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>> Councilmember Nguyen: At this time I'd like to call the Public Safety, Finance and Strategic Support committee to order. And we will begin with item B, review of the work plan.

>> Madam chair, we have one item that's requested for deferral, under item B-1, it's the annual report on asset management, that's an annual report that should have been scheduled for January 2011. And I did want to also note under section D, item D2 we are requesting a deferral, and in fact this is an item that just may make it straight to city council based on further discussion. And under D-5, the take-home vehicle audit, we do require a sunshine waiver on the staff report that was released on Friday and the supplemental report that was released this week.

>> Councilmember Nguyen: Thank you. Can I make a motion?

>> Councilmember Oliverio: I'll let Councilmember Constant make a motion.

>> Councilmember Constant: Thank you. I'll make a motion to -- for the deferral to January, one, and November on the other, or conversely going straight to council if that's what you think needs to be. And authorize the sunshine waiver on D-5.

>> Councilmember Oliverio: Second.

>> Councilmember Nguyen: Okay, we have a motion and second. All those in favor? Opposed, hearing none, motion carries. We'll move right down to consent calendar.

>> Councilmember Oliverio: Motion to accept.

>> Councilmember Constant: Second.

>> Councilmember Nguyen: Okay we have a motion and second to accept. All those in favor, opposed, hearing none, motion carries. We'll move right along to committee reports, D1, adoption of the 2010 California Building Standards. [No audio]

>> Community and education economic development committee. We have also had an opportunity to spend some time doing some community outreach with the community, and stakeholders, to make sure that they're aware of the changes. And we're bringing it forward to you and ultimately taking it on to the city council with your approval. I'm happy to provide you with the recommended amendments if you'd like to hear that or answer any questions.

>> Councilmember Nguyen: Any questions or comments from committee members?

>> Councilmember Constant: None from me.

>> Councilmember Oliverio: Not on my part.

>> Councilmember Nguyen: Good job.

>> Councilmember Constant: I'll just want you to know, this is the only time we'll let you go easy. Since it's your first official presentation before the committee, we'll let you go.

>> Thank you very much.

>> So if the committee would like to accept this report we would like to have this report cross-referenced.

>> Councilmember Constant: I'll move to accept with cross reference to council action.

>> Councilmember Oliverio: Second.

>> Councilmember Nguyen: All in favor? All those opposed, hearing none, the motion carries. Thank you chief. We'll move down to D 3, semi annual recommendation of follow up report on all outstanding audits.

>> Sharon Erickson: Good afternoon, Sharon Erickson, no I do not have a slide presentation on this one. This is our regular semiannual recommendation follow-up report. The office monitors the progress of all recommendations that we make in our audit reports, and we report back to you on that status. The follow-up report lists recommendations that have been implemented since our last report, shows agreed-upon courses of action for open audit recommendations. This report is in a slightly new format this time. The index and summary is shown on page 1 through 3. And we're hoping that it does make it easier for you to read it. I'm hoping that it will also make it easier for us to track with staff so we can just send this out and folks can help us edit it. The report does summarize the status of 162 open audit recommendations as of June 2010. This includes 78 new recommendations that were issued within the last six months. Since our last report, city staff implemented 30 recommendations, total of 71 are partly implemented, and I did want to point out, we did close four recommendations because they're either not feasible or an alternative has been found, or in one case, we had a recommendation about a redevelopment project, and the project has been sold. So those are the reasons we would close recommendation. I want to thank the City Manager's office and all the departments for their help in compiling this report. It does take some time. And with that I'm happy to take some questions.

>> Questions, comments, Councilmember Constant.

>> Councilmember Constant: No questions. Just comment. Another greater job. Publicly reported to our findings to the city council so I hope you'll indulge me and let me go through a brief -- kind of brief -- kind of long slide presentation. The purpose of our review was to look at the long term sustainability of pension benefits and those costs. The audit I have been pointing out was part of our 2009-10 work plan which was approved in June of 2009. Through various circumstances, it turns out that we're releasing this report around the time of an election. But I wanted people to know that this report was started earlier this year, well before we knew an election would be taking place. I did also want to point out that me and my staff are members of the Federated system that we're

auditing. The first slide here shows the actual payments out of the pension systems, pension payments to retirees and beneficiaries, curve is expected to go nothing but up because of our expected demographics. That is in part, the number of beneficiaries is two and a half time larger than it was at the beginning of this graph in 1990-91. It is also because of benefit enhancements. The average benefit increased about 175% for Police and Fire at about this time and about 150% for Federated. It is also because average salaries increased. So average salaries over that time doubled, about doubled, over that time I did want to point out, though, that this is not San José's problem alone, retirement costs have skyrocketed across the country, and concern about how to pay for pensions is a national issue. The City's annual contributions, so that these are the City's payments into these systems in order to pay for the benefits we saw in the first graph, have also increased dramatically. They've doubled over the past decade. The City's annual contributions in 1998-99 were about 54 million compared to about $107 million last year. Over this same time period you can see employee contribution, they did increase, and they are substantial. They were 21 million in 1999, they are about 33 million now. They are increasing, but not nearly at the same rate as the City's contributions. These are the graphs that the council has seen before. These are the retirement services for the go-forward years, so for the next five years, what we wanted to put that together with and show you here is going back into the '80s, how the contribution rates remain around the same level, or at least it probably didn't feel so at the time. But they didn't experience anything like the kind of projected rate increases we expect. The other thing that's going on is we have a declining ratio of employees to retirees and beneficiaries, which means we are creating a risk of even higher contribution rates. In 2009-10 there were roughly 6700 active employees, compared to about 4800 beneficiaries, or roughly 1.4 employees per beneficiary. This means that the -- this compares to about 3 to 1 in 1990-91 or about 5 to 1, 20 years ago. This means that the annual cost to pay down the unfunded liability in these systems is spread across fewer and fewer active employees. The most current estimate of the pension liability is $5.4 billion. As of June 30, 2009, we had about $3.4 billion of that in the bank, as we say. That left about a $2 billion unfunded liability. On an actuarial basis -- which I'll explain a little bit more later -- on an actuarial basis, the unfunded liability was only $1.1 billion. Actuarial basis is different because it's smoothed over time to dampen the effect of volatility of contribution rates. In addition, the city and its employees jointly are liable for a $1.4 billion unfunded retiree health care liability. As a result of all of this, the funded ratios have fallen. The goal is to be 100% funded, to have enough money in the bank to cover the pension benefits that have been earned to date. We are far below that. As of June 30th of 2009, the funded ratio for Police and Fire was 87%. That's on an actuarial or smoothed basis. It was 71% for Federated. If you looked at the market value of assets, the funded ratio was 66% for Police and Fire, and only 54% for Federated. And while these numbers are falling and are not looking great, they are far better than our retiree health care numbers which are 7% funded for Police and Fire and only 16% funded for Federated. Another troubling sign is that pension benefit payments have exceeded contributions since 2001. This is drawing down assets. A lot of the funding in the plans is from investment income, but even if investments yield expected returns, pension obligations are expected to grow much faster than available plan assets, unless we keep raising contribution rates. It is very important to note here that San José may be in better shape than other plan sponsors who haven't set aside nearly as much money as San José has. But we were asked to look at sustainability, and we found that rising pension costs threaten the city's ability to maintain service level. Last year, the budget deficit was $118 million. About half of that, $52 million, was attributable to increased retirement cost. It led to cuts in services, layoffs, pay, and other employee concessions. For the next year the most recent has been $41 billion in budget deficits. Of that, again, about half was increased retirement cost. Those numbers are due to be adjusted soon, but these are the best data that we had going into this project. I wanted to stress that this -- that these amounts are not one-time. They're ongoing. So when we add 52 million in one year, we expect that to go on for at least a decade, if not longer. These numbers do shift over time, though. The impact is that the city has had to make increasingly larger annual contributions to its retirement plans to ensure there are sufficient assets to pay for future benefits. The contribution rates that we've seen are expected. The projects are that retiree health care and retirement contributions from the city side are projected to be about 25% of the General Fund within five years. That's about $270 million a year. This is more than the City's entire operating budget for the fire department, airport, and all of the City's libraries combined. When we asked the question about fiscal sustainability, we focused in on two questions. Can the city maintain existing service levels without compromising service levels for future generations? And can the city meet its future obligations? The story I've told several times is, sitting in the budget hearings while the council was in closed session, deciding which of us to lay off, whose pay to cut by how much, we all knew that this was not sustainable. I'd like to step back, then, and ask the question we asked ourselves, was what happened, and what caused this problem? The plans are administered by independent retirement boards in consultation with their actuaries, the experts who set these rates for all of us. The rates include, as they've been estimated, include the current costs. Under the charter, that's split 3/11 with employees, 8/11 with the city, and then a portion of the unfunded liability. Investment earnings are a part of this. Historically investment earnings have been more than half of all additions into the funds, so contributions are about half, investment earnings are the other half. Historically, the city has been responsible for making up any underfunding. For 2010-11, this year, the annual cost to pay down the unfunded liability, for example, added roughly 13 to 14% of payroll to the City's annual contribution for Police and Fire, or about $34 million. About -- and it added about 11% of payroll to the City's annual contribution for Federated members, or about $35 million. There has been news in the newspaper. You may have seen it in the press. There is belief that the city is short changed the pension funds in past years. This is not case. Unlike some jurisdictions, San José has generally been fully funding its annual required contributions as determined by the independent retirement boards and their actuaries. Both of the retirement boards have completed actuarial valuations on a regular schedule, and with the exception of two years in the 1990s where the difference was one or $2 million a year, the city has consistently made its annual required contributions. And furthermore the city and its employees are moving towards fully funding the annual required contributions for retiree health care. In contrast, you may have seen in the newspapers recently the state of New Jersey decided simply not to fund its annual contribution for retirement for the second year in a row. The reports state that the funding of state pension systems shows that many states are deciding not to pay the full amount of their annual required contributions. San José is different in this regard. But there are no guarantees that -- even if we pay all of the premiums on time, there are no guarantees that even the fully-funded plan will stay this way. This graph shows you the retirement plan's investment gains and losses for the last, what is that, 20 years or so? One reason for the rise in the unfunded liability of course was the investment losses of nearly $1 billion that occurred between 2007 and 2009. In spite of recent investment gains of nearly half a billion dollars, it is expected that those previous losses will continue to affect the City's unfunded liability. Another one of the causes for this was the fact that we have -- the city has granted retroactive pension benefit enhancements that added to the unfunded liability. Those enhancements include changes to benefit formulas and maximums, to the retirement age, to definition of final compensation, to the survivorship benefits, the guaranteed 3% cola, the establishment of the supplemental retiree benefit reserves. These increases, for example, in -- the increase, for example, in the maximum benefit from 85 to 90% for police in 2006 and fire in 2008 added roughly $70 million to the unfunded liability, because it was applied retroactively. We tried to show here a diagram of the impact of this. And let me say that we did not question whether or not these benefit levels were appropriate or whether they were justified in being applied retroactively. Our concern was, who was going to pay for the unfunded liability? This chart shows a graph of somebody who started work for the fire department in 1980, when the maximum retirement allowance was 75%. They proceeded for about 15 years paying on that basis. So both the employee and the city contributed, with the understanding that the maximum benefit would be 75%. Then, for about five years, both the city and the employee contributed with the understanding that the maximum benefit would be 80%. And then, for several years, it was at 85%. By the time the employee actually retired in 2010, the maximum benefit was 90%. But both the employee and the city had only been contributing at that level for a small number of years over the whole, entire service life of that employee, the 30-year life of that employee, work life of that employee. A summary of these benefit enhancements is shown on pages 12 to 14 of our report, if anyone is interested in the time line of those. Another factor in all of this was the actuarial forecast did not hold true. The retirement boards hire actuaries to build models that estimate liabilities and determine the contribution rates. Those models include demographic and investment assumption, things like future investment returns, mortality rates, retirement rates, expected salary increases, and the like. When those factors don't hold true, or when those assumptions don't hold true, a plan's unfunded liability may grow. For example, retirees -- if retirees on average live longer than expected, total benefits will be more than predicted. If we could only know this stuff ahead of time, it would be helpful. But these changes cause experience losses and changes, and then any changes in assumptions the boards may make can also cause the plans to be underfunded. This added $750 million to the unfunded liability between 2007 and 2009, so that's part of what's hitting us at this time. Some of the factors in that included long-term investment returns less than expected, early retirements, higher salary increases, and longer lives in the Police and Fire, among Police and Fire members. More retirements, more withdrawals, fewer salary increases, longer lives, and a phased-in reduction to the investment rate of return assumption were some of the factors that affected Federated. And I need to point out that the city could well have additional adjustments in the future. So the city and its employees made contributions in good faith at stipulated rates, but investment losses, retroactive enhancements to benefit, actuarial forecast not holding true, all happened at the same time. So we owe more money. At the same time we have fewer employees. So the rate per employee rises. It's what we call a perfect storm. So we looked next at what are the cost factors that are driving? Was there something in plan itself that was driving cost, and what could we learn from that for any future changes we might make? And as you can see from this, this shows the cost components of the current plans. So in the top is Federated. In the lower bar is Police and Fire. As you can see here, the charter minimum requirements, which are very low, but it is a defined benefit plan, account for about half of the current costs of the plan. I was surprised at the cola, the cost of the cola. So this is the guaranteed 3% cola. Accounts for about 26 to 28% of the plan. Using one year final average salary, as opposed to three years, accounts for 4 to 6% of the cost of the plan. When I say cost of the plans, you could view that, these are orders of magnitude. So it's cost either in terms of retirement contribution rates, in terms of unfunded liabilities, or going-forward liabilities. The SRBR, the supplemental retiree benefit reserve, accounts for about 4% of the cost of the plan. We also looked at the estimated costs attributable to various benefits. This is kind of difficult to do, so we just -- we looked at pieces of the plans. These are not additive. So for example, the first set of bars here will show you that -- how important retirement age is. And when you think about it, it makes some sense to all of us. If you increase the retirement age by ten years, you could save 30 to 37% of the cost of the plan. If you increase the retirement age by five years, the next bar, you can see why they're not additive. You would decrease the cost of the plans by approximately 13%. If you look at pension formulas, the formula -- if you decrease the formulas, so the formulas were at 3% per year instead of -- at 2.5% instead of 3% or at 2% instead of 2.5%, you could safe 17 to 20% of the cost. The maximum benefit, which gains a lot of media attention, actually didn't make as much difference as I thought it might. Moving the maximum benefit down by 5% only decreased cost by about 3%. Final compensation being at one year versus three years adds about six -- 4 to 6% to the cost, and again, the cola is a major piece. Having a guaranteed cola at 3% versus a floating cola capped at 2%, would save 11 to 13%. And you can see the remaining options that we showed there. What again we were looking for was, were there any things that stuck out at us as to why our plan could be growing in cost so much? We looked at options. One option is reducing or additional cost sharing at a cost to the first tier. So those were our current employees. The maneuverability to change plans for current employees is limited under current law. There is a question about pensions earned, already earned versus going forward. And the issue we were raising here, you can see on the last bullet, is the possibility of prospective changes for current employees. This is something the Social Security system is considering. Of course they're considering it in France, as well, and it's not going over very well. In 2010-11, concessions to reduce costs already have included additional contributions by employees and reductions in base pay. Our concern when we looked at this, is you already have -- well, for example, in other jurisdictions, as they're looking at this, they're raising contributions. Palo Alto miscellaneous employees they raised contribution rate from 2% to 8%. What we pointed out in our report is that San José employees already contribute 15.57% for police, pension and OPEB. Employees in the fire department are already contributing nearly 14%, and Federated employees are already contributing more than 10%. As a result of bargaining concessions this year, some bargaining units increased their pension contributions, so we already have some employees who are contributing more than 20% of their pay to pension contributions. It's not clear to us how much more you can increase those contribution rates, and at what point employees might decided they'd rather retire a few years later than have a personally unsustainable contribution rate withheld from their paycheck today. There is of course the option of exploring a second tier for new employees. This is certainly -- the first is a redesigned, defined benefit plan. This is certainly what other local jurisdictions are considering. These types of plans raise the retirement age from 50 to 55 for public safety employees, 55 to 60 for miscellaneous employees. It reduces benefit formulas and they change, and I know the state is just doing this for new employees, as well, changing the definition of final compensation from the highest year to the average of three years. So those are some options for redesigned defined benefit plans. We did want to point out that a 401(k) defined benefit plan alone is not an option for San José employees. We are only exempt from Social Security if we provide a plan meeting certain minimum requirements. So a 401(k) hybrid type plan would be a possibility, either joining through Social Security or providing a very limited defined benefit plan, together with a 401(k). We also pointed out in our report that the potential cost savings of a second tier can be minimal in the short term. However, an estimated 20 to 25% of employees could be in a second tier within five years at a reduced cost. Could be more if you allowed current employees to opt into such a system, perhaps in exchange for lower contribution rates. I did want to point out that the HR department has recently pointed out that more than 50% of employees will be eligible to retire within ten years. A second tier also can increase contribution rates for the first tier. And I wanted to point this out, as well. So a second tier reduces your overall costs, so in terms of millions of dollars it reduces your costs. But it can drive rates up for remaining employees the first year because you have a smaller and smaller group of employees over which to divide the costs. Ironically, we thought the same thing happens if you have to lay off more employees, you have fewer employees. So if as a consequence of having increased contributions, you have to lay off employees, you'll end up with the same thing where the contribution rates for the remaining employees go up. There are a number of policy considerations that I know the general fund structural deficit elimination task force will be looking at, as well as the council. There are different perspectives on the purpose of a retirement plan, and these should be kept in mind. One issue, of course, is affordability, and that's the issue I've been talk about. But there are a number of reasons why the city would consider one plan over another. For example, if motivating employees to stay in service for a long career is the goal, then a defined benefit plan rewards employees who are employed the longest. On the other hand, some employees may be interested in more portability, in which case a defined contribution plan maybe more desirable. And then of course there is a problem of sharing risk for -- there is a cost and a risk of promising a fixed benefit for life and a question of how you share -- potentially share that risk. Right now that is the City's risk. We did make a total of six audit recommendations on this report. They're listed on page 67 of the report. Just briefly, the first recommendation is to explore prohibiting pension benefit enhancements without voter approval and retroactive pension benefits enhancements that create unfunded liabilities because of the problems we've recently experienced. The second is to pursue one or a combination of pension cost containment strategies. Those would include -- and I hope I've talked some about the benefits and the shortcomings of all of these -- one would be additional cost sharing, another would be eliminating or limiting the SRBR transfers and distributions, another is negotiating prospective changes for existing employees, another is establishing a second tier for new employees, another to consider joining CalPERS to reduce administrative cost. Fourth recommendation is to conduct actuarial audits every five years to ensure the reasonableness of assumptions. We've seen how, if those assumptions get off, it can cost us a lot of money. We propose -- we recommend the city council propose an ongoing budget for actuarial services. We recommend providing annual updates to the city council on the status of the plan, the funded status of the plan, and the forecast of pension cost. The retirement services department did that this spring, and we thought it was very effective and would like to see that happen every year. We're not going to be out of the woods for a while. And then finally, that the plans begin distributing an annual summary of the plan's financial condition to all plan members. Currently there isn't such a distribution. The information is on the Website, but we'd like to see it go out to plan members. We've all seen that we can't afford to be asleep at the switch on this one. So in conclusion, there are considerable risks from rising pension costs for years to come. We spent a great deal of time trying to go through the actuarial reports and financial data trying to tease the truth out of mounds of data. Rising pension costs threaten, in our opinion, the City's ability to maintain service levels. We tried during our project to understand how we got to this place where we have a $5.4 billion liability and are dramatically underfunded. We tried to identify major cost drivers and do an initial assessment of alternatives. The city's unfunded liability has grown dramatically in recent years. And if I sound alarmed, it's because I am. There's a risk that even if you do everything we've said in this report, it may not be enough. But it did take us a number of years to get to this place. It took a confluence of events, including a national economy, to get us here. We felt that understanding how we got here, identifying those cost drivers, and assessing alternatives was the only prudent thing we could do. But as we said at the conclusion of our report, we think it's important that we face up to these problems now and begin to address them. Thank you. I'm happy to answer any question.

>> Councilmember Nguyen: Thank you very much, Sharon. This is a very comprehensive report and audit. Let me just start out with a couple of questions. Obviously we all know that there has to be some change to our current fiscal system. There's no doubt about that, and I think everyone here pretty much agreed to that. So the questions I have are more for clarification rather than not agreeing with your audit. You talked about the annual required contributions and how the city has generally been fully funding its part. What about the normal costs, has the city always contributed to the normal cost, the ratio 8 to 3?

>> Sharon Erickson: The city -- yes, the city has always -- the contribution rates have been appropriately set. In the Federated system it hasn't -- the normal costs versus the unfunded liability hasn't been an issue because the Federated system hasn't been fully funded since about 1987, I think. In the Police and Fire system, in earlier years when we went back and looked, there was an offset. So when the system is overfunded there is an offset against contribution rates, and you can see that when you look at their contribution rates. It is something that is actuarially determined. It is in accordance with the way we've set up these plans. It is something we may want to look at as we talk about how we share risk going forward. So if we ask employees to share the downside risk, so currently the city bears all the risk. So it gets the benefits and the risk. Lately, what we've seen is all the risk, and that's what we're concerned about. If we go -- on a go-forward basis, if we decide that there is a way to share that with employees, I think it would only be fair to share the upside and the downside risk.

>> Councilmember Nguyen: Thank you. Thank you for the clarification. Because I read that part in your audit on page 5. And it talks about how the city charter requires that the city pay the normal cost, but it doesn't really state, you know, if we did that in the past year or so if there was any laps or any gaps or anything that contributed to the

detrimental effect that we have today, with the $5.4 billion in pension and unfunded liability. The other question I had was about the supplemental retiree benefit reserves. Now, in your footnote you state as of June 30, 2010, the balance in SRBR for Police and Fire is $32.3 million and for Federated is $21.3 million. And one of your recommendations is to actually suspend these funds. And I believe Mayor Reed actually has a memo that's going to the full council in the next couple of weeks with that same recommendation. So with this large amount of money, is there any restrictions or where would this fund go if that's what -- the council decides to temporarily suspended it?

>> Sharon Erickson: You know, that is a complicated issue that would probably be subject to meet-and-confer and some legal analysis. We wanted to point out the large balances in those reserves. At the time we did the review, there had not been a determination made whether or not there would be potential distributions this year. It appears, since we issued this report within the last week or so, I've seen numbers where there could be distributions out of the funds, even though the funds are significantly underfunded. So the idea of distributing excess earnings at a time when we're dramatically underfunded, is -- it's just kind of astonishing. I do not happen what could -- I do not know what could happen to the balances in those funds, if we decided to spend the program. I think that would be a question of whether or not those balances could be applied to the unfunded liability retained in the funds, or whether they have been actually set aside to such an extent that there is no way we cannot pull that, claw that money back.

>> Councilmember Nguyen: Let me just follow up on that real quick. So your recommendation is based on the fact that we shouldn't provide the 13th check, so-called, because we're -- we have a massive unfunded liability. But not so much about where this fund should go or how it should be appropriated with the excessive amount that we have in this reserve, is that correct?

>> Sharon Erickson: Correct. Our recommendation was to either eliminate or at least -- either eliminate the program, which could potentially free up those reserves, or to at least prohibit transfers into that fund and distribution of excess earnings when the plans are underfunded.

>> Councilmember Nguyen: Okay, so I guess I will look forward to the full council discussion on this issue when it comes to the full council. Thank you. Councilmember Constant.

>> Councilmember Constant: Actually already had a crack at this in the stakeholder meetings, so I've got all my questions answered.

>> Councilmember Nguyen: Anyone else? Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, Chair Nguyen. On the SRBR, remind me again, that was something council that's just in the municipal code, so a city council vote could eliminate SRBR?

>> Sharon Erickson: SRBR is in the municipal code, but I believe it may be subject to meet-and-confer, as well. It is not in the charter, let's put it that way.

>> Councilmember, yes, it is in both -- both SRBRs are in the municipal code and their respective plans. I know that the office is working on the direction that was given at Rules, and I think we'll come back with answers to those questions.

>> Councilmember Oliverio: And then Sharon, I've sat in the same presentation, actually at the employee brown bag lunch and also with Councilmember Constant at the other committee. And I just find it interesting, you know, you state it pretty clear that the city's funded its part. Yet there are those people that will sit right next to you, listen to every word you say, look at the same chart of data, and deny the city has funded that. What's your -- what do you say to someone of that viewpoint?

>> Sharon Erickson: You know, all I could say, in that instance, was to read off how much the city has contributed to the retirement systems over the last ten years. And I just had to read off the numbers. It's -- you know, it's -- I mean, I -- you know, to the Federated system, the city contributed $20 million in 1993. You know, $19 million in 1994. $22 million in 1995. I mean, $30 million in 1998. I just -- I had to read those numbers off. You

know, and these were the contributions as they were set by the retirement boards, the independent retirement boards. So, I mean, to me, it's a question of everybody acted in good faith here, I think. The city made its contribution. The independent retirement boards had their actuaries setting the rates. We've been hit by a confluence of events, but it is a wake-up call to all of us. But I do not know how people could say the city has not been contributed, or infer that the city has raided those funds. Those funds -- the city has never raided those funds or taken money out of the pension system.

>> Councilmember Oliverio: Thank you, thank you, auditor.

>> Councilmember Nguyen: Councilmember Chu.

>> Councilmember Chu: Thank you, Sharon. You touch a little bit there regarding to the employee contribution rate. Looking at the chart, exhibit 32 -- 31, most of other cities, California Highway Patrol, the highest is about 10%, and here in San José, police is 15.57%, fire is 13.7%, and I know that the city also has a very high contribution rate. Where is the problem? How, say, for City of San Francisco, for example, their contribution is 9%, does that mean the City of San Francisco contribute at a higher percentage or a higher ratio or than us, or --

>> Sharon Erickson: Well, yes, so that chart on page 53 is showing San Francisco Public Safety new employees will be paying 9% of payroll, compared to our police members who pay almost 16%. So part of it is that our 16% includes OPEB, so it includes retiree health care. Which not every jurisdiction -- again, San José is ahead of the curve in beginning to fund retiree health care. Some jurisdictions still aren't doing that. I'm not sure, I don't have off the top of my head what San Francisco is doing. These contributions rates vary so much, depending on the actuaries. And that's one reason why we're saying every five years have an independent -- still another independent actuary, who knows far more about this than my office does, come in and review those assumptions, because they're so critical. But if, for example, you're San Francisco, and your investment rate of return assumption is different than San José's rate of return assumption, that could dramatically change what you have to contribute. Or you could be assuming that your people, you know at -- live longer or live shorter lives than our employees do. I mean, San José is -- San José retirement system is trying to get those things aligned. That's one

of the reasons why they had the dramatic increase, because of the actuarial assumptions, to make sure we're spot-on with how long are people living -- not me individually, but us in total -- and make sure those assumptions are right. If any one of these systems hasn't been that way with their system, it could affect their contribution rates. And this chart doesn't show you how funded or underfunded they are, as well. So state of California, for example, is not making its entire annual required contribution. They just decided not to.

>> Councilmember Chu: Good, thank you for the explanation. But in terms of the ratio, the employee portion and the City's portion, here in San José it's is 8.8, to 3. What about other cities? Like in San Francisco or other cities in the Bay Area? What's their ratio?

>> Sharon Erickson: You know, we didn't gather that information, and I think that may be something that comes out of the General Fund structural budget elimination task force. I wish there was some easier way to say that. Or it may be something that you could request from staff. Again, our goal in this project was not to assess whether or not the benefits are appropriate, or even necessarily the share of the benefits, but just look at the impact of these costs on our General Fund.

>> Councilmember Chu: Very good, thank you.

>> Councilmember Nguyen: Anyone else? I'm going to take some comments from the audience. Bob Brownstein.

>> Bob Brownstein: Chairperson Nguyen, and members of the committee, I consider this report to be deeply flawed, not up to the standards of the office. But today I would like to speak about just one of the many flaws in the report. A good report to the city council that has recommendations should include the pros and cons, the evidentiary basis of whether a recommendation makes sense or not. In this case, this report has the recommendation that the city should adopt a two-tier system. Now, two-tier systems have been used in the past. In fact, for decades, particularly in the private sector. And there is a record of two-tier systems in the private sector. In the pension task force meeting that was held several weeks ago I asked the auditor was there research

done on this record to determine whether or not this policy has negative side effects? And her answer, and I appreciate her candor, was no. The research wasn't done. So the recommendation is going forward, without the benefit of understanding that this strategy has been tried, and has been failed. Now, some people have been trying to do this research. At the same pension task force meeting Councilmember Oliverio made the point that he thought the private firms that had dispensed with two-tier systems were airlines, and that subsequently they've gone bankrupt. It's to his credit that he started to do research on this topic, but his information is erroneous. In fact, Giant Foods and A&P and UPS, major firms that tried two tier and dropped two tier aren't airlines. If you call them up and try and book a flight, you'll discover that. And in terms of the airlines that did, the giant airlines that tried two tiers and abandoned it was of course American Airlines, and American Airlines is one of the three major airlines in the United States that hasn't gone bankrupt. The other two, of course, are Southwest and Alaska. So the lack of information in this report, and the fact that even the councilmembers who have started work on their own haven't gotten accurate information, suggests that this report is seriously lacking as a basis for a council decision. Thank you.

>> Councilmember Nguyen: Thank you. That's only speaker card I have. Does anybody else want to address the committee? Councilmember Constant.

>> Councilmember Constant: I just wanted to respond to some of Bob's comments. First of all, we didn't ask the City Auditor to go evaluate two tiers of pension. We asked a specific question, is our current system sustainable, and that is the question that she researched and answered. And quite frankly, we're always happy when we get the information that we ask for instead of other information. You can pick out four or five companies that failed, whether or not it's related to them, establishing a second tier, and that's all fine and good. But I can probably point to just as many that established a second tier and are thriving. IBM, for example, does not have the tier benefit it had 30 years ago. I can point to a number of government agencies that have established second tiers, because no matter how you look at it, the fact that payroll costs or pension cost as a percentage of payroll going to 72% is not sustainable. I think that one number alone answers the question, what is sustainable. It's not. 72%, Sharon alluded to the fact that she didn't know if increased employee contributions would be palatable. And they are less than a third of what the City's contributions are intended to be. So we have a problem. We know we have a

problem. Sometimes you just have to stand up and say we have a problem. And I don't think that several people have made that determination yet. But that doesn't mean the problem's going to go away. The city has an obligation to not only our currently employees, but future employees, that we will create and modify our system, and potentially create a new system that will be sustainable so that our employees have security in their future. And that has to be our main goal. I want to also comment that I think the City Auditor did an excellent job on this report, and it is very thorough. And quite frankly, whether another agency, if somebody works in San Francisco and Oakland and pays 2% or 20% of their salary into their pension cost is irrelevant to the fact of whether we are sustainable in our particular pension. I think Sharon hit it directly on the head when she said a lot of it is up to the assumption rates. We got here for a number of reasons. A lot of people like to point at the economic condition of our city, our state, and our country and say, well, the financial markets caused this. A very, very, very small percentage of this problem is due to the financial markets. There's a lot of other large factors involved here, like the assumption rates. Like the fact that we have pension boards that continued, against the advice of their professional advisors and their professional actuaries, to keep their assumed rate of return at 8 and 8.25% for the calculation of normal cost. And we know that by overestimating your cost -- your assumptions for rate of return, you minimize your normal costs, which increases your unfunded liability. It's simple math. There's a lot of complicated things in actuarial analysis, but the simple thing is, if you raise your assumed rate of return, you lower your normal costs, and the inverse is true. And if you miss it, your unfunded liability goes sky-high. And to make assumptions for years and years and years that you're going to get 8.25% rate of return net of all fees and expenses is crazy. I've been across the country in training, and receiving training and education going to conferences and talking to people who are trustees on boards throughout the nation, and they are handling the pensions completely different. They laugh at us when they hear that we're using an 8.25% net rate of return. When you have pension systems in our neighboring country like Canada, where theirs are 4, half of what we're doing, because they're conscious of the long-term effects it has. When you continue to do this over 30 years, and that unfunded liability continues to increase and increase, and then you grant retroactive benefit increases that add more unfunded liabilities, and you couple that with the fact that even though we had a municipal code on the books in 1986 that specified the OPEB sharing 50-50 for retiree health care, it takes 20-plus years to start funding that agreement you made in 1986. And you add that on top, what do you expect? You have a system that all of a sudden you can't pay for. And that is what it basically comes down to. Are we going to continue to not provide other services, so we can keep funding for promises that we know we are probably not going to be able to keep, or do we rein them in? And that's why the ballot measures next week are so important, and that's why how we handle the conclusions from this and take this education that we're getting in pensions and put it to use to provide long-term stability, not only to our employees and our retirees, as I mentioned, but also some level of certainty to the million people plus who live in our city, and the tens of thousands of businesses that operate in our city, that we're going to be able to have a city for them to be in. And I make a motion to approve this and send it to council.

>> Councilmember Oliverio: Second, I'd like to comment.

>> Councilmember Nguyen: Councilmember Oliverio.

>> Councilmember Oliverio: Councilmember Constant, always, well said. I mean, your time on the retirement board and your time in trainings have served you well to understand this issue, far better than most. I think your arguments would make complete sense to anyone that's a San José resident. But I think as we know there are those that are paid to obfuscate and misinform elected leaders and the public to think that other things are not true. So back to you, Sharon. When you hear people express the views of let's just do nothing, the system's fine. How will we end up if we just do nothing and leave it the way it is?

>> Sharon Erickson: I don't think many of us can conceive of the amounts of money that we would have to cut from essential city services in order to fund these obligations prudently. I mean, you're talking about staggering decreases in service to do that. I mean, as we pointed out, the projection of $270 million in 2014, that's not very far away. At $270 million, and that's ongoing, that isn't a one-time contribution. That's expected to go -- that's ongoing. Those liabilities are amortized in one case over 17 years and the other case over 30 years. I don't see how the residents of this city can continue to pick up these costs and expect to receive services. I mean, I realize that pensions are not our only issue. You know in my office we were talking about you know, we should push forward this pensions being a major issue. And I said, well, street repair is a major issue, too. We've got a $1 billion problem with street repair. Where does this money come from? You know, the Police and Fire plan, to its

credit, has really -- the contribution rates in that plan reflect the cost of those benefits. But even so, I'm not sure that the city and the employees can continue to afford these kind of increases. I don't know how many employees we can lure to the City of San José if we have, you know, if we tell them, well, you go work for some other company, you're going to pay 6.2% Social Security. You come to the City of San José, and yeah, you'll have this pension in 30 years, but you're going to have pay, what, 30, 40, 50% of your paycheck? I mean, at what point does that become unsustainable and people just say, I need the current pay, now? Figuring out how to deal with the first tier, though, I mean, even if -- I know the second tier is questionable. I think -- or is controversial. I think more controversial is what do we do to pay for the people, the promises we've already made? And that's what terrifies me.

>> Councilmember Oliverio: Thank you, auditor.

>> Councilmember Nguyen: Councilmember Constant.

>> Councilmember Constant: Thank you. I'd like to ask staff for two piece of information that I think would help put things into perspective when things come to council. And they're examples that I've used in public meetings before. But I do kind of a back-of-the-envelope calculation, and I'd like to be able to see it done by somebody who knows how to calculate, someone in either the auditor's office or in our finance department, and that is the comparison from one decade ago. Ten years ago, top-step police officer, top-step firefighter. What their pay was, and what their pension benefit was, if they'd worked 30 years. I'm not talking about what the percentage of their benefit was, what the actual dollars were. And I'll tell you, my back of the envelope, it's easy for me to calculate, because I retired 10 years ago. I was a top-step officer, and I made $72,000 a year. And if you look at the rate that was available then for retirement, it came out to somewhere around $58,000 a year if you had worked 30 years. Today, top-step is somewhere in the 117, 118 range. And at the 90%, a same 30-year officer gets a pension that's about $106,000 a year. So the benefit actually doubled. And I think seeing that helps put the realism behind why these numbers have risen. Because going from 80% -- 75% to 80% to 85% to 90% are 5% increments. It doesn't seem like much. But when you do the math calculated with the increases in pay, cost of living, and all those other things, what the realistic number is, and that is at the time when residents in the City of

San José have seen their 401(k) plans divide by a factor larger than that, we've seen our pension benefits double, or approximately. So I'd like to see that calculation. The other thing I'd like to see is, if somebody decided to elect the first of November this year as their retirement date, and again, using the example of a top-step firefighter or top-step police officer position, and I know OER helped me with this calculation before, what is their salary, minus all the standard deductions for their contribution to their retirement system, complete with the GASB portion, at least for the police department, since they actually agreed to it, not the fire department because they won't agree to it. So have that, plus their share of how much they pay for their health care, and assuming just the standards Kaiser family plan, as well as any dues they pay to their labor organization, so that you would come up with what their gross pay is and what their net pay is, no taxes involved, just those direct deductions. And then calculate the exact same thing, assuming that that 30-year person retired, what their 90% pension is, with no contributions into their retirement system, because they're no longer a participant, with no contributions into their health care, because they're no longer a participant in sharing in the premium, and what you can throw in what their retiree dues are if they choose to remain a member of their association. My back-of-the-envelope calculations is, it's actually about a 107% retirement on a pretax basis. And we'll just make the assumption that they don't get the automatic 3% cola on February 1st, or whatever date that is. I think those two items will help the general public understand the impact of the changes to our retirement system in one decade. Which happens to be the same decade that we have run significant budget deficits on nine of those ten years. And it will also put into perspective the claims that are being made quite falsely, I believe, and quite manipulatively, in the press and in everybody's mailboxes at home, that what we're doing is taking a reasonable pension system and throwing it out the door. Because I think people need to see what those changes over a decade are, and what the benefit to retiring is, and how your paycheck increases when you retire to the City of San José, not decreases. Because I know that as I was growing up, and I was going to college, and I was learning to attempt to be a responsible adult -- which I'm not sure if I've ever attained -- but you're told that if you want to live comfortably in retirement, you should plan to have approximately 70% of your annual income somehow guaranteed or provided for, for the rest of your life. And I think what we've lost in this long conversation about pensions over the years is, what is the definition of retirement? And I think that our residents, in San José, at least 100,000 that I speak for on a regular basis, have a completely different opinion of what retirement is. And say what you might about whether we'll be able to recruit -- attract and recruit and hire the most talented people. I know that there are plenty of companies out here that provide significantly less than what we do, and have some of the best and brightest minds in the world working right here alongside our city employees. And I think that's something that we have to have to put some common sense factor into this discussion. So that's an amendment to my motion, Mr. Oliverio.

>> Councilmember Oliverio: Second.

>> Councilmember Nguyen: So just a question. Would that information be coming to the full council when we cross-referenced these items?

>> Yes, I'd like to request this item be cross-referenced as part of the motion and schedule it for October 26th, and I see Gina in the audience already, and I'm sure she -- I took good notes. We'll get those responses in writing before the 26th.

>> Councilmember Constant: And if I was unclear, give me a call.

>> Definitely, thank you.

>> Councilmember Nguyen: Okay, we have a motion and second and cross-reference this for full council discussion on October 26th. All those in favor? Opposed, hearing none, motion carries. Thank you. Up next we're on number 5, the take-home vehicles audit.

>> Sharon Erickson: Well, it doesn't look like the rest of them want to join me at the table, so I'll just take it here.

>> Councilmember Constant: Maybe you gave them a vehicle, they could make their way up here. Sorry. Bad joke, sorry.

>> Sharon Erickson: This is an audit of take home vehicles. To sum it up, we found that the city has allowed more take-home use of city vehicles than is necessary. To start at the beginning of the story, the City of San José

has a fleet of about 2200 motor vehicles. In limited circumstances, employees may use city vehicles to commute to and from work an regular assigned basis. In fiscal year 2009-10, 166 city vehicles, as close as we can tell, were used on a take-home basis, including 144 by police department employees. On page 3, you'll see in exhibit 1 on page 3 you'll see the breakdown of the 166. So 144 of those were police, of those only 15 were taken home on a rotating assignment. The rest were individually assigned vehicles. In the fire department there were a total of 11 vehicles, ten were individually assigned, and one rotated. In all other city departments combined, there were only a total of 11 vehicles. That included general services, five, the Department of Transportation, three, environmental services 2, and the Parks, Recreation, and Neighborhood Services department had one. All of those vehicles rotated. Our audit concluded that the city has allowed city employees to take home more vehicles than is needed to meet its operational needs. In fact, many employees had -- that take home vehicles actually logged more miles commuting in city vehicle than they did driving it for city purposes. There's a series of charts, of maps beginning on page 11 through 15 of the report that shows you that part of the reason was the location of where people live. But the specifics that we could document showed that 78% of the miles logged on police vehicles, for example, were for commuting. Similarly, 72% of the miles driven in police canine cars and over 50% of the miles driven in certain police SUVs and fire department sedans were for commuting. This is expensive. It cost the city nearly $1.1 million in 2009 for these commuting costs alone. That included $900,000 in the police department. In addition, commuting in city vehicles generally accelerates the frequency with which city vehicles need to be replaced. Faced with diminishing resources and the steep cost of routine commuting, we believe that vehicles should go home with employees only when frequently needed to respond to emergencies in the field. On page 23 of the report, we actually included the kind of flowcharts of our decision -- the decision model that we used, where you can see the questions that we asked, the first was, is the position required to respond to the field with special equipment? So is there a reason there needs to be a city vehicle on scene? If yes, then question 2 was is the position required to respond within an established time frame? In other words, was it an emergency, or could somebody drive into headquarters and then pick up a vehicle and go? The third question was the frequency with which this happens. So is the position called back frequently because of unforeseen emergencies? Again, if it's not that frequent, then it's a very expensive insurance policy. But then the fourth question we did ask was, would assigning a take-home vehicle to the position benefit the city for other reasons? So there are certain cases where for evidentiary reasons or other reasons, the vehicle may be needed. We use this model to determine with whether or not how these factors influence -- it would impact the current list of take home vehicles. That list is shown on page 24 of the report which shows that we determined that 93 take-home vehicles with annual commute costs of about $630,000 may be unnecessary. We also determined that the city needs to collect more information that would justify the decision to allow many other vehicles to be taken home. Primarily, this was because we couldn't document the frequency with which they had been called back. There were 38 vehicles on that list. They're listed on page 26. Our recommendation, however, is not about these specific vehicles but recommending that the City Manager's office review the information in our report, and remove unjustified vehicles from take-home use. In cases where emergency call-back estimates are not available, we're recommending temporary use be continued to allow departments sufficient time to gather information. The city should also, in our opinion, require departments to maintain and update records on the number of emergency call-backs and provide these records with their annual request for take home vehicles. We further recommended that the city amend the vehicle policy to specify that the rationale for allowing employees to take home vehicles, that they are not a perk, that it is to ensure timely response to unforeseen emergencies in the field, and to restrict take-home use to the greatest extent possible. Lastly, most of the City's vehicles were properly exempted from tax reporting in 2009, but we did identify a few limited instances where we had questions about the City's determination. There is a total of 11 recommendations in this report, they're summarized on page 39 of the report. The administration did respond to the audit but under separate cover. I did want to thank the Department of General services and the police and fire departments for their involvement in this audit, and of course, my staff. With that, we're happy to answer any questions.

>> Councilmember Constant: Thank you. Councilmember Nguyen had to leave early. Did the City Manager's office want to make comments before we have our questions?

>> Absolutely. I'll just make a couple of general comments here. And we do have staff from different departments to provide response. We are in agreement with the recommendations. We're very thankful that the auditor took the time to provide us the deep analysis that we need to be aware of and mindful as we enter phase 1 to examine the take-home vehicles and do further reductions. It is an area that we, our office, the manager's office has worked with departments to bring down, specifically in the police department, the vehicle count over the

years. In fact we had the police department almost concurrently do a vehicle-by-vehicle evaluation and analysis on justifying the purpose of each of those vehicles that are out there. I think a reflection of the supplemental memo in terms of numbers changing at the last minute is a clear suggestion that we do need to get our management arms around this and get ahold of it. We're prepared to do that. We have a work plan in place, and we're prepared to answer any questions as well.

>> Councilmember Constant: Thank you. I'll start out here. First of all, thank you for this audit. I know it's not the first time we've looked at this and I think that's the thing that troubles me most, is we've had this looked at a number of times. And the problem doesn't get resolved. In fact, if you go back over the chronology of time, actually, take home vehicles have increased after recommendations to decrease take-home vehicles have come forward. And I think that's troubling from a management perspective. And it's something that we really need to look at. The City Auditor clearly talked about the impacts of replacement vehicles, and the gas, and all those things that I takes, especially when you have them being used primarily for commute and incidentally for police work in the police department. I think that's a significant problem. But what didn't really get addressed is how many times they're in accidents and we have insurance claims and workmen's comp claims. I know of a handful myself just that I've heard about that have happened. And I know that when you go down the list, I think this is the list of authorized vehicles. I don't think it's an exhaustive list of actual vehicles. I know for a fact that there are some units like the metro unit where the sergeants take their cars home or if they're not anymore, they were as of a year ago, taking their cars home. We've had units like the admin unit within BFO taking cars home. I mean, the list goes on and on. I remember asking once at one of the council meetings about the permits unit, why in the world would anyone who issues permits need to be coming back? And I'll tell you, some of the information on the bigger sheets here, I think, are -- I don't know, especially the department justification. I think we need to look a lot more into. You know, when we have the bureau of technical services justifying take-home cars because of the volume of community meetings -- and let me tell you, I go to a lot of community meetings, and I have never seen anyone from bureau of technical services at any of them. So the need for those meetings, I'd love for someone to compare how often my staff has to go out for evening meetings, and they don't get a company car. I think those are things we really need to look at, because what you're doing is you're, to the detriment of five and a half police officers, which is what we could hire for the cost of having a handful of people take cars home. And quite frankly it

is an extra perk and benefit to just a handful of people in the police department at the expense of everyone else in the police department. You know looking back to the old days, when canine officers drove their own cars and transported their dogs in the kennels, the crates, when the traffic investigation unit, which I was a member of, would respond to the police department to pick up the city car to go out to the action scene, because you usually had to go get some equipment anyway, to a scene that's frozen, that you don't have to worry about -- it's not like there's life and limb in peril any more at that particular point -- all those things have changed over time as just kind of little extra perks at a time when fuel costs have gone up, and vehicle costs have gone up, workmen's comp claim costs have gone up, everything related to. I was shocked to find out that patrol captains take their cars home. I mean, that is a relatively new phenomenon that has started in the last few years. We have a police department that has existed for decades before that without a police captain ever having to take their car home. I just don't understand the proliferation of these types of cars being taken home. And I can't emphasize enough that it's costing us five and a half police officers to give a perk of take-home cars. And those are just the ones that you identified as being excess. And I just -- I just think we really need to, from a management perspective, look at every single one of these justifications and ask, is that really true? And even going down to the motor officers, of being called back for emergency situations. I was on duty the day the Loma Prieta earthquake hit. We didn't call back the motor units to come back on their motorcycles, and that was probably the biggest disruptive natural disaster we've had in the last 20 years. So it just makes me wonder, when would we do that? In fact, I asked a couple of friends of mine who were motor officers recently, knowing that this was coming, they ever remembered being called in on an emergency basis, and they could not think of one time. So for us to pay for 30, 40, 50 years the costs associated with providing these vehicles for a maybe some day something would happen, and we might have to drive between a couple of rocks, I just don't see it happening. So I think we really, really have to talk about this, because we're talking about $1 million, and we're talking about this again, after we've talked about it, and we've audited it a couple of times. And I can't emphasize, we audited it, we pointed out the problem, and then the problem grew after we knew it was a problem. And to me, that's completely unacceptable from a management standpoint. So I -- I'm going to be firm on this, because you've already heard me talk about this at least a dozen times in the short time I've been on the city council. We got to get a handle on this, and we've got to come up with an answer, and it's just got to be done. It's got to be set in stone, as this is the way we're going to do, because we're throwing away millions and millions of dollars, while we're leaving police officer positions vacant, and we're not covering all the beats in our city. It's just not fair, it's not fair to the police officers, it's not fair to the residents, it's not fair to anybody.

>> Councilmember Oliverio: Thank you, Councilmember Constant. Thank you for requesting the audit, and thank you for the work from the auditor. I guess the question to you, then, how do you want to make sure that this would actually get done this time? Do you want to have answers and have it come back to committee?

>> Councilmember Constant: Well, I really would like to get this in front of the council and get it approved. But I think as part of the council action, I know what I'm hoping to do is to ask for a review at certain intervals, so that we can see the progress happening. Because we just saw a long list of unimplemented auditor recommendations. And I don't want this to just become another item on the list. So I think it's going to take some monitoring, and clearly, I want to emphasize, this is not the police officer's fault. It is an administrative and management problem that we just need to get fixed.

>> Councilmember Oliverio: And then so a motion to accept the report and cross-reference for council, but do you think it would be better served to have it, since the agenda is pretty full on October 26th, to a week later or something --

>> On November 2nd for cross-referencing.

>> Councilmember Constant: Yeah, is November 2nd light? Because that's a pretty day for a lot of people, given that it's the first Tuesday after the first Monday in November, in an election year.

>> I don't think it's a very light agenda. It can come the week after, on November 9th.

>> Councilmember Constant: Maybe when you make the motion, the 9th would be better.

>> Councilmember Oliverio: That would be my motion, Councilmember Constant, to accept the report, cross-reference for council on November 9th.

>> Councilmember Constant: Second, Mr. Chu?

>> Councilmember Chu: Second.

>> Councilmember Constant: Any other comments? Any persons from the public like to speak? All in favor, any opposed, thank you. Thank you, Sharon, but don't go away, you've got one more.

>> Sharon Erickson: Thank you. One more, and then we're out of there, this one should be short and sweet. At the request of the airport's director we performed the first in a series of airport concession audits. This first report covers the airport's food, beverage and retail concessions, their pricing, and it includes three recommendations to improve the pricing process. The airport has reviewed the report and concurs with the audit results and recommendations. The airport will be working with concessionaires to ensure compliance with the street plus 10 pricing requirement. I'm happy to answer any questions.

>> Councilmember Constant: I just want to say this is the shortest report I've ever seen from your office, and look at that time crowds you drew. So any questions from my colleagues?

>> This is another item that requires cross-referencing. Either November 2nd or 9th.

>> Councilmember Constant: This is so short, we can put it on any time. We'll knock this one out on November 2nd maybe since it will be quick.

>> Councilmember Oliverio: Motion to accept the report, cross reference for council on the date specified.

>> Councilmember Constant: Would the two of you ladies like to say anything? All right, all in favor, opposed, okay. That carries. You notice how much faster the meeting went when the chair left?

>> Sharon Erickson: Councilmember Constant, if I could take one moment to recognize Ruth Moreno from my office --

>> Councilmember Constant: I'm so sad, I heard, is she leaving.

>> Sharon Erickson: -- who did the audit. Ruth is going to be retiring at the end of the month. She has been with the city for 24 years, and I just wanted to thank her publicly for her fine work for the office. It's been a pleasure, Ruth.

>> Councilmember Constant: Me too. I got to give her a personal going-away hug the other day. We're going to miss ya. Thanks. All right, thanks everybody.