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>> Matt Loesch: Good morning I'd like to call to order please the Federated city employees retirement system for January 19th, 2012. Under orders of the day, we have a few things to shift around and a couple of notes on things. I'd like to request a waiver of the sunshine for items 4.2 A 4.2 B received late and not finalized at the time of distribution and posting. And item 4.one, receive the actuarial valuation late for posting as well. Additionally, I would like to just as shifting things around, on the agenda just a bit, I'm going to take items 4.1 with your approval, item 4.1 to 4.4 after 3.1 and before 3.2. That will get the Cheiron stuff et al. and then the MG stuff right after the 3.1 update. Is there any other orders of the day of moving things around or things of note? Otherwise I'll entertain a motion.

>> Motion to approve waiving sunshine for items 4.1 and items 4.2 A and B an motion to approve rearranging the agenda for the day, to move items 4.1 through 4.4 directly after 3.1.

>> Second.

>> Matt Loesch: Comments or questions? All in favor? Opposed? Okay. On the consent calendar, I'd like to pull 1.1 and 1.2. Any other comments on the consent calendar, things that need to get pulled? Otherwise I'll entertain a motion on the remaining.

>> Arn Andrews: Motion to approve the remaining consent calendar.

>> Second.

>> Matt Loesch: All those in favor, opposed, okay. On item 1.1 I only have a simple thick, there are a couple of simple edits on the resolution. Under conclusion and decision and order he should be changed to shes.

>> Mollie Dent: I caught that, thank you.

>> Matt Loesch: That was my only comment. Otherwise I'll entertain a motion for approval. Entertain a motion generally. Motion for approval we have a second?

>> Arn Andrews: Second.

>> Matt Loesch: All those in favor, opposed, okay. On item 1.2, this is just my chance for an editorial on this, it wasn't necessarily -- my comment was not necessarily for a full discussion as to debate the issue but more of just to express my disgust. Thought we did a good job on the hearing. I think that this issue of we September the thing back for a chance -- we sent the thing back for a chance to get the thing reheard because we think it was decided, and not appropriately. My concern was one of the things I questioned for staff is, this person is fairly young, was fairly few years of service, this bumps up quite a bit the cost on this thing. Do we have any idea how much this decision from a judge is going to cost United States?

>> Yes, additional benefit because it would not have been eligible for medical he's obviously getting his retirement benefit earlier than he would have, in a higher benefit, so just based on his life expectancy and life expectancy of his survivor I'm at 1.3 million and that's not including any trend of increase on the medical. 1.3 million difference what his cost, not a total cost.

>> Matt Loesch: Is that.

>> Donna Busse: Work into a total eventually.

>> Matt Loesch: Lot of money. We have been working hard to get these disabilities stated clearly and correctly so these challenges won't be victorious in their favor. We need to keep diligent how this thing came out costing a lot of money. So otherwise I'll entertain a motion.

>> Edward Overton: Move approval.

>> Second.

>> Matt Loesch: Any other comments or questions on it? All those in favor, opposed, okay. Like to request a moment -- this is on all through that, through item 2 please death notifications, I'd like to request a moment of silence please for those who have passed and have served the city. [Moment of silence.]

>> Matt Loesch: Thank you. Moving on to item 3.1. An update on legal requests for proposals. Ms. Dent.

>> Mollie Dent: Till in the process of conducting interviews but I do think that we will probably have a recommendation to bring forward next month.

>> Matt Loesch: Okay, so everybody clear on that? So we'll have final areas probably tomorrow and then hopefully someone will make a decision and have it to us next month. Any other questions on that? Okay, moving to item 4.1. This is discussion and action regarding Cheiron's June 30, 2011 other postemployment benefits, OPEB, plan valuation. We have with us representatives from Cheiron. It's your floor.

>> Good morning, I'm Bill hallmark and with me is Mark rete Temkin who handles most or many of our GASB valuations, does the lion's share of valuation for us. We are going to go through the valuation and be answer any questions that you have but show the changes from the prior valuation, and a projection for the future. I think one of the key things we're going to need -- we're going to discuss is how the dynamics of the demographic changes over the last year affect the retiree health plan very differently than they affect the pension plan that will be a theme as we go influence. But to start out, the funding of a retiree medical program is very much like the pension program. And so we start with this same graphic that we've used with your pension valuations. The difference being that the tank representing the liability for the health benefits started out just a few years ago, with no assets in it. So the green level of assets in the health fund is really very low. And so the investment earnings at this point are a much smaller component of the inputs. And the MOUs and the valuation control the employer and employee contributions. That are needed to pay the benefits. This table gives you a summary of the valuation results. And for your valuation, there really are a couple valuations in one. The top part of this table shows the accounting

results, that are reported under gabs. And on that basis we use a blended discount rate, reflecting the extent to which you are funding the program, and that blended discount rate decreased from 6.7% to 6.1% in this valuation which has an effect on the liabilities. You can see that the liabilities went from about 900 million to 1.1 billion on that basis. Assets were about 100 million and increased to 135. And so overall, the funded status stayed the same, at about 12%. The arc, the annual required contribution, which is not really a contribution, but is the basis for the City's expense, increased to about 67 million. From 47.5 million. And as a percent of pay it went up even more dramatically, to 29% of pay. Now, that's for the fiscal year ending June 30th, 2012. The bottom part of this chart shows the funding valuation basis for these measures. And on a funding basis the discount rate followed what we went on the pension plan decreasing from 7.95 to 7.5% and that caused -- the increase of liability was only about from 800 million to a little bit ore 900 million. The unfunded -- the assets did the same obviously, the unfunded liability increased from 700 million to 800 million. Now, there's an error on the PowerPoint chart here. It's correct in the version that's in your Val report. The funding valuation contribution rates at the bottom should be for the fiscal year ending 6-30-2013 and 2012. Those contribution rates are being driven by what's in the MOUs to phase into the full funding. And there are limits on how fast those rates can go up. And they're going up by the maximum rate. You can see that the city contribution amount actually goes down, even as those rates go up. That's a result of the change in payroll.

>> On this slide, you can see we graph the liabilities from 2001 through 2011. The first three years are much lower liability because they were valued at a higher discount rate of 8.25% at that time. In 2006, you began reporting your GASB liabilities and at that time, you listed a liability at 5.6% discount rate. So it's at approximately 700 million liability. And as you see, from 2006 through 2011, the liability has increased from 700 million to $1.145 billion in liability. And that's driven mostly due to the discount rate dropping from 2009 through 2011 to 6.1%. On the graph, as well, you can see the assets posted in the green lines, and the difference between those two would be your unfunded liability. On our next slide, we show the valuation results on the funding basis in terms of, we split out the medical, the dental, and then we compare it to the prior year, fiscal year of 2012. We show you that the normal cost between last year and this year has gone up from 5.4% to almost 7.7%. Normal cost is driven through the change in the demographic assumptions. And the lowering of the discount rate from 6.7% to 6.1%. I'm sorry, 7.1 to 7.5, that's the funding rate. Then the amortization payment, this is the amortization of your

unfunded liability. And that amortization payment is made up of several different bases. We have a bunch of additional bases that came in. That has gone from a 13.4% to 22%, 22.5% as a percentage of pay. And then as Bill had mentioned the percentage of pay is much larger because of the payroll base has actually dropped. When you look at percentages when you either have a constant payroll your payroll dropped by 24% your percentage of pay is actually going to go up larger than what you would anticipate it would. And the amortization payment is also driven by the change in the discount rate. Contribution amounts without the phase in amount, if we were to just do the funding basis as the MOUs are dictated, we would split the employee and the between the two of them. And the dental would be split to 3/11 for the cities -- for the employees, I'm sorry, and 8/11 for the city. That's why the city has much higher rate of 2.2% 15.7% compared to last year, at 9.9%. The bottom chart shows the projected phase-in contribution rates. And the columns up to the bold line are driven by the MOUs and negotiated rate, so the City's rate for 2012-13 would be 7.91% and the employees would be 7.26%. And this, that and next year will be driving out of the MOU and we'll switch to 16.84% for the city. So there's a big jump once we drop out. And that's due to the discount rate calculations.

>> Edward Overton: Shouldn't the City's contribution be slightly higher than the employees on the medical, due to the early retirement programs that were granted some years ago?

>> I believe the MOU states that it's 50-50 between -- for the total cost.

>> Matt Loesch: I guess, my remembrance is for the medical it's split 50-50.

>> Edward Overton: Normal cost yes but I think the city --

>> Matt Loesch: But even the unfunded on the medical, on the dental that's where it's 8/11, 3 low pressure 11. Whether the early retirements you're talking about whether they were grandfathered, whether they would take care of the whole part --

>> Mollie Dent: I think the question you're asking is whether or not there was an agreement when the early retirements were granted, that a higher share of the medical cost or the full cost of those medical benefits for those early retirees, I don't know the answer to that. You probably maybe have some better recollection of that. But that's something that we can look at.

>> Edward Overton: I believe that's the way it was. And there's always been a few basis points hire, a few percentages higher on the part of city.

>> I know that's true on the pension side. I think the MOUs we saw for the retiree health benefits split, both the normal cost and the unfunded liability, 50-50. Sorry, but I don't know if there's an historical piece that we're missing or not.

>> Matt Loesch: How would that have been done, would there have just been a council resolution or --

>> Mollie Dent: It would have either been in the MOUs at the time the benefit was -- the early retirement beefs was approved. Or it -- benefit was approved. It may have been codified or it may not have been -- it's a question.

>> Matt Loesch: But we're talking about a fairly small defined pool of folks. It should be --

>> Edward Overton: Andists a small difference too but it's something if you are talking about a percentage of pay, it's something maybe that Donna's group can look into, report back on later.

>> And would I just say, for purposes of -- I would just say for purposes of this report it would not affect the contribution rates because those are maxed out under the MOU. And the full rate, I think it might change the full rate slightly between the city and employees. But both of those rates would still be above the maximum.

>> Edward Overton: Okay.

>> Matt Loesch: So I mean yes, if we could have them report back next month. To Mr. Hallmark's comment, the increase no more than 7.5 a year and we're hitting that anyways and so it really wouldn't affect the contribution rates at all one way or another next year.

>> Edward Overton: Yeah, I know, in terms of the total contribution rate at the end.

>> Matt Loesch: It would be the following year.

>> Edward Overton: Would be the same. Just the split.

>> Matt Loesch: Talking a 10th of a% or a hundredth of a percept.

>> So this slide shows some of the demographic changes from the prior valuation. And the active counts are the same as you saw with the pension, decreasing 14%. The total payroll also is the same, decreasing about 24%. The thing to note here, though, is the impact on the retiree medical plan is very different than the pension plan, because the retiree medical benefits are not affected by the pay levels. Or the payroll, when employees take a cut in pay, that doesn't affect the value of their medical benefits. The way it does their pension. And then when retirees, when you have more retirees than you expected at an earlier age, that has a significant impact on the retiree medical program. So can you see in that middle half the total number of wireees and spans with medical cnch increases significantly. We saw quite a few retirements in the pension plan as well. But the impact there is not as great as it is here, because the benefit levels are fixed. They're just starting to receive them earlier than we anticipated, and so they're more costly.

>> Matt Loesch: Ms. Dent do you have a comment?

>> Mollie Dent: So I found the code section that answers the question. It does say that the city would pay all of the cost of -- associated with the medical benefits for the early retirees. So I'll provide this to staff and Cheiron.

>> Matt Loesch: So we get an updated date on that when that's provided to you.

>> Okay. This table shows the reconciliation of the liability on a GASB basis from the prior year. So we expected the liability to increase to 978 million and it actually increased to 1.1 billion, for a net loss of about 167 million. And you can see that loss is broken out in the bottom section of the table. A significant part of it was the change in demographic assumptions, 84 million that's largely driven by earlier retirement rates which effectively increased the value of the benefits. There was a change in the claims assumption, your claims experience was good. That offset some of the costs, primarily driven by putting in the $25 co-pay plans. And then the change in the discount rate added another 80 million. So those are the things that are driving your cost changes. These tables show the impact of health care trend. We had some discussion about what appropriate health care trend rates are. And one of the required disclosures under GASB is to show the sensitivity of your liabilities to those rates. And so we do just a plus 1% and minus 1% on the health care trend. The top chart shows the effect on the liabilities, and you can see it makes a -- 150 to $200 million difference in the unfunded liability, depending on which way you go. And the bottom chart shows the effect on the annual required contribution under GASB, and that can range from 50 to 90 million, just with that health care trend change. We're at 67 million. So just to hit some of the key issues that we've noticed in this valuation, the significant reduction in employees and payroll, combined with a lot of that reduction in employees becoming an increase in retirees, resulted in higher liabilities and higher contributions as a percentage of payroll. The MOUs continue to restrict how quickly those percentages can increase but they're applied to a smaller payroll. And one of the thing we'll show you in our graph here that creates some concern is that the contribution rates restricted to those percentages, and on the smaller payroll, combined with the increase in retirees, mean that those contribution rates aren't sufficient quite to pay the pay as you go cost, mean the annual benefits of the retirees. We have an increase in the annual benefit payments because of the new retirees and the decrease in payroll cuts down the contribution. And then finally, that increase, as soon as the phase-in period expires to the full arc is quite significant now. And so that -- that's a little concerning, that it's such a significant jump. Let me switch to our model here. You want to talk through the model?

>> This model is our H scan model which show the GASB liabilities. And we can actually do some accounting liabilities when that comes into play. On the left-hand side, anything that's in yellow is an input, user input so we

can change those. Ton left-hand side are the assets versus the liabilities. The liabilities are the yellow bars and the green line are assets, the red line is the net OPEB obligation currently under GASB standards. On the right-hand graph we show the plan funded. We split the plan funded into the employee contributions as the yellow bars and the city contribution as the green bars. Volume behind that is a gray area which are your benefit payments. Any expected payments for the plan. And then layered on top of that is the red line which is the GASB arc as a percentage of pay. So Bill will talk through some options here.

>> What one of the things you'll notice is that the GASB arc is high, and then spikes up, and then drops down. And what's driving that is the blended discount rate until you get to fully funding the arc. And so we're projecting the discount rate next year to drop to 5%. I think we want to revisit the methodology used to calculate that blended discount rate, because when you get down to just funding the pay-as-you-go cost, we believe it should be the 4% discount rate instead of a 5. And the current methodology we're using does not get us to that. And it's a different methodology than is used on the Police and Fire plan. So we'll talk about that next year. But that number may even be higher. But then if you jump up and pay the full arc contribution, then you get to change the discount rate for accounting purposes back to 7.5%. And so that's the big drop in the red line there, is being driven by the increase contributions of both the members and the city.

>> Edward Overton: Bill, is that 5.02 a mistake?

>> No, that's not a mistake.

>> Edward Overton: What drives that? The chart said, that we have, said 7.5.

>> Oh, the -- the -- this is updated. We put an earlier version in the PowerPoint. So this is the correct version of the projection and is reflected in your full report.

>> Matt Loesch: Do you want an explanation? Quo yeah, I don't understand --

>> Matt Loesch: Can you explain again how the 5.2, why it goes from 7.5 to 5.2?

>> Each year we take a blended rate between the investment return of assets which we assume it's 7.5 and the investment return on unrestricted employer assets meaning the City's unrestricted assets which we're assuming at 4% and we look at how much you're actually contributing as a percentage of the ark, if we calculated it at 7.5 %. And we interpolate between the 4 and the 7..5 on that basis. And we look back a year. And because the contributions are becoming a smaller percentage of the arc, that is dropping that blend towards the 4% from the 7.5. And so next year we're expecting to use something between 4 and 5%. And that's the issue with the methodology. Because theoretically under GASB, if you are just paying the pay-as-you-go cost, you should be using the 4% discount rate. And you have now switched effectively for that year under the MOU paying the pay-as-you-go cost.

>> Edward Overton: So this is a GASB calculation.

>> This is a GASB calculation not a funding calculation.

>> Edward Overton: Thank you.

>> Funding is the bars. So as soon as the funding kicks up, to, you know, that kick-up is essentially doubling the contribution rates at the end of the phase-in period. So it's a pretty significant jump in contributions that we're projecting under the current policies.

>> So Bill from a cash flow standpoint I'm trying to get my arms around this. If we don't have this jump, my back of the envelope says the fund is going to run out of cash in 2 to 3 years. Is that --

>> Well, you are contributing, you are making contributions close to the pay-as-you-go cost which would keep you at -- if you contributed the pay-as-you-go cost always you wouldn't lose any assets theoretically.

>> Matt Loesch: We paid out about $32 million in benefits and the contributions were nearly identical. The employers were about 32 million and assets were about 32 million.

>> I was reading it as about 66 but I was reading it incorrectly.

>> Matt Loesch: That was from.

>> That gray area, shaded area is the pay-as-you-go cost, the amount that is going out each year in benefits. So to keep your 135 million in assets you need to make sure that your contributions are above that gray line.

>> Matt Loesch: I think what --

>> The total --

>> Matt Loesch: I think what Mr. Armstrong is referring to is page 8 you have a base of 67 million. That's the arc, we're not paying the arc because we're ramping up into getting there right?

>> That's the red line.

>> Matt Loesch: The contribution -- I think that's where you get the 67. Any questions on the presentation?

>> Stuart Odell: Maybe related to the presentation, I wasn't involved in the presentation on the rates, you've got this cliff coming in a year or two years where the amounts are going up dramatically. Is there any reason we can't go back and change those amounts? Or -- go back and explain at least for one year?

>> Matt Loesch: That would be between the city and the bargaining parties number one the agreement. The reason it was set up the way it was is, there was a partial pay-as-you-go setup we had going on before the agreement. There were contributions being made by both the city and the employees and -- but it was not the full

arc. It was a little bit more than that at the time. And so when the GASB stuff came out, the bargaining parties got together and negotiated this deal to say, that they would ramp up to full funding. But to control how much that would cost going forward, they would -- over five years they would ramp up just .75% of pay each year and then at the end they would do the true-up that's why they got to this. Since I was around at that time, looking at these numbers it was nowhere near the 15% rate, it was more like seven, eight, 9% of pay. And at the time both bargaining parties thought that was the appropriate way to go. Whether they're going to revisit that or not, I think we have to present them the numbers this is, if we stay going this exact course this is the consequence coming forward, as far as contributions. I think they're pretty aware because -- but with all the things going on, because these numbers have been presented once before, so it's not like that the jump-up is -- last year I think it was 10, 11%, this year it's closer to 15 because of the reduction in the discount rate and so forth. It got even more dramatic.

>> Edward Overton: And reduction in the payroll.

>> Mollie Dent: And the payroll.

>> Matt Loesch: That's right, the decrease in the number of employees and so forth.

>> Stuart Odell: That's helpful.

>> Arn Andrews: Just one question. We know we're looking at a total contribution rate of roughly 15% in 13-14 as we move into the full funding, and those caps start to phase out, we're looking at an anticipated contribution rate of roughly 32%. So roughly double. So does that mean from a dollar basis to the city, on slide 3, it shows city contribution amount beginning of year and it says roughly $18 million. Does that mean we expect that dollar amount to double next year, basically?

>> Yes.

>> Matt Loesch: If payroll stayed flat?

>> Arn Andrews: All else being equal we can expect --

>> Roughly, yes.

>> Arn Andrews: Okay.

>> Edward Overton: And did you take into consideration the changes to the health plan that have recently been made?

>> The $25 co-pay plans?

>> Edward Overton: Right.

>> Yes.

>> Matt Loesch: Kind of disconcerting, hmm? Really. I have a series of comments and/or questions. I'll let other folks go.

>> Arn Andrews: Just one more on page 1 and maybe this goes too much into the weeds but at the bottom of page 1 of the written report you kind of allude to the fact that you might recommend a different methodology going forward as to how we come up with our interpolated rates.

>> Yes, and what we're saying is, if you are only contributing -- if the contributions are approximately equal to the pay-go cost or the last, we believe under GASB that the discount rates should be 4%. And the methodology we're using is that we inherited does not come up with that. And is not really interpolating from a pay-go contribution to the full arc contribution.

>> Arn Andrews: So the 5.02% recommended earlier -- is that --

>> That's not recommended, that's projected.

>> Arn Andrews: Projected does that take into account what you believe is the --

>> No that's the old --

>> Arn Andrews: Current methodology, okay.

>> The current methodology would get you to 5% and we believe it should be 4. And so next year when we are setting the discount rate we will introduce a change in methodology for you to consider, that would get you to that floor.

>> Arn Andrews: I guess back to the earlier conversation where we thought that the contribution from a dollar basis could double it's actually going to be something greater than that because you're going to make a recommendation to take the discount --

>> That doesn't affect the contribution, that only affects the accounting.

>> Arn Andrews: Okay.

>> Stuart Odell: So actually what you're saying is the accounting is even worse than what you're projecting here.

>> Yes.

>> Stuart Odell: By at least another 1% on the discount rate which would imply the liability is 10% higher than what your -- you got a duration of 12 years or something?

>> Probably more than that.

>> Stuart Odell: So something like that but another 100 million to the liability from an accounting perspective is what you're coming back with.

>> Arn Andrews: And when we go to full funding will that then reverse back and we'll use the other discount rate?

>> Yeah, that's where the red line drops back.

>> Arn Andrews: Okay so it will just be a moment in time we'll see the liabilities rached up as we move to 4% but the following year chances are we will go back to the board approved discount rate and we'll see the lieblght drop down?

>> If you stay on that contribution path and make those contributions.

>> Arn Andrews: Okay, thank you, that's helpful.

>> Matt Loesch: Can you imagine the reports looking back at history at that time? What the heck's going on, what kind of games are they playing? Any other comments or questions? Kind of following along with Mr. Odell's comments about bargaining parties doing what's going on and thinking okay, what is it the board has ability to do any of this? To affect any of this stuff going forward? You know, our health care plans are 100% experience based in San José. So whatever our experience in health care costs are that's what the basis of our premiums are. So the only hope that we have is really you know tamping that down, expecting that 1% change that the sensitivity chart that you had mentioned would be to do things to tamp down our premium costs. And then, so

that's the statement of fact that's true. But then what ability does the board have to try to affect that? I mean we have retirees that we try to communicate to, we have -- that's really it. We don't have ability to access the active employees. Is there anything -- does anybody know -- I mean we have folks that go to the benefits review forum which is something the city has with their bargaining groups talk about the benefits stiff. Is there anything the City's doing they've talked about of trying to control these premium costs increases? I'm not trying to put you on the spot and I didn't bring it up to you ahead of time. (inaudible).

>> Donna Busse: I'm not sure what (inaudible).

>> Matt Loesch: Besides just keep jacking up co-pays, that does something but there's all the philosophy of what that does to the cost long term.

>> Donna Busse: (inaudible) lowering the premium cost --

>> Stuart Odell: There is nothing on the outcome side, you don't have a premium pay --

>> Donna Busse: They took away the net expert so they kind of, that would follow on that line of work. But no, they discontinued that program. So I think they're focusing it seems to me they're focusing their efforts on lowering the premium cost.

>> Matt Loesch: What is the ability or is it possible for the pension plan, because this would help control costs and outgoing to pay for an access to net expert for retirees? As a consulting service.

>> Mollie Dent: I'm not sure. That wok an additional benefit. The way the benefit is structured it's supposed to be the lowest cost plan that's available to the active employees.

>> Matt Loesch: If we tried do something to mitigate cost increases which is take these dollars to expend them so we could not expend so much --

>> Edward Overton: We're dealing with the benefits side of the question which is something this boards has no ability to challenge.

>> Matt Loesch: That's what I'm saying it's not giving a new benefit in a sense it's trying to do things to contain the benefit costs. I see where the line -- as I was writing these notes down, it's a fine line.

>> Mollie Dent: I think you might want to take a look at investigating why they discontinued the med expert contract. Because the city also has cost containment concerns on the active side, too.

>> Matt Loesch: Sure.

>> Mollie Dent: So it may be that it wasn't -- I don't know but it may be it was not an effective cocontainment strategy. But I do additional benefits, maybe there is something that you could structure that wouldn't be that would be considered a true cost containment for the plan. There is certainly recommendations the board could make to the city for something like that. And we would have to be careful to make sure that the money was expended for a legitimate tax purpose, a medical benefit too.

>> Matt Loesch: Sure, I read when the med expert stuff got cancelled just the council memo on it, it was due to the cost, this is summarizing hoer guilty, they didn't see the cost savings from the expense on it. Then I've read a lot of research, I've read some research on med expert what they've done, I'm not advocating for them particularly but if there's something we could do, something we could put if place, whether we could use our funds, the plan's funds to help mitigate the cost increases andfully unleech it demonstrates in this presentation here what that positive effect would be. If we spent several hundreds of thousands of dollars, we could have millions of dollars of savings. If there's anything we could do on that end to help mitigate those cost increases I think we ought to do it. We ought to challenge, find out where that line is of granting a new benefit which we can't do or providing something that is -- I mean it's -- they go to our Website right now and access information on retirement services, if we have access to a Website that they can get medical reference and so forth, is that granting them a new

benefit that's different than what's provided? It's a different location, it's a different source but does that mean if we hired a medical doctor that they could call in and ask questions to help get them through whatever medical issues are going on is that granting a new benefit or is that hiring a new staff person? How does that -- then we decide to outsource that, is that then -- I'm just trying to present my train of thought, is there something we can go?

>> Donna Busse: I know there is one thing, we are working with Dr. Das's office of providing education to retirees on very specific conditions and possibly being able to do screenings as part of the education and maybe focus education on diabetes or high blood pressure and just have education classes working with Dr. Das's staff to put those classes on for retirees so they can come in at least get some education on some preventative care. That's the only thing we have right now that we can do is provide education.

>> Matt Loesch: Okay.

>> But I would be curious to see what data the city has and studies on you know utilization rates, dig down a little bit to understand these premium costs. Is it design? How much cost is coming from say the retiree population, how aggressively are we moving on this?

>> Matt Loesch: Especially now one of our big costs is we have a large pool of new retirees and most of them are the pre-65. We had roughly a 14% increase in pre65 premedicare eligible retirees which is our most benefit out to -- from the plan. So getting to that 32 million that's a big chunk of that increase is coming from that group. Are there things we can do to mitigate that particular cost? I think we ought to do it.

>> Stuart Odell: It is probably cheaper to buy private insurance for every pre-65 retiree than it is to put them in the plan until they're Medicare eligible.

>> Mollie Dent: This plan essentially does that. It's a fully assured health plan, that's all it does is pay premiums to a privates insurance .

>> Matt Loesch: So do you want to pursue this thread?

>> Arn Andrews: I think your points are valid. I don't think preventative medicine should be viewed as a benefits enhancement, it should be viewed as spart from the best interest of us, but in the best interest of our retirees from a medical standpoint. So to the alternatively we're able to drive people to either -- extent we're able to drive people to other educational materials, I think it would be interesting that line is.

>> Where does the expense come from, really what's driving the premiums, what are the nature of the plans that people have? I mean the wellness programs are good, I support them but in the scheme of things I think it's highly unlikely that you're going to add millions of dollars to savings from people pursuing wellness plans.

>> Matt Loesch: The research I've seen and I know Mr. Crosby dealt with med expert on many areas, not to drag him into that, he tried to ride that horgs as long as he could from what I heard. But the experience for med expert is really help them get the best health care possible as soon as possible, most cost effectively and thereby getting them well faster and long run saving money. If we could get just 1% of premium not increase, just you know we're expecting it to go up 10% it only goes up 9%, that savings is $15 million based on these reports, so if that cost -- if not seeing a 1% additional 1% increase saves $15 million, then it costs you a couple hundred thousand dollars to do it to have something in place, whether it's whomever, do you even want to entertain it or -- only because the --

>> Well, at the risk of getting myself in trouble the problem here was a series of determination particularly by the city attorney's office regarding who controls the data. Everywhere else, the data's controlled by the plan sponsor. Number one. Number 2, there was also a decision made about how the entity could contact the participants. Because that's the way those systems work. They comb through the claims data, they find people who have particular conditions, and they reach out to them. The City of San José decided to disable all of those features in the program, and of course, the program netted nothing. So as a result, until you get those kinds of things fixed, or at least decision that are consistent with other plan sponsors, you're not going to make any kind of progress on this. Because you have to provide data to some entity and then you have to give the institute the

ability to reach out to the sick people. And if the city, the city attorney's office, whoever, isn't willing to go down that road, then you're really at a loss. Most of my experience, quite frankly, is in the health care realm as much as the investment realm. Because big Taft Hartleys run because it goes directly to the employees or to the benefit package. So it's a little bit different world. But the way it was handled here, the City really had no other option than to cancel the program given those constraints determined by City Attorney and other parties. So I don't know how far you're going to get down the road with this board trying to tackle that problem.

>> Mollie Dent: So I'll add that because we're a fully insured plan, we don't actually control the individual data.

>> Russell Crosby: That's untrue Mollie. You can get the data. You control the --

>> Mollie Dent: There were issues with if insurers too. , I've you control the data. You simply say as part of the contract renewal process, the data is mine. It's very easy. You have to be aggressive, of course blew shield doesn't want to give over its data to have a third party combing through and finding the weaknesses in their system. That's why plan sponsors do this is because Blue Shield isn't an entity that's going to take on the problem.

>> Mollie Dent: I understand that. And so this plan doesn't -- this plan -- the city negotiates the contracts with --

>> Matt Loesch: That's why we need to advocate in some end of speaking our voice saying you know --

>> Mollie Dent: What I would say you need to do is articulate what -- articulate the program that you want to offer. And maybe you want to get more information about various cost containment programs that are being looked at by other plans and by other entities. But if you would -- if you want to know whether or not the plan fund can pay for the program, then you need to be specific about the program you want to offer.

>> Matt Loesch: What program it is and what would benefit, what thing the user would see, what the experience would be. Because in my mind, if there's -- if there's anything we can do to reduce that cost we ought to do it. If

it's in our power. Because that's protecting the plan, it's protecting the beneficiaries, in my mind it's our role. So if there's something we can do I think we ought to pursue it. How we should pursue it is a different question. Whether we should state to the city, what is it you're doing, request from the city what is it you're doing to contain these costs and then I think it would be a question to legal as to once we figure out what it is, is this something we can do within our -- the plan documents? Right?

>> Mollie Dent: Yeah, if your question is whether or not can you use plan money to pay for a specific program, without that having been bargained for by the city and the union, we'll answer that question if we know what you specifically want to use the money for.

>> Matt Loesch: Thoughts? Yes, Mr. Richeda. rshed to hire a consultant and there's many of them who are zeroing in on this area among others. And at least, on an information sense you can come up with some best practices that you can then offer to the city. This is a very, very complicated area, as I'm sure you know. But everyone understands -- every health plan is being affected in the same way. So everyone is focused on this. There's a tremendous amount of work. Some of which is very fledgling and some of which is being encouraged by the affordable care act, assuming it remains law. But there's lots of ferment and you might be well served to find out what's happening.

>> Matt Loesch: Okay, why don't we leave it like this. I'll see if I can think of things we can contrive, things we can do at the board level in whatever board setting, whether it is create a committee, we don't want more work but whatever education it is here whether it's being keep talking about and keep moving this forward. Is that what you want, think that sounds reasonable? So another agenda item for a future date. I'll see how we can put that together. Other than that any other comments or questions? I mean it's all tied to this valuation. This is what's driving my thoughts and responses. Mr. Andrews. --

>> Same pattern going on with Police and Fire?

>> Basically, yes.

>> So if we did something what you're talking about Matt we want to do it in combined with the oat board.

>> Matt Loesch: That would be more lives. exact same health plan. Employees are pooled together.

>> Arn Andrews: I did have one other question. On Page 2 of the written report, the first paragraph beneath the table, you're speaking again about the reduction in payroll. And that you estimate that a 7.16 contribution rate would be equivalent to a beginning year contribution amount of roughly 16.4 million.

>> Uh-huh.

>> Arn Andrews: And in the table it says the city contribution amount beginning the year was 21 of 4 million. Does that mean there's a true-up in the vicinity of roughly 5 million what was paid versus what you calculate now as the prompt amount?

>> I believe that the policy adopted was to contribute the greater of the dollar amount computed in the valuation for the percent of pay. And so that would mean that the contribution for that year is the 21.5 million. What we were pointing out is that if you used the projected payroll that we now have, instead of the projected payroll we had at the time of the valuation, that produced that number, then it would be the lower $16 million number.

>> Arn Andrews: So I'm still confused.

>> My understanding of the funding policy is that no, there would not be a credit-back to the city at the end of the year.

>> Mollie Dent: So yeah, I'll just speak up and remind everybody that the funding policy hasn't been codified. So the crediting still is possible, I guess. But it's, you know, my understanding that the city intends to continue with the funding policy. So the non-crediting has not been codified.

>> Arn Andrews: Okay, so the city paid the 21.4 million predicated on the valuation at the time. But you're -- I guess I'm still caught up on that last sentence saying it would be equivalent to beginning of year contribution amount of 16.4, now instead of -- you're just showing that for illustrative purposes?

>> Right, and to just show that the drop in payroll had that effect so that you can see why it ties in to why the dollar amount for the new year is lower --

>> Arn Andrews: Is 18 million.

>> Is 18, even though it's a higher percentage.

>> Arn Andrews: Perfect, okay, thank you.

>> Matt Loesch: Okay. Any other comments or questions? I'll entertain a motion to approve the valuation as stated on there.

>> Arn Andrews: Motion to approve the Federated city employees retirement system June 30th, 2011 OPEB actuarial valuation.

>> Second.

>> Matt Loesch: Okay, any more comments or questions on it? All those in favor? Opposed?

>> Okay.

>> Matt Loesch: Then we're on to item 4.2, A and B. Discussion and -- so discussion and possible action regarding the Supplemental Retirement Benefit Reserve, the SRBR, discussion possible A is discussion possible

action on the SRBR calculations from the Cheiron company and B, adoption of resolution number 6749 declaring the excess earnings as of June 30, 2011 for the purpose of transfer to supplemental retirement benefit reserve.

>> So I don't have a projection for this but you have a copy of our letter top SRBR dated January 13th. There are a couple changes in the calculation that we need to talk about with the board. But the summary is that we kept -- and this stuff -- this exhibit was actually in the valuation report presented last month. But the interest credit for the year on assets in the SRBR reserve was 2.3 million. There was excess earnings which gets credited to the SRBR of 12.5 million. And distributions are currently suspended. If the same policy occurred as in the past there would be about 6.6 million in distribution. The letter walks through the interest-crediting process. The significant changes in the formula used for interest crediting are shown on page 2, in more detail in the attachment. Essentially, in the past, one of the key changes was, all cash flow contributions and benefit payments had been assumed to occur at the middle of the year. With the city's policy of making the contribution at the beginning of the year, we've adjusted to reflect the actual timing of city contributions in that calculation. And then, the second piece is the prior calculation was based on an average, an average balance during the year based -- essentially they took the beginning of year balance and end of year balance and divided by 2 and said that was the average balance and made a calculation. We've changed the calculation or recommending changing the calculation so it follows the same calculation that's used in the actuarial valuation, reflecting the timing of the contributions. And so we use -- we assume employee contributions and benefit payments are mid year. And give that a half year of interest. And then the city contributions that are made up front are assumed to be beginning of year. And so with that change, the key thing is, when we calculate a 7.5% return in the actuarial valuation you'll get a 7..5 return in the SRBR and no excess earnings. Under the old methodology, you'd get different numbers in each calculation.

>> Matt Loesch: Any questions or -- okay. Anything further you want to say on the -- your letter and/or the resolution? Any questions on the status of the SRBR? Has anybody heard the intention of the city of what -- city council as to what they're going to be doing about the SRBR? This fund is growing mightily. And I think we ought to -- my personal recommendation is that we ask the city council to do something with those funds, as opposed to -- if we keep letting them grow, we have -- much larger check that has to be paid out. So we end one a situation we have now $40 million in this fund, in this account, I should say. In this account that is just building and building

and these checks will be fairly large. And then you end up in my mind some question as to what happens to the moneys that people who are beneficiaries who are passed in this interveining time, do they have rights to these moneys, I don't know how the setup in the municipal code is on it, how it gets paid out exactly. But I think we ought to request the city council come to some kind of conclusion as to what they're doing with this, whether they're just going to let it go in perpetuity or whether there's some kind of decision to do something with these funds. I know some bargaining units have talked with I think with the city about what they think about the SRBR and willing to what they're willing to do about it. Obviously it affects the retirees since they're not -- they don't get to negotiate on it and they're the ones who are receiving the checks now. But I think something ought to be done about it instead of letting this account grow and grow and grow because these checks are going to be gigantic comparatively.

>> Is there language regarding this in the ballot initiative? Mr. Mayor I don't have any knowledge about --

>> Edward Overton: I don't think so.

>> Not regarding the (inaudible).

>> Matt Loesch: Future possibilities.

>> Right. And I'll have your comments on --

>> Mollie Dent: So just kind of to bring some of the board members maybe up to how the distribution is done. The -- if there were to be a distribution there is a resolution that governs how the distribution would be done. And it's a resolution that was pretty much mutually agreed upon by the board and the council back at the time the resolution was done. So -- and there is a provision in the resolution for the board and the city to come back and revisit whether or not they want the distribution to be done that way or done differently or something entirely different done with the money. That is, it's something that the board has -- the council can suspend the distribution and they have suspended it before. But it's certainly something that the board could make a

recommendation on, if it had a different use that it thought this money should be used for, or if it thought that the --just if they thought the fund should be totally eliminated or the money split up in a different way between the beneficiaries.

>> Matt Loesch: So in my mind, we should make a request that they decide what they're going to do with it, or if they're interested in engaging with us in a way to disburse it, move it into the general accounting fund, whatever. But in any mind we should ask the council rather than just suspend it because these funds continue to grow. Because whatever happens in the plan they don't go down. They don't go below zero. It's now at 40 million. They have been hovering between 15 and 20 million and now they're hovering around 40.

>> I think the key point is they've suspended the distributions but they've done nothing to the mechanism that transfers funds into the SRBR.

>> Matt Loesch: We ought to transfer that money, I agree with that, we ought to transfer that money, that's what we're charged with but as far as requesting city council to either decide to disburse payments or do something other than that, I think we ought to request that. Any thoughts?

>> Edward Overton: I don't think there's any set amount that has to be distributed in any particular year. So the city council can decide at any time.

>> Matt Loesch: Okay.

>> Edward Overton: You know, we're going to give everybody $100 and that's it. It doesn't mean that since you have 40 million there that you have to distribute the whole 40 million. In fact there's a provision in the resolution that would prohibit that. So I don't think the build-up per se is the issue. The issue is, and I think you're right, we should address the city council in terms of what your plans are for distribution, if any. And if you don't have any, how about developing some.

>> Matt Loesch: Okay. Is this just speaking to the council liaison, is that sufficient for you that you would carry that back to the council as a request or do you want a formal written request to make that happen?

>> I think the verbal request is fine.

>> Matt Loesch: Mr. Gurza is here from the City Manager's office.

>> Alex Gurza: Good morning, Alex Gurza, Deputy City Manager. I was listening so I came down to clarify the discussions on the SRBR discussions. As you indicated Mr. Chair, there have been some tentative agreements with certain bargaining units to eliminate the SRBR. But beyond that there is current draft of the ballot measure section 11 that would eliminate the Supplemental Retirement Benefit Reserve and return the assets to the main corpus of the trust fund. So if this ballot measure goes forward as is passed by the voters, that would have that impact. So -- and until then, the whatever we call this, the moratorium freeze on payments still exists. And so this, the current timing of the ballot measure would have it go before the voters in June.

>> Matt Loesch: Okay. Any other comments or questions? So we just need a motion to trans-- do we have to accept the report and then the transfer of the money?

>> Mollie Dent: Yes, and adopt the resolution.

>> Matt Loesch: Adopt the resolution.

>> Edward Overton: So moved.

>> Matt Loesch: Second?

>> Arn Andrews: Second.

>> Matt Loesch: Okay any further comments or questions? All those in favor, opposed, none, thank you.

>> Russell Crosby: Sorry, who seconded?

>> Matt Loesch: Arn.

>> Russell Crosby: Thank you.

>> Matt Loesch: We're on 4.3, educational presentation by Cheiron on changes to GASB reporting requirements.

>> Thank you. As many of you may know, GASB has proposed significant changes to their statement number 25 and statement number 27 which govern the accounting for pension plans. And there has been quite a bit of speculation around how that would affect various systems including your system. And so I wanted to give you a brief background and explanation of the changes, and how it might affect this system. So I'll go through some of the key proposed changes, and at the end we have our model modified so that we can show you projections under various scenarios of what happens to the accounting numbers now, with these proposed changes. The one thing I do want to note here is, this is only for pension accounting. GASB has not started their project to change the retiree medical accounting. So for now, the retiree medical accounting would stay the same. We would expect, and they are planning to open a process, that may take several years to go through the OPEB accounting and make similar conceptual changes. But that project has not started yet. They -- this is the process they went through on the pension plan, in 2009 they issued a document called invitation to comment that outlined some of the key questions they were dealing with and conceptual issues behind the changes in the accounting. Then in 2010, they issued their preliminary views, which was their preliminary conclusions on those conceptual issues and then last year they issued exposure drafts which gave details on how they thought those concepts would be used in the actual accounting. And this year we expect them to issue the final statements, probably in June. The exposure drafts proposed an effective date for large single employer plans of the fiscal year ending June 30th, 2013. So this would affect your plan on the 2012-13 fiscal year. And we did note that in our pension report, that

normally, the report we issued June 30th, 2011, would be used for the accounting for that year. But if these changes are finalized, we would have to change that. One of the very significant changes is the divorce of accounting from funding. Historically, for public retirement plans, the accounting and funding have been kind of married together. And the annual expense for your accounting was equal to your contribution, as long as it fell within certain parameters. And your balance sheet disclosure of any liability was really just the difference between what you should have contributed between those accounting parameters and what you actually contributed. So if you always contributed the arc there was nothing on your balance --

>> Bill, could I just add it wouldn't be on the plan's balance sheet, it would be on the City's balance sheet.

>> The City's balance sheet, yeah. Most of these changes affect the city's accounting. There are some that affect the plan accounting. But the plan accounting changes are much less significant. So most of this is going to be attached to how it affects the City's accounting. so the accounting, GASB was very uncomfortable with the fact that their annual required contribution became kind of a de facto national funding standard. They said we're an accounting standards board. We don't know what's the proper way to fund is, that's between the sponsoring entities, the taxpayers and the actuaries. And so they really did not want anything to do with the funding. And so they've made it explicit that these standards apply only to the accounting. And so we may, as you see when we go through this, we'll have to be producing two sets of numbers now. One for funding and one for accounting. The balance sheet now drives the expense. To so they focus on what's on the balance sheet and the changes on the balance sheet are your annual expense. I'll go through that in a little more detail but that's a complete reversal from the current approach. They increased the uniformity of methods, we'll go through some of that. It does provide some more timely information for users of financial statements, because currently, what goes on the financial statement can be up to a couple years old. And so it's getting much more timely information. But the big changes you will see significant more volatility in the accounting numbers. So here's our little graphic about how things used to be, and how they will flow now. The income statement is called a statement of activities. And it used to be that you would put your annual required contribution on there, compare that to the employer contribution and if there was a difference, it created a net pension obligation, which appeared on your statement of net assets. Now, we're going to start with what they call the statement of net position. We calculate the net

pension liability, which you'll see is essentially the unfunded liability. And then there's some deferred recognition of a few items. And that becomes your balance sheet item. So most of the unfunded liability will go directly on the statement of net position for the city. And then, the changes in that are the pension expense, net of employer contributions. And we'll go into some detail about those components. So that the first step now is to calculate the net pension liability. GASB has mandated that everybody use the entry age actuarial cost method. That's not a change for San José. We use that method. But some plans do not. Or use a variation that's not acceptable to GASB. The discount rate, you may have heard some speculation that GASB's going to require plans to use a lower discount rate. Well, sort of. They allow you to use the expected return on assets, to the extent the assets, including future contributions for current employees, and that's the big catch, including future contributions for current employees, are sufficient to make the benefit payments for current employees. And then, to the extent they're not, you're supposed to use an index rate for a 30 year high quality tax exempt municipal bond, which would be a much lower discount rate.

>> Stuart Odell: Sorry, just on the portion that is insufficient, or on the whole thing?

>> On the portion that's insufficient. And so you actually do a projection of the cash flows and a projection of the assets. And I'll show you a chart for you. But then you discount the ones that are covered by the assets by the assumed rate of return. You discount what's left by the index rate and then you solve for the single rate that gets the same value.

>> Arn Andrews: It's similar how GASB has us do a blended rate for OPEB conceptually.

>> Similar in that it's a blended rate. Methodology is different. But for the pension plan given the funding policy there won't be a change in the discount rate for you, there's no change. Because we're allowed to project out all the amortization payments and attribute those to current employees. And since given your amortization policy, you don't run into any issues. The other key thing is for the net pension liability, we have to project the actuarial liability from the valuation date to the end of the fiscal year. So if we're doing this for this fiscal year, we might take the June 30th, 2011 measure of the actuarial liability and project it to June 30th, 2012. And that's the number that

would be used to disclose, as of June 30th, 2012. And then you have to use the market value of assets at June 30th, 2012. So when we do the June 30th, 2011 valuation we'll no longer be able to tell what you your net pension liability is for that fiscal year. Because you have to wait to find out what the actual assets are. So there's going to be some logistical changes internal on the accounting side.

>> Arn Andrews: Can you just repeat that last comment?

>> When -- right now when we do the valuation, we tell you what your accounting numbers are going to be. And they don't change. We will no longer be able to do that. We can tell you what the liability number is, assuming there are no significant changes. If there are significant changes, GASB says you need to remeasure it. But assuming no significant changes we can tell you what the liability number is. But we can't tell you what the market value of assets is at the end of the fiscal year. You have to wait and find out what it is and then report.

>> Matt Loesch: And report (inaudible).

>> This is a graph of the depletion test to determine the discount rate for the City of San José. So the red line here is the projection of assets using contributions attributed to current employees. Or current members. And so you see a growth as all the UAL payments come in and the payment of the normal cost for the current employees. And then, the yellow bars represent the annual benefit payments. And so, as long as that red line stays above the yellow bars, all the way out, you can use the full discount rate of 7.5%. And so that's what we're projecting for you. The only plans that we have seen have problems in some limited testing is if you had a rolling amortization period. And I think this plan used to have a 30-year rolling amortization period. Those plans would not pass this test. And then, plans that have fixed contribution rates in statute may or may not pass the test. So just to reemphasize how we would calculate that net pension liability, here's the numbers from the 2011 report. We'd take the total pension liability, total pension liability means actuarial liability. This is the new GASB terminology. And add the normal cost, subtract expected benefit payments and adjust for interest. That gives us a projected liability at June 30th, 2012. And so that would be the component that goes into the calculation. Then

we'd have to subtract the market value of assets once it's known and give you the net pension liability on the City's books. Yes.

>> Bill, is the market value of assets still a smooth market value of assets?

>> No, it's the market value . Now, the changes from one year to the next, we have a policy on the funding size of amortizing those over 20 years as a level percent of payroll. For GASB, they're called deferred recognition periods. And they affect what's on the balance sheet. But they are much shorter. So this table gives you a quick look at the approved amortization periods. For the approved gains and losses we get to recognize it over five years. So much like we smooth assets in the valuation, we get to use essentially the same method here, except in our valuation, once we smooth it over five years, then it goes into a 20-year amortization period. It just gets recognized immediately here, under GASB's proposed method. So you have the five-year smoothing but you're recognizing those pieces immediately. So that's going to provide a significant part of the volatility for your expense. Actuarial gains or losses, and assumption changes or method changes, we have to split those pieces between inactive members and active members. Anything for inactive members has to be recognized immediately. So for example, if we change a mortality table, the effect that that has on the liability for retirees goes immediately into the pension expense. The effect of that change on active employees gets spread over their expected working lifetime. Expected future working lifetime. And there are -- one of the areas that GASB still has to resolve some issues on is how you calculate that expected working lifetime, and how that actual amortization works. But all indications are, it works out to be a very short period. Probably something in the neighborhood of 5 to 7 years. Then, any benefit changes are recognized immediately. And there was a hot button issue for GASB. They were very concerned about entities adopting significant benefit changes for people close to retirement and amortizing those over 30 years. And they didn't think that that was appropriate but that was acceptable under the old standards. And there were cases where something like that was done. And so they have swung completely the other way and they want those recognized immediately. The pension expense now has a whole bunch of different components. And GASB hasn't organized it this way, but we've tried to organize it so you can understand what the pension expense represents and where the different numbers are coming from. And so the first section we've called operating activities. And that's essentially the costs of the benefit changes in that

next year. So the service cost is the normal cost. It's offset by member contributions. And then administrative expenses. So for your plan that would be 62 million for the period. Then, the financing activities, that is essentially the difference between interest on the liability and expected return on the assets. So that nets to about 72 million in this example. Those two pieces are really the ongoing costs of operating the plan and come closest to what you might consider a funding policy. They essentially represent the cost of the benefits plus the interest on the unfunded liability and most funding methods would cause contributions on average to be greater than that. So that you're paying off the unfunded liability. But that's just the cost of benefits plus the interest on the unfunded liability. The remaining items are all the gains and losses and when they're reacted and we split that between the investment gains and losses and the liability gains and losses. And so there's -- those items create the most significant part of the volatility of the pension expense.

>> Lara Druyan: Bill, can I ask, on the top part you're adding in the member contributions ?

>> They should be subtracted. I think you're right. I think that's an error there.

>> Lara Druyan: Thank you.

>> So let me show you what this all means.

>> Matt Loesch: Quick question please. Mr. Andrews.

>> Arn Andrews: Just in the area where you talk about the recognition of investments and the recognition of liability. So this is the area where there's no longer to be an amortization period, the smoothing after five years when it's over it's full recognition?

>> Right. So this is your model. And we can -- you've typically seen the funding projection here that I'm showing on the screen. You don't have this in your packet. This is the funding projection from the 2011 valuation. We switch it over to look at the GASB numbers. What I'm showing on the top is the net pension liability, which is

essentially the UAL and then something I called the employer's net position related to pension. Which is the net pension lieblght adjusted for the deferred items. So the phasing-in of the recognition. And on the bottom, that yellow bars are still the contributions to give you a comparison. That's the projected contributions as a percent of pay. And the blue is the pension expense as percent of pay. Now we have a very high pension expense, if we adopted it for this year. Because we had the assumption changes. And a large chunk of the assumption changes have to be recognized immediately, or in this example I just assumed over five years. So that's what's causing that huge number in this year's pension expense is just adopting those assumption changes. And then you can see if we get the 7.5% return things drop down to a fairly stable level. But we know that we don't get 7.5% returns every year. So just, let's say we repeat the last 20 years of investment returns. Look at pension expense. It goes from 150% of payroll to minus 150% of payroll. And then back up and down. So it is a very, very volatile number. And that, you know, that's got no assumption changes or no liability gains or losses going forward. So it is not -- the idea that you would adopt a funding policy that equals the pension expense is just not something actuaries would recommend. It's far too volatile to budget, and you can't contribute minus 150% of payroll. So we're going to have this separate number that we have to calculate, and will go on the books but it's not going to drive our funding policy. And up on the top half you can see that the liability, the net pension liability, varies from a $1.5 billion liability to $1.5 billion asset. And this is similar to what the corporate pension plans went through during the good periods when they had a lot of assets. They were showing significant assets on their balance sheet for their pension plans.

>> Arn Andrews: And this just replicates market performance for the plan for the last 20 years?

>> For the indices, we used 70% S&P, 30% aggregate bond index.

>> Matt Loesch: The market (inaudible).

>> That's right, market history. Just wanted to convey to you just how volatile these numbers are, and that any notion that we would use them for funding, it's -- it's really unworkable as funding. It's intended for accounting purposes. And theyer accounting numbers.

>> Russell Crosby: Just out of curiosity, could you start with maybe 72, 73, somewhere along in there?

>> It gets you into some good -- good history at the end there.

>> Russell Crosby: Uh-huh, yeah.

>> But you can -- you can flip through years, and you just you know, the number's going to bounce around a lot. And you have to be careful because the scale on the left changes because it's so volatile, I couldn't fix the scale for you. So anyway, that's what I wanted to communicate here, is you know if there are any questions, we also included, there were two advisories that we produced that go into detail. They were developed generically and we will let you know you know when GASB issues final pronouncements. And then the timing, we'll put together some timing and process on that.

>> Matt Loesch: Looks like a June time frame is that what they're talking about?

>> We're expecting a June time frame. And I think the basic treasure that they've laid out is pretty firm and not going to change. There are some things that I know they're considering changing. But mostly that affect multiple employer plans.

>> Russell Crosby: This will wreak havoc with your bond disclosures and year end closing.

>> Matt Loesch: On there Mr. Andrews.

>> Lara Druyan: I was going to add, it is the city's side the face financially are actually affected.

>> Yeah, and there are a whole bunch more disclosures. I didn't go through this as really focusing on the base financials for the city. They've expanded the schedules from 6 to 10 years so we need to show ten years of history for all the schedules.

>> Matt Loesch: Okay, any questions or comments?

>> Arn Andrews: Just like to thank our friends at GASB.

>> Matt Loesch: Yes friends at GASB. Cheiron accountants --

>> Edward Overton: Accountants with not enough to do.

>> Matt Loesch: What's that?

>> Edward Overton: Accountants with not enough to do.

>> Matt Loesch: Actuarial full employment plan.

>> And the auditor.

>> Matt Loesch: Might as note and file the report and I'll call a recess for ten minutes, please. [Recess]

>> Matt Loesch: I would like to reconvene here under item 4.4, A and B, that's the audit report, discussion and action on the audited financial statements for the year ended June 30, 2011 and B, discussion and action on Macias, Gini & O'Connell's report to the board June 20, 2011. Start please.

>> The first agenda item you have is our finalized audited financial statements which is a component within our comprehensive annual financial report it will be the brown bound report that you've received. The board actually

saw a draft of this version, in November here and the second packet is the communication from Macias, Gini & O'Connell. I'll turn this over to Rick Green who is the partner for our plan, he'll walk you through the rest.

>> Thank you, Veronica. We were as you know, we were engaged to perform an audit on June 30th, 2011 financial statements. As a result we provided two products as Veronica indicated. The first is the audit's financial report, as contained within your financial statements and the second is communications to you, those charts of governance that are required by our audit standards. I'd like to first begin by delineating the responsibilities between the independent auditor in management. Our responsibility as an independent auditor is to plan and perform the engagement to obtain reasonable assurance that these financial statements are free of material misstatement and also presented in coring's with underlying accounting standards. It's reasonable assurance for the fact that we do not test 100% of the transaction but at the end of the day we opine on whether they are material misstatement. We are also required as part of our responsibilities to take a look and understand the internal control structure over financial reporting and also over compliance with laws regulations, significant contract provisions. Okay? This -- our responsibilities are distinctly different in the public sector versus the private serk, wherein the private serks by virtue of the Sarbanes Oxley act, certify, the independent auditor has to attest to the effectiveness of the internal controls, okay, to determine that they're effective that they're designed and they're operating effectively. We simply look at that time internal control structure to gain an understanding for the purpose of assessing audit Rick and then to design our audit procedures thereafter, so why do I bring this to your attention? Is that we do not render an opinion on the effectiveness of the internal controls. However during the course of our work if we identify weaknesses in the internal control structure we are required to report them to you. Okay? And those are our primary responsibilities. With respect to management's responsibilities, management's responsible for preparing the financial statements in accordance with generally accepted accounting procedures. We subject it to the audit process. Management is also responsible for designing internal controls, and determining that they are operating effectively to ensure that the financial reporting is proper and that in fact the organization complies with all the legal compliance issues legal provisions, contracts and so on like I've mentioned earlier. That's -- and to monitor those internal controls during the course of the year. So with that as a backdrop, I'm pleased to present to you that we have completed our work in accordance with the standards and we have issued an unqualified opinion on these financial statements which is contained in our auditor's report

which means that based upon our audit these financial statements are in fact fairly stated in all material respects and presented in coring's with the underlying accounting standards. Now during the course of our work we did not note any material weaknesses in the internal control structure over financial reporting or compliance or significant deficiency, there's two levels, there's material weakness and significant deficiency should we note them but we didn't note any however, we did make a couple of observations, for opportunities for improvement. It is a much lesser degree of observation in terms of our assessment of internal controls. And I'll cover those two items as part of my discussion with you on our required communications. So with at a said, with respect to the financial statements congratulations management did a good job in terms of the financial reporting, and maintaining a sound internal control structure. And unless you have any questions, I will move on now to our required communications.

>> Russell Crosby: Before we do that I'd just like to congratulate Veronica, she kills herselves e-self every year getting these things out the door. This is only one of two. She also does the Police and Fire similar document and Ron Kumar on the investment side, Veronica carries the labor oring or Ron does a lot of the work as well.

>> Stuart Odell: Just ask one question around verifying evaluations of securities, can you talk specifically around what processes you went through to verify valuations, how many references you the check how many accounts?

>> I'm not sure on the number of transactions in terms of actual sample size. I have my audit staff you know do that. But let me just talk to you about methodologies. Valuation clearly is one of the management assertions that are most sensitive to the audit process. And that we have in terms of our risk assessment, identified as an area that we obviously need to pay close attention to. What we'll do is take your investment portfolio and we'll separate it into those types of investments that have a -- are traded on the secondary market. We can go to quoted market prices and verify the valuation at year end that way. So it just depends on the nature, you could have domestic, fixed income, whatever it happens to be. When you have an active secondary market in which those investments are traded on we'll go to the markets that's one way to get to a comfortable valuation. And the other investments that lend themselves to a more estimate based for investment purposes such as private equities, real estate tend to be a little bit more complicated. What we have to do there is we have to take a look at the different ways in

which management themselves you know go about identifying valuations and then we look at that process and they're called different -- they're called secondary inputs. What we'll look at is audited financial statements of partnerships we'll take those audited financial statements which are typically as of year in different than the system's year end will roll those forward for cash flows or anything else that would be pertinent in determining a valuation real estate look at appraisals, it all depends on what some of the underlying information is that management uses this their efforts to assess valuation as well. So we just look at different types of inputs and then step back and decide whether or not those are sufficient to support a reasonable valuation at year end.

>> Stuart Odell: So you aren't independently trying to calculate a valuation using the inputs that the manager provided? You're just looking at the inputs to determine whether those are renal inputs?

>> Those reasonable under the facts and circumstances .

>> Stuart Odell: Thanks.

>> Actually it touches a little bit on what I was going to speak to with regard to required communications. In this document here you will find another report. We actually issued two reports. The first is the independent auditor report and the second is a report on internal controls and on compliance. This report that you see before you here is a result of performing the work, our work in accordance with government auditing standards. In addition to those standards promulgated by the AIC PA. If why were to have any issues with respect to the soundness of the internal structure with relation to compliance, we will note that here. We did not so you will note no differences of significant twishtses. If you go further on in the report, page 3 of the report itself, this begins the area of required communications. The audit standards require us to address various issues that are pertinent to those charged with governance as it relates to the financial audit process. The first account qualitative speaks of accounting practice. I'm just going to highlight this. To the extent you have questions feel free to ask them. What's important to know is that management is responsible for the establishment of accounting practices and policies that are appropriate, given the financial transactions that occur in the organization, and the underlying accounting standards that govern that type of accounting. In this case, it's the governmental accounting standards board that

sets the accounting standards. What we do, and those accounting policies and practices are at least significant ones are articulated in note 2 to the financial statements. We are responsible for looking at those accounting practices and policies in determining whether or not they are appropriate, again given the nature of the transactions flowing through the organization and the appropriate accounting standards that the organization must follow. We also look at those accounting standards and make sure that they are consistently applied. Consistently applied this year with that. With last year, to ensure that there's some comparability in the financial reporting between this year and last year. We did look at these standards, or excuse me, the accounting practices and policies, and we are comfortable that they are appropriate for the organization, consistent with the accounting standard setters, and were consistently applied from last year to this year. Now, also, in this area of our report, we talk about the fact that inevitably there are estimates that are embedded in the financial statements. And the estimates that are most sensitive, and I wanted to bring to your attention, are those estimates of fair value for certain type of investments. You had asked me the question about valuation. Well, when you deal with private equities and real estate, those tend to be areas of the financial statements at least within the investment section that are a little more sensitive because of their estimate nature. I don't have a quoted market price that I could just go to. So we tend to spend more time in this area looking at management's thought process and methodologies for establishing a valuation and making sure we're comfortable that these estimates are reasonable under the circumstances. Now, in addition to the valuation of certain type of investments, also another area of the financial statements that are a little more subject to estimates is the actuarial information as you're well aware of. Actuarial information as it relates to the pension and OPEB. And because of the nature of this information and how it's derived predominantly through the actuarial sciences what we do to get comfortable on the audit side since we are not actuaries is we hire an independent actuary to be part of our audit team. That actuary looks at your actuarial valuation that was used for these financial statements, and does a few basic things. Make sure that the valuation was prepared in accordance with the underlying accounting standards, in this case GASB 25, also the appropriate actuarial standards that the actuaries must follow. And then any other industry norm or trend that occurs that would influence the assumptions and methodologies that are being used. So we did have our independent actuary perform this work. We're comfortable that the actuarial information that is present presented in the financial statements is proper and is predominantly your funded status, footnote for both your pension and OPEB as well as the required supplementary information that accompanies the basic financial statements. So those are the two areas that are most sensitive in the financial statements as a result of being estimates. Moving on, further in the required communications. And I won't go every single section here. But item 3 corrected and uncorrected misstatements. We're required to report to you misstatements that have occurred in the financial statements. However, were not corrected by management, because they're immaterial. Okay? So management has the authority and discretion to decide not to post certain adjustments because of the fact of their insignificance both quantitativelily and qualitativelily. We have concurred with that. We have listed the one misstatement that was not posted to the financial statements and presented it to you for your information, as well.

>> Stuart Odell: I'm curious, what's the he level of materiality threshold for this type of thing that you look at before you feel you need to make a correction?

>> Depends on the qualitative nature of it and the quantitative. On this one it was the very end of the financials that it was determined and this adjustment was communicated over to our actuary as well. So they are aware of it and put it into their valuation and at that point would have required essentially -- it has no net impact to the financials. It's an expense and an income piece so it has a zero net effect. It would only impact the allocation portion of it. So in this sense, because there was no net impact to the bottom line it was passed on.

>> Stuart Odell: Like if it was a balance sheet item what's kind of your threshold for those items?

>> Could I, you want me to address that? Is that okay, sir do you mind if I address that? Because a lot of times we work together in determining this. Predominant -- me first, the underlying audit standards state very clear that it is auditor judgment that derives and determines materiality. But management also has to have an understanding of this as well since they own the financial statements. Typically, what we will do, we'll use anywhere between one and 3% of the balance sheet from a quantitative perspective. And that's just as a general guide. It all depends on the circumstances. It depends on the nature of the transactions, the nature of the organization, the types of things that you'd have to consider in addressing how a reader would view these financial statements. So that gives you an idea from a quantitative perspective how we look at it. And the fact that it had no impact on net assets. That was a significant driver in this, as well.

>> Stuart Odell: I get it, okay, thanks.

>> The next area I'd like to bring to your attention is disagreements with management. Although we had no disagreements with management, this area would be an area that, if I were a city and in your shoes I would look at. Because when agreements -- excuse me when disagreements do occur it's typically a disagreement over the application of GAAP. The accounting principles which directly impact the financial reporting. If you have a situation like that where you have management and the auditors disagreeing it's something that you want to pay attention to. In this case here we had no disagreements and any time that we were questioning the application of the accounting principle or accounting principles to the financial statements we would sit down predominantly with Veronica, have discussions, but at no time did we ultimately rest in a situation where we disagreed with how these financial statements were being presented. Let's see. There are no other areas I want to bring to your attention. Everything else is very straightforward. Current management comment, I have a couple of comments one is the observation we made this year and then also the status of an observation we made last year. The first observation that we have here on page 6 is an observation that we have been making in a -- during the course of a lot of our financial audits over the last two years. And that is, the sufficiency of staffing as it relates to the financial reporting area. As Russell indicated, Veronica has a great degree, a great deal of workload and responsibilities as it relates to the financial reporting for both Federated and Police and Fire. And I just want to bring to the board's attention that it would be a wise idea for management to assess whether or not that level of staffing is sufficient, given the fact that we're in an environment where you've got an ever-increasing investment portfolio that's -- can be ever-increasing complex. You've got an operating environment that's under a lot of public scrutiny and you've got accounting standards that continue to evolve and become a more complicated and a more laborsome to address both on the implementation side and just really, on a go-forward basis as well. You've got one individual in which you entrust trust a lot of information to and responsibility to. So I would suggest and we've put forth that suggestion in the form of writing that management take look at whether or not the resources as they currently exist are sufficient because in our opinion, they are not. And you've seen management's response there so I won't repeat it to you.

>> Matt Loesch: Mr. Andrews do you have a comment?

>> Arn Andrews: I had two, maybe one for yourself and maybe one for the administration. I mean in your comment you specifically describe you think a lot of the work is predicated on the efforts of one individual. Would you be willing to opine at all on, is that because how things are structured or because you see a deficiency in other individuals?

>> I think it's just -- I don't think -- it is more of not enough bodies. I don't -- I do not believe that the workload, on Veronica, in this example here, is a byproduct of other individuals not pulling their weight.

>> Arn Andrews: So it's capacity not competency?

>> It's capacity. Hiring somebody just to have another body doesn't make sense, either. I think it would be wise to have an additional body that has the experience and expertise to perform the responsibilities that are necessary to fulfill the financial accounting and reporting role that currently is required.

>> Arn Andrews: That's helpful because -- and that helps me direct my next question which is, if it's a capacity issue, I know that in the response it says we're going to attempt the senior accountant recruitment again. Has that actually been posted, are we starting?

>> It has been posted and we have started that process. But in addition to that senior, with the level of work that's coming through, for the two funds, the addition of one senior is, honestly, not enough. I mean there really needs to be two senior accountants and then a person overseeing the total financial process, if you really want to account for these plans, especially considering that this plan has added a health trust which was established and has a whole new set of accounting that has to happen. The Police and Fire plan in addition will add one, possibly two plans if they decide to have one police and one fire health trust. And so that's all a very detailed accounting that needs to be done and it has to be at a very high level in order to put together the financial statements and the

schedules and all the subBs that go into it. plan in place you really do need in my opinion the three, you know staff people that are -- have the capacity to put together the level of financial statements that are required.

>> Arn Andrews: Great, you answered my next question. So the way you envision the organization is to add an additional senior accountant. Being acutely aware we're in the budget process now, are you proposing a budget proposal that would add that position?

>> Yes, I put forward a proposal last year that was not approved and I did the same thing this year and hopefully it will be approved.

>> Edward Overton: Did you attach the summary and cheiron detailing all the additional work that GASB or maybe you should that GASB is going to require going forward with your proposal?

>> I've not but I will, thank you.

>> Arn Andrews: And in the same vein, I think a controlled efficiency from the MGO report would be an addendum also.

>> Matt Loesch: Do we know why it was rejected? It was rejected at the budget office, that is right?

>> Yes, it was.

>> Matt Loesch: Did they provide the logic?

>> No.

>> Matt Loesch: Maybe when we get to the next item --

>> Is the cost for those positions paid by the plan?

>> Yes they are.

>> Matt Loesch: We say it is paid for by the plan and the budget office somehow rejects that? That is some of my biggest concern we have the ability, it's what we ought to be doing as a result of all these additional responsibilities in accounting now. And it was requested, it was stated by our outside folks, and inside folks, and somehow -- that's why I want to understand the logic of how the budget office rejects something like that because that doesn't make any sense to me whatsoever. And when I reread the budget Docs from last year and we were looking at it, we are asking to add an additional person and restructure slightly so the additional cost is really not that great. And you know we're going through this recruiting process. I'm really concerned about not having the adequate support that we need. Is there anything we can do as a Band-Aid or at least something now, yes, we're going for this recruitment now, is there anything we can do as far as getting support for staff that you guys might recommend whether it's getting -- even if it's on a short term on-call basis having an outside firm somehow back up?

>> Russell Crosby: I had Veronica talked about MGO about what resources are available, what could they you know help out in this area. Well they have a service for other clients, but when they're the auditor they can't very well provide the internal accounting as well.

>> Matt Loesch: Sure.

>> Russell Crosby: So the next step is now we'll look at some other accounting entities, potentially competitors of theirs to look --

>> Matt Loesch: Which one do you want?

>> Russell Crosby: Which one do you really want, do you want the accounting or do you want to be the auditor? And have someone else to look at kind of what sort of resources we could use and how to shore this thing up certainly in the near term.

>> Matt Loesch: I'm probably convinced because I've looked at things for our own professional stuff that I do and I know it's more expensive having an outside facility and it would be more ideal especially long term and the way things are needed to fill these in-house. But if you can come in next month with some kind of concept so we can have that discussion of this is what is available besides just filling that position, I am direly concerned that we can't fill these positions, you tried to fill position once and provided an offer and it was not accepted. And so we're going out with the same salary schedule, same concept and trying to fill that same position. I want to have some kind of backup, some kind of assurance there's some safety net there besides Veronica and her staff. We need to have -- there are other things you probably need to do other than barely get by. If there's some type of thing we can put as a backdrop we can do that .

>> Would I like to emphasize the staff is really great, it is the higher level analytical work where I'm requesting where there's the biggest need.

>> Would it make sense to consider someone on a contractual basis and then at the end of the contract if it was a good fit they would be a candidate for the permanent position?

>> Russell Crosby: Our problem is the position is controlled, not just whether it's filled inside, outside, we actually have a position that's currently being filled by a temp under that basic scenario.

>> Okay.

>> Matt Loesch: I'm wondering if I could ask Mr. Gurza a question since he's from the City Manager's office about how a budgeted -- a requested budgeted admonition for our accounting position would get rejected by the

budget office as far as the ability to have that position so we could fill it. I know I'm putting you on the spot, I don't know how much of our conversation you heard from upstairs.

>> Alex Gurza: Sorry I was in a meeting, I did not --

>> Matt Loesch: If we accounting end and when it went through the budget process the budget office rejected that proposal or did not allow those positions to be -- how does that happen?

>> Alex Gurza: Well, I'd have to really go back and look at that particular issue but sometimes it's not just a budget issue. Sometimes it's a human resource classification issue because some of the requests are to reclassify or reallocate a position to a different classification. So that it's also looked at by the HR department because, again, the Department of Retirement services has classifications that exist in other departments so they look at the structure hire, the body of work and how it aligns with similar work in other departments. So I have to go back and talk to the budget office specifically about the issue you're raising.

>> Matt Loesch: If you would because it's going to tie us into the next conversation the next item about staffing. But the same proposal we're going to put it forth again and now we have outside auditors saying this is something we really need to address, we tried to address it last year and it was stopped by the city. This is the structure that's causing us some difficulty so --

>> Alex Gurza: If there is going to be that renewed request I'd ask that you copy me on it and then I can coordinate with both human resource department and the budget office.

>> Matt Loesch: Thank you. Mr. Andrews.

>> Arn Andrews: Just one last thought to follow up on Russell's comments. As someone who participates in this process, it's -- on several fronts it's greatly appreciated the amount of work that goes into this and the quality of

work that goes into this. And as someone who spent five hours in a room with you and others just on I think two pages of this, I greatly appreciate the work that goes into this.

>> Thank you.

>> Matt Loesch: So any other comments or questions? Okay. Thank you.

>> There is only one other comment I'll bring to your attention. Just real quick one. It's from last year. It's the form 700s are required to be filed annually. We noted during our testing that there were some deficiencies at that both at the management and board level, the details there, I guess really nothing else needs to be said about that.

>> Matt Loesch: Are there any other comments or questions from folks on form 700?

>> Edward Overton: Do we have a systematic approach to the requirements to do the form 700s?

>> Donna Busse: yes, actually the clerk's office sends out all the form 700 annual updates to the directors directly and staff we do the internal ones.

>> Edward Overton: But there's no follow-up.

>> Russell Crosby: From the clerk's office, no, the department has to do it.

>> Edward Overton: That's right, our department.

>> Russell Crosby: Correct.

>> Edward Overton: Do we call or do we send an e-mail?

>> Donna Busse: We try follow up. I'm going to just leave it there.

>> Matt Loesch: So why don't we do this. As a favor to folks on staff with their heavy workload, when you fill out your form 700, because we all will, if you will send an e-mail to Mr. Russell and Ms. Busse, that you've done this.

>> Russell Crosby: And the remind that we do that.

>> Mollie Dent: I know our department does two or three global e-mails to everybody, you've got 30 days, you've got 15.

>> Matt Loesch: So if you could just copy those folks in so they don't have to chase you down, that would be great. Anything else? Yes, sir.

>> Could I add one other thing? I didn't complete an answer to the questions on investments. I just thought of this. I don't know how many transactions we test, I want to complete that answer. Typically we'll look at anywhere from 70 to 85% of the account balances just for perspective.

>> Stuart Odell: In the private investment we don't have that many private investments so my question is --

>> I'm talking about dollar volume.

>> Stuart Odell: Would you test 100% of the private equity partnerships that were invested in?

>> We would look at all of them, but to be honest with you I don't have the details in front of me. But we look at a vast majority of the transactions and the account balances. Go ahead.

>> As I say memory serves me I believe they did test 100% of our private equity.

>> Typically we do, we can get our hands wrapped around that. But in terms of domestic equity, global equity I look at a percentage type of thing.

>> Stuart Odell: Going forward this is a really important area because as we move more into alternatives and particularly things like hedge funds where the valuation policies are more difficult, you've really got to get your hands around them. Managers have different policies in how they treat securities, tier 1, tier 2 tier 3 and how they value them.

>> Exactly.

>> Stuart Odell: I think right now most of our investments are quite marketable and we can get a reference price on a lot of them. But as you move forward even into nonmarketable or I'm sorry, marketable alternatives it's a big focus area for the auditors and the accountants.

>> It is and just you know that's why I emphasize that, you know my required communications to you the area of investments. It is an area that we spent a lot of time in because of the nature of the investment and the difficulty it is, that we have in terms of valuation. As you migrate towards that more in your portfolio I feel very comfortable in terms of working in this area, we audit Cal PERS and if you can get your hands wrapped around that thing it is very complicated. We are very familiar with how to get comfortable or at least how to address these areas of the investment portfolio.

>> And again, this is really where the additional analytical staffing would be great --

>> Yes, it is very helpful.

>> Stuart Odell: Thank you.

>> Matt Loesch: Thank you. So no action except for to accept the report. So I guess I'll entertain a motion to accept the reports and the comments from the auditor.

>> Arn Andrews: Motion to approve the comprehensive annual financial report for fiscal year ended June 30th, 2011 and the communications to the Board of Administration for the year ended June 30, 2011 .

>> Second.

>> Matt Loesch: Comments or questions? All in favor? Opposed? All right,23.2, discussion and action on the letters to, from the City Manager regarding staff salaries. Mr. Gurza would you like to come up --

>> Alex Gurza: I don't have a presentation (inaudible).

>> Matt Loesch: Okay, you have in front of you on 3.2 a packet of a response from the City Manager's office, the communique from both the Police and Fire chair and myself, and also, the quick memorandum from Cheiron. No, not from Cheiron, sorry, from Cortex, the other C, on the topic. And this was the City's response to our request. So I guess it's comments or questions and I'm sure that most will be geared towards Mr. Gurza.

>> Edward Overton: What -- there's a recommendation in that that we continue to work together. Has there been any contact or communication or ideas proposed in terms of how that is to happen going forward? Ep.

>> Matt Loesch: Between myself or between the trustees --

>> Edward Overton: Between you the trustees the Police and Fire and the City Manager like here's the work plan?

>> Matt Loesch: There's been no communication at this point. This has been the communication. Since December, early December.

>> Edward Overton: Well, how are we going to work together, so to speak? How are we going to move this forward?

>> Matt Loesch: Very good question. Do we do this in open setting, do you send off a couple of representatives to go speak with the City Manager's office to try to work this out? I mean that's really kind of the alternatives, right?

>> Edward Overton: Right, and maybe Mr. Gurza can comment on what the thought process was on working together with, what was the intention, how was it to proceed?

>> Alex Gurza: Yes, good morning again, Alex Gurza, Deputy City Manager. That's a good question and we'd be very open to your suggestions because we know this is a topic of interest to the Police and Fire department retirement board. I did attend their last meeting. One of the things I think they had contemplated is to add this item to your upcoming joint retreat. Although we also would clearly be open if we wanted to meet with a couple of representatives of your board and the other board to talk through some of these alternatives we would be very open to doing that as well as opposed to in a very large, joint board session or you do both, we are very open to that.

>> Edward Overton: I would suggest it be more focused, that you have maybe the chair and the vice chair or for whatever configuration you would recommend, with our board and the Police and Fire board set up something, with the City Manager and their staff to kind of framework the whole thing. You know, what are we doing, how are we going to do it, what the outcomes are that we expect, et cetera. And you know next steps and so on. Just leaving it like we are waiting for her to respond, she's waiting for us to respond. Just not --

>> Matt Loesch: There's sort of some choices obviously. Because the two representatives obviously have no authority to make a decision on that as far as what the board's position would be. They could voice -- kind of come to some agreement and it comes back here, it ultimately comes back here anyways right?

>> Edward Overton: Right but if you have an agreement that's something we can get our arms around.

>> Matt Loesch: That's true.

>> Alex Gurza: If I could add, part of the Police and Fire retirement board's discussion was at least sort of what I consider longer term issues which is the issue of does some element of the retirement staff report directly to the boards and not city employees and all of the issues that would need to be addressed in doing so which again I don't think is something that can be done very quickly. But what I indicated to that board and indicate to you as well that we tried to point out in the letter there are certain items that could be done shorter term. That again, admittedly don't go as far as I think maybe the boards had wanted. And that specifically that relates to the investment officer position. So in our letter, we indicated that we could create a retirement-specific investment officer classification right now that investment officer classification is shared primarily between the Department of Retirement services and the finance department. And so people could be hired into either of those departments in that classification. And what our letter indicates is that we could create a retirement specific investment officer classification, we indicate in our letter what we would propose to be the top step of that salary range. Again not as high, as had been indicated. And I asked the Police and Fire department twiernlt board if they prefer us to put that action on hold, while they considered sort of the longer term or ideal solutions. And they at least had asked, and would appreciate hearing from you as well some that we go forward with that, and we have. So meaning not to implementation but to the point where our human resources staff has put together the job specification, and started the process that we do have to undergo, in our civil service process, to have that clarification ready to go, if both boards decided that they did want to at least take that interim, that interim step. So I think again there are some longer term longer issues and shorter term actions that we would be happy to pursue.

>> Edward Overton: That sounds good if it's part of an overall holistic plan, a phase one, phase two, phase three kind of approach and in phase one we do X and phase two we do X plus one that kind of thing. If we could have a total plan to get to where we want to go, it certainly would make sense to do the investment officer position, the accounting position up front.

>> Arn Andrews: Just following on to the concept of a holistic plan, one of the issues when you read through the memo is kind of the concept of compaction. You can't have reporting relationships with pay ranges greater than the people they report to. So one of the solutions proposed was the concept of either reclassing or creating an assistant director of retirement services. And I'm just wondering if that -- if any thought was given to that. Because that's one of the hurdles we have to range the reporting relationship bar so we can get a pay range on the investment officer that doesn't but up against the current reporting relationship. So I don't know if the administration has any thoughts on some of the solutions that were proposed, and how you see this, either addressing the issue or not addressing the issue of your current organizational structure.

>> Russell Crosby: I don't think this gets you where you need to go, first of all. Secondly, you know, the separation of an investment officer position for retirement, well that was only consolidated, what, a year ago that you guys signed on to the separate investment officer position? So it's not like this has been in place forever, this is some unique thing. Yeah, it was a unique stand-alone position a year ago. You guys came in on it. We agreed okay, you have similar positions and the credentialing was different enough between them so that there wouldn't be bumping going back and forth. But that was only done a year ago. So I'm not sure what parsing that apart other than okay can you give the investment officer a little bit more money, I mean the whole staff is under what an investment officer in any other of the big plans in the state would make. Purely and simply. The whole staff, me, Carmen, the investment officers. So tinkering 15,000 on an investment officer might be able to get you somebody else, not very likely, not at this point.

>> Arn Andrews: Okay, so I mean if I was hearing Alex's comments correctly the way he was seeing how the Police and Fire board was approaching it are you saying there's no benefit to trying to short term incremental approach?

>> Russell Crosby: No, of course there is. We'd probably need a head huntinger to find people at this point because we've gone through the well and a headhunter who specialized in investment officer type positions not just governmental positions.

>> Arn Andrews: Okay.

>> Alex Gurza: I would like to add because there are several of our newer board members that might not be as familiar with our structure our civil service system and also I think you're aware of the fiscal situation. But I do think it's important to point out that although clearly we understand the important issues that the staff works on, we have had significant cuts in every single disarrangement. We've gone from 7400 employees to 2,000 less, about 5400, to the point where we've laid off police officers, firefighters, employees in every single city department. And besides the job loss, every single city employee and public official has taken a 10% cut in pay. And what I sphwaicted to the Police and Fire retirement board I think it's just important for you to know is that cut was not a market based decision. That was not because we thought we had employees that were overpaid. It was because we're here to provide public service and it was an attempt to minimize the job loss. It is not because we don't realize that there are many city employees including the people Mr. Crosby and the people that work for him that could make significantly more elsewhere. But I think it's important to understand the context in which the city is in and we have again employees where you know the finance department is one where Mr. Andrews works who knows that they've had significant cuts in our strategic support services in the finance department the human resource department so we completely understand the situation and want to work with you to solve the problem but the issue isn't unique to the Department of Retirement services where we don't have enough people doing critical work, work that has risk associated with it and the fact that we know people could make more money elsewhere. So it's a significant issue, we absolutely are living through it. And want to work to try to solve the problem.

>> Stuart Odell: Are you seeing the turnover as a result of cutting people's pay 10% are you seeing people walk out the door at the director level within -- within the city at this point as a result of that?

>> Alex Gurza: We've had significant turnover yes. Including at executive levels.

>> Russell Crosby: And if I could, the reason why I've pushed suggested, you've got on your investment committee agendas, CIO in a box, is because although it is significantly more expensive, many, many multiples of what it would cost to have a staff, that may be the only alternative for this City of San José in the current environment. That's the only reason why I push that because ultimately, staff is the right answer. From an investment standpoint. But given these other constraints, that's why the boards need to look at contracting, significantly higher priced services, to do these things for the trust funds.

>> Arn Andrews: Right. Like yourself, as someone who's familiar with navigating the city processes that's why I'm inclined personally to think we should at least accept some of these incremental changes to address some of the immediate concerns, while all of it wasn't addressed, I mean it does appear as if we have, within the context of the city process, a viable option on the CIO and potential incremental options on the investment officer. And just being familiar with the city apparatus, at least if there's something there, we should probably think about it and pursue it until we are able to fully vet, you know, some other alternatives. You know you mentioned CIO as one of them. But in the interim, you know, the assistant director seems reasonable because it at least starts to elevate the salary range so we can start to pull up the other salary ranges, so while it's not a total solution, as somebody who appreciates the city system, I it's solutions and oftentimes we don't even have solutions. So I think it's something we should consider as a board and ask the administrative staff to at least move forward, you know, and engage the process. Because none of these are simple. They take time. I believe the investment officer even though you said you've already started the process, I think your time horizon is 90 days. I think the other one is maybe a little easier but still I think all these things take time.

>> Alex Gurza: Thank you for raising the assistant director. We did suggest that in our memo and there is a higher salary range for the assistant director. But the other -- the thing I mentioned to the other board is that you can also see the assistant director as good succession planning. Again they're positioned underneath Russell's that would not only have investment ability but also be able to handle the administrative matters as well, either when Russell isn't here or in the future, we think that's also good succession planning. So that's another reason that we are interested in the assistant director addition to the retirement staff.

>> I would like to highlight a couple of things. I realize this has been a very difficult time for the city and continues to be. But even if Russell and Carmen worked for free it wouldn't change the City's cash flow situation since their positions are funded by the plan. And I think we run a very big risk if we lose critical staff. The cost to the plan, if we lose critical staff is going to be in the millions of dollars probably, the impact to the results of the plan and I don't think we should wait. I mine this is something we should move on quite quickly, as quickly as we possibly can because of the consequences and risks to the plan ultimately if we have a good staff that adds to the performance as I can expect that would be a benefit of multiples of the base salaries that they're making, I think it's critical and we should view it in that way.

>> Alex Gurza: I would like to add, you mention base salary as another issue we mention in our letter. We applicants look at the base salary. But our total compensation package, a significant portion of that is the benefit that you administer, is our retirement benefit. It's a significant cost to us. Because Mr. Crosby and every person that works for him is a member of the Federated retirement system and we have a very large contribution rate that we pay. So one of the issues that we saw with that survey you looked at, clearly understood you make this amount of money and that's what people look at it. But our total compensation package a lot of it is the retirement benefit because in our structure the retirement staff is a member of the plan that they administer and that they work on. It is a fact and it is a fact that we are dealing with everywhere. So no matter what classification of city employee we're looking at we can't just consider the base pay, we have to consider the total cost of the employee to the city. And it has created significant challenges for us.

>> And were the salaries that the median calculation was based on I assume that those were with other California entities and they also had similar benefit packages to what we have here?

>> Russell Crosby: Correct.

>> So it is apples to apples.

>> Russell Crosby: The difference san José plan and a languages plan from an employer's standpoint, but the benefit from an employee standpoint is exactly the same.

>> But.

>> You can say it's apples to apples first of all, the contribution rate in another entity, if those employees are also members of the retirement system, contribution rates are not always the same. Our contribution rates for our pension plans as you well know are benefit may be the same but for the challenge the city is in right now it's a large portion of our higher portion in others entities is made up of our benefit package.

>> Matt Loesch: I obviously have some comments. I usually try to reserve them and have other comments from the floor. My rations is go whether we can hire folks that are competent in those positions is away you're saying now because this is probably the bottom end of what the cost is going to be to fill these positions to fulfill these roles. And as quickly and as expeditiously as we can, try to fill those positions. One of the comments Mr. Crosby brought up is with the headhunter and so on. You mentioned before, the city has access through HR for head hunting not necessarily director and assistant director. Are any of them capable have any of the qualifications that Mr. Crosby alluded to the ability to search for for public plan staff?

>> Alex Gurza: We do to your point just to clarify through the human resource department we do have a pool of several recruiters, I think it's four or five. I have not discussed the particular ones with Mr. Crosby to determine whether they would be the best qualified to recruit you know pension professionals but clearly we can discuss that and if none of those meet the needs then clearly we can look at other options to have a recruiter that might be best at seeking applicants for these specifically types of positions.

>> Matt Loesch: Because my reaction to that is again go. Whatever that needs to happen because in my mind this is the bottom end of the cost, as far as the cheapest you're going to get to fill these positions. So if it is get this pool and see if we can fill these positions as quickly as we can instead of just ditterring on it. improvements, you know, gut feeling hearing from other professionals and so forth, it's going to be a real challenge to fillet even at the

rates you had mentioned in the letter here. A couple of things about the overhead as far as costs overall, if we don't ahire staff inside we don't pay those overhead and so forth we pay an outside entity and typically lumped inta whatever rate we pay that person we're going to pay that person a marked up rate above their salary. Just because do I this professional services for what I do it's usually two or three times what their actual salary is. That's all their overhead. Away actually would get paid out of the plan for the inside person is going to be their salary plus their overhead, same thing if we had an outpersonal contract, we would pay that person's salary and the overhead included with it. If you do apples to apples, my experience is two or three times the cost of our wages and I don't know if that's exactly the same thing as we paid here, most markups is, I don't know what the overhead rate is I'm not going to challenge staff to know what the overhead rate is on labor, it's perhaps two and a half times typical among most of the overhead loads it's comparable in my mind. The fact that there's overheads, it's a wash, United States not really, we might be paying even more the carlings will be higher and the overhead multiplier will probably be higher. As part of that, as part of the discussion that doesn't affect me as much as what can we get for these folks in here and fill them as quickly as we can for competent staff to fill quickly as we can, so that we're officially running. So there's not millions of dollars either left on the table because we weren't able to deploy and also -- and I just don't want to miss this stuff and we are. The other deficiency as far as the overlook, I specifically asked accounting staff, in my letter, none of that was addressed. Whether that compensation needs to be reviewed I absolutely think it does especially in lines of the MGO comments, that's one of the reasons I moved the MGO portion before this is the accounting staff needs to be addressed as well and it needs to be looked at it needs to be reviewed and the compensation needs to be what's appropriate so we can hire the professional staff so we can do the accounting portion as well. What will it take to get that information back to us so that we could review the current compensation and see if we could -- there's anything we can do so that we can when we go out to seek for this first position we're going to request in the budget for a second position again, you know what could we do about those salaries and that review also?

>> Alex Gurza: Well one of the things I had heard again from the auditor both last month and this month is also just the number of staff, additional staff. So you had mentioned this was proposed last -- last year in the budget process. It would be helpful to me that I understand exactly how many positions and what classifications you're seeking to add. So adding positions, versus paying more, giving them salary increases are two different

things. So in other words we could add positions at the current salary rate, that's one action. What does get more complicated is taking currently employees and then giving them pay increases. And I know Mr. Leash, you know this well, for the outside board members it's important to understand, over -- well over 90%, over 95% of our city employees are civil service employees. Represented by one of our 11 bargaining units. Our bargaining units are the exclusive bargaining units for wages hours and working conditions. And most of the staff in Department of Retirement services are classified civil service employees represent by one of our bargaining units. The history I mentioned the board last time that was my first city job was a civil service represented employee in the Department of Retirement services. And so it just an important context to understand that we, some people don't like our processes but they are what they are and it isn't the same as an employee who can just say I'm going to raise your pay by $50,000. It simply doesn't work that way in San José. Now we can work with you within our structure and that's what we're trying to do. In terms of Mr. Loesch you said go, we had proceeded and we have proceeded, I think you mentioned Mr. Andrews that hi said 90 days. We're well into the 90 days now because I've started on it to get it done. One of the steps for example that you may not realize has to happen is when we create a new classification and releases it we have to send out what's caught a unit designation letter to all our bargaining units about each classification. I think that just went out to our units today, that is a 30 day period of time. There are these processes that we here at the city know how to work through and if you want to change the process, meaning for example, the issue of who hires and fires, those are larger issues that again can be addressed but not in the same speed at which we can do some of the other items. Because as I mentioned last time, as well, some of the bigger issues may require charter changes. If the two boards decide, for example, that they want unfettered ability to hire and fire things like that may require more significant types of changes.

>> Matt Loesch: Mr. Armstrong.

>> Michael Armstrong: Under the current structure what is the plans?

>> Alex Gurza: None. The board itself does not determine the compensation, they are all city employees and cannot do that. The staff they supervise, even if they wanted to quif a represented employee bonuses that would

have to be something negotiated as to how that bonus program would work so the board itself doesn't have the ability to do that nor do we by the way independently have the ability to do that.

>> Michael Armstrong: Negotiate with whom?

>> Alex Gurza: First of all the way compensation works first and foremost if we're going to make -- not even if City Manager can decide to give somebody you know say I'm going to give you a huge raise. It has to be authority and direction from the San José city council. And then to the extent it extends to any represented employee that has to be negotiated with the applicable bargaining unit. Even when you give raises or bonus programs any of those things those are barringable.

>> Michael Armstrong: Perhaps you could walk me through. Suppose we wanted an incentive staff for key people, investment director chief executive officer are they part of a bargaining unit?

>> Alex Gurza: Those particularly are not. The process for that would be make a recommendation to the City Manager about what a bonus program would look like and then that would have to be approved by the San José city council.

>> Michael Armstrong: That's the process, sounds pretty straightforward to me. So if we came, if we worked on that and came back to you in the next 30 days it could get to council?

>> Alex Gurza: I wouldn't say exactly -- if you got back to us in 30 days it could get -- as I indicated in the letter and as the City Manager has stated that if there are items that the boards wish to advance to the San José -- to the city council that she will do that and I will be assisting her in doing so.

>> Matt Loesch: So essentially if we have something Mr. Gurza at this point the City Manager who is the spokesperson at this time is not willing to put forward they have stated in their letter that they would not prevent a

request on our behalf on a particular topic, let's say they were opposed to having a bonus program, we really wanted it, the city council to make that decision, they would not stop osh prevent that from happening.

>> Alex Gurza: So if it was intended to apply to our unrepresented management employees, so within the Department of Retirement services for example, that would be the director, deputy directors, and the investment officers, I believe, I think that's the extent of the unit 99 staff. We call unit 99 is our unclassified, not necessarily not civil service but are unclassified employees unrepresented I'm sorry, not necessarily unclassified. And if a bonus program was intended to be shared in any way, with anybody at levels below that, then that would be required to be bargained.

>> Michael Armstrong: Okay. Perhaps it's the direction that we should go.

>> Matt Loesch: One of the additional thoughts and something Mr. Overton said, kind of look at a phased deal, go on -- I'm not saying that is the answer, sit down and chat whether it's something a little more holistic, talk about having the entire investment staff or having some sort of the staff hired and employed by the board itself and that's the charter-change issue. You know there's advocacy, that's kind of like the two extreme ends between go this route, as far as keeping us city -- keeping employees, and then whether we have complete independence to hire and fire the -- and so that's -- there's advocacy on both sides of that, as far as that's a good idea, not a good idea, for the independence of the staff and the board to be able to pick and choose whom they have and compensate them the way they would choose. That's probably a longer term discussion that you know whether this bonus program would be put in place that we could -- something we could get, I mean even to get something calendared for the city council agenda it's roughly at the most expeditious, most urge, probably three weeks, at the most expeditious, more realty realistically to get to council --

>> Alex Gurza: At some urgent ishes a council memo would have to be put out publicly under the sunshine regulations 14 days in advance of the council meeting. That can be waived in situations but generally 14 days in advance. But you're right it's about three weeks to plan what council agenda and then make sure that council

memo was public with the opportunity for the public to review and understand what's being asked at that council meeting.

>> Stuart Odell: Just to understand, nobody makes more than the boss in the City of San José .

>> Alex Gurza: I don't think I indicated that.

>> Stuart Odell: There is no issue where Russell being at the director level, we could go in and issue him a bonus where he earned more than the mayor of the City of San José. There's no problem there with the city council.

>> Alex Gurza: Many employees make more than the mayor.

>> Stuart Odell: I don't know what the mayor makes.

>> Alex Gurza: The reason I didn't say that is because you can have many situation is throughout the city where an employee who makes overtime ends up making more than their salaried boss. The question really is, for example, you recommend that Mr. Crosby get a raise higher than all other city department heads, that's usually a policy question that really the City Manager has said that she will bring toward to the city council. Because as I tried to indicate again, it's not at all to diminish the incredibly important decisions that are made but every single one of our department heads took a 10% pay cut and are managing an extremely difficult times whether you're talking about the police chief fire chief any department head. So the question, the policy issues the council will have to decide is do we leave that compensation reduced like it was and increase Mr. Crosby's salary so that he doesn't -- so that he makes more than the entire that is the policy question that is difficult but that the city council would have to make.

>> Stuart Odell: But difficult I mean in one case the money comes out of the city's budget and in one case it doesn't is it like is it to be fair or is -- you want to treat your directors equally, so you don't want one earning more

than the other? Or is that really what this is about and the times of cutting back we don't want to see Russell getting an extraordinary payment because that doesn't seem fair because the police chief certainly works as hard as Russell if not harder probably.

>> Alex Gurza: Couple of things, Mr. Odell, I didn't indicate first of all that all department heads make the same amount of money, they do not, there is a pay range for department directors and there's a difference in that particular range. So it again, however, in order to increase -- if the idea is to increase Mr. Crosby beyond all other department directors, that creates an increase -- require an increase in the salary range for that particular classification. So again, it's -- issues do get raised obviously if that were to go forward. But it's again ultimately a question, a policy question.

>> Question about if there was a bonus plan, would that be an employment contract between the city, and the employee, that's an enforceable contract? My concern would be, this city council might approve something, the next City Council might rescind it. And the person has no legal recourse to try enforce the contract if it was you know, political to another contract oughts it creates a situation where the bonus might not create the incentive that it was intended to have and it might not really be a tangible thing for them.

>> Alex Gurza: Well I'll defer to Mollie on that, try to understand your question. For city employees we have had bonus programs in the past modest ones I would say and they weren't part of an employment contract even for nonrepresented employees. I don't know Mollie if you had any further thoughts on that.

>> Mollie Dent: Yes, I -- the bonus plans in the past were -- would have been what you say, they would have been only in place for however long the council wanted to keep them in place. City employees don't have contracts per se, most of them.

>> Matt Loesch: The other thing he's probably alluding to is the scenario that was created in San Bernadine, they put together an incentive program, bonuses were paid based on investment performance and then as they're

about to be paid for the first time, the county officials there said we're not going to do that. So the employees did their part, and then -- I think that's sort of what you're alluding to.

>> I think weerps not get paid if there's a possibility they wouldn't get paid the incentive just doesn't work. They never had the incentive because they would expect never to be paid or there's a likelihood never to be paid. They need to have something that is tangible reward that they would really get if something was accomplished.

>> Alex Gurza: We'd have to talk that through with the attorney's office but there are incentives that would bind councils I haven't seen a situation where they would bind future councils from make a decision based on circumstances at the time.

>> Martin Dirks: I don't think it has to go certain distance in the future but if a person earns bonus and doesn't get paid that's a problem. It's simply up fair. Basically lied to. If there's a situation where that could happen then there's really no incentive.

>> Matt Loesch: You want to make a comment? You've been standing for about five minutes so --

>> I'm coo a city employee and also president of the largest bargaining unit here in the City of San José. I want to first say to all of the board members especially the new ones, welcome to my world . When you speak of bureaucracy and of councils being able to make unilateral decisions about stuff impacting an employee, that is exactly what we're doing. I think the SRBR being suspended for two years is a contract that was made with the employees and it's not there. I also think the other thing, when you're talking about the fact that my members took a 12% cut in pay, it equates to the changes in things, possibly being 14%, where rank and file employees we've done a significant amount of work. The level of things that go on here are very important. But as you're talking about that the staff here are paid for out of the fund, then that rests with us to have to then be responsible for paying for it. And those challenges are great. They're -- the average salary of my members is 56,000 a year. We're talking about taking further cuts, further additional things happening and this is, as much as I don't discredit or devalue any of the work that's being done here, this is appalling to me right now. It is completely and

totally appalling. My members are suffering greatly. And I want to do what's best for everybody. But at this level and the way that this is being discussed now, it's just unimaginable. I don't even know how anybody could go and face their membership and tell them that there's increases going on and that increased cost to your retirement, in addition to having sat here and listen to Cheiron reports and the changes in things that are going to happen and then we increased cost for these, it's unacceptable. As far as I'm concerned. And on behalf of the 3500 members that I represent, and the additional, about 4200, that are part of my coalition, and we're trying to address retirement issues, I'm sure I speak on behalf of them. I won't speak for them. But I'm sure that they would all agree that this is -- this is unacceptable at this point. Thank you.

>> Matt Loesch: Here's one of the issues we have though and I'll address some of the comments. We have five positions presently vacant. Investment staff positions that we can't fill that are roles that we need to fill because there's work that needs to be done there. That we can't employ right now, at the levels they're at unfortunately. And this is not to haggle with you Yolanda . The reality is we can't fill these positions and if we can't fill these positions we're going to have to contract these positions and the rates for contracting these positions are far and above what we're even talking about as increasing these salaries. I mean, massive amounts of moisten. Way more than what we're talking about as far as adding these staff costs we're talking adding maybe a couple hundred thousand dollars overall the staff. If we have to outsource this we're probably adding a million. That's what we're trying to balance. We think what's the most effective way to fill these positions, not the fill these roles with city employees and that the current compensation rate that's listed they've sought and cannot hire competent employees at the compensation level that we're talking about. And so we're trying to get that compensation level to a point that we can hire the competent employees because then what we can do is we're going to have better returns and then the contribution, it's a chicken and egg thing.

>> I fully understand what you're saying but from the perspective of every single city employee who there are a significant number of people who are at risk for having their jobs contracted out. I work in the library department. In the library department, over the last ten years we circulated a million items a year to now a million items a month. Our workforce has decreased dramatically. The role that I play in the library department is, I administer and 34-7G the computer system that's -- manage the computer system for that thing. I'm paid a decent

salary, I'm not paid in the private sector where I could earn more and do more as well . I know we're all facing challenges and I understand what you're doing but I'm talking about whether or not we're having-d talking about increasing salaries for people and then expecting us as the employees with continued and added challenges to have to pay more. Or have to be accountable for more things. I understand, this is a catch 22 but nothing, nothing that goes on in this city is not a catch 22 that's going on recently and now. So they're talking about outsourcing the libraries, they're talking about doing different things, there are a lot of things going on and every person's livelihood is at risk here. I understand completely what you're talking about Matt but this is -- how in the world am I supposed to go back to my membership and say, we need to give all this up and then there's a bonus plan implemented for people who are doing good for us but at the same time they're given an opportunity that we're not begin? We've done a significant amount of things in every department, I can speak most fluptly to my own department and there's a lot of stuff going on yet we're still one of the major targets for one of this. It is just very disconcerting right now.

>> Matt Loesch: Sure and I understand because I'm in a similar situation in my work position. We're in a situation here where we have these positions that we have to fill. And otherwise the job doesn't get done in this case. And if we don't make the investments that we need to make that will then hopefully get the return we need on the investments we're going to have challenge -- let's say we don't make the money that we need to on investments. The contributions are going to go up even more. And so it's a sweys that is similar but somewhat dissimilar. Because if we get great quality staff in here, to fill these roles and we get the return that we are desiring, the contributions will be less. Because the investments will be doing more of the work. And so that's the real fear is how do we get these positions filled. And understanding exactly what everybody else is going through. So our choice is either at the currently salary we cannot hire, if we raise the salary a bit maybe we can hire. If we raise the salary to a level that we can hire then we have great staff but if we outsource it it's going to be even way more. It's a choice of filling these roles in-house or outsourcing them and the outsourcing choice I'm trying to avoid is so much more expensive, incredibly more expensive. That's what we're trying to demonstrate, what does it cost to fill the roles, if we can fill the roles at the level that is proposed by the city okay, if we can't then what do we do? It's a real challenge, that we're trying to address and face.

>> Spending another dollar from an underfunded plan but if we can generate 20 or more dollars for that dollar spent and put it back in the plan and be very careful about the decisions so those are good decisions it makes sense to do that. But I hear you and I totally understand the angst it would cause.

>> Remember what we're talking about here is trying to do things for the beneficiaries. That is what this really is all about. If we don't take action then we're running a risk that we're going to have lower returns, higher contributions from employees in the city. So we're trying to mitigate risk here.

>> Arn Andrews: And I would just add, you know, I appreciate your comments. Matt and I are part of that community you talk about, you know, we're part of the collective city community and we are going through a difficult tumentous time. that's why I appreciate your comments I put on my fiduciary hat. And while I'm not necessarily saying a bonus program is a right way to go, escalating salary classifications is the right way to go, we have only got a couple of levers that we can do to try and mitigate the cost not only to the city but to the employees. If you go back to the Cheiron presentations, I appreciate the fact that ever since they've been our actuary, their first or second slide is always the toilet tank. And there's only three things that come into the fund, to the tank, and it's either employer contributions, and well, we're all in the city community, well aware of how the employer contributions side is trying to be addressed. And then we have the employee contribution side, and that's what you speak of Yolanda is concern for the folks that you represent. Because you want to do everything you can to mitigate employee expenses. And then the only other in-flow that comes into this tank is investment earnings. And I know it gets challenging to separate these conversations. But the only way as a board, we can try to come up with ways to increase investment earnings is through the conversations we have on asset allocation, through the conversations we have on what is you know the appropriate managers to hire. But then, the other lever we have is, who do we staff? Can we get staff? And is that staff capable of helping us make these decisions that will increase investment earnings? So I appreciate the fact that you find this conversation challenging, because I do myself. But it's the only lever we're left with of the three things that come into the tank. And so I think if you can try to put it in that context for your membership that there's three ways to get out of this problem, two of them is contribute our way out which I think none of us want to pursue, and the other way out is to earn our way out. And that's the context of this conversation, is how is the best way to try to earn our way out so we don't have

to contribute our way out. So thanks Yolanda and I hope my comments help try to share where our perspective is on this conversation.

>> Matt Loesch: Further board thoughts? Okay. So coming out of this, I would like to pursue what you proposed as far as the staff search and so forth and I would like you to work with staff finding the right headhunter whatever that see what the pool looks like, data point to see if it's something that can be done. At the same time the investment committees are looking at what that outsourcing opportunities are and to see what that pool looks like as well. So maybe in a few months' time maybe a month or two we'll have some kind of an answer as to what these things are looking like to see what are applications to fill these -- this role is. To the tent that Mr. Overton brought up he would like to have some of us work with city administration to continue this conversation otherwise, I want to be very clear what the direction is what you would like us to try to achieve. Is that something you would like to -- it must be for Lara, whether you want one or two of us to sit down with city administration to talk about it?

>> Edward Overton: That would be my recommendation, I think the idea of the board to try to go directly to city council is not going to work, long history with the city tells me that that won't work. The City Manager needs to be on board with whatever direction we're going in. Because she's the primary advisor to the council. And they're just not going to, in my opinion, my humble opinion, they're just not going to take this board above where she is. And we would just bog things down. So that was my idea of meeting with her, and saying let's get on the same page, let's get something joint we can agree on, and go to the council with that, and then you have a high degree of likelihood that it would be approved.

>> Matt Loesch: Thoughts on that?

>> Stuart Odell: I think it's a good idea. I'd support it. I don't think the whole board is going to be effective in trying to persuade them. I think you do need a couple of individuals that can represent the rest of the board. They don't have to -- you know, they can bring it back to the board if there's something that needs to come back for discussion. But we ought to have our kind of two key folks out there and represent us.

>> Matt Loesch: Would you agree?

>> Arn Andrews: I agree. I think we need to get Police and Fire also.

>> Stuart Odell: Yes, yes, no, Police and Fire should join so there's four people showing up for a small meeting. Not 25.

>> Matt Loesch: So who would you like?

>> Stuart Odell: You.

>> Matt Loesch: Okay.

>> Stuart Odell: And either Ed or Arn. Because they're both city employees or former.

>> Matt Loesch: Do you think -- and I've tried to discredit Ed or Arn -- do you think an outside presence is important there, nonimportant there, having one of the noncity connected either employee or retiree?

>> Arn Andrews: I think with the current construct of the board maintaining that balance is important. If there's already an employee representative or retiree representative, I'm more than happy to be a part of the group but I think the group has to go beyond the scope of city representatives.

>> Matt Loesch: Is that important with you Mr. Overton?

>> Edward Overton: I would agree. And I personally, to cut to the chase, I would recommend, I don't know who the chair and vice chair of Police and Fire are. You may have a situation where you do have two employees or an employee and retireee on that second board.

>> Matt Loesch: That is the case, employee and retiree.

>> Edward Overton: I would support one of the outside members, fresh look, fresh view, market perspective, et cetera being part of the team.

>> Matt Loesch: Okay, that gets down to you four, picking a person that's not here.

>> Edward Overton: I nominate Lara.

>> Arn Andrews: As the new chair, chair and vice chair represented.

>> Matt Loesch: We'll put the request out, see if she's willing. Hopefully, I would like to make this initial meeting at least happen at least once before our next board meeting so there is some kind of discussion on this so we can discuss how things are going and have feedback because then you'll have information back for some of your search and some of your work as well. So I'll commit to make myself available in the next month if the City Manager's representative would as well.

>> Alex Gurza: Absolutely. I think this is a very good idea meeting with two members of this board and two members of the other board I think would be a very good idea and be happy to, I'd probably be the first one to meet with you and so be very glad to work with your schedules to get that going. And also we will continue to progress on the other items that we've talked about, the retirement investment officer classification as well as we'll get to Mr. Crosby the names of our current recruiters in our pool and again if there's not one qualified meaning has expertise in these kinds of searches we'll explore other alternatives.

>> Matt Loesch: Any other comments or questions from the board? Okay, thank you. Thank you Mr. Gurza. Item 3.3, authorization for the secretary to negotiate and execute. We had an 11:30, Mr. Kumar do we want to try to

run to that closed session thing? I apologize. So that was under item 4.5. Wee going to jump to 4.5, not time certain exactly but quasi. Ms. Dent. Do you want to inform the public.

>> Mollie Dent: The board will pursuant to government code section 54956.9 subsection A the names of the parties involved are Lehman brothers Inc. debtor and federal city employees retirement plan and other creditor and debtor parties. United States bankruptcy court for the southern district of New York, case number 08-01420 JMP SIPA. [Closed session] tbll let's

>> Matt Loesch: Let's requeen. We've done 4.5, 3.3, FTC authorization for the secretary to negotiate and execute an agreement with sire technology for agenda management software for an amount not to exceed over three years, phase 1, sire agenda plus and site minutes plus, 60,000, and phase 2, sire meeting management and voting system, 40,000. This is to you.

>> Donna Busse: We did do an RFP opt we had nine vendors submit a product to us which we narrowed down to four and then we had demos, and we listed who came in the demos, we had four staff and the Clerk's office and one trustee from the Police and Fire board attended. Based on the feedback and the demos and the RFP responses we are recommending sire. They're probably on the higher end but their capabilities and what they ease of use justify the cost, seemed the best solution overall including the voting solution, once we get to that actual phase for the actual board meetings .

>> Matt Loesch: Any questions from the board on this, or --

>> Edward Overton: What does this do to our administrative staff and our administrative cost?

>> Donna Busse: Well, staffing, it's really going to streamline the process to be able to put these four packets on electronically. It will interface with the Website. Just the way we modify documents amongst staff. So it's actually going to be easier. I mean obviously this would be training component and a ramping up but eventually it will be a streamlining.

>> Matt Loesch: All the time spent putting all the packets together and all that stuff should be taken away, as far as the actual paperwork and then the physical mailing, all those items go away. Correct?

>> Donna Busse: Even the coordination of what we do electronically now will be streamlined.

>> Russell Crosby: Internal to the office, the streamlined paper process.

>> Matt Loesch: What does the board see, instead of seeing this, we would see what?

>> Russell Crosby: Well, you'd have a --

>> Some other portable device.

>> Matt Loesch: So a device that has all the document in there and be able to make comments on them and edit, the same features we have now on a paper document we should be able to comment on it so forth.

>> Donna Busse: We should be able to load and unload those documents --

>> Russell Crosby: In the case of for example appeals the disability process we'll be able to pull those documents off your machine once you've made a decision, we'll control getting rid of the confidential information off your be machine.

>> So each of us would get a piece of hardware, is that right?

>> Russell Crosby: Yes, and it would look very much like the agenda you see now, you simply click on the agenda item and the document will appear on your tablet.

>> Donna Busse: Right and another plus would be a searchable capability for past agenda items. You could search by topics. You didn't have to remember exactly which agenda item had what, and past documents would be searchable and access. Disd.

>> Martin Dirks: We need to be near WiFi?

>> Only one.

>> Martin Dirks: the meeting process itself where you would be able to vote electronically. Matt might also be able to see who might want to speak on a certain item and be able to see who's buzzing in.

>> Arn Andrews: Are we able to print from the device if we wanted a hard copy of anything?

>> Can you, yes.

>> Arn Andrews: Do we have to be synced to a specific printer or do we hard wire to our own printer?

>> Can you hard wire to your own.

>> Stuart Odell: Do you have to use your own device or third party device?

>> That is to be decided.

>> Matt Loesch: One of the issues would then be since it's board information, you probably have a separate tablet as opposed to the one you currently own so all the information and data and everything is possessed in there, you wouldn't have to interfere, deal with your only personal business stuff on your tablet, is that the concept?

>> Donna Busse: I'll have to have Mollie Way weigh in on thap that.

>> Mollie Dent: Depends how much you want turned into a public record for example if you did go into something public, if you did go on to your own device, during the meeting, to pick up something that wasn't in part of the board packet, it could be considered part of the public meeting, because you're looking at it during the public meeting.

>> Stuart Odell: So when I look in my blackberry during a meeting --

>> Mollie Dent: Right now that's clearly your private device.

>> Stuart Odell: Got it, thank you.

>> Edward Overton: Can we access what's on your blackberry?

>> Stuart Odell: I don't think you want to.

>> When would we get it compared to when we get it now?

>> Hopefully by April. April or May.

>> Matt Loesch: He's talking about, currently we receive it by Friday before the Thursday meeting.

>> Donna Busse: It will probably be the same schedule. We have to gather the documents from the various parties.

>> Matt Loesch: You can mail them one day before we receive them. The hard copies they mail them one day before we receive them. It might be one day earlier. I think that's the answer to your questions. When do we get

access to the docs before the next meeting? In they can be published and items become rate ready approximately you'll be getting them. And then you'll know when the actual whole agenda is complete.

>> Russell Crosby: That is closer to our real process as the document gets done Sonia uploads it to the Website and she goes in and starts making copies to get it into a package. So you could theoretically see what you would be getting say on a Friday morning or a Saturday 24 hours in advance because you'd be looking at it electronically when we actually loaded it to the Website.

>> Donna Busse: This is Barbara hayman our I.T. manager, I didn't introduce her before. She's been instrumental in putting this RFP together.

>> Matt Loesch: Any other comments? Otherwise I'll entertain a motion.

>> Arn Andrews: Motion to approve the electronic board packet request.

>> Matt Loesch: Phase 1 and 2?

>> Arn Andrews: Phase 1 and 2.

>> Matt Loesch: All those in favor, that's done. , issues are 4.6, discussion and action regard trustees attendance at the Cal APRS principles of pension management for trustees at Stanford law school, Palo Alto, California, about.

>> Leslye Corsiglia: We've got too many people over there and not enough slots for them.

>> Matt Loesch: Right because we've had those two gone did you go next year? I think your schedule conflicted with it. Correct? So it's really, and I think didn't Lara go last year as well? So it's really Mr. Odell can't so Police and Fire should be able to use the position.

>> Russell Crosby: Okay, thank you.

>> Matt Loesch: Don't know if we have to have a special edict or motion.

>> Russell Crosby: No, I want to make sure there were no other interested parties.

>> Matt Loesch: 4.7, discussion and action regarding board retreat. This is a discussion that's gone on several times, we've talked about it four plus years my position being on the board about scheduling one. It was made mention of a -- even Mr. Gurza mentioned a retreat, I would want a Federated retreat.

>> Russell Crosby: I heard from Police and Fire, likewise, from the chairman's standpoint no interest in a joint meeting. Except perhaps if the there are overlapping items but logistically that would be --

>> Matt Loesch: Conference committee afterwards, a lot of it is relationship-building as much as it is setting our strategic path. And I'm imagining that they have different -- they need to create their relationship as we need to create our identity. And though we've been around together as this whole group for a little while longer than they have, Sonia sent out request for calendar availability during a particular window. If everyone could reply to her please during that period of time and we'll try and coordinate and we can start looking at structure and content once we get the date locked down.

>> Russell Crosby: I think it would be useful for Mollie and everyone to address what is the difference between a retreat and a regular board meeting?

>> Mollie Dent: Well, it's a special meeting essentially so it will be publicly noticed. It doesn't have to be held here. It -- in the past they've you know been held in sort of more I secluded locations if you will.

>> Russell Crosby: When I was first employed there was one held at the Hayes mansion.

>> Mollie Dent: Or the public will attend --

>> Russell Crosby: it is public, recorded just like a regular meeting, it will have minutes just like a regular meeting.

>> Mollie Dent: If you don't plan to take action, at the meeting, if it's more of a study session, then the agenda can be a little more fluid . So --

>> Matt Loesch: One of my thoughts is, we might have some educational component to it where we have someone talk about things that we're thinking about and try to help shape some of our scope and -- I see Stuart's eyes, I used to be a teacher, I used to read eyes.

>> Stuart Odell: That's pretty good.

>> Matt Loesch: That's valuable. A lot of the stuff we have to do missile every month anyway. Taking all of this stuff out and dedicating ourselves to some time, we could do it after a board meeting if we wanted to, at here or another location. I think there is value to us setting what the next year is looking like, what strategically we're doing, if it's talking about some of the staffing issues maybe having Ms. and I talk bops staffing structure or compensation structure, whatever, if you want to have that discussion there as well. I mean, it's kind of a blank slate. Right now it's kind of can we find a date that we can have folks around and then we kind of fill up what that slate is. There are thoughts or --

>> Stuart Odell: My sense when I heard the word retreat was it meant there was going to be a lot of interaction and engagement between members in a less formal type of setting which to me implies I'm not on video and under public scrutiny. So I think it takes away a lot of the ability to kind of let down your guard, get to know each other, I mean, to me that's a lot of this, would be us getting to know staff, staff getting to know us, us getting to know each other. Understanding where people are coming from. But if you do it in a setting like this, you're going

to get you know a very canned summons to a lot of things. And I don't know that you're going to get the kind of engagement that --

>> Mollie Dent: Well, I don't know that the setting would be precisely like this. There isn't necessarily a requirement to video record the special meetings. There is I believe a requirement to audio-records all meetings. The real question -- I mean if you're going to discuss matters that may become, may be coming back to the board on business, then it -- the Brown Act simply requires that that be in a public setting. It's not like you can't go to a party and, you know, not discuss business matters, that's not the same thing. But it is -- so when you call it a board retreat, and you treat it, if it is going to be discussing matters of business for the board, it has to be in a somewhat public setting although not this public necessarily.

>> What is the expected duration of the retreat?

>> Matt Loesch: Again, it's a blank slate. I would assume probably a morning. Or --

>> Russell Crosby: Well on the request we blocked out asked for availability from 8:30 to 4:00 on any given day, just to block out the day. And often, the city does these kinds of things at the Hayes mansion which is a city-owned facility in the southern part of the city. Not much different, in facilities from you know, conference room ear, conference room over at our office, it's just offsite. But you end up having to record, you end up having to do agendas and then you're going to have minutes of this thing. It's essentially -- well, as Mollie said it's just a special board meeting. This concept of a retreat is not really valid, most of you outsiders have a concept of a retreat being you can go talk informally and not be recorded and have an honest open interchange about an issue and we'll come to a consensus about it. But not in this environment. Nope.

>> Matt Loesch: You can sing all you want. It would be a confidential song.

>> Arn Andrews: If we had a morning meeting and then we all decided that we wanted to have lunch together, would that be a quorum and therefore lunch be recorded?

>> Stuart Odell: We don't talk business?

>> Mollie Dent: As long as you don't talk business. Like I said you can all go to a party together if you want and talk about sports or the 49ers or whatever.

>> The weather.

>> Mollie Dent: And so what -- I mean obviously what happens is that it gets -- it gets difficult for the -- for the public to understand if you are all getting together, how you wouldn't be discussing business.

>> Matt Loesch: Well if it's a getting to know the other person part, group part, sort of their experience on general topics cments we hover so close to what we talk about here that you almost violate the Brown Act by -- you could very easily step over that line by the topic is exactly what we're going to talk about here. So what do you think? Do we have topics that we need to discuss outside of this board setting, this type of setting that we want to discuss maybe not in the big room with the video cameras, has a little bit less feeling of -- it's up to you.

>> Stuart Odell: I personally just don't think it's going to make a difference whether you go over to dolts Dolce Hayes, this is a public setting, just a regular board meeting not an opportunity for us to engage or interact on a less formal basis so to speak which was my sort of -- that's usually what we use those types of retreats for. In their design to allow people to get to know each other better. That would be the simplest concept and it's really hard to do this when we're sitting here with microphones and video cameras.

>> Edward Overton: In the past we did recordings but they were not global recordings. They were recordings more for staff follow-up more to document what was discussed, and any direction that was given, and things of this nature. Mollie are you talking about more public global type archived recordings or --

>> Mollie Dent: Yes, I think the recording requirement and I'll have to go back and check, but I think the recording requirement is a San José sunshine requirement. You're talking about probably in the past when only minutes of the meetings would have been taken. Under the Brown Act.

>> Edward Overton: Yeah, I mean they were recorded but they were just kept within retirement services.

>> Matt Loesch: We could ask city council to waive that portion of that for us --

>> Mollie Dent: I can take a look at what form but my understanding is all the board meetings are required to be audio-recorded full audio-recorded.

>> Matt Loesch: Okay.

>> Arn Andrews: I think I would tend to agree with Stuart, I tend to entertain lunch offers and promise not to discuss business.

>> Mollie Dent: If you get something better than a (inaudible).

>> Martin Dirks: So does the city council have retreats?

>> Mollie Dent: They have -- not in that sense. They have study sessions but they hold their study sessions in council chambers. Do they get together? Outside council meetings?

>> Martin Dirks: Right, yes.

>> Mollie Dent: I wouldn't know about that necessarily but I have to assume that some of them do.

>> Matt Loesch: It would all be posted on their calendar where they are nearly every minute of the day, whether it's a personal item or another meeting with one of the other councilmembers.

>> They all have an idea of a grand opening or something like that but they can't talk in groups about city council business, Brown Act --

>> Mollie Dent: Just like you they can have an event where they are all at the event but clearly not talk about business.

>> Matt Loesch: Maybe what we could do in lieu of having a retreat, we have a lot of topics we need to schedule. Maybe what we can do is schedule a lunch after our board meeting and it would be literally just a social, is that more along the lines of what you're thinking of? Is that --

>> Stuart Odell: Yes, I think that's --

>> Edward Overton: And if you're talking to getting to Stuart's issue of not getting on camera, that doesn't do it.

>> Stuart Odell: We can't talk about anything business.

>> Matt Loesch: Just a personal lunch.

>> Stuart Odell: Does that accomplish something, sure, I think just personally getting to know other members, is actually helpful. So yes, there's some value to that in and of itself. But there may be more value to having a board retreat where we could actually accomplish something. It's just you can't really do that in the structure you've got.

>> Matt Loesch: Looking for your thoughts.

>> Arn Andrews: To Stuart's point again, I think there's value for lunch just to know each other as individuals. But to the format to the extent we have board topics we should schedule an additional board meeting, whether it be a study session, however we want to call it.

>> Matt Loesch: My feelings, if that's the case I support that idea, that we tag it onto the board meetings, extended board meetings. It's hard enough for you folks to come in and break out your schedule. You're already here. Why not schedule if we have it longer session. If we go into study session the video cameras go off, right?

>> Mollie Dent: They should, they can.

>> Matt Loesch: If we have a study session, after the video cameras are off, yes it's still audiorecorded, we can have a physical setup different, and we can schedule lunch as well. Are there burning topics that you would want to put into a study session?

>> Edward Overton: I would like to see something on the investment program. I don't get a feeling that I'm tracking that as well as I should, as a trustee.

>> Matt Loesch: Okay.

>> Edward Overton: Because I don't go to the investment committee meetings. We don't hear much about where that process is. Or what the issues are. You know how we can improve it --

>> Matt Loesch: We had a briefing earlier on in 2011 and the investment committee is going to be working on something later on in the 25th, where you are talking about the imlimtion of our allocation December, maybe in February we can make sure there's at least a briefing of what that status is coming out of that. For sure. But that's I think it's a good point to kind of more longer term besides just month to month, right, where we're going.

>> Edward Overton: Right.

>> Matt Loesch: What other topics besides investment overall? That's easily an hour, right, the give and take on that and the understanding. Other topics whether it's any of the issues we deal with, whether it's legal, actuarial, accounting benefits?

>> Best practices that people might want to suggest that we consider.

>> Matt Loesch: Okay,.

>> If there are.

>> Matt Loesch: Staff's been burning on something they want to present to us about. Any other thoughts? Maybe we could, table thoughts and we could fire them to Mr. Crosby via e-mail that we want to sit there and look at each other some more. So --

>> Martin Dirks: Just to be clear if I have, organize a party reception at my house and I invite trustees and some staff to it, is that permissible?

>> Mollie Dent: So long as you -- I guess you're asking do you have to invite every member of the public no you don't so long as you're not going to talk about any business that might come before the retirement board.

>> Michael Armstrong: Okay.

>> Russell Crosby: It's not the full board it's a quorum if you invite four you got a problem, you got to make sure you stay off business.

>> Matt Loesch: Only got two tbrerchedz. Okay, and possibly we'll schedule some more time, have a lunch a little more formal than sandwiches, I'll talk to Mr. Crosby about that, how we'd schedule that.

>> Arn Andrews: Plenty of good places within walking distance once we're here.

>> Matt Loesch: 4.7, 5.1 no action there, 5 much 2, investment committee next meeting is the 25th and we also had -- we did not have minutes in there, correct. 5.3, last meeting was June 5th, next meeting is to be scheduled, for the governance committee. Mr. Kumar are we anywhere else to getting some kind of thought of when that is going to be? (inaudible).

>> Matt Loesch: Still working on it was the answer. Attached here is the meeting minutes. We need to approve the meeting minutes.

>> Edward Overton: Move approval.

>> Mollie Dent: The committee approves their own.

>> Russell Crosby: Which is why there's no investment committee meeting minutes because they haven't approved theirs yet.

>> Matt Loesch: 61, 2 and 3 we'll note and file. And 6.4, those are ones within reasonable proximity and good note. Also note and file. Any future agenda item? Public retiree comments? Adjournment.