're going to go next to public comment, so if there's anybody here who would like to make a public comment and hasn't filled out a yellow card please, do that and we'll go to that next. [áComment away from the microphoneá]

>> no, you can't put multiple dots on an item you really love. You must put one dot on each of ten items. Okay. Let's try to wrap up the voting. In two minutes we'll start the public comment. Each speaker will have two minutes.

>> Okay, everybody. Now that the person with the biggest hands in the room has gotten his dots on the board, chief MacDonald, we're almost done. So if anybody hasn't gotten their dots on, now is the tile. We're going to take some time for public comment at this point, because we're done with the discussion and the dot exercise here and we'll figure out what that all means and report it back to you somewhere along in the next couple of weeks as part of the process. But I know that there are some people here who want to speak. Do we have cards?

>> Are there cards?

>> And this microphone should be working. We'll let people come up to the mike. David Wahl.

>> Good afternoon, council, folks and mayor, you don't look so almighty sitting in a regular chair. This dot program here is why the city is in the state that it is.

>> Can you get a little closer to the microphone?

>> I can't get any closer. This is the function of hiring out other people to do city employees' work. My voice is good enough. The gentleman who runs our retirement group should be empowered to look at every financial stream within the city. Also, in these calculations as this gentleman basically is based upon, the hiring of employees, the revenue streams coming in to the city, all of which can be looked at is funding in perpetuity every employee. Let's look at one example for today's discussionary purposes. Parking compliance should first of all but not parking compliance, it should be parking enforcement. Every time a ticket is written break down the revenue stream, a certain percentage to retirement, a certain percentage goes to cost overhead for the city and everybody has enormously greater salaries than I've ever seen and so forth. The imagination is only limited by your own perspective, but this funding mechanism will work for every revenue source. Second, that will bring in revenue to the city, there's been a citizen that says, have kids, grow food, at school, to be used in city or not city but restaurants throughout the city to reduce their costs, their overhead to stimulate other businesses. This is just one portion. There are a lot of other ideas, but dots, huh? Four hours, I have to go sit down. Dots got me, I can't think.

>> Mark Ruffing?

>> Let me try to make this work. Mr. Mayor and City Council, senior staff, I've been listening to the discussion today and I really appreciate the fact that one item in particular we're being very real about, that we have a problem and we all have to pitch in to fix it. I've been very concerned about the language, this whole idea of, you know, let's try to do more with less, and I'm trying to explain this to my 12-year-old son and in his world, less is less. It's not doing more with less. So we do have some real challenges with what we're trying to get done. One thing out of curiosity, I was looking at proposals here, and in terms of revenue strategies, there's nothing on here

about, we're sort of, we're losing staff here at city hall and as a taxpayer, I'm also city hall employee, so full disclosure, and I'm a district three resident, taxpayer and I've always wondered, you know with city hall here, how much space we use and how, you know, do we really need all the space here at city hall? Could we as a revenue-producing strategy lease some of the space out? I know that the old city hall is being underutilized. I live down the street from there. I don't see ideas like this on the list and I really appreciate councilmember Pyle's thinking outside the box, let's look at ways that we can actually get income for the city, and as we go through more compression with the staff, we're going to have more room here and perhaps we can start looking at ways to lease out space at city hall to produce some revenue. So thank you. I appreciate it.

>> Paul Brownstein?

>> Mayor reed, members of the council, audience, I also didn't get a chance to see the scenarios until today, so I'm just trying to do some mechanical calculations and trying to figure out what the implications are for people and I think it's important to understand the implications, if you're going to have conversations with either individual workers or bargaining units so my sort of off the top of my head view of some of those scenarios is if we're talking about a C.O.L.A. of 1%, assuming inflation in the future decades is like it was for the last decade, then we're talking about people's pension declining in real value by 15% a year. So we're talking about somebody who had a pension of $40,000, retired at 60, lived 'til 80, when they pass away, they will have a pension not of $40,000 but of $27,000 with that scale. And if we're talking about a reduction in the benefit levels, those benefit levels are in the future, but future benefits have present value, so we need to think about what's the present value of those benefits. I think it's probably accurate to say, if we're trying to save $115 million, the difference between $250 million and $400 million, the present value of the changes is $115 million, which divided by 5,000 general fund, funded workers means we're talking about a present value loss of $30,000 per employee, which is not to say that it's not something to look at but if conversations are going to go forward, people should be aware of the scale and the implications of what they're talking about. Thank you.

>> [álnaudibleá].

>> Thank you, Mr. Mayor. Let me start by wishing all of you a happy Valentine's day. Probably the first time you got a happy Valentine's day said to you. I am here to talk about Item Number 20--- Item Number 6 on the ordinance referral list and I was trying to see whether I needed to get up and talk about this or not. Looks like it's probably pretty safe, but this is a real detail and I apologize for being somewhat detailed today because you're talking 30,000 but I do want to mention I believe that the quarterly modifications to the zoning ordinance are important. Let me tell you why, and I think you intuitively or experientially know this. We're in a city that's talking about vision 2040 and having housing and commercial and industrial somewhat commingled and yet we have a zoning ordinance today that puts every in a silo. I can imagine over the course of your tenure as a councilperson, you've had somebody stop you in the grocery store or on the street or a consultant like me say we've got this little bitty problem, I have a little business client who wants to continue to operate their business in a residential zone or adjacent to a residential zone or I happen to have one in a complex of almost 1,000 apartment units and they want to operate their business, a small scale business, and yet we have a zoning ordinance that today precludes that. So what happens is they call you, I call you, you look at Joe Horwell, Joe Horwell goes what am I supposed to tell you? We need to make sure we have zoning ordinance changes that are contemporary with the issues that are occurring in your district, by your constituents, by your businesses, that allows them to continue to move forward, to continue to have their business, a lot of small businesses, and if we don't have a quarterly ordinance review that allows you to deal with your constituents on they're a pretty small changes but very important to them and one of the things it will do is bring in new revenue but I'll tell you, it will reduce the amount of---

>> Your time is up.

>>--- time you spend on it, thank you.

>> Yolanda Cruz is our last speaker.

>> Good afternoon, mayor reed and council and senior staff. My name is Yolanda Cruz, president of AFSCME/MEF. I'm here to remind you of a couple of things. First of all not every employee is created equal in this city. We represent a significant number of people in this city that do not have any benefits whatsoever. As

you speak of challenges that we're facing, we want to be able to work with you collaboratively and we want for you to be able to realistically set expectations for each bargaining group so that we can make real exchanges and be a part of the solution. If we stand here and we're given tasks that we have to meet, it affects everybody differently, and it's totally unfair. So I just want you to keep that in mind as you're moving forward. I know we have a lot of challenges. We want to work with you. We've come to the table earlier than we have to. We're trying to address all of these issues as much as we can and we want to be a partner in there but if you shove it down our throat it's just going to make the world a lot more challenging for everybody. Thank you.

>> That concludes the public comment. Anything the city manager wants to add to the end of the program here? Deb?

>> Thank you mayor and council. I think it was a really productive day, very difficult conversation. I want to thank all of the staff involved in putting this together today. I'm sure I'll leave individuals out, Jennifer and his staff, Alex and his staff, Russell, Ed, thank you, Arshiwini, Kim and many other individuals and the manager's office and all of the departments who helped to make this a productive day and I thank you for your attention and we look forward to working with you on these very difficult challenges.

>> Thank you, Deb and those of you trying to count the dots from your seats, there are yellow dots up here that you can't see from very far away. You got to lean closer if you want to try to do the tallies. Thank you all for participating. This is difficult work we have to do. This is unfortunately not even the beginning. We never ended essentially dealing with the budget but it is the beginning of the formal budget process and there's a lot of, that our staff has to do to get us the information that we need to make good decisions and today is just the sort of that, many more hours to come. I look forward to seeing you all about tomorrow. Meeting is adjourned.