Exhibit 1

DRAFT

@ 27.0941 must unobstructed earnings by 6-30-96? what rules say?

Term

CONFIDENTIAL

3-4-96 - Per Ed - don't ask attorney's opinion until April --- let them hash out

From: Jack McGrory
To: DISTRIBUTION
Date: 2/29/96
Subject: RETIREMENT

HERE'S THE OUTLINE OF THE PACKAGE WE DISCUSSED WITH KEITH AND LARRY:
1. THE CITY CONTRIBUTION RATE REMAINS AT THE LOWER BIFURCATED RATE IN FY 96 AND FOR THE NEXT 3-5 YEARS.
2. THE RETIRMENT SYSTEM ASSUMES THE LIABILITY FOR RETIREE HEALTH AND THE CITY TRANSFERS THE 12 M RESERVE TO THE SYSTEM. THE CODE SECTION DOING THIS WILL BE CLEAR THAT THIS IS TO PAID FROM SURPLUS EARNINGS ON A PAY AS YOU GO BASIS AND THAT THIS LIABILITY CANNOT BE REFLECTED IN ANY WAY IN THE CITY'S CONTRIBUTION RATE. use the reserve & [illegible] in program
3. WE PROVIDE THE 1/2 AND 3/4 EMPLOYEE BENEFIT THAT WAS AT COUNCIL. cost?
4. WE ELIMINATE THE DISABILITY INCOME OFFSET. — phased out as we are in immediately? [illegible]
5. WE GUARANTEE HEALTH INSURANCE FOR THE PRE-80 RETIREES. at capped amount! cost.
6. WE CONTINUE THE HEALTH INSURANCE CAPS. + Retirement Board agrees they can't change them.
7. WE DOUBLE THE 13TH CHECK BENEFIT FOR THE PRE-80 RETIREES.
8. THE SYSTEM SETS UP A 6 M 13TH CHECK RESERVE. from the savings reserve money.
9. WE PROVIDE A 3 YEAR OIPEN ENDED BUY BACK TO BE PAID, BOTH EMPLOYEEE AND CITY CONTRIBUTIONS, BY THE EMPLOYEE - THIS WOULD BE A ONE TIME BENEFIT BUT COULD BE PAID BY ALLOWING EMPLOYEES TO TRADE SOPME % OF THEIR ANNUAL LEAVE AT TERMINATION. — get actuary to put in writing re cost

PLS PROVIDE ANY COMMENTS ASAP. I MEET WITH KEITH AND LARRY AGAIN ON TUESDAY.

10. What happens if there is a shortfall in funding — what is the process to fix it.
    2. but agreement not front. Take from generally reserve + amortize over 26 years is your best position.
11. As an actuarial thing, get a deal on the years of service credit. He won't provide this quick enough to use the money other way.

DRAFT

CONFIDENTIAL

The key to this is all legal.
1. Can Retirement Board take the responsibility on a pay as you go basis or does this breach fiduciary responsibility because of 3 or 4 risks.
2. Can they agree to not pass assumption of funding without city permission
3. The position that you need to post to R/B agrees there are individual members pres + fins.
    2. That unwinding the health isn't clear enough — what happens to the rest of the deal, particularly pitts.
4. I'd get City Attorney, Fiduciary Counsel of a third in writing before proceeding.

Exhibit 2

⇒ confidential

SAN DIEGO CITY EMPLOYEE'S

RETIREMENT SYSTEM

if retirement takes health back then we can't pay bifurcated rate

MEMORANDUM

---

exec\rateplan.wpd
To: Keith Enerson

From: Larry Grissom

Subject: Proposed Retirement Package

Date: March 1, 1996

What follows is a proposal for implementing the package that you, Jack and I discussed on February 26. It is necessarily a little rough due to the time constraints. I will start with reserve crediting of undistributed income since the rest of the package flows out of this.

RESERVES

The first two items here are probably most important to me and Ed Ryan, but impact the package.

take out

1. Credit the Retiree Reserve with the amount of the current year benefit payment prior to June 30 of each year. $40 ans vs. $90m

difference due to '58 for retiree

set up for contingency not needed

2. Close the General Reserve into the Employer Reserve and eliminate the General Reserve. $4-5m / per 4m — new LMS 51m...

3. Create a new Contingency Reserve. This reserve would be defined in the SDMC in the following manner:
   a. The balance in this reserve shall not exceed 1% of System assets at market value. $15m
   b. In the event that undistributed earnings are insufficient, funds from this reserve will be used, in priority order, to pay the insurance premium (first) and the 13th check (second). This will provide a reserve sufficient to "protect" both of those benefits for two years of insufficient earnings.

4. Define (and rename, if necessary) the Stabilization Reserve in the SDMC as follows:
   a. Close the existing Earnings Stabilization Reserve into this reserve and eliminate that reserve. (Balance $10.7 million) transfer
   b. Credit this reserve annually with 50% of "surplus" undistributed earnings.
   c. Balance in this reserve shall not exceed $75 million. The percentage of "surplus" undistributed earnings will be adjusted as necessary to keep this reserve within the established limit.

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004 V_E-RFN-230-1610

d. This reserve may be used to cover shortfalls in contributions in accordance with the procedures described in ( ) below.

e. All assets in this reserve will be held outside of assets used for the purpose of the actuarial valuation.

5. SDMC 24.0907.1 needs to be rewritten to specify the distribution of earnings. If we implement it to impact FY 95 earnings (which we should), the schedule, in priority order, would look like this: ($$ in millions)

FY 95 Undistributed Earnings		$115.5
Distribution		
Credit Employee Reserve	$13.3	
Credit Employer Reserve	$1.5	
Administrative Budget	10.5	
Advanced for FY 94 Insurance	5.2	
13th Check	2.3	
Create Contingency Reserve	15.0	
Total Distributions		77.8
"Surplus" Undistributed Earnings		$ 37.7

10.8 [illegible] done [illegible] [illegible]

Credit 50% ($18.85) each to Employer Contribution Reserve and Stabilization Reserve.

6. Stabilization Reserve now has a balance of $29.15 ($10.7 + $18.85)

ANALYSIS

These actions set up the structure necessary to provide for rate stabilization, providing a reserve to protect the 13th check, payment of insurance premium costs, capturing some of the tremendous earnings we are currently experiencing, and, as will be discussed later, possibly funding some additional benefits. There are three drawbacks to this approach.

1. Perception. It looks like the Board is "giving" the City a lot of money. This is, frankly, a political and negotiation issue. The negative perception should be at least partially offset by increasing benefits as discussed below.

2. Outside counsel. I have no idea whatsoever how outside counsel will react to this plan. We should consider this carefully and thoroughly strategize out approach.

3. Holding Stabilization Reserve outside valuation assets. This means that Rick does not count that amount as assets in the actuarial valuation. The net effect is to increase the System's unfunded liability. For each $10 million in unfunded liability, the City contribution rate will increase approximately 0.13%, all else being equal. This is why I

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recommended capping this reserve at $75 million, since that would mean an increase in the City contribution rate of about 1%. Two factors mitigate the rate increase. First, while it is nearly impossible to predict with any accuracy, I don't think the reserve will get that high. Second, it is a question of trade-offs. At current payroll levels, 1% amounts to between $3.5 and $4.0 million, which is the maximum only if the reserve reaches its cap. The City will be getting a reduction of at least $5 million annually on its contribution cost for the next five years. "rate increase avoidance"

I have also discussed this concept with Rick and he is comfortable from an actuarial standpoint with this reserve.

Now 8.2 x do
1.08 do

RATE STABILIZATION

The central recommendation to this discussion is to change from PUC back to EAN effective July 1, 1996. Rick has indicated that the EAN rate for the FY95 valuation (effective July 1, 1996) would be approximately 10.2%. The PUC rate for the FY 95 valuation is 9.2%, or a difference of 1%. When the conversion was made for rates effective July 1, 1992, the difference was 2.77%.

The analysis by the actuary at the time of conversion showed that PUC was cheaper in the beginning, but that, since PUC rates would increase slightly annually while EAN remains stable (all else being equal), the "lines will cross" around year 22 of a 30 year amortization period. The PUC rate will be higher than EAN at the end of the 30 year amortization period. What has happened is that the gap has narrowed by 1.77% in only four years. If things keep going the way they have been, the lines will cross in the next 2 to 3 years, less than 10 years after implementation. At the end of the amortization period, PUC could logically be very significantly higher.

If the System's (and the City's) economic demographic, and employment conditions improve, the rates under both PUC and EAN will be lower. Potentially, PUC rates will improve at a slightly faster rate than EAN. However, if those conditions remain at their current levels or worsen further, EAN will remain relatively stable, while PUC will continue to climb.

The conversion back to EAN is well justified and necessary

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package memo - page 4.

EAN needed per carry

EAN = entry age normal } more volitile conversion saved us $2.7 m IS

Ed's concern year 2000

"5 75m in stabilization reserve"

IMPLEMENTATION PLAN

1. Rates.

verify were paying 7.00

	PUC RATE-FY96 EAN RATE -FY97+	RATE TO PAY	% DIFF	$$ DIFF
FY96	8.60% from last year actuarial	7.08%	1.52%	$5.65
FY97	10.20%	7.33%	2.87%	$11.16
FY98	10.20%	7.58%	2.62%	$10.64
FY99	10.20%	8.20%	2.00%	$8.48
FY2000	10.20%	8.20%	2.00%	$8.86

Year 6 need $ -- therefore need to build reserve.

NOTES
1. $$ in millions
2. $$ DIFF calculated on the basis of FY96 payroll at $372 million increasing at 4.5% per year.
3. Increase in RATE TO PAY in FY99 is simply to narrow the gap.
4. Projected rates assume assumptions match experience and do not include projected cost of any benefits changes.
5. Increase in RATE TO PAY in FY97 and FY98 due to remaining 2 years for payment of unfunded liability for disability income offset at 25% per year.

This would work in the following manner:

1. Each of the next 5 years, the City would pay the RATE TO PAY.
2. The amount shown in $$ DIFF would be transferred from the Stabilization Reserve to the Employers Contribution Reserve. Since the transfer represents "new money" from an actuarial standpoint, the System would be whole.
3. If these recommendations are implemented, the Stabilization Reserve would have a balance of $29.15 million. It would, therefore, be necessary for us to generate a minimum of $15.64 million in "surplus" undistributed earnings no later than FY 98 ($$ DIFF totals $44.79 million) for this to work. We should have this amount at the end of this fiscal year. NOTE TO LARRY -- TALK TO RICK ABOUT THE IMPACT IF ANY OF THE ONE YEAR LAG IN RATES AND EARNINGS CREDITING.
4. This should all be placed in the SDMC with the proviso that in the year following any year in which the Stabilization Reserve is insufficient to pay the difference in contributions or in which the funded ratio of the System falls below 80%, this plan will sunset.

then what? impact

on which basis? FIS actuarial

HEALTH INSURANCE

all funds

1. The City transfers $12.5 million from its Health Insurance Trust to the System.
2. The System establishes a separate Health Insurance Reserve with the $12.5 million.
3. Retiree health insurance becomes a CERS benefit.
4. Each year, the amount of the coming year's projected premium cost will be taken from

Draft

undistributed earnings and credited to the Health Insurance Reserve.

5. Actual premium cost and administrative charges will be charged to the Health Insurance Reserve. Projected cost for FY 96 is $4.9 million.

6. Retiree health insurance program will be transferred intact, including all existing rates and caps. This will vest this benefit. Since it is a benefit, the responsibility for and control of the benefit design, i.e. carriers, rates, coverages, etc., must remain with the City. We will write into the SDMC that the City reserves the right to take back the insurance program prior to the implementation of any action by the Board to require its funding on a full actuarial basis. and give health reserve back

7. Potential additional one time cost of making insurance a CERS benefit of approximately $980,000.

DISCUSSION Rick has indicated verbally and will commit to writing that he has no problem with the concept of health insurance becoming a CERS benefit funded on a pay as you go basis.

Retiree health insurance as it is presently structured is a chaotic mess. We have 3031 of our 4276 retirees covered by City paid health insurance, with rates ranging from $400 to $4500 per person per year. This includes pre 80 retirees.

In my many discussions with Bob Blum on the subject he has indicated that the only way to transfer the currently structured health insurance plan to CERS will require it to become a taxable benefit. It is not currently taxable. Bob indicated that one of his clients, Alameda County, dealt with a similar problem by increasing the amount of the benefit by 20% to defray the tax cost. This is the reason for point #7 above.

In order for the benefit to be non taxable it must be a medical benefit (401 (h)), and have some level of uniformity to meet the requirements of the Internal Revenue Code. One simple example would be to give all retirees a given set amount, and give them the choice of "buying" non taxable insurance benefits, taking it all as taxable cash, or some combination. This is very similar to the Section 125 cafeteria or Flex Benefits plan afforded active employees. To do this with the present structure and accommodate the exorbinite rates of the safety member indemnity plans, we would have to offer each retiree $4500 per year, which would quadruple the cost to nearly $20 million and is obviously out of the question.

My recommendation to handle these problems is as follows:

1. Bring retiree health insurance under CERS effective July 1, 1996 as described above.
2. Consider a one time increase of 20% to cover the tax cost.
3. The Retirement Board, City Manager, and employee organizations agree, in writing, to form a task force to work with actuaries, consultants, and legal counsel as necessary to develop a non taxable plan for retiree health insurance (which may include elimination of union sponsored plans) to be effective July 1, 1997.

If the task force does not develop workable non taxable plan by that date, the taxable plan will continue. However, extra payment to cover the tax cost will not continue. One possible

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

solution by which to simplify the number of levels of benefits paid would be as follows: one level each for police and fire; one level for retirees over age 65 and eligible for Medicare; one level for retirees less than 65 and subject to the $2000 cap; one level for retirees less than 65 and not subject to the $2000 cap.

BENEFITS CHANGES

1. Elimination of the disability income offset. This is a win win. Since we are already increasing contributions to pay off the unfunded liability and we have established that any recovery under the presently structured plan will be minimal, we are assuming a 0% offset in our actuarial assumptions. This means that this is a cost free benefit.

2. Grant the Virginia Silverman purchase. Roll this into purchase of service changes described below.

3. Make pre 80 health insurance coverage a permanent benefit. Projected cost for FY 96 is $622,400. Cost will decline in the future assuming continuation of current level of benefit since this is a closed group. Cost is built in to projections of total health insurance benefit.

4. Double 13th check amount for pre 80 retirees. Projected cost for FY 97 (FY 96 has already been paid) is $751,000 based on those who received a 13th check for FY 96. Actual cost will be slightly less because this is a closed group and some will be gone by October.

5. Change purchase of service. My recommendation is as follows:

a. Keep refunds, probationary period, 1981 Plan waiting period, and Military & Veterans Code required military service intact.

b. Eliminate all other existing categories of purchase.

c. Replace with a program allowing any member to purchase up to 5 (3?) years of additional service at any time or at retirement. Purchase cost to be calculated based on individual contribution rate including offset, City contribution rate, and current salary. Purchase at time of retirement can be made using some form of negotiated credits for unused annual leave.

DISCUSSION This is a potentially great benefit. There are, however, some problems. The amount a member is allowed to pay for purchase is governed by Section 415. Paying for purchase with annual leave credits is a possible way around this, but this raises issues with the taxability of the annual leave credits and possible discrimination issues (males tends to have significantly higher leave balances at retirement than females). Safety members are likely to scream at the cost calculation basis because their contributions rates are so much higher than general members (150% employee and 300% employer). There are always solutions. I have talked to Bob Blum and Rick and we are working on a variety of ideas. I may not have time to offer a good solution by March 5, but will shortly thereafter.

6. Increase general member formula.

DISCUSSION Working with Rick on design and costs. Again, may not have a good proposal by March 5, but will shortly thereafter.

OTHER ISSUES

1. Jack agrees to go to Council and recommend that they direct the Manager and the Board to study and report back with recommendations separately on the following issues:

a. Disability retirement benefits design.
b. Bringing CERS into compliance with relevant State law regarding the treatment of retirements benefits in dissolutions.
c. Survivor benefits for beneficiaries of deceased active member.
d. Purchase of service (only if necessary).
e. Implementation of voluntary additional contributions program.

2. Jack agrees not to mess with Retirement and to not use anything like the phrases "your damned actuary", "your damned lawyers", or "your damned Board" until after August 6, 2004, which is the day after I retire.

SUMMARY

This is a good plan. It gives the City nearly $45 million of rate relief over the next 5 years. It moves the health insurance problem towards resolution. It gives members and retirees a package of benefits that are attractive. It provides an equitable distribution of earnings while providing a measure of protection. It solves some gnawing administrative problems. It should provide a sufficient ratio of increased benefits and costs to satisfy fiduciary counsel. It does not give safety members and retirees, particularly the latter, all that they might want; but it does represent a significant improvement.

draft

Exhibit 3

Office of
The City Attorney
City of San Diego

MEMORANDUM

236-6220

DATE: February 29, 1996

TO: Charles G. Abdelnour, City Clerk

FROM: City Attorney

SUBJECT: Closed Session Agenda Items for March 5, 1996

Please place the following matters on the City Council Closed Session docket for Tuesday, March 5, 1996 at 9:00 a.m.

I. Conference with Legal Counsel - existing litigation, pursuant to California Government Code section 54956.9(a):

a. San Dieguito Partnership v. City
S.D. Superior 675245
b. Marschall v. City
S.D. Superior 685611
c. San Diego Public Facilities Financing Authority v. Rider, et al.
S.D. Superior 693578
d. City v. Rider, et al.
S.D. Superior 697147.

II. Conference with Real Property Negotiator - property acquisition, pursuant to California Government Code section 54956:

a. In the matter of authorizing Robert J. Collins of the City of San Diego, to represent the City Manager in negotiating with Bob Payne of Fairbanks Ranch Country Club, with regard to the sale of the property located at 15150 San Dieguito Road.

b. In the matter of authorizing Robert J. Collins of the City of San Diego, on behalf of the City Manager to negotiate with C. Michael Cross, Executive Vice President, Sea World of California, with regard to lease of the properties located at: 1) 1720 South Shores Road in Mission Bay Park, commonly known as Sea World of California, and 2) approximately 12-16.5 acre parcels of land located adjacent to and easterly of Sea World of California.

III. Conference with Labor Negotiator, pursuant to Government Code section 54957.6:

Agency negotiators: Jack McGrory, Bruce Herring, Cathy Lexin, Bill Lopez

Employee organizations: Municipal Employees Association, Local 127 AFSME, AFL-CIO, Local 145 International Association of Firefighters AFL-CIO, San Diego Police Officers Association

JOHN W. WITT, City Attorney

By John M. Kaheny
Assistant City Attorney

JMK:js

Exhibit 4

OFFICE COPY

Office of
The City Attorney
City of San Diego

MEMORANDUM

236-6220

DATE: March 14, 1996

TO: Charles G. Abdelnour, City Clerk

FROM: City Attorney

SUBJECT: Closed Session Agenda Items for March 19, 1996

Please place the following matters on the City Council Closed Session docket for Tuesday, March 19, 1996 at 9:00 a.m.

I. Conference with Legal Counsel - existing litigation, pursuant to California Government Code section 54956.9(a):

a. San Dieguito Partnership v. City
S.D. Superior 675245
b. Glaser v. City
U.S. District 95-3632H(BTM)
c. Huerta v. City
S.D. Superior 688649
(Davis v. City
S.D. Municipal 571102
Valdez v. City
S.D. Municipal 578485)
d. U.S.A. v. City
U.S. District 88-1101-B
e. City v. City of Coronado, et al.
S.D. Superior 690791
f. The Right to Vote Committee, et al. v. City
S.D. Superior 698120.

II. Conference with Legal Counsel - anticipated litigation - significant exposure to litigation, pursuant to California Government Code section 54956.9(b):

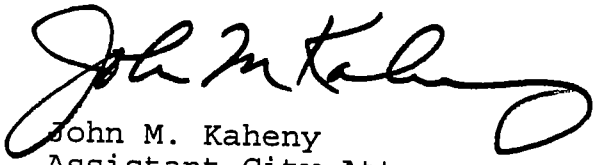
a. Kilgarif v. City.

III. Conference with Labor Negotiator, pursuant to Government Code section 54957.6:

Agency negotiators: Jack McGrory, Bruce Herring, Cathy Lexin, Bill Lopez

Employee organizations: Municipal Employees Association, Local 127 AFSME, AFL-CIO, Local 145 International Association of Firefighters AFL-CIO, San Diego Police Officers Association

JOHN W. WITT, City Attorney

By 
John M. Kaheny
Assistant City Attorney

JMK:js

March 19, 1996

CLOSED SESSION

AGENDA

March 19, 1996

1. San Dieguito Partnership v. City
2. Glaser v. City
3. Huerta v. City
4. U.S.A. v. City
5. City v. City of Coronado, et al.
6. The right to Vote Committee, et al. v. City
7. Kilgarif v. City
8. Meet and Confer
9. Redevelopment

Exhibit 5

Office of
The City Attorney
City of San Diego

MEMORANDUM

236-6220

DATE: April 11, 1996

TO: Charles G. Abdelnour, City Clerk

FROM: City Attorney

SUBJECT: Closed Session Agenda Items for April 16, 1996

Please place the following matters on the City Council Closed Session docket for Tuesday, April 16, 1996, at 9:00 a.m.

I. Conference with Legal Counsel - existing litigation, pursuant to California Government Code section 54956.9(a):

a. San Diego Public Facilities Financing Authority v. Rider, et al.
S.D. Superior 693578
b. City v. Rider, et al.
S.D. Superior 697147
c. U.S.A. v. City
U.S. District Court 88-1101-B
d. Robertson v. Sterling, et al.
S.D. Superior 683883.

II. Conference with Legal Counsel - anticipated litigation - significant exposure to litigation, pursuant to California Government Code section 54956.9(b):

a. 29th Police Academy Pay Issue
b. East Elliott Community Area.

III. Conference with Real Property Negotiator - property acquisition, pursuant to California Government Code section 54956.8:

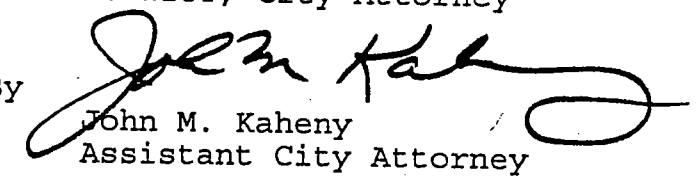
a. In the matter of authorizing Robert J. Collins of the City of San Diego, to represent the City Manager in discussing the matter of marketing Eastgate Technology Park, presentation by Rick Sparks of CB Commercial regarding negotiations with Hye-Hyung-Paik for a portion of Lot 4B.

IV. Conference with Labor Negotiator, pursuant to Government Code section 54957.6:

Agency negotiators: Jack McGrory, Bruce Herring, Cathy Lexin, Bill Lopez

Employee organizations: Municipal Employees Association, Local 127 AFSME, AFL-CIO, Local 145 International Association of Firefighters AFL-CIO, San Diego Police Officers Association

JOHN W. WITT, City Attorney

By 
John M. Kaheny
Assistant City Attorney

JMK:js

April 16, 1996

CLOSED SESSION

AGENDA

April 16, 1996

1. San Diego Public Facilities Financing Authority v. Rider, et al.

2. City v. Rider

3. U.S.A. v. City

4. Robertson v. Sterling, et al

5. 29th Police Academy Pay Issue

6. East Elliott Community Area

7. In the matter of authorizing Robert J. Collins of the City of San Diego, to represent the City Manager in discussing the matter of marketing Eastgate Technology Park, presentation by Rick Sparks of CB Commercial regarding negotiations with Hye-Hyung -Paik for a portion of Lot 4B

8. Meet and Confer

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL CLOSED SESSION MINUTES
April 16, 1996
(9:10 a.m. - 10:17 a.m.)

ATTENDANCE:

COUNCIL

Golding	9:18	Kehoe	x	Stallings	np
Mathis	x	Stevens	9:17	McCarty	x
Wear	9:16	Warden	x	Vargas	x

CITY MANAGER STAFF
McGrory, Culbreth-Graph, Herring, Loveland, Belock, Snapper, Frazier.

CITY ATTORNEY STAFF
Kaheny, Girard, Sumption, Bromfield, Fitzpatrick, Mac Ateer

AUDITOR
Ryan, Webster.

CITY CLERK STAFF
Fishkin, Pontecorvo, Huhn.

SUBJECT #4: **Robertson v. Sterling, et al.**
S.D. Superior 683883

ACTION: Motion by McCarty to approve the settlement in the amount of $20,000. Second by Warden.
Vote: Unanimous; 4,6,M-not present.

Aud. Cert. No. 9601096
R-287210

SUBJECT #6: **East Elliott Community Area**

The City Manager provided Council with an up-date on the acquisition of land in the East Elliott Community.

ACTION: Motion by McCarty to move forward with the City Manager's recommendation. Second by Kehoe.
Vote: Unanimous; 4,6,M-not present.

SUBJECT #1: **San Diego Public Facilities Financing Authority v. Rider, et al.**
S.D. Superior 693578

Girard briefed Council regarding the time limit for filing a Notice of Appeal which runs on May 2, 1996. He also discussed different case scenarios depending on the decision from the Court of Appeals.

ACTION: Information only. No action necessary.

SUBJECT #2: **City v. Rider, et al.**
S.D. Superior 697147

McGrory briefed Council regarding the Stadium expansion and the construction contract. He also briefed Council regarding the training facility construction project negotiations.

ACTION: Information only. No action necessary.

SUBJECT #3: **U.S.A. v. City**
U.S. District Court 88-1101-B

McGrory briefed Council on the water and sewer main replacement and the program for replacing 170 miles of mains. There was also Council discussion regarding the cost of this program.

ACTION: Information only. No action necessary.

SUBJECT #7: **In the matter of authorizing Robert J. Collins of the City of San Diego, to represent the City Manager in discussing the matter of marketing Eastgate Technology Park, presentation by Rick Sparks of CB Commercial regarding negotiations with Hye-Hyung-Paik for a portion of Lot 4B.**

Rick Sparks briefed Council on the negotiations for this lot. There was Council discussion regarding the market price per square foot of land.

ACTION: Information only. No action necessary.

This portion of the Closed Session Meeting halted at 10:17 a.m. Council discussion followed pertaining to the Meet and Confer issues.

Council reconvened at 2:00 p.m. to continue Meet and Confer issues.

Exhibit 6

SDCERS' RETIREMENT BOARD OF ADMINISTRATION
THURSDAY, APRIL 18, 1996
MINUTES

The Retirement Board of Administration held its regularly scheduled meeting in the System's Board Room. Location: 525 "B" Street, Suite 1120, San Diego, CA 92101. The meeting was called to order at 3:05 p.m. by Keith Enerson.

Board Present: Keith Enerson, Chair; Paul Barnett, Ron Saathoff, Bruce Herring, Jack Katz, John Casey, Paul Barnett, Sharon Wilkinson, Terri Webster, Conny Jamison, Robert Scannell, John Torres, Ann Parode

Also Present: Lawrence Grissom, Lori Chapin, Sally Zumalt, Cynthia Hilliard, Jan Beaton, Christine Kachulis, Doug McCalla, Ray Fleming, Linda Brewton, Patrick Lane, Gloria Oloya, Ed Oliva, German Gonzalez, Mary Heath, Cathy Lexin, Bill Peterson, Nancy Neumann, Robert Steele, Charles Abdelnour, Cindy Titgen, Attorney Michael Wax

Ann Parode was sworn to office by Charles Abdelnour, City Clerk.

I.	**CONSENT AGENDA ITEMS #1 - 5 (ACTION REQUESTED)**
	1. SERVICE RETIREMENTS - APPROVAL RECOMMENDED

MOTION TO MOVE APPROVAL OF CONSENT AGENDA ITEMS #1-5 (SERVICE RETIREMENTS; INDUSTRIAL DISABILITIES RECOMMENDED FOR APPROVAL; STATEMENT OF MEMBERSHIPS; WITHDRAWALS OF CONTRIBUTIONS; MARCH MINUTES; AND THE AUDITOR AND COMPTROLLER'S REPORT THROUGH MARCH 31, 1996):

SECOND: **RON SAATHOFF**
BOARD: **JACK KATZ**
MOTION PASSED. **UNANIMOUS**

A. Winford Kitts, Police Officer II/Detective. Police Department. Age 52.00, with 28.14 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $3,020.95 Plus $92.37 Cost-of-living annuity, maximum benefit with surviving spouse provisions. (Board Rule 17B)

B. Thomas Hall, Police Captain. Police Department. Age 53.00, with 31.09 Years of creditable service. Effective date of 4/1/96. Estimated monthly allowance of $5,281.64 Plus $117.48 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

C. Patricia Burns, Secretary/Engineering. UPD. Age 62.00, with 24.26 Years of creditable service. Effective date of 4/1/96. Estimated monthly allowance of $1,651.84 Plus $65.95 Cost-of-living annuity, maximum benefit.

D. Russell Johnson, Equipment Operator I, Transportation. Age 62.25, with 40.26 Years of creditable service. Effective date of 4/22/96 . Estimated monthly allowance of $2,106.43 Plus $46.70 Cost-of-living annuity, maximum benefit.

E. George Howland, Jr., Fire Engineer. Fire Department. Age 60.75, with 33.00 Years of creditable service. Effective date of 4/15/96. Estimated monthly allowance of $3,705.21 Plus $123.13 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

F. Kenneth White, Section Chief, Engineering Department, UPD. Age 65.00, with 21.04 Years of creditable service. Effective date of 3/30/96. Estimated monthly allowance of $3,254.46 Plus $118.01 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

G. Edward G. Firkins, Jr., Project Officer II, Park and Recreation. Age 65.00 , with 38.02 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $4,586.54 Plus $92.76 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

H. Robert E. Hultquist, Fire Engineer, Fire Department. Age 53.00, with 27.75 Years of creditable service. Effective date of 4/13/96. Estimated monthly allowance of $2,912.26 Plus $101.12 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

I. James L. Spotts, Management Assistant to City Manager, Water Utilities. Age 62.25, with 27.83 Years of creditable service. Effective date of 4/22/96. Estimated monthly allowance of $4,263.55 Plus $87.77 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

J. Laurence Wilson, Associate Traffic Engineer, Engineering Department. Age 69.50, with 6.31 Years of creditable service. Effective date of 4/9/96. Estimated monthly allowance of $193.41, maximum benefit with surviving spouse provisions.

K. Larry A. Weckman, Financial Operations Manager, Auditors. Age 55.00, with 27.84 Years of creditable service. Effective date of 4/6/96. Estimated monthly allowance of $2,485.31 Plus $46.77 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

L. James P. Williams, Police Officer II, Police Department. Age 55.00, with 17.40 Years of creditable service. Effective date of 4/12/96. Estimated monthly allowance of $1,141.74 Plus $69.46 Cost-of-living annuity, maximum benefit. (Deferred)

REFER TO PAGE 1 FOR THE MOTION ON SERVICE RETIREMENTS #1D - L.

M. Freeman A. Grant, Airport Operations Asst., UPD. Age 62.00, with 10.18 Years of creditable service. Effective date of 3/8/96. Estimated monthly allowance of $575.04 Plus $27.69 Cost-of-living annuity, maximum benefit with surviving spouse provisions. (Option II)

N. Ruth I. Barber, Secretary, Planning Department. Age 65.00, with 9.18 Years of creditable service. Effective date of 1/20/96 . Estimated monthly allowance of $95.03. Maximum benefit.

O. Paul G. Garfield, Fire Captain, Fire Department. Age 55.50, with 27.62 Years of creditable service. Effective date of 4/6/96. Estimated monthly allowance of $3,598.98 Plus $119.47 Cost-of-living annuity, maximum benefit with surviving spouse provisions. (Board Rule 17B)

2. STATEMENTS OF CERS MEMBERSHIPS - THROUGH 4/9/96

ACTIVE & INACTIVE	RETIRED	ENROLLED	WITHDRAWALS	DEATHS (DP'S)	RETIRED this month	RETIRED DEATHS	1981 PENSION PLAN - RETIRED
10,119	4,314	70	24	1	30	5	2

REFER TO PAGE 1 FOR THE MOTION ON SERVICE RETIREMENTS #1. M-O; AND, ITEM #2.

3. WITHDRAWALS OF CONTRIBUTIONS

NAME	DEPARTMENT	REASON	AMOUNT
Gwendolyn Davis	Council	Quit	$ 1,665.21
Frank Ducote	Planning	Quit	6,185.55
Michael King	UPD/General	Quit	2,907.06
Caroline Riggs	Police	Quit	4,817.67
Elaine Reed	Park & Rec.	Quit	4,196.85
Daniel Melody	UPD/General	Quit	11,755.92
Sandra Davis	Financial Tech. Serv.	Quit	12,069.37
Denise Ward	Building Inspection	Quit	1,406.88
Christopher Dunnum	Waste Water	Quit	6,360.18
Maxine Coney	Council	Quit	287.52
Savi Swick	UPD/General	Quit	384.56
Peggy Cooper	Park & Recreation	Quit	7,834.85
Carol Maxwell	Personnel	Quit	4,761.07
Margaret Lawson	Police	Quit	5,793.28
Herbert Montgomery	Water Utilities	Quit	34.71
Catherine Alegria	General Services	Quit	7,188.04
Daniel Hinesh	UPD/General	Quit	6,978.11
Carla Bryant	City Clerk	Quit	5,533.53
Susie Heustis	UPD/General	Quit	833.77
George Arias	Police	Quit	6,050.37
James A. Burks, Jr.	Waste Water	Quit	5,679.49
Katherine Seiber	Council	Quit	744.09
Laini Busara	Planning	Quit	3,996.29
Jeffrey J. Smith	Property	Quit	465.17
Alfredo Flores	Withdrawals of Contributions		2,897.05
	Death Benefit		2,579.67
TOTAL			**$113,406.26**

4. DISPENSE WITH THE READING AND APPROVAL OF THE MINUTES OF 3/15/96

5. APPROVAL OF THE AUDITOR AND COMPTROLLER'S REPORT THROUGH 3/31/96

REFER TO PAGE 1 FOR THE MOTION ON ITEMS #3, #4, AND, #5.

II. ADMINISTRATIVE RECOMMENDATIONS TO **APPROVE** THE FOLLOWING INDUSTRIAL DISABILITIES

A. Mary Heath, Library Clerk, Library. Age 58.25, with 13.82 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $692.77 Plus $34.38 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

B. Winford Kitts, Police Officer II/Detective, Police Department. Age 52.00, with 28.14 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $3,020.95 Plus $106.12 Cost-of-living annuity, maximum benefit with surviving spouse provisions. (Board Rule 17B)

C. Nancy Neumann, Legal Secretary, City Attorney. Age 44.25, with 6.30 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $938.98 Plus $14.86 Cost-of-living annuity, maximum benefit.

D. Ronald Steele, Laborer, Water Utilities. Age 39.25, with 5.18 Years of creditable service. Effective date of 2/2/96. Estimated monthly allowance of $630.87 Plus $6.47 Cost-of-living annuity, maximum benefit with surviving spouse provisions. (Option I)

E. George Cason, Police Officer II, Police Department. Age 58.75, with 16.57 Years of creditable service. Effective date of 12/1/95. Estimated monthly allowance of $2,085.84 Plus $104.03 Cost-of-living annuity, maximum benefit with surviving spouse provisions. (Board Rule 17B)

F. Kattie McGee, Police Officer II, Police Department. Age 41.50, with 9.31 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $1,969.16 Plus $24.54 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

REFER TO PAGE 1 FOR THE MOTION ON INDUSTRIAL DISABILITIES ITEM II. A-F.

III. ADMINISTRATIVE RECOMMENDATIONS TO **DENY** THE FOLLOWING INDUSTRIAL DISABILITIES

A. Carolyn Harshman, Organization Effectiveness Specialist II, Building Inspection. Age 42.50, with 8.34 years of creditable service. Effective date of 6/17/95. Estimated monthly allowance of $1,207.53 plus $7.60 cost-of-living annuity, maximum benefit.

B. Alice Roque, Forensic Alcohol Analyst, Police Department. Age 48.75, with 5.46 Years of creditable service. Effective date of 5/10/95. Estimated monthly allowance of $1,158.24 Plus $17.27 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

MOTION TO APPROVE ITEMS #III A-B; AND, ITEMS #IV A-G: **RON SAATHOFF**

SECOND: **JACK KATZ**

DISCUSSION:
Mr. Grissom stated that staff had notified applicants and their attorneys that items III and IV would be continued until May. Therefore, he requested that the Board postpone action on these items until the May meeting.

Mr. Casey stated that it would be necessary to table the previous motion.

ITEMS #III A-B and ITEMS #IV A-G WERE CONTINUED TO MAY 15, 1996.

IV. ADMINISTRATIVE RECOMMENDATIONS TO REFER THE FOLLOWING INDUSTRIAL DISABILITY APPLICANTS TO A HEARING OFFICER

A. Bradley Brown, Fire Engineer, Fire Department. Age 55.00, with 25.73 Years of creditable service. Effective date of 6/28/94. Estimated monthly allowance of $2,830.90 Plus $105.98 Cost-of-living annuity, maximum benefit with surviving spouse provisions.
(Board Rule 17B)

B. Harry Coleman, Fire Captain, Fire Department. Age 56.75, with 29.62 Years of creditable service. Effective date of 10/28/95. Estimated monthly allowance of $3,802.70 Plus $149.41 Cost-of-living annuity, maximum benefit with surviving spouse provisions.
(Board Rule 17B)

C. Tony Jefferson, Sanitation Driver I, Environmental Services. Age 28.75, with 1.13 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $755.43 Plus $1.16 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

D. Eugene MacConaghy, Police Officer II, Police Department. Age 36.25, with 9.68 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $2,224.78 Plus $25.43 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

E. Katherine McElyea, Police Dispatcher, Police Department. Age 36.50, with 1.10 Years of creditable service. Effective date of 5/10/95. Estimated monthly allowance of $876.93 Plus $2.12 Cost-of-living annuity, maximum benefit.

F. Cheryl Talley, Meter Reader, Water Utilities. Age 43.25, with 7.23 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $663.07 Plus $3.80 Cost-of-living annuity, maximum benefit.

G. Linda M. Gruss, Parking Enforcement Officer, Treasurers. Age 44.00, with 1.70 Years of creditable service. Effective date of 2/5/96. Estimated monthly allowance of $714.29 Plus $2.92 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

ITEMS #IV A-G WERE CONTINUED TO MAY 15, 1996.

V. ADMINISTRATIVE RECOMMENDATION TO **APPROVE THE FOLLOWING NON-INDUSTRIAL DISABILITY**

1. Robert Burkert, Equipment Mechanic, General Services. Age 64.25 , with 10.45 Years of creditable service. Effective date of 3/9/96. Estimated monthly allowance of $1,058.78 Plus $31.96 Cost-of-living annuity, maximum benefit with surviving spouse provisions. (Board Rule 17C)

2. Dexter Wittman, Police Officer II, Police Department. Age 35.75, with 13.39 Years of creditable service. Effective date of 4/20/96. Estimated monthly allowance of $1,352.19 Plus $32.17 Cost-of-living annuity, maximum benefit with surviving spouse provisions. (Board Rule 17A)

MOTION TO MOVE APPROVAL OF THE NON INDUSTRIAL DISABILITY APPLICATIONS OF ROBERT BURKERT AND DEXTER WITTMAN:

RON SAATHOFF
SECOND: JACK KATZ
BOARD: UNANIMOUS
MOTION PASSED.

VI. ADMINISTRATION

A) REVIEW AND FOLLOW-UP AND ACTION AS NECESSARY ON STRATEGIC PLANNING WORKSHOP

Mr. Grissom asked for direction on how the Board would like Staff to move forward with information obtained at the Strategic Planning Workshop.

Staff was directed to place the list of "Goals and Objectives" in priority order, place a time line on each item, and bring their recommendations back in May or June.

B) FOLLOW-UP ON SCHEDULING THE BOARD'S HALF DAY WORKSHOP FOR DOMESTIC RELATIONS ORDERS

Mr. Grissom reported that the Board's Domestic Relations Orders Workshop has been scheduled for Friday, April 26, 1996 at 9:30 a.m.

C) CERTIFICATION OF THE GENERAL MEMBER ELECTION

Mr. Grissom stated that the General Member election had occurred, and that a run-off would be necessary. He stated that run-off election materials would be sent out with the April 19, 1996 paychecks.

MOTION TO CERTIFY THE GENERAL MEMBER ELECTION RESULTS (A COPY IS ATTACHED TO THESE MINUTES):

	JACK KATZ
SECOND:	**JOHN CASEY**
BOARD:	**UNANIMOUS**
MOTION PASSED.	

VII. BUSINESS PROCEDURES COMMITTEE REPORT - RON SAATHOFF, CHAIR

ITEM VII WAS CONTINUED TO THE MAY MEETING.

1. <u>OLD BUSINESS - CONSIDERATION AND REQUEST FOR ACTION AS NECESSARY</u>

A. THE FUTURE ROLE OF THE HEALTH ADVISORY SUBCOMMITTEE

B. FISCAL YEAR '97 OPERATING BUDGET

2. <u>NEW BUSINESS - CONSIDERATION AND REQUEST FOR ACTION AS NECESSARY</u>

A. PRESENTATION AND SELECTION OF CONSULTANT TO EXAMINE SDCERS' DISABILITY RETIREMENT PROCESS

B. RATIFICATION OF COLA ADJUSTMENT

C. REVIEW OF PSYCHIATRIC EVALUATIONS IN THE DISABILITY PROCESS

3. APPROVAL OF ED OLIVA AND JOHN CASEY TO ATTEND THE "FUNDAMENTALS OF QUALIFIED RETIREMENT PLANS" 4/23/96 IN SAN DIEGO

VIII. INVESTMENT COMMITTEE MEETING REPORT - ROBERT SCANNELL, CHAIR

1. REPORTS - CONSIDERATION AND REQUEST FOR ACTION AS NECESSARY

A. MANAGER WATCHLIST

With the exception of the removal of Bond Procope, Mr. Scannell stated that there were no changes to the report.

B. REAL ESTATE SUBCOMMITTEE

Mr. Scannell addressed Items #2D and #2E with this item. He stated that CB Commercial and John Burnham Company are in the process of short listing buildings on the buy and lease side for the Board's review. They have indicated that their short lists will be completed by the end of April. Staff was directed to notify the full Board of the date(s) of the on-site visits.

Mr. Enerson indicated that on site visits would occur the first week of May.

C. STATUS OF THE TRANSFER OF ASSETS FROM BOND PROCOPE TO GLOBEFLEX

Mr. Scannell reported that Staff had indicated that the transfer of assets from Bond Procope to Globeflex had gone smoothly.

D. CHANGE IN MINORITY OWNERSHIP AT SMITH GRAHAM AND COMPANY

Mr. Scannell reported that Smith Graham had sold 40% of their ownership to a Dutch manager. It is anticipated that this change will be a beneficial resource to CERS.

E. IPC QUARTERLY PERFORMANCE REPORT 12/31/95

Mr. Scannell stated that Bruce Eidelson of IPC, had provided the Committee with an overview of SDCERS' performance through 12/31/95. He reported that SDCERS' total return of 2.3% for the quarter was above the IPC benchmark, and that there had been a net appreciation of zero. He directed the Board to review their IPC reports for further detail.

2. <u>OLD BUSINESS - CONSIDERATION AND REQUEST FOR ACTION AS NECESSARY</u>

A. ASSET ALLOCATION IMPLEMENTATION PLAN

1) STATUS OF DUE DILIGENCE AND FUNDING OF ROGGE GLOBAL PARTNERS INTERNATIONAL FIXED INCOME ACCOUNT

Mr. Scannell reported that: 1) SDCERS' target allocation is very close to the asset mix; and, 2) the Board had waived their guidelines to perform due diligence at the March meeting, contingent upon staff performing a more in-depth credit reference check. Staff and Callan have indicated that Rogge received very high marks, and that they have not been terminated by any clients.

B. REQUEST BY SEC PARTNERSHIP TO EXTEND MORTGAGE LOAN

Staff indicated that the loan is status quo and that SDCERS continues to collect the higher interest rate of 10.5%.

C. PRESENTATION BY SECTOR CAPITAL MANAGEMENT ON THEIR S&P 500 ENHANCED INDEX PROCESS

Mr. Scannell informed the Board that representatives of Sector Capital Management had made a presentation at the Investment Committee meeting. Because of the time allotment, this item was continued to May, 1996.

D. REVIEW AND SELECTION OF LEASABLE OFFICE SPACE SITE(S) FOR FURTHER EVALUATION

E. REVIEW AND SELECTION OF PURCHASABLE OFFICE SPACE SITE(S) FOR FURTHER EVALUATION
ITEMS 2D & 2E WERE ADDRESSED WITH ITEM VIII B, PAGE 9.

3. NEW BUSINESS - CONSIDERATION AND REQUEST FOR ACTION AS NECESSARY

A. APPROVAL OF REPORTED ACTIONS TAKEN BY INVESTMENT MANAGERS PURSUANT TO INVESTMENT GUIDELINES THROUGH MARCH 31, 1996

MOTION TO MOVE APPROVAL: **ROBERT SCANNELL**
SECOND: **JACK KATZ**
BOARD: **UNANIMOUS**
MOTION PASSED.

B. APPROVAL OF THE RENEWAL OF VARIOUS INVESTMENT ADVISOR AND SERVICE PROVIDER CONTRACTS

Mr. Scannell stated that approving Staff's recommendation would give them authority to forward contracts that are up for renewal directly to the President for his signature. He stated that all contracts would continue to include the 30 day termination clause language, and that the Investment Committee had recommended that Ashland's contract be an exception to staff's recommendation.

MOTION TO APPROVE STAFF'S RECOMMENDATION, WITH THE EXCEPTION OF ASHLAND ASSET MANAGEMENT'S CONTRACT:

SECOND: **ROBERT SCANNELL**
BOARD: **CONNY JAMISON**

Mr. Casey questioned whether this would give staff the authority to continually approve contracts.

Mr. Scannell stated that this would give the President the authority to renew the contracts, not Staff.

Additionally, Mr. McCalla stated that any contracts that are being renegotiated would come before the Board for their approval prior to being signed by the President.

Mr. Grissom emphasized that contract changes would be brought to the Board's attention prior to being forwarded to the President.

Mr. Casey recommended that the contract language be amended to prevent vendors from hiring trustees for a certain period of time.

Mr. Grissom stated that this should be included in the Board Rules, not the contracts.

Mr. Scannell said approving this recommendation is simply an administrative function.

McCalla stated that if the Board sets a policy preventing vendors from hiring trustees for a certain time period, that language would be incorporated into the contract language as well.

Call for the Question to approve Staff's recommendation with the exception of Ashland Management's contract:

BOARD: **UNANIMOUS**
MOTION PASSED.

C. REVIEW OF ALTERNATIVE DOMESTIC EQUITY LARGE CAP GROWTH STYLE MANAGERS FOR POTENTIAL REPLACEMENT OF ASHLAND MANAGEMENT

Mr. Scannell stated that after discussion of this issue at the Committee meeting, Staff had been directed to come back with further analysis in May or June.

D. APPROVAL OF THE SALE OF CASCADE VILLAGE APARTMENTS AS RECOMMENDED BY RREEF

MOTION TO MOVE APPROVAL: **ROBERT SCANNELL**
SECOND: **JACK KATZ**
BOARD: **UNANIMOUS**

IX. CONSIDERATION AND REQUEST FOR ACTION AS NECESSARY OF ITEMS PULLED FROM CONSENT AGENDA

X. REPORTS OF OFFICERS

A. PRESIDENT
B. TRUSTEES
C. ADMINISTRATION
D. ATTORNEYS

Mr. Enerson stated that the May meeting has changed from May 17, 1996 to May 15, 1996, at 1:30 p.m.

Mr. Casey reported that he had been attending the NCPERS conference and that it was very worthwhile conference. He encouraged all Board members to attend future conferences.

Mr. Saathoff stated that the actuarial report was overlooked on the April agenda.

Mr. Grissom disagreed. He stated that the Board had continued this item to May.

Mr. Saathoff stated that the March Minutes indicated that this would be brought back in April.

Mr. Scannell encouraged all Board members to attend the on-site visits to office sites.

Mr. Enerson stated that this would be scheduled the first week of May.

Mr. Katz stated that there was an error to the Training Report reflecting a $295.00 IFE expenditure. He stated that he had not been approved for this conference, but asked that his name be added for approval.

Mr. Grissom stated that Mr. Katz' request would be placed on the May agenda.

Ms. Wilkinson questioned how much time should be set aside for the Special Board Meeting of 4/30/96, and whether the Board would receive reading materials prior to the meeting.

Mr. Enerson recommended that Board members block from 1:00 to 5:00 p.m. on 4/30/96.

Mr. Herring stated that the Manager's office is currently working on the handout materials.

Mr. Grissom directed the Board to review the blue handout related to meeting changes.

XI. CLOSED SESSION - None.

XII. NON DOCKET ITEMS - None

XIII. PUBLIC COMMENT - None

NEXT MEETING: **WEDNESDAY, MAY 15, 1996 - 1:30 PM**
Retirement System Board Room
525 "B" Street, Suite 1120
San Diego, CA 92101

XV. ADJOURNMENT - The meeting was adjourned at 3:32 p.m.

Minutes Prepared By: Sally Zumalt, Board Secretary

Approved By: _____
Lawrence B. Grissom, Retirement Administrator

FILE: W:\BOARD\BDM41996

Exhibit 7

JONES, DAY, REAVIS & POGUE

ATLANTA
BRUSSELS
CHICAGO
COLUMBUS
DALLAS
FRANKFURT
GENEVA
HONG KONG
IRVINE
LONDON
LOS ANGELES
NEW DELHI
NEW YORK
PARIS
PITTSBURGH
RIYADH
TAIPEI
TOKYO
WASHINGTON

NORTH POINT
901 LAKESIDE AVENUE
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TELEPHONE: 216-586-3939
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CABLE: ATTORNEYS CLEVELAND
FACSIMILE: 216-579-0212
WRITER'S DIRECT NUMBER:

0293:197897
571272-001-001

(216) 586-7188

April 29, 1996

VIA FEDERAL EXPRESS

Mr. Bruce A. Herring
Deputy City Manager
City of San Diego
202 C Street
San Diego, CA 92101

Re: Fiduciary Aspects of Plan Revisions

Dear Bruce:

This letter is in response to your request for advice concerning the fiduciary implications of the proposed plan revisions outlined in the draft 1996 SDCERS Plan Revision Outline that you faxed to me March 28, 1996, a copy of which is enclosed ("Outline"). As I understand it, the proposed changes described in the Outline (the "Proposal") are the result of discussions between the Plan Administrator of the San Diego City Employees' Retirement System ("SDCERS" or the "System") and your Office, and are being discussed with labor organizations representing the City's employees as part of the current meet and confer process. While the terms of the proposed changes may have been revised as a result of these discussions, this letter will deal with the Proposal as set forth in the Outline.

Who is a Fiduciary

In order to understand the fiduciary implications of the Proposal, it is necessary to categorize the parties to the plan revision process. SDCERS is a public retirement system that is funded through a trust fund, the City Employees' Retirement Fund.[1] This creates a trust relationship between the trustees who administer the System and the members and retirees of SDCERS

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1 San Diego City Charter §§ 141, 145.

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and their beneficiaries.[2] The Board of Administration ("Board") and officers of SDCERS are voluntary trustees for this purpose.[3]

The City, on the other hand (specifically the City Council), is analogous to the settlor or creator of the trust.[4] As such, the City does not act in a fiduciary capacity with respect to the members of the System when revising benefits.[5] This is appropriate since the City Council represents and is responsible to the voters and taxpayers. Of course, the City is bound by the terms of the City Charter and Municipal Code to the extent they apply to benefit revisions,[6] subject to the City Council's ability to amend the City Charter and Municipal Code.[7]

The labor organizations representing City employees also should not be fiduciaries under the System with respect to SDCERS members, although this letter will not deal with such organizations and their duties in the plan revision process.

Fiduciary Duties

In the context of public pension systems, the California Constitution specifically defines the fiduciary duties of the retirement board or board of administration:

> Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board

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2 Hereafter, all references to members will include retirees and beneficiaries.

3 Hittle v. Santa Barbara County Employees Retirement Association, 39 Cal. 3d 374, 392, 216 Cal. Rptr. 733, 744 (1985).

4 Claypool v. Wilson, 4 Cal. App. 4th 646, 676, 6 Cal. Rptr. 2d 77, 95, cert. denied, 506 U.S. 1034 (1992)

5 The City Manager, City Auditor and Comptroller and City Treasurer are fiduciaries, though, when acting as members of the Board. See NLRB v. Amax Coal Co., 453 U.S. 322 (1981).

6 E.g., the requirement contained in section 143.1 of the City Charter that members vote on benefit changes.

7 As we have discussed, there are limitations on the City Council's amendment power, for example, on its ability to reduce vested benefits. See, e.g., Kern v. Long Beach, 29 Cal. 2d 848, 179 P.2d 799 (1947).

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> of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to the following:
>
> (a) . . . . The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.
>
> (b) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.
>
> (c) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.[8]

This Constitutional provision subjects public pension systems to the law of trusts.[9] The *"solely in the interest"* and *"exclusive purpose"* standards articulated in the Constitution represent the trustee's common law *duty of loyalty*.[10] As a

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8 Cal. Const. Art. XVI, § 17, as amended by the California Pension Protection Act of 1992 (Proposition 162).

9 Claypool, supra, 4 Cal. App. 4th at 676, 6 Cal. Rptr. 2d at 95.

10 Generally, this duty imposed on the trustee a prohibition against incurring conflicts of interest and a prohibition against self-dealing. See Cal. Probate Code § 16002.

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result, the Board has a duty to *deal fairly and in good faith* with the members of SDCERS.[11]

However, contrary to its literal import, the duty of loyalty set forth in the Constitution does not automatically preclude acts which incidentally benefit persons other than members of the System. Generally, this rule has been construed to mandate only that the "primary" benefit be for members.[12]

The Constitutional *prudence* rule sets forth an additional common law fiduciary duty, but with a specific public retirement plan gloss.[13]

The Proposal

The Proposal can be broken down into three components. First, it includes various changes in benefits, most of which constitute benefit increases. Viewed alone, these benefit increases should raise no question from a fiduciary point of view for the fiduciaries that have to consider them. Any reductions in benefits will have to satisfy the vested rights rules referred to in footnote 7, which should help allay any fiduciary concerns.

Second, the Proposal also contains a change in the method of providing retiree medical benefits that I understand is intended to protect the qualified status under the Internal Revenue Code ("Code") of SDCERS while continuing to provide this benefit. The continued qualification of the System is certainly an appropriate factor for the City and the Board to consider in structuring and evaluating the Proposal and taking action to protect the System's qualification should be consistent with the Board's fiduciary duty.

The final portion of the Proposal concerns rate stabilization and changes to reserves. From the City's point of view, it is my understanding that this is the quid pro quo for

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11 Hittle, supra, 39 Cal. 3d at 392-93, 216 Cal. Rptr. at 744; Symington v. Albany, 5 Cal. 3d 23, 33, 95 Cal Rptr. 206, 212 (1971).

12 See Donovan v. Bierwirth, 680 F.2d 263, 271 (2d Cir.), cert. denied, 459 U.S. 1069 (1982) (interpreting comparable duty of loyalty under ERISA).

13 See Koppes, "An Ounce of Prevention: Meeting the Fiduciary Duty to Monitor an Index Fund Through Relationship Investing," 20 J. Corp. Law 413, 426 (Spring 1995).

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

the proposed benefit improvements. As noted above, as settlor, the City should not need to be concerned about the fiduciary implications of these proposals.[14]

As also noted above, as a fiduciary, the Board must satisfy its duty of loyalty to the members of the System with respect to the Proposal. However, in this regard, it generally should be the Proposal as a whole rather than any individual component of the Proposal that is subject to this standard.

Consequently, it is appropriate for the City, in designing and analyzing the Proposal, to take into account that, from the Board's point of view as a fiduciary, it should be reasonable for the Board to consider making these funding-related changes as part of an overall program of plan revisions which will be advantageous from the perspective of the members. The fact that the City would benefit under the Proposal does not automatically mean that the Board would breach its duty of loyalty to the members of SDCERS by approving the Proposal.

It should be noted, however, that the portion of the Proposal referred to in the last paragraph on page 5 of the Outline -- that there "will be no changes in actuarial assumptions or actuarial methodology which would conceivably impact contribution rates prior to July 1, 2000" -- may raise fiduciary concerns since there are conflicting views on the prudence of such an agreement by a fiduciary.[15] It thus may be preferable for the Proposal to provide the City with acceptable alternatives in the event the Board determines, in the reasonable exercise of its fiduciary duty, that it has to change actuarial assumptions or methodology prior to July 1, 2000.

In summary, the specifics of the entire Proposal must be evaluated by the Board in its fiduciary capacity under the

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14 In order to satisfy their duty of loyalty, the City Manager, City Auditor and Comptroller and City Treasurer, in their capacity as Board members, must evaluate the Proposal as fiduciaries for the members of SDCERS and not from the point of view of their positions with the City.

15 Such an agreement by the Board also may raise legal issues concerning the ability of the current Board to bind future Boards. A discussion of these issues is beyond the scope of this letter.

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

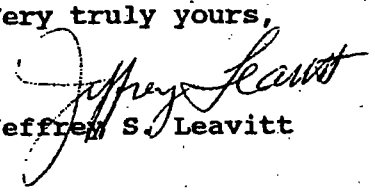
standards referred to above.[16] And while the Constitution identifies "minimizing employer contributions" as one of the Board's fiduciary duties, which means that the Board can legitimately consider proposals that would do so, it is clear that this duty is secondary to the Board's responsibility to the System's members.[17]

In addition, the fact that the Proposal (or portions of it) must be approved by members should have a favorable impact on any fiduciary issues so long as there is full and adequate disclosure of the changes and their impact on the members of the System.[18]

This letter is furnished to you by me as counsel to the City with the understanding that neither Jones, Day, Reavis & Pogue nor I are assuming any professional responsibility to any other person whatsoever.

If you have any further questions on the matters discussed above, please feel free to call.

Very truly yours,



Jeffrey S. Leavitt

Enclosure

cc: John M. Kaheny

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16 For example, since the System's assets are trust funds, the ability to utilize the System's reserves to reduce employer contributions must be carefully evaluated. Compare Claypool, supra, with Valdes v. Cory, 139 Cal. App. 3d 773, 189 Cal. Rptr. 212 (1983). See also Cal. Rev. & Tax. Code § 17367 (and parallel Code § 503) for prohibited transaction rules and Code § 401(a)(2) for exclusive benefit rule.

17 Cal. Const. Art. XVI, § 17; Sacramento v. Public Employees Retirement System, 229 Cal. App. 3d 1470, 1493-94, 280 Cal. Rptr. 847, 860-01 (1991).

18 See Pasadena Police Officers Association v. Pasadena, 147 Cal. App. 3d 695, 195 Cal. Rptr. 339 (1983).

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Exhibit 8

City Employees Retirement System

April 29, 1996

DRAFT
CONFIDENTIAL

Concept Overview

It is the City Manager's intent to recommend changes to the City Employees Retirement System related to: **(1) retiree health insurance, (2) retirement plan benefits, (3) employer contribution rates and calculation method and (4) retirement system reserves.** These proposed changes to plan benefits, retiree health insurance, employer rate calculations and system reserves will require approval of the City Council, CERS Board of Administration as well as an affirmative vote of plan members. The City Manager's proposal is being reviewed by outside fiduciary counsel engaged through the City Attorney's Office and has been presented to the CERS Board's actuary for his review and advice to the Board. All proposed changes are conditioned upon and subject to final approval by fiduciary counsel.

The interrelationship of these various issues to each other necessitate that the entire proposal be considered and acted upon concurrently. Furthermore, the substantial financial implications to the City compel that certain actions occur in time for Fiscal Year 1997 budget decisions. Necessary ordinances can be prepared for formal amendments to the Municipal Code subsequent to actions by appropriate bodies (City Council, CERS Board, Plan Participants, Employee Unions). Following are the proposed changes.

Issue No. 1 - RETIREE HEALTH INSURANCE

It is the City Manager's proposal to:

A. Move the Retiree Health Insurance benefits at current benefit levels from the City to CERS. The current benefit levels are as follows (refer to Municipal Code and applicable Memorandum of Understanding for precise benefit language):

Pre-1980 retirees	Reimbursement for health insurance as a permanent benefit
General Members	
Hired before 1982	Pay or reimburse up to $4,500/year
Hired after 1982	Pay or reimburse 5% x years of service up to $2,000/year
Police & Fire	
Hired before 1994	Pay or reimburse up to$4,500/year
Hired after 1994	Pay or reimburse 5% x years of service up to $2,000/year

B. Control of the benefit design, levels of benefits, insurance providers, rates, coverages, etc. will remain with the City. CERS will assume responsibility for administration of the benefit.

C. It is anticipated that during FY97, the City Manager and the CERS Board working with actuaries, consultants and legal counsel can develop the necessary documentation to design a tax exempt health insurance benefit to be effective July 1, 1997. In the meantime, the City will offset any added cost during FY~~96~~97.

D. The City will transfer the existing Health Insurance Trust to the CERS (@ $12.5m) and CERS will establish a separate Health Insurance Reserve.

E. Each year, the upcoming year's projected cost of retiree health insurance will be transferred from undistributed earning and credited to the Health Insurance Reserve.

F. Actual premium costs and administrative charges will be charged to the Health Insurance Reserve. The City will retain the right to take back the health insurance program and any balance in the Health Insurance Reserve prior to implementation of any action by the CERS Board to require its funding on an actuarial basis.

Issue No. 2 - CERS BENEFIT CHANGES

It is the City Manager's proposal to effect the following Benefits Changes:

A. Eliminate the existing requirement to offset Disability Income.

B. Purchase of Service Credit: Continue the existing service credit provisions related to refunds, probationary periods, 1981 Plan waiting period and Military & Veteran Code; incorporate all others into new a general provision of a five (5) year purchase of service credit feature for any prior public service, which would also be available to ½ time and 3/4 time employees. Employees would pay into the retirement fund an amount, including interest, determined by the Board in such manner and at such time as the Board may by rule prescribe.

C. Provide a one-time purchase of service credit to plan members with fifteen (10) or more years of creditable service as of July 1, 1996. Participants may elect, by December 31, 1996, to purchase up to five (5) years of service [redacted] at a discounted rate subject to the individual employee's IRS 415 limitations. Options for funding the employee's share (e.g. 401k, SPSP funds, accrued annual leave) are being analyzed by legal counsel. The employer's share will be funded (not amortized) from surplus earnings. The total cost to the City of this discount will be set at $6 million dollars. If the calculated cost to the City exceeds $6 million when the total population of those opting for these benefit is known, each employee's request will be reduced proportionally down to the $6 million level.

D. General Members Benefits: Increase the benefit to General Members for industrial disability retirements from 33-1/3% to 50%. mirror cost per actuary

Increase the General Member formula as described below. The manner of funding the cost of this benefit improvement will be negotiated with employee organizations. Past liability for this benefit, estimated at $2.4 million, will be paid for from any surplus undistributed excess earnings.

Age	Present Factor	Proposed Factor
55	1.48%	1.75%
56	1.56%	1.83%
57	1.63%	1.91%
58	1.72%	1.99%
59	1.81%	2.07%
60	1.92%	2.15%
61	1.99%	2.23%
62	2.09%	2.31%
63	2.20%	2.39%
64	2.31%	2.47%
65+	2.43%	2.55%

E. Increase the calculation of the 13th Check for Pre-10/6/80 retirees from $30 per creditable year of service to $60 per creditable year of service, and to $75 per creditable year of service for Pre-12/31/71 retirees.

F. The City agrees to consider implementation of a *Deferred Retirement Option Plan* (DROP), on the condition that such a plan is approved by the City Attorney's Office as legal under applicable Federal, State and Local laws and regulations, and that such a plan would have no cost impact to the City nor CERS. Employees may participate in this program subject to management approval, and may be terminated by Management at the end of three (3) years.

Issue No. 3 - EMPLOYER CONTRIBUTION RATES

A. Beginning in FY97, the employer rates will be calculated using the Entry Age Normal method. For FY 96 and FY97, the City will pay the budgeted rates (bifurcated rate) of 7.08% (blended rate) and 7.33% respectively, and increase the rate paid by 0.50% each year until the rate paid reaches the EAN calculated rate.

PUC Rate - FY96 EAN Rate - FY97 +		RATE TO PAY	% DIFFERENCE
FY96	8.60%	7.08%	1.52%
FY97	10.42%	7.33%	3.09%
FY98	10.67%	7.83%	2.84%
FY99	10.67%	8.33%	2.34%
FY2000	10.67%	8.83%	1.84%

B. The City will pay the agreed to rates shown above for FY96 through FY2000. The difference between the actuarially calculated rate and the agreed to rate would be transferred from the Stabilization Reserve to the Employers Contribution Reserve. If the amount in the Stabilization Reserve is insufficient to pay the difference in contributions or the funded ratio f the System falls below 80% of the actuarial value of assets, this plan will sunset the year following the actuarial valuation which show this funded ratio.

C. There will be no changes in actuarial assumptions or actuarial methodology which would conceivably impact contribution rates prior to July 1, 2000. If the CERS Board feels its fiduciary responsibility requires a change to actuarial assumption prior to that date, this plan will sunset immediately at that time. Any additional benefits granted herein may be eliminated prospectively.

Issue No. 4 - SURPLUS UNDISTRIBUTED EARNINGS AND RESERVES

It is proposed that the San Diego Municipal Code be amended to:

A. Create a Contingency Reserve not to exceed 1% of System assets at market value. If undistributed earning are insufficient, funds from the Contingency Reserve will be used, in priority order after crediting the employee and employer reserves and funding the Systems budget, to: (1) pay the insurance premium, (2) pay the 13th check. If the Health Insurance reserve and the contingency reserve were insufficient, the city would be responsible for that year's health insurance premium.

B. Create a Stabilization Reserve not to exceed $75 million, as follows: (1) close and transfer the existing "earnings stabilization reserve ($10.7 million), (2) credit this reserve annually with 50% of "surplus" undistributed earnings. All surplus undistributed earnings will be transferred to the employer contribution reserve when and if the $75 million limit is reached. These assets will be held outside of assets use for actuarial valuation.

ILLUSTRATION ~~OF~~ of using FY95 UNDISTRIBUTED EARNINGS

$115.5 million

need to fund "3rd reserve" retiree reserve (attempt to start) which $40m a year Balance sheet transfer from employer reserve to retiree reserve doesn't run thru earnings

DISTRIBUTION:

Credit Employee Reserve	**$13.3**
Credit Employer Reserve	**31.5**
Administrative Budget	**10.5**
Advance for FY94 Insurance	**5.2**
13th Check	**2.3**
new **Create Contingency Reserve**	**15.0**
Total Distributions	**77.8**
Surplus" Undistributed Earnings	**$37.7**

(go over again important)

Credit 50% ($18.85) each to Employer Contribution Reserve and Stabilization Reserve

~~every~~ dollar if don't put $40m back in employer reserve

this scenario shorts $22m employer reserve which will decrease funding level from 95% to 80% ie

5-15-96 RULAU per Rick

(8.13%) each $10m taken out of employer reserve impacts rates by .813... ie. use excess earnings. other than M.C.

- Bo

CY cost

bifurcated ~~bifurcated~~ rates

future

2% gap

currently health not funded

health annual $5m

Fund Health

- 1st excess earnings
  2nd contingency reserve
  3rd Health Insurance
  4th City

Exhibit 9

From McGee
June 10 Info

RETIREMENT BOARD OF ADMINISTRATION
SPECIAL MEETING
THURSDAY, MAY 2, 1996 1:00 - 5:00 PM

525 "B" STREET, SUITE 1120
SAN DIEGO, CA 92101
(DISABILITY ACCESSIBLE)

AGENDA

KEITH ENERSON, CHAIR

I. NEW BUSINESS - DISCUSSION AND ACTION AS NECESSARY:

A) MANAGER PROPOSALS TO THE RETIREMENT SYSTEM

II. REPORTS OF OFFICERS

A) PRESIDENT
B) TRUSTEES
C) ADMINISTRATOR
D) ATTORNEY

III. CLOSED SESSION

IV. NON DOCKET ITEMS

V. PUBLIC COMMENT

VI. NEXT MEETING: WEDNESDAY, MAY 15, 1996 - 1:30 PM
525 "B" STREET, SUITE 1120
SAN DIEGO, CA 92101

VII. ADJOURNMENT

file: w:\exec\bdsec\agendas\ spbd5296

City Employees Retirement System

May 2, 1996

Concept Overview

It is the City Manager's intent to recommend changes to the City Employees Retirement System related to: **(1) retiree health insurance, (2) retirement plan benefits, (3) employer contribution rates and calculation method and (4) retirement system reserves.** These proposed changes to plan benefits, retiree health insurance, employer rate calculations and system reserves will require approval of the City Council, CERS Board of Administration as well as an affirmative vote of plan members. The City Manager's proposal is being reviewed by outside fiduciary counsel engaged through the City Attorney's Office and has been presented to the CERS Board's actuary for his review and advice to the Board. All proposed changes are conditioned upon and subject to final approval by fiduciary counsel, City Council approval, Retirement Board approval, vote of plan participants, and confirmation of cost estimates by the System's actuary.

The interrelationship of these various issues to each other necessitate that the entire proposal be considered and acted upon concurrently. Furthermore, the substantial financial implications to the City compel that certain actions occur in time for Fiscal Year 1997 budget decisions. Necessary ordinances can be prepared for formal amendments to the Municipal Code subsequent to actions by appropriate bodies (City Council, CERS Board, Plan Participants, Employee Unions). Following are the proposed changes.

Issue No. 1 - RETIREE HEALTH INSURANCE

It is the City Manager's proposal to:

A. Move the Retiree Health Insurance benefits at current benefit levels from the City to CERS. Establish current level of Pre-1980 Retiree Health Insurance as a permanent benefit.

B. Control of the benefit design, levels of benefits, insurance providers, rates, coverages, etc. will remain with the City. CERS will assume responsibility for administration of the benefit.

C. It is anticipated that during FY97, a Task Force of City Manager, CERS Board and Labor Organizations working with actuaries, consultants and legal counsel can develop the necessary documentation to design a tax exempt health insurance benefit to be effective July 1, 1997. In the meantime, the City will offset any added cost during FY96. The Task Force will recommend benefit level subject to approval by CERS, City Council, and then issue RFP for selection of a common provider.

D. The City has an existing Health Insurance Trust (@ $12.5m); CERS will establish a separate Health Insurance Reserve.

E. Each year, the upcoming year's projected cost of retiree health insurance will be transferred from undistributed earnings and credited to the Health Insurance Reserve.

F. Actual premium costs and administrative charges will be charged to the Health Insurance Reserve. The City will retain the right to take back the health insurance program and any balance in the Health Insurance Reserve prior to implementation of any action by the CERS Board to require its funding on an actuarial basis.

Issue No. 2 - CERS BENEFIT CHANGES

It is the City Manager's proposal to effect the following Benefits Changes:

A. Eliminate the existing requirement to offset Disability Income.

B. Purchase of Service Credit: Continue the existing service credit provisions related to refunds, probationary periods, 1981 Plan waiting period and Military & Veteran Code; incorporate all others into a new general provision of a five (5) year purchase of service credit feature for any prior public service, which would also be available to ½ time and 3/4 time employees. Employees would pay into the retirement fund an amount, including interest, equivalent to the employee and employer full cost of such service.

C.. Increase the calculation of the 13th Check for Pre-10/6/80 retirees from $30 per creditable year of service to $60 per creditable year of service, and to $75 per creditable year of service for Pre-12/31/71 retirees.

$90K

$120K

250

D. Increase the benefit to General Members for industrial disability retirements from 33-1/3% to 50%.

Increase the General Member formula as described below. Past liability for this benefit, estimated at $2.3 million, will be paid for from any surplus undistributed excess earnings. The manner of funding the cost of these benefit improvements will be negotiated with employee organizations.

Age	Present Factor	Proposed Factor
55	1.48%	1.75%
56	1.56%	1.83%
57	1.63%	1.91%
58	1.72%	1.99%
59	1.81%	2.07%
60	1.92%	2.15%
61	1.99%	2.23%
62	2.09%	2.31%
63	2.20%	2.39%
64	2.31%	2.47%
65+	2.43%	2.55%

E. Safety benefit levels are under discussion.

F. The City agrees to consider implementation of a *Deferred Retirement Option Plan* (DROP), on the condition that such a plan is approved by the City Attorney's Office as legal under applicable Federal, State and Local laws and regulations, and that such a plan would have no cost impact to the City nor CERS. Employees may participate in this program subject to management approval, and may be terminated by Management at the end of three (3) years.

Issue No. 3 - EMPLOYER CONTRIBUTION RATES

A. Employer rates will be calculated using the Projected Unit Credit (PUC) method. For FY96 and FY97, the City will pay the budgeted rates (bifurcated rate) of 7.08% (blended rate) and 7.33% respectively, and increase the rate paid by 0.50% each year until the rate paid reaches the EAN calculated rate. At such time as the PUC and Entry Age Normal (EAN) rates are equal, the System will convert to EAN.

ACTUARIAL RATE		RATE TO PAY	% DIFFERENCE
FY96	8.60%	7.08%	1.52%
FY97	9.55%	7.33%	2.22%
FY98	9.82%	7.83%	1.99%
FY99	9.82%	8.33%	1.49%
FY2000	9.82%	8.83%	0.99%

B. The City will pay the agreed to rates shown above for FY96 through FY2000. The difference between the actuarially calculated rate and the agreed to rate would be transferred from the Stabilization Reserve to the Employers Contribution Reserve. If the amount in the Stabilization Reserve is insufficient to pay the difference in contributions or the funded ratio if the System falls below 80% of the actuarial value of assets, this plan will sunset the year following the actuarial valuation which shows this funded ratio.

C. There will be no changes in actuarial assumptions or actuarial methodology which would impact employer contribution rates prior to July 1, 2000. If the CERS Board feels its fiduciary responsibility requires a change to actuarial assumptions prior to that date due to extraordinary circumstances, the increase in rate will be added to the PUC rate to be achieved through the phased-in rate increases.

Issue No. 4 - SURPLUS UNDISTRIBUTED EARNINGS AND RESERVES

It is proposed that the San Diego Municipal Code be amended to:

A. Create a Contingency Reserve not to exceed 1% of System assets at market value. If undistributed earnings are insufficient, funds from the Contingency Reserve will be used, in priority order after crediting the employee and employer reserves and funding the Systems budget, to: (1) pay the insurance premium, (2) pay the 13th check. If the Health Insurance reserve and the contingency reserve were insufficient, the city would be responsible for that year's health insurance premium.

B. Create a Stabilization Reserve not to exceed $75 million, as follows: (1) close and transfer the existing "earnings stabilization reserve ($10.7 million), (2) credit this reserve annually with 50% of "surplus" undistributed earnings. All surplus undistributed earnings will be transferred to the employer contribution reserve when and if the $75 million limit is reached. These assets will be held outside of assets used for actuarial valuation.

EARNINGS FY 95-96

1.52% x 350.6 M = 5.34 M

Stabilization Reserve at 6-30-95

Existing	$ 10.7
50% of 96	18.85
Total	$29.15

EARNINGS DISTRIBUTION FY 96-97

Total Earnings Est	$150 M	
Distribution		
Employee Reserve	15	
Employer Reserve	35	
Budget	11.5	
Insurance ①	6.7	
13th Check ②	3.2	
		71.4
"Surplus" Undistributed		78.6

50% each to Employer Reserve and Stabilization Reserve = 39.3

STABILIZATION RESERVE AT 6-30-96

From 6-30-95	$ 29.15
From 6-30-96	39.3
	$ 68.45

① INSURANCE

Normal Cost	$ 5.0
Pre-80 -	
1166 @ 600	699,600
20% for tax	1,000,000
	$ 6,699,600

② 13TH CHECK

Normal Cost	$2.4
Pre-71 at +$45 per year for 222 retirees with Aug. 19.10 years	190,809
Pre-80 at +$30 per year for 1029 retirees with Aug. 19.10 years	589,617
	$3,180,426

RATES	ACTUARIAL RATE	RATE TO PAY	DIFF %	DIFF $ ①
6-30-96	8.60%	7.08%	1.52%	$5.32
6-30-97	9.55%	7.33%	2.22%	8.12
6-30-98	10.69%	7.83%	2.86%	10.93
6-30-99	10.69%	8.33%	2.36%	9.43
6-30-00	10.69%	8.83%	1.86%	7.76
				Total $41.56

BENEFITS

1) 50% Industrial Disability to General Members = .20% (432,000) general payroll
.012% Total payroll

2) General formula - cost to General Member Payroll
a. 1.75% @ 55 1.40% normal cost 1.03% past service liability
b. 2.00% @ 55 2.65% normal cost 1.87% past service liability

① Total Payroll $350 M increased by 4.5% per year

NOTE: Rates **DO NOT** reflect increase in benefits #2 above

STABILIZATION RESERVE

Balance at 6-30-95	$29.15		
From 6-30-96 Earnings	39.30		
	$68.45		

FY 97 CHARGES TO RESERVE

- Contribution Difference	$8.12	
- Liability Pmt for Gen Formula (1.87% General Payroll)	4.22	
- Normal Cost for General Formula - 2.65% General Payroll	5.98	
- Purchase Rebate	6.00	
		<$24.32>
Balance at 6-30-97		$44.13
From 6-30-97 Earnings		12.00

FY 98 CHARGES TO RESERVE

- Contribution Diff	10.93	
- 67% of Benefit Liability	2.83	
- 67% of Benefit Norm Cost	4.01	
		<$17.77>
Balance at 6-30-98		$38.36

RON'S WISH LIST

	Feature	Cost (total)
1.	DROP Plan	None???
2.	5-year vesting	.18%
3.	General Member **Industrial** Disability from 33% to 50% Both Industrial and Non-Industrial	.10% (.30%)
4.	Eligibility for Non-Industrial at 5-year vesting	.20%
5.	General Member Retirement Age 60 with 10 years	.50%
6.	Discounted 5 year purchase of service credit RON WANTS TO PAY LESS THAN 50%	BIG UNKNOW

Keep it contained!

1992 early retirement = 2 years free
218 employees participated
cost was $6 to $7 million present value
if amortized over 30 years, at 8% doubles every 7.2 years

7. Interest in using Annual Leave to pay for employee share of service credit purchase

8. Health Insurance: Pooled Rates
Set standard benefit level $ (e.g. IRS 125 plan)
Let every retiree use or keep cash!

INCREASE IN FLEX CONTRIBUTION

IF WE ARE GOING TO TRY AND EXTEND MOU'S ANOTHER YEAR:

1. Flex? FY98
2. Salary Increase?
3. Annual Leave/Cease to Accrue

Exhibit 10

SDCERS' RETIREMENT BOARD OF ADMINISTRATION
SPECIAL MEETING OF MAY 2, 1996

A special meeting of SDCERS' Retirement Board of Administration was held in the System's Board Room. Location: 525 "B" Street, Suite 1120, San Diego, CA 92101. The meeting was called to order at 1:28 p.m. by Keith Enerson.

Board Present: Keith Enerson, Chair; Ron Saathoff, Jack Katz, Bruce Herring, John Casey, Sharon Wilkinson, Terri Webster, Robert Scannell, John Torres

Also Present: Lawrence Grissom, Raymond Fleming, Doug McCalla, Jan Beaton, Sally Zumalt, Cynthia Hilliard, Judy Folsom, Christine Folsom, Patrick Lane, Gloria Oloya, Bob Blum, Jack McGrory, Cathy Lexin, Gabriella Coverdale, Cindy Titgen, German Gonzalez, Mike Barclay, Judie Italiano, Sam Salazar, Dick Hamilton, Jim Gleason, Bob West, Gene Shephard, Jane Barry, John Kaheny, Ed Lehman, Merlita Hilario, Bob Sneed, Carol Carr, Ed Oliva, Linda Brewton, Lynn Swanson, Dick Johnson, Ted Morse, Joel Warkentin , Tom Finnigan, Mike McGhee, Virginia Silverman

Excused: Conny Jamison, Paul Barnett, Ann Parode

I. NEW BUSINESS - DISCUSSION AND ACTION AS NECESSARY:

A) CITY MANAGER PROPOSALS TO THE RETIREMENT SYSTEM

Mr. McGrory presented proposals to the Retirement System. (A copy of the City Manager's handout and presentation material has been included as a part of these minutes). Mr. McGrory stated that the City has been working to resolve various problems facing the Retirement System and related benefit problems. He added that today's presentation is the conceptual framework to address some of these issues and asked for input from all Board members. He stated that the Manager's Office would consider any comments/recommendations and return with a formal proposal for the Board's review and action.

Mr. Enerson asked whether Board members had any questions of the Manager. He stated that the Board would request that the Manager's Office return with a formal written proposal once the meet and confer process is completed.

Mr. Saathoff asked about the PUC versus EAN funding method. He stated that this proposal appears to reflect the PUC funding method. Mr. McGrory responded that this is correct.

Using that analysis, Mr. Saathoff stated that it appears that this analysis leaves the System behind the PUC rate until the year 2000.

Mr. McGrory responded that this proposal reflects long term forecasting.

Mr. Enerson stated that the Manager's office is asking for the Board's authorization to move forward with negotiations on this proposal.

Ms. Wilkinson stated that there would be an immediate cost in converting from one funding method to another. She stated that she did not understand the Manager's concept of increasing incrementally.

Mr. Enerson stated that this is projected on the current work force and that this question can not be answered at this time.

Ms. Wilkinson said that this proposal is for the current year. However, the idea is that it would be beneficial over the long term and that rates would increase incrementally.

Mr. McGrory stated that it has become difficult for the City to work with the System's fluctuating rates. In exchange for benefits improvements contained in the proposed package, he stated that the City needs help with the Earnings Stabilization Reserve.

Mr. Casey asked whether the Manager was proposing that the retiree's 13th check become a vested benefit.

Mr. McGrory responded that it would not be a vested benefit. However, there would be a guaranteed 13th check for FY 97 and FY 98. A task force would then be formed with the retirees to discuss their needs. He stated that the Manager's objective in this proposal is an to attempt to preserve the 75% purchasing power formula. As a part of this proposal, it would be recommended that the task force meet again in the first quarter of 1998.

Mr. Casey stated that this is a steadily shrinking group of individuals.

Mr. McGrory acknowledged this statement. He stated that the retirees are currently working towards a 75% purchasing power formula, and that as time passes, the more impact this would have on the post 1980 retirees.

Mr. Enerson asked whether the City has a time-line that they would like to adhere to in order to accomplish this proposal.

Mr. McGrory stated that they have already been talking with the employee organizations and would like to memorialize this by 5/30/96.

In response to Mr. Saathoff's question, Mr. Enerson stated that the Board would meet again on May 15, 1996, and that a special meeting would need to be scheduled.

Ms. Wilkinson questioned whether the actuary and outside fiduciary counsel would be invited to attend any special meetings related to this proposal.

Mr. Enerson stated that not only would this proposal need to be reviewed by both, it would also need the approval of both.

Ms. Wilkinson asked if the Board could have specific questions related to this proposal addressed at the May 15, 1996 meeting.

Mr. Enerson requested that the Board forward any questions to Staff prior to that meeting. Staff would in turn forward those questions to the Manager's office for their review.

Mr. Saathoff stated that this is an expensive process and asked whether the Board would have a formal written proposal to submit to the actuary and fiduciary counsel for their review.

Mr. Casey stated that he had requested that fiduciary counsel be present at today's meeting and requested that this occur at all meetings related to this issue moving forward.

Mr. Enerson stated that the Board would probably not use Joseph Wyatt's firm for reviewing this proposal. Additionally, he stated that a formal written proposal would be presented prior to the Board moving forward.

Mr. Casey stated that a similar proposal had been brought forward last year, and after expending a significant amount of money, the Board was advised by outside fiduciary counsel that they could not move forward with the City's proposal. He strongly stated that he did not want this to occur again. Additionally, he questioned why Mr. Wyatt's firm would not be used when they are already familiar and have been educated about our System.

Mr. Enerson responded that the Board had been dissatisfied with the timeliness of receiving legal opinions from that firm and their lack of responsiveness to this Board. Mr. Enerson stated that because of these reasons, he had directed Staff to contact Attorney Dwight Hamilton, who had provided the Board with a fiduciary presentation at their Strategic Planning Workshop.

Mr. Saathoff stated that this proposal could be brought forth at the May 15, 1996 meeting.

Ms. Wilkinson asked whether Mr. Wyatt's firm had been notified of the Board's dissatisfaction.

Mr. Enerson stated that there is no obligation by this Board to retain Morrison and Foerster as fiduciary counsel.

Mr. Grissom responded that he had discussed the Board's dissatisfaction with Mr. Wyatt and that he had forwarded the Board's concerns regarding his firm's lack of timeliness and responsiveness to the Board's requests.

II. REPORTS OF OFFICERS

A) PRESIDENT

Mr. Enerson stated that he would not be able to attend the May meeting.

B) TRUSTEES

Mr. Katz indicated that he would not be available for the May meeting either. Staff was directed to poll the Board to ensure that there would be a quorum.

Mr. Casey asked for a litigation status report.

Ms. Chapin responded that this would be discussed in Closed Session at the May 15th Board meeting.

C) ADMINISTRATOR

Mr. Grissom stated that the Rules Committee meeting has been postponed until July, 1996.

D) ATTORNEY - None.

III. CLOSED SESSION - None

IV. NON DOCKET ITEMS - None

V. PUBLIC COMMENT - None

VI. NEXT MEETING: **WEDNESDAY, MAY 15, 1996 - 1:30 PM**
525 "B" STREET, SUITE 1120
SAN DIEGO, CA 92101

VII. ADJOURNMENT - The meeting was adjourned at 2:00 p.m.

Minutes prepared by: Sally Zumalt, Board Secretary

Approved by:

_____
Lawrence B. Grissom, Administrator

file: w:\exec\bdsec\BDM\Spm5296

City Employees Retirement System

May 2, 1996

Concept Overview

It is the City Manager's intent to recommend changes to the City Employees Retirement System related to: **(1) retiree health insurance, (2) retirement plan benefits, (3) employer contribution rates and calculation method and (4) retirement system reserves.** These proposed changes to plan benefits, retiree health insurance, employer rate calculations and system reserves will require approval of the City Council, CERS Board of Administration as well as an affirmative vote of plan members. The City Manager's proposal is being reviewed by outside fiduciary counsel engaged through the City Attorney's Office and has been presented to the CERS Board's actuary for his review and advice to the Board. All proposed changes are conditioned upon and subject to final approval by fiduciary counsel, City Council approval, Retirement Board approval, vote of plan participants, and confirmation of cost estimates by the System's actuary.

The interrelationship of these various issues to each other necessitate that the entire proposal be considered and acted upon concurrently. Furthermore, the substantial financial implications to the City compel that certain actions occur in time for Fiscal Year 1997 budget decisions. Necessary ordinances can be prepared for formal amendments to the Municipal Code subsequent to actions by appropriate bodies (City Council, CERS Board, Plan Participants, Employee Unions). Following are the proposed changes.

Issue No. 1 - RETIREE HEALTH INSURANCE

It is the City Manager's proposal to:

A. Move the Retiree Health Insurance benefits at current benefit levels from the City to CERS. Establish current level of Pre-1980 Retiree Health Insurance as a permanent benefit.

B. Control of the benefit design, levels of benefits, insurance providers, rates, coverages, etc. will remain with the City. CERS will assume responsibility for administration of the benefit.

C. It is anticipated that during FY97, a Task Force of City Manager, CERS Board and Labor Organizations working with actuaries, consultants and legal counsel can develop the necessary documentation to design a tax exempt health insurance benefit to be effective July 1, 1997. In the meantime, the City will offset any added cost during FY96. The Task Force will recommend benefit level subject to approval by CERS, City Council, and then issue RFP for selection of a common provider.

D. The City has an existing Health Insurance Trust (@ $12.5m); CERS will establish a separate Health Insurance Reserve.

E. Each year, the upcoming year's projected cost of retiree health insurance will be transferred from undistributed earnings and credited to the Health Insurance Reserve.

F. Actual premium costs and administrative charges will be charged to the Health Insurance Reserve. The City will retain the right to take back the health insurance program and any balance in the Health Insurance Reserve prior to implementation of any action by the CERS Board to require its funding on an actuarial basis.

Issue No. 2 - CERS BENEFIT CHANGES

It is the City Manager's proposal to effect the following Benefits Changes:

A. Eliminate the existing requirement to offset Disability Income.

B. Purchase of Service Credit: Continue the existing service credit provisions related to refunds, probationary periods, 1981 Plan waiting period and Military & Veteran Code; incorporate all others into a new general provision of a five (5) year purchase of service credit feature for any prior public service, which would also be available to ½ time and 3/4 time employees. Employees would pay into the retirement fund an amount, including interest, equivalent to the employee and employer full cost of such service.

C.. Increase the calculation of the 13th Check for Pre-10/6/80 retirees from $30 per creditable year of service to $60 per creditable year of service, and to $75 per creditable year of service for Pre-12/31/71 retirees.

D. Increase the benefit to General Members for industrial disability retirements from 33-1/3% to 50%.

Increase the General Member formula as described below. Past liability for this benefit, estimated at $2.3 million, will be paid for from any surplus undistributed excess earnings. The manner of funding the cost of these benefit improvements will be negotiated with employee organizations.

Age	Present Factor	Proposed Factor
55	1.48%	1.75%
56	1.56%	1.83%
57	1.63%	1.91%
58	1.72%	1.99%
59	1.81%	2.07%
60	1.92%	2.15%
61	1.99%	2.23%
62	2.09%	2.31%
63	2.20%	2.39%
64	2.31%	2.47%
65+	2.43%	2.55%

E. Safety benefit levels are under discussion.

F. The City agrees to consider implementation of a *Deferred Retirement Option Plan* (DROP), on the condition that such a plan is approved by the City Attorney's Office as legal under applicable Federal, State and Local laws and regulations, and that such a plan would have no cost impact to the City nor CERS. Employees may participate in this program subject to management approval, and may be terminated by Management at the end of three (3) years.

Issue No. 3 - EMPLOYER CONTRIBUTION RATES

A. Employer rates will be calculated using the Projected Unit Credit (PUC) method. For FY96 and FY97, the City will pay the budgeted rates (bifurcated rate) of 7.08% (blended rate) and 7.33% respectively, and increase the rate paid by 0.50% each year until the rate paid reaches the EAN calculated rate. At such time as the PUC and Entry Age Normal (EAN) rates are equal, the System will convert to EAN.

ACTUARIAL RATE		RATE TO PAY	% DIFFERENCE
FY96	8.60%	7.08%	1.52%
FY97	9.55%	7.33%	2.22%
FY98	9.82%	7.83%	1.99%
FY99	9.82%	8.33%	1.49%
FY2000	9.82%	8.83%	0.99%

B. The City will pay the agreed to rates shown above for FY96 through FY2000. The difference between the actuarially calculated rate and the agreed to rate would be transferred from the Stabilization Reserve to the Employers Contribution Reserve. If the amount in the Stabilization Reserve is insufficient to pay the difference in contributions or the funded ratio if the System falls below 80% of the actuarial value of assets, this plan will sunset the year following the actuarial valuation which shows this funded ratio.

C. There will be no changes in actuarial assumptions or actuarial methodology which would impact employer contribution rates prior to July 1, 2000. If the CERS Board feels its fiduciary responsibility requires a change to actuarial assumptions prior to that date due to extraordinary circumstances, the increase in rate will be added to the PUC rate to be achieved through the phased-in rate increases.

Issue No. 4 - SURPLUS UNDISTRIBUTED EARNINGS AND RESERVES

It is proposed that the San Diego Municipal Code be amended to:

A. Create a Contingency Reserve not to exceed 1% of System assets at market value. If undistributed earnings are insufficient, funds from the Contingency Reserve will be used, in priority order after crediting the employee and employer reserves and funding the Systems budget, to: (1) pay the insurance premium, (2) pay the 13th check. If the Health Insurance reserve and the contingency reserve were insufficient, the city would be responsible for that year's health insurance premium.

B. Create a Stabilization Reserve not to exceed $75 million, as follows: (1) close and transfer the existing "earnings stabilization reserve ($10.7 million), (2) credit this reserve annually with 50% of "surplus" undistributed earnings. All surplus undistributed earnings will be transferred to the employer contribution reserve when and if the $75 million limit is reached. These assets will be held outside of assets used for actuarial valuation.

Bruce

Retirement Proposal

May 2, 1996

Objectives

- Pre-1980 Retirees - Impact of Inflation
- Pre-1980 Retirees - Health Insurance
- City Contribution Rates
- PUC v. EAN
- Retiree Health Insurance Obligation

Objectives (Cont'd)

- Disability Income Offset
- Purchase of Service
- Member Formula and Disability Level
- DROP Plan
- Retirement System Reserves

Pre -1980 Retirees - Impact of Inflation

- Increase 13th Check from $30/Year of Service:
  - to $60 for Pre-10/6/80 (1029) $589,617
  - to $75 for Pre-12/31/71 (222) 190,809

  $780,426

Pre-1980 Retirees - Health Insurance

- Permanent Benefit at Current Level

at 600/yr = $699,600

FY95 589.20
FY96 553.20

City Contribution Rates - PUC v. EAN

- Employer Rate Stabilization Plan - Phased Rate Increases
- Increase .50% per Year
- Convert from PUC to EAN when Rates Equal
- Pay Difference from Stabilization Reserve

City Contribution Rates - PUC v. EAN (Cont'd)

Rate	Actuary Rate	Rate to Pay	Diff.	$
6/30/96	8.60%	7.08%	1.52%	5.3 m
6/30/97	9.55%	7.33%	2.22%	8.12
6/30/98	9.82%	7.83%	1.99%	7.61
6/30/99	9.82%	8.33%	1.49%	5.95
6/30/00	9.82%	8.83%	0.99%	4.13
				31.13 m

Retiree Health Insurance Obligation

- Move Obligation to CERS at Current Levels
- Continue Current Benefit Levels for One Year
- Task Force, CERS Board and City Council to Define Levels and RFP for a Plan
- Develop Tax Exempt Plan
- City Health Insurance Trust
- CERS Health Insurance Reserve
- Pay from Undistributed Excess Earnings

Disability Income Offset

- Eliminate the Offset

Purchase of Service

- Retain Purchase for Probation, 1981 Waiting Period, and Military Code
- Replace Others with a 5-Year Purchase Feature
- Employee Pays Employer and Employee Costs

General Member Formula

Age	Present Factor	Proposed Factor	
55	1.48%	1.75%	1.40 Normal Cost
56	1.56%	1.83%	1.03 past liab (@ 2.3m/yr)
57	1.63%	1.91%	
58	1.72%	1.99%	
59	1.81%	2.07%	
60	1.92%	2.15%	
61	1.99%	2.23%	
62	2.09%	2.31%	
63	2.20%	2.39%	
64	2.31%	2.47%	
65+	2.43%	2.55%	

Member Formula and Disability Level

- Increase General Member Industrial Disability from 33-1/3% to 50%
- Discussing Safety Benefit Levels ?

.2 X general payroll

DROP Plan

- Deferred Retirement Option Plan
- Conditioned on No Cost to City or to CERS
- Subject to Federal, State, and Local Laws, Rules
- Participation Subject to Management Approval, May Terminate at Three Years

Retirement System Reserves

- Stabilization Reserve at 6/30/95:

Existing	$10.70m
+ 50% of FY95 Surplus	$18.85m
TOTAL	$29.55m

Retirement System Reserves (Cont'd)

- Earnings Distribution FY96
  - Total Earnings (Est.) $150m
- Distribution

Employee Reserve	$15.0m	
Employer Reserve	$35.0m	
Admin. Budget	$11.5m	
Insurance	$ 6.0m	
13th Check	$ 3.2m	
Total		**$70.7m**
"Surplus Undistributed"		$79.3m

Retirement System Reserves (Cont'd)

- 50% Each to Employer Reserve and Stabilization Reserve $ 39.65m
- Stabilization Reserve at 6/30/96

From 6/30/95	$29.15m
From 6/30/96	$39.65m
Total	**$68.80m**
	69.20

Next Steps

- Meet and Confer
- Fiduciary Counsel
- Actuary
- CERS Approval
- City Council Approval
- Vote of Plan Participants

Exhibit 11

OFFICE COPY

Office of
The City Attorney
City of San Diego

MEMORANDUM

236-6220

DATE: May 2, 1996

TO: Charles G. Abdelnour, City Clerk

FROM: City Attorney

SUBJECT: Closed Session Agenda Items for May 7, 1996

Please place the following matters on the City Council Closed Session docket for Tuesday, May 7, 1996, at 9:00 a.m.

I. Conference with Legal Counsel - existing litigation, pursuant to California Government Code section 54956.9(a):

a. Hendrickson v. City,
U.S. District Court No. 95-3600J

b. City, et al. v. Rider, et al,
Superior Court Case No. 697147

II. Conference with Legal Counsel - anticipated litigation - significant exposure to litigation, pursuant to California Government Code section 54956.9(b):

a. Rider, et al. v. City, et al.

III. Conference with Legal Counsel - potential litigation regarding Sycamore Canyon Landfill - pursuant to California Government Code section 54956.9(c):

a. City of San Diego v. County of San Diego (Sycamore Canyon Landifll)

IV. Conference with Labor Negotiator, pursuant to Government Code section 54957.6:

Agency negotiators: Jack McGrory, Bruce Herring, Cathy Lexin, Bill Lopez

Employee organizations: Municipal Employees Association, Local 127 AFSME, AFL-CIO, Local 145 International Association of Firefighters AFL-CIO, San Diego Police Officers Association

JOHN W. WITT, City Attorney

By
John M. Kaheny
Assistant City Attorney

JMK:smf

Exhibit 12

Leon - June 10, 2005 Request

FY97/No.7

CLOSED SESSION

ER

Closed Session 5/7/96

		Page No.
1.	FINAL B	7-1 7-2
2.	RETIREN	7-3 thru 7-19
3.	RE-OPEN WITH LOCAL 145, MEA AND LOCAL 127	
4.	NEW CLASSES (Continued from 4/30/96)	7-20 7-21
5.	EXPANSION OF VOLUNTARY CERTIFICATION PROGRAM Metropolitan Wastewater and Water Utilities Departments (Addition of Safety Officer Classes)	
6.	BENEFITS PRESENTATION	

Meet & Confer Calendar:

May 7	Closed Session	Final Bargaining Positions
May 13	Closed Session (1:30)	If Impasse Hearing Necessary
May 14	City Council	Introduction of Salary Ordinance

5/2/96

MANAGEMENT TEAM RECOMMENDATIONS

FY97 MEET AND CONFER
AUTHORIZED BARGAINING POSITIONS

POA	FY97 Cost General Fund	FY98 Cost General Fund	Date Authorized
+ 3% effective 12/28/96 + 3% effective 12/27/97	$1,878,668	$3,757,336	3/19/96
Sergeant's Spread-in-Rank + 4% effective 12/27/97		$ 418,600	4/23/97
4/10 Work Schedules in FY97			4/16/96
Annual Leave: Reduce minimum balance from 250 hours to 160 hours for Pay in Lieu			4/16/96
Provide $100 one-time additional uniform allowance to uniformed assignments below rank of Sergeant - in FY98		$ 125,000	4/30/96
Special Assignment Pay for Lieutenants in *Administrative* Assignments - $0.60/hour	15,000		4/30/96
Increase Uniform Allowance for Motors (42) from $350 to $425/hr	$ 3,150	$ 3,150	
Increase maximum accrual for hires after 7/1/94 from 250 to 350 hrs **and** delete 160 hr minimum to sell 125 hrs pay in lieu; **contingent** upon cease to accrue language effective 7/1/97			
Captains Special Salary Adjustment	$ 65,419		
TOTAL AUTHORITY (4/16/96)	**$1,962,237**		

As a Per Cent of Total Salary = + 1.57%

ISSUE	POA	MANAGEMENT	ADDITIONAL COST
1. SALARY			
1st Year	3% 7/1/96	3% 1/1/97	$1.9 million
2nd Year	3% 7/1/97 2% 1/1/98	3% 1/1/98	$3.1 million
2. SHIFT DIFFERENTIAL 3rd Watch $1.25/hr 2nd Watch $ .75/hr		No	$2.1 million
3. CAPTAINS	+9.1%	+3.9%	$ 88,225
4. EDUCATIONAL INCENTIVE (2nd Year) Intermediate +$40/mo Advanced +$60/mo		No	$1.2 million

Retirement Proposal

May 2, 1996

Objectives

- Pre-1980 Retirees - Impact of Inflation
- Pre-1980 Retirees - Health Insurance
- City Contribution Rates
- PUC v. EAN
- Retiree Health Insurance Obligation

Objectives (Cont'd)

- Disability Income Offset
- Purchase of Service
- Member Formula and Disability Level
- DROP Plan
- Retirement System Reserves

Pre -1980 Retirees - Impact of Inflation

- Increase 13th Check from $30/Year of Service:
  - to $60 for Pre-10/6/80
  - to $75 for Pre-12/31/71

Pre-1980 Retirees - Health Insurance

- Permanent Benefit at Current Level

City Contribution Rates - PUC v. EAN

- Employer Rate Stabilization Plan - Phased Rate Increases
- Increase .50% per Year
- Convert from PUC to EAN when Rates Equal
- Pay Difference from Stabilization Reserve

City Contribution Rates - PUC v. EAN (Cont'd)

Rate	Actuary Rate	Rate to Pay	Diff.
6/30/96	8.60%	7.08%	1.52%
6/30/97	9.55%	7.33%	2.22%
6/30/98	9.82%	7.83%	1.99%
6/30/99	9.82%	8.33%	1.49%
6/30/00	9.82%	8.83%	0.99%

Retiree Health Insurance Obligation

- Move Obligation to CERS at Current Levels
- Continue Current Benefit Levels for One Year
- Task Force, CERS Board and City Council to Define Levels and RFP for a Plan
- Develop Tax Exempt Plan
- City Health Insurance Trust
- CERS Health Insurance Reserve
- Pay from Undistributed Excess Earnings

Disability Income Offset

- Eliminate the Offset

Purchase of Service

- Retain Purchase for Probation, 1981 Waiting Period, and Military Code
- Replace Others with a 5-Year Purchase Feature
- Employee Pays Employer and Employee Costs

General Member Formula

Age	Present Factor	Proposed Factor
55	1.48%	1.75%
56	1.56%	1.83%
57	1.63%	1.91%
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59	1.81%	2.07%
60	1.92%	2.15%
61	1.99%	2.23%
62	2.09%	2.31%
63	2.20%	2.39%
64	2.31%	2.47%
65+	2.43%	2.55%

Member Formula and Disability Level

- Increase General Member Industrial Disability from 33-1/3% to 50%
- Discussing Safety Benefit Levels

DROP Plan

- Deferred Retirement Option Plan
- Conditioned on No Cost to City or to CERS
- Subject to Federal, State, and Local Laws, Rules
- Participation Subject to Management Approval, May Terminate at Three Years

Retirement System Reserves

- Stabilization Reserve at 6/30/95:

Existing	$10.70m
+ 50% of FY95 Surplus	$18.85m
TOTAL	$29.55m

Retirement System Reserves (Cont'd)

- Earnings Distribution FY96
  - Total Earnings (Est.) $150m
- Distribution

Employee Reserve	$15.0m	
Employer Reserve	$35.0m	
Admin. Budget	$11.5m	
Insurance	$ 6.0m	
13th Check	$ 3.2m	
Total		**$70.7m**
"Surplus Undistributed"		$79.3m

Retirement System Reserves (Cont'd)

- 50% Each to Employer Reserve and Stabilization Reserve $ 39.65m
- Stabilization Reserve at 6/30/96

From 6/30/95	$29.15m
From 6/30/96	$39.65m
Total	**$68.80m**

Next Steps

- Meet and Confer
- Fiduciary Counsel
- Actuary
- CERS Approval
- City Council Approval
- Vote of Plan Participants

NEW CLASSES

Proposed New Classification (@ Number of Incumbents)	Civil Service Commission Recommendation	Proposed E-Step Monthly - Annually		FY97 Cost (approx) Other Funds	FY97 Cost (approx) General Fund	Management Team Recommendation
4. **Water Distribution Operations Supervisor (1)** (Submitted by Water Utilities) (MEA represented)	Create new class 5.0% above *Sr. Water Utility Supervisor* ($3,319/mo - $39,828/yr)	**$3,484**	**$41,808**	**$ 2,275**		**Approve**
5. **Water Distribution Operator (3)** (Submitted by Water Utilities and Local 127)	Create new class 14.6% above *Equipment Technician I* ($2,508/mo - $30,096/yr)	**$2,875**	**$34,500**	**$15,082**		**Approve**
6. **Aquatics Technician II (2)** (Submitted by Park & Rec) (Represented by Local 127)	Create new class 5.0% above *Pool Technician* ($2,736/mo - $32,832/yr) (Change titles of *Pool Technician & Pool Technician Supervisor* accordingly)	**$2,873**	**$34,476**		**$ 3,755**	**Approve**

TOTAL - CIVIL SERVICE COMMISSION RECOMMENDATIONS = $17,357 + $45,120 = $62,477

TOTAL - MANAGEMENT TEAM RECOMMENDATIONS = $17,357 + $42,095 = $59,452

NEW CLASSES/SERIES
WITH NO COST TO IMPLEMENT

Classification	Civil Service Commisison Recommendation	Management Team Recommentation
1. **Collections Investigator Trainee** (Submitted by City Treasurer) (Represented by MEA)	Create an entry level position in Collections for future new hires ($2,312/mo - $27,744/yr)	Approve
2. **Instrumentation & Control Supervisor** (Submitted by MWWD) (Represented by MEA)	Create a permanent class; position has been filled as an option class of *Plant Process Control Supervisor* ($3,964/mo - $47,568/yr)	Approve
3. **Electrical Inspector Series** **Housing Inspector Series** **Mechanical Inspector Series** **Structural Inspector Series** (Submitted by MEA)	Create specialty class series among the current *Building Inspector* series; and change the title of *the Building Inspector* series to *Combination Inspector* series (Level I = $3,515/mo - $42,180/yr) (Level II = $3,686/mo - $44,232/yr) (Senior = $4,237/mo - $50,844/yr)	Approve
4. **Assistant Water Distribution Operator** and **Water Distribution Operator Trainee** (Submitted by Water Utilities and Local 127)	Part of creating *Water Distribution Operator* series identified in No. 4 and No. 5 above. (Operator = $2,875/mo - $34,500/yr) (Trainee = $2,110/mo - $25,320/yr)	Approve

		Other Funds		General Fund		TOTAL
TOTAL - CIVIL SERVICE COMMISSION RECOMMENDATIONS						
Special Salary Adjustments	=	$58,183	+	$193,609	=	$251,792
New Classes	=	$17,357	+	$ 45,120	=	$ 62,477
		$75,540	+	$238,729	=	$314,269
TOTAL - MANAGEMENT TEAM RECOMMENDATIONS						
Special Salary Adjustments	=	**$58,183**	+	**$ 4,361**	=	**$ 62,544**
New Classes	=	**$17,357**	+	**$ 42,095**	=	**$ 59,452**
		$75,540	+	**$ 46,456**	=	**$ 121,996**

Exhibit 13

OFFICE COPY

Office of
The City Attorney
City of San Diego

MEMORANDUM

236-6220

DATE: May 9, 1996

TO: Charles G. Abdelnour, City Clerk

FROM: City Attorney

SUBJECT: Special Meeting Notice for Closed Session Agenda Item for Monday, May 13, 1996

Please notice the following matter for a Special Meeting for the City Council in Closed Session on Monday, May 13, 1996 at 1:30 p.m.

I. Conference with Labor Negotiator, pursuant to Government Code section 54957.6:

Agency negotiators: Jack McGrory, Bruce Herring, Cathy Lexin, Bill Lopez

Employee organizations: Municipal Employees Association, Local 127 AFSME, AFL-CIO, Local 145 International Association of Firefighters AFL-CIO, San Diego Police Officers Association

JOHN W. WITT, City Attorney

By

John M. Kaheny
Assistant City Attorney

JMK:js

Exhibit 14

Office of
The City Attorney
City of San Diego

MEMORANDUM

236-6220

DATE: May 9, 1996

TO: Charles G. Abdelnour, City Clerk

FROM: City Attorney

SUBJECT: Closed Session Agenda Items for May 14, 1996

Please place the following matters on the City Council Closed Session docket for Tuesday, May 14, 1996, at 9:00 a.m.

I. Conference with Legal Counsel - existing litigation, pursuant to California Government Code section 54956.9(a):

a. City, et al. v. Rider, et al, Superior Court Case No. 697147.

II. Conference with Legal Counsel - anticipated litigation - significant exposure to litigation, pursuant to California Government Code section 54956.9(b):

a. Rider, et al. v. City, et al.
b. 29th Police Academy Pay Issue.

III. Conference with Legal Counsel - potential litigation regarding Sycamore Canyon Landfill - pursuant to California Government Code section 54956.9(c):

a. City of San Diego v. County of San Diego (Sycamore Canyon Landfill).

IV. Conference with Real Property Negotiator - property acquisition, pursuant to California Government Code section 54956.8:

a. The City Manager and his staff are hereby authorized to negotiate with John Moores or his designated representatives for the Padres baseball organization with regard to lease issues relating to San Diego Jack Murphy Stadium.

V. Conference with Labor Negotiator, pursuant to Government Code section 54957.6:

Agency negotiators: Jack McGrory, Bruce Herring, Cathy Lexin, Bill Lopez

Employee organizations: Municipal Employees Association, Local 127 AFSME, AFL-CIO, Local 145 International Association of Firefighters AFL-CIO, San Diego Police Officers Association

JOHN W. WITT, City Attorney

By
John M. Kaheny
Assistant City Attorney

JMK:js

May 14, 1996

CLOSED SESSION

AGENDA

May 14, 1996

1. City, et al. v. Rider, et al.

2. Rider, et al. v. City, et al.

3.

4. City of San Diego v. County of San Diego (Sycamore Canyon Landfill)

5. City Manager and staff authorized to negotiate with John Moores or his designated representatives for the Padres baseball organization with regard to lease issues relating to San Diego Jack Murphy Stadium.

6. Meet and Confer

Exhibit 15

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL CLOSED SESSION MINUTES
TUESDAY, MAY 14, 1996
(9:12 A.M. - 10:50 A.M.)

ATTENDANCE:

COUNCIL

Golding	9:24	Kehoe	9:20	Stallings	x
Mathis	x	Stevens	10:00	McCarty	x
Wear	x	Warden	9:25	Vargas	x

CITY MANAGER STAFF
McGrory, Herring, Frank Belock, Pat Frazier.

CITY ATTORNEY STAFF
Witt, Fitzpatrick, Girard, Kaheny, Casey Gwinn, Theresa McAteer, Berger.

CITY AUDITOR STAFF
Ed Ryan.

CITY CLERK STAFF
Abdelnour, Cepeda.

SUBJECT #1 and #2: **CITY, ET AL. V. RIDER, ET AL; AND RIDER, ET AL V. CITY, ET AL.**

City Attorney Girard briefed Council on this case and asked Council for authorization to seek the Writ on the Convention Center case provided that it doesn't negatively impact the current schedule of the Stadium.

ACTION: MOTION BY WARDEN TO APPROVE STAFF'S RECOMMENDATION TO GRANT THEM THE AUTHORIZATION TO SEEK THE WRIT ON THE CONVENTION CENTER CASE PROVIDED THAT IT DOESN'T NEGATIVELY IMPACT THE CURRENT SCHEDULE OF THE STADIUM. Second by Mathis. Yeas-1235678M. Nays-none. 4-not present.

SUBJECT #4: **CITY OF SAN DIEGO V. COUNTY OF SAN DIEGO (SYCAMORE CANYON LANDFILL)**

ACTION: This item was continued until after the Board of Supervisors has heard this issue.

SUBJECT #5: **CITY MANAGER AND STAFF AUTHORIZED TO NEGOTIATE WITH JOHN MOORES OR HIS DESIGNATED REPRESENTATIVES FOR THE PADRES BASEBALL ORGANIZATION WITH REGARD TO LEASE ISSUES RELATING TO SAN DIEGO JACK MURPHY STADIUM.**

City Manager McGrory briefed Council on the history of the Padres. He then briefed Council on the current contract with the Padres versus the Padres proposal for a new contract. They are still in the process of negotiating the parking and ticket sales.

ACTION: **Information Item Only.**

This portion of the meeting ended at 10:50 a.m. Council continued the meeting to discuss Meet and Confer matters and then adjourned to open session.

Exhibit 16

From: Ed Ryan
To: Sharon Marshall
Subject: Re: draft

sharon, the following would be my questions or comments:

1. Have it been determined that the purchase is beyond the 5 year program?
2. Is it clear that while you may have to give up pay in lieu, you can still use the vacation in terminal payments for those not retiring?
3. Just a reminder that this proposal is one that causes a fiscal impact for a benefit presently not funded. Before proceeding far we should get a fiscal impact. (I am ok asking IRS without it.)
4. There are other options available to reduce accrued leave such as Mike McGee's idea to prohibit trades with people over the limit, etc. They should be explored .
5. Included in the process of proceeding should be any costs of changing computer or other systems should that be required.

>>> Sharon Marshall 05/21 9:52 AM >>>
The first draft is attached. Bob Blum has indicated there is a specific format to follow when requesting private letter rulings. He is sending me a copy of the regulations. Also, there is a fee that must be paid. Note that since the proposal envisions allowing employees to purchase more than the 5 years currently permitted under the ordinance, an amendment to the ordinance will be necessary and meet and confer will be required. Please review the draft and let me know if I have left anything out or misstated the proposal in any way. I will then make corrections and send it to Bob for review per Larry's suggestion (which I think is a good idea). I know I have included a lot of information, but my understanding is that it is very important to provide full disclosure to the IRS for the letter ruling to be accurate. Sharon

CC: etr; pxp; taa

Do they have to be over the limit or close to the limit to be able to do this? or is there a minimum balance?

Do they buy in service years increments of a year based on annual leave #? how much can they do in a fiscal year (only the pay-in-lieu amount?) Can they cross fiscal years or calendar years?

Exhibit 17

LUR

CITY COUNCIL OF THE CITY OF SAN DIEGO
CLOSED SESSION DOCKET
FOR
TUESDAY, MAY 28, 1996
AT 9:00 A.M.

It is anticipated that the City Council will meet in Closed Session on Tuesday, May 28, 1996 at 9:00 a.m. with the following agenda:

I. Conference with Legal Counsel - existing litigation, pursuant to California Government Code Section 54956.9(a):

a. Reyes v. City — Duvanny
S.D. Superior 686733

II. Conference with Legal Counsel - anticipated litigation - significant exposure to litigation, pursuant to California Government Code Section 54956.9(b):

a. Espinoza, et al. v. City - AC 9601174 Simpson
b. Ocean Front Walk (Mission Beach) Boardwalk

III. Conference with Labor Negotiator, pursuant to Government Code Section 54957.6:

Agency negotiators: Jack McGrory, Bruce Herring, Cathy Lexin, Bill Lopez

Employee organizations: Municipal Employees Association, Local 127 AFSME, AFL-CIO, Local 145 International Association of Firefighters AFL-CIO, San Diego Police Officers Association

May 28, 1996

CLOSED SESSION

AGENDA

May 28, 1996

1. Reyes v. City

2. Espinoza, et al. v. City

3. Ocean Front Walk (Mission Beach) Boardwalk

4. Meet and Confer

FY97/No.10

CLOSED SESSION
MEET AND CONFER

May 28, 1996

		Page No.
1.	RETIREMENT PROPOSAL	10-1 thru 10-4
2.	FY98 CONTRACT EXTENSIONS	
	LOCAL 145	10-5
	MEA	10-6
	LOCAL 127	10-7

May 28, 1996

San Diego City Employees Retirement System (SDCERS)

PROPOSAL OVERVIEW

+ health ins.

Current Actuarial Rate	**9.55% (blended)**		
Budgeted Rate	**7.08%**		
Difference	**(2.47%)**	**=**	**@ $8.66m**

1.52 Bifurcated Rate
.25 Dis. ability Phase out

.70

RATE STABILIZATION PROPOSAL:

Increase Employer Rates .50%/year

Provide Benefit Improvements

Pay Difference From Excess Earnings

ALTERNATIVE:

Pay the Actuarial Rate

Cut $8.66 m from FY97 Budget

*** Assumes earnings continue at significantly more that 8% actuarial projection for a number of years**

**** Resolution of issues affecting the Port District participants may effect future rates**

San Diego City Employees Retirement System (SDCERS)

PROPOSAL

I. BENEFIT CHANGES

a. Eliminate Disability Income Offset
b. Pre-1980 Retirees Health Insurance ($600/yr)
c. Increase 13th Check from $30/yr of service
   to $60/yr for Pre-10/6/80 retirees and
   to $75/yr for Pre-12/31/71 retirees
d. Provide for purchase of up to 5 years service credit
e. Improve General Member Formula
f. Increase Disability Benefit Formula for General Members from 33-1/3% to 50%
g. Improve Safety Member Formula
h. Establish a Deferred Retirement Option Plan (no cost to City/CERS)

II. RETIREE HEALTH INSURANCE

a. Transfer to SDCERS no later than 6/30/97
b. Pay FY96 Retiree Health Insurance from Health Insurance Trust
c. Fund Retiree Health Insurance from Undistributed Surplus
   Earnings Annually

III. RATE STABILIZATION

a. Pay Budgeted Employer Rates for FY96 and FY97
b. Increase Employer Rate by .50 until Rate Reaches
   PUC (Projected Unit Credit) Rate/Switch to EAN (Entry Age Normal)
   Rates When Rates Cross
c. Pay Difference Between Actuarial Rate and Agreed-To Rate from
   Undistributed Surplus Earnings

IV. RESERVES

a. Create Contingency Reserve (1% of assets)
b. Create Stabilization Reserve (up to $75m from Surplus
   Undistributed Earnings

V. APPROVAL PROCESS

a. Contingent Upon All Labor Organizations Ratifying FY98 MOU Extensions
   and Supporting Changes with CERS and Participant Vote
b. Contingent Upon Approval of CERS Board, Fiduciary Counsels, City Attorney
   & Actuary
c. Contingent Upon Vote of Plan Participants
d. Contingent Upon Final Approval of City Council

General Member Formula

Age	Present Factor	Proposed Factor
55	1.48%	2.00%
56	1.56%	2.00%
57	1.63%	2.00%
58	1.72%	2.00%
59	1.81%	2.08%
60	1.92%	2.16%
61	1.99%	2.24%
62	2.09%	2.31%
63	2.20%	2.39%
64	2.31%	2.47%
65+	2.43%	2.55%

Safety Member Formula

Age	Fire Factor	Police Factor	Proposed Factor for Fire & Police
50	2.20%	2.50%	2.50%
51	2.32%	2.54%	2.60%
52	2.44%	2.58%	2.70%
53	2.57%	2.62%	2.80%
54	2.72%	2.66%	2.90%
55+	2.77%	2.70%	2.99%

Employer Contribution Rate Stabilization Plan

Period	PUC Rate	City Paid Rate	Difference %	Difference $
FY96	8.60%	7.08%	1.52%	$5.33m
FY97	10.87%	7.33%	3.79%	$13.88m
FY98	12.18%	7.83%	4.35%	$16.67m
FY99	12.18%	8.33%	3.85%	$15.40m
FY2000	12.18%	8.83%	3.35%	$14.00m
FY2001	12.18%	9.33%	2.85%	$12.45m
FY2002	12.18%	9.83%	2.35%	$10.72m
FY2003	12.18%	10.33%	1.85%	$8.82m
FY2004	12.18%	10.83%	1.35%	$6.73m
FY2005	12.18%	11.33%	.85%	$4.43m
FY2006	12.18%	11.83%	.35%	$1.91m
FY2007	12.18%	12.18%	-0-	-0-
FY2008	13.00	13.00%	-0-	-0-
TOTAL				$110.35*

*$110.35 million paid from excess earnings includes $71.31 million in contributions as a result of benefits improvements recommended herein.

Cost of Benefit Improvements

1. General Members Improvements

	Employer	Employee	Total
Normal Cost	+1.105%	+1.105%	+1.21%
Past Liability	+1.45%	_____	+1.45%
Total	+2.55	+1.11%	+3.64%

Employee's share paid by rate increases of .56% on 1/1/98 and by .57% on 1/1/99

2. Safety Member Improvements

Fire	Employer	Employee	Total
Normal Cost	+ .73%	+.72%	+1.45%
Past Liability	+ .91%	_____	+ .91%
Total	+1.64	+.72%	+2.36%

Employee's share paid by rate increases of .36% on 1/1/98 and by .36% on 1/1/99

Police			
Normal Cost	+.47%	+.47%	+.94%
Past Liability	+.91%	_____	+.91%
Total	+1.38%	+.47%	+1.85%

Employee's share paid by rate increases of .23% on 1/1/98 and by .24% on 1/1/99

3. Retiree Member Improvements

a. **Provide Pre-1980 Retirees with Health Insurance up to $600/year**
Annual cost estimated at $700,000 paid from excess earnings in CERS

b. **Increase 13th check from $30/year to $60/year for pre-10/6/80 Retirees and from from $30/year to $75/year for pre-12/31/71 Retirees.**
Annual cost estimated at $780,000 paid from excess earnings in CERS

FY98 Contract Extension
Proposed Bargaining Positions

Local 145	FY98 Cost - General Fund
2% General Salary Increase 10/1/97 2% General Salary Increase 4/1/98	$1,124,270
Flex Benefit Re-opener in FY98	
Increase EMT pay from 2% to 3-1/2% effective 7/1/97	$ 843,203
Captains Adjustments +2% 4/1/98 contingent upon re-opener language on Battalion Chief issues	$ 73,200
Provide $200/yr tool allowance to D-Division (x 24)	$ 4,800
Increase special assignment pay by 5% for Station 28, HazMat and MAST personnel (@ 33)	$ 101,523
Annual Leave: Cease to Accrue language modified to address constant staffing requirements; discretion for City to require minimum vacation usage, and pay off balance down to max; increase maximum accrual for hires after 7/1/94 from 250 hrs to 350 hrs; reduce minimum to sell leave from 250 hrs to 160 hrs	
.Employee retirement contribution increases by .36% on 1/1/98 and by .36% on 1/1/99.	
TOTAL	$2,146,996

= +3.82%

MEA	FY98 General Fund	FY98 Other Funds	FY98 Total
2% General Salary Increase 10/1/97 2% General Salary Increase 4/1/98	$2,058,602	$ 1,462,784	$3,521,386
Flexible Benefits Re-opener in FY98			
Legal Secretaries & Executive Secretaries +5% effective 1/1/98	$ 98,875	$ 46,530	$145,405
Special Salary Adjustment Proposals to CSC only with Management Approval			
Lifeguard II and above: Provide 2% EMT Initiate Manadatory Drug/Alcohol Testing	$ 78,910		$ 78,910
Increase Mileage Reimbursement from $.30/mi to $.32/mi effective 7/1/96 and to $.33/mi effective 7/1/97 (City-wide cost)	$ 41,783	$ 19,663	$ 61,446
Pay health insurance up to 12 months while employee is on Voc Rehab or TTD	$ 9,564	$ 6,796	$16,360
Re-opener on Uniforms			
Provide transportation incentive/subsidy for bike lockers if future fee is imposed			minimal
Annual Leave cease to accrue at maximum; delete minimum to sell; increase maximum accrual for hires after 7/1/94 from 250 hrs to 350 hrs.			
Authority to implement 4/10 schedules for Lifeguards at Management discretion if no cost impact to City.			
Employee's retirment contribution increases by .56% on 1/1/98 and by .57% on 1/1/99			
TOTAL	$2,287,734	$1,535,773	$3,823,507

= +2.19%

LOCAL 127	General Fund	Other Funds	Total
2% General Salary Increase 10/1/97 2% General Salary Increase 4/1/98	$ 708,952	$ 940,156	$1,649,108
Flex Benefits Re-opener in FY98			
Special Salary Adjustment Proposals to CSC only with Management approval			
Re-openers on Tool Allowances and Uniforms			
Provide Painters $.77/hr special assignment pay for lead paint abatement (same rate as for asbestos abatement work)	$ 953	$ 1,265	$ 2,218
Pay employee's health premium while on Voc Rehab or LTD up to 12 months	$ 10,550	$ 13,990	$ 24,540
Annual Leave cease to accrue at maximum; delete minimum to sell; increase maximum accrual for hires after 7/1/94 from 250 hrs to 350 hrs.			
Employee's retirment contribution increases by .56% on 1/1/98 and by .57% on 1/1/99			
TOTAL	$ 720,455	$ 955,411	$1,675,866

= +2.03%

5/14/96

MANAGEMENT TEAM RECOMMENDATIONS
FINAL BARGAINING AUTHORITY
FY97 MEET AND CONFER

POA	FY97 Cost General Fund	FY98 Cost General Fund	POA Position
Salary: 3% effective 7/1/96 2% effective 7/1/97 and 2% 1/1/98	$3,757,336	7,514,672	Agree
Sergeant's Spread-in-Rank + 4% effective 12/27/97		$ 418,600	Agree
4/10 Detectives Work Schedules in FY97			Agree
Increase maximum accrual for hires after 7/1/94 from 250 to 350 hrs **and** delete 160 hr minimum to sell 125 hrs pay in lieu; **contingent** upon cease to accrue language effective 7/1/97			Agree
Special Assignment Pay for Lieutenants in *Administrative* Assignments - $0.60/hour	15,000		Agree
Increase Uniform Allowance for Motors (42) from $350 to $425/hr	$ 3,150	$ 3,150	Agree
Captain's: +6% 7/1/96 Urepresented, No Overtime, Management Benefits $2500	**$ 93,145**	**$ 93,145**	Agree
Increase Educational Incentive 1/1/98 **Advanced +$40/month** **Intermediate + $20/month**		**$ 295,920**	Agree
Shift Differential: **3rd Watch - $.60 (9/15/96) $1.00 (2/1/97)** **2nd Watch - $.40 (9/15/96) $ .50 (2/1/97)**	**$ 982,000**	**$1,461,000**	**Agree**
Flex Dollar Value **FY97 - +$40** **FY98 - Reopener**	**$ 81,040**	**$ 81,040**	Agree
TOTAL AUTHORITY (5/14/96)	**$4,931,671**	**$9,867,527**	

As a Per Cent of Total Salary = + 3.94%

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL CLOSED SESSION MINUTES
May 28, 1996
(Began at 9:10 a.m. Recorder left at 9:40 a.m.)

ATTENDANCE:

COUNCIL

Golding	NP	Kehoe	9:12	Stallings	9:10
Mathis	9:07	Stevens	9:18	McCarty	9:10
Wear	9:06	Warden	9:10	Vargas	9:15

ATTENDANCE:

CITY MANAGER STAFF
McGrory, Herring.

CITY ATTORNEY STAFF
Frank Devaney, Les Girard, Casey Gwinn, John Kaheny, Alan Sumption, Hal Valderhaug, John Witt.

AUDITOR
Ryan.

CITY CLERK STAFF
Abeldnour, Huhn

Existing Litigation

SUBJECT #1: **Reyes v. City of San Diego, et al.**
S.D. Superior Court Case No. 686733

City Attorney Devaney briefed Council regarding this case.

ACTION: MOTION BY McCARTY TO APPROVE THE SETTLEMENT IN THE AMOUNT OF $500,000. Second by Mathis.
Vote unanimous; 3,4,8,M-not present.

Anticipated Litigation

SUBJECT #2: **Espinoza, et al. v. City of San Diego**

City Manager McGrory briefed Council regarding this case.

ACTION: MOTION BY MATHIS TO APPROVE THE SETTLEMENT IN THE AMOUNT OF $158,000. Second by Warden.
Vote unanimous; 3,4,8,M-not present.

Auditor's Certificate No. 9601174.

Potential Litigation

SUBJECT #3 **Ocean Front Walk**

City Attorney Valderhaug briefed Council regarding potential litigation and liability the City will incur if the boardwalk is expanded.

ACTION: Information only.

COUNCIL CONTINUED WITH MEET AND CONFER ITEMS UNTIL 10:00 A.M.

Exhibit 18

OFFICE COPY

Office of
The City Attorney
City of San Diego

MEMORANDUM

236-6220

DATE: May 30, 1996

TO: Charles G. Abdelnour, City Clerk

FROM: City Attorney

SUBJECT: Closed Session Agenda Items for June 4, 1996

Please place the following matters on the City Council Closed Session docket for Tuesday, June 4, 1996 at 9:00 a.m.

I. Conference with Legal Counsel - existing litigation, pursuant to California Government Code section 54956.9(a):

a. Rider v. City
S.D. Superior 699767

b. Branco v. Kearny Moto Park, et al.
S.D. Superior 649571.

II. Conference with Legal Counsel - potential litigation regarding Sycamore Canyon Landfill - pursuant to California Government Code section 54956.9(c):

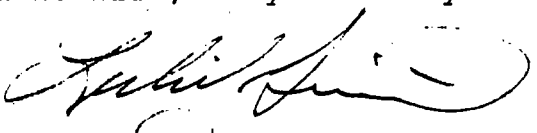
a. City of San Diego v. County of San Diego
(Sycamore Canyon Landfill).

III. Conference with Labor Negotiator, pursuant to Government Code section 54957.6:

Agency negotiators: Jack McGrory, Bruce Herring, Cathy Lexin, Bill Lopez

Employee organizations: Municipal Employees Association, Local 127 AFSME, AFL-CIO, Local 145 International Association of Firefighters AFL-CIO, San Diego Police Officers Association

JOHN W. WITT, City Attorney

By 
John M. Kaheny
Assistant City Attorney

JMK:js

Exhibit 19

City of San Diego
MEMORANDUM
CITY MANAGER'S OFFICE

Date: June 6, 1996

To: Honorable Mayor and City Council

From: Jack McGrory, City Manager

Subject: Labor Negotiations - FY98 Tentative Agreements

Yesterday, we reached tentative agreements with Local 145, MEA and Local 127 on FY98 contract extensions to their FY96/FY97 agreements, and have reached agreement with all four labor organizations regarding proposed changes to the City Employees Retirement System (CERS).

The FY98 labor contract extensions are conditioned upon approval of the CERS changes by the CERS Board (at the June 21 meeting), CERS actuary and fiduciary counsel, the City Attorney and City fiduciary counsel, by an affirmative vote of CERS plan members, and a final approval by the City Council. All four labor organizations have committed to supporting these changes.

We expect to have the MOU extensions ratified and brought for your formal approval before July 1, 1996.

Jack McGrory

6/6 Distributed
by Docket Section
4 pm

Exhibit 20

SDCERS' RETIREMENT BOARD OF ADMINISTRATION
SPECIAL WORKSHOP
JUNE 11, 1996

SDCERS' Retirement Board of Administration held a special workshop in the System's Board Room. Location: 525 "B" Street, Suite 1120, San Diego, CA 92101. The meeting was called to order at 12:00 p.m. by Keith Enerson.

Board Present: Keith Enerson, Chair; Ron Saathoff, Bruce Herring, Jack Katz, John Casey, Paul Barnett, Sharon Wilkinson, Terri Webster, Conny Jamison, Robert Scannell, John Torres, Ann Parode

Also Present: Lawrence Grissom, Lori Chapin, Sally Zumalt, Cynthia Hilliard, Jan Beaton, Doug McCalla, Linda Brewton, Patrick Lane, Judy Folsom, Christine Folsom, Gloria Oloya, Ed Oliva, Jack McGrory, Merlita Hilario, Cindy Titgen, Carol Carr, Tom Rhodes, Dwight Hamilton, Rick Roeder, Robin Oleksow, Sam Salazar, Don Lord, Cathy Lexin, James Gleason, German Gonzalez, Robert West, Phil La Velle, Judie Italiano, Jan Tierney, Sandra Ward, Jim Barros, Bill Lopez, Bob Sneed

I. OLD BUSINESS - REVIEW AND DISCUSSION

A. CITY MANAGER PROPOSALS TO SDCERS' RETIREMENT SYSTEM

Mr. Enerson announced that today's meeting is strictly a workshop for discussion purposes of the Manager's proposals to the City Employees' Retirement System. He indicated that no action would be taken until the regularly scheduled Board meeting of June 21, 1996. In setting the ground rules for this meeting, he stated that the order to be followed would be: 1) presentation of the Manager's proposal by Mr. McGrory; 2) questions and comments from the Board; fiduciary counsel Dwight Hamilton; and actuary Rick Roeder. Lastly, he stated that public comment would be heard.

Mr. McGrory thanked the Board for the opportunity to address them today. He stated that a previous Board workshop had been held on May 2, 1996, at which time the Manager's draft proposal was reviewed by the Board. Since that time, he indicated that the Manager's office had been discussing all of the aspects of their proposal with the employee groups and seeking their concurrence with the plan.

Additionally, he stated that the Manager's office had discussed this proposal with the Board's actuary and with the City's independent fiduciary counsel.

A copy of the Manager's proposal was distributed and is included as a part of these Minutes. Copies of the overhead materials that were presented are also included as a part of this record.

Mr. McGrory summarized the proposal stating that it offers improved retiree cost-of-living benefits and health insurance which if adopted, would become a System liability; it recommends elimination of the disability offset; offers a wider purchase of service program at no additional cost to the City; includes a DROP plan which is similar to a deferred retirement; and would assist the City in stabilizing their contribution rates. This would be accomplished through changing the System's funding methodology by eliminating the current PUC (Projected Unit Credit) method, and phasing in the original EAN (Entry Age Normal) method over a period of time.

Mr. McGrory provided an outline of each of the objectives discussed above.

With respect to the 13th check, he stated that currently it is paid out of surplus undistributed earnings. The proposal would increase the benefit for those who retired prior to October 6, 1980 from $30 to $60 for each year of service, and from $30 to $75 for each year of service for those who retired prior to December 31, 1971.

With respect to the Pre-1980 retirees, Mr. McGrory stated that the City is recommending that as opposed to the current year-to-year benefit, the health insurance become a permanent benefit at a cost of $600 per year.

He stated that the City is recommending that the retiree health insurance obligation liability be transferred from the City to the System at the current level of benefit. It is proposed that the City would continue the current benefit levels for one year. During the intervening year, it is proposed that a task force be formed of Board, City Manager and City Council representatives to define a level of benefits that they feel should be provided to retirees. An RFP would then be drafted

to select a plan that better meets the needs of all concerned. He stated that 1) the City's Health Insurance Trust Fund would be used to pay for this benefit for the next year; 2) it is recommended that a health insurance reserve be set up within the System; and, 3)that as opposed to being actuarial funded, the benefit itself be paid for by undistributed surplus earnings. He stated that is also being recommended that in any year where there are insufficient surplus undistributed earnings, the health insurance reserve be used to fund this benefit.

Additionally, he stated that is being recommended that the disability offset be eliminated and that the purchase of service provision related to refunds, probationary periods, the 1981 Plan waiting period and military and veteran code be continued. All other categories would be incorporated into a new general provision for a five year purchase of service credit feature which would be available to 1/2 and 3/4 time employees. It is recommended that those employees pay an amount into the System, including interest, equivalent to the employee and employer full cost of such service.

The City is proposing that the general member formula for disability retirements be increased from 33 1/3 to 50%; that the Lifeguard member formula be increased from 2% to 2.20% at age 50, and from 2.62% to 2.77% at age 55; and that the Police and Fire formula be increased to 2.5% at age 50 and to 2.99% at age 55.

Subject to the Attorney's review and adoption of a plan that meets state and federal law, the City is proposing a DROP plan which would be similar to a deferred retirement option.

As the proposal relates to the City's contribution rates, Mr. McGrory stated that it is recommended that the employer contribution rate be increased beginning in fiscal year 1998, but that the increase be phased in over time at a rate of 0.5% per year, until such time as the rates equal Entry Age Normal (EAN) as determined by the Board's actuary. At that time, it is recommended that the City convert from the PUC (Projected Unit Credit) funding method to EAN. Until then, the difference between the PUC rate, as determined by the actuary, and the rate of the 0.5% per year would be paid from the System's earnings stabilization reserve.

He stated that the City had budgeted 7.08% for the current fiscal year and that the PUC rate is 8.60% - this would increase to 10.87% and up to 12.18% in the year 2007. He stated that the City's pay rate would be increased at 0.5% per year until such time as it equals the PUC rate and that the difference would be paid from the earnings stabilization reserve. This reserve would be used for two purposes: 1) to pay for all of the costs for employees who would receive the retirement formula benefit increase (approximately $71.31 million); and, 2) to assist the City in stabilizing and increasing their contribution rates using the additional $39 million. He stated that currently there is approximately $10.07 million in the earnings stabilization reserve which was created last year and an additional $18.85 million which is 50% of the 1995 surplus, for a total of $29.55 million. He stated that the City is proposing to transfer the $29.55 million into the stabilization reserve, and that the actuary has estimated $116 million in total earnings to the System in FY 96. Once the distribution to the employer/employee reserve, the retirement administration costs, the health insurance and 13th check benefit have occurred, there would be approximately $70.7 million remaining, with $79.3 million in surplus undistributed earnings. The City is proposing that 50% of that be transferred to the earnings stabilization reserve for an additional $39.65 million. This would result in the creation of a System earnings stabilization reserve of $69.2 million this year.

Mr. McGrory stated that the meet and confer process has been completed, and that the next step is for the Board's fiduciary counsel to review the plan. He stated that the Board's actuary had provided the City with all of the cost information related to these proposals. The schedule that the City would request be followed is: 1) consideration of the proposal for the Board's approval on June 21, 1996; 2) consideration for the City Council's review and approval on June 25, 1996; and, 3) a vote of the membership to occur in August 1996. He added that it is recommended that the proposed benefits changes take place on January 1, 1997, and that negotiations have already occurred with each of the employee organizations. Additionally, it is recommended that the increases in benefit formulas be shared between both employer and employee contributions and begin ramping in during 1998 and 1999.

Mr. Enerson called for any questions from Board members.

Ms. Wilkinson questioned what the Manager envisions with the purchase of service credit proposal. Currently, she stated that members purchase the specific years that they were absent from employment, but that this proposal would allow for the member to buy from any amount up to five years. She questioned whether this would begin on the day of the purchase.

Mr. McGrory responded "Yes."

Ms. Wilkinson stated that if this is the case, there would be virtually no interest applied.

Mr. McGrory responded that it would depend how the administrative side of this proposal is implemented.

Ms. Wilkinson clarified that in using the actuarial rate established for the current fiscal year, if a member elects to purchase five years in the next year, they would pay the full five years at the City's reduced rate.

Mr. Grissom responded that the administrative details on how to accomplish this have not yet been worked out. He stated that if the proposal goes forward, Staff would bring back recommendations for the Board's review and approval.

Ms. Wilkinson said that a 90% cap is indicated on the proposed safety calculation. Because this is not the case with general members she questioned whether this would be an issue.

Mr. McGrory responded that this is a way of keeping safety costs down in terms of liabilities and should not be an issue.

Mr. Grissom added that either of the two plans have the potential of creating problems with IRS Section 415. He stated that the Board would need to establish the excess benefit plan of the Code.

Lastly, Ms. Wilkinson questioned why there is a need for a change to the current level of health insurance benefits.

Mr. McGrory responded that concerns have been raised regarding the POA (Police Officer's Association) and Local 145 plans. Additionally, the City would like to negotiate the scope of the benefits covered for retirees and to determine the best cost for these services. He stated that he believes that the current POA and Local 145 plans are very expensive.

Mr. Casey referred to Item G on Page 2, stating that he is unclear on how the reserves could be created when the Board would be unaware of what rates the City would set in order to pay for this. He questioned how the Board can leave this open-ended and not actuarially fund the benefit.

Mr. McGrory responded that the 13th check is currently an open-ended benefit. He stated that when the agreement was reached in 1992, the City blended the health insurance into the contribution rates and is now recommending that the whole benefit be moved into the System. This benefit would then be paid from surplus undistributed earnings, except in years where there are insufficient earnings. In those cases, it would be the City's obligation to pay that liability.

Mr. Grissom clarified that "full actuarial funding" means that costs are projected on recognized liabilities and that assets are defined. In turn, this provides for a contribution rate that includes both the on-going normal costs and the unfunded liability. He stated that what is visualized in this proposal is a pay-as-you-go basis that could be projected with fair accuracy at the beginning of the year using the premium costs for the coming year. The Board would have the duty to set up the reserves to provide for that funding. If those reserves are exceeded, i.e., brought down to zero, then the responsibility for the cost of the benefit would revert back to the City.

Mr. Casey stated that the 13th check is not a guaranteed benefit and that it appears that this proposal would guarantee the benefit.

Mr. Grissom responded that if there are no earnings and the reserves that have been set aside to protect that benefit are exhausted, the benefit does not get paid. The difference with the insurance program is that if there are no earnings set aside in that reserve to protect the benefit, the benefit would continue with the costs to be borne directly by the City.

Mr. McGrory stated that with respect to the health insurance benefit, the Municipal Code provides for flexibility in defining the scope of this benefit. The City can begin to change or reduce the scope of that benefit and review it again at the end of next year to determine what the scope will be.

Mr. Casey asked about the proposed DROP plan and who would pay for the health insurance for individuals taking advantage of this plan. Additionally, he questioned whether there would be any health insurance costs borne by the System for those individuals.

Mr. McGrory responded that the System would not pay this cost.

Mr. Enerson concurred with this statement.

Mr. Barnett stated that over the past few years there had been thorough discussion about rate stabilization for the City by this Board and that it had been determined that the issues regarding health insurance and bifurcated rates were inappropriate. He stated that this is obviously a much more comprehensive plan, but stated that those items are still being presented. He asked what has changed that now makes consideration of this proposal appropriate.

Mr. McGrory responded that the City had reviewed the previous fiduciary counsel's opinion and that the Manager's office has attempted to structure a package of benefits improvements for both retirees and employees so that they would share in the high level of surplus earnings that have been projected for 1995 and 1996. He stated that in so doing, the health insurance benefit has not been blended, as was attempted in the past. Additionally, he stated that the Manager's independent fiduciary counsel had reviewed the proposal and given them the go-ahead.

He stated that he is hopeful that the Board's fiduciary counsel will arrive at the same conclusion.

Mr. Katz asked for clarification on the purchase of service proposal questioning whether individuals would receive 100% creditable service even though they were 1/2 or 3/4 time hourly employees.

Mr. Enerson responded that this would be an administrative question.

Mr. McGrory agreed.

Regarding the proposed DROP plan, Mr. Katz questioned how this would be implemented and whether individuals taking advantage of such a program would be required to sign a statement of agreement, as they would no longer be making contributions into SDCERS.

Mr. McGrory responded that the City Attorney is currently reviewing the legality of this.

Mr. Grissom stated that if this overall plan passes, the targeted date for defining the DROP Plan would be April 1, 1997. He stated that this would require review by the City Attorney and the Board's fiduciary counsel, actuary, and tax advisor.

Mr. Katz stated that his concerns are related to the tight time-line that the Board is working within and asked whether any Charter amendments would be necessary.

Deputy City Attorney, Lori Chapin stated that her review of this proposal, the only amendment she is aware of that would need to occur would be a City Charter amendment in regards to the health insurance issue.

Mr. Enerson stated that if this proposal should pass, any Municipal Code or Charter amendments would need to be enacted prior to January 1, 1997, or the entire proposal would sunset.

Mr. Barnett asked if this is being presented as a complete "take-it" or "leave-it" package.

Mr. McGrory responded that if the DROP plan were removed from this package, the City would need to go back into discussions with the employee organizations. However, he stated that this is a comprehensive approach.

Mr. Enerson informed the Board that other Citys have incorporated DROP plans in their systems and that this is not a new or unfeasible proposal.

Ms. Webster referred to Page 1 and asked whether Item A is contingent upon B.

"No." Per Mr. McGrory.

Ms. Webster referred to Page 3 related to general member improvements and asked if this is where the employee share had been added.

"Yes." Per Mr. McGrory. Additionally, he stated that the table as presented includes the employee's share.

Regarding the table on Page 5, Ms. Webster questioned whether $10 million would come from the earnings stabilization reserve until the City reaches its full contribution rate.

"Yes." Per Mr. McGrory.

Ms. Webster asked if all of the details would be provided to the Board prior to their being requested to take action on the proposal.

"Yes", per Mr. McGrory.

Ms. Webster referred to the contingency reserve as outlined on Page 6 and asked if the design of this reserve would be included in the details.

Mr. Grissom responded that the design of the contingency reserve equals 1% of the System's market value of assets.

In creating a stabilization reserve, Mr. Grissom stated that the money would be capped at $75 million. Unless there are a series of years of outstanding earnings, money would be taken in and out of the reserve, but would continually have funding put back in, up to the cap.

Mr. Torres asked what would happen in cases where safety members approach the cap of 90%. He stated that at that point, they would no longer be gaining a higher benefit and questioned whether they would still be required to contribute to the System.

Mr. Grissom responded that he can not thoroughly answer this question. However, he stated that the basic answer would be no. The contribution would be reduced to reflect that the individual is no longer accruing additional benefits, but he stated that the specifics of how this would occur are yet to be determined.

Mr. Roeder stated that these members would be ideal candidates for the DROP program.

Mr. Saathoff stated that this is why the DROP plan was negotiated as part of the cap package. Once an individual reaches that cap, they are not earning any additional benefits. However, by taking advantage of the DROP plan, Mr. Saathoff stated that the individual could create a defined contribution plan that would ultimately benefit them in the long run.

Ms. Wilkinson stated that Page 6 of the proposal is too vague. She asked about the difference between the "actuarially calculated rate" and the "rate agreed to over the ten year period" being transferred from the stabilization reserve to the employer's contribution reserve. She stated that it appears that the System would continue to do the actuarial valuation and that the City would pay the agreed upon rate. However, the amount above that would be transferred from the stabilization to the employer reserve to fund the contribution. She stated that this does not make sense.

Mr. Grissom responded that the rates as projected going forward from fiscal year 97 are on an "all else being equal" basis. He expanded by stating that the assumption is that the System's actuarial experience will exactly match the System's actuarial assumption. Because this is not likely to ever happen, the chances that the 12.18%

rate which is reflected in the proposal would more than likely never be an actual rate. Additionally, the Board would continue to receive an actuarial valuation each year that would be calculated on both the PUC and EAN basis. The intent would be that the City would pay the "City Paid Rate" column on a stable basis going forward. The difference between the numbers reflected and the calculated PUC rate in the annual valuation would be taken from the stabilization reserve.

In response to Ms. Wilkinson's question, Mr. Grissom stated that the stabilization reserve is money held outside of the assets used for the purpose of the actuarial valuation. When this occurs, money is transferred from that fund back into System assets. While the fund is not "whole" per se, a step has been made toward keeping the liability from growing to a much higher level.

Ms. Wilkinson asked if the numbers are arbitrary as far as the difference is concerned.

Mr. Grissom responded that once all has been paid as required by the Municipal Code, the remainder is considered to be surplus earnings. As it now stands, 100% of surplus earnings is put back into the employer contribution reserve for the sole purpose of reducing the System's unfunded liability. What this plan visualizes is that 50% of that surplus would be put in the stabilization reserve, while the other 50% would be put into the employer's contribution reserve. As a means to make this rebalancing possible, money would be taken from the stabilization reserve and put back into the employer contribution reserve.

Ms. Wilkinson recommended that Staff and the City Manager work together to present all of the details of this plan prior to the Board's June 21, 1996 meeting. Additionally, she asked whether the "sunset provision" referred to in Item #3 relates to the entire proposal.

Mr. Grissom responded that it is applicable to the entire proposal.

Additionally, he stated that there are vested rights issues with the benefits, but in terms of the plan, Item #3 would definitely sunset. If this were to occur, there would be an issue of what would happen overall.

Mr. Enerson stated that the actuary would be speaking to the proposal as it relates to the reserves and funding level of the System.

Mr. Katz stated that the DROP plan would be available to both safety and general members but that a 90% cap if only being recommended on the safety member formula. Secondly, he stated that past liability for benefit improvements were paid by the City through excess earnings. He questioned whether the excess surplus undistributed earnings are now at the bottom of the total for everything that is paid for.

Mr. McGrory stated that it would basically come out of the $75 million earnings stabilization reserve

In closing, Mr. McGrory stated that the Manager's office has spent a significant amount of time working with members of Staff and the Retirement Board on this proposal. He stated that he recognizes that these two bodies have not had the best working relationship over the past few years, and hopes that this will be an attempt to open those lines of communication. He stated that he believes that these two bodies, along with the employee organizations, have developed an acceptable plan that will solve the City's short and long term problems with the System and lead to more positive relationships between the two.

Mr. Enerson concurred. He stated that he had met on numerous occasions with the Manager's office to develop a proposal that would be acceptable to all parties concerned. Before this comes back for Board approval, he indicated that all of the questions and concerns raised at today's meeting would be addressed and outlined in the revised proposal prior to the Board taking action.

Mr. Roeder confirmed that the numbers that were presented were generated by his firm. He stated that if all of these benefits are put into place and are reflected in the 6/30/96 valuation, from a technical standpoint, there would be approximately $80 million which will have the

Impact of a 5% reduction in whatever the funding ratio would be at that point. There is a technical issue with regards to granting the general member duty disability formula, which could have the impact of increasing the general formula by possibly 30 to 50 basis points. Regarding EAN versus PUC, Mr. Roeder stated that as of the last valuation (6/30/95) there was an increase to the EAN cost of approximately 100 basis points higher than PUC. By the time the City converts back to EAN under this program, the two numbers may actually be a little closer. As rates increase, he stated that this may be a relatively less painful exercise 8-10 years down the road.

Ms. Webster asked whether the Board would receive a written opinion from the actuary on this.

Mr. Roeder stated that he would be happy to do this.

Mr. Casey asked how this proposal would affect the UPD (Unified Port District)if it takes affect.

Mr. Roeder responded that the intent is not to make the Port District suffer in any way.

Mr. Grissom added that the Port has a contract with SDCERS through the City Council to administer benefits on behalf of their employees. The contract language places UPD in a position of having a choice to do all or none of this. He stated that Staff has been in discussions with UPD regarding this proposal, and if they elect to do none of this, the proposal would have no impact on the Port or its contribution restructure. He added that as an employer participating in SDCERS, the Port has a representational interest in the earnings of the System. Additionally, Staff is investigating how past practices, specifically related to insurance programs, have impacted the Port's share of interest. Going forward, if UPD opts not to participate in this plan, the Board has a responsibility to ensure that UPD is in no way impacted by this proposal.

Mr. Casey asked whether the Port is entitled to ask for this same type of rate relief as the City is asking for.

Mr. Grissom responded, "Yes."

Mr. Casey asked about the long-term impact of creating the contingency and stabilization reserves and how this would affect the System 10-15 years in the future.

Mr. Roeder responded that the impact would be relatively negligible to the extent that the amounts that are set aside would be periodically reviewed and used to fund part of the City's contributions in bad market years.

Mr. Casey stated that the System has been on a track of using the unfunded liability over the last 10 years to move towards 100% funding incrementally. He asked if this would still be the goal.

Mr. Grissom responded that if this plan goes forward, the Board would be one step behind where they are now, but that the goal would be the same.

Ms. Webster asked for assurance that the actuary's report, including the long-term funding ratio of the System, would be presented to the Board prior to action being taken.

Mr. Roeder responded that the report would be made available.

Ms. Webster requested that the long-term funding ratio of the System be included.

In relation to the 10% drop, Mr. Roeder stated that if the funded ratio drops 10% from the June 30, 1996 funded ratio, the proposal sunsets. Additionally, he said that there may be actuarial gains this year. Absent any benefits increases, he reported that the System may have been at a 90%-95% funding level.

Ms. Wilkinson stated that a 15% drop would lower the System's funding level to the high 70 percent range and asked what this amounts to in dollars.

Mr. Roeder responded that the 10% drop would not occur for another 5-6 years and that this would be hard to predict. However, he stated that currently, the amount at 15% would be approximately $225 million.

Ms. Wilkinson asked whether annual valuations would still be prepared if the Board approves this proposal.

Mr. Roeder responded, "Yes."

Ms. Jamison stated that the City's contribution rates would be increasing over time and that the curve, relative to what it would have been, is going to decrease at some point. She questioned whether future tax payers would be placed in a position of having to pay for these benefit increases if they are adopted, and how this curve would affect the City's obligation.

Mr. Scannell asked if this is an actuarially sound proposal.

Mr. Roeder responded that he would have been reluctant to recommend this plan without some sunset provisions. However, he stated that he believes that this is a sound proposal as long as the funded ratio does not drop significantly, and with the appropriate sunset provisions in place.

Mr. Katz asked what the funded ratio is at this point.

Mr. Roeder responded that the funded ratio as of June 30, 1995 was 93.5%. If this proposal is put into place, he stated that the funded ratio would drop by 5% of whatever the ratio would have been, absent any benefit improvements.

Mr. Saathoff stated that in evaluating this proposal, it is apparent that the attained age has increased over the past few years. With the increased benefit changes, he stated that employees would more than likely leave the system earlier.

Mr. Torres asked if there would be any outside chance that if these benefits changes are implemented, the System could be higher than 90% funded with the gains that are realized this year.

Mr. Roeder responded that it may be close. However, he stated that if the year continues on this extraordinary path for another three weeks, the assets of the System are calculated based on the ratio of market to book value. Therefore, SDCERS' will not receive full credit for the increase in market value.

Mr. Saathoff stated that the attained age could be reduced as a result of these benefit changes.

With regard to the DROP plan, Mr. Roeder stated that he would agree with this statement. However, in theory, he said that DROP plans are designed to be cost neutral. If a significant number of employees take advantage of DROP, the average retirement age may change, which may result in some gain or loss to the System.

Mr. Saathoff stated that if the level of people retiring as a result of these changes in terms of the level that was retiring two years ago, he would assume that the actuarial attained age would be reduced.

Mr. Roeder stated that this would depend on the hiring patterns.

Mr. Casey stated that there is an underlying statement in the Charter that indicates that today's service credit must be paid for by today's taxpayers. He stated that this proposal gives him the distinct impression that future taxpayers will be paying for these benefit increases. He questioned if this would be the case.

Mr. Roeder responded that the proposal is that the City's contribution rate next year is to be 7.33%. If the 10.87% is broken out into 7% normal cost and 3.87% amortization of unfunded liability, and if the calculated normal cost for the group as whole is under 7.33%, the City would be funding more than the current service cost. He stated that if this were the case, in essence, the amortization of unfunded liabilities would be deferred.

Mr. Casey stated that if this proposal is implemented, he has concerns that the younger generation will be expected to pay retirement benefits for today's generation. He stated that he does not believe this is appropriate.

Mr. Roeder responded that there is no question that the rate that is being agreed upon is less than what he considers to be the "ivory tower" actuarial rate over the next ten years. Therefore, some of these costs will be borne by the future generation.

Ms. Wilkinson asked whether the actuary could provide the actual numbers of what the System's current year "normal" and "amortization" costs are.

Mr. Roeder responded that he had provided this information for the individual groups, but would be happy to come back with the aggregate normal cost number.

Mr. Grissom stated that this information is reflected on Page 5 of the 6/30/95 valuation.

Ms. Wilkinson stated that the weighted total for the current year is 1.74%.

Mr. Roeder stated that this figure will significantly increase as a result of the additional $80 million unfunded liability.

In terms of dollars to be paid in FY 97, Ms. Wilkinson asked how much the 7.33% represents.

Mr. Roeder responded that as of June 95, the City payroll was roughly $350 million. The 7.33% would be applied to whatever that payroll figure will be in the next fiscal year. He estimated that contribution to be approximately $25.6 million.

Ms. Wilkinson stated that under this plan, the City would pay approximately $26 million. She asked what the City's rate is for the current year.

Mr. Roeder responded 8.6%.

Ms. Wilkinson asked how that calculates in dollars.

Mr. Roeder responded that it would be roughly $32 million.

Ms. Wilkinson stated that if all else remained equal, the City's contribution would increase back to $5 million going forward ten years into the future. If this is the case, the improvement costs over a ten year period would be approximately $71 million. She stated that there would be an additional $7 million in unfunded liability.

Mr. Roeder responded that ten years from now, as reflected on Page 5, the City would be paying more than $7 million. Even if the valuation payroll did not increase one dollar over the next ten years, the City's contribution ten year's from now would probably be in the range of $50 million.

Mr. Grissom projected that the payroll in the year 2000 would be approximately $570 million.

In the interest of hearing all of the information on this proposal, Mr. Enerson asked that the Board hear from fiduciary counsel, Dwight Hamilton.

Mr. Hamilton stated for the record, that his firm had associated themselves with the Los Angeles law firm of Franzel and Share. He stated that this is a medium size firm with offices in San Francisco as well.

In regards to the Manager's proposal, Mr. Hamilton stated that he has been on a fast learning curve regarding this plan and the issues that are involved. He stated that he had reviewed a significant amount of documents over the past few weeks and that his philosophy in the practice of law has been to ensure that the Board has the authority to do what has been proposed. He stated that there were "red flags" raised in his mind by this proposal as it relates to the Board's duty of loyalty to the integrity of the fund and addressed those individually.

With regards to the health insurance, Mr. Hamilton stated that he was relieved to hear Ms. Chapin state that this would require Charter amendments. Absent those changes, he stated that he would have immediate concerns of turning over the health insurance program to the System. He stated that the Charter does not appear to currently authorize this type of benefit.

He stated that he is interested in the task force that would be assigned the responsibility of determining a qualified tax exempt health insurance benefit program. He stated that it would be important for the Board to realize that although a task force would be in place, the ultimate authority must remain with this Board.

He raised concerns regarding Issue #1 as it relates to the health insurance reserve, stating that previous proposals which he had reviewed talked about a retiree health insurance trust. He said that he was unsure what that had referred to. Additionally, he stated that he had not had ample opportunity to thoroughly review the ramifications of this proposal, but presumed that this would be a one time reserve that would be created from actuarially available funds. With this in mind, he stated that the Board must remember that they can not breach their duty of loyalty to the beneficiaries and/or to the integrity of the fund by using fund proceeds to pay for the premiums for health insurance. He stated that this is an area that needs further review. However, initial "red flags" that were raised in this area were specifically related to credits/transfers of funds into that particular reserve for the purpose of paying these premiums.

With regard to Issue #2, Mr. Hamilton stated that as it relates to benefits changes, the Board has no ability to reduce vested benefits under the Charter or California Constitution. Therefore, he stated that the only issue which he can address is whether or not there are any reductions in vested benefits. He stated that none were apparent to him at this point.

With regard to the DROP plan, Mr. Hamilton stated that this would be conditioned upon it being legal and that there be no cost impact to the City or this System. Once that occurs, the proposal provides that there would be an evaluation at the end of three years. However, the proposal does not clarify who would participate in this evaluation, nor does it outline who has rights in the area of eliminating this plan. He questioned whether the City and the Board would both have rights in this area.

Mr. Hamilton recommended that the proposal language be modified to specifically address these concerns.

Additionally, he said that he was troubled by Issue #3. More specifically, he was troubled by the fact that the sunset provision does not spell out what would occur if the funded ratio were to fall lower than 10% and the sunset were to go into effect. He stated that this could have a drastic change or effect on the fund itself and the investment benefits.

He stated that as it relates to the Board's local loyalty to the beneficiaries, he believes that it is important that the proposal spell out exactly what will occur if it is sun setting.

Another troublesome area to Mr. Hamilton was the specific agreement that there would be no changes in actuarial assumptions or methodology until fiscal year 2007. He reminded the Board that the pension beneficiaries and members have a vested right to an actuarially sound system and that the Board has a duty of loyalty to the integrity of the fund that can not be contracted away. He stated that he believes that the Board's rights to annually and continually review their methodology and assumptions is essential. He was concerned that the agreement says that this will not change until the year 2007. Additionally, the statement that reads "...under extraordinary circumstances, the Board might be able to change those actuarial assumptions..." troubled him because the definition of "extraordinary circumstances" is unclear. He stated that this language needs to be specific.

In addressing the surplus undistributed earnings in Issue #4, Mr. Hamilton stated that this one troubled him the most because it first calls for a contingency reserve of 1% to be used in priority, including the payment of insurance premiums. He stated that he had assumed that this would occur once the System were to takes over the health insurance. He questioned whether these are actually actuarially surplus funds, stating that this would depend on whether or not there is an actuarial loss attributed to investment experience that year. Consequently, he stated that this extends out past the year that the Board would be currently dealing with. The same holds true with the stabilization reserve. He said that with the transfer of funds, the Board, in essence, would be closing the earnings stabilization reserve and transferring the $10.7 million to this new reserve. Additionally, this reserve would be credited annually with 50% of the surplus of undistributed earnings until it reached $75 million. Thereafter, the Board would be crediting all of the surplus of undistributed earnings. Additionally, he raised concerns that the assets are being held outside of assets used for actuarial valuations. He stated that under the Claypool case the funds must be actuarially surplus funds. Extending this over a long period raised strong "red flags" in his mind.

Mr. Hamilton stated that assuming that the funds are actuarially available and that there would be no loss if this were all funded today on a one-time-basis, he would have no problem with this. However, to enter into an agreement using future funds, absent the knowledge of whether those funds will be actuarially available is a very real concern.

Mr. Herring stated that he believes that the wording in Issue #3C could be amended to be more specific.

Mr. Barnett stated that prior to this proposal, the Board had looked at similar issues and been advised by fiduciary counsel that they could not legally provide for such changes. He stated that this proposal is allowing the rate to be stabilized through increasing other benefits and questioned whether this is now permissible.

Mr. Hamilton responded that he had reviewed this question, and because there was some balance in that benefits would be generated, he believed that this would be a business decision of the Board. He stated that he does not see any major fiduciary problems.

Mr. Saathoff stated that the health care benefit was put into place in approximately 1986. In 1985, he reported that a 13th check benefit was in place that was uncapped. In terms of the 13th check he stated that 50% of the surplus undistributed earnings were distributed to the beneficiaries and that the other 50% was used to credit the City's unfunded liability. The City sought to cap that benefit at $30 per year of service, which he stated resulted in litigation regarding a violation of a vested rights question. The ultimate settlement of that lawsuit was to cap the benefit at $30 per year of service, and in deference to taking away the uncapped benefit, was replaced with paid health care. He stated that this was the ongoing benefit which dated back to October 6, 1980. From that date forward, he stated that the hierarchy was set up in the Municipal Code that surplus earnings would pay for health care. If there were insufficient surplus earnings available, then the obligation to pay any oustanding balance would be picked up by the City's general fund.

Mr. Saathoff asked whether Mr. Hamilton had reviewed these issues.

Mr. Hamilton responded that his comments today were based upon a limited knowledge of the so-called "Andrew's case". He stated that it appeared to him that the crux of that case was that the ultimate authority of paying all of those benefits and premiums belonged to the City, and that SDCERS' was not directly liable for that benefit, but the surplus was. He stated that this unfunded surplus had not yet become a part of the fund for actuarial purposes and cautioned the Board to be very concerned in this area.

Mr. Saathoff thanked Mr. Hamilton for his clarification.

Ms. Parode raised concerns about Mr. Hamilton's statement that the decision to enrich benefits at the expense of the funding future of the fund would be one of a business issue and not a fiduciary issue seemed inappropriate. She stated that in her opinion, current employees would be excited about recieving improved benefits and would not be concerned about the long-term funding of the System. If this is not a fiduciary decison, she questioned what is.

Mr. Hamilton responded that if this is what he said, it was not what he meant. He clarified that the Board has a duty to protect the integrity of the fund. Therefore, benefits could be increased whereby the integrity of the fund is not being destroyed. On that, the Board must rely on their actuary to ensure that the decision is actuarially sound. Additionally, he stated that just because the Board would be increasing the unfunded ratio does not necessarily mean that this would be a breach of fiduciary duty.

Ms. Parode asked if there are any standards available to fiduciaries regarding funding levels, stating that she assumes not all systems are fully funded. However, she questioned how far unfunded a system can become before becoming susceptible to a challenge on the Board's management of the fund.

Mr. Hamilton responded that it is not so much that the System is becoming unfunded, but that the liability of current employees/retirees are being transferred to future taxpayers.

Ms. Parode asked whether the Board has a fiduciary duty to look at the future financial situation of the City prior to approving this.

Mr. Hamilton responded that the City is the settlor of the trust and that it is their employees basic responsibility to fund it. He stated that in what he had heard today, he believes that there had been some unrest between the City and the Board based upon this exact issue. He stated that although the fund has earnings, the City does not understand why those monies can not be used to alleviate their basic responsibility. He stated that these are difficult issues and that the Board must work with their actuary and fiduciary counsel to determine this. Decreasing the amount that the employer would be paying to fund the trust on the basis that this will eventually come together from an actuarial standpoint does not necessarily mean that this would be a breach of fiduciary duty.

Ms. Wilkinson asked whether Mr. Hamilton had reviewed the opinion of Joseph Wyatt regarding the bifurcated rates. She recommended that this opinion be evaluated along with the fiduciary laws for trustees with respect to the stabilization reserve.

Mr. Hamilton responded that he had reviewed Mr. Wyatt's opinion. He stated that the key to the stabilization reserve is under the Claypool case, which says that the funds must be actuarially available. Because the Board has no way of knowinng whether those funds would be actuarially avaialable, he stated that he agreed with Mr. Wyatt's opinion regarding the annual funding of the stabilization reserve from the surplus. Additionally, he stated that he would have a written opinion for the Board's review prior to June 21, 1996

Ms. Wilkinson stated that because this decision would impact the City's budget on July 1, 1996, they are anxious for he Board to make a decision. Given the "red flags" raised today, she questioned whether Mr. Hamilton would recommend that the Board vote on this issue at their 6/21/96 meeting.

Mr. Hamilton responded that this would depend on how quickly these issues can be resolved. If all of the parties can come to an agreement, he stated that he does not forsee a problem. He said that he would dedicate his time to this proposal and have his opinion ready by the June 21, 1996 meeting.

Mr. Enerson stated that the Board would not vote on this proposal until the "red flags" have been resolved.

Ms. Wilkinson raised concerns about the lateness of these proposals being presented. She stated that she does not want to be handed a revised copy on June 21, 1996 and be expected to take action that same day.

Mr. Enerson responded that the Board would attempt to get the information prior to that meeting. If this is not possible, he stated that the Board would cross that bridge when it comes to it. However, he stated that he would like to plan for success.

Mr. Hamilton stated that he believes that it would be his responsibility to work with the City and the other individuals involved in the negotiations to try to resolve these issues. From a fiduciary standpoint, he stated that he would either bless this proposal or he wouldn't.

Mr. Casey questioned how this would fiduciarily affect the Port District's relationship.

Mr. Hamilton responded that he would have to research this question prior to answering.

Mr. Torres congratulated Mr. Hamilton for his City winning the Stanley Cup.

II. REPORTS OF OFFICERS

A) BOARD PRESIDENT - None.

B) TRUSTEES

Mr. Casey stated that Staff has received many retirement applications and asked that these individuals, and all future applicants, be notified in writing of these possible benefit increases.

Mr. Katz stated that a basic overhaul of the System was done in 1971 and phased in over a few years. He asked if this proposal could possibly be broken down into smaller pieces and be phased in over time. He questioned whether the Board could place this proposal in priority order and address the issues individually.

Mr. Saathoff suggested that the Board consider making the effective date of this proposal retroactive so that if the proposal becomes enacted, Staff is not inundated with work come January 1, 1997.

Mr. Torres recommended that the June 21, 1996 meeting be held in Council Chambers.

Mr. Enerson directed Staff to explore this possibility. Additionally, he thanked the Board for their presence at today's meeting, stating that this is an important issue. He also thanked Mr. Hamilton for his quick review of the proposal and related documents. Mr. Enerson reminded the Board that this is the Manager's proposal, and although quick action is being requested, it must pass the actuary and attorney's review prior to the Board taking action.

C) ADMINISTRATOR - None.

D) ATTORNEYS - None.

III. CLOSED SESSION - None.

IV. NON-DOCKET ITEMS - None.

V. PUBLIC COMMENT

Ms. Titgen from the Port District said that they have concerns for their employees and asked that additional distributions be forwared to them. Additionally, she stated that the Port has concerns about the money that is intended for pensions being used for the purpose of health insurance payments. She stated that the Port would like to reserve comments until they have reviewed the revised proposal.

Joe Cunningham raised concerns about what impact this proposal would have on his retirement and related purchase of service.

Mr. Grissom responded that Staff has not yet worked out the administrative details. He asked that Mr. Cunningham meet with Staff after the meeting to address his concerns.

Ms. Lexin pointed out that the blended rate is what has been relfected in today's proposal and that Mr. Cunningham is a safety member. She stated that the percentage he would pay on his purchase needs to be clarified.

Sandra Ward asked if a vote of the membership would be required if the Board passes this proposal.

Mr. Enerson responded that implementation of this plan would require Board approval, City Council approval and a vote of the membership.

VI. NEXT MEETING: **FRIDAY, JUNE 21, 1996 - 1:30 PM**
CITY COUNCIL CHAMBERS
202 "C" STREET, 12TH FLOOR
SAN DIEGO, CA 92101

VII. ADJOURNMENT - The meeting was adjourned at 2:35 p.m.

Minutes prepare by: Sally Zumalt, Board Secretary

Approved by: _____
Lawrence B. Grissom, Retirement Administrator

FILE: W:\EXEC\BDSEC\BOARD\BDM61196

Exhibit 21

SAN DIEGO EMPLOYEES' RETIREMENT SYSTEM
MEMORANDUM

FILE: W:\EXEC\BDSEC\PROPOSE.SIZ

DATE: June 12, 1996

TO: Retirement Board of Administration

FROM: Lawrence B. Grissom, Administrator

SUBJECT: Actions Relating to the City Manager's Proposals

There are many issues and actions related to the City Manager's proposal which was presented to you at your special workshop meeting on June 11, 1996. This proposal, if approved by you, the employee organizations, and City Council, will represent the most significant restructuring of SDCERS in more than 25 years. Many aspects of the proposal, primarily those related to benefits structure, are not within your authority to approve. However, in keeping with your duty of loyalty to the beneficiaries of the trust and to the trust itself, you must assure yourself that all interests are equitably represented. The purpose of this memo is to delineate the items that you are being specifically asked to approve, and to give some indication of the scope of these decisions.

ISSUE NO.1 - RETIREE HEALTH INSURANCE

If the restructuring is approved, the intent is for retiree health insurance to become a SDCERS benefit effective July 1, 1997. Since this is a benefit issue subject to employee vote and approval by the City Council, you are not being asked to take any action regarding this specific issue.

However, if the restructuring is approved, staff will submit recommendations regarding the composition of the Task Force discussed in item D of the City Manager's proposal for your approval. These recommendations will also include the use of appropriate actuarial and tax consulting services.

ISSUE NO. 2 - CERS BENEFIT CHANGES

You are not being asked to approve any of the benefits changes since benefits changes are subject to employee vote and approval by the City Council.

However, if the restructuring is approved, Staff will submit for your approval recommendations that you extend your contract with the System's actuary to assist with the design, development of procedures and receipt of a tax qualification letter (if necessary) in order to implement the DROP plan by April 1, 1997. Staff also recommends that you expand the scope of your proposed contract for development of the MBS (computer system) to include DROP.

Staff will also evaluate our current levels of staffing and computer capability as they relate to the proposed benefits changes and submit for your approval recommendations for budget augmentation if necessary.

ISSUE NO. 3 - EMPLOYER CONTRIBUTION RATES

You are being asked to approve the following employers' contribution rates, with the understanding that those contribution rates are not, and will not be, the same as rates which will likely be recommended by the System's actuary.

FISCAL YEAR ENDING	RATE
June 30, 1996	**7.08%**
June 30, 1997	**7.33%**
June 30, 1998 and thereafter	**Increase by .50% annually until employer rate equals actuarial PUC rate (projected to be July 1, 2008) and then convert to EAN.**

If you approve the contribution rates as shown above, Staff recommends that you expand the scope of your actuarial contract to require that actuarial valuations beginning with the period ending June 30, 1996, include contribution rates calculated under both PUC and EAN. Further, Staff recommends that actuarial valuations for the same periods be required to reflect the specific impact of implementation of the proposed restructuring on the System's total and unfunded liabilities and funding ratios. Staff will present specific recommendations to the Board at a subsequent meeting if you adopt these rates.

At your workshop meeting on June 11, 1996, fiduciary counsel expressed concerns regarding the language of paragraphs' B and C of the City Manager's proposal. Staff is currently working with fiduciary counsel, the System's actuary and the City Manager's staff to develop revised language that will address these concerns. This will be made available to you as soon as possible prior to your June 21, 1996 meeting.

ISSUE NO. 4 - SURPLUS UNDISTRIBUTED EARNINGS AND RESERVES

You are being requested to change the current method of distributing earnings within the authority granted you by SDMC 24.0907.1. Specifically, you are being requested to provide a method of funding the difference between actuarially recommended employer contribution rates and the employer contribution rates you have been requested to approve under the restructuring proposal. The restructuring proposal contemplates the creation of new reserves and allocation of "surplus" earnings to those new reserves.

At your workshop meeting on June 11, 1996, fiduciary counsel expressed concerns about committing "surplus" earnings for a period of 10 or more years into the future in light of the obvious risks associated with the volatility of the economy and investment markets over this period of time. Staff is working with fiduciary counsel and the System's actuary to determine alternatives, which will be provided to you as soon as possible in advance of the June 21, 1996 meeting

LBGsiz

ORIGINAL

Management's Final Offer on Outstanding Issues Related to Retirement Proposal

January 28, 1997 as amended on February 6, 1997

I. Elements of the Proposal for which there are no outstanding issues:

a. Formula Improvements effective retroactive to retirements on or after January 1, 1997.
b. Increase in General Member Industrial Disability Benefit to 50%
c. Eliminate Disability Income Offset
d. Employee Contributions Rates Increases as follows:

General Members	+.56% on 12/27/97
	+.57% on the date of FY99 general salary increase
Lifeguard Safety Members	+.25% on 12/27/97
	+.25% on the date of FY99 general salary increase
Fire Safety Members	+.75% on 7/1/98
Police Safety Members	+.49% on 7/1/98

II. Retiree Health Insurance - Future Retirees

a. Effective July 1, 1997, the City will pay for the actual premium cost for retiree-only health insurance for the applicable Medicare-eligible or non-Medicare eligible rate for HMO plans offered to retirees by the City (excluding union-sponsored plans). The City agrees that it will not diminish the benefits contained in its current retiree HMO plans without mutual agreement with the exclusive bargaining representatives; nor convert to a blended premium for active employees and retirees without mutual agreement with the exclusive bargaining representatives.

b. If the retiree elects to purchase coverage through a labor organization or to privately secure coverage, the City will pay for or reimburse the retiree for the actual cost of such retiree-only health insurance in an amount not to exceed the applicable Medicare-eligible or non-Medicare eligible premium for the highest cost HMO Plan offered to the retiree by the City (e.g. currently Blue Cross California Care).

c. Any eligible dependent health insurance coverage will be paid for by the retiree.
The "sliding scale" benefit with a $2,000 cap referred to in respective MOU's is eliminated.

Retiree Health Insurance - Current Retirees

The following represents the City's intent regarding benefits for retirees who are not represented by the employee labor organizations:

d. Pre-October 6, 1980 retiree's health insurance will be established as permanent benefit set at $600 per year.

e. Retirees who retired on or after July 1, 1992 under the "sliding scale" (approximately 93) benefit will have their health insurance benefit adjusted to be the same as that available to future retirees. This adjustment will begin July 1, 1997 prospectively.

f. For retirees who retired on or after October 6, 1980 under the "100%" benefit who are currently enrolled in a PPO plan/indemnity plan offered by the City (Assurance Plus) or a Union sponsored PPO plan/indemnity plan, the City will continue to pay the actual cost for the City sponsored PPO/indemnity plan or reimburse up to an equivalent amount for retirees who purchase a union sponsored plan or privately secured plan. This will be a closed group (currently approximately 395 retirees).

III. Purchase of Service Credit

a. For retirements effective on or after 1/1/97, as described in the draft Municipal Code dated 12/10/96, employees may purchase probationary period, military and veterans code leaves, waiting period for 1981 Plan, actual time worked hourly or part time once enrolled, SLWOP occurring prior to 1/1/97, difference in time between part time and full time prior to 1/1/97, LTD, Internal Voc Rehab and Internal TTD, Industrial Leave, FMLA periods, and Job Save SLWOP periods including any period preceding reinstatement by the Civil Service Commission following a termination appeal.

b. In addition to period identified above, employees may purchase five years of service by paying both employee and employer contributions in an amount and manner determined by the CERS Board to make the system whole for such service time.

IV. Deferred Retirement Option Plan (DROP)

a. When an employee reaches their earliest service retirement age, the employee may irrevocably elect to participate in the DROP plan. The employee must designate a specific consecutive period of time for participation in DROP not to exceed five (5) years.

b. All purchases of past service credit must be completed prior to beginning the DROP participation.

c. Upon entering the DROP plan, the employee's and employer's CERS contributions will cease, and the CERS benefit will be calculated as if the employee were retiring on the date the employee enters the DROP Plan. The retirement benefit will be paid monthly into the employee's DROP account along with any COLA increases, 13th checks and any adjustments to such payments applicable to retirements on effective the date the employee entered the DROP.

d. In addition, the employee and employer will each contribute 3.05% of the employee's salary each pay period the employee participates in the DROP plan. Employee contributions will be pre-tax if permitted by IRS rules as determined by the CERS Counsel and City Attorney. The employee shall be 100% vested in the DROP from its inception.

e. Interest will be credited to the employee's DROP account (the CERS monthly payments plus the 3.05% and 3.05% DROP contributions) calculated based on the CERS actuary's assumed interest rate (currently 8%) in the same manner and at the same rate that interest is credited to employee CERS accounts.

f. The employee must designate a beneficiary; if married and the spouse is not designated, must submit a notarized spousal consent. All contributions and interest earned in the DROP account during the DROP period shall be paid to the designated beneficiary if the employee dies prior to the completion of the DROP period. DROP account and surviving spouse benefits for the remainder of the CERS benefits will be determined separately, based on advice of CERS Counsel.

g. Should an employee become disabled from employment during the DROP period, their service retirement shall be converted to a disability retirement calculated at the date of entry into DROP, and the employee shall retain all of the DROP and matching contributions

h. If the DROP plan is not effected by April 1, 1997, the City agrees to renegotiate the 90% cap on the Police and Fire Safety member CERS benefits. Employees who reach 90% and elect not to DROP shall continue making CERS contributions. Any employee who is eligible for a percentage above 90% on January 1, 1997 based on the formula in effect on December 31, 1996, may at their election remain under the December 31, 1996 formula with no cap, and are eligible to participate in DROP. In addition, an employee whose years of service under the new formula in effect on January 1, 1997 exceeds 90% may at their election: (1) retire at that higher percentage by electing to retire and leave City service no later than June 30, 1997, and will be ineligible to participate in DROP; or (2) may elect to be frozen at 90% and may continue working and will be eligible to participate in DROP. Any Police or Fire Member employee who reaches 90% under the new formula on or after January 1, 1997 but before the DROP becomes effective, will continue to earn service credit above 90% until the date that the DROP plan is effective at which time their benefit will freeze. These employees are eligible to participate in DROP.

i. During the DROP period, the employee shall continue to be eligible for the active employee Flex Benefits Program for the classification, and shall not be eligible for "retiree" health benefits until such time as the employee completes or terminates the DROP period and is "receiving" a CERS annuity.

j. No withdrawals may be made from the DROP account until the employee completes or terminates his or her DROP period.

k. During the DROP period, DROP employees shall retain all rights, privileges and benefits of being an active City employ, except as specifically modified in the DROP Plan Document, and shall be subject to the same terms and conditions of employment including disciplinary actions up to and including termination.

l. The employee may not extend the originally designed DROP period, but may terminate DROP participation if the employee voluntarily terminates employment, is terminated for cause by the employer, or due to death or disability.

m. It is proposed that the CERS actuary draft language to implement a DROP plan that complies with all applicable IRS and the terms herein.

n. At the completion of the DROP period, the DROP account will be distributed as a lump sum, or in any other manner permitted by the IRS as soon as those options are developed by the Retirement Administration.

o. Prior to these terms becoming effective, this plan will be reviewed and approved by the City Attorney, CERS tax counsel an fiduciary counsel, and the City Council for compliance with all applicable local, state and federal laws including application of IRS Section 415 limitations.

p. After three years of implementation, the City will evaluate the cost impact of this program. If the cost impact to the City or CERS is greater than the savings, the City agrees to meet and confer to impasse prior to imposing any changes in the DROP Plan. If the City proposes to change the DROP Plan, the 90% cap on CERS for Safety Members will also be re-negotiated.

General Member Formula

Age	Present Factor	Proposed Factor
55	1.48%	2.00%
56	1.56%	2.00%
57	1.63%	2.00%
58	1.72%	2.00%
59	1.81%	2.08%
60	1.92%	2.16%
61	1.99%	2.24%
62	2.09%	2.31%
63	2.20%	2.39%
64	2.31%	2.47%
65+	2.43%	2.55%

q. The parties agree that the DROP plan will be embodied in an Ordinance to be introduced by Council at its meeting of February 18, 1997, specifying an implementation retroactive to April 1, 1997.

V. FY98 Flex Article in MOU Extensions

a. The City's contribution to the Flex Plan will be increased 7/1/97 from $3480 to $3605 per year.

b. The City agrees that it will not arbitrarily or unreasonably deny each labor organization the opportunity to offer a health insurance plan to active and/or retired employees.

VI. Miscellaneous

a. The parties agree to eliminate of "remarriage penalty" for spouse of employee killed in the line of duty, effective January 1, 1997. It is agreed that any such spouses who have had benefits terminated as a result of remarriage shall be reinstated effective January 1, 1997.

b. The parties agree to modify the requirement that an employee be married one year prior to retirement to be eligible for continuing spouse benefit. For retirements effective on or after January 1, 1997 surviving spouse benefit shall be available for employees who are married on the date of retirement.

THE PARTIES AGREE THAT THIS DOCUMENT REPRESENTS THE AGREEMENT REACHED, AND THAT THERE ARE NO OTHER OUTSTANDING ISSUES RELATED TO THE RETIREMENT PROPOSAL. IT IS AGREED THAT THE EMPLOYEE ORGANIZATIONS SHALL APPROVE THE FINAL MUNICIPAL CODE LANGUAGE THAT SPECIFICALLY IMPLEMENTS THESE AGREEMENTS PRIOR TO ITS ADOPTION BY THE CITY COUNCIL.

Agreed To this 28th day of January 1997, as amended on February 6, 1997

CITY OF SAN DIEGO

Bruce Herring

Cathy Lexin 2/5/97

Cathy Lexin

Ann Smith, MUNICIPAL EMPLOYEES ASSOCIATION

Judie Italiano, MUNICIPAL EMPLOYEES ASSOCIATION

Garry Collins, POLICE OFFICERS ASSOCIATION

Ron Saathoff, FIRE FIGHTERS LOCAL 145

Dena Webb, AFSCME, Local 127

Exhibit 22

~~Jack Katz~~
Keith

DRAFT (6/20/96)

June 20, 1996

Mr. Lawrence B. Grissom
Retirement Administrator
San Diego City Employees' Retirement System
Union Bank Building
525 "B" Street, Suite 1120
San Diego, CA 92101-4494

Dear Mr. Grissom:

You have requested on behalf of the Board of Administration our opinion on whether the Board would be discharging its fiduciary duties in acting upon certain recommended changes by the City Manager to the City Employees' Retirement System related to (1) Retiree Health Insurance; (2) Retirement Plan benefits; (3) Employer contribution rates; and (4) Retirement System reserves. Each of the recommended changes of the City Manager will be reviewed by summarizing each proposed change, ascertaining the action, if any, that is requested of the Board of Administration, and opining on the discretionary authority of the Board to administer the requested change.

1. Retiree Health Insurance. The City Manager seeks to empower CERS with authority to provide Retiree health insurance and to terminate the City-sponsored health insurance benefits. The City Employees' Retirement System was authorized by the San Diego City Charter, Article IX. Sec. 145, which provides that:

> All monies contributed by employees of the City or appropriated by the Council or received from any other source under the term of this Article shall be placed in a special fund in the City Treasury to be known as the City Employees' Retirement Fund, which said fund is hereby created. Such fund shall be a Trust Fund to be held and used only for the purpose of carrying out the provisions of this Article.

The Retirement System is not authorized to provide health insurance. It is our opinion that the San Diego City Charter would have to be amended to empower the City Employees' Retirement System to provide retiree health insurance. Until the Charter is amended, the City Manager's

recommended change cannot be effected. Therefore no action is required by the Board of Administration at this time.

2. CERS Benefit Changes. The City Manager has proposed certain benefit changes:

a. Eliminating the existing requirement to offset disability income;

b. Incorporating a new general provision of a five-year purchase of service credit feature;

c. Increasing the calculation of the annual supplemental benefit (13th check) for pre-10/6/80 retirees from $30.00 per creditable year of service to $60.00 per creditable year of service, and to $75.00 per creditable year of service for pre-12/31/71 retirees;

d. Increasing the benefits to general members;

e. Improving life guard safety member formula;

f. Improving the police and fire safety member formula; and

g. Implementing a Deferred Retirement Option Plan.

To effect these changes, an ordinance amending the San Diego Municipal Code must be adopted by the City Council and approved by a majority vote of the members of the System and by a majority vote of the affected retirees of the System. Once the benefit changes are in effect, the Board of Administration has the plenary authority and fiduciary responsibility to administer the System. This includes responsibility, based on investigations, evaluations and determinations, to adopt such mortality, service and other tables and interest rates, and to make such revisions in rates of contributions of members as it deems necessary to provide the benefits that have been granted.

3. Employer Contribution Rates. The City Manager has proposed an Employer Contribution Rate Stabilization Plan. In that Plan, employer rates have been calculated using the projected unit credit (PUC) actuarial method. For FY96 and FY97, the City agrees to pay the budgeted (City-paid) rates of 7.08% and 7.33% respectively, and thereafter to increase the City-paid rate by 0.50% each year until the rate paid reaches the calculated rate using the entry age normal actuarial method. At such time as the PUC and entry age normal rates are equal, the System expects to convert to the entry age normal actuarial method.

By the City Manager's proposal, the City will pay the rates shown in the Employer Contribution Rate Stabilization Plan chart for FY96 through FY2007. In the event that the funded ratio of the System falls to a level ten percent below the funded ratio calculated in the June 30, 1996, actuarial valuation, the City-paid rate will be increased on July 1 of the year following the date of the actuarial valuation in which the shortfall in funded ratio is calculated by an amount, determined by the actuary, that is necessary to restore the funded ratio to the proper level.

Nothing in this proposal changes the Board's discretion to adjust the actuarial assumptions on which the System is based as needed in order to insure the long-term funding integrity of the System. If the Board, upon recommendation of the System's actuary, adjusts the actuarial assumptions on which the System is based prior to July 1, 2007, which changes the employer contribution rate, the change in contribution rate will be passed on to the City by extending the incremental increases shown in the Employer Contribution Rate Stabilization Plan chart. If the phase in would require an extension past July 1, 2009, in order to achieve the full actuarial PUC rate, the City-paid rate will be adjusted by the amount necessary to reach by July 1, 2009, the rate calculated by use of the entry age normal method.

Provided that the City-paid rate in the Employer Contribution Rate Stabilization Plan is not less than an amount substantially equal to that required of employees for normal retirement allowances as certified by the actuary, the Board will be acting within the discretion granted to the Board to administer the System and discharging its fiduciary duties set forth in Article XVI, Sec. 17 of the California Constitution.

4. Surplus Undistributed Earnings and Reserves. The actuary has estimated that the past service liability created by the City Manager's proposal to increase benefits is $76.7 million expressed in 1996 dollars. Past service liability is the increase in the cost to the System to pay the benefits. No contributions have been received in the past to fund the increased benefits, and thus the result is an increased liability. The City Manager's Employer Contribution Rate Stabilization Plan provides for the employer contribution rate to be incrementally increased to the actuarially recommended rate over the next ten years. As a result, the System will be receiving less in contribution dollars over that period, which creates an additional liability. The actuary estimates that the amount of contribution shortfall liability created by the Employer Contribution Rate Stabilization Plan is $30 million expressed in 1996 dollars.

The total of estimated increased liabilities associated with the City Manager's proposals is $106,700,000. You have informed me that the System has "surplus" undistributed earnings and a balance in the Earnings Stabilization Reserve as follows:

FY ended 6/30/95	$38,813,314
FY ended 6/30/96	$85,472,254

Earnings Stabilization Reserve	$10,769620
Total	$ 135,056,188

It is now proposed that the Board of Administration, credit the employer contribution reserve in the amount of $106,700,000 for the purpose of discharging the estimated liability for past service liability for increased benefits and employer contribution shortfall and credit the employer contribution reserve with the remaining balance of $28,356,188 for the purpose of reducing the System's normal unfunded liability. We believe that it is appropriate and the Board will be discharging its fiduciary responsibility to credit the employer contribution reserve as proposed, provided that the requirements of Section 24.0907.1(a) of the San Diego Municipal Code have been met. Under the controlling San Diego Ordinances, any actuarially determined surplus earnings can be credited to the employer contribution reserve. (See San Diego Municipal Code, Section 24.0907.1(b).)

This letter is provided solely to the San Diego City Employees' Retirement System and neither Frandzel & Share nor its associate counsel are assuming any professional responsibility to any other person whatsoever. This letter is furnished only in connection with the City Manager's proposal as outlined and summarized in this letter and may not be applied to subsequent changes in the proposal.

Yours very truly,

Exhibit 23

SDCERS' 6/21/96 RETIREMENT BOARD MINUTES

SDCERS' Retirement Board of Administration held its regularly scheduled meeting in City Council Chambers. Location 202 "C" Street, 12th floor, San Diego, CA 92101. The meeting was called to order at 1:37 p.m. by Keith Enerson.

Board Present: Keith Enerson, Chair; Ron Saathoff, Bruce Herring, Jack Katz, John Casey, Paul Barnett, Sharon Wilkinson, Terri Webster, Conny Jamison, Robert Scannell, John Torres, Ann Parode

Also Present: Lawrence Grissom, Lori Chapin, Sally Zumalt, Cynthia Hilliard, Jan Beaton, Rosemarie Palestini, Doug McCalla, Ray Fleming, Linda Brewton, Judy Folsom, Christine Folsom, Ed Oliva, Cathy Lexin, Bill Lopez, Sam Salazar, Gene Shephard, Jim Gleason, Robert West, David Crow, Robin Oleksow, Bruce Eidelson, Bill Peterson, Tom Rhodes, Dwight Hamilton, Rick Roeder, Judie Italiano, Jim Barros, Jack McGrory, John Kaheny, Cheri Miller, German Gonzalez, Mike Phillips, Mike Barclay, Chip Rome, Paul Caine, Martha Spano, Phil Lavelle, Louis Philander, Dina Webb

I.	CONSENT AGENDA ITEMS #1 - 5 (ACTION REQUESTED)

MOTION TO APPROVE SERVICE RETIREMENTS #1A, 1C-I, 1K, 1M (FAWCETT, MORENO, REY, GAST, SHAW, THURSTON, PAULES, AWBREY, MURPHY); AND, CONSENT AGENDA ITEMS 2-5:

SECOND: **JACK KATZ**
BRUCE HERRING

DISCUSSION:
Mr. Casey stated that the Board had requested that these individuals be notified of the possibility of benefit increases that may occur in the near future.

Mr. Grissom ensured Mr. Casey that this had occurred. Because of Staff's notification, two of the service retirement applicants had withdrawn their requests prior to today's meeting.

Call for the Question to approve.

BOARD: **UNANIMOUS**
MOTION PASSED.

1. SERVICE RETIREMENTS - APPROVAL RECOMMENDED

   A. James C. Fawcett, Community Development Specialist IV, Planning. Age 57.00, with 23.00 Years of creditable service. Effective date of 6/5/96. Estimated monthly allowance of $1,729.79 plus $64.12 Cost-of-living annuity, maximum benefit with surviving spouse provisions.

   B. Roy E. Tyler, Heavy Equipment Operator, Environmental Services/Waste

of this plan must come at no additional cost to the City. In response to concerns raised regarding the future financial strength of the City, Mr. McGrory stated that this is not an attempt to achieve a reduction or holiday in the City's contribution rates, but rather an attempt to responsibly manage financially, the significant increase in the City's contribution rates. From a business prospective, he stated that he believes this is a wise decision.

In summary, Mr. McGrory stated that this proposal would transfer the liability of the health care from the City to the System and would raise the general member benefit levels to market rate. Lastly, he stated that in viewing the window of opportunity which has resulted from the tremendous level of earnings in the System, this is an opportune time to make these changes and return to the Entry Age Normal funding method.

Call for the question as amended.

BOARD: **8 IN FAVOR: TERRI WEBSTER, BRUCE HERRING, SHARON WILKINSON, ROBERT SCANNELL, KEITH ENERSON, RON SAATHOFF, JOHN TORRES, CONNY JAMISON**
3 OPPOSED: JACK KATZ, ANN PARODE, PAUL BARNETT

MOTION PASSED.

(Mr. Casey had departed the meeting and was not present for this vote. His vote will not be reflected in the Minutes from this point, forward.)

Mr. Katz stated for the record, that he believes that the City Manager and Staff had presented a very impressive proposal. However, the reason he votes in opposition to the motion were for the reasons outlined by Mr. Gleason. He stated that he does not believe that this proposal would be in the best interest of the retirees.

B. STATUS REPORT ON FOLLOW-UP TO THE BOARD'S STRATEGIC PLANNING WORKSHOP

Continued to July 19, 1996.

C. APPOINTMENT OF COMMITTEE MEMBERS

Mr. Enerson stated that this item would be continued until next month. He asked that Trustees notify Staff of any Committees they would like to be appointed to.

IX. INVESTMENT COMMITTEE MEETING REPORT - ROBERT SCANNELL, CHAIR

Exhibit 24

from #6
V Hansen - June 10 Request

ATTACHMENT #1

City of San Diego
Labor Relations Office
MEMORANDUM

Date: July 23, 1996

To: Larry Grissom, Retirement Administrator

From: Cathy Lexin, Labor Relations Manager

Subject: *CITY MANAGER'S RETIREMENT PROPOSAL*

Per your request, attached hereto is a consolidation of the *final* Retirement Proposal as presented to the Retirement Board at its meeting of June 21, 1996. This Proposal was subsequently presented to and approved by the City Council at its meeting of July 2, 1996.

It is my understanding that the action taken by the Board was to defer any action required of them on **Issue No. 1 - Retiree Health Insurance** based on advice of Fiduciary Counsel Dwight Hamilton until such time as a specific health plan was presented for his review and advice and until a Charter amendment occurred enabling the Retirement Board to administer retiree health insurance.

Issue No. 2 - CERS Benefit Changes identified benefit improvements being recommended by the Manager to the City Council; no action was required of the Retirement Board.

It is further my understanding that the Retirement Board approved in concept the recommended actions contained under **Issue No. 3 - Employer Contribution Rates**, and **Issue No. 4 - Surplus Undistributed Earnings and Reserves**, including the set aside of approximately $135 million from excess undistributed earnings for the purpose of carrying out the proposal, contingent upon the retiree health insurance portion being successfully resolved by January 1, 1997.

RETIREMENT SYSTEM PROPOSAL

(Consolidated from Proposal Dated June 7, 1996 as modified by June 21, 1996 Proposal)

It is the City Manager's intent to recommend changes to the City Employees Retirement System related to: (1) retiree health insurance, (2) retirement plan benefits, (3) employer contribution rates, and (4) retirement system reserves. These proposed changes to plan benefits, retiree health insurance, employer rates and system reserves will require approval of the City Council, CERS Board of Administration as well as an affirmative vote of plan members. The City Manager's proposal is being reviewed by outside fiduciary counsel engaged through the City Attorney's Office and has been presented to the CERS Board's fiduciary counsel and actuary for review and advice to the Board. All proposed changes are conditioned upon and subject to final approval by fiduciary counsel, City Council approval, Retirement Board approval, vote of plan participants, and confirmation of cost estimates by the System's actuary.

The interrelationship of these various issues to each other necessitate that the entire proposal be considered and acted upon concurrently. Furthermore, the substantial financial implications to the City compel that certain actions occur in time for Fiscal Year 1997 budget decisions. Necessary ordinances can be prepared for formal amendments to the Municipal Code subsequent to actions by appropriate bodies (City Council, CERS Board, Plan Participants, Employee Unions). Following are the proposed changes.

Issue No. 1 - RETIREE HEALTH INSURANCE

A. It is proposed that the obligation for Retiree Health Insurance be moved to CERS effective July 1, 1997, contingent upon advice from its fiduciary counsel that the specific terms of this action are deemed legal and appropriate prior to January 1, 1997. It is the City's intent and expectation in this Proposal that the cost of providing retiree health insurance will not be amortized but rather will be paid on an annual basis from excess undistributed earnings.

B. Increase premium reimbursement for POA and Local 145 Retiree Health Plans from $4500/year to $4995 only for FY97.

C. Retiree Health Insurance for Pre-1980 Retirees will be provided by the City at the same rate as in FY96 for one additional year, FY97. Contingent upon the approval of item A above, Pre-1980 Retiree Health Insurance will become an ongoing benefit as described in the June 7, 1996 Proposal.

D. During FY97, a Task Force of City Manager, CERS Board and Labor Organizations working with actuaries, consultants and legal counsel can develop the necessary documentation to design a tax exempt health insurance benefit to be effective July 1, 1997. The Task Force will recommend benefit level subject to approval by CERS, City Council, and issue an RFP for selection of a common provider. POA and Local 145 will assume full responsibility for any incurred claims under existing health insurance policies.

It is the intent that the Task Force described in the June 7 Proposal complete its work and present a recommendation by November 1, 1996. Final approval of the specific Retiree Health Benefit that will be transferred to CERS will be subject to approval of the City Council.

E. The existing City Health Insurance Trust (@ $12.5m) will be used to pay for FY97 Retiree Health Insurance.

F. CERS will establish a Health Insurance Reserve within CERS. Each year, the upcoming year's projected cost of retiree health insurance will be transferred from undistributed earnings and credited to the Health Insurance Reserve.

G. Actual premium costs and administrative charges will be charged to the Health Insurance Reserve on a pay-as-you-go basis and will not be actuarially funded.

Issue No. 2 - CERS BENEFIT CHANGES

The following benefit changes do not require any action by the CERS Board, but rather are presented as part of the overall proposal.

A. Eliminate the existing requirement to offset Disability Income.

B. Purchase of Service Credit: Continue the existing service credit provisions related to refunds, probationary periods, 1981 Plan waiting period and Military & Veteran Code; incorporate all others into a new general provision of a five (5) year purchase of service credit feature, which would also be available to ½ time and 3/4 time employees. Employees would pay into the retirement fund an amount, including interest, equivalent to the employee and employer full cost of such service.

C.. Increase the calculation of the 13th Check for Pre-10/6/80 retirees from $30 per creditable year of service to $60 per creditable year of service, and to $75 per creditable year of service for Pre-12/31/71 retirees. It is also the Manager's intent to conduct a study during the first quarter of FY98 on COLA alternatives including but not limited to a 75% purchasing power formula.

D. Increase the benefit to General Members for industrial disability retirements from 33-1/3% to 50%; and increase the General Member formula as described below.

General Member Formula

Age	Present Factor	Proposed Factor
55	1.48%	2.00%
56	1.56%	2.00%
57	1.63%	2.00%
58	1.72%	2.00%
59	1.81%	2.08%
60	1.92%	2.16%
61	1.99%	2.24%
62	2.09%	2.31%
63	2.20%	2.39%
64	2.31%	2.47%
65+	2.43%	2.55%

Cost of General Member Improvements:

	Employer-Paid	Employee-Paid	Total Cost
Normal Cost	+1.13%	+1.13%	+2.26%
Past Liability	+1.43%	_____	+1.43%
TOTAL COST	+2.54%	+1.13%	+3.69%

Past liability for these two benefit improvements will be paid for by the City through excess earnings. Normal cost (prospective costs) will be paid for equally by employee and employer. The employer's share will be added to the actuarial rate (PUC) calculations beginning mid-year FY97. The employee's share will be paid from excess earnings for FY97, and by increasing the employee's contribution in FY98 and FY99 as follows: +.56% on 12/27/97 and +.57% effective the earliest date in FY99 that General Employees receive a salary increase.

E. Improve Lifeguard Safety Member Formula as follows and establish a 90% cap. Any employees who are eligible for a percentage above 90% on 4/1/97, the effective date of implementation of the DROP will be frozen at their rate in effect on 4/1/97. Past liability for this benefit improvement will be paid for by the City through excess earnings. Normal cost (prospective costs) will be paid for equally by employee and employer. The employer's share will be added to the actuarial rate (PUC) calculations beginning mid-year FY97. The employee's share will be paid from excess earnings in FY97, and by increasing the employee's contribution in FY98 and FY99 as follows: +.25% on 12/27/97 and +.25% effective the earliest date in FY99 that Lifeguard employees receive a salary increase.

Age	Present Factor	Proposed Factor
50	2.00%	2.20%
51	2.10%	2.32%
52	2.22%	2.44%
53	2.34%	2.57%
54	2.47%	2.72%
55+	2.62%	2.77%

Cost of Lifeguard Safety Member Improvements:

	Employer-Paid	Employee-Paid	Total Cost
Normal Cost	+. 50%	+. 50%	+1.00%
Past Liability	+. 55	———	+ . 55%
TOTAL COST	+1.05%	+. 50%	+1.55%

F. Improve Police and Fire Safety Member Formula as follows and establish a 90% cap. Any employees who are eligible for a percentage above 90% on the date the new formula becomes effective, will be allowed to remain under the current formula with no cap. Past liability for this benefit improvement will be paid for by the City through excess earnings. Normal cost (prospective costs) will be paid for equally by employee and employer. The employer's share will be added to the actuarial rate (PUC) calculations beginning mid-year FY97.

Age	Fire Factor	Police Factor	Proposed Factor for Fire & Police
50	2.20%	2.50%	2.50%
51	2.32%	2.54%	2.60%
52	2.44%	2.58%	2.70%
53	2.57%	2.62%	2.80%
54	2.72%	2.66%	2.90%
55+	2.77%	2.70%	2.9999%

Cost of Safety Member Improvements:

FIRE	Employer-Paid	Employee-Paid	Total Cost
Normal Cost	+ .75%	+. 75%	+1.50%
Past Liability	+ .95%		+ .95%
Total	+1.70%	+ .75%	+2.45%

Fire employees will pay one-half of the normal cost by an increase in the employee contribution of .75% effective 7/1/98.

POLICE	Employer-Paid	Employee-Paid	Total Cost
Normal Cost	+ .49%	+ .49%	+ .98%
Past Liability	+ .95%		+ .95%
Total	+1.44%	+ .49%	+1.93%

Police employees will pay one-half of the normal cost by an increase in the employee contribution of .49% effective 7/1/98.

G. The City agrees to implementation of a *Deferred Retirement Option Plan* (DROP) effective April 1, 1997, on the condition that such a plan is approved by the City Attorney's Office as legal under applicable Federal, State and Local laws and regulations, and that such a plan would not increase cost greater than the savings to the City nor CERS. Employees may participate in this program for up to five (5) years. At the end of three (3) years, the City will evaluate the cost impact of this program. If the cost impact to the City or CERS is greater than the savings, the City agrees to meet and confer to impasse prior to imposing any changes in the DROP Plan. If the City proposes to change the DROP Plan, the 90% cap on CERS would also be re-negotiated. Employees who elect to participate in DROP will cease participation in CERS, and will participate in an SPSP-type plan with a mandatory 3.05% employee contribution matched by 3.05% employer contribution.

Issue No. 3 - EMPLOYER CONTRIBUTION RATES

A. Employer rates will be calculated using the Projected Unit Credit (PUC) method. For FY96 and FY97, the City will pay the budgeted rates (bifurcated rate) of 7.08% (blended rate) and 7.33% respectively, and increase the rate paid by 0.50% each year until the rate paid reaches the EAN calculated rate. At such time as the PUC and Entry Age Normal (EAN) rates are equal, the System will convert to EAN.

Employer Contribution Rate Stabilization Plan

Period	PUC Rate	City Paid Rate	Difference %	Difference $
FY96	8.60%	7.08%	1.52%	$5.33m
FY97	10.87%	7.33%	3.79%	$13.88m
FY98	12.18%	7.83%	4.35%	$16.67m
FY99	12.18%	8.33%	3.85%	$15.40m
FY2000	12.18%	8.83%	3.35%	$14.00m
FY2001	12.18%	9.33%	2.85%	$12.45m
FY2002	12.18%	9.83%	2.35%	$10.72m
FY2003	12.18%	10.33%	1.85%	$8.82m
FY2004	12.18%	10.83%	1.35%	$6.73m
FY2005	12.18%	11.33%	.85%	$4.43m
FY2006	12.18%	11.83%	.35%	$1.91m
FY2007	12.18%	12.18%	-0-	-0-
FY2008	13.00	13.00%	-0-	-0-
TOTAL				$110.35*

*$110.35 million paid from excess earnings includes $71.31 million in contributions as a result of benefits improvements recommended herein.

B. The City will pay the agreed-to rates shown above for FY 96 through FY 2007. In the event that the funded ratio of the System falls to a level 10% below the funded ratio calculated at the June 30, 1996 actuarial valuation which will include the impact of the benefit improvements included in this Proposal, the City-paid rate will be increased on July 1 of the year following the date of the actuarial valuation in which the shortfall in funded ratio is calculated. The increase in the City-paid rate will be the amount determined by the actuary necessary to restore a funded ratio no more than the level that is 10% below the funded ratio calculated at the June 30, 1996 actuarial valuation.

C. If the System's actuary makes changes in actuarial assumptions or methodology which are approved by the Board prior to July 1, 2007, any changes in the employer contribution rate will adjust the PUC rate to be achieved through extended incremental increases shown in paragraph A above. If the phase-in would require an extension past July 1, 2009 in order to achieve the full actuarial PUC rate, the City-paid rate will be adjusted by the amount necessary to achieve full phase-in by that date.

Issue No. 4 - SURPLUS UNDISTRIBUTED EARNINGS AND RESERVES

The System's actuary performs an annual actuarial valuation which shows the present value of accrued liabilities and the value of assets allocated to funding. To the extent that liabilities exceed assets, the System will show an unfunded liability. The System's liabilities will be impacted in the following ways, including those related to the City Manager's proposal for restructuring the System.

NORMAL LIABILITIES - This liability relates to the impact of actuarial gains or losses recognized when actuarial assumptions are compared to the System's actual experience. When experience is better than assumptions, the System shows actuarial gains and liabilities decrease. When experience is worse than assumptions, the System shows actuarial losses and liabilities increase. This will take place regardless of whether or not the restructuring proposal is approved.

NORMAL COST OF INCREASED BENEFITS - When benefits are increased, liability is created representing the prospective value of those benefits. Employee and employer contribution rates are increased for the purpose of paying that cost as it is accrued.

PAST SERVICE LIABILITY OF INCREASED BENEFITS - The proposed restructuring provides for an increase in the formula for calculating benefits. This means that, in the case of a general member, each year of accrued service that had a value of 1.45% of final average salary at age 55, increases in value to 2.00% of final average salary at age 55 upon the effective date of the increase. This increases the cost to the System to pay the benefit, which increases liabilities since no contributions have been received in the past to fund the benefit at this level. This is what is known as past service liability.

The actuary has estimated the amount of past service liability created by the restructuring proposal to be $76.7 million expressed in 1996 dollars.

CONTRIBUTION SHORTFALL LIABILITY - The restructuring proposal provides that the employer contribution rate will be "ramped up" to the actuarially recommended rate in increments over the next 10 years. This means that the System will be receiving less in contribution dollars over that period, which creates an additional liability.

The actuary has estimated the amount of contribution shortfall liability created by the restructuring proposal to be $30.0 million expressed in 1996 dollars.

A. The system has "surplus" undistributed earnings and a balance in the Earnings Stabilization Reserve as follows:

FY ended 6-30-95	$ 38,813,314
FY ended 6-30-96	85,472,254
Earnings Stabilization Reserve	10, 769,620
Total	$135, 055,188

The actuary has estimated increased liabilities associated with the restructuring proposal in the amount of $106,700,000 (see the discussion segment above). Credit the Employer Contribution Reserve in the amount of $106,700,000 for the purpose of discharging the restructuring liability. Credit the Employer Contribution Reserve with $28,356,188 (the remaining balance) for the purpose of reducing the System's normal unfunded liability.

TOTALITY OF THE PROPOSAL

If the necessary contingencies identified to approve this Proposal in its entirety are not affirmatively met by January 1, 1997, then:

A. Retiree Health Insurance will remain a City provided benefit, rather than CERS;

B. The CERS benefit improvements listed in Issue No. 2 would not occur;

C. The employer contribution rates to be paid would be those established by the System's Actuary.

In order to facilitate the accomplishment of this Proposal, it is recommended that the CERS Board direct that the $106,700,000 identified in Issue No. 4 as the amount necessary to discharge the restructuring liability be set aside in a reserve until January 1, 1997.

SCHEDULE FOR DISTRIBUTION OF EARNINGS
FISCAL YEAR ENDED 6-30-00

UNDISTRIBUTED EARNINGS AT 6-30-00			$415,934,184
DISTRIBUTIONS:			
SDMC 24.1502 (a) (1)	EMPLOYER CONTRIBUTION RESERVE	$ 33,631,231	
SDMC 24.1502 (a) (1)	EMPLOYEE CONTRIBUTION RESERVE	21,119,014	
SDMC 24.1502 (a) (2)	ADMINISTRATIVE BUDGET	17,700,930	
SDMC 24.1502 (a) (3)	GENERAL RESERVE	22,431,567	
SDMC 24.1502 (a) (3)	CREDIT DROP ACCOUNTS AT 8%	2,333,465	
	SUBTOTAL	97,216,200	$ 318,717,984
SDMC 24.1502 (a) (3)	CREDIT 13TH CHECK RESERVE AT 8%	282,915	
SDMC 24.1502 (a) (3)	CONTINGENCY RESERVE (CITY)	100,000,000	
)MC 24.1502 (a) (4)	CONTINGENCY RESERVE (UPD)	5,838,008	
SDMC 24.1502 (a) (5)	EMPLOYER CONTRIBUTION RESERVE CITY (HEALTH INSURANCE)	12,771,254	
SDMC 24.1502 (a) (6)	13th CHECK	3,537,072	
SDMC 24.1502 (a) (7)	CORBETT RETROACTIVE PAYMENT	23,614,741	
SDMC 24.1502 (a) (8)	CREDIT SUPP. COLA RESERVE AT 8%	2,643,834	
SDMC 24.1502 (a) (8)	CREDIT EMPLOYEE CONTRIBUTION RATE RESERVE AT 8%	3,341,244	
SDMC 24.1502 (a) (3)	NPO RESERVE	7,937,000	
	SUBTOTAL		159,966,068
SDMC 24.1502 (b)	TO EMPLOYER CONTRIBUTION RESERVE	$158,751,916	

FILE: W:\EXEC\BDSEC\EARNINGS 00 (3)
UPDATE 08/09/01

ATTACHEMENT TO DISTRIBUTION OF EARNINGS FOR FY 00

...KGROUND:

The earnings of the System are defined as realized, or cash, earnings. They are comprised of interest and dividends received, net purchase discounts and premiums on fixed income instruments, and net realized gains and losses on the sale of stocks. Distribution of earnings is determined by the Board in priority order established in the Municipal Code. A description of the Municipal Code provisions is shown below and the recommended distribution is shown on the attached schedule.

SDMC 24.1502 (a) (1)	Credit the contribution accounts of the employers (City and UPD) and members of the System (City and UPD) at a rate determined by the Board. Historically, the rate has been the actuarial assumption rate, which is currently 8%.
SDMC 24.1502 (a) (2)	The System's operating budget.
SDMC 24.1502 (a) (3)	"An amount necessary to maintain such reserves as the Board deems appropriate on advice of its investment counselor and/or Actuary;" The Board has created four reserves under this section: the General Reserve; the Reserve for Employee Contributions; and, the NPO Reserve. NPO stands for Net Pension Obligation, which is the actuarial present value of the difference between the employer contribution rate recommended by the Actuary and the rate actually paid by the City. As a part of the annual actuarial valuation, the Actuary recommends the amount of this reserve. The schedule shows the difference between that recommendation and the current reserve balance.
...DMC 24.1502 (a) (4)	Proportional share of earnings to UPD. This represents the UPD's share of earnings used to fund programs or benefits in which they do not participate, such as retiree health insurance.
SDMC 24.1502 (a) (5)	Health Insurance.
SDMC 24.1502 (a) (6)	13th Check.
SDMC 24.1502 (a) (7)	Corbett Retiree Liability
SDMC 24.1502 (a) (8)	Credit the Supplemental COLA Reserve and the Employee Contribution Reserve with earnings at the same rate as the Employee and Employer Contribution Reserves above, currently 8%.
SDMC 24.1502 (b)	The remaining balance is credited to the Employer Contribution Reserve "... for the sole and exclusive purpose of reducing Retirement System liability."

File: w:\exec\bdsec\earnings 00 (3) Update 8/9/01

Exhibit 25

From Legal - June 10, 2005 Response

DRAFT FOR DISCUSSION 12/10/96

(O-97-)

STRIKEOUT ORDINANCE

OLD LANGUAGE: STRUCKOUT
NEW LANGUAGE: REDLINED

AN ORDINANCE AMENDING CHAPTER II, ARTICLE 4, DIVISION 1, OF THE SAN DIEGO MUNICIPAL CODE BY BY REPEALING SECTIONS 24.0104 and 24.0104.1; AMENDING DIVISION 2 BY AMENDING SECTIONS 24.0201,REPEALING SECTION 24.0201.1, AMENDING AND RETITLING SECTION 24.0202, REPEALING SECTION 24.0202.1, RETITLING SECTION 24.0203 AND REPEALING SECTION 24.0209; AMENDING DIVISION 3 BY AMENDING SECTION 24.0301, RETITLING AND AMENDING SECTION 24.0302, REPEALING SECTION 24.0304, RENUMBERING SECTION 24.0305 TO SECTION 24.0304, RENUMBERING SECTION 24.0306 TO SECTION 24.0305, REPEALING SECTION 24.0307, RENUMBERING SECTION 24.0308 TO SECTION 24.0306, RENUMBERING SECTION 24.0308.5 TO SECTION 24.0306.5, RENUMBERING SECTION 24.0309 TO SECTION 24.0307; AMENDING DIVISION 4 BY AMENDING SECTION 24.0402 RETROACTIVELY APPLICABLE TO JANUARY 1, 1997, AMENDING SECTION 24.0403 RETROACTIVELY APPLICABLE TO JANUARY 1, 1997, AMENDING SECTION 24.0404; AMENDING DIVISION 5 BY AMENDING SECTION 24.0504.1 , REPEALING SECTIONS 24.0514 AND 24.0516 RETROACTIVELY TO THE DATE OF OCTOBER 1, 1987, AMENDING SECTION 24.0532; AMENDING DIVISION 7 BY AMENDING SECTION 24.0706, AMENDING SECTION 24.0710.2; AMENDING DIVISION 9 BY AMENDING SECTION 24.0901.1, AMENDING SECTION 24.0907.1, AMENDING DIVISION 12 BY AMENDING SECTION 24.1201, AMENDING AND RENUMBERING SECTION 24.1204 TO SECTION 24.1202, AMENDING AND RENUMBERING SECTION

SEC. 24.1307 Purchase of Approved Leaves of Absence

Notwithstanding the provisions of Section 24.0103 t. ~~and this Division~~, any Member granted an approved leave of absence without pay shall have the right, upon his or her return to City service, and upon request by said Member to obtain service credit for a period of up to one year of such absence by paying into the Retirement System an amount determined by the Board to be the equivalent of the employee cost of that service.

Notwithstanding the provisions of Section 24.0103t ~~A~~any Member granted an approved leave of absence for periods of time in excess of one year shall have the right, upon return to City service, and upon request by said Member to obtain service credit for such excess leave of absence by paying into the Retirement System an amount determined by the Board to be the equivalent of the employee and employer cost of that service.

No employee shall be eligible to purchase the service credit under this Section for periods of leave of absence beginning after January 1, 1997.

SEC. 24.1312 General Provision for Five Year Purchase of Service Credit

Any person employed by the City of San Diego on the

date of December 31, 1996 may purchase up to a maximum of five years of service credit in addition to any other purchase of service credit benefit for which that person was eligible as of December 31, 1996. However, in no event shall the years purchased pursuant to this provision qualify to satisfy the vesting requirement set forth in Section 141 of the San Diego City Charter.

Any person hired by the City of San Diego on or after January 1, 1997 may purchase up to a maximum of five years of service credit in addition to any other purchase of service credit benefit set forth in this Division for which that person was eligible on January 1, 1997.

The cost of service credit purchased pursuant to this section shall be calculated on the basis of employer and employee contribution rates and interest rates in effect at the time the purchase is made in accordance with rules prescribed by the Board.

Exhibit 26

(O-97-75)

ORDINANCE NUMBER O-18383 (NEW SERIES)

ADOPTED ON FEBRUARY 25, 1997

AN ORDINANCE AMENDING CHAPTER II, ARTICLE 4, OF THE SAN DIEGO MUNICIPAL CODE BY AMENDING DIVISION 1 BY AMENDING SECTION 24.0103, REPEALING SECTIONS 24.0104 AND 24.0104.1; BY AMENDING DIVISION 2 BY AMENDING SECTION 24.0201, REPEALING SECTION 24.0201.1, RETITLING AND AMENDING SECTION 24.0202, REPEALING SECTION 24.0202.1, RETITLING SECTION 24.0203, REPEALING SECTION 24.0209, AND AMENDING SECTION 24.0211; BY AMENDING DIVISION 3 BY AMENDING SECTION 24.0301, RETITLING AND AMENDING SECTION 24.0302, REPEALING SECTION 24.0304, RENUMBERING SECTIONS 24.0305 AND 24.0306 TO SECTIONS 24.0304 AND 24.0305, REPEALING SECTION 24.0307, RENUMBERING SECTION 24.0308 TO SECTION 24.0306, AMENDING AND RENUMBERING SECTION 24.0308.5 TO SECTION 24.0307, AND RENUMBERING SECTION 24.0309 TO SECTION 24.0308; BY AMENDING DIVISION 4 BY AMENDING SECTIONS 24.0402 AND 24.0403 RETROACTIVELY APPLICABLE TO JANUARY 1, 1997, AND AMENDING SECTION 24.0404; BY AMENDING DIVISION 5 BY AMENDING SECTION 24.0503, RENUMBERING SECTION 24.0503.1 TO SECTION 24.0504, AMENDING AND RENUMBERING SECTION 24.0504.1 TO SECTION 24.0505, RENUMBERING SECTION 24.0505.1 TO SECTION 24.0506, REPEALING SECTIONS 24.0514 AND 24.0516 RETROACTIVELY TO THE DATE OF OCTOBER 1, 1987, AND AMENDING SECTIONS 24.0521 AND 24.0532; BY AMENDING DIVISION 6 BY REPEALING SECTION 24.0608.1; BY AMENDING DIVISION 7 BY AMENDING SECTION 24.0706, RETITLING AND AMENDING SECTION 24.0709, AND AMENDING SECTION 24.0710.2; BY AMENDING DIVISION 9 BY AMENDING AND RENUMBERING 24.0907.1 TO SECTION 24.0907; BY AMENDING DIVISION 10 BY AMENDING SECTION 24.1005 TO REFLECT RENUMBERING OF SECTION 24.0308 TO SECTION 24.0306 WITHIN THE TEXT OF THAT SECTION, AND ADDING SECTION 24.1014; BY AMENDING DIVISION 11 BY AMENDING SECTION 24.1101, AND AMENDING SECTION 24.1114 TO REFLECT RENUMBERING OF SECTION 24.0907.1 TO SECTION 24.0907 WITHIN THE TEXT OF THAT SECTION; BY AMENDING DIVISION 12 BY AMENDING THE TITLE THEREOF, BY REPEALING SECTIONS 24.1201, 24.1202, 24.1203, 24.1204, 24.1205 AND 24.1206, AND BY REENACTING SECTIONS 24.1201, 24.1202, 24.1203, 24.1204, 24.1205,

AND 24.1206, AND ADDING SECTION 24.1207; BY AMENDING DIVISION 13 BY RETITLING AND AMENDING SECTION 24.1302, AMENDING SECTIONS 24.1304, 24.1305, AND 24.1307, AND REPEALING AND REENACTING SECTION 24.1312, ALL RELATING TO THE CITY EMPLOYEES' RETIREMENT SYSTEM.

WHEREAS, on June 5, 1996, the Management Team of The City of San Diego and the San Diego Police Officers Association (POA) reached tentative Agreement regarding changes to the retirement benefits provided by the City Employees' Retirement System ("CERS"); and

WHEREAS, on July 2, 1996, the Council of The City of San Diego approved Resolution No. R-287582 approving tentative agreements with Local 145 of the International Association of Fire Fighters ("Local 145"), the San Diego Municipal Employees' Association ("MEA"), and Local 127 of the American Federation of State, County and Municipal Employees' Association ("Local 127") regarding wages, hours, and other terms and conditions of employment for Fiscal Year 1998, and proposed benefit increase changes to CERS for all four employee organizations contingent upon an affirmative vote of the participants, and subject to approval of the City Council, CERS Board of Administration, and subject to the occurrence of various contingencies contained with the Manager's Retirement Proposal; and

WHEREAS, on June 21, 1996, the CERS Board of Administration approved the concept of funding employer contribution rates partially funded from CERS Surplus Undistributed Earnings by establishing a reserve from those Surplus Undistributed Earnings; and

WHEREAS, on June 21, 1996, the CERS Board of Administration deferred approval of funding retiree health insurance from CERS Surplus Undistributed Earnings until the affirmative passage of Proposition D on the November 5, 1996, Municipal Ballot authorizing CERS to

SEC. 24.1312 General Provision for Five Year Purchase of Service Credit

Any person employed by the City of San Diego on the date of December 31, 1996, may purchase up to a maximum of five (5) years of service credit in addition to any other purchase of service credit benefit for which that person was eligible as of December 31, 1996. However, in no event shall the years purchased pursuant to this provision qualify to satisfy the vesting requirement set forth in Section 141 of the San Diego City Charter.

Any person hired by The City of San Diego on or after January 1, 1997, may purchase up to a maximum of five (5) years of service credit in addition to any other purchase of service credit benefit set forth in Chapter II, Article 2, Division 13, for which that person was eligible on January 1, 1997.

The cost of service credit purchased pursuant to this section shall be the amount determined by the Board to be the equivalent of the employee and employer cost of that service credit.

Section 31. Any aspect of this ordinance affecting retirement benefits shall take effect upon approval by the respective classes of membership as required pursuant to Charter Section 143.1, and no earlier than the thirtieth day from and after its passage by the City Council.

APPROVED: CASEY GWINN, City Attorney

By _____
Richard A. Duvernay
Deputy City Attorney

RAD:lc:pev
02/06/97
02/11/97 Cor.Copy
Or.Dept:Labor.R.
O-97-75
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Exhibit 27

THE CITY OF SAN DIEGO, CALIFORNIA
MINUTES FOR REGULAR COUNCIL MEETING
OF
TUESDAY, FEBRUARY 25, 1997
AT 9:00 A.M.
IN THE COUNCIL CHAMBERS - 12TH FLOOR

CHRONOLOGY OF THE MEETING:

The meeting was called to order by Mayor Golding at 10:04 a.m.

Mayor Golding and Council Member Stevens introduced and welcomed five individuals from the Old Negro League; Pepper Sharp, Neal Henderson, Gene Richardson, Bo Campbell and Walter McCoy. Council Member Stevens expressed the strife they suffered being unable to play on a Major League Baseball Team until Jackie Robinson broke the color barrier in 1947. Mayor Golding and Council Member Stevens recognized their contributions to the City of San Diego and to our heritage; and in celebration of Black History Month, proclaimed February 25, 1997 to be Negro Baseball Day in the City of San Diego.

Mayor Golding recessed the regular meeting at 10:40 a.m. to convene the Housing Authority. Mayor Golding reconvened the regular meeting at 10:42 a.m. with Council Member Kehoe and Council Member Warden not present. The meeting was recessed by Mayor Golding at 12:05 p.m. to reconvene at 2:00 p.m.

Mayor Golding reconvened the regular meeting at 2:07 p.m. with Council Member Kehoe, Council Member Stevens, and Council Member Warden not present. Mayor Golding recessed the regular meeting at 2:08 p.m. to convene the Housing Authority. The regular meeting was reconvened by Mayor Golding at 3:32 p.m. with Council Member Kehoe and Council Member Warden not present. Mayor Golding adjourned the regular meeting at 3:39 p.m. into closed session immediately following in the twelfth floor conference room to discuss existing and anticipated litigation and property acquisition.

ATTENDANCE DURING THE MEETING:

(M) Mayor Golding-present

(1) Council Member Mathis-present

(2) Council Member Wear-present

(3) Council Member Kehoe-excused by R-288422
(City business in Washington, D. C.)

(4) Council Member Stevens-present

(5) Council Member Warden-excused by R-288390
(City business in Washington, D.C.)

(6) Council Member Stallings-present

(7) Council Member McCarty-present

(8) Council Member Vargas-present

Clerk-Abdelnour (pr/lh)

ITEM-1: ROLL CALL

Clerk Abdelnour called the roll:

(M) Mayor Golding-present
(1) Council Member Mathis-present
(2) Council Member Wear-present
(3) Council Member Kehoe-not present
(4) Council Member Stevens-present
(5) Council Member Warden-not present
(6) Council Member Stallings-present
(7) Council Member McCarty-present
(8) Council Member Vargas-present

ITEM-10: INVOCATION

Invocation was given by Pastor Doug Jordan from Lighthouse Independent Baptist Church.

ITEM-20: PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Council Member Stevens.

PUBLIC COMMENT:

ITEM-PC-1:

ITEM-30: APPROVED

Approval of Council Minutes for the Meetings of:

2/10/97
2/11/97

FILE LOCATION: MINUTES

COUNCIL ACTION: (Tape location: A256-261.)

MOTION BY MATHIS TO APPROVE. Second by Wear. Passed by the following vote: Mathis-yea, Wear-yea, Kehoe-not present, Stevens-yea, Warden-not present, Stallings-yea, McCarty-yea, Vargas-yea, Mayor Golding-yea.

* ITEM-50:

SUBJECT: San Diego Municipal Code Amendments Required to Implement the Retirement System Proposal.

CITY COUNCIL'S RECOMMENDATION:

Adopt the following ordinance which was introduced on 2/10/97.
(Council voted 7-0. Councilmember Kehoe and Mayor Golding not present):

(O-97-75) ADOPTED AS ORDINANCE O-18383 (New Series)

Amending Chapter II, Article 4, of the San Diego Municipal Code, relating to Retirement Regulations.

FILE LOCATION: MEET

COUNCIL ACTION: (Tape location: A263-B038.)

CONSENT MOTION BY MATHIS TO DISPENSE WITH THE READING AND ADOPT ORDINANCE. Second by Wear. Passed by the following vote: Mathis-yea, Wear-yea, Kehoe-not present, Stevens-yea, Warden-not present, Stallings-yea, McCarty-yea, Vargas-yea, Mayor Golding-yea.

* ITEM-51:

Exhibit 28

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 619-535-1300 • FAX 619-535-1415

March 3, 1997

Mr. Larry Grissom
City of San Diego Employees' Retirement System
525 B Street, Suite 1120
San Diego, CA 92101

Dear Larry,

Earlier this week, you had asked us to opine on a following approach to a proposed service purchase program. Our understanding is that up to five years of service can be purchased for any service other than City service. Because of technical issues, there is no single best way to exactly calculate the related cost. You had proposed an approach that would charge General members a cost of 15% of current pay per year purchased. The corresponding cost for Safety employees would be 26% of current pay.

These rates are slightly less than the sum of the average employee rate and the computed City rate as of the June 30, 1996 valuation with implementation of the Manager's Proposal. The combined rates for City employees are as follows:

PRIOR TO MANAGER'S PROPOSAL

	General	Safety
Average Employee Rate	8.39%	11.57%
City Rate	5.00	15.80
TOTAL	13.39%	27.37%

AFTER MANAGER'S PROPOSAL

	General	Safety
Average Employee Rate	9.48%	12.15%
City Rate	7.64	17.40
TOTAL	17.12%	29.55%

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Mr. Larry Grissom
City of San Diego Employees' Retirement System
March 3, 1997
Page 2

The employee rates shown are very slightly overstated since they show rates above the integration breakpoint of $400 per month. The City rates assume mid-year payment, on average.

If the proposed purchase rates are used, we believe that the overall cost will be close enough to true actuarial costs so that there will not be a significant subsidy if the proposed percentages are used.

There are some interesting theoretical points in deriving the cost for any service purchase program. For instance, it would be easy to argue that the employee should only pay for the portion of the City rate that is attributable to normal cost.

Please call if you have any questions.

Sincerely,

Rick

Rick A. Roeder, EA, FSA, MAAA

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Re: Purchase of Service Credit

TRANSCRIPT OF SDCERS' RETIREMENT BOARD MEETING

TAKEN ON MARCH 21, 1997

Male — Board rule revisions, purchase of service, you have an item under tab D.

Female — Right.

Male — And my understanding of this is basically this is to adjust our board rule to comport with the modifications that have been made as a result of the manager's proposal. And beyond that unless there's specific questions, I think staff recommendation is appropriate to entertain a motion.

Female — I do have a question.

Male — Cool.

Female — Third page six, that technically should be shaded, this is all new. How are the rates derived?

Male — The recommendation of the actuary is a combination quotes thereunto of the, of the combined employee and employer contribution rates. Because the intent of the purchase is that they take [inaudible]. [Inaudible].

Female — Okay.

Male — Is there a motion?

Male — So moved.

Male [Inaudible]. Okay. Discussion? I see none. All those in favor usual sign aye.

Male Aye.

Male Opposed?

Female I don't.

1:\My Documents\CITYATTY\Retirement Board\March 21, 1997 Meeting.doc

Exhibit 29

Re: Purchase of Service Credit

TRANSCRIPT OF SDCERS' RETIREMENT BOARD MEETING

TAKEN ON MARCH 21, 1997

Male Board rule revisions, purchase of service, you have an item under tab D.

Female Right.

Male And my understanding of this is basically this is to adjust our board rule to comport with the modifications that have been made as a result of the manager's proposal. And beyond that unless there's specific questions, I think staff recommendation is appropriate to entertain a motion.

Female I do have a question.

Male Cool.

Female Third page six, that technically should be shaded, this is all new. How are the rates derived?

Male The recommendation of the actuary is a combination quotes thereunto of the, of the combined employee and employer contribution rates. Because the intent of the purchase is that they take [inaudible]. [Inaudible].

Female Okay.

Male Is there a motion?

Male So moved.

Male [Inaudible]. Okay. Discussion? I see none. All those in favor usual sign aye.

Male Aye.

Male Opposed?

Female I don't.

1:\My Documents\CITYATTY\Retirement Board\March 21, 1997 Meeting.doc

Exhibit 30

SDCERS RETIREMENT BOARD OF ADMINISTRATION MINUTES
MARCH 21, 1997

The Retirement Board of Administration held its regularly scheduled meeting in the System's Board Room. Location: 525 "B" Street, Suite 1120, San Diego, CA 92101. The meeting was called to order at 1:30 p.m. by Keith Enerson.

IN ATTENDANCE:

Trustees: Keith Enerson, Chair; Ron Saathoff, Bruce Herring, Jack Katz, John Casey, Paul Barnett, Sharon Wilkinson, Terri Webster, Conny Jamison, Robert Scannell, John Torres, Ann Parode

Staff: Lawrence Grissom, Lori Chapin, Christine Folsom, Roxanne Parks, Sally Zumalt, Cynthia Hilliard, Jan Beaton, Peggy Martinez, Doug McCalla, Judy Folsom, Gloria Oloya

Public: Cathy Lexin, John Schmidt, Cindy Titgen, Tom Rhodes, Rick Hansen, Robert Mulcahey, Bill Peterson, Anthony Dicerchio, Vito Maniscalco, Michelle Chu, David Dugan, Jenny Badua, Randy Levitt, Bob Sneed, Ed Faunce, Butch Hubble, Dina Webb, Ed Lehman, Deputy City Attorney Taylor, Stanley Levine,
Ed Hansen, Mr. Martinez, Lisa Foster

I.	CONSENT AGENDA ITEMS #1 - 6 (ACTION REQUESTED)

MOTION TO APPROVE CONSENT AGENDA ITEMS #1-6 WITH AN AMENDMENT TO PAGE 14 OF THE FEBRUARY MINUTES TO READ: MS. PARODE RESPONDED THE INFORMATION SHOULD HAVE BEEN PROVIDED IN A WAY WHICH PERMITTED ADVICE REVIEW GIVEN THE IMPORTANCE OF THE ISSUE, AND WOULD IN ANY CASE, BE USELESS AT THIS DATE. SHE STATED SHE CONTINUES TO QUESTION THE ADEQUACY OF THE BOARD'S REVIEW OF THIS ISSUE AND DISSENTS FROM ITS ACTION:

A. PARODE
SECOND: J. TORRES
BOARD: UNANIMOUS
MOTION TO APPROVE CONSENT AGENDA ITEMS #1-6 PASSED.

1. SERVICE RETIREMENTS - APPROVAL RECOMMENDED:

A. John K. Riess, Sr. Deputy City Attorney, City Attorney's Office. Age 56.50. 25.52 years of creditable service. Effective date 3/29/97. Estimated monthly allowance of $3,256.61 plus 67.45 COLA, maximum benefit with surviving spouse provisions. (Option II)

B. Charles Anthony, Sanitation Driver I, Environmental Services. Age 59.75. 21.18 years of creditable service. Effective date 3/29/97. Estimated monthly allowance $1,011.19 plus $34.04 COLA, maximum benefit.

Mr. Saathoff stated it is anticipated this facility will afford various training to all employees.

Ms. Jamison questioned whether this expenditure is in the System's current operating budget or if it would require an amendment to the budget.

Mr. Enerson replied it would require an amendment to the budget.

Ms. Parode questioned whether any additional thought had been given to security (i.e. metal detectors).

Mr. Grissom responded Staff had been working on building and tenant improvements and had not considered this.

Ms. Parode commented that mentally unbalanced cases come before this Board which often times receive unpopular decisions. By providing additional security, she stated the Board would be affording themselves extra protection.

Mr. Enerson stated he would refer this issue to the Business Procedures Committee.

Mr. Grissom stated Staff would bring recommendations to the Committee in April.

CALL FOR THE QUESTION TO APPROVE:

BOARD: **UNANIMOUS**
MOTION TO APPROVE PASSED.

C. RATIFICATION OF COLA ADJUSTMENT

MOTION TO APPROVE A COLA ADJUSTMENT OF 1.5% FOR THE 1981 SYSTEM AND 2.0% FOR ALL OTHERS (WITH THE EXCEPTION OF SPECIAL CLASS SAFETY FLUCTUATORS):

R. SAATHOFF
SECOND: **J. TORRES**
BOARD: **UNANIMOUS**
MOTION TO APPROVE PASSED.

D. BOARD RULE REVISIONS-PURCHASE OF SERVICE

Mr. Saathoff stated the modifications are necessary to conform with the City Manager's proposal and recommended approval.

MOTION TO APPROVE THE BOARD RULE REVISIONS

(A COPY IS INCLUDED AS A PART OF THESE MINUTES):

SECOND: **R. SAATHOFF**
BOARD: **B. HERRING**
MOTION TO APPROVE PASSED. **UNANIMOUS**

VI. INVESTMENT COMMITTEE REPORT - ROBERT SCANNELL, CHAIR

1. REPORTS - CONSIDERATION AND REQUEST FOR ACTION AS NECESSARY

INFORMATIONAL:

A. ASSET ALLOCATION STATUS
B. MANAGER'S WATCH LIST
C. STATUS REPORT ON THE ACQUISITION OF THE MOUNTAIN PACIFIC BUILDING IN BELLEVUE, WA
D. IPC'S QUARTERLY PERFORMANCE REPORT FOR PERIOD ENDING 12/31/96

Refer to Page 20 of these Minutes for the report on Items #1A-D.

Mr. Scannell reported on Items #1A-D stating: A) SDCERS is tracking very close to its target allocation and Staff will be paring down the small cap value portfolio over the next month; B) there had been no change to the Manager's Watch List since February; C) SDCERS had closed escrow on the Mountain Pacific property at $11.059 million; and,
D) Mr. Eidelson had reported at the Committee level that SDCERS' continues to outperform the IPC index. For a full report, please refer to IPC's quarterly report dated 12/31/96, on file in the Retirement System Office.

2. OLD BUSINESS - CONSIDERATION AND REQUEST FOR ACTION AS NECESSARY

APPROVAL RECOMMENDED:

A. REVISIONS TO SDCERS' REAL ESTATE INVESTMENT GUIDELINES

MOTION TO ADOPT THE REAL ESTATE GUIDELINES (A COPY IS INCLUDED AS A PART OF THESE MINUTES:

SECOND: **R. SCANNELL**
BOARD: **C. JAMISON**
MOTION TO ADOPT THE GUIDELINES PASSED. **UNANIMOUS**

Exhibit 31

(O-97-75)

ORDINANCE NUMBER O-18383 (NEW SERIES)

ADOPTED ON FEBRUARY 25, 1997

AN ORDINANCE AMENDING CHAPTER II, ARTICLE 4, OF THE SAN DIEGO MUNICIPAL CODE BY AMENDING DIVISION 1 BY AMENDING SECTION 24.0103, REPEALING SECTIONS 24.0104 AND 24.0104.1; BY AMENDING DIVISION 2 BY AMENDING SECTION 24.0201, REPEALING SECTION 24.0201.1, RETITLING AND AMENDING SECTION 24.0202, REPEALING SECTION 24.0202.1, RETITLING SECTION 24.0203, REPEALING SECTION 24.0209, AND AMENDING SECTION 24.0211; BY AMENDING DIVISION 3 BY AMENDING SECTION 24.0301, RETITLING AND AMENDING SECTION 24.0302, REPEALING SECTION 24.0304, RENUMBERING SECTIONS 24.0305 AND 24.0306 TO SECTIONS 24.0304 AND 24.0305, REPEALING SECTION 24.0307, RENUMBERING SECTION 24.0308 TO SECTION 24.0306, AMENDING AND RENUMBERING SECTION 24.0308.5 TO SECTION 24.0307, AND RENUMBERING SECTION 24.0309 TO SECTION 24.0308; BY AMENDING DIVISION 4 BY AMENDING SECTIONS 24.0402 AND 24.0403 RETROACTIVELY APPLICABLE TO JANUARY 1, 1997, AND AMENDING SECTION 24.0404; BY AMENDING DIVISION 5 BY AMENDING SECTION 24.0503, RENUMBERING SECTION 24.0503.1 TO SECTION 24.0504, AMENDING AND RENUMBERING SECTION 24.0504.1 TO SECTION 24.0505, RENUMBERING SECTION 24.0505.1 TO SECTION 24.0506, REPEALING SECTIONS 24.0514 AND 24.0516 RETROACTIVELY TO THE DATE OF OCTOBER 1, 1987, AND AMENDING SECTIONS 24.0521 AND 24.0532; BY AMENDING DIVISION 6 BY REPEALING SECTION 24.0608.1; BY AMENDING DIVISION 7 BY AMENDING SECTION 24.0706, RETITLING AND AMENDING SECTION 24.0709, AND AMENDING SECTION 24.0710.2; BY AMENDING DIVISION 9 BY AMENDING AND RENUMBERING 24.0907.1 TO SECTION 24.0907; BY AMENDING DIVISION 10 BY AMENDING SECTION 24.1005 TO REFLECT RENUMBERING OF SECTION 24.0308 TO SECTION 24.0306 WITHIN THE TEXT OF THAT SECTION, AND ADDING SECTION 24.1014; BY AMENDING DIVISION 11 BY AMENDING SECTION 24.1101, AND AMENDING SECTION 24.1114 TO REFLECT RENUMBERING OF SECTION 24.0907.1 TO SECTION 24.0907 WITHIN THE TEXT OF THAT SECTION; BY AMENDING DIVISION 12 BY AMENDING THE TITLE THEREOF, BY REPEALING SECTIONS 24.1201, 24.1202, 24.1203, 24.1204, 24.1205 AND 24.1206, AND BY REENACTING SECTIONS 24.1201, 24.1202, 24.1203, 24.1204, 24.1205,

AND 24.1206, AND ADDING SECTION 24.1207; BY AMENDING DIVISION 13 BY RETITLING AND AMENDING SECTION 24.1302, AMENDING SECTIONS 24.1304, 24.1305, AND 24.1307, AND REPEALING AND REENACTING SECTION 24.1312, ALL RELATING TO THE CITY EMPLOYEES' RETIREMENT SYSTEM.

WHEREAS, on June 5, 1996, the Management Team of The City of San Diego and the San Diego Police Officers Association (POA) reached tentative Agreement regarding changes to the retirement benefits provided by the City Employees' Retirement System ("CERS"); and

WHEREAS, on July 2, 1996, the Council of The City of San Diego approved Resolution No. R-287582 approving tentative agreements with Local 145 of the International Association of Fire Fighters ("Local 145"), the San Diego Municipal Employees' Association ("MEA"), and Local 127 of the American Federation of State, County and Municipal Employees' Association ("Local 127") regarding wages, hours, and other terms and conditions of employment for Fiscal Year 1998, and proposed benefit increase changes to CERS for all four employee organizations contingent upon an affirmative vote of the participants, and subject to approval of the City Council, CERS Board of Administration, and subject to the occurrence of various contingencies contained with the Manager's Retirement Proposal; and

WHEREAS, on June 21, 1996, the CERS Board of Administration approved the concept of funding employer contribution rates partially funded from CERS Surplus Undistributed Earnings by establishing a reserve from those Surplus Undistributed Earnings; and

WHEREAS, on June 21, 1996, the CERS Board of Administration deferred approval of funding retiree health insurance from CERS Surplus Undistributed Earnings until the affirmative passage of Proposition D on the November 5, 1996, Municipal Ballot authorizing CERS to

administer retiree health insurance, and until a specific health insurance benefit was identified and established by the Council of The City of San Diego; and

WHEREAS, on November 5, 1996, Proposition D was approved; and

WHEREAS, on January 28, 1997, the Management Team of The City of San Diego reached tentative Agreement with a coalition of the four employee labor organizations ("Coalition"), on file in the office of the City Clerk as Document No. OO-18383, establishing a Retiree Health Insurance Benefit, and establishing the terms of a Deferred Retirement Option Plan ("DROP"); and

WHEREAS, it is the intent of the Council of The City of San Diego to introduce an ordinance on February 18, 1997, to implement the DROP effective April 1, 1997; NOW, THEREFORE,

BE IT ORDAINED, by the Council of The City of San Diego, as follows:

Section 1. That Chapter II, Article 4, Division 1, of the San Diego Municipal Code be and the same is hereby amended by amending Section 24.0103, to read as follows:

SEC. 24.0103 Definitions

Unless otherwise stated, for purposes of this Article:

"Accumulated Additional Contributions" means the sum of additional contributions standing to the credit of a Member's or Safety Member's individual account and interest thereon.

"Accumulated Contributions" means Accumulated Normal Contributions plus any Accumulated Additional Contributions standing to the credit of a Member's or Safety Member's account.

"Accumulated Normal Contributions" means the sum of all normal contributions standing to the credit of a Member's or Safety Member's individual account and interest thereon.

"Actuarial Equivalent" means a benefit of equal value when computed upon the basis of the mortality, interest and other tables adopted by the Board of Administration for this purpose.

"Actuary" means the actuary regularly employed on a full or part-time basis by the Board.

"Annuity" means payment for life derived from contributions made by a Member or Safety Member.

"Beneficiary" means any person in receipt of a pension, annuity, retirement allowance, death benefit, or any other benefit authorized by this Article.

"Board" means the Board of Administration hereinafter provided for.

"City Sponsored Health Insurance Plan" means a group health insurance plan which has been elected by and is in contractual privity with The City of San Diego, made available to Health Eligible Retirees, and administered by the Retirement System.

"Compensation" means the remuneration paid in cash out of city funds controlled by the Council of The City of San Diego, plus the monetary value as determined by the Board of Administration of board, lodging, fuel, laundry and other advantages furnished to an employee in payment for the employee's services.

"Compensation Earnable" by a Member or Safety Member means the base compensation as determined by the Board of Administration for the period under

consideration upon the basis of the normal number of days ordinarily worked by persons in the same grade or class of positions during the period and at the same rate of pay. The computation for any absence shall be based on the compensation of the position held by such employee at the beginning of the absence.

"Continuous Service" means that service of an eligible Member deemed to be of a continuous nature pursuant to Section 24.1005 of this Code. "Continuous Service" shall not be construed as synonymous with "Creditable Service."

"Creditable Service" for purposes of qualification for benefits and retirement allowances under this System means service rendered for compensation as an employee or officer (employed, appointed or elected) of the City or a contracting agency, and only while he or she is receiving compensation from the City or contracting agency, and is a Member of and contributing to this System pursuant to appropriate provisions of this Article. Except as provided in Chapter II, Article 4, Division 13, for which repurchase of credits may be permissible, time during which a Member is absent from City service without compensation shall not be allowed in computing Creditable Service. The term "Current Service" shall mean the same as Creditable Service.

"Final Compensation" for General and Legislative Members means the Compensation Earnable based on the highest one-year period for those Members who are on the active payroll of The City of San Diego on or after June 30, 1989, and who retire on or after July 1, 1989. The Retirement Board shall adjust contribution rates for high one-year General and Legislative Member eligibles as

may be necessary and required upon advice of the Actuary, from and after December 30, 1988.

"Final Compensation" for Safety Members means the Compensation Earnable based on the highest one-year period, for those Safety Members who are on the active payroll of The City of San Diego on or after January 1, 1988, and who retire on or after July 1, 1988. The Retirement Board shall adjust contribution rates for high one-year Safety Member eligibles as may be necessary and required upon advice of the Actuary, from and after January 1, 1988.

"General Member" is any Member not otherwise classified as a Safety or Legislative Member.

"Health Eligible Retiree" means any retired General Member, Safety Member, or Legislative Officer who was: (1) was on the active payroll of The City of San Diego on or after October 5, 1980, and (2) who retired on or after October 6, 1980, and (3) is eligible for and is receiving a retirement allowance from The City of San Diego.

"HMO" means a health maintenance organization type of health plan.

"Investment Earnings Received" means all interest received (net of interest purchased) on notes, bonds, mortgages, short-term money market instruments, and savings accounts; cash dividends received on stock investments; and all realized gains and losses from the sale, trade, or conversion of any investments of the Retirement System.

"Legislative Member" means the Mayor and any Councilmember.

"Legislative Officers" means the Mayor and/or members of the City Council.

"Member" means any person who actively participates in and contributes to the Retirement System, and who is thereafter entitled, when eligible, to receive benefits therefrom. There are three classes of Members: General, Safety and Legislative.

"Normal Contributions" means contributions by a Member or Safety Member at the normal rates of contribution, but does not include additional contributions by a Member or Safety Member.

"PPO" means a preferred provider organization type of health plan.

"Prior Service" means service prior to January 1, 1927.

"Safety Member" means any person who is either a sworn officer of the Police Department of The City of San Diego employed since July 1, 1946, a uniformed member of the Fire Department of The City of San Diego employed since July 1, 1946, or a full-time employed lifeguard of The City of San Diego, or a full-time police officer of the Unified Port District who is a peace officer under Penal Code section 830.1(a); provided, however, that police cadets, persons sworn for limited purposes only, and all other members of the Police and Fire Departments and lifeguard service shall not be considered Safety Members for the purpose of this Article.

"Retirement Fund" means the trust fund created by the City Charter in Article IX.

"Retirement System" or "this System" means the City Employees Retirement System as created by this Article, and the "1981 Pension System" means the Employees Retirement System as created by Chapter II, Article 4, Division 11.

"Undistributed Earnings Reserve" shall mean the balance remaining in the account to which the earnings to the fund are credited, after the annual distribution to the employee and employer reserve accounts in accordance with interest assumption rates established by the Board, plus accumulated earnings which have not been so distributed.

Section 2. That Chapter II, Article 4, Division 1, of the San Diego Municipal Code be and the same is hereby amended by repealing Sections 24.0104 and 24.0104.1.

Section 3. That Chapter II, Article 4, Division 2, of the San Diego Municipal Code be and the same is hereby amended by amending Section 24.0201, to read as follows:

SEC. 24.0201 Contribution of General Members

For General Members, the Board of Administration shall provide:

1. [No change in text.]

2. The normal rates of contribution for each Member, except Safety Members, shall be such as will provide an average Annuity at age 57½ equal to 1/120th of the Member's Final Compensation, according to the tables adopted by the Board of Administration for each year of service rendered after entering the System.

3. An employee who is granted a special leave of absence without pay in order to serve as the duly elected president of a recognized employee labor

organization, shall be permitted, if he or she so elects, to continue making contributions during the period of presidential leave in an amount prescribed in accordance with this Section 24.0201.

Section 4. That Chapter II, Article 4, Division 2, of the San Diego Municipal Code be and the same is hereby amended by repealing Section 24.0201.1.

Section 5. That Chapter II, Article 4, Division 2, of the San Diego Municipal Code be and the same is hereby amended by retitling and amending Section 24.0202, to read as follows:

SEC. 24.0202 Adoption of General Member Contribution Rates

The Board of Administration, based upon the advice of the Actuary, shall periodically adopt the rate of contribution of each General Member according to age at the time of entry into the Retirement System.

Section 6. That Chapter II, Article 4, Division 2, of the San Diego Municipal Code be and the same is hereby amended by repealing Section 24.0202.1.

Section 7. That Chapter II, Article 4, Division 2, of the San Diego Municipal Code be and the same is hereby amended by retitling Section 24.0203, to read as follows:

SEC. 24.0203 Maximum and Minimum Rates for General Members

[No change in text.]

Section 8. That Chapter II, Article 4, Division 2, of the San Diego Municipal Code be and the same is hereby amended by repealing Section 24.0209.

Section 9. That Chapter II, Article 4, Division 2, of the San Diego Municipal Code be and the same is hereby amended by amending Section 24.0211, to read as follows:

SEC. 24.0211 Upgrade of Benefits - General Members

Effective July 1, 1991, any General Member who was enrolled and participated in the 1981 Pension Plan between September 3, 1982, and June 30, 1989, shall receive the same level of benefits provided General Members in CERS.

Section 10. That Chapter II, Article 4, Division 3, of the San Diego Municipal Code be and the same is hereby amended by amending Section 24.0301, and by retitling and amending Section 24.0302, to read as follows:

SEC. 24.0301 Contributions of Safety Members

For Safety Members, the Board of Administration shall provide:

1. [No change in text.]

2. The normal rates of contribution for each Safety Member shall be such as will provide an average Annuity at age 50 equal to 1/100th of his Final Compensation, according to the tables adopted by the Board of Administration for each year of service rendered after entering the System.

3. An employee who is granted a special leave of absence without pay in order to serve as the duly elected president of a recognized employee labor organization, shall be permitted, if he or she so elects, to continue making contributions during the period of presidential leave in an amount prescribed in accordance with this Section 24.0301.

SEC. 24.0302 Adoption of Safety Member Contribution Rates

The Board of Administration, based upon the advice of the Actuary, shall periodically adopt the rate of contribution of each Safety Member according to age at the time of entry into the Retirement System, said rates to be contained in the

Operating Tables furnished to the Board of Administration by the System's Actuary.

Section 11. That Chapter II, Article 4, Division 3, of the San Diego Municipal Code be and the same is hereby amended by repealing Section 24.0304.

Section 12. That Chapter II, Article 4, Division 3, of the San Diego Municipal Code be and the same is hereby amended by renumbering Sections 24.0305 and 24.0306 to read Sections 24.0304 and 24.0305.

SEC. 24.0304 Safety Member Contributions Deducted by City Auditor

[No change in text.]

SEC. 24.0305 Additional Contributions for Safety Members

[No change in text.]

Section 13. That Chapter II, Article 4, Division 3, of the San Diego Municipal Code be and the same is hereby amended by repealing Section 24.0307.

Section 14. That Chapter II, Article 4, Division 3, of the San Diego Municipal Code be and the same is hereby amended by renumbering Section 24.0308 to Section 24.0306, amending and renumbering Section 24.0308.5 to Section 24.0307, and renumbering Section 24.0309 to Section 24.0308, to read as follows:

SEC. 24.0306 Withdrawal of Accumulated Contributions and Deferred Benefits -- Safety Members

[No change in text.]

SEC. 24.0307 Termination of Benefits -- Safety Member

Any person eligible to withdraw accumulated contributions pursuant to Section 24.0306 who requests withdrawal, and thereafter receives his or her

Accumulated Contributions from the System, shall be deemed to have knowingly terminated membership in the System and, as a result thereof, be ineligible for any rights, privileges, or benefits granted under this Retirement System.

SEC. 24.0308 Auditor and Comptroller to Withhold Monies Owing City -- Safety Members

[No change in text.]

Section 15. That Chapter II, Article 4, Division 4, of the San Diego Municipal Code be and the same is hereby amended by amending Sections 24.0402 and 24.0403 retroactively applicable to January 1, 1997; and by amending Section 24.0404, to read as follows:

SEC. 24.0402 Retirement Allowance -- General Member

a. and b. [No change in text.]

c. The creditable service pension is the pension derived from the contributions of the City that is sufficient, when added to the service retirement Annuity, to equal the unmodified service retirement allowance.

d. The unmodified service retirement allowance is calculated by multiplying a Member's Final Compensation times the Member's creditable years of service times the applicable retirement factor set forth in Table 1 of Section 240402. The retirement factors set forth in Table 1 of Section 24.0402 shall be prorated to reflect quarterly increments in the Member's attained age.

e. The Member's cost of living annuity ("COLA") shall be calculated by computing the Actuarial Equivalent of the Member's accumulated COLA contributions at the time of the Member's retirement and that amount shall be

added to the unmodified service retirement allowance described in Section 24.0402(d).

Table 1 of Section 24.0402

SAN DIEGO CITY EMPLOYEES RETIREMENT SYSTEM

Retirement Age	Unmodified Factor* Effective 1/1/97
55	2.00%
56	2.00%
57	2.00%
58	2.00%
59	2.08%
60	2.16%
61	2.24%
62	2.31%
63	2.39%
64	2.47%
65+	2.55%

*** Unmodified Factor utilized to calculate the maximum service retirement allowance. Factors are reduced if Member elects any optional retirement settlements pursuant to Chapter II, Article 4, Division 6.**

SEC. 24.0403 Retirement Allowances -- Safety Member

a. The Board of Administration shall provide that upon retirement from service a Safety Member is entitled to receive a retirement allowance which shall consist of:

1. and 2. [No change in text.]

b. The service retirement annuity is an annuity which is the Actuarial Equivalent of the Safety Member's Accumulated Normal Contributions at the time of his or her retirement.

c. The Creditable Service pension for Safety Members is a pension derived from the contributions of the City that is sufficient, when added to the service retirement annuity, to equal the unmodified service retirement allowance.

d. Subject only to the retirement allowance cap described in Section 24.0403(f), the unmodified service retirement allowance shall be calculated by multiplying a Safety Member's Final Compensation times the Safety Member's creditable years of service times the applicable retirement factor set forth in Table 1 of Section 24.0403. The retirement factors set forth in Table 1 of Section 24.0403 shall be pro-rated to reflect quarterly increments in the Safety Member's attained age.

e. The Safety Member's cost of living annuity ("COLA") shall be calculated by computing the Actuarial Equivalent of the Safety Member's accumulated COLA contributions at the time of the Safety Member's retirement and that amount shall be added to the unmodified service retirement allowance described in Section 24.0403(d).

f. In no event shall the service retirement allowance for a Safety Member exceed 90% of Final Compensation, except however for those Safety Members who qualify for a waiver from this retirement allowance cap pursuant to Section 24.0403(g).

g. If the unmodified service retirement allowance of a Safety Member would have exceeded 90% of Final Compensation if they had retired on or before December 31, 1996, that Member may elect to not be subject to the 90% retirement allowance cap set forth in Section 24.0403(f), provided however that the unmodified service retirement allowance of the Member shall be calculated on the basis of the retirement factors in effect on December 31, 1996, as shown in Table 1 of Section 24.0403.

Table 1 of Section 24.0403

RETIREMENT CALCULATION FACTOR

LIFEGUARDS

Retirement Age	Unmodified Factor* Effective 12/31/96	Unmodified Factor* Effective 1/1/97
50	2.00%	2.20%
51	2.10%	2.32%
52	2.22%	2.44%
53	2.34%	2.57%
54	2.47%	2.72%
55+	2.62%	2.77%

*** Unmodified Factor utilized to calculate the maximum service retirement allowance. Factors are reduced if Member elects any optional retirement settlements pursuant to Chapter II, Article 4, Division 6.**

FIRE AND POLICE

Retirement Age	Unmodified Factor* Effective 12/31/96		Unmodified Factor* Effective 1/1/97
	Police	Fire	
50	2.50%	2.20%	2.50%
51	2.54%	2.32%	2.60%
52	2.58%	2.44%	2.70%
53	2.62%	2.57%	2.80%
54	2.66%	2.72%	2.90%
55+	2.70%	2.77%	2.9999%

*** Unmodified Factor utilized to calculate the maximum service retirement allowance. Factors are reduced if Member elects any optional retirement settlements pursuant to Chapter II, Article 4, Division 6.**

SEC. 24.0404 Annual Supplemental Benefit -- Qualification and Determination

The purpose and intent of this section is to provide necessary guidelines for effectuating the payment of annual supplemental benefits set forth in Section 24.0907 of this Code by (a) identifying and defining those retirees qualified to receive such benefit and (b) establishing a method for determining the amount of the annual supplemental benefit.

A. For the purpose of identifying those retirees who shall be deemed qualified to receive the annual supplemental benefit established in this Code, the following criteria shall apply:

1. The retiree must have completed a minimum of ten (10) years Creditable Service as a Member of the System in order to be qualified;

2. through 3. [No change in text.]

4. Legislative and Special Class Safety Members who are receiving fluctuating monthly retirement benefits, and the survivors of both classes, shall not be eligible for participation in the annual supplemental benefit program established by this Article.

B. For the purpose of determining the amount of the supplemental benefit payment to Qualified Retirees, the following process shall apply:

1. through 3. [No change in text.]

4. The total sum of qualified creditable years shall then be divided into the total of Surplus Undistributed Earnings designated for distribution by the Retirement Board pursuant to Section 24.0907 of this Code to arrive at a per annum dollar value for each creditable year; provided, however, that in no event shall the per annum dollar value exceed $30 (thirty dollars) except for those General Members who retired between January 8, 1982 and June 30, 1985, who shall be entitled to a per annum value not to exceed $45 (forty-five dollars).

Notwithstanding the preceding paragraph, qualified retirees who retired on or before October 6, 1980, but after December 31, 1971, will receive $60 (sixty dollars) per year of service and employees who retired

on or before December 31, 1971, will receive $75 (seventy-five dollars) per year of service.

5. [No change in text.]

6. Except as provided in Section 24.0404(B)(7), the supplemental benefits of survivors of deceased qualified retirees, as defined in Section 24.0404(A), shall be determined in the same ratio as their monthly benefits bear to the monthly benefits received by their respective deceased retired spouses.

7. The supplemental benefit of a survivor of a qualified special class safety retiree shall be determined by allocating to the surviving spouse fifty percent (50%) of the qualified creditable years issued to the deceased member.

C. [No change in text.]

Section 16. That Chapter II, Article 4, Division 5, of the San Diego Municipal Code be and the same is hereby amended by amending Section 24.0503; renumbering Section 24.0503.1 to Section 24.0504; amending and renumbering Section 24.0504.1 to Section 24.0505; and renumbering Section 24.0505.1 to Section 24.0506, to read as follows:

SEC. 24.0503 Industrial Disability--Safety Member--Computation of Benefits

Upon retirement of a Safety Member for industrial disability: (a) that Member shall receive in equal monthly installments a disability retirement allowance of 50% of Final Compensation plus an Annuity purchased with Accumulated Additional Contributions, if any; or, (b) if qualified for service retirement, that Member shall receive the service retirement allowance if such

allowance, after deducting such additional Annuity is greater than the amount specified in Section 24.0503(a). The disability retirement allowance for a Safety Member retired because of industrial disability shall be derived from an Annuity based on that Member's Accumulated Normal Contributions and a disability retirement pension derived from contributions of the City.

SEC. 24.0504 Non-Industrial Disability--Safety Member--Computation of Benefits

[No change in text.]

SEC. 24.0505 Industrial Disability--General Member--Computation of Benefits

Upon retirement of a General Member for industrial disability: (a) that Member shall receive in equal monthly installments a disability retirement allowance of 50% of Final Compensation plus an Annuity purchased with Accumulated Additional Contributions, if any; or, (b) if qualified for service retirement, that Member shall receive the service retirement allowance if such allowance, after deducting such additional Annuity is greater than the amount specified in Section 24.0505(a). The disability retirement allowance for a General Member retired because of industrial disability shall be derived from an Annuity based on that Member's Accumulated Normal Contributions and a disability retirement pension derived from contributions of the City.

SEC. 24.0506 Non-Industrial Disability--General Member--Computation of Benefits

[No change in text.]

Section 17. That Chapter II, Article 4, Division 5, of the San Diego Municipal Code be and the same is hereby amended by repealing Sections 24.0514 and 24.0516 retroactively to the date of October 1, 1987.

Section 18. That Chapter II, Article 4, Division 5, of the San Diego Municipal Code be and the same is hereby amended by amending Sections 24.0521 and 24.0532, to read as follows:

SEC. 24.0521 Surviving Spouse--Contribution Rates and Benefits

From and after July 1, 1973, every Member, including a Safety Member, shall, in addition to Normal Contributions, make survivor contributions in an amount equal to a percentage of the Normal Contributions as set forth below:

Membership Classification	Survivor Contributions as Percentage of Normal Contributions
General Members	9.98%
Safety Members	11.76%

Such survivor contributions, together with interest thereon, shall be paid to the Member or his or her beneficiary in the event the Normal Contributions are so paid under Sections 24.0206, 24.0306, and 24.0703.

Upon the death of any General Member or Safety Member who retires for service or disability after the effective date of this section, his or her surviving spouse shall receive, on July 1, 1973 and thereafter, a monthly allowance equal to 50% of the decedent's monthly retirement allowance if:

(1) the spouse is designated as beneficiary, and

(2) the spouse was married to the deceased Member as of the date of the Member's retirement, and

(3) the monthly retirement allowance of the deceased Member was not modified in accordance with Optional Settlement 1, 2, 3, or 4 provided by this System.

No benefits will be paid under this section if there is a surviving spouse who qualifies for and receives the special death benefit or modified special death benefits provided by this System.

Upon the retirement of a General or Safety Member for service or disability having no spouse at the time of retirement who is eligible for benefits under this section the Member shall have the option of having refunded to him or her in lump sum the Accumulated Contributions including interest made pursuant to this section, or of having these contributions treated as voluntary additional contributions made to provide a larger Annuity benefit.

SEC. 24.0532 Cost of Living Adjustment Program Shared Between Employer and Members

The cost of any anticipated cost of living increase in allowances which is based upon services rendered after July 1, 1971, shall be shared equally between the employer and the contributing Member or Safety Member, with the individual member's contributions based upon his or her age at his or her nearest birthday at time of entrance into the Retirement System.

Commencing July 1, 1971, and until adjusted by the Board upon the recommendation of the Actuary, the contribution requirements of Members and Safety Members as contained in Sections 24.0202 and 24.0302, respectively, plus surviving spouse contributions as contained in Section 24.0521, shall be increased

by 15%. In addition, the contribution requirement for those Members specified therein who are active Members on or after June 30, 1985, shall be increased by 20%. These "cost of living contributions" will be separately totaled upon the retirement of Members and Safety Members after July 1, 1971.

Section 19. That Chapter II, Article 4, Division 6, of the San Diego Municipal Code be and the same is hereby amended by repealing Section 24.0608.1.

Section 20. That Chapter II, Article 4, Division 7, of the San Diego Municipal Code be and the same is hereby amended by amending Section 24.0706; retitling and amending Section 24.0709; and amending Section 24.0710.2, to read as follows:

SEC. 24.0706 Special Death Benefit -- Safety Member -- Computation

The special death benefit for Safety Members consists of:

(a) [No change in text.]

(b) An amount sufficient, when added to the amount equal to the basic death benefit, exclusive of the Annuity provided by the deceased's Accumulated Contributions, to provide, when applied according to tables adopted by the Board, a monthly death allowance equal to one-half of Final Compensation, payable to: (1) the surviving spouse as the named beneficiary and to whom the Member was married prior to sustaining the injury or disease resulting in death as long as the surviving spouse lives; or, (2) the Member's children under 18 collectively as beneficiaries until every child dies or attains 18, if there is no surviving spouse as beneficiary, or if the spouse dies before all children of the deceased Member attain age 18.

(c) [No change in text.]

SEC. 24.0709 Special Death Benefit--Payment to Surviving Minor Children

If payment of the special death benefit is stopped because a child attains the age of 18 and the payment is stopped before the sum of the monthly payment equals the basic death benefit (exclusive of the Annuity derived from the Accumulated Additional Contributions of the deceased), then a lump sum equal to the difference shall be paid to the surviving children of the deceased Member, share and share alike. In such event, the Accumulated Additional Contributions of the deceased, as they were at his death, less the Annuity paid as derived from such contributions, and plus interest credited to the Accumulated Additional Contributions, shall be paid in the manner provided in this Section.

SEC. 24.0710.2 Modified Special Death Benefit--General Member--Computation

The modified special death benefit for General Members consists of:

a. [No change in text.]

b. An amount derived from the combination of Undistributed Earnings of the Retirement Fund and the deceased Member's Normal Contribution and any primary Social Security benefits which are payable, to provide a monthly death allowance equal to one-half of Final Compensation, payable to: (1) the surviving spouse as the named beneficiary and to whom the Member was married prior to sustaining the injury or disease resulting in death as long as the surviving spouse lives; or, (2) if there is no surviving spouse as beneficiary, or if such spouse dies before all children of the deceased Member attain age 18, to the Member's children under 18 collectively as beneficiaries until every child dies or attains 18.

Section 21. In regard to Sections 24.0706 and 24.0710.2, any surviving spouse whose benefit was terminated due to remarriage shall have the special death benefit reinstated effective January 1, 1997.

Section 22. That Chapter II, Article 4, Division 9, of the San Diego Municipal Code be and the same is hereby amended by amending and renumbering Section 24.0907.1 to Section 24.0907, to read as follows:

SEC. 24.0907 Surplus Undistributed Earnings

a. Surplus Undistributed Earnings shall be comprised of Investment Earnings Received for the previous fiscal year, less:

(1) An amount sufficient to credit interest to the contribution accounts of the Members, City and the Unified Port District at an interest rate determined by the Board and distributed in accordance with Section 24.0905 and related Board rules; and

(2) An amount sufficient to meet the budgeted expenses and costs of operating the System including all personnel and services for the fiscal year; and

(3) An amount sufficient to provide health benefits for Health Eligible Retirees and a vested benefit of $600 for those retirees who do not qualify as Health Eligible Retirees.

(4) An amount necessary to maintain such reserves as the Board deems appropriate on advice of its investment counselor and/or Actuary; and

(5) An amount sufficient to provide necessary funds to pay an annual supplemental benefit to qualified retirees, pursuant to the provisions and conditions set forth in Section 24.0404. If, at the time of the annual determination, the amount provided for the supplemental benefits is less than $100,000, no supplemental benefits will be paid in that fiscal year and the monies will be placed in a special reserve and be carried forward to ensuing years until such time as the amount to be provided for this benefit from ensuing Surplus Undistributed Earnings and the special reserve is $100,000 or more.

b. At the beginning of each fiscal year, the Board shall credit all Surplus Undistributed Earnings to the Reserve for Employer Contributions, for the sole and exclusive purpose of reducing Retirement System liability.

c. For the purpose of distributing annual supplemental benefits to qualified retirees, Investment Earnings Received shall be determined on a cash basis, except that Investment Earnings Received shall be increased or decreased by the amount of the annual amortization of purchase discounts or premiums on interest-bearing investments earned in accordance with generally accepted accounting principles for financial reporting purposes. No subsequent changes in the method of accounting for the Retirement System shall affect the determination of Investment Earnings Received. Surplus Undistributed Earnings shall be determined by the City Auditor and Comptroller in accordance with this section and shall be certified by the City's independent public accountant.

Section 23. That Chapter II, Article 4, Division 10, of the San Diego Municipal Code be and the same is hereby amended by renumbering Section 24.0308 appearing within the text of the Section 24.1005 to read Section 24.0306.

Section 24. That Chapter II, Article 4, Division 10, of the San Diego Municipal Code be and the same is hereby amended by adding Section 24.1014, to read as follows:

SEC. 24.1014 Exemption from Process; Assignments Prohibited

The right of a person to a pension or Annuity or a retirement allowance, to the return of contributions, the pension, Annuity or retirement allowance itself, any optional benefit, any other right accrued or accruing to any person under the provisions of this section and the moneys in the fund created under this section shall not be subject to execution, garnishment, attachment, or any other process of any court except to the extent permitted by California Code of Civil Procedure section 704.110, and shall be unassignable except as in this section specifically provided.

Section 25. That Chapter II, Article 4, Division 11, of the San Diego Municipal Code be and the same is hereby amended by amending Section 24.1101, to read as follows:

SEC. 24.1101 Inclusion of Existing Provisions

The following sections and no others, of the San Diego Municipal Code are hereby adopted as part of the Pension Act of 1981: Sections 24.0103, 24.0105, 24.0105.1, 24.0107, 24.0204, 24.0207, 24.0208, 24.0304, 24.0308, 24.0310, 24.0509, 24.0510, 24.0515, 24.0711, 24.0712, 24.0713, 24.0714, 24.0901, 24.0901.1, 24.0902, 24.0903, 24.0904, 24.0905, 24.0905.5, 24.0906, 24.0908, 24.0909, 24.0910, 24.1005, 24.1007, 24.1008. Each and all of the regulations,

provisions, conditions, and terms of said sections are hereby referred to, adopted and made a part hereof, as if fully set out in this Division; provided, however, that any of the provisions of said sections as herein adopted by reference which are in conflict with any of the provisions of this Division shall be superseded by the provisions of this Division.

Section 26. That Chapter II, Article 4, Division 11, of the San Diego Municipal Code be and the same is hereby amended by renumbering Section 24.0907.1 appearing within the text of the Section 24.1114 to read Section 24.0907.

Section 27. That Chapter II, Article 4, Division 12, of the San Diego Municipal Code be and the same is hereby amended by repealing Sections 24.1201, 24.1202, 24.1203, 24.1204, 24.1205, and 24.1206.

Section 28. That Chapter II, Article 4, Division 12, of the San Diego Municipal Code be and the same is hereby amended by amending the title thereof to read Retiree Health Benefit, and reenacting Sections 24.1201, 24.1202, 24.1203, 24.1204, 24.1205, and 24.1206, and adding Section 24.1207, to read as follows:

DIVISION 12

Retiree Health Benefit

SEC. 24.1201 Definitions

For purposes of this Division:

"City Sponsored Health Insurance Plan" means a group health insurance plan which has been selected by and is in contractual privity with The City of San Diego, made available to Health Eligible Retirees, and administered by the Retirement System.

"Health Eligible Retiree" means any retired General Member, Safety Member, or Legislative Officer who was: (1) on the active payroll of The City of San Diego on or after October 5, 1980, and (2) who retired on or after October 6, 1980, and (3) is eligible for and is receiving a retirement allowance from The City of San Diego.

"HMO" means a health maintenance organization type of health plan.

"PPO" means a preferred provider organization type of health plan.

SEC. 24.1202 Purpose and Intent

Effective August 1, 1997, a health insurance program shall be offered to Health Eligible Retirees as set forth in this Division. This benefit shall be administered by the Retirement System. Notwithstanding any other interpretation of law to the contrary, it is the intent of the City Council to deem this benefit as defined and vested within the meaning of City Charter section 143.1 for those individuals who are retired on the date this benefit becomes effective and thus attain the status of Health Eligible Retiree by operation of law. Health Eligible Retirees may enroll in a City Sponsored Health Insurance Plan or participate in the plan of their choice, subject to payment and reimbursement limitations set forth in this Division. For active employees, this benefit may only be modified in accordance with provisions set forth in Section 24.1204 and after a vote of approval by the active Members. The City Sponsored Health Insurance Plans shall include at least one HMO plan and at least one PPO plan.

SEC. 24.1203 Retiree Health Insurance Benefit

(a) Health Eligible Retirees may choose to participate in a City Sponsored Health Insurance Plan or any other comparable health insurance plan of their choice.

(b) For those Health Eligible Retirees who enroll in any health insurance plan, the City shall pay or reimburse the applicable Medicare-eligible or non-Medicare eligible retiree-only premium up to but not to exceed the cost of the retiree-only premium for the highest cost HMO plan which is also a City Sponsored Health Insurance Plan made available to Health Eligible Retirees.

(c) For those Health Eligible Retirees who on January 1, 1997, were enrolled and remain continuously enrolled in any PPO plan, the City shall pay or reimburse the applicable Medicare-eligible or non-Medicare eligible retiree-only premium up to but not to exceed the cost of the retiree-only premium for the PPO plan which is also a City Sponsored Health Insurance Plan made available to Health Eligible Retirees.

SEC. 24.1204 Future Changes to City Sponsored HMO Plans

(a) The City-Sponsored Group Health Insurance Program for Health Eligible Retirees is premised on the concept of providing Health Eligible Retirees with a benefit that is the same as that offered by the highest cost HMO plan offered to City employees in fiscal year 1996-1997, the Blue Cross California Care HMO Plan. This section is intended to define the responsibility of the City in changing the terms and conditions of the HMO plans which are also City Sponsored Health Insurance Plans. The Retirement System is not intended to have any role in the

process of changing the terms and conditions of the City Sponsored Health Insurance Plans under this Section.

(b) After the City-Sponsored Group Health Insurance Plans for Health Eligible Retirees becomes effective, any change in HMO health care providers by the City or any new or amended contract with an HMO health care provider may be approved by the City Council only after the change has been reviewed by a qualified independent consultant who concludes that the change will not affect the benefit in any manner which triggers the right of active employees to vote on the benefit change. The independent consultant shall be mutually selected by the City and the recognized employee labor organizations and the cost of the consultant shall be shared one-half by the City and one-half by the labor organizations.

(c) The requirement for independent consultant review set forth in Section 24.1203(b) may be waived by the written mutual consent of the City and all the recognized labor organizations.

(d) Additionally, the Retirement System will reimburse the part B supplemental medical expense premium for those Health Eligible Retirees enrolled in Medicare.

SEC. 24.1205 Health Insurance Trust Fund

(a) Retiree Health Insurance Trust Fund

Benefits paid under this Division to Health Eligible Retirees shall be principally paid from a separate Retiree Health Insurance Trust Fund, established pursuant to this section. An amount, as verified by the Actuary as may be necessary and required to provide the benefits set forth in this Division will be paid

into the Retiree Health Insurance Trust Fund from Surplus Undistributed Earnings of the Retirement System, as provided for in Section 24.0907 of this Code. Payments to Health Eligible Retirees will be paid directly out of the Retiree Health Insurance Trust Fund. The purpose of this Fund is to meet the requirements of Internal Revenue Code section 401(h).

(b) Contributions to Retiree Health Insurance Trust Fund

Subject to the requirements of Internal Revenue Code section 401(h) and to the extent that funds are available from Surplus Undistributed Earnings of the Retirement System as provided for in Section 24.0907 of this Code, the annual contributions to fund the Retiree Health Insurance Trust Fund shall be the amount necessary to provide benefits to Health Eligible Retirees as provided for in Section 24.1203.

(c) Internal Revenue Code Requirements

Solely to the extent required by the Internal Revenue Code, all payments to Health Eligible Retirees paid from the Retiree Health Insurance Trust Fund shall be subordinate to the defined vested benefits provided by the Retirement System. Also, the aggregate actual contributions for medical benefits, when added to actual contributions for life insurance protection (if any) under the Retirement System shall not exceed twenty-five percent (25%) of the total actual contributions made after the effective date of this section to the Retirement System, exclusive of contributions to fund past service credits.

No part of the Retiree Health Insurance Trust Fund shall be used for, or diverted to, any purpose other than providing medical benefits or paying necessary and appropriate expenses attributable to the administration of the Fund.

Notwithstanding the prior paragraph, and solely as needed to meet the mandate of the Internal Revenue Code, any amounts remaining in the Retiree Health Insurance Trust Fund after satisfaction of all liabilities arising out of the operation of this Division (including but not limited to benefits payable in the future for existing members) shall be returned to the City. However, if any amounts are returned to the City under this section, the City shall provide benefits in an equivalent amount to members of the Retirement System.

This section does not require separate accounts for key employees, because no member of the Retirement System is a key employee under the Internal Revenue Code.

Assets attributable to any forfeitures of benefits payable under the Retiree Health Insurance Trust Fund shall be used to reduce the City's contributions to fund benefits provided under this Division.

SEC. 24.1206 Funding

The health insurance benefit described in this Division shall be paid by the Retirement System and the City from the following sources of funds in descending order of availability, as may be necessary and required to provide the benefits set forth in this Division:

(a) from the Retiree Health Insurance Trust Fund; and, if necessary

(b) from the Retiree Health Insurance Reserve Fund; and, if necessary

(c) from any other source of funds available to the City of San Diego

SEC. 24.1207 Health Insurance Reserve Fund

The Retiree Health Insurance Reserve Fund (formerly known as the Retiree Health Insurance Reserve Trust Account), as that account existed on January 1, 1997, shall remain intact accruing interest and not be used for, or diverted to, any purpose other than paying for benefits in accordance with this Division.

Section 29. That Chapter II, Article 4, Division 13, of the San Diego Municipal Code be and the same is hereby amended by retitling and amending Section 24.1302, and amending Sections 24.1304, 24.1305, and 24.1307, to read as follows:

SEC. 24.1302 Purchase of Probationary Period

Any Member who does not have service credit for any period of eligible City service during his or her probationary period of employment with the City shall have the right to elect to receive credit for such service providing that, prior to retirement, the Member pays a lump sum into the Retirement System in an amount calculated by multiplying the average rate of contribution of General or Safety Members as determined by the Board times the compensation received by the employee during that portion of the probationary period concerned, rounding the monthly salary off to the nearest $100, plus an average interest of four and one-half percent (4½%) per year from the date of entrance into the Retirement System until the date of purchase.

SEC. 24.1304 Purchase of Service Credit for Part-Time or Hourly Service Prior to Membership

Any vested Member who, during their tenure of employment, was employed in a position that was less than full-time or who was not eligible for membership, may purchase full-time service credit for the period of time he or she rendered part-time or hourly service prior to membership.

No employee shall be eligible to purchase service credit under this Section for periods of employment after January 1, 1997.

SEC. 24.1305 Purchase of Service Credit Upon Reinstatement

If any Member has terminated City service without fault, or because of reasons beyond his or her control, the Member shall have the right at any time, if re-employed by the City, to be reinstated in the Retirement System upon such terms and conditions as shall be prescribed by the Board. Such Member shall be eligible to purchase service credit for the period between the date of termination and the date of reinstatement. If, however, such Member upon re-employment does not elect to purchase service credit as authorized by this section, the Member's rate of contribution following his or her reinstatement shall be based upon the Member's age at reinstatement. Credit for service under this section shall be granted only for the period during which contributions have been made.

No employee hired or reinstated after January 1, 1997, shall be eligible to purchase service credit under this section.

SEC. 24.1307 Purchase of Approved Leaves of Absence

(a) Notwithstanding the definition of Creditable Service in Section 24.0103(t), any Member granted an approved leave of absence without pay shall have the right, upon his or her return to City service, and upon request by the Member, to obtain service credit for a period of up to one year of such absence by paying into the Retirement System an amount determined by the Board to be the equivalent of the employee cost of that service.

(b) Notwithstanding the definition of Creditable Service in Section 24.0103(t), any Member granted an approved leave of absence for periods of time in excess of one year shall have the right, upon return to City service, and upon request by the Member, to obtain service credit for such excess leave of absence by paying into the Retirement System an amount determined by the Board to be the equivalent of the employee and employer cost of that service.

(c) No employee shall be eligible to purchase service credit under Section 24.1307(a) or (b) for periods of leave of absence that begin after January 1, 1997, except for leaves of absence granted by the City for long term disability benefits, Family Medical Leave Act periods approved by the City, leaves of absence without pay approved by the Civil Service Commission with job to be saved, including any period preceding reinstatement by the Civil Service Commission following a termination appeal.

Section 30. That Chapter II, Article 4, Division 13, of the San Diego Municipal Code be and the same is hereby amended by repealing and reenacting Section 24.1312, to read as follows:

SEC. 24.1312 General Provision for Five Year Purchase of Service Credit

Any person employed by the City of San Diego on the date of December 31, 1996, may purchase up to a maximum of five (5) years of service credit in addition to any other purchase of service credit benefit for which that person was eligible as of December 31, 1996. However, in no event shall the years purchased pursuant to this provision qualify to satisfy the vesting requirement set forth in Section 141 of the San Diego City Charter.

Any person hired by The City of San Diego on or after January 1, 1997, may purchase up to a maximum of five (5) years of service credit in addition to any other purchase of service credit benefit set forth in Chapter II, Article 2, Division 13, for which that person was eligible on January 1, 1997.

The cost of service credit purchased pursuant to this section shall be the amount determined by the Board to be the equivalent of the employee and employer cost of that service credit.

Section 31. Any aspect of this ordinance affecting retirement benefits shall take effect upon approval by the respective classes of membership as required pursuant to Charter Section 143.1, and no earlier than the thirtieth day from and after its passage by the City Council.

APPROVED: CASEY GWINN, City Attorney

By _____
Richard A. Duvernay
Deputy City Attorney

RAD:lc:pev
02/06/97
02/11/97 Cor.Copy
Or.Dept:Labor.R.
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Exhibit 32

SAN DIEGO CITY

EMPLOYEES' RETIREMENT SYSTEM

ANNUAL ACTUARIAL VALUATION

June 30, 2001

CITY OF SAN DIEGO

Submitted to

THE RETIREMENT BOARD

San Diego City Employees' Retirement System

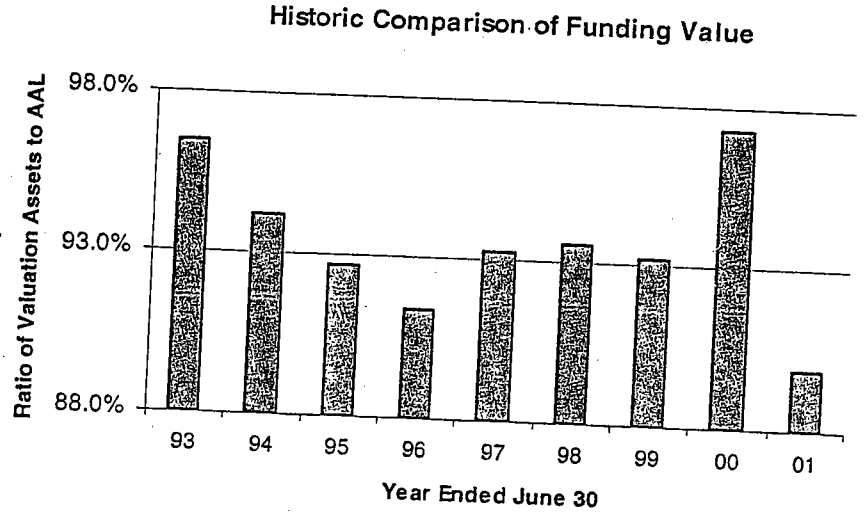
San Diego, California

San Diego City Employees' Retirement System
Funding Process Indicators - Historic Comparison

($ in Thousands)

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAAL	Member Payroll	Ratio to Payroll
6/30/93	$1,137,019	$1,178,311	96.5%	$41,292	$320,624	12.9%
6/30/94[1]	$1,216,063	$1,290,927	94.2%	$74,864	$338,440	22.1%
6/30/95	$1,316,903	$1,421,150	92.7%	$104,247	$350,584	29.7%
6/30/96[2]	$1,480,772	$1,620,373	91.4%	$139,602	$365,089	38.2%
6/30/97	$1,632,361	$1,748,868	93.3%	$116,507	$382,715	30.4%
6/30/98[1]	$1,852,151	$1,979,668	93.6%	$127,517	$399,035	32.0%
6/30/99	$2,033,153	$2,181,547	93.2%	$148,394	$424,516	35.0%
6/30/00	$2,459,815	$2,343,400	105.0%	($116,414)	$448,502	(26.0)%
6/30/00[3]	$2,459,815	$2,528,774	97.3%	$68,959	$448,502	15.4%
6/30/01	$2,525,645	$2,809,538	89.9%	$283,893	$481,864	58.9%

AAL - Actuarial Accrued Liability
UAAL - Unfunded Actuarial Accrued Liability



[1] Reflects revised actuarial and economic assumptions
[2] Reflects Manager's Proposal
[3] Reflects Corbett non-contingent benefit increases

Also, for both the 2000 and 2001 valuations, we have added the July 1, 2001 Corbett increase in employee rate that will not be funded from this reserve since these amounts are not reflected on the data tape. These amounts are:

General	+0.49%
Police	+0.53%
Fire	+0.53%
Lifeguards	+1.23%
Legislative	+0.49%

COMMENT I: As in recent years, we continue to work with Retirement Staff to help resolve certain data issues. We understand that staff resources have been diverted to some extent to the long, always maddening process of system conversion. We are recommending that we receive service credit data for service purchases. Currently, valued liabilities for active members are understated to the extent that they have purchased service. There also needs to be ongoing refinement to data received for current vested deferreds, including identification of reciprocal members. One of the reasons that the vested deferred liability and number count went up significantly (from 1,016 to 1,438) relates to data issues. We have also raised the issue of the appropriateness of 2% COLA payments on supplemental COLA payments.

COMMENT J: Our understanding is that the City is phasing in, over a four-year period, a reduction in the discounts applied to offsets for anticipated saved refunds. Over the four years, the discount will be reduced from 22% to 5% for General members and 7% to 1% for Safety members.

COMMENT K: The Legislative contribution rates have soared from 39.10% to 64.09% in the past two valuations. This is attributable to a benefit increase and a doubling of the retiree group.

COMMENT L: We have been requested to complete an Entry Age Normal valuation annually. In the Manager's Proposal, it was contemplated that City rate increases would eventually be enough to support an Entry Age rate. This prospect seems more unlikely in view of subsequent benefit increases. This year's Entry Age rate is 17.75%.

COMMENT M: Overall, the financial condition of the retirement system continues to be in sound condition in accordance with actuarial principles of level-cost financing. However, we want all parties to be acutely aware that the current practice of paying less than the computed rate of contribution or pickup will help foster an environment of additional declines in the funding ratios in absence of healthy investment returns.

Exhibit 33

BLUE RIBBON COMMITTEE REPORT
ON
CITY OF SAN DIEGO FINANCES

FEBRUARY 2002

BLUE RIBBON COMMITTEE REPORT
ON
CITY OF SAN DIEGO FINANCES
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2. Moody's California Cities Ratings
3. Moody's The Nation's Cities Ratings
4. Long Term Debt Analysis
5. Debt Service Analysis
6. General Fund Revenue Per Capita
7. General Fund Expenditures Per Capita

III. RETIREMENT BENEFITS AND UNFUNDED PENSION LIABILITIES

All full time City employees participate in the San Diego City Employee Retirement System (SDCERS), which is the City's Defined Benefit Pension Plan. As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, the length of membership service and the member's final compensation earnable based on the highest one-year period.

The level of retiree benefits is a policy issue. The question to be addressed by the Committee is how these benefit policies affect the fiscal health of the City. The Committee did not address the issue of how the City's pension assets are invested.

Employee retirement benefit liabilities of the City comprise two issues:

- Pension Benefits
- Retiree Health Benefits

A. PENSION BENEFITS

The Committee has two concerns regarding the Retirement Benefit Liability:

1. *Whether the City is paying out of its current year's budget the full cost being incurred by its current workforce for their future pension and retiree health benefits.*

2. *Whether the budgetary process adequately comprehends the steadily growing annual expense obligation, particularly given the uncontrollable and non-discretionary nature of this liability.*

The potential risk is that policy makers grant benefit enhancements today (to satisfy employee concerns, to negotiate trade offs with unions, etc.), but avoid recognizing the actual annual cost of such by actuarially spreading the cost over years far out in the future, long after the individuals who made the policy decisions are gone. This is particularly acute where the retiree benefit enhancements are granted "retroactively", i.e. new improved benefits, which are applied to past, as well as future, years of service for active employees. This retroactive approach is the general practice of the City.

Major pension improvements (20% increase) were implemented in Fiscal Year 1997 and benefits were increased by another 12% in Fiscal Year 2000 as a result of a litigation settlement. San Diego County is in the final stages of approving major pension improvements, exceeding San Diego City benefits. This will undoubtedly lead to pressure for further increases for City employees.

The City's annual cash contribution expense for pension was $68 million for Fiscal Year 2001. This is one of the larger items in the City's overall budget. Further, this expense line item has been growing at about a 9% per year compound rate the last five years and at a much faster rate if measured back 10 years.

binding obligation appears to be an "indirect" part of the actuarial computation to develop the annual pension cash contribution. The City's practice is in accordance with current Generally Accepted Government Accounting Principles (GAAP). However, 12 years ago GAAP was changed for private industry to require the recognition annually of the cost of future retiree health benefits being "earned" that year by the current work force. The reason for this accounting change was the growing concern over the very sizeable liabilities for future payments that were not being fully recognized.

The Committee recognizes the City has the potential for this same problem, i.e. a sizeable, growing liability for future payments. The City has a growing workforce, an early age for retirement (50 for Public Safety employees and 55 for General employees), a lengthening of life spans, and an ever increasing cost of health care. As a consequence, retiree medical costs represent a "non-discretionary" expense, which will grow faster and most probably much faster, than the current employee salary base in the City budget.

While this retiree medical cost is currently a relatively small budget item, it will most likely grow at an increasing rate, in essence for costs of prior years' employee service. It is conceivable this liability at today's present value could exceed $100 million. It is unclear how well the City policy makers appreciate this overall expense issue and how it will affect the City budget in the future.

C. FUNDING LEVEL

SDCERS is not in a fully funded position. It is currently funded at 97% (i.e. its current assets equaled 97% of the actuarially computed present value of the future Pension Plan liabilities). The absolute dollar amount of under funding hit a peak of $148 million in Fiscal Year 1999. Excellent Pension asset investment performance reduced that unfunded liability to $69 million in Fiscal Year 2000. However, investment performance in Fiscal Year 2001 was less than half of the excellent performance in Fiscal Year 2000. Investment performance in the first seven months of Fiscal Year 2002 is lower than in Fiscal Year 2001. It is expected that the forthcoming actuarial report will show an increase in the unfunded dollar amount.

San Diego City Employees' Retirement System Financial Information
For Fiscal Years 1996 – 2001
($ IN MILLIONS)

	2001	2000	1999	1998	1997	1996
Pension Fund Assets	$2,807	$2,999	$2,476	$2,272	$1,855	$1,604
City Pension Expense	$68	$61	$56	$51	$48	$44
Pension Plan & Health Benefits Paid	$155[1]	$112	$100	$85	$67	$62
Unfunded Actuarial Accrued Liability	Not available	$69	$148	$125	$117	$140
Retiree Health Benefits Expense	$7	$5	$5	$4	$5	$5

[1] includes $24 million Corbett pay out settlement.

Exhibit 34

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

STAFF REPORT

ADMINISTRATIVE DIVISION

FILE:

DATE: May 5, 2002

TO: Business and Procedures Committee

FROM: Paul Barnett, Assistant Retirement Administrator

SUBJECT: Purchase of Service Credit Simplification and New Cost Method

Summary

Staff is recommending that the Purchase of Service Credit (PSC) rules be amended to standardize both the types of service credit available for purchase and the calculation method used to "price" this product. The reasons for this recommendation include re-pricing the cost of PSCs to more accurately reflect the actuarial impact of service purchase, and simplifying the administrative procedures surrounding PSCs so that they can be calculated and delivered in a more timely fashion.

Background

Under current PSC rules, a member is allowed to purchase as many as 12 different types of service credit for periods during which contributions were not made into SDCERS on the member's behalf. These include such time periods as part-time employment, probationary employment, long-term disability, military leave and various other missed contribution time periods. In addition, a member may purchase up to five years of "future" service credit to add to actual employment contributions in order to increase the final retirement allowance calculation.

For all of the prior missed contribution time periods, the current PSC rules require that a member's entire salary and contribution history be examined to identify the missed time periods and the member's salary at the time contributions were not made. Depending on how long the member has worked, this research can involve reviewing old microfiche and archived data from City payrolls and SDCERS contribution history decades old. In addition, the rules for how to calculate the cost of a PSC are very convoluted. and require different calculations for different types of missed time periods (i.e. part-time is different from half-time which is different from probationary time which is different from Pre-81 Plan, etc., etc.).

The other important point to note about the current PSC rules is the negative actuarial impact. Today, by purchasing prior missed contributions calculated at the "cost" when those contributions were missed, the member is buying today's service credit benefits at yesteryear's prices. In other words, the cost to purchase service credit from contributions missed in 1990, for example, is priced based on the fact that retirement factors for a 55 year old General Member retiring in 1990 was .8867%. Yet the 55 year old General Member purchasing a PSC for missed contributions from 1990 will receive

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today's retirement factors of 2.25%. And if those retirement factors increase to 2.5% anytime in the future, the gap between PSC cost and retirement benefit will only increase.

Recommendations

Staff has consulted with the System's Actuary to determine a more cost neutral pricing for PSCs, and has reviewed the PSC practices at six other public retirement funds. Based on this research, we recommend the following changes to the SDCERS PSC product:

1. The current 12 different types of PSCs available at SDCERS would be reduced to 4: Refunds, Military Leave, Permissive (i.e. 5-year forward contract) and all other missed contributions. For Refunds and Military Leave, we are proposing no changes to the calculation methodology for these types of contracts. Military Leave is covered by federal law, and must be treated as if the member was never away from the job. With Refunds, the Employer Contribution to the retirement system has been made on behalf of members in this situation, and earnings on the Employer contributions to pay any benefit have been earned by the Retirement Fund. It is only the Employee portion of the contribution that must be made by the member to "complete" the service credit.

2. All other periods of time where the member did not make contributions into the Retirement System and was employed by the City of San Diego or the Port District, regardless of the reason why contributions were not made, would be priced using the member's current salary at the time of application times a factor determined each year by the Actuary that reflects current benefit levels. Rick Roeder has reviewed the concept of PSC simplification, and agrees that the current pricing method contains actuarial inequities. He has proposed new PSC calculation factors for General and Safety members based on the member's age at the time of application, less than 40 years old, 40 to 50 years old and over 50 years old (Exhibit A). The PSC calculation factors increase as the time between a member's purchase of service and the expected retirement age when benefits will be paid decreases. In other words, purchasing service credit when an individual is closer to retirement and the System has less time to earn interest on the funds received requires a higher PSC cost to that member than to an individual who has several years remaining before retirement benefits are paid.

3. The impact of changing the current PSC cost methodology to one that is more actuarially sound varies dramatically depending on a member's age, the amount of service credit being purchased and the number and amount of salary increases during a member's employment (see Exhibit B). From an actuarial point of view, PSCs have been offered at a low price given what they cost in terms of benefit enhancements to the member.

Discussion

In making the above recommendations, staff evaluated the following factors:

1. Timeliness of Service – Based on the current PSC methodology it can take up to six months for staff to research, calculate and complete a PSC application. On average, because of the multiple types of PSCs available, for each application received three

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separate contracts must be calculated and prepared. Under the proposed PSC simplification methodology, each application would only require one PSC contract since all missed contributions would be treated equally and priced the same way. This would allow staff to complete PSC applications in a much more timely fashion.

2. Comparisons with other Systems – Staff reviewed the types of PSCs available at other public retirement systems and their methodologies for calculating these contracts (see Exhibit C). While every fund has its own regulations and actuarial issues, it is important from a competitive point of view as well as in terms of Reciprocity between public retirement systems that we evaluate how SDCERs compares. The conclusions from this comparison are:

    - SDCERS currently allows members to purchase more types of service credit than any of the other agencies surveyed. On average, the other agencies recognize two to four different types of service credit purchase compared to SDCERS 12 types. Staff's recommendation to only recognize 4 different types of PSCs would be more in line with these other agencies.
    - SDCERS appears to be the only system that attempts to use the member's salary at the time contributions were missed to calculate service credit. Most of the other agencies either use current salary, as we are proposing in this recommendation, or apply a fixed interest component to the missed contributions based on the period of time that was missed.
    - As would be expected given the fewer PSC types and the simpler calculation methodology, the other agencies surveyed state that their processing time runs approximately two to six weeks from the date of application. SDCERS is currently struggling to complete the growing volume of PSC requests within four months from the date of application.

3. Benefit implications and legal restrictions – Staff's recommendations for PSC simplification would require amendments to the Municipal Code and the Board Rules regarding Purchase of Service Credit. In addition, the new proposed definition for PSC eligibility states that a member can only purchase service credit for those time periods where contributions were missed while employed. This would eliminate the current PSC for Breaks in Service. However, staff believes that the up to 5 years of future service credit that any member can currently purchase serves as an opportunity to account for those years a member did not work for the City of San Diego or the Port District.

Conclusion

Staff strongly urges the Retirement Board to update its PSC calculation methodology to reflect the true cost of purchasing service credit. We also believe that PSC simplification would create a product that can be more easily explained to members and delivered more timely. Fiscal integrity of the Retirement Fund and quality customer service are key tenets of the SDCERS Mission Statement. Adopting this PSC simplification recommendation will enhance both of these strategic goals.

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Exhibit A

ACTUARY'S RECOMMENDED NEW PURCHASE OF SERVICE CREDIT COST FACTORS FOR 2002

PROPOSED RATES FOR GENERAL MEMBERS

Attained Age Band	% of Current Pay Per Service Year
20 – 24	11.3%
25 – 29	13.1%
30 – 34	14.7%
35 – 39	17.1%
40 – 44	19.1%
45 – 49	22.2%
50 – 54	25.9%
55 – 59	30.2%
60 – 64	30.7%
65+	29.3%

15

PROPOSED RATES FOR SAFETY MEMBERS

Attained Age Band	% of Current Pay Per Service Year
20 – 24	17.6%
25 – 29	20.5%
30 – 34	22.9%
35 – 39	26.7%
40 – 44	31.1%
45 – 49	36.2%
50 – 54	40.6%
55 – 59	40.1%
60 – 64	37.5%
65+	34.3%

26

accurate alternative to 15%/26% actuary

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SDCERS
PSC COST COMPARISON CHART
ACTUAL COSTS VERSUS ACTUARIAL COSTS

Plan Type	Service Purchase Type	Years Purchased	Purchased From	Purchased To	Age at Time of Purchase	Cost at Time of Purchase	Actuarial PSC Cost $	Cost Difference	Percent Change
General	1981 Waiting	1.03494	01/01/88	01/12/89	38	$ 6,939.53	$ 7,052.97	$ 113.44	1.63%
Safety	Hrly Time	4.15070	06/11/83	08/04/87	37	$ 37,416.61	$ 38,920.17	$ 1,503.56	4.02%
Safety	Hrly Time	4.18903	06/15/70	08/22/74	50	$ 43,862.49	$ 51,867.66	$ 8,005.17	18.25%
General	LWOP <= 1 Yr	0.15470	03/10/89	06/30/89	62	$ 1,200.12	$ 1,477.84	$ 277.72	23.14%
Safety	1981 Waiting	0.05750	12/12/86	01/01/87	42	$ 900.26	$ 1,109.95	$ 209.69	23.29%
Safety	1981 Waiting	0.04654	04/22/86	05/08/86	38	$ 590.46	$ 763.09	$ 172.63	29.24%
Safety	LTD <= 1 Yr	0.03833	01/24/98	02/26/98	45	$ 514.93	$ 820.34	$ 305.41	59.31%
General	FTE Ben PT	1.16910	07/27/79	11/26/81	55	$ 9,234.25	$ 15,275.14	$ 6,040.89	65.42%
General	FTE Ben PT	1.42099	08/18/80	06/21/83	45	$ 9,711.18	$ 16,928.83	$ 7,217.65	74.32%
General	LTD <= 1 Yr	0.22999	01/18/92	04/10/92	58	$ 1,161.53	$ 2,071.69	$ 910.16	78.36%
Safety	LTD <= 1 Yr	0.03833	07/18/92	07/31/92	38	$ 320.58	$ 628.48	$ 307.90	96.04%
				Date Purchased					
General	5 Yr Purchase	5.00000		12/07/01	38	$ 29,278.20	$ 33,377.15	$ 4,098.95	14.00%
General	5 Yr Purchase	5.00000		06/13/01	42	$ 33,415.20	$ 42,548.69	$ 9,133.49	27.33%
General	5 Yr Purchase	5.00000		12/19/01	52	$ 29,052.60	$ 50,164.16	$ 21,111.56	72.67%
Safety	5 Yr Purchase	5.00000		12/13/01	36	$ 35,088.98	$ 36,033.68	$ 944.70	2.69%
Safety	5 Yr Purchase	5.00000		06/21/01	46	$ 126,761.55	$ 176,491.08	$ 49,729.53	39.23%

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

EXHIBIT C

.VEY OF PUBLIC FUNDS PURCHASE OF SERVICE CREDIT

TYPE OF PURCHASE AVAILABLE BY AGENCY	SDCERS		CALPERS		LACERS		LACERA		SBCERA		SDCERA		OCERS	
	PSC OFFERED	CALCULATION METHOD	PSC OFFERED	CALCULATION METHOD	PSC OFFERED	CALCULATION METHOD	PSC OFFERED	CALCULATION METHOD	PSC OFFERED	CALCULATION METHOD	PSC OFFERED	CALCULATION METHOD	PSC OFFERED	CALCULATION METHOD
REFUND	YES	Withdrawal Plus interest	YES	Withdrawal Plus interest	YES	Withdrawal Plus interest	YES	Withdrawal Plus interest	YES	Withdrawal Plus interest	YES	Withdrawal Plus interest	YES	Withdrawal Plus interest
MILITARY	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	YES	Current pay rate & amount to fund for future benefits	NO		NO		YES	Must re-enter within 90 days	YES	Must re-enter within 90 days	YES	Must re-enter within 90 days
PART TIME	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	NO		NO		YES	Actual payrate*contribution rate @membership, plus interest	NO		NO		NO	
HOURLY	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	NO		NO		NO		NO		NO		YES	Hours worked * hourly wage * contribution rate
HOURLY FULL TIME EQUIV	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	NO		NO		NO		NO		NO		NO	
LEAVE OF ABSENCE	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	NO		NO		NO		NO		NO		NO	
LONG TERM/TEMPORARY DISABILITY	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	YES	Current payrate * contribution rate at your	NO		NO		NO		NO		YES	Required contributions plus interest (max 1 year) must return to work
BREAK IN SERVICE	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	NO		NO		NO		NO		NO		NO	
PROBATION	YES	Payrate * contribution rate for time purchased, plus 4.5% * years of creditable service	NO		NO		NO		NO		NO		NO	
OPTIONAL MEMBER SVS UNCLASSIFIED	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	YES	Actual earnings during period plus interest	NO		NO		NO		NO		NO	
1981	YES	Payrate at beginning of time purchased * contribution rate for time purchased, plus interest	NO		NO		NO		NO		NO		NO	
FIVE YEAR PSC	YES	Current pay rate * factor	NO		NO		NO		NO		NO		NO	
SERVICE PRIOR TO MEMBERSHIP	NO		YES	Depends on terms of employers contract	YES	Missed contributions and interest, plus	YES	Missed contributions	YES	Missed contributions and interest, plus interest	YES	Repayment of contributions and interest within 180 days	YES	Repayment of contributions and interest within 180 days
LEAVE OF ABSENCE (SICK)	NO		YES	Current pay rate & amount to fund for future benefits	NO		YES	Required contributions	YES	Required contributions plus interest (maximum 1 year)	YES	Required contributions plus interest (maximum 1 year)	YES	Required contributions plus interest (maximum 1 year)
EDUCATION/SABATICAL LEAVE	NO		YES	Current payrate * contribution rate at your return to work	NO		NO		NO		NO		NO	

H:\PSCSURVE.xls

8/11/2002

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Exhibit 35

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

REVISED AGENDA 05/10/02

SDCERS' RETIREMENT BOARD OF ADMINISTRATION

FRIDAY, MAY 24, 2002 – 1:30 PM

401 "B" STREET, SUITE 400 SAN DIEGO, CA 92101
(DISABILITY ACCESSIBLE)
AGENDA
(FREDERICK PIERCE, PRESIDENT)

I. APPROVAL OF CONSENT AGENDA ITEMS #A- H

A. SERVICE RETIREMENTS

1. Leon Crowder, Area Refuse Collection Supervisor, Environmental Services Department. 37.65 years creditable service. Age 55.00. Effective date 05/13/02. Estimated monthly allowance $3,485.03 plus $128.04 COLA, maximum benefit. **(ADDITIONAL FUNDS FROM SURVIVING SPOUSE MONIES)**

2. Dorothy A. Koller, Economic and Capital Projects Department, Associate Management Analyst. 19.32 years creditable service. Age 62.03. Effective date 05/15/02. Estimated monthly allowance $2,246.44 plus $63.24 COLA, maximum benefit with surviving spouse provisions.

3. Ira F. Molesko, Library Department, Library Clerk. 33.79 years creditable service. Age 55.00. Effective date 05/06/02. Estimated monthly allowance $ 2,208.52 plus $93.13 COLA, maximum benefit. **(ADDITIONAL FUNDS FROM SURVIVING SPOUSE MONIES)**

4. Sheridan Sebastiani, Water Department, Senior Drafting Aide. 38.82 years creditable service. Age 55.00. Effective date 05/03/02. Estimated monthly allowance $2,931.90 plus $98.55 COLA, maximum benefit with surviving spouse provisions.

B. APPROVAL OF ALTERNATIVE BENEFIT ACCRUALS – DROP THROUGH MAY 7, 2002

1. John R. Bardsley, Fire Department, Fire Captain. 30.25 years creditable service. Age 54.84. Effective date 05/06/02. Estimated monthly allowance $6,605.62 plus $187.47 COLA, maximum benefit with surviving spouse provisions.

2. Stephen D. Cross, Police Department, Detective Sergeant. 27.69 years creditable service. Age 50.75. Effective date 05/01/02. Estimated monthly allowance $5,395.41 plus $144.48 COLA, maximum benefit with surviving spouse provisions.

3. Ronald P. Larmour, Police Department, Police Sergeant. 30.11 years creditable service. Age 53.88. Effective date 05/11/02. Estimated monthly allowance of $6,233.49 plus $186.03 COLA, maximum benefit with surviving spouse provisions.

2. OLD BUSINESS

A. ACTION REQUESTED

1. RECOMMENDED APPROVAL OF SDCERS' FY '03 BUDGET

2. APPROVAL OF SDCERS ACTUARIAL VALUATION DATED 06/30/01 AND UPD'S VALUATION DATED 06/30/01

3. REVIEW AND RECOMMENDATIONS REGARDING SDCERS' CURRENT CONTRACTS

3. NEW BUSINESS

A. ACTION REQUESTED

1. RECOMMENDATION REGARDING NEW PURCHASE OF SERVICE CREDIT SIMPLIFICATION AND COSTING METHOD

4. TRAINING OPPORTUNITIES

A. RECOMMENDED APPROVAL

1. 10TH ANNUAL GUNS AND HOSES FIRE/POLICE PENSION FORUM – MIAMI BEACH FLORIDA, 09/22-09/25/02

2. IFEBP BENEFITS CONFERENCE FOR PUBLIC EMPLOYEES – SAN FRANCISCO, CA, 08/5-08/7/02

3. PUBLIC SAFETY EMPLOYEES' PENSION AND BENEFITS CONFERENCE, PALM SPRINGS, CA 10/20-10/23/02

5. HEALTH ADVISORY COMMITTEE REPORT – D. CROW, CHAIR

1. STATUS REPORTS

A. NO ACTION REQUESTED

1. RETIREE COMMUNICATIONS

2. OLD BUSINESS

A. NO ACTION REQUESTED

1. REPORT ON HEALTH CARE RFP PROCESS

INVESTMENT COMMITTEE REPORT – MARY VATTIMO – CHAIR

1. INTERVIEWS OF LARGE CAP GROWTH DOMESTIC EQUITY MANAGERS

TCW DUNCAN-HURST MFS

Exhibit 36

DRAFT

Re: Agenda Item 3(A)(1) Purchase of Service Credit

TRANSCRIPT OF SDCERS RETIREMENT BOARD MEETING

TAKEN ON MAY 24, 2002

[Tape dubbed at fast speed; very difficult to understand when slowed down to transcribe (sound quality diminished considerably).

Male Next Item, Item 3, A, 1. This is a fairly complex issue. What do you consider a long time?

Male [Inaudible.]

Male 20 minutes?

Male Yes.

Male There you go. Does that mean you'd like a break? Okay. Mr. Casey needs a break. It's 20 minutes after, we will reconvene at 10:30.

[Recording cuts off.]

[End Tape 1, Side A.]

[Begin Tape 1, Side B.]

[Tape 1, Side B Blank.]

[Begin Tape 2, Side A.]

Male …[inaudible] work on this. Item 3, A, 1 being introduced today. I pulled [inaudible] on it and then it'll come back at next month's meeting. This is obviously, the subject is purchase of service credit simplification and new cost method. We have a fairly lengthy report. Mr. Burnett do you want to…

of actual [inaudible] to calculate and figure out what services and [inaudible] should be [inaudible.] So, so administratively it's gonna be a very complex situation. From an actuarial or funding point of view the other main point is that [inaudible] purchases of services are being made at yester-, you know today's benefits but yesteryear's prices. So there's a gap and given the most recent meet and confer, when I wrote this is was a general [inaudible] two and quarter, now we are, we are talking about the benefit going up slightly again. So the gap only widens. So you've got a cost of product that doesn't reflect the benefit being received. And in between those two issues, the administrative complexities and the cost differential, we really feel this issue needs to be addressed if we're to, to both provide good service and, and fund, and keep the fund [inaudible] what it should be. So those are the two general points of advisement in this whole effort. We have made significant efforts to try to deal with the backlog, but it's like a ever, ever coming tidal wave. It, even just the presentation of this memo has obviously been [inaudible] to the system because the first four months of the year we were averaging approximately 90 cases each month, January through April. Through May 22nd we've received

year purchase of service credit in lieu of the flat 15 percent…

Male: Yes, it'd…

Female: …typically now.

Male: …be one, one rate [inaudible] contribution and the [inaudible.] And [inaudible]…

Female: Well, for all categories including the five years of service? Okay. The, what's the other thing I wanted to say? Oh, as, as fiduciaries, you know once we have the information that the current method is not, is not covering the costs, I, I feel we have no choice but to change it. It's, it's the, the cost to live up to employees but we have, we have, I don't think we have any other option as fiduciaries but to make a change. So, the, the question is just how, you know how do we, how do we implement the change and, and, and go forward with it. And my final comment is on point number three on the report, on page three. Which is kinda buried in there, so maybe other members did not see this. Is that they're proposing to eliminate the category for breaks in service. And while I understand the goal to simplify the process this is an area that I, I can't support. The, of, of all of the people in the United States in poverty, 52 percent are elderly women. And this is one small means that's available to, to women in our system to

that whole thing was what the cost basis for purchase was going to be. That doesn't mean it's necessarily locked in…

Female: Right, 'cause that's determined by the Board.

Male: [Inaudible.] Two, two comments to keep the issue from getting confused. First, no question in my mind at least that the benefit that, the different categories of purchase of service are benefits. Okay. The only thing we're suggesting changing in that is the break in service, okay? And eliminating that we recognize that's meet-able and conferrable. It's my understanding, and we have looked at this, that the cost of benefit is not a vested right and that it is the [inaudible] responsibility of the Board as fiduciaries to establish that cost. And, as we know, costs change over time for a var-, for a variety of reasons. So that, that the actual cost of the benefit is not a vested right and therefore not negotiable, meet-able and conferrable. Second thing is that our, [Inaudible] Sherman keeps using the term that the system is whole and I would like, and maybe what we will do is have Rick address this in a full blown report because if that were true then Rick would not have made the recommendations that he did to increase the price. The point is that you're buying service from yesterday that applies

Exhibit 37

FILED
JAN - 6 2006
CLERK, U.S. DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA
BY DEPUTY

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

January 2004 Grand Jury

UNITED STATES OF AMERICA, Plaintiff, v. RONALD SAATHOFF (1), CATHY LEXIN (2), TERESA WEBSTER (3), LAWRENCE GRISSOM (4), LORAINE CHAPIN (5), Defendants.	Criminal Case No. 06CR0043-BEN I N D I C T M E N T Title 18, U.S.C., Sec. 371 - Conspiracy to Commit Wire and Mail Fraud; Title 18, U.S.C., Secs. 1343 and 1346 - Wire Fraud; Title 18, U.S.C., Secs. 1341 and 1346 - Mail Fraud; Title 18, U.S.C., Sec. 2 - Aiding and Abetting

The grand jury charges:

INTRODUCTORY ALLEGATIONS

At all times relevant to this Indictment:

The San Diego City Employees' Retirement System

1. The San Diego City Employees' Retirement System (hereinafter "SDCERS") administered the funds used to provide retirement, health insurance, disability and death benefits to current, former, and retired city employees and their beneficiaries. The City of San Diego (hereinafter "the City") was SDCERS' plan sponsor. As the plan sponsor, the City was responsible for providing SDCERS with sufficient

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funds to pay for the retirement, health insurance, disability, and death benefits to current, former, and retired city employees and their beneficiaries.

2. With the assistance of an outside actuary, SDCERS determined how much the City needed to pay each year to ensure that SDCERS had sufficient funds to pay for the retirement, health insurance, disability, and death benefits of the City's current, former, and retired employees. The outside actuary also calculated SDCERS' funding ratio on an annual basis. SDCERS' funding ratio was the ratio between its assets and liabilities. A funding ratio of less than 100% meant that SDCERS did not have sufficient assets to cover its liabilities.

3. Until its reorganization in April 2005, a Board of Administration (hereinafter "SDCERS Board") with 13 trustees governed the administration of SDCERS' funds. The SDCERS Board included four trustees appointed by the City Council, three city officials serving as ex-officio trustees, one trustee elected by city firefighters, one trustee elected by city police officers, three trustees elected by city general employees, and one trustee elected by retired city employees. The SDCERS Board had to approve by majority vote any city proposal that would change the City's contribution requirements to SDCERS.

4. Each trustee of the SDCERS Board had a fiduciary duty to the Board and public. The primary fiduciary duty of the SDCERS Board was to ensure that SDCERS had sufficient funds to pay for the retirement, health insurance, disability, and death benefits of the City's current, former, and retired employees. This fiduciary duty required each SDCERS Board Trustee to disclose all material information to

their fellow SDCERS Board Trustees, including all information about proposals that could affect the funding of SDCERS and all information about whether an SDCERS Board decision could impact the financial interests of an SDCERS Board Trustee.

5. Consistent with this fiduciary duty, the SDCERS Board enacted its "Rules of the Retirement Board of Administration." According to these Rules, each SDCERS Board Trustee had a fiduciary duty to "avoid any activity which may be interpreted as a conflict of interest," to "conduct all SDCERS business responsibilities in a fair manner and be honest in all business negotiations," and to "communicate to an appropriate Board or staff member information on actions that may be violations of the law, [the Rules of the Retirement Board of Administration], or actions which may be conflicts of interest." The Rules of the Retirement Board of Administration also prohibited each SDCERS Board Trustee from "directly or indirectly seek[ing] or accept[ing] gifts, money or property that would influence or appear to influence the conduct of his or her duties" and from "knowingly engag[ing] in any serial, rotating, or seriatim meeting through which a quorum of the Board becomes involved in the acquisition of information or deliberation of any issue, unless the notice and public access provisions of the open meeting laws are satisfied."

6. Defendant RONALD SAATHOFF (hereinafter "defendant SAATHOFF") was an SDCERS Board Trustee from the 1980s until 2005 as the firefighters' representative, and was subject to the fiduciary duties described above. Defendant SAATHOFF also was president of Local 145, the firefighters' labor union, and was the lead negotiator for Local 145 during the 2002 labor negotiations with the City.

7. Defendant CATHY LEXIN (hereinafter "defendant LEXIN") was an ex-officio SDCERS Board Trustee from 2001 until 2004, and was subject to the fiduciary duties described above. Defendant LEXIN also was the City's Human Resources Director, and was the City's lead labor negotiator with Local 145 and defendant SAATHOFF during the 2002 labor negotiations.

8. Defendant TERESA WEBSTER (hereinafter "defendant WEBSTER") was an ex-officio SDCERS Board Trustee from 1995 until 2005, and was subject to the fiduciary duties described above. Defendant WEBSTER also was the City's Assistant Auditor and Comptroller, and later became the City's acting Auditor and Comptroller.

9. The Administration Division of SDCERS managed the daily affairs of SDCERS and directly interacted with the SDCERS Board. Defendant LAWRENCE GRISSOM (hereinafter "defendant GRISSOM") was the Administrator of SDCERS and in charge of its Administration Division from 1987 until 2005. According to the Rules of the Retirement Board of Administration, defendant GRISSOM was to "be solely responsible to the Board." As the Administrator of SDCERS, defendant GRISSOM had the duty to keep the SDCERS Board fully informed of all material information, including information about proposals that could affect the funding of SDCERS and information about whether an SDCERS Board decision could impact the financial interests of an SDCERS Board Trustee.

10. The Legal Services Division of SDCERS had the duty to provide legal advice and assistance to the SDCERS Board. Defendant LORAINE CHAPIN (hereinafter "defendant CHAPIN") was the General Counsel of SDCERS and in charge of its Legal Services Division from 1997 until 2006. As the General Counsel of SDCERS, defendant CHAPIN

had the duty to keep the SDCERS Board fully informed of all material information, including information about (a) proposals that could affect the funding of SDCERS, (b) SDCERS Board decisions that could impact the financial interests of an SDCERS Board Trustee, (c) whether SDCERS Board Trustees and staff were complying with state and federal laws, and (d) whether an SDCERS Board Trustee had a conflict of interest.

Manager's Proposals 1 and 2, and the 2002 Labor Negotiations

11. In 1996, the City and the SDCERS Board entered into an agreement called "Manager's Proposal 1" (hereinafter "MP1"). Under MP1, the SDCERS Board agreed to permit the City to pay less than the actuarially recommended amount of money necessary to ensure a funding ratio of 100%. If the funding ratio fell below 82.3%, then a "trigger" would be hit, and the City would be required to pay to SDCERS an imminent multi-million dollar balloon payment. Under one interpretation of MP1, the City would have been required to restore the funding ratio to 82.3%, requiring the City to pay approximately $25 million for each percentage point that the funding ratio fell below 82.3%. If the funding ratio fell below 78%, the City would have faced a balloon payment of more than $100 million.

12. In 2002, the City was scheduled to negotiate city employee benefits with four labor unions: Local 145 (the firefighters' union), the Police Officers' Association, Local 127 (blue collar city employees), and the Municipal Employees Association (white collar city employees). The blue collar city employees and white collar city employees were commonly called the "general members." These labor negotiations were commonly called "meet and confer." The four labor unions wanted increased retirement benefits. The general members'

labor negotiators wanted the City to increase the general members' retirement multiplier from 2.25% to 2.5%. This increase from 2.25% to 2.5% would have raised the yearly retirement for defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN by thousands of dollars each year.

13. An issue in the Local 145 negotiations was whether the firefighters would receive certain benefits, including whether defendant SAATHOFF would receive the "presidential leave retirement benefit." The presidential leave retirement benefit would permit defendant SAATHOFF to base his retirement calculation on the combination of his fire captain salary and his union president salary. Without the presidential leave retirement benefit, defendant SAATHOFF's retirement benefit would have been based solely on his fire captain's salary. With the presidential leave retirement benefit, defendant SAATHOFF's retirement would have increased by more than $25,000 per year.

14. In 2002, the City and some of the labor unions reached tentative labor agreements to grant numerous retirement benefit increases to some of the labor unions, including increasing the general members' retirement benefit multiplier from 2.25% to 2.5% and giving defendant SAATHOFF the presidential leave retirement benefit. If enacted, these increased benefits would have raised the retirement benefits for defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN. The tentative increased retirement benefits were made "contingent" on the SDCERS Board agreeing to modify MP1 so the City would avoid making the imminent required multi-million dollar balloon payment if SDCERS' funding ratio fell below 82.3%. If the SDCERS Board did not agree to modify MP1, then the City would not be required to implement the increased retirement benefits, including the 2.25% to 2.5% increase

and the presidential leave retirement benefit. If MP1 had remained unchanged, defendant SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN would have lost thousands of dollars each year in increased retirement benefits. The proposal to modify MP1 and to make increased retirement benefits contingent upon that modification became known as "Manager's Proposal 2" (hereinafter "MP2").

15. In 2002, the City presented the SDCERS Board with multiple versions of MP2, each of which would have modified MP1's trigger so the City would only have paid the "full actuarial rate" (estimated at a total of between $25 and $40 million) phased in over a series of years if the funding ratio fell below the trigger, rather than the imminent multi-million dollar balloon payment that could have exceeded $100 million if MP1 remained unmodified. In these versions of MP2, the City also proposed lowering the MP1 trigger from 82.3% to 75%.

16. On or about Friday, June 21, 2002, the SDCERS Board met and reviewed a version of MP2. Defendant GRISSOM told the SDCERS Board that the recently negotiated retirement benefits were contingent upon the SDCERS Board agreeing to adopt MP2. At this meeting, the City Manager's Office proposed reducing the MP1 trigger from 82.3% to 75%. At this meeting, defendant SAATHOFF reviewed the text of MP1 and stated that MP1 "could be very easily interpreted" to require the City to pay SDCERS the funds necessary to restore SDCERS' funding ratio to 82.3% if the funding ratio fell below 82.3%. Under this interpretation of MP1, the City would be required to make an imminent balloon payment, possibly exceeding $100 million, if the trigger were hit. After extensive discussion, the SDCERS Board did not reach a decision on the City's proposal, and agreed to revisit the issue in July 2002.

17. On or about Monday, June 24, 2002, defendant SAATHOFF met with defendant GRISSOM for several hours and discussed the status of his presidential leave retirement benefit. After the meeting, defendant GRISSOM sent an e-mail to defendant LEXIN, and asked about the status of the presidential leave retirement benefit. In response, defendant LEXIN sent an e-mail to defendant GRISSOM: "we agreed to 'presidential leave' subject to attorneys working out the bugs, Ron knows (as recently as discussions today) that the attorneys and auditors are working with Dan on language . . . not yet in place. . . . TELL RON TO COOL HIS JETS."

18. On or about July 1, 2002, defendant LEXIN drafted a memorandum for the SDCERS Board about MP2 which she shared with defendants WEBSTER and GRISSOM, and others. The memorandum, written in the name of a Deputy City Manager, stated that the recently negotiated retirement benefits were "contingent" upon the SDCERS Board's modification of MP1 and its trigger. After receiving edits and suggestions from defendants WEBSTER and GRISSOM, and others, defendant LEXIN caused the memorandum to be sent by e-mail to the SDCERS Board on or about July 8, 2002.

19. On or about July 9, 2002, defendant LEXIN briefed the City Council in a closed session meeting. Defendant LEXIN informed the City Council that the SDCERS Board might not adopt MP2 with a 75% trigger. She also informed the City Council that, according to defendant GRISSOM, an SDCERS Board Trustee would be making a motion on July 11, 2002, to maintain the trigger at 82.3%, but "phase-in" the "full actuarial rates" over a series of years. Under the 82.3% "phase-in" proposal, "the practical impact on the City would be no different than the previously authorized" 75% MP2 proposal. Based on

defendant LEXIN's recommendation, the City Council agreed to accept the 82.3% "phase-in" MP2 proposal, but only as a "backup" if the SDCERS Board refused to adopt the 75% MP2.

20. On or about July 11, 2002, the SDCERS Board met again to consider MP2. Defendant GRISSOM reminded the SDCERS Board that the recently negotiated benefit enhancements were contingent on the SDCERS Board agreeing to modify MP1. At the meeting, the City Manager's Office continued to propose a version of MP2 which would reduce the trigger from 82.3% to 75%. After extensive discussion about the 75% MP2 proposal, defendant SAATHOFF made a motion to "amend" the City's MP2 proposal (hereinafter "SAATHOFF's MP2 proposal"). Under defendant SAATHOFF's MP2 proposal, the 82.3% trigger would remain in place. However, if the funding ratio fell below 82.3%, the City's balloon payment would be phased in over a series of years, and would be limited to the "full actuarial rate," which was far less than the over $100 million payment that could have been required if MP1 remained unchanged. Defendant SAATHOFF's motion to amend MP2 was the motion that defendant LEXIN had described during the July 9, 2002 City Council closed session meeting. After limited discussion, the SDCERS Board voted 8-2, with one abstention and two members absent, to approve defendant SAATHOFF's MP2 proposal, subject to further review by SDCERS' outside fiduciary counsel and actuary.

21. Shortly after the July 11, 2002 vote, defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, took the steps to create the legislation and other documents necessary to implement defendant SAATHOFF's MP2 proposal and the contingent retirement benefits negotiated in 2002, including defendant SAATHOFF's presidential leave retirement benefit, which later became Resolution 297212.

22. On or about October 21, 2002, the City Council adopted Resolution 297212 on its consent agenda without public comment. Resolution 297212 gave defendant SAATHOFF the presidential leave retirement benefit.

23. On or about November 15, 2002, the SDCERS Board formally approved defendant SAATHOFF's MP2 proposal by a 10-2 vote. During the meeting, defendant SAATHOFF stated that his July 11, 2002 MP2 proposal was an "off-the-seat-of-the-pants" motion.

24. On or about November 18, 2002, the City Council heard public comment in favor of and against the ordinances necessary to put into effect defendant SAATHOFF's MP2 proposal, as well as the increased retirement benefits that were contingent on the SDCERS Board adopting MP2. After hearing the arguments of defendants SAATHOFF and LEXIN, and others, the City Council approved the ordinances necessary to implement the retirement benefits contingent on defendant SAATHOFF's MP2 proposal.

Count 1

18 U.S.C. § 371

The Conspiracy

25. The allegations set forth in paragraphs 1 through 24 above are realleged as if fully set forth herein.

26. Beginning in or before January 2001, and continuing up to and including January 6, 2006, within the Southern District of California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN did knowingly conspire with each other and others known and unknown to the grand jury to commit offenses against the United States, that is, honest services mail and wire fraud, by conspiring and agreeing to devise a material scheme and artifice to

defraud and to deprive the SDCERS Board Trustees, members of SDCERS, and the citizens of the City of San Diego of their intangible right of honest services of their public officials to be performed free from corruption, fraud, undue influence, conflict of interest, and deceit, and, in executing said scheme, deposited and caused to be deposited matters and things to be sent and delivered by private and commercial interstate carriers, and caused matters and things to be delivered by the United States Postal Service and private and commercial interstate carriers according to the direction thereon, and caused writings, signs, signals, and sounds to be transmitted by means of wire in interstate commerce; in violation of Title 18, United States Code, Sections 1341, 1343, and 1346.

Manners And Means

27. In furtherance of this conspiracy, and to effect the objects thereof, the defendants utilized the following manners and means, among others:

a. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently devised a plan to modify MP1 and its trigger in sufficient time so the City would avoid making the imminent multi-million dollar balloon payment to SDCERS that MP1 required.

b. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently agreed to obtain the presidential leave retirement benefit for defendant SAATHOFF in exchange for his support of a proposal to modify MP1 so the City would avoid the imminent multi-million dollar balloon payment that it owed SDCERS under MP1.

c. Defendants SAATHOFF, LEXIN, and WEBSTER, and others, negotiated and agreed to accept increased retirement benefits,

including defendant SAATHOFF's requested presidential leave retirement benefit and the increase in the retirement multiplier from 2.25% to 2.5% for general members, in exchange for their support of a proposal to modify MP1 so the City would avoid the multi-million dollar balloon payment that it owed SDCERS under MP1.

d. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently concealed material information about the increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, from SDCERS Board Trustees, so that the other SDCERS Board Trustees would vote to approve the modification of MP1, which would allow the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

e. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently concealed material information concerning MP2 and other proposals from SDCERS Board Trustees, so that the other SDCERS Board Trustees would vote to approve the modification of MP1, which would allow the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

f. Defendants SAATHOFF, LEXIN, and GRISSOM, and others, fraudulently concealed from the SDCERS Board a prearranged plan for

defendant SAATHOFF to submit his MP2 proposal, which, if approved, guaranteed defendant SAATHOFF his presidential leave retirement benefit.

g. Defendants SAATHOFF, LEXIN, and WEBSTER, and others, fraudulently voted in favor of defendant SAATHOFF's MP2 proposal, and by concealing material information from the other SDCERS Board Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN deceived and fraudulently induced the other SDCERS Board Trustees to vote in favor of defendant SAATHOFF's MP2 proposal, which would allow the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

h. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, drafted and assisted in the drafting of legislation implementing defendant SAATHOFF's MP2 proposal and the contingent retirement benefits negotiated in 2002, knowing that defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others had concealed material information from the SDCERS Board Trustees, including the nature and existence of the presidential leave retirement benefit.

i. Defendants SAATHOFF, GRISSOM, and CHAPIN, and others, fraudulently concealed from SDCERS Board Trustees material information concerning defendant SAATHOFF's purchase of service credits that enhanced defendant SAATHOFF's retirement benefits.

j. By deceiving the SDCERS Board Trustees and fraudulently concealing material information from SDCERS Board Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN caused significant harm to the financial integrity of SDCERS.

OVERT ACTS

28. In furtherance of said conspiracy and to effect and accomplish the objects thereof, the following overt acts, among others, were committed within the Southern District of California, and elsewhere:

a. On or about January 8, 2001, defendant SAATHOFF sent a letter to a city employee requesting that he receive the presidential leave retirement benefit "consistent with the current procedure followed by the P.O.A. and the M.E.A."

b. On or about September 18, 2001, defendant SAATHOFF told a city employee that, as part of the presidential leave retirement benefit, he wished to combine his city salary with his union president salary to increase his high one year retirement calculation from $80,881.16 to $114,964.66.

c. On or about October 11, 2001, defendant WEBSTER sent an e-mail to defendant LEXIN entitled "EEEK," expressing defendant WEBSTER's concerns about SDCERS' funding ratio and decreasing earnings.

d. On or about November 5, 2001, defendant WEBSTER sent an e-mail to a city labor negotiator discussing "Ron's Plan B" and that city labor negotiators should "keep the bargaining chip in your pocket."

e. On or about November 13, 2001, defendant LEXIN wrote a memorandum recommending that the presidential leave retirement benefit be discussed in the context of the 2002 labor negotiations with Local 145 and the other labor unions.

f. On or about January 3, 2002, defendant WEBSTER sent an e-mail to defendant LEXIN, and others, stating that the SDCERS fund earnings from November 2000 until November 2001 had decreased by 85%, and that "these are SERIOUS consequences and needs attention."

g. On or about February 27, 2002, defendant WEBSTER wrote an e-mail to defendant LEXIN, and others, stating: "OH BOY . . . . the CERS earnings for Jan is negative ($1.7) . . . we're moving in the wrong direction!"

h. On or about February 28, 2002, defendants LEXIN and WEBSTER, and others, discussed via e-mail a plan "to use Ron Saathoff to get" the SDCERS Board's "attention."

i. On or about March 7, 2002, defendant GRISSOM sent an e-mail to defendant WEBSTER stating that a reporter had inquired about the City underfunding SDCERS, and asked defendant WEBSTER "is there any 'party line' for me to communicate?"

j. On or about March 13, 2002, defendant WEBSTER sent an e-mail to defendants LEXIN and GRISSOM, and others, about the SDCERS funding ratio, and stated that: "This is a big and serious problem. . . . . especially since the $20m+ trigger is getting closer."

k. On or about April 15, 2002, defendant GRISSOM sent an e-mail to defendant WEBSTER estimating that the funding ratio would fall below the 82.3% MP1 trigger, and asked defendant WEBSTER to "[p]lease treat this as confidential for the moment . . . . . haven't shared with any of the other Board members - yet."

l. On or about April 17, 2002, defendant WEBSTER sent an e-mail to defendant LEXIN, and others, stating that if modifying the MP1 trigger were "tied to benefit increases I think it would pass."

m. On or about May 21, 2002, defendant WEBSTER sent an e-mail to a city employee stating: "The Local 145 write up you sent out did not state that their increased offset was contingent on the Board laxing the trigger. . . . . I thought ALL retirement improvements (including the preside[n]tial leave(?)) were contingent on the trigger. . . . especially need Ron behind releasing the trigger since he runs the show at CERS."

n. On or about June 14, 2002, defendant LEXIN wrote a memorandum stating that the retirement benefits negotiated during the 2002 labor negotiations were contingent upon the SDCERS Board approving a modification of MP1.

o. On or about June 21, 2002, defendant SAATHOFF told the SDCERS Board that MP1 "could be very easily interpreted" to require the City to pay SDCERS the

funds necessary to restore SDCERS' funding ratio to 82.3% if funding ratio fell below 82.3%.

p. On or about June 25, 2002, defendant LEXIN sent an e-mail to an SDCERS Board Trustee who did not attend the June 21, 2002 SDCERS Board meeting, stating that defendant LEXIN and others "REALLY do need you!" at the July 11, 2002 SDCERS Board meeting to vote on MP2.

q. On or about July 1, 2002, defendant LEXIN sent via e-mail a draft memorandum to defendant GRISSOM, which contained proposed answers to the questions of an SDCERS Board Trustee about MP2.

r. On or about July 2, 2002, defendant WEBSTER reviewed defendant LEXIN's July 1, 2002 draft memorandum, and sent an e-mail stating: "FYI Regarding cathy's letter my biggest suggestion to her is to eliminate any reference to fitch and rating agencies in #6. This letter will be seen by press and the city does not need to telegraph its pension problems to the rating agencies who don't research the topic to any great level now."

s. On or about July 8, 2002, defendant LEXIN wrote a memorandum urging the City Council to preapprove a motion to amend MP2 that an SDCERS Board Trustee would be making on July 11, 2002.

t. On or about July 11, 2002, defendant SAATHOFF made a motion before the SDCERS Board to amend the City's version of MP2.

u. On or about July 11, 2002, defendants SAATHOFF, LEXIN, and WEBSTER, and others, voted in favor of defendant SAATHOFF's MP2 proposal, and defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN did not disclose defendant SAATHOFF's presidential leave retirement benefit to the other SDCERS Board Trustees.

v. On or about July 18, 2002, defendants CHAPIN and GRISSOM, and others, met to discuss how to implement benefits conveyed under MP2, including the presidential leave retirement benefit.

w. On or about August 26, 2002, defendants LEXIN, CHAPIN, and GRISSOM, and others, met to discuss how to implement benefits conveyed under MP2, including the presidential leave retirement benefit.

x. On or about September 6, 2002, defendant CHAPIN sent an e-mail to defendants LEXIN, WEBSTER, and GRISSOM, and others, stating: "The Board has not reviewed the Presidential Leave issue and does not have to."

y. On or about November 5, 2002, defendant WEBSTER sent an e-mail to defendant LEXIN suggesting that they try to convince the SDCERS Board to reduce the MP1 82.3% trigger "BEFORE the actuary report comes out with the ratio news."

z. On or about November 15, 2002, defendants SAATHOFF and WEBSTER, and others, voted in favor of defendant SAATHOFF's MP2 proposal, and defendants SAATHOFF, WEBSTER, GRISSOM, CHAPIN, and others, did not disclose

defendant SAATHOFF's presidential leave retirement benefit to the other SDCERS Board Trustees.

aa. On or about November 18, 2002, defendants SAATHOFF and LEXIN, and others defended MP2 before the City Council.

bb. On or about December 6, 2002, defendant LEXIN, and others, drafted a letter that defended MP2 against allegations made publicly that MP2 was "corrupt."

cc. On or about December 20, 2002, defendant SAATHOFF told the SDCERS Board that under MP1, the City would not have been required to pay SDCERS the funds necessary to restore SDCERS' funding ratio to 82.3% if the funding ratio fell below 82.3%.

dd. On or about August 15, 2003, defendant SAATHOFF, during a SDCERS Board meeting, falsely denied that he had received increased benefits as a result of MP2.

All in violation of Title 18, United States Code, Section 371.

Counts 2 - 5

18 U.S.C. §§ 1343, 1346, and 2

Honest Services Wire Fraud

29. The allegations set forth in paragraphs 1 through 24 above are realleged as if fully set forth herein.

30. Beginning in or before January 2001, and continuing up to and including January 6, 2006, within the Southern District of California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN did knowingly devise and intend to devise a material scheme and artifice to defraud, to wit, to act with the intent to deprive the SDCERS Board Trustees, members of SDCERS, and

the citizens of the City of San Diego of their intangible right of honest services of their public officials to be performed free from corruption, fraud, undue influence, conflict of interest, and deceit.

The Scheme to Defraud

31. It was part of the scheme to defraud that defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, did, among other things, the following:

a. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently devised a plan to modify MP1 and its trigger in sufficient time so the City would avoid making the imminent multi-million dollar balloon payment to SDCERS that MP1 required.

b. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently agreed to obtain the presidential leave retirement benefit for defendant SAATHOFF in exchange for his support of a proposal to modify MP1 so the City would avoid the imminent multi-million dollar balloon payment that it owed SDCERS under MP1.

c. Defendants SAATHOFF, LEXIN, and WEBSTER, and others, negotiated and agreed to accept increased retirement benefits, including defendant SAATHOFF's requested presidential leave retirement benefit and the increase in the retirement multiplier from 2.25% to 2.5% for general members, in exchange for their support of a proposal to modify MP1 so the City would avoid the multi-million dollar balloon payment that it owed SDCERS under MP1.

d. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently concealed material information about the increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, from SDCERS Board Trustees, so

that the other SDCERS Board Trustees would vote to approve the modification of MP1, which would allow the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

e. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently concealed material information concerning MP2 and other proposals from SDCERS Board Trustees, so that the other SDCERS Board Trustees would vote to approve the modification of MP1, which would allow the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

f. Defendants SAATHOFF, LEXIN, and GRISSOM, and others, fraudulently concealed from the SDCERS Board a prearranged plan for defendant SAATHOFF to submit his MP2 proposal, which, if approved, guaranteed defendant SAATHOFF his presidential leave retirement benefit.

g. Defendants SAATHOFF, LEXIN, and WEBSTER, and others, fraudulently voted in favor of defendant SAATHOFF's MP2 proposal, and by concealing material information from the other SDCERS Board Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN deceived and fraudulently induced the other SDCERS Board Trustees to vote in favor of defendant SAATHOFF's MP2 proposal, which would allow

the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

h. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, drafted and assisted in the drafting of legislation implementing defendant SAATHOFF's MP2 proposal and the contingent retirement benefits negotiated in 2002, knowing that defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others had concealed material information from the SDCERS Board Trustees, including the nature and existence of the presidential leave retirement benefit.

i. Defendants SAATHOFF, GRISSOM, and CHAPIN, and others, fraudulently concealed from SDCERS Board Trustees material information concerning defendant SAATHOFF's purchase of service credits that enhanced defendant SAATHOFF's retirement benefits.

j. By deceiving the SDCERS Board Trustees and fraudulently concealing material information from SDCERS Board Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN caused significant harm to the financial integrity of SDCERS.

Execution Of The Scheme

32. On or about the dates set forth below, according to each count, within the Southern District of California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, for the purpose of executing the aforesaid material scheme to defraud, knowingly transmitted and caused to be transmitted by means of a wire

communication in interstate commerce, certain writings, signs, signals, and sounds, that is, e-mails, as alleged below:

COUNT	DATE	WIRE COMMUNICATION
2	6/19/2002	E-mail entitled "Fwd: Report," sent from an e-mail account located in San Diego, California, to an America Online e-mail account of an SDCERS Board Trustee, located in Dulles, Virginia
3	7/8/2002	E-mail entitled "City's Proposal re SDCERS," sent from an e-mail account located in San Diego, California, to an America Online e-mail account of an SDCERS Board Trustee, located in Dulles, Virginia
4	7/15/2002	E-mail entitled "Re: He's Baaack!," sent by defendant GRISSOM from an e-mail account located in San Diego, California, to an America Online e-mail account of an SDCERS Board Trustee, located in Dulles, Virginia
5	10/4/2002	E-mail entitled "Resolution for Incumbent Presidential Retirement Benefits," sent from an e-mail account located in San Diego, California, to an America Online e-mail account of defendant SAATHOFF, located in Dulles, Virginia

All in violation of Title 18, United States Code, Sections 1343, 1346 and 2.

Counts 6 - 20

18 U.S.C. §§ 1341, 1346, and 2

Honest Services Mail Fraud

33. The allegations set forth in paragraphs 1 through 24 above are realleged as if fully set forth herein.

34. Beginning in or before January 2001, and continuing up to and including January 6, 2006, within the Southern District of California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN did knowingly devise and intend to devise a material scheme and artifice to defraud, to wit, to act with the intent to deprive the SDCERS Board Trustees, members of SDCERS, and

the citizens of the City of San Diego of their intangible right of honest services of their public officials to be performed free from corruption, fraud, undue influence, conflict of interest, and deceit.

The Scheme to Defraud

35. It was part of the scheme to defraud that defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, did, among other things, the following:

a. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently devised a plan to modify MP1 and its trigger in sufficient time so the City would avoid making the imminent multi-million dollar balloon payment to SDCERS that MP1 required.

b. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently agreed to obtain the presidential leave retirement benefit for defendant SAATHOFF in exchange for his support of a proposal to modify MP1 so the City would avoid the imminent multi-million dollar balloon payment that it owed SDCERS under MP1.

c. Defendants SAATHOFF, LEXIN, and WEBSTER, and others, negotiated and agreed to accept increased retirement benefits, including defendant SAATHOFF's requested presidential leave retirement benefit and the increase in the retirement multiplier from 2.25% to 2.5% for general members, in exchange for their support of a proposal to modify MP1 so the City would avoid the multi-million dollar balloon payment that it owed SDCERS under MP1.

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d. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently concealed material information about the increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, from SDCERS Board Trustees, so that the other SDCERS Board Trustees would vote to approve the modification of MP1, which would allow the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

e. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, fraudulently concealed material information concerning MP2 and other proposals from SDCERS Board Trustees, so that the other SDCERS Board Trustees would vote to approve the modification of MP1, which would allow the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

f. Defendants SAATHOFF, LEXIN, and GRISSOM, and others, fraudulently concealed from the SDCERS Board a prearranged plan for defendant SAATHOFF to submit his MP2 proposal, which, if approved, guaranteed defendant SAATHOFF his presidential leave retirement benefit.

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g. Defendants SAATHOFF, LEXIN, and WEBSTER, and others, fraudulently voted in favor of defendant SAATHOFF's MP2 proposal, and by concealing material information from the other SDCERS Board Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN deceived and fraudulently induced the other SDCERS Board Trustees to vote in favor of defendant SAATHOFF's MP2 proposal, which would allow the City to avoid the imminent multi-million dollar balloon payment that it owed SDCERS, would allow the defendants and others to receive increased retirement benefits, including defendant SAATHOFF's presidential leave retirement benefit, and would allow defendants LEXIN, WEBSTER, GRISSOM, and CHAPIN to maintain their positions with the City and SDCERS.

h. Defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others, drafted and assisted in the drafting of legislation implementing defendant SAATHOFF's MP2 proposal and the contingent retirement benefits negotiated in 2002, knowing that defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, and others had concealed material information from the SDCERS Board Trustees, including the nature and existence of the presidential leave retirement benefit.

i. Defendants SAATHOFF, GRISSOM, and CHAPIN, and others, fraudulently concealed from SDCERS Board Trustees material information concerning defendant SAATHOFF's purchase of service credits that enhanced defendant SAATHOFF's retirement benefits.

j. By deceiving the SDCERS Board Trustees and fraudulently concealing material information from SDCERS Board Trustees, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN caused significant harm to the financial integrity of SDCERS.

Execution Of The Scheme

36. On or about the dates set forth below, according to each count, within the Southern District of California, and elsewhere, defendants SAATHOFF, LEXIN, WEBSTER, GRISSOM, and CHAPIN, for the purpose of executing the aforesaid material scheme to defraud, knowingly deposited and caused to be deposited matters and things to be sent and delivered by private and commercial interstate carriers, and caused matters and things to be delivered by the United States Postal Service and private and commercial interstate carriers according to the direction thereon as alleged below:

COUNT	DEFENDANTS	DATE	MAIL MATTER
6	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	6/13/2002	SDCERS Board Packet For June 21, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
7	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	6/13/2002	SDCERS Board Packet For June 21, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
8	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	6/13/2002	SDCERS Board Packet For June 21, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
9	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	7/9/2002	SDCERS Board Packet For July 11, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
10	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	7/9/2002	SDCERS Board Packet For July 11, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express

COUNT	DEFENDANTS	DATE	MAIL MATTER
11	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	7/9/2002	SDCERS Board Packet For July 11, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
12	SAATHOFF	8/12/2002	Check No. 013011081 For $3,529.89, payable to San Deigo [sic] City Employees Ret Sys FBO Ronald L Saathoff, Delivered to SDCERS via United States Mail
13	SAATHOFF	8/12/2002	Check No. 013010714 For $8,090.44, payable to San Deigo [sic] City Employees Ret Sys FBO Ronald L Saathoff, Delivered to SDCERS via United States Mail
14	SAATHOFF	8/29/2002	Check No. 78697 For $1,736.71, payable to SDCERS PLAN, Delivered to SDCERS via United States Mail
15	SAATHOFF	9/13/2002	Check No. 2583879 For $51,236.79, payable to City of San Diego For Plan to Plan Transfer FBO Ronald Saathoff, Delivered to SDCERS via United States Mail
16	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
17	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
18	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express
19	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express

COUNT	DEFENDANTS	DATE	MAIL MATTER
20	SAATHOFF LEXIN WEBSTER GRISSOM CHAPIN	11/7/2002	SDCERS Board Packet For November 15, 2002 SDCERS Board Meeting, Delivered to SDCERS Board Trustee via Adcom Express

All in violation of Title 18, United States Code, Sections 1341, 1346 and 2.

DATED: January 6, 2006.

A TRUE BILL:

_____
Foreperson

CAROL C. LAM
United States Attorney

By: _____
G. MICHAEL STILL
Special Assistant U.S. Attorney

By: _____
JOHN B. OWENS
Assistant U.S. Attorney

Exhibit 38

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

SDCERS RETIREMENT BOARD MINUTES
FRIDAY, MAY 24, 2002

The Retirement Board of Administration held its regularly scheduled meeting in the System's Boardroom. Location: 401 "B" Street, Suite 400, San Diego, CA 92101. Fred Pierce called the meeting to order at 1:30 p.m.

IN ATTENDANCE:

Trustees: Frederick Pierce, Chair; John Casey, David Crow, Ray Garnica, Mary Vattimo, Tom Rhodes, Ron Saathoff, Diann Shipione, John Torres, Richard Vortmann, Sharon Wilkinson

Staff: Lawrence Grissom, Lori Chapin, Vincent Hayes, Roxanne Parks, Cynthia Hilliard, Delia Lencioni, Doug McCalla, Sheila Leone, Nancye Launer, Bernadette Stratton, David Arce, Sally Nadeau

Public: George Wagner, Amy Kelley, Jim Callahan, Ray Sigwalt, James Cunningham, Alice Anglim, Maria Larsen, Julie Dommel, Pierre Vaughn, Cynthia Lowery, Rich Freedman

Excused: Terri Webster

On behalf of the Board, Mr. Pierce congratulated Ms. Vattimo on the upcoming birth of her baby, stating she will be missed over the next few months while she is on leave of absence.

I. APPROVAL OF CONSENT AGENDA ITEMS #A-H

MOTION TO APPROVE CONSENT AGENDA ITEMS #I. A-H: D. CROW
SECOND: J. CASEY
DISCUSSION:
Ms. Wilkinson asked for assurance that all individuals listed under item I.A, (Service Retirements) had been notified of the upcoming benefits changes being implemented on July 1, 2002.

Mr. Grissom said they have all been contacted and each has signed a waiver.

Mr. Casey asked about Item I.B5.

Mr. Grissom stated Staff received a signed waiver from him as well.

CALL FOR THE QUESTION TO APPROVE CONSENT AGENDA ITEMS #A-H.

BOARD: UNANIMOUS
MOTION TO APPROVE PASSED UNANIMOUSLY.

She's not sure of the appropriate venue for bringing this forward, but she's a strong supporter of full disclosure.

Mr. Pierce said he would review Ms. Shipione's memo and bring back information as he deems appropriate next month.

Mr. Saathoff clarified that the Board would be reviewing and passing judgment on these contracts in January. He believes this gives the Committee sufficient time to review this memo and make appropriate recommendations.

Ms. Wilkinson suggested referring this issue to the Business Committee, which has already been suggested.

CALL FOR THE QUESTION TO APPROVE STAFF'S RECOMMENDATION.

BOARD: 11 IN FAVOR: R. SAATHOFF, J. CASEY, C. LEXIN, S. WILKINSON, J. TORRES, R. GARNICA, R. VORTMANN, T. RHODES, F. PIERCE, M. VATTIMO, D. CROW
1 OPPOSED: D. SHIPIONE
MOTION TO APPROVE PASSED 11 TO 1.

3. NEW BUSINESS

A. ACTION REQUESTED

1. RECOMMENDATION REGARDING NEW PURCHASE OF SERVICE CREDIT SIMPLIFICATION AND COSTING METHOD

Mr. Saathoff stated this is a complex issue and will come back for action in June 2002.

4. TRAINING OPPORTUNITIES

A. RECOMMENDED APPROVAL

1. 10TH ANNUAL GUNS AND HOSES FIRE/POLICE PENSION FORUM – MIAMI BEACH FLORIDA, 09/22-09/25/02

2. IFEBP BENEFITS CONFERENCE FOR PUBLIC EMPLOYEES – SAN FRANCISCO, CA, 08/5-08/7/02

3. PUBLIC SAFETY EMPLOYEES' PENSION AND BENEFITS CONFERENCE, PALM SPRINGS, CA 10/20-10/23/02

MOTION TO APPROVE RON SAATHOFF AND DAVE CROW'S ATTENDANCE AT THE GUNS AND HOSES PENSION FORUM; AND, TOM RHODES ATTENDANCE AT THE IFEBP BENEFITS CONFERENCE AND THE PUBLIC SAFETY EMPLOYEE BENEFITS CONFERENCE: **R. SAATHOFF**
SECOND: **J. TORRES**
BOARD: **UNANIMOUS**
MOTION TO APPROVE PASSED UNANIMOUSLY.

Exhibit 39

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

STAFF REPORT

FILE:

DATE: June 11, 2002

TO: Retirement Board, via Lawrence B. Grissom, Retirement Administrator

FROM: Paul Barnett, Assistant Retirement Administrator

SUBJECT: Purchase of Service Credit Simplification – Revised Pricing

At the May Board meeting, the attached recommendation for PSC Simplification and a new costing method was introduced. Following that meeting, the Board asked the System's actuary to refine his analysis of PSC costs to more accurately account for a Member's age at the time of purchase. Purchase of Service contracts are generally less expensive for younger Members because there is a longer period of time before the purchased service credit is applied to a retirement benefit. However, when a Member purchases service credit later in life, the cost eventually decreases based on an actuarial assumption of a shorter life expectancy over which benefits will be paid.

Exhibit A of the attached memorandum reflects the Actuary's proposed PSC factors for FY 2002 in five-year age bands. In addition, Exhibit B has been updated to show the impact of these new factors on a representative sample of previously executed contracts.

Staff continues to recommend that the Retirement Board approve updating PSC calculation methodology to reflect the true cost of purchasing service credit. We believe these changes will also significantly enhance the timeliness and overall member satisfaction with the PSC product and process.

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

STAFF REPORT

ADMINISTRATIVE DIVISION

FILE:

DATE: May 5, 2002

TO: Business and Procedures Committee

FROM: Paul Barnett, Assistant Retirement Administrator

SUBJECT: Purchase of Service Credit Simplification and New Cost Method

Summary

Staff is recommending that the Purchase of Service Credit (PSC) rules be amended to standardize both the types of service credit available for purchase and the calculation method used to "price" this product. The reasons for this recommendation include re-pricing the cost of PSCs to more accurately reflect the actuarial impact of service purchase, and simplifying the administrative procedures surrounding PSCs so that they can be calculated and delivered in a more timely fashion.

Background

Under current PSC rules, a member is allowed to purchase as many as 12 different types of service credit for periods during which contributions were not made into SDCERS on the member's behalf. These include such time periods as part-time employment, probationary employment, long-term disability, military leave and various other missed contribution time periods. In addition, a member may purchase up to five years of "future" service credit to add to actual employment contributions in order to increase the final retirement allowance calculation.

For all of the prior missed contribution time periods, the current PSC rules require that a member's entire salary and contribution history be examined to identify the missed time periods and the member's salary at the time contributions were not made. Depending on how long the member has worked, this research can involve reviewing old microfiche and archived data from City payrolls and SDCERS contribution history decades old. In addition, the rules for how to calculate the cost of a PSC are very convoluted. and require different calculations for different types of missed time periods (i.e. part-time is different from half-time which is different from probationary time which is different from Pre-81 Plan, etc., etc.).

The other important point to note about the current PSC rules is the negative actuarial impact. Today, by purchasing prior missed contributions calculated at the "cost" when those contributions were missed, the member is buying today's service credit benefits at yesteryear's prices. In other words, the cost to purchase service credit from contributions missed in 1990, for example, is priced based on the fact that retirement factors for a 55 year old General Member retiring in 1990 was .8867%. Yet the 55 year old General Member purchasing a PSC for missed contributions from 1990 will receive

today's retirement factors of 2.25%. And if those retirement factors increase to 2.5% anytime in the future, the gap between PSC cost and retirement benefit will only increase.

Recommendations

Staff has consulted with the System's Actuary to determine a more cost neutral pricing for PSCs, and has reviewed the PSC practices at six other public retirement funds. Based on this research, we recommend the following changes to the SDCERS PSC product:

1. The current 12 different types of PSCs available at SDCERS would be reduced to 4: Refunds, Military Leave, Permissive (i.e. 5-year forward contract) and all other missed contributions. For Refunds and Military Leave, we are proposing no changes to the calculation methodology for these types of contracts. Military Leave is covered by federal law, and must be treated as if the member was never away from the job. With Refunds, the Employer Contribution to the retirement system has been made on behalf of members in this situation, and earnings on the Employer contributions to pay any benefit have been earned by the Retirement Fund. It is only the Employee portion of the contribution that must be made by the member to "complete" the service credit.

2. All other periods of time where the member did not make contributions into the Retirement System and was employed by the City of San Diego or the Port District, regardless of the reason why contributions were not made, would be priced using the member's current salary at the time of application times a factor determined each year by the Actuary that reflects current benefit levels. Rick Roeder has reviewed the concept of PSC simplification, and agrees that the current pricing method contains actuarial inequities. He has proposed new PSC calculation factors for General and Safety members based on the member's age at the time of application, less than 40 years old, 40 to 50 years old and over 50 years old (Exhibit A). The PSC calculation factors increase as the time between a member's purchase of service and the expected retirement age when benefits will be paid decreases. In other words, purchasing service credit when an individual is closer to retirement and the System has less time to earn interest on the funds received requires a higher PSC cost to that member than to an individual who has several years remaining before retirement benefits are paid.

3. The impact of changing the current PSC cost methodology to one that is more actuarially sound varies dramatically depending on a member's age, the amount of service credit being purchased and the number and amount of salary increases during a member's employment (see Exhibit B). From an actuarial point of view, PSCs have been offered at a low price given what they cost in terms of benefit enhancements to the member.

Discussion

In making the above recommendations, staff evaluated the following factors:

1. Timeliness of Service – Based on the current PSC methodology it can take up to six months for staff to research, calculate and complete a PSC application. On average, because of the multiple types of PSCs available, for each application received three

separate contracts must be calculated and prepared. Under the proposed PSC simplification methodology, each application would only require one PSC contract since all missed contributions would be treated equally and priced the same way. This would allow staff to complete PSC applications in a much more timely fashion.

2. Comparisons with other Systems – Staff reviewed the types of PSCs available at other public retirement systems and their methodologies for calculating these contracts (see Exhibit C). While every fund has its own regulations and actuarial issues, it is important from a competitive point of view as well as in terms of Reciprocity between public retirement systems that we evaluate how SDCERs compares. The conclusions from this comparison are:

    - SDCERS currently allows members to purchase more types of service credit than any of the other agencies surveyed. On average, the other agencies recognize two to four different types of service credit purchase compared to SDCERS 12 types. Staff's recommendation to only recognize 4 different types of PSCs would be more in line with these other agencies.
    - SDCERS appears to be the only system that attempts to use the member's salary at the time contributions were missed to calculate service credit. Most of the other agencies either use current salary, as we are proposing in this recommendation, or apply a fixed interest component to the missed contributions based on the period of time that was missed.
    - As would be expected given the fewer PSC types and the simpler calculation methodology, the other agencies surveyed state that their processing time runs approximately two to six weeks from the date of application. SDCERS is currently struggling to complete the growing volume of PSC requests within four months from the date of application.

3. Benefit implications and legal restrictions – Staff's recommendations for PSC simplification would require amendments to the Municipal Code and the Board Rules regarding Purchase of Service Credit. In addition, the new proposed definition for PSC eligibility states that a member can only purchase service credit for those time periods where contributions were missed while employed. This would eliminate the current PSC for Breaks in Service. However, staff believes that the up to 5 years of future service credit that any member can currently purchase serves as an opportunity to account for those years a member did not work for the City of San Diego or the Port District.

Conclusion

Staff strongly urges the Retirement Board to update its PSC calculation methodology to reflect the true cost of purchasing service credit. We also believe that PSC simplification would create a product that can be more easily explained to members and delivered more timely. Fiscal integrity of the Retirement Fund and quality customer service are key tenets of the SDCERS Mission Statement. Adopting this PSC simplification recommendation will enhance both of these strategic goals.

ACTUARY'S RECOMMENDED NEW PURCHASE OF SERVICE CREDIT COST FACTORS FOR 2002

PROPOSED RATES FOR GENERAL MEMBERS

Attained Age Band	% of Current Pay Per Service Year
20 – 24	11.3%
25 – 29	13.1%
30 – 34	14.7%
35 – 39	17.1%
40 – 44	19.1%
45 – 49	22.2%
50 – 54	25.9%
55 – 59	30.2%
60 – 64	30.7%
65+	29.3%

15

PROPOSED RATES FOR SAFETY MEMBERS

Attained Age Band	% of Current Pay Per Service Year
20 – 24	17.6%
25 – 29	20.5%
30 – 34	22.9%
35 – 39	26.7%
40 – 44	31.1%
45 – 49	36.2%
50 – 54	40.6%
55 – 59	40.1%
60 – 64	37.5%
65+	34.3%

26

accurate alternative to 15%/26% actuary

SDCERS
PSC COST COMPARISON CHART
ACTUAL COSTS VERSUS ACTUARIAL COSTS

Plan Type	Service Purchase Type	Years Purchased	Purchased From	Purchased To	Age at Time of Purchase		Cost at Time of Purchase	Actuarial PSC Cost $	Cost Difference	Percent Change
General	1981 Waiting	1.03494	01/01/88	01/12/89	38		$ 6,939.53	$ 7,052.97	$ 113.44	1.63%
Safety	Hrly Time	4.15070	06/11/83	08/04/87	37		$ 37,416.61	$ 38,920.17	$ 1,503.56	4.02%
Safety	Hrly Time	4.18903	06/15/70	08/22/74	50		$ 43,862.49	$ 51,867.66	$ 8,005.17	18.25%
General	LWOP <= 1 Yr	0.15470	03/10/89	06/30/89	62		$ 1,200.12	$ 1,477.84	$ 277.72	23.14%
Safety	1981 Waiting	0.05750	12/12/86	01/01/87	42		$ 900.26	$ 1,109.95	$ 209.69	23.29%
Safety	1981 Waiting	0.04654	04/22/86	05/08/86	38		$ 590.46	$ 763.09	$ 172.63	29.24%
Safety	LTD <= 1 Yr	0.03833	01/24/98	02/26/98	45		$ 514.93	$ 820.34	$ 305.41	59.31%
General	FTE Ben PT	1.16910	07/27/79	11/26/81	55		$ 9,234.25	$ 15,275.14	$ 6,040.89	65.42%
General	FTE Ben PT	1.42099	08/18/80	06/21/83	45		$ 9,711.18	$ 16,928.83	$ 7,217.65	74.32%
General	LTD <= 1 Yr	0.22999	01/18/92	04/10/92	58		$ 1,161.53	$ 2,071.69	$ 910.16	78.36%
Safety	LTD <= 1 Yr	0.03833	07/18/92	07/31/92	38		$ 320.58	$ 628.48	$ 307.90	96.04%
				Date Purchased						
General	5 Yr Purchase	5.00000		12/07/01	38		$ 29,278.20	$ 33,377.15	$ 4,098.95	14.00%
General	5 Yr Purchase	5.00000		06/13/01	42		$ 33,415.20	$ 42,548.69	$ 9,133.49	27.33%
General	5 Yr Purchase	5.00000		12/19/01	52		$ 29,052.60	$ 50,164.16	$ 21,111.56	72.67%
Safety	5 Yr Purchase	5.00000		12/13/01	36		$ 35,088.98	$ 36,033.68	$ 944.70	2.69%
Safety	5 Yr Purchase	5.00000		06/21/01	46		$ 126,761.55	$ 176,491.08	$ 49,729.53	39.23%

Exhibit 40

DRAFT

Re: Agenda Item 2(A)(1) Purchase of Service Credit

TRANSCRIPT OF SDCERS RETIREMENT BOARD MEETING

TAKEN ON JULY 19, 2002

[Tape dubbed at fast speed; very difficult to understand when slowed down to transcribe (sound quality diminished considerably).

[Begin mid-Tape 1, Side A.]

Male Okay, item, moving on to item 2, A, 1, recommendation regarding new purchase of service credit simplification and costing method. Mr. [inaudible.]

Male [Inaudible] it's continued from last month. Originally the actuary completed a, a lengthy scenario and the Board felt that the, [inaudible] they felt members [inaudible] purchase, that he would come back and [inaudible] that to include a broader span of, of calculated [inaudible.] A couple of his general comments. When you're looking at purchase of service you need to keep in mind that probably 80 percent of the purchase of service requests that we end up doing do not involve the five year purchase, which is actually on of the most easier methods and can be done fairly quickly, and we can respond fairly quickly. The majority of the, the contracts that we are doing are those involving missed

staff friendly in a way that will better serve the members. So that they're able from a staff standpoint to provide quick and, and accurate service without having to do a myriad of record searches, which is what's going on now. And unfortunately many of those records are archived in the pen and pencil variety. You know as opposed to being on computer…

Male No, we've actually found a few stone tablets.

Male Stone tablets? It wouldn't surprise me. Okay, let's [inaudible] a full vote here. Let's start with Terry.

Male And mine is one of the cost. And focusing on the five year, obviously the City adopted that benefit and put it in the Muni Code with the understanding that it would not increase the liability regarding the five year air time [inaudible.] How the 15 percent was derived at I don't remember obviously. We're finding out that there must not have been some solid theory behind it. But now that we are aware of this problem it seems like it is our fiduciary duty to fix it 'cause every time that somebody signs a purchase of service contract, or almost every time it seems like, we're increasing the liability to the plan sponsor which isn't right. And the Board doesn't have the authority to allow subsidizing for the member's purchase. That is a City

1 decision as to which benefits they should give.
2 So anyway I do think we should, and this is the
3 third month it's been on the agenda so I, I
4 definitely think we need to take care of it one
5 way or the other and we have to have thoughtful
6 discussions to support what we come up with. But
7 I, again I do think we need to fix the bleeding.
8 And I also think now we need to disclose to
9 anybody who comes into the office, because in
10 some cases if they're young, and they need this
11 is on the horizon, plus it's on the public
12 agenda. Because if they're young and they wait
13 it could be cheaper. If they're old, older, they
14 need to know they might wanna do it now because,
15 you know this is coming down the line. Also, I
16 think we need to do a lot of additional
17 counseling if we haven't already begun this on
18 the 90 percent cap, because they have to
19 understand if you buy time…
20 Male Right.
21 Male ..now and the…
22 Male Right.
23 Male …factor goes up between now and when you retire
24 you effectively could be wasting your money. So
25 I think that needs to be disclosed all over the
26 place to avoid problems.
27 Male Yep, that's correct…
28 Male And of course, the way we do things, you know you

gotta do what's right and fair so I think there has to be some type of grandfathering in clause giving people the warning we're not gonna do this overnight. So those type of things that we need to get pounded out.

Male Okay.

Male And staff has, has a proposal that they thinks works [inaudible] other options. But I just think we need to resolve this because it is a bleeding…

Male No, I mean I think it's accurate. I think, and I really appreciate the comments. 'Cause I think it's true and I, I know at least a lot of our members have been, you know there was this June 5th deadline rumor that got out there. And it had to do more the grandfathering [inaudible] purchase of service for the general member system than the 2.5. But it reverberated through the safety ranks too. And they've been inundated with people coming in wanting to make requests 'cause they wanted to lock in a date. And so we do need to have, when whatever we finally decide upon, I totally concur with Terry. We have to have some sort of a grandfather period. And it needs to be long enough so that they won't get inundated in 30 days with, you know 5,000 requests for everybody trying to lock in, you know whatever the rate is. And there are a lot

Exhibit 41

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

SDCERS RETIREMENT BOARD MEETING SUMMARY
FRIDAY, JULY 19, 2002

The Retirement Board of Administration held its regularly scheduled meeting in the System's Boardroom. Location: 401 "B" Street, Suite 400, San Diego, CA 92101. Fred Pierce called the meeting to order at 1:30 p.m.

IN ATTENDANCE:

Trustees: Frederick Pierce, Chair; John Casey, David Crow, Ray Garnica, Tom Rhodes, Ron Saathoff, John Torres, Terri Webster, Richard Vortmann, Sharon Wilkinson

Staff: Lawrence Grissom, Lori Chapin, Paul Barnett, Roxanne Parks, Sally Zumalt, Delia Lencioni, Dawne Clark, Sheila Leone, Nancye Launer, Bernadette Stratton, Merlita Hilario, Dawn McHorny, Doug McCalla

Public: J. Dommell, N. Acevedo, J. Knabel, G. Collins, R. Reid, J. Loftus

Excused: Cathy Lexin, Mary Vattimo

Absent: Diann Shipione

I. CLOSED SESSION

1. PUBLIC EMPLOYEE PERFORMANCE EVALUATION
– GOVT. CODE SECTION 54954.5

A. RETIREMENT ADMINISTRATOR

II. ADMINISTRATOR'S PERFORMANCE REVIEW

Mr. Pierce reported that in Closed Session, the Board voted to approve a new compensation package for the Retirement Administrator that is on file with the City Auditor's office.

III. APPROVAL OF CONSENT AGENDA ITEMS #A- H

MOTION TO APPROVE CONSENT AGENDA ITEMS #A-H: D. CROW
SECOND: J. CASEY
BOARD: UNANIMOUS
MOTION TO APPROVE PASSED UNANIMOUSLY.

A. SERVICE RETIREMENTS

1. Kenneth C. DeHahn, Transportation Department. Utility Worker II. 29.97 years creditable service. Age 61.44. Effective date 07/13/02. Estimated monthly allowance $2,225.35, maximum benefit with surviving spouse provisions.

2. Anne Elliott, Fire Department, Fire Inspector. 25.40 years creditable service. Age 58.39. Effective date 06/30/02. Estimated monthly allowance $4,796.30, maximum benefit with no continuance. **(ADDITIONAL FUNDS FROM SURVIVING SPOUSE MONIES)**

City/Worker Compensation Board's standards.

CALL FOR THE QUESTION TO REFER MS. HAWKINS INDUSTRIAL DISABILTY APPLICATION TO AN ADJUDICATOR.

BOARD: UNANIMOUS
MOTION TO REFER PASSED UNANIMOUSLY.

VI. STAFF RECOMMENDATION TO DENY INDUSTRIAL DISABILITY RETIREMENT APPLICATIONS

1. Mick G. Loeffler, Police Department, Police Officer. 20.06 years creditable service. Age 42.94. Effective date 04/30/01. Estimated monthly allowance $2,901.39, maximum benefit with no continuance. **(ADDITIONAL FUNDS FROM SURVIVING SPOUSE MONIES)**

2. Ronald J. Oldham, Fire Department, Firefighter. 26.79 years creditable service. Age 56.19. Effective date 04/01/97. Estimated monthly allowance $3,119.46, maximum benefit with surviving spouse provisions.

BASED ON THE APPLICANT'S ATTORNEY'S REQUEST, MOTION TO CONTINUE M. LOEFFLER AND R. OLDHAM'S INDUSTRIAL DISABILITY APPLICATAIONS FOR 30-DAYS: R. SAATHOFF
SECOND: T. RHODES
BOARD: UNANIMOUS
MOTION TO CONTINUE 30-DAYS PASSED UNANIMOUSLY.

VII. ADMINISTRATIVE STATUS REPORTS: INVESTMENTS, LEGAL, OPERATIONS

Mr. Grissom reported that the fund had lost quite a bit of money with the WorldCom situation.

BUSINESS PROCEDURES COMMITTEE REPORT – RON SAATHOFF, CHAIR

1. STATUS REPORTS

A. **NO ACTION REQUESTED**

1. OVERPAYMENTS OVER $5,000

   A) VIRGINIA BATSELL
   B) PERCY L. WALTERS

   Mr. Saathoff stated Staff's reports were included in the Board packet. Staff is aggressively trying to recoup these overpayments and will keep the Board apprised of its outcome.

2. OLD BUSINESS

A. **ACTION REQUESTED**

1. RECOMMENDATION REGARDING NEW PURCHASE OF SERVICE CREDIT SIMPLIFICATION AND COSTING METHOD

Mr. Saathoff stated that the Purchase of Service Simplification and Costing Method was trailed to August with Staff to further research costing through the actuary.

3. NEW BUSINESS

A. ACTION REQUESTED

1. PROPOSED BUDGET ADJUSTMENT TO ADDRESS STAFFING NEEDS CREATED BY BENEFITS CHANGES

MOTION TO APPROVE STAFF'S RECOMMENDATION TO HIRE FOUR ADDITIONAL COUNSELORS AND TO EXPEND $75,000 FOR INDEPENDENT ACCOUNTING CONSULTANTS: **R. SAATHOFF**
SECOND: **D. CROW**
BOARD: **UNANIMOUS**
MOTION TO APPROVE PASSED UNANIMOUSLY.

4. TRAINING OPPORTUNITIES

A. RECOMMENDED APPROVAL

1. IFEBP'S PUBLIC SECTOR BENEFITS ADMINISTRATION CONFERENCE, BROOKFIELD, WI. – 09/30-10/03/02

2. IFEBP'S HEALTH CARE MANAGEMENT CONFERENCE, LAS VEGAS, NV. – 11/10-11/13/02

MOTION TO APPROVE JOHN CASEY'S ATTENDANCE AT THE PUBLIC SECTOR BENEFITS CONFERENCE AND RON SAATHOFF AND DAVE CROW'S ATTENDANCE AT THE HEALTH CARE MANAGEMENT CONFERENCE: **R. SAATHOFF**
SECOND: **D. CROW**
BOARD: **UNANIMOUS**
MOTION TO APPROVE PASSED UNANIMOUSLY.

INVESTMENT COMMITTEE REPORT – DAVE CROW, VICE CHAIR

1. STATUS REPORTS

A. NO ACTION REQUESTED

1. VENDOR'S WATCH LIST

2. SECURITIES LENDING STATUS

3. SDCERS' ASSET ALLOCATION STATUS

Mr. Crow reported there had been no change to the Watch List; the securities lending program had earned $1.3 million as of 6/30/02 and the portfolio has several allocations tracking either slightly above or below the target ranges. Additionally, the cash balance is being put to work in the large cap growth portfolio.

Exhibit 42

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

STAFF REPORT

FILE:

DATE: August 6, 2002

TO: Retirement Board, via Lawrence B. Grissom, Retirement Administrator

FROM: Paul Barnett, Assistant Retirement Administrator

SUBJECT: Purchase of Service Credit Simplification

Summary

For the reasons stated in its May 5, 2002 memorandum to the Retirement Board, staff continues to recommend a simplification of the Purchase of Service (PSC) methodology. This simplification would include calculating all service purchases using the Member's current salary at the time of application. Upon further review and discussions with the Actuary, staff recommends continuing the cost factor for any purchased service of 15% for General Members and 26% for Safety Members (the current cost for 5-year PSCs).

Background

The goal of PSC simplification is to improve the process so that members can easily determine what it might cost to purchase periods of missed contributions into the retirement fund, and staff can more timely calculate, prepare and respond to a member's PSC application. Clearly, using current salary times the number of months/years of missed contributions times a cost factor will achieve the first goal of simplifying both the understanding of service purchase as well as the responsiveness issue.

In terms of changing the PSC cost structure, it is difficult to quantify what impact an across the board pricing of 15%/26% might have on the Fund. This is because the current PSC process involves so many different types of purchased service each with a slightly different calculation methodology. Originally, the Fund's actuary proposed charging for purchased service based on the member's age at the time of application. This was based on the fact that Purchase of Service contracts are generally less expensive for younger members because there is a longer period of time before the purchased service credit is applied to a retirement benefit. However, this methodology inadvertently penalizes older members who would end up paying significantly more for purchasing a year of service credit than they would pay if they simply were to work for an additional year and make their normal contributions into the Fund.

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

HUM-CLE-014-0111

The perceived inequity of these higher purchase factors has caused some discussion with employee groups regarding possible diminishment of benefits. This would likely result in the Board being requested to establish an extensive window period prior to implementation. This would in turn cause the majority of impacted members to complete purchases before the expiration of the window, negating any impact of the proposed changes.

The cost of 15%/26% which was established in 1997 represented the Actuary's best estimate at the time of the price necessary for the Retirement Fund to "recoup" the benefits gained by an additional year of purchased service. While benefits have increased since 1997, staff believes the use of current salary in the PSC calculation as opposed to either the high one-year salary or the actual salary will increase PSC costs slightly to compensate for the higher benefit structure in place today. As an example, a General Member who received a 5% salary increase in December 2001 to bring his current hypothetical salary to $50,000 will pay $893 more for a 5 year PSC under this proposal than he would using the current 5 year PSC cost methodology (a 2.4% increase). This "across the board" increase methodology is the fairest way to ensure all Members are paying equally for the benefits gained from purchasing additional service credit. It would be the recommendation of staff that this PSC price be reviewed annually by the Actuary as part of the normal valuation process to determine based on PSC activity and any changes in benefits or demographics of the Fund whether changes in the PSC price are warranted.

HUM-CLE-014-0112

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Exhibit 43

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

SDCERS' RETIREMENT BOARD OF ADMINISTRATION

FRIDAY, AUGUST 16, 2002 – 1:30 PM

401 "B" STREET, SUITE 400 SAN DIEGO, CA 92101
(DISABILITY ACCESSIBLE)

AGENDA

(FREDERICK PIERCE, PRESIDENT)

I. APPROVAL OF CONSENT AGENDA ITEMS #A- G

A. SERVICE RETIREMENTS

1. Larry E. Adams, Water Department. Hydrographic Aide. 11.92 years creditable service. Age 65.37. Effective date 08/01/02. Estimated monthly allowance $1,273.15, maximum benefit with surviving spouse provisions.

2. David M. Alvarez, Development Services Department, Associate Engineer. 28.00 years creditable service. Age 55.85. Effective date 08/01/02. Estimated monthly allowance $3,416.50, reduced benefit with surviving spouse provisions. **(OPTION II)**

3. Thomas K. Campbell, Transportation Department. Equipment Operator II. 32.32 years creditable service. Age 55.29. Effective date 07/23/02. Estimated monthly allowance $2,709.20, maximum benefit with no continuance.

4. Calvin Chong, Development Services Department. Senior Civil Engineer. 36.81 years creditable service. Age 55.40. Effective date 07/24/02. Estimated monthly allowance $6,352.74, maximum benefit with surviving spouse provisions.

5. Thomas J. Dumont Jr., General Services Department. Director. 3.75 years creditable service. Age 63.06. Effective date 08/01/02. Estimated monthly allowance $773.57, maximum benefit with surviving spouse provisions. **(RECIPROCITY)**

6. John W. Jacquess, Water Department, Heavy Truck Driver I. 27.23 years creditable service. Age 55.38. Effective date 08/03/02. Estimated monthly allowance $1,961.16, maximum benefit with surviving spouse provisions.

7. Samuel G. Riordan, General Services Department. Graphic Designer. 25.23 years creditable service. Age 62.53. Effective date 08/09/02. Estimated monthly allowance $2,555.23, maximum benefit with surviving spouse provisions.

8. Carol L. Rogers, Police Department. Lead Dispatcher. 37.87 years creditable service. Age 55.46. Effective date 07/11/02. Estimated monthly allowance $3,884.83, maximum benefit with no continuance. **(ADDITIONAL MONIES FROM SURVIVING SPOUSE FUNDS)**

9. Judith A. White, Police Department. Dispatcher II. 20.28 years creditable service. Age 57.52. Effective date 07/17/02. Estimated monthly allowance $1,752.37, maximum benefit with no continuance

BUSINESS PROCEDURES COMMITTEE REPORT – RON SAATHOFF, CHAIR

1. OLD BUSINESS

A. STATUS REPORT

1. REPORT REGARDING BACKDATING DEFERRED RETIREMENT BENEFITS

B. ACTION REQUESTED

1. RECOMMENDATION REGARDING NEW PURCHASE OF SERVICE CREDIT SIMPLIFICATION AND COSTING METHOD

2. TRAINING OPPORTUNITIES

A. RECOMMENDED APPROVAL

1. IRRC'S PUBLIC FUND BOARDS FORUM, SAN FRANCISCO, CA – 11/9-11/12/02

3. HEALTH ADVISORY COMMITTEE REPORT- DAVE CROW, CHAIR

A. STATUS REPORTS - NO ACTION REQUESTED

1. RETIREE COMMUNICATIONS

2. RETIREE OPEN ENROLLMENT PROCESS

INVESTMENT COMMITTEE REPORT – DAVE CROW, VICE CHAIR

1. STATUS REPORTS

A. NO ACTION REQUESTED

1. VENDOR'S WATCH LIST

2. SDCERS' ASSET ALLOCATION STATUS

3. REPORT ON THE ROLE AND RESPONSIBILITIES OF SDCERS' INVESTMENT CONSULTANT

4. CALLAN'S QUARTERLY PERFORMANCE REPORT THROUGH 06/30/02

2. OLD BUSINESS

A. ACTION REQUESTED

1. ASSET LIABILITY STUDY AND APPROVAL OF ASSET ALLOCATION STRATEGY

Exhibit 44

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

SDCERS RETIREMENT BOARD SUMMARY
FRIDAY, AUGUST 16, 2002

The Retirement Board of Administration held its regularly scheduled meeting in the System's Boardroom. Location: 401 "B" Street, Suite 400, San Diego, CA 92101.
Fred Pierce called the meeting to order at 1:30 p.m.

IN ATTENDANCE:

Trustees: Frederick Pierce, Chair; John Casey, David Crow, Cathy Lexin, Tom Rhodes, Ron Saathoff, John Torres, Terri Webster, Richard Vortmann, Sharon Wilkinson

Staff: Lawrence Grissom, Paul Barnett, Lori Chapin, Vincent Hayes, Roxanne Parks, Sally Zumalt, Della Lencioni, Doug McCalla, Sheila Leone, Nancye Launer, Bernadette Stratton, David Arce, Merlita Hilario

Public: Gjin Paplekaj, James Cunningham, Jim Callahan, Garry Collins, Phillip Alpert, Representative from Attorney O'mara's office

Excused: Ray Garnica, Mary Vattimo
Absent: Diann shipione

I. APPROVAL OF CONSENT AGENDA ITEMS #A- G

MOTION TO APPROVE CONSENT AGENDA ITEMS #A-G: **D. CROW**
SECOND: **J. TORRES**
DISCUSSION:
Mr. Casey noted that the number of people entering DROP is very large. With the upcoming benefits changes, he questioned if an adjustment would be made when these benefits become effective.

Mr. Grissom said the benefits are effective July 1, 2002, but they can't be paid until the Municipal Code authorizes the Board to do so. Therefore, they won't be paid until October or November and would be adjusted at that time.

CALL FOR THE QUESTION TO APPROVE.

BOARD: **UNANIMOUS**

MOTION TO APPROVE PASSED UNANIMOUSLY.

A. SERVICE RETIREMENTS

1. Larry E. Adams, Water Department. Hydrographic Aide. 11.92 years creditable service. Age 65.37. Effective date 08/01/02. Estimated monthly allowance $1,273.15, maximum benefit with surviving spouse provisions.

BUSINESS PROCEDURES COMMITTEE REPORT – RON SAATHOFF, CHAIR

1. OLD BUSINESS

A. STATUS REPORT

1. REPORT REGARDING BACKDATING DEFERRED RETIREMENT BENEFITS

Mr. Saathoff said Staff's report was included in the binder. After thoroughly discussing this at the Committee level, Staff was directed to further research this issue and come back with a report and recommendations no later than January 2003.

B. ACTION REQUESTED

1. RECOMMENDATION REGARDING NEW PURCHASE OF SERVICE CREDIT SIMPLIFICATION AND COSTING METHOD

MOTION TO: 1) APPROVE STAFF'S RECOMMENDED SIMPLIFICATION PROCESS; 2) APPROVE THE NEW PSC COSTING METHODOLOGY TO BE 15% OF CURRENT ANNUAL BASE SALARY FOR GENERAL MEMBERS AND 26% OF CURRENT ANNUAL BASE SALARY FOR SAFETY MEMBERS AND THAT THIS BE SUBJECT TO RECEIPT OF A WRITTEN STATEMENT FROM THE ACTUARY THAT THIS CHANGE WILL NOT DETRIMENTALLY IMPACT THE FUND OVER THE CURRENT METHODOLOGY; AND, THAT THIS BE REVIEWED BY THE ACTUARY AS SOON AS THE DATA IS IN THE MBS SYSTEM; WITH THE FOLLOWING CATEGORIES EXCLUDED FROM THIS CHANGE: REFUNDS, MILITARY LEAVE, PROBATIONARY TIME AND ELIGIBLE BREAKS IN SERVICE. ADDITIONALLY, ALL APPLICATIONS CURRENTLY ON FILE AT SDCERS OR THOSE THAT HAVE BEEN PREPARED LESS THAN 90-DAYS PRIOR TO TODAY WILL BE CALCULATED UNDER BOTH THE OLD AND NEW METHODOLOGY, WITH THE LESSER OF THE TWO BEING EXECUTED:

SECOND: R. SAATHOFF
D. CROW

DISCUSSION:
Mr. Saathoff explained that the Committee had voted to approve this 5 to 2, raising concerns that this should be communicated to the membership prior to implementation.

Mr. Pierce asked about Firefighter's base pay.

Mr. Saathoff explained that they receive a level check which is 1/26th of their annual salary.

Ms. Lexin said she understood that Staff's recommendation was going to treat all purchases the same and had originally raised concerns about the 15% general member and 26% safety member calculations. She's surprised this is now being recommended. It was her understanding that the new proposal would level this and she is concerned about switching from the high one-year salary to the current rate. Approving this could tempt a

person to demote to a much lower paying classification prior to retiring in order to pay a lower price for their purchase.

Mr. Saathoff said the methodology was a cost increase intended to offset some of the actuarial concerns. The possibility of demoting wasn't considered by the Committee and, if allowed, could be considered an abuse of the Board's discretion. However, Staff's proposal is a much more efficient way of calculating these.

Ms. Lexin suggested using the highest paid rate a member received during the past year.

Mr. Saathoff said this could be considered.

Mr. Pierce said Staff is trying to implement a mechanism to reduce its backlog and be more efficient and responsive going forward. He asked Staff to elaborate on its recommendation.

Mr. Barnett said the issue of current salary versus high one-year is not a significant change. High one-year is Staff's normal standard for determining retirement allowances. The process of determining creditable service and simplifying the purchase of service category is tied to a whole host of Board mandated, strategic planning issues. Based on the Customer Service Survey, the membership is looking for more responsiveness in PSC processing. Today's action would clearly be beneficial in terms of the Board's mission of improving services to the membership. Secondly, Staff is in the process of implementing the MBS system. For that system to be effective, it is important to have a methodology in place that would allow Staff to determine a member's individual service credit without having to evaluate each one individually. This simplification would improve numerous deliverables. However, Staff hadn't anticipated the type of manipulation as described by Ms. Lexin and could consider falling back on the high one-year. However, recognizing that benefits and salaries have increased in the past year would result in higher costs. If someone is attempting to lower their salary for this purpose, the Board could either agree to live with that or fall back to the high one-year.

Mr. Grissom said Ms. Lexin's suggestion of looking at the highest bi-weekly salary in the last twenty-six payperiods makes sense.

Mr. Saathoff raised concern about individuals on Out Of Class Assignments, which could spike the employee's salary upward on a temporary basis. However, he is more concerned about Ms. Lexin's comment, stating the Board needs to protect itself against fraud.

To expand on the benefits of adopting this, Mr. Torres said employees would be notified through the MBS system that they had time available for purchasing. The cost for doing so would also be included. This would be a giant step forward from current practices.

Ms. Webster said her concern is the PSC program as a whole was an approved City

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Council benefit that was to be cost-neutral. She wants the motion to be contingent upon written receipt from the actuary that this change would not result in an actuarial loss. If this proposal isn't actuarially sound, it shouldn't be approved.

Mr. Barnett said the actuary doesn't have the data and Staff can't provide it at this point. Therefore, it would be very difficult, if not impossible, to get him to state this in writing. He added that the 15% general member/26% safety member numbers originally came from the actuary.

Mr. Grissom said this data is imbedded in the valuation. Therefore, Mr. Roeder can't put something in writing as requested by Ms. Webster. There are a number of people who are in the twenty-year timeframe but actually have less than twenty years of service. Staff is required to manually input this data into MBS. Until all of the manual work has been done, Staff can't provide the data to Mr. Roeder.

Mr. Pierce agreed with Ms. Webster that this must be actuarially sound.

Until there is good data, Mr. Saathoff said this type of evaluation can't be done. Today's proposal would allow Staff to get the backlog eliminated so they can have clean data moving forward. If approved, the actuary would evaluate this on a regular basis.

Ms. Webster asked that this be included in the motion.

Mr. Casey said he is concerned that this is being pushed for an effective date of today. As such, the members have not been notified of this change and he would prefer adopting this after notification is sent. Staff is concerned that this type of notification would result in an even greater backlog.

Mr. Vortmann is in favor of the simplification process, but doesn't want additional costs put on the plan sponsor. He asked what the conventional method is for costing this type of benefit.

Mr. Grissom said some would pay higher costs while others would pay lower costs. Therefore, it should balance out.

Mr. Vortmann clarified that the increased cost would be to the individual, not the plan sponsor.

Ms. Lexin raised concerns that some may pay higher costs.

Mr. Vortmann said he is struggling with the line between the plan sponsor and the Board's authority. He doesn't want to overstep the Board's authority.

Ms. Lexin isn't comfortable that the System would be made whole with this recommendation.

Mr. Grissom said there are a lot of layers to this issue. Although the statement has been made that the System has to be made whole, he submitted that this is impossible to do. He provided an example of a retiree who retired in 1969. To attempt to derive at an absolute cost moves you into normal cost versus unfunded liability discussions, which was part of Staff's thinking behind the initial proposal. Having further reviewed this with the actuary, the new recommendation appears to be more prudent but doesn't guarantee absolute cost neutrality.

CALL FOR THE QUESTION TO APPROVE.

BOARD: **8 IN FAVOR: T. RHODES, D. CROW, F. PIERCE, R. SAATHOFF, S. WILKINSON, J. TORRES, C. LEXIN, D. VORTMANN**
2 OPPOSED: T. WEBSTER, J. CASEY

MOTION TO APPROVE PASSED 8 TO 2.

2. HEALTH ADVISORY COMMITTEE REPORT- DAVE CROW, CHAIR

A. STATUS REPORTS - NO ACTION REQUESTED

1. RETIREE COMMUNICATIONS

2. RETIREE OPEN ENROLLMENT PROCESS

Mr. Crow reported that: 1) a letter had been received from one retiree that was being resolved by PacifiCare; 2) CareCounsel had assisted another retiree in getting her prescription filled; and, 3) this year's open enrollment process went smoothly. Additionally, Staff was directed to research health care costs crossing over, which will be addressed within the next few months.

INVESTMENT COMMITTEE REPORT – DAVE CROW, VICE CHAIR

1. STATUS REPORTS

A. NO ACTION REQUESTED

1. VENDOR'S WATCH LIST

Mr. McCalla said Putnam and PMRealty would be added to the Watch List next month for significant personnel changes. Globeflex will also be added to be monitored because of a change in its subadvisory relationship.

Mr. Grissom asked what amount of SDCERS' assets would be under Globeflex's management with this change.

Mr. Callahan said after the change, our portfolio would be approximately $90 million of $300 million, or a little more than 30%.

As a result, Mr. Casey asked if we would be paring back our investment to Globeflex.

Exhibit 45

Re: Purchase of Service Credit

TRANSCRIPT OF SDCERS' RETIREMENT BOARD MEETING

TAKEN ON AUGUST 16, 2002

[Tape recorded at fast speed and is very difficult to understand when slowed down to transcribe. Several inaudibles throughout tape.]

Male …say that because we do not, [inaudible] assumes that every member in terms of [inaudible] liability is, has service credit from the date of hire to the date of valuation. Even though, so he is not able nor do we provide to him because we don't have it in the system any breaks that may occur that may be in a 20 year [inaudible]. So he's assuming that someone is, that's four years in that got [inaudible] service credit and that's how he, the number he uses for that person and every other person. In fact, that member may have 18 years of service credit. So, what, he will not have the capability to create data to tell you that a, a factor of 15 and 26 percent whatever [inaudible] or some or for a current year is actuarially neutral. Because he, we don't have the ability to know what the impact is on, on members and their current service credits to date.

Male Well, can't the actuary and shouldn't he and

years of service you're buying it at a point in time. And so I…

Female [Inaudible] at this point [inaudible] the cost is ours.

Male Well, okay.

Male But the cost of service…

Male This, this onion has got an awful lot of layers. Okay? The statement was made, has been made, and has been made in discussions in the past, the purpose of costing purchase of service is to make sure that the system is whole. And I submit to you that that's impossible to do. Okay? Let's go back to my guy in 1969 and we charge him eight percent interest. Well from a period from 1969 we never made eight percent. But from 1989 to 1998 we made 21 percent. So did the system make money or did the system lose money? You know, so on and so on. To attempt to come up with an absolute cost we then get into the discussion of, of normal cost versus un-funded liability versus this versus that. That was part of the thinking behind the initial proposal which was to go away from this contribution based methodology for costing purchases and come up with just a thing that was related to age. Okay? The, the factors related to age had nothing whatsoever to do with the contribution cost but more to do with, if you're 20 years old we get the money for 30 years

and get to earn on it. If you're 55 years old we get the money for a day and a half and don't get to earn on it. Therefore 55 should pay more than 20. That caused major amount of consternation and so on and so on and so forth. In my past life we in fact instituted a purchase of service program and at the time we instituted it we did the age based thing, okay? So it was always that way. What we're doing here is changing something that in, in some respects has been in existence for, Lord knows, 30 years. In some respects, obviously for a lesser period of time. So, what we need to recognize is that this costing in terms of, of, of coming up with absolute neutrality I don't think that there's a number that staff can give you, that the actuary can give you that will actually guarantee that. The best thing we can do is get close. And we've been charging the 15 and 26 on five year purchases since that program was, was instituted in, in '97. The others, it varies. And again, going back to the examples that were given earlier, and if you apply those factors to those purchases, some people will pay more and some people will pay less. So I, I guess what I'm trying to say is that I can't give anybody and I don't know that anybody can give you an absolute answer to the, you know, is this absolutely right

Exhibit 46

cc: Sally

ABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

SD RET OFFICE
2002 AUG 21 PM 3:08

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

August 20, 2002

Mr. Paul Barnett
City of San Diego Employees' Retirement System
401 B Street, Suite 400
San Diego, CA 92101

Re: Actuarial Costs Related To Service Purchase Program

Dear Paul:

BACKGROUND

Earlier this year, we have calculated actuarially determined service purchase costs for instances where service is purchased. The proposed approach was both an effort to simplify the complexities of the current program and to provide a sound actuarial basis for such purchases. In your current program, some purchases require the employee to pay employee contributions with applicable interest. Other purchases entail that the purchaser pay at a rate that includes both the City and employee "share" of cost. In our previous calculations, cost neutrality to the System was an objective.

Roughly five years ago, the City adopted a service purchase program where employees, in situations having to pay both the City and employee share of cost, would pay 26% and 15% of current average compensation for Safety and General members, respectively. Since such time, there have been two significant benefit increases. The basis for the 26% and 15% numbers were consistent with the combined City plus employee rate at the time of implementation **prior** to the subsequent benefit increases.

PROPOSAL

An updated proposal was considered at last Friday's Retirement Board meeting which would use the above percentages for all service purchases, regardless of type. This will greatly simplify current administration. All parties realize that most service purchases occur in the latter part of an employee's career when the System will have relatively few years to invest service purchase money prior to an employee's retirement.

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Our understanding of the proposal would incorporate the 26% and 15% rates for all types of service purchase. It is also our understanding that this would represent an **interim** approach until staff, the actuary and the Board have the data available to more exactly ascertain the costs associated with this program. It is anticipated that this data will become available for analysis within the next 12-18 months. In an effort to slightly reduce the System subsidy involved in such purchase, the rate will apply to highest rate of pay instead of the high 12-month average. This change will produce greater revenue.

We have been asked to render an opinion whether the proposed method would increase or decrease the level of subsidy compared to the more complicated current method. Recognizing that there is limited available data, we believe it likely that the proposed method would either not change or somewhat reduce the level of subsidy that assuredly exists in the current method.

Please call if you have any questions.

Sincerely,

Rick Roeder

Rick A. Roeder, EA, FSA, MAAA.

CC: Larry Grissom

HUM-CLE-014-0106

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

San Diego City Employees' Retirement System
Service Purchase Loss Analysis
Activity for period July 1, 2002 through June 30, 2003

By Member Status

	Number	Average Age	Average Service Purchased	Total Service Purchased	Actuarial Loss
Currently Active	709	47.9	4.2	3,008	9,500,000
New Retirees	103	57.2	3.8	389	3,200,000
Total	812	49.1	4.2	3,397	12,700,000

By Member Class

	Number	Average Age	Average Service Purchased	Total Service Purchased	Actuarial Loss
General	650	50.3	4.4	2,856	11,300,000
Safety	162	44.5	3.3	541	1,400,000
Total	812	49.1	4.2	3,397	12,700,000

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

San Diego City Employees' Retirement System
Service Purchase Loss Analysis
Activity for period July 1, 2002 through June 30, 2003

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New Retirees	103	57.2	3.8	389	3,200,000
Total	812	49.1	4.2	3,397	12,700,000

By Member Class

	Number	Average Age	Average Service Purchased	Total Service Purchased	Actuarial Loss
General	650	50.3	4.4	2,856	11,300,000
Safety	162	44.5	3.3	541	1,400,000
Total	812	49.1	4.2	3,397	12,700,000

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

San Diego City Employees' Retirement System
Service Purchase Loss Analysis
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By Member Class

	Number	Average Age	Average Service Purchased	Total Service Purchased	Actuarial Loss
General	650	50.3	4.4	2,856	11,300,000
Safety	162	44.5	3.3	541	1,400,000
Total	812	49.1	4.2	3,397	12,700,000

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

TOTAL COST TO PURCHASE ON YEAR

Average Salary*	Purchase Cost Difference (2003 Rate - 1997 Rate)**	Total Cost to purchase one year
$48,000	x 12%	= $5,760/yr

TOTAL COST OF PENDING REQUESTS

Pending PSC Requests*	Average Cost Per year	
4,260	$5,760	x 1 year = $24,537,600
		x 2 years = $49,075,200
		x 3 years = $73,612,800
		x 4 years = $98,150,400
		x 5 years = $122,688,000

How many received after

POTENTIAL COST OF AVERAGE PURCHASE

Through 6/03, Average PSC = 4.2 years*

Pending PSC Requests		Average PSC Purchase		Average Cost Per Year	
4,260	x	4.2 years	= 17,892 years purchased	x $5,760	= $103,057,970

* *Figures taken from SDCERS Annual Actuarial Evaluation, June 30, 2003*

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

48,000 x -12% 5,760/yr POS

4760 Emp X 1yr = $24,537,600

2yr

3

4

5 $ 122,688,000

thru 6/03

Avg POS = 4.2yr

17,892yr (=$103,057,920)

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

1997 5 year PSC begins		6/30/03 Evaluation	8/03 CERS Adopts new rates	11/03 New rates start
	Actuarial Loss $69.1M			
GM Rate 15% SM Rate 26%	<Rate change = + 12%>		4,260 pending requests	GM Rate 27% SM Rate 37%

ADDITIONAL COST TO PURCHASE ONE YEAR

Average Salary*	Purchase Cost Difference	Additional Cost to purchase one year
$48,000	x 12%	= $5,760/yr

TOTAL COST OF PENDING REQUESTS

Pending PSC Requests*	Average Cost Per year		
4,260	$5,760	x 1 year =	$24,537,600
		x 2 years =	$49,075,200
		x 3 years =	$73,612,800
		x 4 years =	$98,150,400
		x 5 years =	$122,688,000

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

POTENTIAL COST OF AVERAGE PURCHASE

Through 6/03, Average PSC = 4.2 years*

Pending PSC Requests		Average PSC Purchase		Average Cost Per Year	
4,260	x	4.2 years	= 17,892 years purchased	x $5,760	= $103,057,970

** Figures taken from SDCERS Annual Actuarial Evaluation, June 30, 2003*

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Exhibit 47

THE CITY OF SAN DIEGO, CALIFORNIA
MINUTES FOR REGULAR COUNCIL MEETING
OF
MONDAY, NOVEMBER 18, 2002
AT 2:00 P.M.
IN THE COUNCIL CHAMBERS - 12TH FLOOR

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* ITEM-102: Conflict of Interest Code for Administration-General. 15

FILE LOCATION: AGENDA

COUNCIL ACTION: (Time duration: 2:15 p.m. - 2:18 p.m.)

MOTION BY MAIENSCHEIN TO ADOPT. Second by Stevens. Passed by the following vote: Peters-yea, Wear-yea, Atkins-yea, Stevens-yea, Maienschein-yea, Frye-yea, Madaffer-yea, Inzunza-yea, Mayor Murphy-yea.

COUNCIL COMMENT:

ITEM-CC-1:

Deputy Mayor Stevens wished to comment that the Evans Family Inn at Torrey Pines was being honored in San Francisco that evening as a five star Hotel that is receiving five diamond points.

FILE LOCATION: MINUTES

COUNCIL ACTION: (Time duration: 6:02 p.m. - 6:03 p.m.)

ITEM-50: Approval of Ordinance amending the San Diego Municipal Code related to FY 2003 Negotiated Retirement Benefit Enhancements.

CITY COUNCIL'S RECOMMENDATION:

Adopt the ordinance which was introduced on 10/21/2002 (Council voted 9-0):

(O-2003-67 Cor. Copy) ADOPTED AS ORDINANCE O-19121 (New Series)

Amending Chapter II, Article 4 of the San Diego Municipal Code by amending Division 2 by amending Section 24.0201; by amending Division 3 by amending Section 24.0301; by amending Division 4 by amending Section 24.0402; by amending Division 5 by amending Section 24.0501; by amending Division 8 by amending Section 24.0801, and by Renumbering Section 24.0803 as Section 24.0802; by amending Division 12 by amending Sections 24.1201, 24.1202,

24.1203 and 24.1204; by amending Division 15 by amending Section 24.1507; all relating to the San Diego City Employees' Retirement System.

FILE LOCATION: MEET

COUNCIL ACTION: (Time duration: 2:31 p.m. - 2:53 p.m.)

MOTION BY INZUNZA TO DISPENSE WITH THE READING AND ADOPT THE ORDINANCE. Second by Madaffer. Passed by the following vote: Peters-yea, Wear-yea, Atkins-yea, Stevens-yea, Maienschein-yea, Frye-nay, Madaffer-yea, Inzunza-yea, Mayor Murphy-yea.

ITEM-51: Approval of Ordinance amending San Diego Municipal Code related to FY 2003 Negotiated Retirement Benefits.

CITY MANAGER'S RECOMMENDATION:

Introduce the following ordinance:

(O-2003-74) INTRODUCED, TO BE ADOPTED ON TUESDAY, DECEMBER 3, 2002

Introduction of an Ordinance amending the San Diego Municipal Code by amending Division 13 by amending Sections 24.1310 and 24.1312; by amending Division 14 by amending Sections 24.1402, 24.1403, and 24.1404; all relating to the San Diego City Employees' Retirement System.

CITY MANAGER SUPPORTING INFORMATION:

As a result of the recent contract negotiations with the Police Officers' Association, Fire Fighters Local 145, Municipal Employees Association, and AFSCME, Local 127, the City Management Team agreed to implement a number of revisions to the Retirement System. Ordinance O-2003-67 was introduced at the October 21, 2002 meeting of the City Council which amends the San Diego Municipal Code to reflect the majority of the revisions to the Retirement System negotiated during the FY 2003 Meet and Confer process.

However, Ordinance O-2003-67 did not include the revisions to the Retirement System (SDCERS) giving Members represented by Fire Fighters Local 145 the ability to convert Annual

Exhibit 48

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

SDCERS RETIREMENT BOARD SUMMARY
FRIDAY, JANUARY 17, 2003

The Retirement Board of Administration held its regularly scheduled meeting in the System's Boardroom. Location: 401 "B" Street, Suite 400, San Diego, CA 92101. Mr. Pierce called the meeting to order at 1:30 p.m.

IN ATTENDANCE:

Trustees: Frederick Pierce, Chair; John Casey, David Crow, Cathy Lexin, Mary Vattimo, Ron Saathoff, Diann Shipione, John Torres, Terri Webster, Richard Vortmann, Sharon Wilkinson, Ray Garnica (entered at 3:25 p.m.)

Staff: Lawrence Grissom, Paul Barnett, Lori Chapin, Vincent Hayes, David Arce, Roxanne Parks, Sally Zumalt, Doug McCalla, Sheila Leone, Sandra Claussen, Bernadette Stratton, Dawn McHorney, Merlita Hilario

Public: Brad Elander, Jim Gleason, Blondnita Ferrebee, Beth Williams, Andy Donahue, Jim Callahan, Craig White, Gary Robertson, James Cunningham, Judy Folsom Nancy Acevedo, Rosie Wiseman, Bill Trumpfheller

Excused: Tom Rhodes

Mr. Pierce reported that the Board would be going into Closed Session later this afternoon to discuss pending litigation that was recently filed. Additionally, he welcomed the System's newly hired Medical Review Officer, Sandra Claussen.

I. APPROVAL OF CONSENT AGENDA ITEMS #A- G

A. SERVICE RETIREMENTS

Ms. Shipione asked that Item C, SDCERS' Trust Fund Statements, be pulled and discussed under Item II.

MOTION TO APPROVE CONSENT AGENDA ITEMS #A-B AND D-G: D. CROW
SECOND: J. TORRES
BOARD: UNANIMOUS
MOTION PASSED UNANIMOUSLY.

1. Robert G. Graf, Parks & Recreation Department, Aquatic Technician II. 20.00 years creditable service. Age 59.72. Effective date 01/11/03. Estimated monthly allowance $1,595.81 reduced benefit with surviving spouse provisions. **(OPTION II)**

2. Constance N. Hart, Library Department, Administrative Aide II. 25.29 years creditable service. Age 62.55. Effective date 01/04/03. Estimated monthly allowance $2,229.48 maximum benefit with surviving spouse provisions.

3. Bonnie E. Hernandez, Park & Recreation Department, Grounds Maintenance Supervisor. 20.02 years creditable service. Age 61.33. Effective date 12/31/02. Estimated monthly allowance $1,716.67 maximum benefit with no continuance **(Additional monies from surviving spouse funds).**

MOTION FAILED 6 TO 4.

Since seven votes are required to pass a motion, Mr. Pierce said Mr. McDonald's industrial disability application would come back for action at the February meeting.

VI. REQUEST TO RECONSIDER THE BOARD'S DECISION TO DENY ROSARIO HERREJON'S INDUSTRIAL DISABILITY RETIREMENT APPLICATION

1. Rosario Herrejón, Park and Recreation Department, Ground Maintenance Worker I. 6.78 years creditable service. Age 65.71. Effective date 06/22/2001. Estimated monthly allowance $1,170.37, maximum benefit with no continuance. **(ADDITIONAL MONIES FROM SURVIVING SPOUSE FUNDS)**.

In order for the Board to reconsider this, Mr. Pierce said it would take a motion by someone on the prevailing side. He noted that no new evidence had been brought forward since the last meeting.

Mr. Casey asked if anything had been done to inform this applicant that they could buy service credits and apply for a non-industrial disability.

Mr. Pierce said he's not aware of this, but thanked Mr. Casey for the suggestion.

Ms. Shipione asked if the applicant had been informed of her right to a hearing.

Mr. Cunningham responded. He said this is the case he talked to her about over the telephone where Staff's correspondence failed to inform the applicant of her rights.

Because no motion for reconsideration was made, Mr. Pierce reported that the request to reconsider failed.

VII. ADMINISTRATIVE STATUS REPORTS: OPERATIONS, LEGAL SERVICES INVESTMENTS

Mr. McCalla stated Ms. Shipione had raised concern about the differences in market values between the Annual Report and the Callan Performance Report at last month's meeting. Staff provided a response to those concerns. If there are any questions, he encouraged Trustees to call him or Assistant Investment Officer, Dawne Clark.

BUSINESS PROCEDURES COMMITTEE REPORT – RON SAATHOFF, CHAIR

1. STATUS REPORTS

A. NO ACTION REQUESTED

1. ANNUAL REPORT OF ADMINISTRATIVE OVERPAYMENTS LESS THAN $5,000

Mr. Saathoff said Staff has done a good job either collecting on these overpayments or setting up repayment plans. Staff's report was included in the Board packet.

2. OLD BUSINESS

A. ACTION REQUESTED

1. RECOMMENDED ACTION ON SDCERS' EXPERIENCE VALUATION

2. REVIEW AND RECOMMENDED ADOPTION OF SDCERS' FY 02 ACTUARIAL VALUATION

Mr. Saathoff said both the Experience Valuation and Actuarial Valuations were discussed at the morning meeting and were continued for action to the February meeting. Mr. Roeder is present to answer any questions.

Mr. Pierce said he would prefer continuing this discussion to next month, as the same questions would probably arise.

HEALTH ADVISORY COMMITTEE REPORT - DAVE CROW, CHAIR

1. STATUS REPORTS

A. NO ACTION REQUESTED

1. RETIREE COMMUNICATIONS

2. REPORT ON RETIREE TASK FORCE ISSUES

3. QUARTERLY REPORT FROM CARECOUNSEL ON RETIREE USEAGE

Mr. Crow reported that there was discussion regarding a letter Ms. VanDeweghe sent regarding rising costs of retiree health insurance and a 10% cap. Staff was asked to further research this and bring back a report at the March meeting. There was also a report from CareCounsel, which reflects only 226 people have taken advantage of this service. This is a very small number considering the cost of this program. Staff was asked to come back with additional information at the next meeting so the Committee can evaluate the service and determine whether it is worthwhile to continue. He also commented that Committee member, Stan Elmore, underwent quadruple bypass surgery yesterday and is currently recuperating. A Get-well card is circulating for the Board's signature.

Mr. Vortmann asked when the 10% cap was added to the retiree's health insurance program.

Mr. Crow said the report indicated that the 10% is a federally imposed ruling that health care costs cannot go higher than 10% beginning in about one year. It appears that several years down the road, retirees will be required to pay out-of-pocket expenses for health care.

Ms. Lexin said the retirement health benefit is established by City Council. The changes that were recently adopted by City Council were based on the Manager's recommendation. Council agreed to automatically increase these amounts based on a formula. Rather than incurring the uncertainties that are tied to a formula, Council agreed to an increase that is based on a national health care cost index, at no more than 10%. The benefit cap was approved by the plan sponsor.

Exhibit 49

SAN DIEGO CITY
EMPLOYEES' RETIREMENT SYSTEM
ANNUAL ACTUARIAL VALUATION
June 30, 2002

CITY OF SAN DIEGO

Submitted to

THE RETIREMENT BOARD

San Diego City Employees' Retirement System

San Diego, California

San Diego City Employees' Retirement System

Unfunded Actuarial Accrued Liability

June 30, 2002

Unfunded Actuarial Accrued Liability

Total actuarial liabilities	$3,168,921,175
Assets allocated to funding	$2,448,208,305
Unfunded Actuarial Accrued Liability	$720,712,870

Elements of Experience Gain (Loss)

Estimated Gain(Loss) attributed to pay increases	($25,000,000)
Estimated Gain(Loss) attributed to investment experience	(312,953,654)
Estimated Gain(Loss) attributed to post-retirement mortality	(203,000)
Estimated Gain(Loss) attributed to data refinement to include the "permissive" purchase service for active and vested deferred members	(56,404,000)**
Estimated Gain(Loss) attributed to data refinements for inactive members who were refunded their contributions prior to June 30, 2001	6,000,000
Estimated Gain(Loss) from employee turnover, pre-retirement mortality and miscellaneous factors	23,745,499
Total Estimated Experience Gain(Loss)	($364,815,155)

Experience Gain(Loss) - Comparative Schedule

Valuation Date	Gain (Loss)	Beginning-of-Year Accrued Liabilities	Gain (Loss) Percentage
6/30/92	$57,952,320	$1,006,299,729	5.8%
6/30/93	(42,605,778)	1,057,238,917	(4.0)
6/30/94	(6,744,850)	1,220,830,059	(0.6)
6/30/95	(11,370,990)	1,338,279,541	(0.8)
6/30/96	59,592,960	1,476,710,662	4.0
6/30/97	38,473,993	1,682,604,532	2.3
6/30/98	31,086,010	1,822,432,018	1.7
6/30/99*	29,750,299	1,979,668,038	1.5
6/30/00	286,639,160	2,181,547,453	13.1
6/30/01	(193,168,984)	2,528,773,900	(7.6)
6/30/02	(364,815,155)	2,809,537,745	(13.0)

* Beginning with June 30, 1999 valuation, experience schedule is City only.

** The total permissive service liability of $77,705,000 less $21,301,000 in new contributions after June 30, 2001.

COMMENT A: The computed actuarial rate increased from 15.59% to 21.13%, primarily due to significant investment losses. The aggregate actuarial loss was $365 million dollars, which reflects 13.0% of accrued liabilities as of June 30, 2001. The funded ratio decreased from 89.9% to 77.3%.

There were no benefit changes or assumption changes incorporated into this valuation. As indicated in Comment I in last year's valuation report, the 89.9% funded ratio was an overstatement since we did not have service purchase data for this increasingly popular program. This year, data improvements were made and permissive service credit service was provided. Without such data improvements, the funded ratio would have been 79.2%.

COMMENT B: Using the actuarial value of assets, there were investment losses of $312.9 million. For this purpose, losses are calculated relative to the 8% investment assumption NOT zero. On an actuarial basis, the City's investment return was negative 4.14%.

Without the 5-year smoothing of the actuarial value of assets, contribution rates would be higher and the funded ratio lower.

However, the use of smoothing strongly suggests there will be additional investment losses on a actuarial basis next year since all of the impact of recent low returns is not yet explicitly reflected in this year's numbers. The City's actuarial value of assets exceeds the City's apportioned share of market value (assets are commingled with Unified Port District) by $248 million dollars. The funded ratio would be 69.4% on the basis of market value.

COMMENT C: There were additional benefits conferred as a result of the amended Manager's Proposal which was recently ratified. Because both the ratification date and the effective date of such increases were after June 30, 2002, we have not incorporated the latest benefit enhancements in this valuation. However, this will serve to put upward pressure on the computed rate and downward pressure on the funded ratio when such increases commence to be reflected.

The analysis we completed in February 2002 indicated an increase in the normal cost of 1.06% and an increase in the accrued liability of $42 million based on 2001 census data. Such increases will initially be reflected in the 2003 valuation.

A third factor, in addition to benefit enhancements and deferred investment losses, will put upward pressure on the 21.13% rate in the 2003 valuation. The 21.13% contribution rate is calculated using principles of "level" funding. However, since the Manager's Proposal rate for the current fiscal year i

COMMENT I: As in recent years, we continue to work with Retirement Staff to help resolve certain data issues. We appreciate the clear improvements this year. To date, 994 General members purchased 4,601 years of "permissive" service. The total average years of service for the General group increased from 10.2 to 10.8 due to this data refinement. 192 Safety members purchased 618 years of service. The total average years of service for the Safety Group increased from 12.4 to 12.6 due to this data refinement.

The added liabilities associated with the service purchase was $77.7 million. This data improvement produced a 2% reduction in the funded ratio and resulted in a computed rate increase of 1.00%.

COMMENT J: The City is phasing in, over a four-year period, a reduction in the discounts applied to offsets for anticipated saved refunds. Over the four years, the discount will be reduced from 22% to 5% for General members and 7% to 1% for Safety members.

COMMENT K: We have been requested to complete an Entry Age Normal valuation annually. This year's Entry Age rate is 23.16%.

COMMENT L: Overall, the financial condition of the retirement system is in adequate condition in accordance with actuarial principles of level-cost financing. However, all parties should be acutely aware that the current practice of paying less than the computed rate of contribution will help foster an environment of additional declines in the funding ratios in absence of healthy investment returns.

Exhibit 50

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

SDCERS RETIREMENT BOARD SUMMARY
FRIDAY, FEBRUARY 21, 2003

The Retirement Board of Administration held its regularly scheduled meeting in the System's Boardroom. Location: 401 "B" Street, Suite 400, San Diego, CA 92101.
Fred Pierce called the meeting to order at 1:30 p.m.

IN ATTENDANCE:

Trustees: Frederick Pierce, Chair; John Casey, David Crow, Cathy Lexin, Mary Vattimo, Ron Saathoff, Diann Shipione, John Torres, Terri Webster, Sharon Wilkinson, Richard Vortmann entered the meeting at 4:45 p.m.

Staff: Lawrence Grissom, Paul Barnett, Lori Chapin, Vincent Hayes, Roxanne Parks, Sally Zumalt, Lilibeth Barcelona, Doug McCalla, Sheila Leone, Sandra Claussen, Dawn McHorney, Merlita Hilario, Patrick Lane, Dawne Clark, Rebecca Wilson, Roxanne Parks

Public: John MacDonald, Daniel Massie, Jim Cunningham, Gail Bierman, Julie Dommell, Diane Jones, Dave Wood, David Hopkins, Pam Hightower, Mr. Baird of Union Tribune, Virginia Silverman, Dave Wood, Thomas Hampton, Rick Roeder, Jim Callahan, Virginia Silverman

Excused: Tom Rhodes, Ray Garnica

I. APPROVAL OF CONSENT AGENDA ITEMS #A- G

MOTION TO APPROVE CONSENT AGENDA ITEMS A-G, WITH THE SERVICE RETIREMENT #9 (RICARHD MURPHY) TO BE PULLED: D. CROW
SECOND: J. TORRES

DISCUSSION:

With respect to Item A.5, Ms. Wilkinson asked why Mr. Gotch didn't begin receiving his pension check as soon as he became age eligible.

Mr. Grissom said Staff had extensive conversations with Mr. Gotch, who selected his retirement date. Mr. Gotch informed Staff that he had other decisions to consider before making his decision to collect retirement.

Ms. Shipione asked that Item C be pulled for consideration under Item II. Additionally, through July 2002 the Board's practice was to approve its meeting minutes at the following Board meeting. This was changed in July 2002 so the Board's official meeting record became the audio tape. However, in reviewing the January 17, 2003 Board meeting summary, she raised concerns about an allegation made on Page 16 that she and Attorney Cunningham spoke privately on the phone regarding a disability applicant, which is not the case. Additionally, she received two letters from the Board's General Counsel alleging the same. This is a very serious allegation, and she asked that the public record be clarified and corrected. She asked if Mr. Cunningham was in the audience.

Ms. Shipione thanked Mr. Roeder for his comments. As a Trustee, her responsibility is to insure the City is contributing the amount of contributions recommended by the actuary. She asked that the record reflect that she would vote in favor of these recommendations, but would have preferred that the recommendation to lower the investment assumption from 8% to 7.75% be included.

CALL FOR THE QUESTION.

BOARD: **UNANIMOUS**
MOTION PASSED UNANIMOUSLY.

2. RECOMMENDED ADOPTION OF SDCERS' FY 02 ACTUARIAL VALUATION

MOTION TO APPROVE: **R. SAATHOFF**
SECOND: **M. VATTIMO**
DISCUSSION:
Ms. Shipione asked where the employee contribution dollar amount is listed in this report.

Mr. Roeder replied, "At the top of Page 23." The aggregate employee contributions for the year were between $53 million and $54 million, along with $1 million in employee DROP contributions.

Ms. Shipione asked if the $53 million included contributions that were made to purchase service credit.

Yes, per Mr. Roeder. He noted there was a significant spike in that amount from the previous year.

If the dollar amount credited to PSC's were removed, Ms. Shipione asked what would be left.

Mr. Roeder responded that there was $21.3 million in service purchase contributions. If netted out against the $55 million, approximately $34 million would remain.

Ms. Shipione asked how much the City contributed.

Mr. Roeder replied, "Approximately $50 million." The City contributed another $29 million in offset contributions.

Ms. Shipione asked for clarification on the offset contributions.

Mr. Saathoff said this is a contractual amount the City pays on behalf of the current employees.

Ms. Shipione said she recalls this recently being increased.

CALL FOR THE QUESTION TO APPROVE SDCER'S FY 02 ACTUARIAL REPORT.

BOARD: **UNANIMOUS**
MOTION TO APPROVE PASSED UNANIMOUSLY.

3. NEW BUSINESS

A. ACTION REQUESTED

1. RECOMMENDATION TO WAIVE BOARD RULE 6.01 (d) and 6.01 (i) REGARDING TRUSTEE ELECTION REQUIREMENTS

MOTION TO APPROVE STAFF'S RECOMMENDATION: **R. SAATHOFF**
SECOND: **J. CASEY**

DISCUSSION:
Ms. Shipione said she is opposed to the Board constantly waiving its Board Rules. It strikes her that an election could be easily conducted by the end of March. She is concerned about the ongoing disregard to the rules and questioned why this election can't be held in a timely fashion. Additionally, she asked why it is being extended for one group beyond another.

Mr. Grissom replied that Staff must conduct three elections for three seats on the Board. Each seat is elected by a different group of employees. Staff scheduled the general member election first because there are 8,000+ members and is the most voluminous. Additionally, Mr. Casey is actually retiring effective June 2003. Therefore, his Board seat needs to be filled. With the possibility of having to conduct a run-off election, it is important to get this election underway. There are approximately 2000 police and 1000 fire members. Since the System shares the Interactive Voice Response (IVR) voting system with Risk Management, Staff must be cognizant of their June Open Enrollment process.

Mr. Saathoff said the Committee approved this unanimously. However, because Staff shares the IVR system with Risk Management, it might be appropriate to refer this to the Rules Committee to consider moving the voting timeline back.

Ms. Wilkinson said she would agree with moving the timeline back as far as possible. From her personal experience in running for the Board, she is concerned that candidates can include false or inaccurate information. With the recent media attention, she would like the Executive Committee to address this and make recommendations for insuring Candidate Statements are accurate prior to printing and distributing amongst employees.

Mr. Torres agreed that this should come before the Rules Committee for review.

Ms. Lexin said she appreciates Ms. Wilkinson's comments. She is also concerned about incumbents on this Board making rules about this election when it is already underway. She would like the attorney to advise the Board on this.

Exhibit 51

Terri Webster - Re: PSC

From: Lawrence Grissom
To: Terri Webster
Date: 7/16/2003 10:10 AM
Subject: Re: PSC

Terri
Make the Saftey amount "over 35%" and I'm fairly comfortable. Too much going on to try to nail it down further right now.
Larry

>>> Terri Webster 07/15/03 06:08PM >>>
Yes ....Weds am will (hopefully) work....it was more of the $56m loss I wanted to validate...I used the 25 and 30 since it was the lowest on your scale...if you're not comfortable with the percents but you are the dollars that could work for now too...your call....but the more info the better....

>>> Lawrence Grissom 07/15/03 06:01PM >>>
Terri
Why aren't we home right now??? Answer to this question is that it is different.....
Since you are going to publish somewhere, can I have until the am to double check and see if the 25 and 30% future cost estimates are close?
Larry

>>> Terri Webster 07/15/03 05:56PM >>>
Ok Larry...since this will be published I want to double check if this statement is accurate....

"As of June 30, 2002 the system has incurred an approximate $56 million loss due to the under funding of Purchase of Service Credit program. Said another way: since the system is charging 15% for General and 26% for Safety and the true cost is estimated to be over 25% for General and 30% for Safety , the system has incurred over $56 million in losses thru June 30, 2002."

Agree?
(Gee and everyone is getting excited about the City's under funding of $60m total since 1997 as this hemorrhaging is going on daily !)

>>> Lawrence Grissom 07/15/03 05:38PM >>>
Terri
Looked at the valuation again and found this. On page 6, the top schedule is Rick's "actuarial balance sheet". Fourth entry down shows a loss of $56.4 million due to "permissive" PSC. This is a from inception number, since we didn't have the data on file to submit to Rick before last year. I got another report from staff showing that we had received cash payment from employees of about $24 million. Memory is that both cover the same time period, but would have to check to make sure.
So, add the two and you have $80 + million. That is close to the $77.7 million. The one factor I am not absolutely sure of is whether these numbers represent exclusively the 5 year "permissive" PSC. I think that it is probably inclusive of all 12 categories of purchase, but am comfortable because the 5 year is the bulk of our business.
We can quantify in more detail, but it will take some time.
Larry

>>> Terri Webster 07/15/03 04:39PM >>>
Thanks for the first part answer (WOW) and quick response.

For the second part I better rephrase...what is the approx dollar difference between the funds received for the PSC versus the liability?
In other words, if the liability is $77.7m what is the associated amount paid for that liability? I'm trying to get to the "shortfall" that the fund will have to pick up.

(Rick has picked up the assets all along in his numbers over the years but the $77.7m liability was put in the mix as a lump sum in FY 02 valuation....so it's hard for me to match up the revenue with the expense)

thanks

>>> Lawrence Grissom 07/15/03 04:31PM >>>
Terri
We haven't gotten a final from Rick on the true cost of PSC. It could be as much as 30 to 40% safety and 25 to 30% general and higher for legislative. As to the liability increase, see comment I on page 17 of the 2002 valuation --- additional liability of $77.7 million, a 2% reduction in the funded ratio and a rate increase of 1%.
larry

>>> Terri Webster 07/14/03 05:34PM >>>
could you tell me Tuesday 15th....
1. what is the estimated true cost of purchase of service for 5 year air time?
versus the 15% for general and 26% safety that is being paid?

2. What portion of the 6-30-02 UAAL is attributed to this programs shortfall in funding?

sorry but couldn't locate the Board report on this....

Exhibit 52

Attorney file

ABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

SD RET OFFICE
2003 AUG 20 AM 11: 05

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

August 6, 2003

Messrs. Larry Grissom and Paul Barnett
City of San Diego Employees' Retirement System
401 B Street, Suite 400
San Diego, CA 92101

Dear Larry and Paul,

We have been requested to complete a service purchase cost study analysis for General members, Safety members and Legislators which is a single percentage rate per year of service purchased, regardless of the age of the individual member at purchase.

The current approach for service purchase is based on 15% of pay for each year purchased for General and Legislative members and 27% of pay for Safety members. These percents are outdated in the sense that they were set by the Board prior to certain actuarial increases and set without the degree of actuarial rigor associated with either the 2002 analysis or this analysis.

Please understand that even under this more rigorous analysis there will be three potential areas of subsidy under the approach.

1) If the average age at purchase is higher than what we assumed, the plan sponsors will bear part of the cost.

2) There may be a slight actuarial cost to the System even if all actuarial assumptions are met in the long run. There will be times when this program costs money in the short-term to the extent that service purchasers elect much of their purchases during times when the 8% investment assumption does not appear to be attainable in the short-term. This is one of two areas of "self selection" that favor the purchaser over any intended cost neutrality of the program.

3) Another area of self-selection, and related cost implications, relates to the health of the purchaser. An intelligent purchaser will generally only do so if in reasonably good health. This constitutes the second area of self-selection against the System that could have unintended financial cost.

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

* * * * * *

There is yet another consequence of self-selection if one broad average is charged. An analogy may help explain why individual choice represents some financial risk to the plan sponsors. Suppose that an auto insurer did an analysis of all drivers and derived what the average annual premium should be based on this all-inclusive analysis. The insurer decided to charge this $X per year plus a profit margin of 5%. The insurer would go broke. Only those drivers, whose premiums would be above $X per year with an individually rated insurer, would find it in their self interest to purchase insurance from this insurer. The better drivers would seek out other insurance companies who would charge them less than $X. This insurance company would become the victim of "anti-selection." Even though it had done a detailed analysis, that $X was the correct average premium to charge, it will lose money because it was not attractive to the better risks. On average, they will pay out more than $X per driver and likely go broke. Similarly, a single-rate approach is an actuarially imperfect approach for your service purchase program in actuarial nirvana.

The degree of individual equity affects the level of utilization, which, in turn, can impact cost if the program is only attractive to your oldest active members.

In spite of potential actuarial disadvantages with one rate per group, there is a significant simplicity advantage of a one-rate approach.

The proposed approach is solely based on current valuation pay rates, average attained age at purchase, and average retirement age in each band. We have based rates on the following assumptions:

Group	Average Purchase Age	Average Retirement Age
General	51	58
Safety	47	52
Legislative	53	55

HUM-CLE-014-0101

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

The average purchase age is based on service purchase data that SDCERS provided for the June 30, 2002 actuarial valuation. The average retirement age is based on the age that members either service retire or DROP in recent years.

This approach clearly encourages the employee to delay service purchase until immediately prior to their retirement date since there is no explicit interest adjustment. One possible solution to inhibit this self-selection is to mandate a minimum period between service purchase and election to either service retire or DROP.

We are showing numbers on two bases. The first set of numbers reflects mortality used in your current actuarial valuation. The second set of numbers reflects an assumption that service purchasers will have a longer lifespan than the **current** average. We have assumed a three-year setback in this regard (ie, a 57-year-old would have the same mortality associated with an average 54-year-old). Since your current mortality assumptions provide no projection for future mortality improvement, we believe the rates associated with **"lower mortality" to have more credibility.** They also provide a margin for future potential mortality improvements.

				PROPOSED RATES % of Current Pay Per Year of Service Purchased	
Band	Average Purchase Age	Average Retirement Age	Muliplier	Current Mortality	Lower Mortality
General	51	58	2.50%	26.9%	27.8%
Safety	47	52	3.00%	36.7%	37.5%
Legislative	53	55	3.85%[1]	50.1%	51.6%

[1] Incorporates the 10% increase in final average compensation due to the Corbett decision. For General and Safety employees, the Option 2 benefits at assumed retirement ages are more than 10% greater than the Option 1 benefit with such 10% increase.

The following summarizes our assumptions: We have used the valuation investment assumption of 8%, valuation mortality (and three-year mortality setback, or lower mortality, in our second scenario) and assumed annual pay increases of 4.75% in our calculations. Due to anti-selection, we believe there will be some actuarial cost

HUM-CLE-014-0102

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

associated with ANY service purchase program unless the long-term net investment rates are higher than the assumed long-term investment assumption.

These numbers show that the plan sponsors are currently subsidizing a significant amount of the added liabilities associated with service purchase.

We would be happy to discuss further.

Sincerely,

Rick Roeder

Rick A. Roeder, EA, FSA, MAAA

HUM-CLE-014-0103

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Exhibit 53

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

STAFF REPORT

ADMINISTRATIVE DIVISION

Annually
— at time of actuary report have actuary give update of rates.
— Get Rick to say 10+1 5.6 m I understands
→ ask Rick if this will improve 6-30-03 to
[illegible] that + [illegible] will [illegible]

FILE: w:\exec\bdsec\board\psc 08-6-03

DATE: August 6, 2003

TO: Retirement Board, via Business Procedures Committee

FROM: Paul Barnett, Assistant Retirement Administrator, via Lawrence B. Grissom, Retirement Administrator

SUBJECT: Purchase of Service Credit Cost Analysis

BACKGROUND:

At its August 2002 Board meeting, the Retirement Board approved simplifying the Purchase of Service Credit (PSC) process for City of San Diego employees by using a percentage of the member's current annual salary to calculate the cost for most types of service purchase. Those percentages have been set at 15% for General Members and 26% for Safety Members since 1997 for the 5-year permissive service purchase contract. The Board chose not to change the 15%/26% cost for PSCs last year, but did ask staff to re-evaluate this cost with the Actuary each year. Rick Roeder has completed his analysis, and his findings are attached. In completing his analysis, Mr. Roeder was instructed to come up with a single percentage for each membership group regardless of the member's age at the time of purchase. Last year's analysis did include a cost structure for PSCs using 5 and 10 year age bands. However, the Board chose not to price PSCs in this manner. Additionally, Mr. Roeder was asked to recommend a separate PSC price for the Elected Officers Retirement Plan. Currently, Legislative members pay the General Member rate for their PSCs.

or trailing? why?

→ no decision (?)

RECOMMENDATION:

Based on the Actuary's analysis, staff recommends the following changes to the Purchase of Service Program for City of San Diego employees (a separate actuarial analysis will be forthcoming to address appropriate costs for the Unified Port District's and the Airport Authority's Purchase of Service Programs):

when?

1. Adjust the cost for all City PSC applications received after Board approval to 27% for General Members, 37% for Safety Members and 50% for Legislative Members. These percentages would be applied to the Members current annual salary to determine the purchase price for a year of service credit. This change in cost will not apply to Refunds, Military Leave, Probationary time and eligible Breaks-in-Service.

   OR:

2. Adjust the cost as detailed above ~~90~~ 60-days after Board approval and notify the membership of the pending cost increase so that applications received during this ~~90~~ 60-day window period would be processed using the 15%/26% cost methodology.

Many members have received PSC cost estimates in the past based on prior costing methodologies. In some instances, when they submit a new application to purchase the same service time as the previous estimate, the cost has increased substantially. This is particularly true in those instances where the previous estimate was based on a methodology that took the Member's salary at the time contributions were missed (often from many years ago) and the contribution rates at that time, and brings that cost forward with interest to today's date. When the current PSC costing methodologies using the Member's current salary and the 15%/26% cost is applied to the same missed time, the cost can increase by 100 to 300 percent. Although these instances are rare, the Board may wish to establish a rule whereby the System will not increase the cost of a prior PSC estimate for the same period of time by more than a maximum amount.

Attachment: Rick Roeder Letter dated August 6, 2003

no --- give a warning - - 60 days then cut off
that is the purpose of the 60 day window

— I wanted Rick to say is actuarially sound — not all these qualifiers

— Does Rick believe these rates meet the charge to administer cost neutral ??

August 6, 2003

Messrs. Larry Grissom and Paul Barnett
City of San Diego Employees' Retirement System
401 W. A Street, Suite 400
San Diego, CA 92101

Dear Larry and Paul,

We have been requested to complete a service purchase cost study analysis for General members, Safety members and Legislators which is a single percentage rate per year of service purchased, regardless of the age of the individual member at purchase.

The current approach for service purchase is based on 15% of pay for each year purchased for General and Legislative members and 27% of pay for Safety members. These percents are outdated in the sense that they were set by the Board prior to certain benefit increases and set without the degree of actuarial rigor associated with either the 2002 analysis or this analysis.

Please understand that even under this more rigorous analysis there will be three potential areas of subsidy under the approach.

pg. 39

evaluate annually

1) If the average age at purchase is higher than what we assumed, the plan sponsors will bear part of the cost.

2) There may be a slight actuarial cost to the System even if all actuarial assumptions are met in the long run. There will be times when this program costs money in the short-term to the extent that service purchasers elect much of their purchases during times when the 8% investment assumption does not appear to be attainable in the short-term. This is one of two areas of "self selection" that favor the purchaser over any intended cost neutrality of the program.

3) Another area of self-selection, and related cost implications, relates to the health of the purchaser. An intelligent purchaser will generally only do so if in reasonably good health. This constitutes the second area of self-selection against the System that could have unintended financial cost.

* * * * * *

There is yet another consequence of self-selection if one broad average is charged. An analogy may help explain why individual choice represents some financial risk to the plan sponsors. Suppose that an auto insurer did an analysis of all drivers and derived what the average annual premium should be based on this all-inclusive analysis. The insurer decided to charge this $X per year plus a profit margin of 5%. The insurer would go broke. Only those drivers, whose premiums would be above $X per year with an individually rated insurer, would find it in their self interest to purchase insurance from this insurer. The better drivers would seek out other insurance companies who would charge them less than $X. This insurance company would become the victim of "anti-selection." Even though it had done a detailed analysis, that $X was the correct average premium to charge, it will lose money because it was not attractive to the better risks. On average, they will pay out more than $X per driver and likely go broke. Similarly, a single-rate approach is an actuarially imperfect approach for your service purchase program in actuarial nirvana.

? don't see the analogy - no where else to go - don't know where [illegible]

The degree of individual equity affects the level of utilization, which, in turn, can impact cost if the program is only attractive to your oldest active members.

In spite of potential actuarial disadvantages with one rate per group, there is a significant simplicity advantage of a one-rate approach.

2.5 ? 6m

6-30-02 ? not include 3% ?

The proposed approach is solely based on current valuation pay rates, average attained age at purchase, and average retirement age in each band. We have based rates on the following assumptions:

Group	Average Purchase Age	Average Retirement Age
General	51	58
Safety	47	52
Legislative	53	55

The average purchase age is based on service purchase data that SDCERS provided for the June 30, 2002 actuarial valuation. The average retirement age is based on the age that members either service retire or DROP in recent years.

but at higher salary

This approach clearly encourages the employee to delay service purchase until immediately prior to their retirement date since there is no explicit interest adjustment. One possible solution to inhibit this self-selection is to mandate a minimum period between service purchase and election to either service retire or DROP.

no one knows when going to be a PSC helps be realistic

We are showing numbers on two bases. The first set of numbers reflects mortality used in your current actuarial valuation. The second set of numbers reflects an assumption that service purchasers will have a longer lifespan than the **current** average. We have assumed a three-year setback in this regard (ie, a 57-year-old would have the same mortality associated with an average 54-year-old). Since your current mortality assumptions provide no projection for future mortality improvement, we believe the rates associated with **"lower mortality"** to have **more credibility**. They also provide a margin for future potential mortality improvements.

				PROPOSED RATES % of Current Pay Per Year of Service Purchased	
Band	Average Purchase Age	Average Retirement Age	Muliplier	Current Mortality	Lower Mortality
General	51	58	2.50%	26.9%	27.8%
Safety	47	52	3.00%	36.7%	37.5%
Legislative	53	55	3.85%[1]	50.1%	51.6%

[1] Incorporates the 10% increase in final average compensation due to the Corbett decision. For General and Safety employees, the Option 2 benefits at assumed retirement ages are more than 10% greater than the Option 1 benefit with such 10% increase.

The following summarizes our assumptions: We have used the valuation investment assumption of 8%, valuation mortality (and three-year mortality setback, or lower mortality, in our second scenario) and assumed annual pay increases of 4.75% in our calculations. Due to anti-selection, we believe there will be some actuarial cost

associated with ANY service purchase program unless the long-term net investment rates are higher than the assumed long-term investment assumption.

These numbers show that the plan sponsors are currently subsidizing a significant amount of the added liabilities associated with service purchase.

We would be happy to discuss further.

Sincerely,

Rick Roeder

Rick A. Roeder, EA, FSA, MAAA

Exhibit 54

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

SDCERS' RETIREMENT BOARD OF ADMINISTRATION

FRIDAY, AUGUST 15, 2003 – 1:30 PM

401 "B" STREET, SUITE 400 SAN DIEGO, CA 92101

(DISABILITY ACCESSIBLE)

AGENDA

(FREDERICK PIERCE, PRESIDENT)

PUBLIC COMMENT

I. APPROVAL OF CONSENT AGENDA ITEMS #A- H

A. SERVICE RETIREMENTS

1. Marilyn M. Davis, General Services Department, Utility Worker I. 11.64 years creditable service. Age 62.00. Effective date 08/17/03. Estimated monthly allowance $578.12 maximum benefit with surviving spouse provisions. **(DEFERRED).**

2. Joseph T. DeMattia, General Services Department, Locksmith. 20.83 years creditable service. Age 62.00. Effective date 08/10/03. Estimated monthly allowance $1,845.68 reduced benefit with surviving spouse provisions. **(OPTION II).**

3. Elizabeth Fort, Police Department, Personnel Manager. 27.28 years creditable service. Age 55.00. Effective date 08/03/03. Estimated monthly allowance $4,104.79 maximum benefit with no continuance (**ADDITIONAL MONIES FROM SURVIVING SPOUSE; DEFERRED).**

4. Pilar Humphrey, Library Department, Librarian III. 20.82 years creditable service. Age 67.54. Effective date 08/29/03. Estimated monthly allowance $2,812.80 maximum benefit with no continuance.

5. Jim B. Lovewell, Real Estate Assets Department, Associate Property Agent. 10.82 years creditable service. Age 55.02. Effective date 08/02/03. Estimated monthly allowance $1,460.23 maximum benefit with surviving spouse provisions. **(RECIPROCITY)**

B. DEFERRED RETIREMENT OPTIONS

1. Gregory L. Bennett, Fire Department, Construction Estimator. 21.24 years creditable service. Age 56.11. Effective date 08/01/03. Estimated monthly allowance $2,719.56 maximum benefit with no continuance **(ADDITIONAL MONIES FROM SURVIVING SPOUSE).**

2. Frances Bookheim, Library Department, Librarian IV. 20.41 years creditable service. Age 56.97. Effective date 08/30/03. Estimated monthly allowance $2,935.32 maximum benefit with no continuance **(ADDITIONAL MONIES FROM SURVIVING SPOUSE).**

2. UPDATE ON THE RECOVERY OF OVERPAYMENTS OVER $5,000

   A) BONNIE ABRAHAMSEN
   B) KAREN SOUSA

2. OLD BUSINESS

A. ACTION REQUESTED

1. RECOMMENDATIONS REGARDING THE COSTS ASSOCIATED WITH SDCERS' PURCHASE OF SERVICE PROGRAM

3. TRAINING OPPORTUNITIES

A. ACTION REQUESTED

1. DAVE CROW AND STEVE MEYER'S ATTENDANCE AT THE CALAPRS TRUSTEE ROUNDTABLE IN SAN JOSE, CA ON 9/12/03

2. PUBLIC FUND BOARDS FORUM TO BE HELD IN SAN FRANCISCO, CA 12/06-12/10/03

INVESTMENT COMMITTEE REPORT – MARY VATTIMO, CHAIR

1. STATUS REPORTS

A. NO ACTION REQUESTED

1. VENDOR'S WATCH LIST

2. SDCERS' SECURITIES LENDING STATUS

3. SDCERS' ASSET ALLOCATION STATUS

4. SDCERS' REALIZED RATE OF RETURN AND REALIZED GAINS PROJECTION REPORT

5. CALLAN'S QUARTERLY PERFORMANCE REPORT FOR THE QUARTER ENDING JUNE 30, 2003

2. NEW BUSINESS

A. ACTION REQUESTED

1. RECOMMENDED AMENDMENTS TO THE SDCERS' GOALS, OBJECTIVES AND POLICIES RELATING TO INVESTMENTS

3. TRAINING OPPORTUNITIES

A. ACTION REQUESTED

1. PUBLIC FUND BOARDS FORUM TO BE HELD IN SAN FRANCISCO, CA 12/06-12/10/03

AUDIT COMMITTEE REPORT – RICHARD VORTMANN, CHAIR

1. STATUS REPORT

A. NO ACTION REQUESTED

Exhibit 55

From: Terri Webster
To: Ray Garnica
Date: 8/11/03 1:56PM
Subject: PSC

Ray

I left a voicemail on your home right now. Do not have business number.
Wanted to talk to you about the B & P item 2a2 on purchase of service. Want to make sure you understand it and the importance of "fixing the problem".

In summary...The City created the benefit of buying 5 years of "air time" in 1997. The Board was to administer it in a cost neutral manner.
Instead the program has been administered by the Board at a loss ...to the Fund...which means to the City... which increases UAAL and employer rates and lowers the funding ratio.

From 1997 thru 6-30-02 Rick, our actuary, estimates the "loss" to be **$56 million**. (p.s. the "underfunding" by the City which has been the topic of too many articles totals, thru June 30, 2002, per Rick, d$**54.8 million**.)

So the mis-adminstration of the PSC program by the Board is more than the "underfunding" issue ! (the "underfunding issue" as you know per a legal agreement..very public,etc)

Needless to say...Cathy, Mary and I have been bugging for over a year to get this on the agenda to fix it ! Rick Roeder, at least a year ago, advised the Board it was being adminstered at a loss.

Terri

Exhibit 56

From: "Roeder, Rick" <RICKRO@grsnet.com>
To: "'Terri Webster'" <TWebster@sandiego.gov>
Date: 8/14/2003 9:23:28 AM
Subject: RE: Service Purchase

No, all the $56 million represents is a reflection of the impact on the change in the unfunded liability from the 6/30/01 valn to the 6/30/02 valn.

The numbers are not apples to apples for two reasons: the $21 million only reflects contributions for the 12 months ending 6/30/02. The $77 million represents our calculations since inception of the 5-year service purchase program (clearly prior to 6/30/01) for all purchasers who are STILL active members as of 6/30/02. As we had commented on in the 2001 valuation, due to us not being provided the data prior to the 02 valn, we knew the liabilities were undervalued in previous valns.

It is important to be clear on two points:

1) The $77 million ONLY relates to the 5 year service purchase. Thus, any comparison of ee contributions should ONLY be for the service purchase program. The City has other programs with which employees make additional contributions.

2) The $77 million is LESS than the related gross total liability for the 5-year service purchase program. You will have a significant number who had purchased service and then retired prior to 6/30/02. Even when we were not given data for the additional service purchased, for new retirees, we got the liability right: Because the benefits provided were inclusive of the service purchase. Thus, the understatement of liabilities was solely for current actives. For new retirees, there was a "jump" in liability that we started to value in their first year of retirement.

Hope this helps clarify, Rick

-----Original Message-----
From: Terri Webster [mailto:TWebster@sandiego.gov]
Sent: Wednesday, August 13, 2003 12:55 PM
To: RICKRO@grsnet.com
Subject: Re: Service Purchase

Rick

You might hear this question from Paul and Larry too.....see my email below...I wanted you to confirm what the $56.4 number represents....I was told it was the "underfunding" of the permissive 5 year buy back.
IE> Total liability for years purchased less total payments made by members..1997-2002 can be the timeframe....is this true?

>>> "Roeder, Rick" <RICKRO@grsnet.com> 08/11/03 03:36PM >>>
Terri,

Thanks for the heads up!!

I am eager to get this on the table Friday AM so that the subsidy is one less thing that the City can be criticized for. I think Paul and Larry may have similar feelings. I really appreciate your attention to this.

Looking forward to it, Rick

-----Original Message-----
From: Terri Webster [mailto:TWebster@sandiego.gov]
Sent: Monday, August 11, 2003 2:18 PM
To: RICKRO@grsnet.com
Subject: RE: GASB #25, Paragraph 36.f

Hi Rick

Two things...

#1 I hear you'll be there on Friday for the PSC discussion. We need to stop the bleeding...so heads up...if I have to... I will ask you "how much has the Board's current buy-back policy underfunded the system for the PSC program?" I think your answer is $56.4 million per your actuary report page 10.(right?)

#2 on your email response below...
Is it true to say the Board could adopt a 40 year amoritization period for you to base the future acturial valuations on even after 2007? (I am not advocating for that...just want the facts)

#2a: Please give examples of what GASB #25 and #27 does pertain to .....ie. define expensing..... Does the 40 year amoritization elimination issue relate to your NPO letter/calc? the funding of the system, the UAAL, the employer rates etc??

Feel free to call if my questions are not clear.

Terri

>>> "Roeder, Rick" <RICKRO@grsnet.com> 08/11/03 07:58AM >>>
Good morning Cecilia!

I was out of the office late last week but did have a chance to talk to Lakshmi about this and give her an answer. For the City's fiscal year end 2007, the 40-year amortization period maximum will be reduced to 30 years. Note that GASB #25 and #27 is STRICTLY for expensing purposes. Expensing rules do not force a plan sponsor to fund in a certain way. For example, the current City Manager's funding agreement does not fall into any of the six permitted approaches for recognizing pension expense. Hope this helps, Rick

-----Original Message-----
From: Cecilia San Pedro [mailto:csanpedro@sandiego.gov]
Sent: Thursday, July 31, 2003 3:18 PM
To: anneha@grsnet.com; RICKRO@grsnet.com

Subject: GASB #25, Paragraph 36.f

Hi Rick/Anne,

This paragraph refers to maximum amortization period. What calculations would this impact if we have to change to 30 years? Does this paragraph refer to the calculation of the Computed Contribution Rate (Report 6/30/02, pg 20)? ARC calculation? NPO calculation? In some references, I see amortizating the UAAL over 40 years for expensing puposes only. How is that different from the Computed Cotnribution Rate, which has referenced 30 years effective 7/1/01. (Whenever I read this Pronouncement, it goes beyond my head, and I need your expertise to clarify.) Thanks.

Exhibit 57

MISSION STATEMENT

We pledge to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Fund's maximum safety, integrity and growth.

SDCERS RETIREMENT BOARD SUMMARY
FRIDAY, AUGUST 15, 2003

The Retirement Board of Administration held its regularly scheduled meeting in the System's Boardroom. Location: 401 "B" Street, Suite 400, San Diego, CA 92101.
Fred Pierce called the meeting to order at 1:33 p.m.

IN ATTENDANCE:

Trustees: Frederick Pierce, Chair; David Crow, Ray Garnica, Charles Hogquist, Cathy Lexin, Steve Meyer, Mary Vattimo, Ron Saathoff, Diann Shipione, John Torres, Terri Webster, Richard Vortmann, Sharon Wilkinson

Staff: Lawrence Grissom, Paul Barnett, Lori Chapin, Roxanne Parks, Sally Zumalt, Doug McCalla, Sheila Jacobs, Sandra Claussen, Bernadette Stratton, Dawn McHorney, Merlita Hilario, Lilibeth Barcelona

Public: John Simms, Gary Reichle, Alex Ruiz, Stan Elmore, Dave Wood, Bill Lopez, Julie Dommell, Tom Rhodes, James Gleason, Chris Morris, James Callahan, Rick Roeder, Michael Conger, Pat Brogan, Nell Hennessy, Reg Vitek, Michael Leone

PUBLIC COMMENT

Mr. Pierce welcomed newly elected Trustee Charles Hogquist to his first pubic meeting. Additionally, he reported that any new handouts provided to the Board at today's meeting have also been placed on the back counter of the room for public use. Additionally, a yellow sign up binder has been placed on the back counter for the public to receive any additional copies of documents. There are also two full Board binders located in the lobby area for anyone wishing to follow along during today's meeting. Lastly, public comment is now being carried at the beginning of the Board's agenda. With respect to docketed items, staff's report will be given first and public comment taken second. The Board is also looking to implement Speaker Slips going forward.

I. APPROVAL OF CONSENT AGENDA ITEMS #A- H

MOTION TO APPROVE CONSENT AGENDA ITEMS #A-H: **D. CROW**
SECOND: **J. TORRES**
BOARD: **12 IN FAVOR: LEXIN, WILKINSON, TORRES, GARNICA, VORTMANN, HOGQUIST, PIERCE, SAATHOFF, VATTIMO, WEBSTER, MEYER, CROW**
1 OPPOSED: SHIPIONE
MOTION TO APPROVE PASSED 12 TO 1.

A. SERVICE RETIREMENTS

1. Marilyn M. Davis, General Services Department, Utility Worker I. 11.64 years creditable service. Age 62.00. Effective date 08/17/03. Estimated monthly allowance $578.12 maximum benefit with surviving spouse provisions. **(DEFERRED).**

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

B) KAREN SOUSA

Mr. Saathoff said this should have been noticed as an action item. Because it was noticed as a status report, it will be brought back for action next month.

2. OLD BUSINESS

A. ACTION REQUESTED

1. RECOMMENDATIONS REGARDING THE COSTS ASSOCIATED WITH SDCERS' PURCHASE OF SERVICE PROGRAM

MOTION TO APPROVE STAFF'S RECOMMENDATION #2 WITH THE RATES TO BE IMPLEMENTED NOVEMBER 1, 2003 AND WITH DIRECTION TO THE ACTUARY TO REVIEW THE RATES ANNUALLY: **R. SAATHOFF**
SECOND: **C. LEXIN**

DISCUSSION:

Mr. Vortmann asked about the pricing. He said it appears to be analogous to an annuity and doesn't look to be cost neutral program, nor will it ever be. Thus, he doesn't understand why employees are being given a 60-day notice.

Mr. Saathoff explained that last year, the Board determined that the rates being charged for service credit were not sufficient and were changed at that time. The committee considered the appropriate level of cost, but since this is a City benefit, the Board only has the authority to determine what it needs to charge. With this, some people will gain and some people will lose and the average will be offset.

Mr. Grissom said Mr. Vortmann's annuity analogy is close, but the amount of a paid annuity is based on the amount of money in the pot. This adds service credits to the defined benefit. Thus, if a member purchased service under this program five years ago and the benefit per year of service credit improved during the ensuing period of time, the value of that person's benefit improved. Secondly, the Board spent some time discussing this about a year ago. At that time, Mr. Roeder had prepared and the Board considered purchase of service cost factors that were graduated with age bands. The majority of the Board opted not to implement age bands and preferred the single cost. Therefore, when Mr. Roeder was asked to prepare this report, staff asked him to cost it as a single cost.

Mr. Meyer said the idea of a 60-day notice would give members time to get their contracts submitted. However, he asked if the cost to purchase would be borne by the member.

Mr. Saathoff replied, "Yes." Additionally, staff is aware that, if adopted, this will create a PSC backlog.

Ms. Shipione asked about Mr. Roeder's 8/6/03 letter. His final comment is that the plan sponsor is currently subsidizing a significant amount of the added liabilities associated with the PSC program. In his professional judgment, she asked if the current rates are sufficient on an actuarial basis to purchase these benefits.

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Mr. Roeder said the 15% rate for general and legislative members and the 26% rate for safety members is not sufficient to finance this program on an actuarially meaningful basis. The purchase of these benefits puts upward pressure on both the unfunded accrued liability and on the amortization of the unfunded liability. Having received a new body of data for the first time about ten-months ago, GRS's updated analysis reflected that data.

Ms. Vattimo said this is being brought forward because the Board needs to increase the cost because of the upward liability.

Ms. Shipione said this is not a new liability and must have existed along the way. Unfortunately, the actuary didn't have the data to determine the appropriate cost. She wants to know if the Board will see this past liability come forward as a cumulative lump sum or if it will be done retroactively.

Mr. Roeder said the retroactivity already caught up in 2002. However, he expects some upward pressure on the unfunded liability in the FY '03 valuation because the System hadn't been charging enough. The net impact will be to increase the liabilities and System assets so the difference will wash into the System's unfunded liability. This is what these higher rates are attempting to address on a going forward basis.

Ms. Shipione asked if this was the $70 million was a part of the catch up.

Mr. Roeder replied, "Yes." The purchase of service data created a $77 million liability, which was offset by the contributions paid into the System. He noted that he is not making any recommendations but is simply providing this as an informational item so the Board can make an informed decision.

Mr. Grissom said this would automatically be included in the System's annual valuation. Mr. Roeder was asked to provide a suggestion on what he felt would be the best single rate approach that would make the PSC program actuarially cost-neutral.

Ms. Shipione asked what Mr. Roeder would recommend for this System.

Mr. Roeder said he is comfortable with the single rate approach, but could also argue in favor of another approach The Board simply needs to be consistent in trying to get more money into the System. If adopted, this would be reviewed annually.

Ms. Shipione asked if Mr. Roeder is uncomfortable with anything in the motion.

Mr. Roeder replied that he is very comfortable with the motion. If the Board adopts these higher rates, it might consider putting them into place for a twenty-four or twenty-six month period and reviewing them every three years.

Mr. Grissom said the entire PSC Board Rule would be coming back for consideration next month.

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Mr. Pierce suggested reviewing the rates consistent with the Experience Investigation, which happens every three years.

Ms. Webster said she wants the employees to know that these rates are a moving target and can be changed as the Board deems appropriate.

Mr. Vortmann said there is no way to comprehend what future benefits might be implemented. Secondly, he asked if members can purchase service credit anytime during their employment.

Mr. Pierce said the cost is based on the salary at the time the employee opts to purchase.

That being the case, Mr. Vortmann said the rates should be reviewed annually.

Mr. Garnica asked about age bands.

Mr. Pierce said that would be a benefit increase and would have to go through the meet and confer process.

Ms. Wilkinson said this is the second step in making these purchase calculations easier.

Ms. Vattimo said a flat rate is being recommended. She asked what went into this determination.

Mr. Grissom responded that Mr. Roeder was directed to look at a flat rate as a result of previous Board and Committee discussions.

In response to Ms. Shipione, Mr. Grissom said part of the assumption is that these will grow at 8% and will continue to do so after a person retires.

Mr. Saathoff said members wouldn't make decisions based on the rates.

Mr. Grissom disagreed. There were members who were earning more on their 401(k)'s a few years ago who opted not to purchase service credits until the absolute last day. Today, they are purchase service because they are earning 8% versus what they could have made on their other investment vehicles.

Ms. Webster said she wants the rates reviewed annually.

Mr. Roeder said he would recommend reviewing the rates immediately upon any benefit changes.

CALL FOR THE QUESTION.

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

BOARD: 12 IN FAVOR: VATTIMO, CROW, PIERCE, SAATHOFF, WILKINSON, TORRES, WEBSTER, SHIPIONE, LEXIN, VORTMANN, MEYER, HOGQUIST
1 OPPOSED: GARNICA
MOTION PASSED 12 TO 1.

INVESTMENT COMMITTEE REPORT – MARY VATTIMO, CHAIR

1. STATUS REPORTS

A. NO ACTION REQUESTED

1. VENDOR'S WATCH LIST

2. SDCERS' SECURITIES LENDING STATUS

3. SDCERS' ASSET ALLOCATION STATUS

4. SDCERS' REALIZED RATE OF RETURN AND REALIZED GAINS PROJECTION REPORT

Ms. Vattimo reported: 1) Salus and Putnam were added to the Watch List for under performance and U.S. Realty was added for significant personnel changes; 2) the securities lending program earned $768,000; 3) all assets were tracking within the appropriate ranges and no rebalancing had taken place; and, 4) the System's unrealized earnings totaled $132 million or $23 million in realized losses, which resulted in the compounded fiscal year-to-date realized rate of return of negative .96%.

5. CALLAN'S QUARTERLY PERFORMANCE REPORT FOR THE QUARTER ENDING JUNE 30, 2003

For a full report, please refer to Callan's 6/30/03 Quarterly Performance Report and the Investment Committee Summary dated 08/14/03 on file in the Retirement System. Location: 401 "B" Street, Suite 400, San Diego, CA.

Most notably, Mr. Callahan reported that SDCERS' total fund performance for the quarter ending 6/30/03 was up 12.8%. This was well in excess of the performance benchmark of 11.2% and placed SDCERS in the 4th percentile relative to other public funds. Although one quarter is a short term period, it is still great to see these types of absolute returns, especially having endured three year's worth of awful returns given a deep and harsh bear equity market. Once the Iraq situation cleared this year, the markets rebounded significantly. In the equity markets, stocks that had been really beaten down over the past few years performed the best. This included small and micro cap stocks. The technology sector also performed very well and had a big rebound. Fortunately, a number of SDCERS' managers had healthy exposure to this sector. Collectively, SDCERS' domestic equity managers and international equity managers did very well. It was also good to see that the bond managers had a good quarter, with Metropolitan West having a big bounce in performance. The market neutral allocations didn't do so well during this quarter because they tend to buy high quality stocks and sell low quality stocks. Looking out over longer time periods, this fund performed very well on a relative basis to both its benchmark and peer group. For the last fiscal year, SDCERS' was up 5.25%, trailing the

CONFIDENTIALITY REQUESTED UNDER LETTER OF MARCH 2, 2004

Exhibit 58

sdCERS
San Diego City Employees' Retirement System

NOTICE TO ALL ACTIVE CITY OF SAN DIEGO EMPLOYEES

401 B Street. Suite 400 • San Diego, CA 92101-4298 • (619) 525-3600 • Fax (619) 595-0513

PENDING INCREASE IN THE COST TO PURCHASE SERVICE CREDIT WITH THE SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

The Retirement Board of Administration for the San Diego City Employees' Retirement System (SDCERS) has approved an increase in the cost to purchase service credit for those City of San Diego employees who choose to enter into a service purchase contract. Effective for all applications to purchase service credit received by the San Diego City Employees' Retirement System (SDCERS) on or after **November 1, 2003**, the cost to purchase for the various employee membership groups will be as follows:

City of San Diego Membership Group	Old Cost (% of Current Salary)	New Cost (% of Current Salary)
General Members	15%	**27%**
Safety Members	26%	**37%**
Legislative Members	15%	**50%**

The above rates will apply to all requests to purchase service received after November 1, 2003 except for Probationary time, Refunds, Military Leave and certain Breaks-in-Service occurring prior to 1997. Any previous purchase of service contract that you may have received which is more than 90 days old from the date on the contract is no longer valid, and a new application to purchase must be submitted.

An application to purchase service can be downloaded from our website at **www.sdcers.org**, or you can call the SDCERS office at (619) 525-3600 and request an application. Remember, your signed application must be received by SDCERS prior to November 1, 2003 for the lower costs to apply. Service can be purchased using a number of payment options including:

- Lump Sum
- Plan to Plan transfer from your 401(k), SPSP, SPSP-M and Deferred Comp Plans
- Rollover from a qualified plan including an IRA account
- Bi-weekly payroll deduction (pre-tax or post-tax)

Once your application is received, SDCERS will complete a review of your prior work history to determine if you are eligible to purchase any missed contribution time periods as well as up to 5 years of permissive service. The costs for all eligible purchases will be calculated, and you will be contacted to see if you are interested in completing the purchase and which of the above methods of payment you wish to use. **Completing a PSC application does not obligate you in any way to proceed with a purchase of service contract.**

The cost to purchase service credit in SDCERS is subject to modification by the Retirement Board, and may be modified periodically as deemed necessary and appropriate. The Retirement Board will review the cost to purchase service on an annual basis as part of the actuarial valuation conducted by the SDCERS Actuary. The cost recommended by the Actuary and adopted by the Board will be the cost for the subsequent fiscal year. You will not receive individual notices of future cost changes. Rather, any changes will be noticed through the Retirement Board's regular meeting agenda process, and the results will be posted on the SDCERS website.

Exhibit 59

SAN DIEGO CITY
EMPLOYEES' RETIREMENT SYSTEM
ANNUAL ACTUARIAL VALUATION
June 30, 2003

Submitted to

THE RETIREMENT BOARD

San Diego City Employees' Retirement System

San Diego, California

COMMENT J: The "permissive" purchase service program continues to be very popular. 1,338 active General members have purchased a total of 6,157 years of service. 268 Safety members have purchased a total of 948 years of service.

We anticipate that there will be one more year of significant, actuarial losses until the new, hire purchase rates largely mitigates such losses in the future.

COMMENT K: We have been requested to complete an Entry Age Normal valuation annually based on the Manager's Proposal assumptions. This year's Entry Age rate is 30.15% and the funded ratio is 63.5%.

COMMENT L: The Normal Cost for Elected Officers (formerly known as the Legislative group) decreased slightly. This year, we are using a 3.50% accrual factor without a 10% assumed pay bump up for future retirees. The active Elected Officers are significantly younger this year, raising the following question: Should we use a maximum projected number of years of service due to term limits? Staff has directed us not to use a maximum since there are additional ways service credit can accrue.

COMMENT M: The liability for deferred vested members increased significantly from $66.6 million to $81.5 million. This was primarily due to a data reclassification for roughly 100 members who had been coded as active members in the 2002 valuation.

COMMENT N: Significant market advances since April 1, 2003 are cause for some optimism. However, this may be more likely to translate into noticeable good news in the 2005 valuation rather than the 2004 valuation. For purposes of the 5-year smoothing of actuarial value of assets the year that will "fall off" in the 2004 actuarial valuation, 1999, is a year that reflected the end of the raging bull market. (See page 20 for more details).

COMMENT O: The actuarial value of assets is 136% of liabilities for those currently in benefit receipt status and active DROP members. This comment is a response to the concern of some retirees.

San Diego City Employees' Retirement System

Unfunded Actuarial Accrued Liability

June 30, 2003

Unfunded Actuarial Accrued Liability

Total actuarial liabilities	$3,532,625,521
Assets allocated to funding	$2,375,431,482
Unfunded Actuarial Accrued Liability	$1,157,194,039

Elements of Experience Gain (Loss)

Estimated Gain attributed to pay increases	$23,100,000
Estimated (Loss) due to new retirements	(42,600,000)
Estimated (Loss) attributed to investment experience	(286,400,000)
Estimated Gain attributed to post-retirement mortality and data "clean-up" on suspended members	9,400,000
Estimated (Loss) attributed to the "permissive" service purchased during the 2003 plan year for current active and new retired members	(12,700,000)
Estimated Gain from employee turnover, pre-retirement mortality and miscellaneous factors	5,500,695
Total Estimated Experience (Loss)	($303,699,305)

Experience Gain(Loss) - Comparative Schedule

Valuation Date	Gain (Loss)	Beginning-of-Year Accrued Liabilities	Gain (Loss) Percentage
6/30/92	$57,952,320	$1,006,299,729	5.8%
6/30/93	(42,605,778)	1,057,238,917	(4.0)
6/30/94	(6,744,850)	1,220,830,059	(0.6)
6/30/95	(11,370,990)	1,338,279,541	(0.8)
6/30/96	59,592,960	1,476,710,662	4.0
6/30/97	38,473,993	1,682,604,532	2.3
6/30/98	31,086,010	1,822,432,018	1.7
6/30/99*	29,750,299	1,979,668,038	1.5
6/30/00	286,639,160	2,181,547,453	13.1
6/30/01	(193,168,984)	2,528,773,900	(7.6)
6/30/02	(364,815,155)	2,809,537,745	(13.0)
6/30/03	(303,699,305)	3,168,921,175	(9.6)

* Beginning with June 30, 1999 valuation, experience schedule is City only.