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>> Good afternoon, everyone. If you could please take yours seats, we're going to start in about three minutes. So really, would appreciate it if you could take your seats. Thank you.

>> Norberto Dueñas: Good afternoon, everyone. Way in the back, sounds good? Okay, thank you. My name is Norberto Dueñas, deputy City Manager with the City of San José. And I will be your moderator for this afternoon's session. I really appreciate you taking the time out of your schedule to be with us today. If I could just have a show of hands, how many were at the meeting last night that we had here at City Hall? Okay. And how many of you are hearing about this issue or hearing about this report today for the first time? Okay, quite a number. Appreciate that. A few housekeeping items. Let me just share with you what you should have in terms of written documentation. You should have a copy of the agenda. You should have the PowerPoint presentation that will be given today. And you should also have the staff report from the City Manager that went to the council on June 23rd. Does everyone have all that? Okay. If you don't, just raise your hand, and we'll have someone from staff come by and get that information for you. Again, thank you for being here. At the June 23rd, city council meeting, the council accepted the consultant's report on this item. It's regarding the fiduciary governance model for the police and fire department retirement plan and federated city employees retirement system and gave direction to the City Manager to seek further outreach from stakeholders. We had our first outreach meeting last night in the wing here at City Hall. Great attendance, great comments. I think we had a turnout of almost 150. And we've gotten some very good feedback and comments on the report that was presented. The council heard the item on June 23rd. The council will hear this item again, either later in the month of September, or early October. The purpose of these two meetings that we're having is for the council to be able to hear additional feedback on the report. If you look at the report, and you should have a copy of the record, the focus is the governance structure of the retirement system. And as I mentioned at last night's outreach, and again, we received some very good comments last night, it's very important for the council to hear specifically on how you feel, as a stakeholder in the system, regarding the proposed change to the governance structure. And so our consultant will be doing a presentation today, and I'll talk a little bit more about Tom and his firm in a few minutes. But if we could focus, again, on the governance structure, that is really what the council would like to get out of these stakeholder meetings. We had some very -- like I said, we had some very good feedback yesterday. A lot of testimony. The most relevant of course had to do with how people felt about the current governance structure, how people felt about the proposed governance structure. We had some very good feedback on requesting clarification on the consultant report and at the same time, we also got some good feedback on some suggested modifications, and other comments on the proposed structure. I would highlight, we're not here to talk about specific benefits, formulas. It's really how the programs or the plans are managed. And so we would really appreciate the focus being on the governance structure. A little bit different from last night, if you were at the meeting last night, I was able to give a little bit more time to the speakers. I'm really going to have to go with the two-minute rule today. Just so that you know, this session is being televised live, in living color, across the nation and the world. And in order for us to effectively fit everything in the two-hour period, we are going to do the two-minute rule. When we get to that part of the presentation, I'll walk you through the logistics of how that is going to take place. If you want to speak, please fill out a speaker card. We have a couple of boxes over here. Ernest, you want to raise your hand, please? Ernest is next to one of the speaker-card boxes. And then in the back, we also have some speaker-card boxes. So if you are going to make some comments today, we certainly would appreciate you filling out the card. Okay, with that, I'd like to first talk a little bit about -- introduce the -- Cortex, the consultant firm that provided the report to the city council. Cortex is a firm that was established in 1991, highly specialized management consultant firm based in Canada, serving both the U.S. and Canadian markets. Cortex is regarded as a pioneer in the field of pension governance, and a developer of services that support best practices in the industry. Cortex has worked for over 100 pension funds in North America, including the following pension funds -- pension plans in California. L.A. fire and police pension system, San Francisco, L.A. water and power pension system, San Diego County, Sonoma and Kern Counties, San Bernardino, San Luis Obispo and Santa Barbara Counties. If you would like more information on Cortex, they do have a Website that can you visit, and the address to that Website is www.cortex-consulting.com. In accordance with the agenda, and I'll introduce Tom briefly. Tom will do the presentation. Again, this is exactly the same presentation that was given to the council in June. And then after the presentation he'll turn it over to me, and we'll walk through the logistics for the feedback from the public. That really is the most important piece of today's agenda. The opportunity for you to provide feedback, and so I want to make sure we handle that, as effectively as possible. So with that, I'll introduce Tom. Tom Yanucci is president of Cortex. Tom has advised numerous large pension funds in North America. Tom's main role is to assist pension plans in ensuring effective governance and decision making processes are in place, and in enhancing their risk management practices. Tom is a regular

speaker at pension conferences throughout North America. Tom holds a bachelor's degree in commerce from the University of Toronto and also he also holds an MBA from York University. Please welcome Tom to the podium. Thank you. [applause]

>> Thank you, Norberto. Thank you, ladies and gentlemen. Thank you for taking time out of your day for this presentation and welcome back to any of you who were also present last night. I'm here today to provide additional information and to review the report we prepared for city council which we presented to the council back in June. And more importantly, I'm here to listen to your input, your insights, your suggestions, any thoughts or feedback you'd like to provide regarding that report, regarding our recommendations. Because we are planning to finalize that report and present it once again to city council most likely in September or October. I'm going to try to keep the presentation quite short. Ten, 15 minutes at the most. I'd like to focus on really the essence of the report, the key recommendations. I'd like to make sure that we leave enough time, plenty of time, for anyone in the audience who'd like to comment and provide suggestions or feedback. Before I get to the actual report, I thought it would be helpful to provide a bit of background as to what prompted the study, what prompted the report, the purpose of the report, and our role in preparing that report. As you all know, the city retirement systems, and there are two of them, and I'm going to use the term retirement system. Some of you may think of it as a pension funds, some you may refer to it as a pension plan. There are different terms. I will most likely use the term retirement system throughout the presentation. By that I'm referring to the federated pension plan or the police and fire pension plan. But I'll simply use the term retirement system. The two systems together over the years, over the decades that they have been in place, as I'm sure you know, have grown significantly in size. They're operating in a much more complicated environment, the investment world and benefit world have become more complicated and those two systems, police and fire and federated now affect thousands of city employees, retirees, and as well, they affect the taxpayers and the citizens of San José who sponsor the plan and effectively guarantee the benefits. The boards, and most of you I suspect are familiar, each those systems are overseen by what we call the retirement board. Currently a seven-member board for each of those systems. Those boards are required to deal with increasingly complex, difficult issues, both in the investment world, both in the administrative world, the system, computer statements issues, benefit issues, et cetera. And more and more, because of the nature of the pension business, it's demanding more and more knowledge and expertise to effectively oversee those systems. Retirement systems. Determining the most appropriate governance model, and I'm going to probably use that term quite a bit throughout the presentation. What I mean by the governance model is the board structure, the board composition, et cetera, determining the most effective or appropriate governance model for each of those two retirement systems is a key duty or responsibility of the City which created these systems and sponsors these systems. And it's an important task of the city to periodically think through, do we have the best, the optimal governance structure. The city recognized that responsibility, decided to undertake a study of the governance models of each of those city systems, after a search process they selected our firm to help them in that regard. We conducted research, we interviewed stakeholders, we reviewed everything we learned in working with probably over 100 different retirement systems across North America. We looked at basic principles of good governance and we provided our report. And the goal in that report was to provide recommendations that would lead to a structure that best led to the stakeholders of the system active members retired members and taxpayers. I'd also like to take a moment to clarify exactly what the scope was. We were given reasonably clear guidance on what we were to be studying and providing guidance on. The scope of the review was limited to what I will call the governance models over the board structures for each of these two systems. And by that we mean, it wasn't necessarily limited to these issues but we looked at things called the composition of the boards, what sorts of individuals should be serving on these boards, what is the necessary decision making power or authority these boards ought to possess, what is the sort of decision making powers that the city ought to possess with respect to these two systems. What are the necessary skills and expertise and experience that the boards ought to possess as whole. These are the sorts of questions that we looked at commented on and provided recommendations about in our report. There were a number of important issues that were excluded from the scope of the report. I'll focus on two in particular. One, we did not and we were not asked to review the benefit design of the two systems. Meaning we took for granted that these systems are defined benefit plans. Meaning that the benefit is defined in advance as probably most of you know. We weren't asked to consider, is that the best design. Should it be a defined contribution plan or a 401K plan. That was beyond the scope of the study. We weren't asked to comment or analyze on the benefit levels, were the benefit levels too high or too low or just right. That was outside the scope of the project. We were asked to strictly comment on do we have an optimal governance structure that represents the interests effectively of all the stakeholders to the systems. Secondly, the scope of the review was specifically not intended to be some sort

of investigation or an analysis or an assessment of past practices or past performance. We weren't look at the decisions or activities of the boards, board members, council, councilmembers, or any of the stakeholder groups. This was not an audit or an investigation of any type. It was really a forward-looking exercise looking at the question of, for the future, do we have the most appropriate governance structure that will serve these systems well under any environment? And that will serve the interests of all the stakeholder groups? That was the focus. I'd like to go to our findings. And I think it's probable helpful at this point, some of you may not be exactly familiar with the current structure. And a quick snapshot of what we recommend. As I mentioned, there are two systems, two retirement systems, one for police and fire employees, one for the general employees. Each is governed or overseen by a different retirement board. And that's described on the left-hand rectangle, the left-hand diagram. Each board is made up of two members who are recommended by the active members of the plan. Each board contains one member that is recommended by the retired members of each plan. Each board has two councilmembers recommended by the mayor. And each board has one civil service representative which is recommended by the civil service commission. All of those individuals -- plus in the case of the federated plan there is one public member which is not a member of the plans and is recommended by the federated board itself and that person is required to have specific and relevant expertise or background. Yes, sir. (inaudible)

>> No -- well, I would have to double check. I wasn't aware that retirees -- could we check?

>> Norberto Dueñas: If we could ask to hold on the question period until after the presentation. Because we are doing this live and we need to make sure that everyone has a mic and we can hear all the questions. So if we could just holds off on the questions, please.

>> Okay, great. In the case of the police and fire system, the board is also required to have one member from city administration recommended by the City Manager. That individual is also supposed to have some relevant expertise or experience with regards to institutional funds or systems. So that is the current structure. All of these members are current appointed by city council. So although two members are recommended by the active members, one member is recommended by the retired members. They still have to be ultimately approved by city council and could conceivably not be approved by city council. That is the current structure. I'll give a snapshot, jump ahead to our recommended model which is shown on the right-hand side. The recommended structuring of each city retirement board would consist of seven members, that's unchanged, two members selected by the active members directly. They would not require a city council approval. One member selected by the retired members, again that would be a direct election, not requiring approval by city council, and then four members selected by city council itself. So that's the proposed structure in a snapshot. Now, we all know that there's a lot of anxiety everywhere across North America nowadays with respect to pensions. Plan members and I'm sure many of you feel this way are anxious about the security of your benefits. So are your interests being protected? Will you get, you have, if you're member of these plans you've been contributing throughout your working career, through your paychecks, your monthly payroll into these funds and you have agreed and expecting to receive your pension benefits. And I'm, given particularly the current recession, there is a lot of anxiety just how safe are those benefits are we going to receive those benefits. Similarly, there is a lot of anxiety around there around taxpayers who realize they may not be members of these types of plans. They are trying to manage their own retirement portfolios and at the same time, the way these structures, these systems are designed, the taxpayers effectively guarantee the security of these city benefits. So the taxpayers have a lot of anxiety around public sector pension benefits. And I'm sure you've all heard about these concerns both from the membership side and from the taxpayers' side. What's important to understand is that, again, to try to relieve some of those anxieties, there are currently numerous safeguards in place to protect and to serve the interests of the members and the retirees of the systems. I'll just quickly name off some them. First of all, members needs to understand that the way these defined benefit plans are designed, the most important safeguard for the member is that the benefits are guaranteed. These are defined benefits. They are guaranteed. If there is not enough money in the funds when it comes time for you to retire, if there's not enough money, the taxpayer, taxes will have to go up and taxpayers will have to pay more or city is services will have to be cut to free up funds to pay those benefits. There is an implicit -- not an implicit, it's an explicit guarantee to meet these benefits. That's perhaps the most significant safeguard within the governance structures of these systems. The second safeguard is that these benefits have to be funded, meaning that actual money needs to be put aside separately to fund those benefits. That is not the case. Many years ago, in the public sector, you may have heard this, corporations did didn't have to fund these benefits. If the corporation went broke, there wouldn't necessarily be any money lying around to pay those benefits. That's a safeguard that's built into the current structure of the retirement, the money actually, these

benefits have to be funded. Third, those funds need to be held in a trust fund. There cannot be held in the City's General Fund. They're in a separate trust fund which legally can only be used to pay the benefits. That is another important safeguard for the members and retiree ease of the system. Fourth, there are separate boards. They're not managed by the city, they're separate fiduciary retirement boards that are administering these retirement systems, some length some distance away from the city council, from the city. Fourth, those board members, the people serving on those boards are subject to fiduciary duties under law, under trust law. They're very rigid, they're the highest standards developed under law that board members must fulfill and those laws, those trust principles and guidelines are designed to protect the members and the beneficiaries of the retirement system or the trust fund. Again, a very important safeguard for the members of the system. And also, you have actuarial standards, so the actuarial profession, the actuary who calculates how much money should go into these funds, is required to follow guidelines and to sign off on how big the liability is and how much money needs to be contributed to the trust fund. As can you see there are safeguards developed over decades to protect the interests of the members. These were not always in place and the law has developed over time because things went wrong over time and they learned, develop these safeguards to protect members and beneficiaries. There is a safeguard to protect the interest of the taxpayer. What is the interest of the taxpayer? I mentioned it earlier. The taxpayer's primary interest in the system is because the taxpayer effectively guarantees or underwrites the investment risk or the financial risk associated with these two system. Meaning if there is not enough money by the end of the day, the taxpayer has to make up the difference. They have a significant interest in the system, they have risk exposure to these systems and there is a safeguard under the current structure to manage that risk for taxpayers. That safeguards is that current, the staff that report to the -- or serve or help the two retirement boards, are actually hired and directed by the city. So that's one mechanism by which the city tries to mitigate or manage risk associated with these two systems on behalf of the taxpayers. In our research, and we interviewed many stakeholder groups, this was a big concern, almost unanimously, from the member groups, retiree groups, that this control mechanism wasn't appropriate, it wasn't right for the City to be hiring and directing the staff to the boards, and in fact the boards ought to have that authority and that ability. So we listened to all that. We've done our research. We looked at how other systems were structured and we found that we tended to agree with that last point. We've come up with recommendations and I'm going to quickly run through them that do two things. They provide additional safeguards for the members and the retirees on top of all the safeguards that I already listed, and we've recommended replacing that one safeguard that's in place to protect the taxpayer with a different safeguard that we think is more appropriate, more effective, and better addresses the taxpayers' interest and which, throughout our interviews even member groups felt was not an appropriate safeguard anyway. And I'll describe that further. These recommendations we believe would make the city retirement governance models more consistent with state retirement systems and other systems across the country and across the continent, it would also actually build in some of the systems that are already present in the federal governance model, because as I mentioned, there is one member who is an outside expert on the federated model. We build on that somewhat in our recommendation. And what in summary all your anxieties if you have anxieties around this are well placed. Whether you're plan member or a taxpayer, you do have reasons to have anxieties. This is a big part of your financial lives, these two systems. There are many safeguards already in place to protect the members. There's currently one safeguard in place to protect the taxpayer. Our recommendations are to build further safeguards to protect the members, and replace or build a better safeguard for the taxpayers. And I'm now going to walk through some of those issues in more detail. The recommended governance model, in fact, doesn't contain a lot of drastic changes you'll see if you have read the report. It in fact keeps much of the current model. We still maintain the two existing and separate retirement boards. So we have not suggested at this point, and we won't be, although actually it was suggested last week -- sorry, last night -- that we should be thinking about it. We will give it some thought, but the current version of the report does not recommend combining the two retirement boards. Our current recommendation is, keep the two separate boards. We've recommended that the model should stay the same in the terms of the size of each board. In other words, we've recommended that each board continue to have seven members. We have continued to support the notion that active members who have contributed and do continue to contribute to the funds, ought to have input on the appointment of two members to each board. So that's unchanged. And we continue to support the notion that retired members who have contributed and are now receiving their benefits ought to continue having input into the appointment of one member of each board. So all of those things remain the same. We haven't changed any of those features of the two board models. In addition to that, however, we've suggested, we've come up with a number of recommended enhancements. Most of them further support and protect the interest of the members, they're further safeguards for the members and we've recommended a better safeguard we think for the taxpayers. And I'll just run through some of these. Our first recommended enhancement is that the active and the retired members ought to be able

under the new model or the recommended model have the ability to elect individuals directly to the retirement boards, without city council approval. Currently they don't have that ability and authority. They can simply recommend city council has the final veto or the final authority. We've suggested a change in that. That's a recommended enhancement. It's a better safeguard we feel for the membership. And it came through in our interviews as well that the membership wanted that. We think that's a reasonable request or desire. We believe that the active and retired members ought to have the option, and I'm stressing the term option, of electing individuals to the retirement boards who are not active or retired members. Currently, under the current model, the people that the active members and the retirees recommend must be members of the plan or must be retired members of the plan. We're simply saying that you can continue doing it that way but we've recommended giving you even more flexibility. If you chose to if you felt it was appropriate the active and retired members could actually go and find someone who they felt was an ideal person to represent their interests on these boards even if they're not members of the plans, and put them on that board. There would be no requirement, we have not suggested it be a requirement, that this happen. If members and retirees want to continue having members and retirees on that board they would have that option as well. It was simply an enhancement an added flexibility. The city we've recommended this is our third enhancement and this is to protect, this is the feature that I suggested, rather than the city -- well, I'll come back to it. But the City would appoint four members, meaning a majority, four of the seven, meaning a majority of the board members of each system, and those members would be required to be independent of the City. And the details have to be worked out but there would be all kinds of procedures in place, vetting processes to make sure that these four individuals that the city council appoints to the board, are truly independent, they don't have any vested interest or financial interest in the retirement systems, they wouldn't work for the city, they should be highly independent, as independent as possible, of the city, in order to serve on that board. And they should have relevant expertise. And we'll talk a little bit further in the next couple slides what we meant by relevant expertise. Current only one member of each board particularly on the federated board they can actually go out and find somebody is required to have some relevant expertise to these systems. Fifth -- fourth, sorry, if those first three are implemented then we would suggest that the retirement boards should be granted broader authority to administer the retirement systems, including the ability to hire their own staff. They currently don't have the ability or the authority. Remember that's one of the safeguards that the city has maintained, the city hires the staff that work for retirement systems. We're suggesting there's probably a better way to have the safeguard to protect contaminate pairs, let if these other measures are in place, let the boards themselves hire their own staff, the best staff they think for job. And fifth, the governing legislation -- we would suggest change in the legislation to discourage or create significant obstacles to making -- to those boards making investment decisions that would benefit the City at the expense of the membership, plan members and retirees. There is a lot of money in these funds, over \$2 billion and this is a situation that we see across the country. There is always a great temptation to try to use those assets and invest those assets in ways that might help the city somehow. Real estate projects, infrastructure projects, who knows. We're suggesting that there ought to be a safeguard, a stronger safeguard in place to protect the members and the retirees and ensure that those assets cannot be invested in projects or investments which would really be intended to benefit the city and not necessarily be in the best interest of the system. So that's an added safeguard we've suggested to protect the membership. Now, can you see what we've done here, if you look at these key recommended enhancements, three of them, three of them are designed to better protect, better serve the membership, and the retirees. That's one, two, and five. Those were specifically designed to give added protection to the membership. Items three and four is really a change. We're suggesting that -- we're suggesting eliminating this feature of the current boards in which the city hires the staff, and allow the retirement boards to do it, and replace that by giving the city the ability to appoint a majority of the board members for. And that majority reflects the fact that the taxpayer bears the majority of the risk, financial risk associated to the system. And that's the countermeasure to protect the interests of the taxpayers in that regard. I hope that's clear but I can answer more questions on that later. But those are the recommended enhancements to the system. You notice we made the point that the four members that the city council would have to foxy each board, under our model, would be required to have relevant expertise. We've also suggested that the members and retirees could have the option of also choosing individuals with relevant expertise. They don't have to, but at a minimum, we would suggest that the four appointed by city council ought to have relevant expertise. Now, there's a wide range of expertise that would qualify as relevant to these enterprises. I've listed just a few of them here. Examples, senior executives of insurance companies or banks who have expertise or experience in managing assets and liabilities. Which is fundamentally the essence of a retirement system, assets and liabilities and making sure that the assets overtime will be there to pay those liabilities. So asset-liability management experience would be very relevant to these two city retirement systems. And if you could find individuals with such expertise, we believe that would be very helpful. Senior

executives or professionals with audit experience, accounting experience, legal backgrounds, actuarial backgrounds, investment, oversight background, risk management backgrounds, all of those fields would be relevant to the oversight of these two retirement systems for the City. Academics in the field of finance, actuarial science, law or accounting, again, you may find individuals who have some worthwhile work experience, academic experience, technical knowledge that could serve those boards well in those areas. And lastly senior executives in financial services or benefit delivery organizations that have specific experience or background in areas that would be pertinent to the business of these two systems. What you should notice, I hope, what we have specifically not listed in this slide, we have not suggested that the boards, the city should be going out looking for money managers, portfolio managers, brokers, people who actually pick stocks and bonds or who sell products, stock and bond type projects. We -- our view is that those individuals wouldn't make the best sort of board members for these two systems. Instead we've suggested these individuals or these sorts of experts. There might be lots of areas where we could find people with relevant expertise for these two boards. But again, I just want to stress we have not suggested brokers, money managers, salespeople who sell financial products or anything of that type. We don't view that as necessarily relevant expertise for these two systems. I should also mention that the boards themselves have the authority and they currently do hire money management firms, brokers, to pick stocks for them. So they don't need more money managers, brokers, stock-pickers et cetera serving on the board as well. They've got all those experts available to them at the operating level on contract. Those -- that covers the, really, I think the highlights of the report. The essence of our recommendation and the general -- I hope provides a general sense of the recommended model. Once again, I want to stress most of the or many of the elements of the model remain unchanged. What we've simply done is add additional safeguards for the membership and changed the one safeguard that's currently in place, to protect the taxpayers with a measure we think is more appropriate, we believe it's better to have, for the board to have, for the city to be appointing a majority of the board members as opposed to trying to control the staff, directing the staff, rather than letting the retirement boards themselves take on that function. I'm happy to take any questions or comments at that point. I think Norberto will probably review the procedure here. I will certainly and I welcome any comments or suggestions. I'll try to answer those questions that I can. In many cases I may simply take note of it and try to consider it in the next version of our report. Thank you very much.

>> Norberto Dueñas: Okay, thank you, Tom. We're going to very similar, like yesterdays -- no, not yet. We're going to do it the same way we did last night. We're going to do the speaker cards. I really need your support today. We're in a little bit shorter time frame. It is being televised. We want to make sure that everyone who wants to say something is able to do that today. My goal is that everyone who puts in a speaker card is able to speak. I am going to do the two-minute rule so I really would appreciate that you focus your comments on the key things that you want to say about the governance structure model. We have a lot of comments from yesterday. So if you made your comments yesterday, please decide whether you want to repeat them, which we have already captured, or if you want to add some additional information. So Nadine's going to give me the cards and then we're going to -- I'll call them out. Okay. And then we're going to try to do what we did yesterday which was to get the microphone up to the aisle. So if you can walk over to the aisle to make your comments, we really would appreciate that. And I will give you the two-minute sign warning, and then we'll move on to the next speaker. Gay, you put in a card yesterday, and you weren't there when I called your name, so I held it to the last. Why don't you be the first speaker. Gay Gayle.

>> Thank you. Yeah, I'm moving -- I'm running a move in City Hall, and we were here until 11:30 last night, so sorry I missed my name. Thank you for entertaining my question. It has two parts and they're really to the consultant and also if the City has some thoughts on it, answering. The first part is, how will budget appropriations for the retirement system including salaries and compensation for board members be decided. Because there's a concern that compensating them to the value that they might need in order to get the quality people that they want might put in a conflict of interest. So that's the first part. And somewhat related to that is, the city, in owning the responsibility for the board, in appointing four members, will also, according to the report, establish broad investment and funding objectives for the board. So to what extent are those objectives and the response to those, the reports to those, going to be available to the public, and members of the pension community that are interested in the timely response on those -- meeting those objectives?

>> Thank you very much. Those are two very good questions. As to the budget process, we haven't thought ahead to the details of how that would work. I know they're already very detailed budget procedures at the city. Those would have to be considered. Possibly aligned. Certainly there would be full transparency in all that to

eliminate conflicts. The issue of conflicts of interest was central to our analysis, and we would recommend obviously that whatever matter was taken, would eliminate the possibility of any conflicts of interest in that regard. As to the funding and investment objectives, currently, current practice is that the city council does approve the funding and investment objectives, the overarching funding and investment objectives for the two systems. It does that through a statement that exists in the statute, the governing statute. The city council approves that statute thereby establishing the overarching funding and investment goals of the system. In our report we simply have suggested that the city should review that statement from time to time, assign resources within the city and make sure that those current funding and investment objectives, overarching objectives continue to be the most appropriate ones. They are about as visible and transparent as they can get because they're actually stated currently in the governing legislation. The question of reporting is a good one, that we would suggest that specific reporting be provided that shows just how well those overarching funding and investment objectives are being met. So that's a point we'd like to clarify. It's a very good point we'd like to clarify in the final report. It is not a significant change from current practice. City council has the authority and has established those overarching goals and they're very public in the sense that they're laid out specifically in the governing statute.

>> Norberto Dueñas: Okay, next speaker is Eric Larsen. Eric raise your hand. There he is. Ernest is bringing down the mic, Eric.

>> Hi, I'm Eric Larsen, I'm with AFSCME, the American Federation of State, County, and Municipal Employees. I've got a couple of comments, and then a couple of questions. Number one, I just question what's broke with our retirement boards as they are? You know, I think this is a move by the City Manager, to really mess around with our retirement benefits. And I'm really concerned about this. [applause]

>> We don't need, I don't agree with this report. I don't agree with these recommendations. You know, I'd question this whole move by the city to get a majority control on our retirement board. So the questions I have, you know, in light of recommendation 6, how do we see recommendation 2A, B and C, work? And then, another question is, how do you envision the transition to a new governance model being put in place? Thank you.

>> Norberto Dueñas: Thank you, Eric. Next speaker is Tim Callahan. Tim. (inaudible).

>> Norberto Dueñas: I'm sorry, I'm sorry. Tom, would you like to -- Tom. You want to make some comments on that? (inaudible).

>> Norberto Dueñas: Please.

>> I'm sorry, I was just referring to the report. So I think you were looking for further information or clarification on -- I assume you're looking at the actual report itself?

>> 2 A, B and C how do you see that working and then governance model changes (inaudible).

>> The, again.

>> Norberto Dueñas: For the audience here.

>> For the audience here, how do you recommendations 2 A, B and C working, and the second question is, how do you see the transition to the new governance model being put in place?

>> Well, 2A, B and C are very common practices in retirement systems across Northern America and California. Most -- virtually every retirement system in the State of California, and most across the country, and where I come from, Canada, the boards have the authority to hire and direct a chief executive officer or an executive director, whatever the title may be in each case. And they have the authority to direct the staff below that individual. That's a very common practice among retirement systems, it's been implemented reasonably well across the country. They also have the authority to hire virtually all of their service providers. That's a very common approach. It simply requires authority in the legislation to grant these two boards that authority which

they currently don't have. Under trust law, frankly, under trust law and fiduciary law arguably they already do have that authority. The question is whether or not it be made explicit in the legislation. But under fiduciary duty --

>> How is this different than recommendation 6 and in light of recommendation 6, you know, how do you see this working? What's the difference between what's going on there?

>> As you I said, 6 is really the status quo. The city already -- city council already approves the overarching investment and funding goals of the system. They're laid out, they say something to the effect that the boards shall maximize returns and minimize the contributions to the system. The problem is that view, that statement was established decades ago. And there's been a lot of thought and learning and studies of what are the most appropriate types of funding and investment objectives for these systems. We're simply suggesting that the city assign people within the city to really think hard about those overarching objectives and make sure they are the best in fact objectives for the members and the bears and the taxpayers. There's really no significant change in terms of the allocation of authority. So that really wouldn't be -- that wouldn't require any change in legislation to enact that. It simply calls for the city to assign responsibility to somebody within the city and some resources to think about those issues a little further and make recommendations to city council on what are these -- do these continue to be the most appropriate overarching funding and investment objectives. They would not encroach on the investment policy make authority of the two retirement boards. The retirement boards would continue to approve the investment policies, consistent with the overarching objectives and funding objectives established by city council. That's a common approach across can -- across North America.

>> Norberto Dueñas: Okay, I have Mike Rosengano. Are you Mike?

>> No, I'm Tim Callahan, you called me before.

>> Norberto Duenas: Okay, go ahead. Mike, you're next.

>> Hi, Tim Callahan, retired city employee, former federated board trustee.

>> Norberto Duenas: Is that mic on?

>> Yes, can you hear me? I left the boards two Junes ago, and we were doing fine. As far as I recall, in that year, the fund made \$200 million; in the normal course of operations, it was about \$100 million. So we did well. And then of course the stock market crashed and everybody did poorly. Now I don't know when the RFP went out for this reorganization study or whatever you might call it. I was totally unwaiver it and actually blind sided when I saw the study being done but I'll agree with the formerrer speaker. It just seems to me to be an attempt by the city to control our retirement funds, to short change civil service from having any say on it. The federated board already had a banker on it. We have experts that are here that we work with and stuff like that. If you give the city four appointments to the board of their independent financial people you're intimidating the other three members, the two active and the retiree by these people who have so much more knowledge or at least claim to than they do. I've gone to the Wharton school and others, when I was, mortgage obligation bonds they were the hottest things since sliced bread. That's what brought us all down. I don't know what they talk about experts. All I know is I have a vested interest in the retirement, and I'm totally opposed to having independent people select pedestrian by the city from the community to sit on our board. You look at the boards of am computer and other things, these people are in trouble for back dating options, you look at Intel, these are in trouble for swiping other people's patents. I don't think these are experts. If you get bankers on there, banks have failed, insurance companies have failed, okay? [applause]

>> I'll just close by saying, if it's not broke please don't attempt to fix it. But if it needs to be fixed then the employees and the retirees need the major control of both boards. Thank you. [applause]

>> Norberto Dueñas: Thank you for your comments. Mike.

>> Thank you. I hardly need to say much after that. I applaud that. I do want to thank you for -- you gave us a lot more information today than you did yesterday about how the plan was working. I still have a major problem with the four person on the boards, four people from the city, in the statement that you sent out with your governs plan,

it says they will get about \$41,000 a year to be on the board, if I read it correctly, 2500 normal and 150 for each meeting. I don't believe that. Along with this, you know, your governance models I think is really a charade through the city to get the four people open the boards. The city has wanted four members on this retirement boards for years and years and years. And unfortunately they chose to use this national and worldwide economic crash to do this. And they figured this would be the best time to do it and I agree with them, it probably is. And my opinion, this information that came out prior to all these studies, through the Mercury News, I think, was brought to the Mercury News' attention through the mayor's office. That's my opinion. I don't -- you know, the main thing is, if we have four people on the board that are beholden to the city in some way, no matter how small it is, they're going to be in charge of my money, and my money is mine. And I don't want somebody who doesn't have any interest in the plan to be controlling it. There were several taxpayers in the audience yesterday and I'm included. I pay taxes. I want to address the few things to them. One of the taxpayers came last night, he had a whole stack of Mercury News articles, and that was his own source information. So the articles he was seeing in the Mercury News, over the last several months, only told a small portion of the facts, and that only the facts that are spun by the paper, to appear negative. The only article published with all the facts were written by one of the respected city people, retired councilperson. That's the only article that got in the paper that told both sides of the story. So taxpayers, please, research the information you get out of Mercury News. You'll be surprised at how much important information is left out. Thank you. [applause]

>> Norberto Dueñas: Thank you, Mike. Tim Callahan. Tim, okay. We're done, okay. I have Tony Martinez. Tony, right down here, Ernest.

>> Thank you. First, couple of questions. One is, what's wrong with the current system? How will the credentials of four appointed retirement members be evaluated and ranked? Will the makeup of the four appointed retirement board members have different areas of expertise? Who will do the evaluation of the potential board members and who will make the recommendations to the city council for approval? And also, just because you recommended, you know, what your company has done, doesn't mean that we got to go for it. You know what I mean? I mean, everyone's doing drugs, do we have to? [applause]

>> If I understood the question, how would the appointment process work, and how would these people, these four independent experts, be selected and recommended. Again, very good questions. We didn't detail that in the report. It's been done elsewhere. There are established practices one could look to. One approach might be to establish a nominating committee. The nominating committee could have representatives from different groups to go out and look for these people. We would suggest that you have very called the lists of criteria, what constitutes independent, what kinds of expertise are you looking for? That nominating committee or some other entity could vet those individuals. Do background checks. Research them. Meet with them. Come up with a slate of recommended candidates. And recommend those candidates to city council for approval. That's how it's -- that's one approach that I've seen used elsewhere. It's been effective. It still allows for broad input into nominating those individuals. It could be a slate of individuals that the city council could select from. That's a fairly -- it's really an implementation meter. It's very important but I think we were trying to sell the concept or propose the concept. And if the stakeholders involve into the details of the nominating process or other equivalent mechanism. But it's a very good question and it's an important one to resolve before you actually implement this if it gets implemented.

>> Norberto Dueñas: And we'll make sure that those type of questions are forwarded to the city council when they look at this report again. Thank you, Tony. Yolanda Cruz.

>> My name is Yolanda Cruz and I'm the president of the largest bargaining group here in the City of San José. And I was here, I was at the meeting last night but as I went back and I went back and read through all of this stuff and I tried to take to heart what you said, Norberto, about addressing the facts, what I came up with is I'm concerned that you're asking me to comment on something that fixes a problem that isn't broken. You are asking me to comment on something that is conceptual. How are we supposed to have any sort of -- have any input into this. What kind of additional outreach are you going to have to city employees? Away we are seeing here and to the invested people here, my understanding is that you're coming to these two meetings, you're going to take away these comments, either try and address them or include them in your report. City staff is going to make a recommendation to council and recommend something that we don't have any input to this is an extremely challenging position for us to be in and we think you are taking advantage as other people have said, of

a time when we're in a financial crisis on a national level and you're using that to try and do something, the city is using that to try and do something they've tried to do for years. As we all know, the city is trying to take away things from us. They want to implement two-chair plans, they want to do a lot of things. When you say they will not be responsibility to changes in our plans and if they're talking about giving somebody else the responsibility, giving them the responsibility to be in charge of this and then holding the city council accountable, yet they're not there, how are they accountable to their constituents with all of this? It seems like everybody will have a way to deflect that it's somebody else's problem. [applause]

>> Norberto Dueñas: Thank you, Yolanda. Bobby Lopez.

>> Hello, I'm Bobby Lopez, I'm president of San José Police Officers Association. The second largest union in this city. [Laughter]

>> First of all I'd like to apologize because you were brought here as a scapegoat 50 city. The problem that you're not addressing nor will they allow you to is the lies that the City Manager and her staff have given us in the past. And unfortunately you weren't privy to that but like the fact that we were going to be discussing numerous occasions, we got a two-hour meeting with you guys and that was the extent of our input. I thought if you had at least treasured our advice you would have given us more time. But the thing you systemic lies given by the City Manager, over the covers the years we've been vilified that the taxpayers need to be protected against us. Many of us are taxpayers. In fact, I don't think you have anybody in here that didn't pay taxes, at least on my side we'd go to jail, but it's really important that you understand that we care about the taxpayers It is a system that is not broken but maybe he needs some improvement. The problem with giving the city the four votes is we don't trust them. They've lied to us in the past. What we meet and confer, and I have a Santa Clara County civil grand jury that says I'm reasonable. I have -- that grand jury also says that you can resolve most problems over a phone call. The city doesn't have that nor does the City Manager. We've been dictated over the course of the last three or four years on what we should and what we need. The problem is they've been not a problem except for me, this investment is my future. And I think that we have to take accountability to the fact that if you give them four votes, unfortunately, our three votes don't count. So you might as well make it one. What we're asking for is the accountability and the ability to also steer this ship with the city council members on board we can do that. But if you're going to replace them, then give us the safe yard. I think if you have a vote of the tax appears, who do they love more, the City Manager or us? And we would one. And I think in the past we've shown that. And so it's not a secret that we're just asking for a fairness in playing this thing out. The choosing of the board members and everything that's been into accounts, it can happen but we have to get away from the systemic mistrust and unfortunately, the city hasn't done much to get us over that line. Thank you.

>> Norberto Dueñas: Okay, Walter Lynn. Ernest.

>> Thank you, I am Walter Lynn. I've been a city employee for more than 11 years and very similar to the previous speakers. I'm against this particular report in regards to our retirement system and the recommendations for the changes. I just don't see the inefficiencies in the plant right now that would warrant such a rush to make those changes that effect so many current employees and retirees. I have a few inquiries about the report itself, on page 5. Item 3B indicates that the stakeholders would have the ability to remove boards members for breach of duty and not complying with governing allocation. And I'd like to know how that removal would take place, how that would be carried out. Also on page 5, 2E, there is reference to supermajority vote. I'd like details on how that is comprised of. And also, what are the terms of the retirement board members?

>> Norberto Dueñas: Do you want to touch on those, those that you can?

>> One question was about the supermajority vote. That is the issue of voting on investments that mites potentially benefit the city at the expense of the membership. Something we called in our report economically targeted investing. Most decisions are maids are maids by a simple majority. Meaning, you would only need 74 out of seven votes. For that decision we would ask a supermajority vote, which could be, and it's particularly important given that we suggested that four members be city appointees, you would need more than four, more than a simple majority. You would need five or six you would need what we call supermajor vote, that would ensure that whatever investment decision is being contemplated, it really has broad support from the entire board, not that portion of the board that might have been appointed or elected by one stakeholder group versus the

other. So the supermajority simply means more than a simple majority, more than the four votes you would typically need to make any other investment decision in regards to the system. Who would set the terms? That would typically be set in the governing legislation so City Council would typically determine that. That would be laid out in the governing legislation.

>> If I could respond to the, no problem. And yet in all our interviews, there was one problem that kept being raised repeatedly from virtually every corner. Boards, stakeholder groups, member groups, city groups, et cetera. And that away the was the issue that the current safeguard I mentioned, by which the city controls the staff of the retirement systems, was viewed by virtually everybody as being a dysfunctional approach and not a very effective vehicle or means for the City to retain some sort of control on behalf of taxpayers. We listened to all that, we agree wholeheartedly that is a dysfunctional approach. We don't know of any other California systems that have that problem and take that approach and we felt the problem we wanted to solve was to find a better governance model that would serve you, the members, and the taxpayers. The current mechanism which is protect the taxpayers we felt as virtually all of you did that we spoke to, is dysfunctional. And we tried to fix that by changing, removing that provision and implementing something that we thought made better sense and reflects the fact that taxpayers bear the great majority of the investment risk in this system. And there really is no other mechanism in place to protect the taxpayer. So that's the problem that this model resolves, and it's the approach taken by most other retirement systems across the country. (inaudible) fiduciary duty?

>> Another good question. We haven't developed details on that. Probably a legal question we'd want to review with council, again an implementation item that could easily be worked into the final draft or any changes in legislation that we would need to do that. But it would be a very transparent process and we were very specific in our reports to say that they could only be removed for breach of fiduciary duty or not following governing legislation. So stakeholders could not remove a member because they didn't do something that really wasn't fiduciary in nature. You couldn't remove a board member because you didn't like them or they didn't vote on a certain benefit matter or city matter. They can only be removed if you can show that they breached their fiduciary duties and the key duties are prudent decisions particularly on the investment side and secondly, operating and acting in the sole best interests of the plan membership. Those are the two primary reasons you would want to remove and we were suggesting could remove a member that you've appointed to these boards.

>> Norberto Dueñas: Bob Leninger. Bob's over here, Ernest and Nadeep.

>> My name is Bob Leninger, president of the federated, largest retirement system in the city hypothesis how's that, okay. We have about 2900 pensioners, about 4900 when you count spouses. I'd like to thank the councilpeople ton retirement boards for showing up today, that's one thing we feel strongly about, and we think the taxpayer is better served with the San Jose city council retaining a substantial presence on these boards. And these are dedicated people, a lot of other things do but they're here to listen to us, I think that's the proven point we need to keep them on the board. Technically Norberto, just a real technical point. The city council did not accept the staff report last month. They received it and they asked everybody to go back, you folks to go back and get input here before you make your recommendations so we assume that's what we're doing here is making our comments and these things are going to be considered in its entirety, before your recommendations are final, I believe that's the case.

>> Norberto Dueñas: That's correct, Bob, that is correct.

>> We think the majority is -- I can gist repeat and can't say it any better than the people have said it here but I just don't think ant the federated retirees don't really think that what we want to have is a system of experts, hiring experts who hire asset management experts and are a kind of a closed, internal system. We think of course can you always have more of a good thing. We can always have more good minds, good investment people in these complicated times to come on board and help out. But we think the system should pretty much run the way it is. It should be accountable, you know, to an elected representatives on the unions, retirees, city council, and sure, we can have some outside experts on the board but I think we're making a mistake going into a majority rule here. And I'd like to make one other comment and there's no analysis in here and I don't think a decision should be made until the cost, operating cost implication of all this are known. There is a lot of people in the investment business that know a lot more than any of us know who think over the next few years that returns on investment are going to be somewhat limited because of the problems we've had in this country and our economy and our

financial structure. The cost of administering these systems is very important as we go forward. It's likely to be or could be a high percentage dependence the returns I think negative that goes forward here should only be taken on by the city council after there's been a full analysis and review of what the cost to run this system would be.

>> Norberto Dueñas: Thank you Bob for your comments. Jesse Cervantes. You raised a question.

>> I think his question has been answered.

>> Norberto Dueñas: I have Paul Salerno. Raise your hand, Paul, in the back.

>> Hi, thank you for allowing me a moment to speak. I'm Paul Salerno, retired member of the police department I still live here, I vote, I pay taxes, I continue to do so. So I guess I'm a multiple stakeholder. I have to just reecho a lot of what's been said here. Why fix it if it's not broken? The whole economy has gone down for a couple of years. The city in our opinion does appear to be a power grab. They've been after access to this funding for the three decades that I have been here. I think this is just an opportune time on their viewpoint to try to capitalize on this current economic situation. Just leave it alone. It's a good system. Number two, I realize you work for a corporation that this is what your job is. I think that the way this actually functions is, the city presents a criteria, how do we get to this end result? This is the end result we want and then we put it out to bid. Who's going to give us that criteria? And your company, sir, just happened to come in I think low-bid for this desired result. So the end of the game, the score, was determined before the game even started. This is a sham, this whole thing. Those are my opinions, I'll leave it at that. My question is this, this one item alone, number C on pages 17 and 18, you have referred to a possibility of a police officer or firefighter putting the fund at risk in order to supplement the SRBR payments. And in all the years that this has existed, I question it again with everything that I question about your report. Do you have one example of someone not doing their fiduciary responsibility? I don't know what the answer to that is. I got a feeling that I do, I think the answer is no, you don't. And frankly, there are so many innuendos in this report that I really think it's an insult to many of us that you are implying so many dishonest, nonfiduciary, honest activities. And to my knowledge, I don't see any of them. I myself am slightly insulted, I truly am. But please answer that question if you did find any examples of that. And a very last thing is, in any opportunity, why would we want to give the city a complete majority? Yes, you're right, there was one common thread, and that was that the feeling was the that people were certain -- people weren't certain there was enough control because they were worried that the city has too much control as it is. We don't want to give the city more. And we want the city council members to be there, because we want some elected people there. So that it's not just appointed people hiding behind two or three levels of bureaucracy, that we can't even present our cases to. When you get to vote for people, thank goodness they're obligated to listen to you. One question really and a bunch of statements, sir.

>> Well, I have to take exception to the suggestion that the city directed us to come to a pre-set conclusion. The city was very hands-off on this, and gave us very broad direction and asked us to come up with our best thinking, our best thoughts and our best recommendation on what would be the optimal governance structure. It was that simple. There were very few, if any, parameters in the project other than the two I mentioned earlier, this was not a benefit design and not an investigation of anyone's behavior anywhere throughout the stakeholder groups. But to suggestion, I'm not sure where the evidence is that we've been directed because that is simply false. As to your point about the comment we made about the SRBR we do not if you read the section of the report carefully, we didn't accuse anybody of putting their fiduciary duty aside and somehow trying to manipulated the fund to somehow increase the value of the SRBA. We use this as an example of a point that both systems have inherent conflicts of interest. The city has a conflict of interest with the system and the membership has conflicts of interest with the system. And the SRBR was simply one example of the report where we raise that conflicts of interest exist in no way, do we suggest that anybody has succumbed to that conflict in the past. This was not an investigation, I think we made that clear at the outset.

>> Norberto Dueñas: Okay, David Rodriguez. David Rodriguez.

>> Thank you. Dave Rodriguez. 21 years of service City of San José as real property agent. And retired as of January 2008, and enjoying it up until now, No. I get old, disruption on this massive change that's coming. I have just a few thoughts and comments to make about this, is that one of the wisest men that ever lived, King Solomon said in the book of pro verbs, in the multitude of counselors there is safety. I know we're headed down a direction

here, a multiple of people surrounding to you give you advice. However after his death his son became king and he got rid of advisors that his father had and were wise and lived in prosperity as a result of that his young advisors, advised him, let's tax them and let's whip them like score pens. Now, that's what I see coming here, I see that we're going to be replacing some folks here that have helped this fund to stay what it is, become what it is. You know, city councils and mayors come and go. I worked through several of them, McEnery, hammer Gonzales and Reed and now he's going to go sooner or later. I worked through several, about five or six city managers, they're going to come and go. Who's to say that down the road some is that they're going to make more changes that come along where benefits are affected and benefit levels are reduced? We see the changes coming. You know when you think about CEOs, I can think of the Keating 5, as a banker, Enron for, you now, the corporation and CEOs and those that are getting big bonuses now. Do I trust them? No, I don't have much confidence in them. I think about the Dutch tulips, when they invested in that in the 1800, the great depression, when the bankers took over a lot of the farmers' lands. Now we have the mortgage defaults, and insecurity breeds uncertainty, and more uncertainty breeds more insecurity. I think that's what you're doing, you're upsetting a lot of folks. When I think of bankers and CEOs I think of A.I.G, Lehman Brothers, Merrill Lynch, Countrywide, and they've done what they could and they haven't been able to make the market or benefits and profits from the market like they wanted to. You have gold and you also had cabbage patch dolls that people invested in. It doesn't take much when you demand you get into it and sell it high. There's an option.

>> Norberto Dueñas: I need to move on David.

>> I just don't think we're heading down the right direction.

>> Norberto Dueñas: Thank you, David. [applause]

>> Seems to be a skepticism both today and yesterday evening about the use of [applause]

>> The use of experts or the term experts and as I said at the outset or Norberto mentioned, I'm not an American, I'm a Canadian. I'm a great admirer of this one. You have the space program comes to mind as one of your crowning achievements. The whole world admired you for that program and the things you accomplished there. But that program just as one example experienced some spectacular tragedies. And failures in the system. I don't think this country just abandoned its belief in expertise. I don't think you threw out the engineers and everyone that helped build that program and somehow lost your faith in experts. That's just one example. So I'm having some difficulty understanding the view that somehow experts have nothing to bring to the table. Yes, the financial sector had some -- had a disasterous experience mountain past 18 months and yes a lot of experts were wrong. But a lot of experts were correct, as well. And in a lot of cases, the incorrect experts won out. And in many cases, the experts who were a little more knowing won out. But to somehow throw out all the experts in a particular field, and think that somehow they have nothing to bring, I just have some trouble understanding that. I don't think we would take that approach in the things that you do on a day-to-day basis, or other institutions, health care, hose, the education system, police services, fire services, mechanics, automobile services, I don't think we lose our faith in the experts in those areas. I'm listen you but I'd like to know why you feel experts have no role at that table. Please send your suggestions and I'm glad to hear them and incorporate them into the report.

>> Norberto Dueñas: I'm sorry, next speaker. We can't do the back and forth. We'll be here all day. Craig Closterman please. Craig is right down here.

>> First of all, I'd like to thank all the city workers and especially the fewermen and policemen for everything they do in putting their life on the line every day. [applause]

>> Now, I'll be the first one actually though, probably won't be very popular here, because you know, I'm here not as a city worker, but as a taxpayer. And I probably would be considered an expert on the financial side. I've been a chief financial officer for over 20 years in this valley. During that time, we've taken three companies public, we've created thousands of jobs, we've created billions of dollars in wealth. Which has happened because we've created better, more productive lives for everybody out there. And I'm sure everybody has cell phones and everything else. Now, the problem is that over that whole period of time there has not been a single company that I have been with that has a defined pension plan. All of them have been 401Ks and that's what the rest of us live

and go up and down on. So especially in these times, 401Ks aren't doing as well and there are a lot of people who are losing their homes because of this. But the vast majority of the people in this valley are on 401K plans. They're not on defined pension plans. And the problem is that those are the people, those are the constituents. Those are the people, the vast majority of people that are paying taxes into this system. So the question here is, why should there be such a difference between what the majority of the taxpayers are getting, and what the people that are working for the government are getting? And if you look at the pension plans, the cost of the pension plans are going up as a percentage of revenues. It's no different than Social Security. Everybody knows, Social Security will go bankrupt. Cities are no different. My question is in the scope of this project, I know it's limited to who's on the board. But why wasn't it created to look at the whole system from the beginning, look at what the best thing is for the city? What the best thing is for all the workers in the city? And come up with a more comprehensive plan, instead of trying to take just a portion of it, and fix it by just fixing a portion of it, thank you.

>> Norberto Dueñas: Thanks, Craig. [applause]

>> It's an excellent question. And I wish I could give you a different answer other than, only the city know. They took the approach that the starting point in thinking through an optimal pension plan is governance. We agree. That sets the foundation. Without good governance, the rest of the system will simply fall apart eventually. And I think it's a wise place to start, get the governance right and look at investment later, look at plan design, what have you. There was no discussion with the city and me that benefits around the table. Around the country, you're right, defined benefit plans are being seriously yesterday. All I can say this had a very narrow scope an important scope a scope that made sense as a starting point in reviewing these are invested benefits they cannot be touched going back going forward. It is possible to change benefits but the defined benefit plans can't be -- what's been earned to date what's been promised to date is pretty well what it is. And the taxpayer is guaranteeing it. On a go-forward basis I have no role to play and I was outside the scope of the project but I appreciate the question.

>> Norberto Dueñas: Okay, next speaker is Don Hale, Don, right behind you Ernest.

>> Two minutes isn't enough. You talk about conflict of interest and we've got one. Multiple times over the past 30, 40 years, 30 years that I know of, the city has tried to take over the pension fund. Control is the problem. Control is the answer that they're after. You talk about experts. For God sakes, as a kid, I learned what is an expert? The Latin roots are ex, means former, and spert is a drip under pressure. I'm not impressed with your expertise, and you talk about relevant expertise, and then in a documentation you relate back to bankers and lawyers, for God sakes? Looks at what's wrong with the economy in the world today, caused by bankers and insurance companies and lawyers. So that doesn't impress me either. You imply from this documentation and listening to you that we're mismerchandising and we're not. You talk about arounds the country and around the state, other pension plans that you refer to, allude to, how many of them are broke? We're not. And the reason we're not is the retirees and the people that are stakeholders are going to take something out of this plan, control it. Many times the cities tried to take control. Every time we frustrated them, and I hope damn well we frustrate them again, because it's disingenuous, the best way I can describe them hiring you, is wrong. And we don't need your kinds of expertise. We're doing pretty damn well as it is. [applause]

>> Norberto Dueñas: Next speaker is joys, Joyce Tolar, I believe, Joyce, thank you.

>> I'm neutral on this. I came, I had a conversation with Pete Constant sat night and so I said all right, I'll take an hour out of my workday and come and listen. And I think that this has been a great discussion so I'm going to tell you. I come from the business community and as much as you believe from a union point of view that the mercury is not fair to you, I don't think they're fair to the business community, either. So, you know, we appreciate law enforcement. We appreciate all of the city workers. We are also aware of the fact that this year's budget was balanced, in part, on your backs. So along with you, I have some questions. I believe that pension management is a really important thing, and I agree with the gentleman who said the majority of us have 401Ks which are now 200.5Ks and that when you look at your benefits you must also look at this year's city budget and how difficult it was to balance it. And the ongoing problem both here and in Sacramento. So one of my questions is, I look through the states that you use to compare. Did you talk to CalPers? At all? Have you -- have you looked at the magnitude of the overall problem in California, where the taxpayer is on the hook, both at the local and at the

state level? And did you consider -- why did you come up with an uneven -- with a governance board that has an uneven number of members? Were you not looking for consensus but for a goal? And last but not least, why would it not be fair when you create the actual legislation, that any of the candidates for the publicly appointed members, both have a residential -- that it has a residential component, i.e., that at least one of them is actually a San José taxpayer, but also, that the elected members from these various unions might have input to that interview process? [applause]

>> I guess I can try to answer those questions. I think the first one, did we speak to CalPers, no, we did not speak with CalPers. Are you familiar with the debt obligations across the state, at the taught and local levels, yes, the cumulative shortfalls across the state are enormous and they are weighing down on Sacramento, of course. .this is a problem that is visible across the country and across Canada as well for that matter . Your question, why the focus on the majority, having the city have a majority of members, I -- I tried to make the point during the presentation, that there are no provisions in the governance model that really explicitly protect or serve as safeguards for the taxpayer. That's the one safeguard that we've suggested. And I tried to make the point that there are probably ten or more safeguards, very specific safeguards and very strong safeguards designed to diplomatic the members and the beneficiaries. If I'm hearing there should not be such a safeguard then we'll think about that but I find it hard to believe that you would suggest that there should not be even a single safeguard to protect the taxpayers. The third point about residency, our preference would be and I think everybody's preference would be to find individuals to serve on these boards who live and maybe work in the City of San José. What we've suggested in the report is that you simply may not want to constrain yourself. If you're unable to find individuals who meet the criteria and live in the City of San José, I think you should have the flexibility to maybe go beyond and look a little bit beyond City of San José. Other parts of California. But the default, the initial approach should be to find a local person. But I think finding the person who has the time, the independence, the willingness, the desire and the qualifications, in certain instances, should, perhaps, trump the needs to specifically live within the City of San José. We're not suggesting that they should all come from outside the City of San José. I hope that answers your questions.

>> Norberto Dueñas: Okay, Dorothy McKinley, McGinley. Dorothy.

>> Hi, I just was prompted to speak, because a gentleman in the front row here mentioned about the 401Ks in the valley that have gone, you know, have just taken a terrible hit because of the economic situation. And when this happened to the enron employees and Worldcom my heart went out to them. And my thought is that there's nobody in this country who goes to work every day and works for a living and gives it their all that should be faced with that kind of response in retirement. Rather than weakening our system I would rather everybody's system come up so they can have a good system and can function well when they retire. [applause]

>> Norberto Dueñas: Thank you, Dorothy. Next speaker is John tenant. John.

>> Thank you, I'm John tenant some I'm counsel for the POA. You may know that we have essentially filed a request to negotiate in with the city I bleach the city's response is that it is not a meet and confer item. We'll take that up with them. I'm forced to ask you this, sir, that's the recourse I have to take now. Before "do that I will give some credit. There is a good thing in the report for my client, I think we should acknowledge. You have removed what hither to was the council's veto power over the employee selected member to the retirement boards. I think our brother and sisters in retirement, the council uphemmed by the courts. Certainly from the PAO perspective that's a welcome change and should be credited to you. My client's main concern is the seeming majority the city will command on the board, and the question is this: Why did you not adopt the model that many plans who have throughout the United States, I'm thinking of the state of Florida in particular, where essentially the employees elect a number of members, the city selects an equal number of members, and then all of those members combined select the last neutral member if you well, thanks for responding. [applause]

>> That's simply not a model, we're not familiar with the Florida model specifically. I know that's a model that's common in the Taft Hartley world as well, multiemployer union funds. We didn't feel that met the kind of accounting that needed to be considered in this model but we'll think of that further in the final version of your report, thank you.

>> Norberto Dueñas: We appreciate that, that's the type of information that we'll be able to forward on to the council. That's a little bit of a variation we have here. I'm getting close to the 3:30 mark. I really appreciate, I haven't implemented the two-minute rule, you guys have been doing great, we have been managing the time well. We are getting close to the 3:30 mark. We have a few more. Please make your comments brief as we're getting to the end of our period this afternoon. the next gentleman I have is Mike, your last name starts with a Y? Yes.

>> Good afternoon. You have a very interesting job, trying to give a report on San José --

>> Norberto Dueñas: Is the mic on?

>> Sorry about that.

>> Norberto Dueñas: There you go Mike.

>> Mike Yoshinoto. You have a very interesting job trying to fulfill something but as everybody has spoken earlier, the system is not broken. It has been running for 30 years and fine-tuning itself. A while back there was a constitutional revision, called 162. Which really separated the powers between the governing boards and the cities, the counties the state and so on. The sponsors element. I wish you as a Canadian may not be familiar with it but please look into that and my comments would be more directed to the composition of the board. First of all, as many have said, we don't want experts out thinking experts which we hire, the way the funds are invested is, first, we do to a consultant. The consultant brings up a model which maybe every two years sets an asset allocation between real estate, stocks, bonds and private entities. And so with that being the first step, if we need change the model a little bit, then we go to the consultants again and request that they bring back five or six or seven of the best with their past histories. And of those we go over the reports of each one and select the top 3. Among the top 3, the chief executive officer, the investment officer and maybe one or two of the trustees will accompany them on a job to make sure that they oar working, viable company and interview the people to get a feel for them. So if we put some more experts who will be voicing and determining who is going to be the expert, I think it is a layer really not necessary, it's overkill. Like I say it's been running very good. I see a lot of fine points that you've been bringing in and these are minor in retrospect but I think that one point is a real sore point for many of us as we look at it as employees annuitants and interested stakeholders in the system. Thank you.

>> Norberto Dueñas: Thank you, Mike.

>> Norberto, let me respond to one point.

>> Norberto Dueñas: Go ahead.

>> Prop 162, our firm has dealt with California businesses for over a decade. I'm not a lawyer but I am familiar with prop 162. This recommended model is very supportive of 152, because it provides more authority to the retirement boards. The members of the board 162. So just to respond to that question, that our recommended model in our view is not opposed to prop 162. In fact it's quite complimentary to prop 162.

>> Norberto Dueñas: Okay, Daniel Finn, Dan.

>> Hi, Daniel Finn, operating engineers. I think you've probably gotten a gist that there's a theme here from last night and today. There's quite a lack of trust going on between retirees, employees, and basic city about Management. You've heard lots of different ideas come out of different groups here. My question and concern here is, is there going to be additional outreach to the employees, labor groups prior to the final report that goes out to council and house will these concerns and recommendations be incorporated into that final report?

>> Norberto Dueñas: Well, maybe I can help a little bit. One of the things we have in place is the Website that you have up on the screen, where to send your comments between now and certainly when the report is released or even by the time it goes to council, we want to make sure that employees are able to report any comments they may have through this process. That is one way of doing it. And then we also need to take into account your point and find whatever other vehicles do we have to capture more input from employees regarding this

process. So for starters, I can give you that one specifically, where you'll be able to send specific comments and questions that will be incorporated as part of the report to council and then we as the administration also need to think about what other ways we could outreach between now and the time when the report is out.

>> Yeah, go ahead.

>> I think I got at least 30 seconds. I still don't understand how we're going to have anymore input I mean, you've got pretty much the gist of what people are feeling, both from employees, retirees and from the taxpayer group. But how are we going to be able to make sure that this is going to be part of the presentation and recommendation that goes to council. On are the specific groups going to have to petition the 18th floor to get our voices heard?

>> Norberto Dueñas: No, in the end this report does come to the council. And so you have a number of vehicles to state your position. I mean, the -- the most important part is the debate and the dialogue that will take place as the council meeting and obviously, that's a meeting that it will be very important for you to also attend, to share your perspective.

>> At that point then we'll each have one minute to discuss it.

>> Norberto Dueñas: I think you'll probably have two.

>> Is that how Mayor Reed has --

>> Norberto Dueñas: I'm willing to off-line talk with you and seize what other ways we can do to get the information out to the public.

>> Let's do that Norberto. I'll be look forward to doing that.

>> Norberto Dueñas: Okay. Elisa Kaff.

>> Thank you, actually just to follow up on a similar issue, it sounds like Cortex, in updating the report, is going to have a real challenge summarizing all of this, and I'm particularly concerned as the consultant who's here took exception to some of the comments and also made clear there were some he didn't understand. And I'm wondering how everyone here can be assured that it will be accurately reflected. I know in other stakeholders processes the city's done they've sent out a draft version for people to review. Will that be done here?

>> Norberto Dueñas: Well, it will be our report, the City Manager's report in terms of a supplemental. So we'll do the best we can to capture the comments we recorded last night's meeting, we certainly have televised this meeting because we do have a record. So we'll do the best we can to get those suggestions. That provides an opportunity for anyone that's provided input to ensure that that input has been captured. If we have any opportunity to add clarifications to the report, we will could that. We'll get the item out as soon as we can based on when the item will be on the counsel agenda. Okay, I'm not taking any more cards, so the cards that I have here, I think I have about nine left, are the last speakers for this afternoon. Next speaker is Jay, Jay Wendling. Okay, you're doing the time thing again, sounds good.

>> Good afternoon folks here. Just on a real quick note here, last night I was here on behalf of police and are fire retirees. I think as we start looking arounds this room, we are here sleeping giant and the folks that are city workers that are the backbone of this city are starting to get educated on our pension, retirement and the tack that's taking place here. One of the things as far as tax folks that we talk about as far as paying taxes and so forth we got to remember that each officer and firefighter is around 12% of their paycheck goes into investing back into the retirement program as well as their taxes that are taken out of their check. This is not a one-sided deal with the city and I know that the city other employees are also contributing to this fund and the fund is done fairly well. We have a 5.1 last year loss. Some of the things I have had to tea a chance to look at is one of the companies that you work with now, the Ontario pension plan which I guess has worked influence Cortex suffered an 18% loss last year for 2008. And for a 5.1 versus 18, I'm not good at math but maybe someone can figure it out for me and give me the number. But I want to address one issue here, it's called sounds governance. What's

often taken for granted are good fiduciaries. Trustees and directors of boards are recruited from many walks of business life and therefore in many organizations the very people governing a pension system do not have to have the education or work experience necessary to appreciate and understand the workings of the pension financial model. Relevant investment principles and governance. So organizations need to manufacture good trustees, by ensuring they receive their knowledge. The simplest entity, providing packages of information on a regular basis that include bulletins, articles and speeches relevant to pension topics. What we have up here is a bunch of stuff you've thrown up on how we have to redo this thing. In fact this is written by your company which we already have in place. So if you could please let me know the difference between what was written here by your company, I believe by your president John Poore and what is changed for today. Thank you. [applause]

>> To answer the question, nothing's changed. We would promote both, that boards should have inherent, board members should come, ideally or a portion, a significant portion of the board should come to the table with relevant backgrounds experience and expertise. And in addition to that, should receive ongoing training and development. So we don't see the two as incompatible or inconsistent in any way. Even experts in whatever field will, in every field, continually undertake and undergo continuing development education and training so I think the two go hand in hand. (inaudible) (inaudible).

>> Norberto Dueñas: Okay. Pete, I have to move on. Thank you, Pete. [applause]

>> Norberto Dueñas: Chris, Chris Sarbangh, I think. Where is Chris right there, hi, Chris.

>> Thank you. I guess what concerns me is that I think the study should be put on hold, and more analysis needs to be done on the options. There might be things where we can come together. Well, right now, the way the city administration is going, they're gung ho with their alternative. And as you can -- you've already admitted there's other options on the table here. Does it have to be four three, could it be three one three? There are other options here, the one I could the board is able to operate independently as much as possible so I can support that. But it's clear that you're headed for, you want the council to be in control of this. And that's not good for the retirees. And it's not good for the council. It's not good for the taxpayers pop for you to say that's good for the tax are pairs, I can't fully agree with you. I'll give you an example. In your report here, you list all these great institutions. Let's talk about Yale corporation, their endowment fund, is down 25%. They have like \$22 billion how much is that? That's more than all of our retirement fund. So even these funds you're doing, it boils down to, how are you going to structure it? So you've got -- these are structures you're recommending and they're down 25%. So my issue here is this report should not go ahead. There's no consensus here. We're saying no. So it's -- staff is pushing this for whatever reason I don't know but they're pushing it. They need to push back, sit down and some people here, as you've heard there is way to come to consensus but not the way you're going.

>> Norberto Dueñas: Thank you, Chris for your comments. Glen Bathaway. Glen.

>> My name is Glen by the way, this has to do with a comment you made earlier in the presentation. I'm just wondering how well did you analyze the governance process in each of the funds programs that you present as role models. And for example, did you go after and look through their decisions, staff reports, and minutes?

>> I think the speaker is referring to an appendix in a report where we listed and described a number of institutional funds, mostly retirement systems, I think one endowment fund. We didn't hold those models out as models you should adopt. The report actually says that these models have certain features that we think are very effective, and we incorporate it, or drawn on the features that some of those systems have in arriving at our recommended model. I'd have to double check but I don't think any of the models have the model we have recommended but consistent with some of the principles we put forward in the report. Some of those are past clients or current clients of ours so we have fairly in depth knowledge of their decisions their minutes et cetera. A number of them are not clients of ours but we're familiar with their structures and we thought again some of the features were worth considering and we did consider when we made our recommendations to the city. I hope that answers your question.

>> Norberto Dueñas: Next speaker, I have two more speakers. Just a little bit over time. So please if you can make your comments brief and to the point. Bob and then the last speaker is Steve Osteen. Did you put a card okay, we'll call you.

>> Bob vermilion is my name. Can anybody hear me? I couldn't hear the other ones very well. I want to say thank you for letting me think and unlike last night, I'll keep it short. I was born here, raised here and I've been here all my life and when I was born I think the city was about 50,000. It was a small, sleepy farm town. And then it's grown to a million, and it seems really strange that it could happen so fast. Now, I was wondering why the city leaders, in the infinite expertise, and that's the word we've heard a lot today, but why in the world is -- is it necessary to go out of the country to find people, now, for example, let me say first of all that this valley, this city, and especially the South Bay area in its totality, has probably the most experts on the earth, I believe that's true, I can't prove that but I believe that's true, we have more familiar names and brands in this county probably than anywhere else in the world. But yet, the city fathers seem to think that we don't have experts here to tell us what you people are telling us. And I'm not saying that I'm not trying to criticize this company, you are hearing doing something the city hired you to do. As a matter of fact I wonder why if it's possible for an American, a United States citizen, to go to work in your country as easy as it is for someone in your country to come and work in our country. But on that same tone, I want to say thank you, and welcome to the United States. [Laughter]

>> Norberto Dueñas: Bob, we need to move it along, please go ahead, finish your comment.

>> I think I heard on the news the other day that we had about six dozen banks close this year. I'm not sure that number, those were all experts. My question is this. One question, over the course of your research, did you interview any board members or administrators from other pension plans?

>> Norberto Dueñas: Did you interview any board members from other pension plans?

>> Let me answer a few things. The -- over the years I've probably interviewed several hundred board members of public retirement systems and dozens of executive directors. What I've learned in those interviews I've tried to bring to bear in this project and in our recommendations. I can understand why you might be puzzled why a Canadian firm is here. That's a valid question. Pension background is a very narrow niche. There are probably three firms that do this, none of them are in Northern California we are the only firm that does nothing but pension governance. The other two firms have all sorts of side businesses that they do. We're the most dedicated, 100% of our resources are focused on this issue. We have no other conflicting lines of business. This is what I've done for pretty much my whole career. Most of our clients are American, U.S. funds. And the reason for that is that you've probably heard the story, to the bank robber, why do you rob banks? Well, that's where the money is. There are far more pension funds in the United States than there are in Canada and this is the market. As to your question, can Americans work in the United States, can Americans work in Canada, absolutely, after NAFTA, candidates and Americans are allowed to cross borders and work. That is a mutually agreed upon law between two countries. I think those are the questions you asked.

>> Norberto Dueñas: We need to move on. Steve. Ernest, take the mic there to Steve.

>> Thank you, to all of those that were able to stay long enough, to the end. First thing I'd like to share with you is that the San José police and fire retirement plan earned 19.3% on our investments for the fiscal year ended 2007. They were in the 20th, ranked in the 20th percentile in the public please please hear that, the majority of the return was derived from asset allocation set by Russell Crosby, newly appointed director of Department of Retirement services. This indicates that the employee asset decisions were the driving force to the portfolio's outstanding performance. And certificate of meeting professional standards in public pensions gave an award in 2007 to the San José police and fire department retirement plan, so I don't know about all the experts in the world but I know the ones that are working for us are doing a pretty doggone good job. [applause]

>> So people keep asking what are we trying to fix? Excuse me, thank you, ma'am. And I haven't heard a reasonable way on how to fix this thing yet but it seems obvious to me that the way to fix it so that the stakeholders being the citizens that are most concerned, yes, us firefighters, federated, police, we are all concerned, as well. But the way to fix it is to take those years when we've made a lot of money, take the difference, set it aside in a special reserve funds and hang on to it for the down years. Seems pretty simple to me. It doesn't take 45 pages. On those 45 pages my biggest concern on those 45 pages is page number 5, section 2, paragraph E, the retirement boards will be discouraged from pursuing economically targeted investment strategies, meaning spending the money on whatever the heck they want to spend it on to accomplish

their specific goals, to benefit the local economy or the city, at the possible expense of the retirement systems. That scares the heck out of me. And if you're a citizen of San José, a taxpayer, should scare the heck out of you. And then they finish up this little paragraph with, for example, the boards could be required to achieve higher decision making hurdles such as supermajority vote, in order to implement such strategies. The fact of the matter is, this is not in there now, they cannot touch our retirement funds. We are not an enron but they want us to be an enron so they can take our money do what they want with it through a supermajority vote. If I'm appointing you, you're my puppet, if you are my puppet you do what I want to you do. this is my biggest fear, please read page 5 section 2 paragraph E and make your own choices. Certainly, thank you for all the work you've done. I know that you're probably not even aware of what that goes on to. But the last comment I would like to say is your comment about maximizing returns and minimizing contributions, I think that's well demonstrated right here throughout the years that this fund, with the board that it has and the system of governance that it has, has certainly maximized returns, and minimized contributions. Thank you.

>> Norberto Dueñas: Thank you, Steve, thank you, Steve. [applause] Sir, please -- we still have another speaker. Please, sir, state your name.

>> Good afternoon, my name is Shane Patrick Connelly and I'm a San José taxpayer and among the 11.8% unemployed in the valley, I can represent the people who cannot be here who are at their jobs I thank you here in the city now and in the past and we appreciate your service. We thank you for your presentation and your recommendations. Now I've heard a lot from the beneficiaries that if it ain't broke, don't fix it but from a taxpayer standpoint, it is broken. Effectively grants a license to the public employee union's representatives and their allies to appropriate fund under performance or poor management. The present structure gives majority weight to nonfinancial professionals, specifically the pension recipients. This creates an inherent conflict of interest the conflict of interest results in year of overly optimistic assumptions used to set employee contributions it results in poor practices and poor oversight of things such as travel and entertainment expenditures that results in policy such as that of one of the funds where excess investment returns, instead of like the last speaker was saying they get set asides to the future, they are actually handed out to existing pensioners. Poorer than other pension funds in the long term. No other boards are structured in this way and boards containing experts have mostly outperformed other public pension funds. Now, who makes up for the shortfall? The losses and bad decisions? It's the residents and taxpayers, and most of us don't have the luxury of a defined benefit pension plan. And we're going to have to make up to \$50 million, with less money for parks, road maintenance and less city employees. So if the plan members were paying for any short falls, I'd say, however as long as the taxpayers are on the hook the taxpayers need effectively run impartial governance of these funds. So from a taxpayer perspective these changes are minor but important improvement that can be made to our public employee pension system. And I thank you.

>> Norberto Dueñas: Okay, thank you. That is our last speaker. I'm sorry, Pat, I'm sorry, Pat Saucedo.

>> Good afternoon, I'm Pat Saucedo, vice president of the chamber of commerce. I do appreciate all of the comments that have been made but would like to make a statement on behalf of the chamber of commerce. It is well documented that San José is facing a daunting budgetary and pension crisis that could overwhelm the city budget, and force devastating cuts to vital services, our crushing tax increases to our local businesses and community members and homeowners. The chamber does recommend the governance change, particularly items 3 and 4, that would include experts, and those with the experience, professional experience, in managing portfolios of this size and complexity. We think this is a good step in the right direction to begin to provide fiscal solvency and stability for the city, also for the employees and for the taxpayers. We also have a series of other recommendations that I will put in writing and submit, due to time constraints, that we think need to go into the next steps as we look to resolve our fiscal crises that we're facing as a city, as we go forwards. Thank you.

>> Norberto Dueñas: So thank you again everyone for taking the time this afternoon to be here with us. We also appreciate all of you that were there last night. Again I call your attention to the e-mail address up on the screen to send your comments to, and also, do not hesitate to call me or Nadine if you need additional information. Or send us an e-mail. If you want things sent to you via e-mail as this process moves forward please send us an e-mail and we'll make sure we capture that. Again, thank you for coming, thanks.