

**PENSION REFORM COMMITTEE
MEETING OF
Tuesday, February 10, 2004
4:00 PM – 6:00 PM Meeting**

**401 B Street
Conference Room, 4th Floor**

MINUTES

**THE REGULAR MEETINGS OF THE PENSION REFORM COMMITTEE ARE
SCHEDULED FOR EVERY TUESDAY AT 4:00 PM AT 401 B STREET, 4TH FLOOR**

Item 1: Call to Order

Item 2: Roll Call

<u>Members Present</u>	<u>Members Absent</u>	<u>Staff Present</u>
April Boling	Richard Vortmann	Patricia Frazier
Steve Austin		Chris Morris
Robert Butterfield		Larry Grissom, SDCERS Staff
Tim Considine		Paul Barnett, SDCERS Staff
Stanley Elmore		Mary Braunwarth
Judith Italiano		Pam Holmberg
William Sheffler		
Kathleen Walsh-Rotto.		

Item 3: Approval of Minutes

There was a motion for approval of the minutes for the January 27, 2004 Pension Reform Committee (Committee) meeting from Mr. Considine. The motion was seconded by Mr. Elmore and passed unanimously.

Item 4: Actuarial Valuation of June 30, 2003

Rick Roeder, the SDCERS actuary, gave an overview of the June 30, 2003 Actuarial Valuation. He reviewed the Comment Section of the Actuarial Valuation and answered questions from the Committee

Deputy City Manager Patricia Frazier responded to a question by April Boling regarding the City's estimated contribution to the pension system in FY 2005 based on the rates included in the CERS actuary report for June 30, 2003. The City is currently in the budget development process for FY 2005 and does not have budget estimates available at this time. In order to provide a preliminary estimate for the pension obligation in FY 2005, the rates in the actuary report were applied to the FY 2004 Budget salaries, updated for any contracted salary increases which are effective in FY 2005. The Committee also asked about the City's FY 2004 contribution to the DROP program and the City's contribution to the employee pick-up. See Attachment A for the

data Ms. Frazier provided at the meeting. Ms. Frazier also answered questions from the Committee on the total General Fund and Total Operating Fund budgets for FY 2004 including the portion of the budget expended on personnel. See Attachment B for this data.

David Wood commented on the actuarial valuation under public comment. He asked the Committee to consider the Port District's Retirement funds, which are invested along with CERS funds. The Port's funding was maintained at a full actuarial level. The question is why is the City's funding level so much lower? He feels that when the City gives away purchase of service time at unrealistic rates it is giving away money. Paying for the Corbett settlement with retirement funds rather than City funds is a drain on the system. The 8% interest on the DROP program is also a drain. He feels the City should give the DROP money to employees and let them invest it as they wish.

Item 5: Scope of Actuarial Study

Ms. Boling asked Mr. Grissom and Mr. Barnett if they had received any feedback from Mercer with respect to the work of Mr. Roeder and if they would be meeting their February 15 deadline. Mr. Barnett said he expected a draft report in the next few days and should have the final report available by the next meeting on February 17. He said there had been no indications that the report would find that Mr. Roeder was not reliable.

Mr. Austin and Mr. Sheffler reported that they met with Mr. Roeder on February 3 to review the actuarial tasks the Committee is considering as a framework for a solution. Mr. Roeder was very helpful in providing information. They estimated the cost of the additional studies would be approximately \$35,000 to \$40,000 and would take two weeks, not accounting for outside demands. Mr. Austin and Mr. Sheffler plan to meet with Mr. Roeder once more to further refine the scope of work. They asked that the Committee members contact them with any specific requests they feel have not been incorporated in the current scope of work. They hope to have a letter with the specific scope of work ready for review at the next Committee meeting. Mr. Morris said once the specific scope of work was received the City could enter into a contract with Mr. Roeder. He said the contract could specify a unit cost and then cap the total to allow for flexibility.

Item 6: Assignment Matrix

Ms. Boling reviewed some of the outstanding items on the assignment matrix. Ms. Frazier reported that the list of City assets should be available for next week's meeting and the Real Estate Assets Director, Will Griffith, can make a presentation on it. Mr. Considine reported that he is continuing to work with Sanford Bernstein to draft the scope of work for their review of the investment performance. The Committee was asked to e-mail questions they have about retirement vested benefits to Mr. Morris so he can incorporate them into his future presentation. Ms. Boling reported that letters were sent to select individuals to invite them to submit a factual presentation in writing. There have been no responses so far.

Item 7: Discussion Related to Previously Docketed Items

Ms. Boling said most of her questions about the meet and confer process were answered during the Labor Unions' presentations. She still has a few questions for City management and wondered if they could be addressed in writing so there is no conflict with the ongoing litigation.

Specifically, she said would like to know if during the meet and confer process, when a new benefit is being considered, does the City Manager take into account the past service cost, the annual impact of the amortization of the past service cost and the change to normal cost? When results of meet and confer are given to City Council, are they also given this same information about past service cost and normal cost? If those benefits are voted on and become part of the budget, is that information made public? Ms. Boling requested that the Committee provide any other questions that they may have on the meet and confer process. Mr. Morris said the questions are fine as long as they do not ask about specific actions taken with respect to previous meet and confer processes.

Ms. Walsh Rotto reported that she has been working to gather compensation comparison statistics to see what is available. She said she is working with a temporary agency in San Diego that compiles salary statistics. She plans to review the information by next week to determine if it is applicable and if an outside study is needed.

Mr. Butterfield asked that Ms. Frazier comment on what effect Moody's change in outlook on the City would have on issuing pension obligation bonds.

Item 8: New Business

There was no new business.

Item 9: Discussion of Upcoming Presentations Related to the Retirement System Overview and Meeting Schedule

There was no discussion.

Item 10: Work Plan for the Pension Reform Committee

Ms. Boling said that she had hoped the next meeting could be used for a round table to discuss the work plan, but it didn't appear that would work with the schedule. They can review information at the next meeting and further evaluate the plan. Mr. Austin suggested the Committee start building it's response as information becomes available.

Item 11: Comments by Committee Chairperson

Ms. Boling had no comments.

Item 12: Comments by Committee Members

There were no comments by the Committee.

Item 13: Non-Agenda Public Comment

Larry Stirling: Mr. Stirling reported that he is a former Councilmember who sponsored the retirement fund reforms that resulted in the thirteenth check, the exit from the Social Security system, and the match to the deferred compensation plan. All of these were approved by the City Council and a vote of the City employees. He believes that any benefits added since then, which take money away from those benefits, are illegal. He salutes the Committee members for

trying to solve the systems problems but doesn't believe they are on the right track. He has heard repeated comments that the City doesn't have any money. He can explain where the City is owed \$40 million a year and has been owed \$40 million a year for the last ten years. He feels the current retirement system must be closed down and new employees should enter into a different, less generous level of retirement plan of defined contributions. He recommends amending the City Charter to remove the conflict of interests on the board of trustees. He feels that if the Committee does those three things, collect the money, remove conflicts of interest, and go to an alternate for the retirement system, the retirement system can be fixed. He also recommended repealing any benefits that were not ratified by a vote of the employees. Mr. Sheffler asked Mr. Stirling if he knew of any models of Retirement Boards that removed the conflicts of interest. He did not know of any, but he suggested that the Retirement Board should be elected by the City's retirees.

Patricia Karnes waived her opportunity to speak.

Item 14: Adjournment

The meeting was adjourned at 6:00 PM.

The next meeting will be on Tuesday, February 17, 2004 at 4:00 PM at the same location.

Attachment A

The following information is provided in response to a question by Chair of the Pension Reform Committee regarding the City's estimated contribution to the pension system in FY 2005 based on the rates included in the CERS actuary report for June 30, 2003

The City is currently in the budget development process for FY 2005 and does not have budget estimates available at this time. In order to provide a preliminary estimate for the pension obligation in FY 2005, the rates in the actuary report were applied to the FY 2004 Budget salaries, updated for any contracted salary increases which are effective in FY 2005.

**CITY OF SAN DIEGO
PRELIMINARY ESTIMATE OF
FY 2005 PENSION CONTRIBUTION**

Actuarial Basis **\$171.1 million**
Rate of 27.94%

Manager's Plan II **\$105.9 million**
Rate of 16.33% **(The City estimates a payment of \$115.3 million)***

Normal Cost **\$ 76.1 million**
Rate of 12.42%

*** to reflect enterprise funds paying at the actuarial rate**

Based on 6/30/2003 San Diego City Employees' Retirement System Annual Actuarial Valuation
Assumes FY 2004 City of San Diego Budget salaries updated for any contracted salary increases which are effective in FY 2005

Attachment B

The following data is in response to questions asked by members of the Pension Reform Committee regarding the FY 2004 Budget during a discussion of the preliminary estimate of the FY 2005 Pension Contribution

**CITY OF SAN DIEGO
FY 2004 OPERATING BUDGET**

Total FY 2004 City of San Diego Operating Budget

General Fund	\$743.0 million
Total Operating Budget	\$1.8 billion

FY 2004 Personnel Expense Budget

(salaries, pension & other fringe benefits)

General Fund	\$572.9 million
Total Budget	\$885.6 million

FY 2004 Total Retirement Contribution Budget

General Fund	\$55.6 million
Total Budget	\$85.6 million

FY 2004 Total Employee Pick-up

(employee pension contribution paid by the City)

General Fund	\$21.7 million
Total Budget	\$31.2 million

FY 2004 Total Employee DROP Contribution

General Fund	\$1.1 million
Total Budget	\$1.4 million

*Full year estimate paid on July 1 of each year to the Retirement System and adjusted each pay period to reflect actual payroll

**Paid to the Retirement System each pay period during the fiscal year based on actual payroll