STATE OF CALIFORNIA
PUBLIC EMPLOYEE
POST-RETIREMENT BENEFITS COMMISSION

PUBLIC MEETING

Friday, March 9, 2007
10:00 a.m.
State Capitol, Room 4203
Sacramento, California

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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PUBLIC EMPLOYEE POST-RETIREMENT BENEFITS COMMISSION

Commission Members Present

GERRY PARSKY, Commission Chair
Aurora Capital Group

MATTHEW BARGER
Hellman & Friedman LLC

PAUL CAPPIELLI
San Bernardino County Sheriff’s Department

JOHN COGAN
Stanford University

RONALD COTTINGHAM
Peace Officers Research Association of California

TERESA GHILARUCCI, Ph.D.
Trustee
General Motors Retiree Health Pensions

JIM HARD
President
Service Employees International Union Local 1000

LEONARD LEE LIPPS
California Teachers’ Association

DAVE LOW
California School Employees Association

CURT PRINGLE
Mayor, City of Anaheim

ROBERT WALTON
Retired (CalPERS)
APPEARANCES

PUBLIC EMPLOYEE POST-RETIREMENT BENEFITS COMMISSION

Staff Members Present

ANNE SHEEHAN
Executive Director

JAN BOEL

DEBBIE PRICE

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Public Testimony

SCOTT ADAMS
American Federation of State, County, and Municipal Employees, AFL-CIO

WADE ARNOLD
Sutter County citizen

MARCIA FRITZ
California Foundation for Fiscal Responsibility

CHRISTY BOUMA
California Professional Firefighters

JIM LITES
1937 Act County Retirement System

WILLIE PELOTE
American Federation of State, County, and Municipal Employees

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BE IT REMEMBERED that on Friday, March 9, 2007, commencing at the hour of 10:14 a.m., at the State Capitol, Room 4203, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR 6949, RDR, CRR, in the state of California, the following proceedings were held:

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CHAIR PARSKY: Thank you all very much.

Well, on behalf of my fellow commission members, I just want to welcome everyone to the first meeting of our Commission.

My name is Gerry Parsky, and I'd just like to make a few introductory comments; and then we've got some administrative things that I'd like to be sure that we cover.

First, I'd like to compliment and thank the Governor and the legislative leaders for insisting that we address what is one of California's largest and fastest-growing budget issues -- unfunded health-care and pension liabilities -- and wanting to do it in a real bipartisan way.

I really am very proud to have, as members of this Commission, a broad cross-section of interests and experience and expertise. And I think that from the Governor and the legislative leaders' standpoint, they've made a couple of things very clear. The promised
benefits -- health benefits and pensions -- that have been promised to public employees are vitally important to state workers and their families, especially public safety officers who put their lives on the line every day. They are obligations that the legislative leaders and the Governor have said, these obligations must and will be paid by the government.

However, I think the leaders have recognized that rising obligations of this type remain one of the biggest problems facing governments everywhere, and particularly California. And as these costs rise and need to be met, it means that less money may be available for other programs that have very high priorities, such as education, public safety, and environmental protection.

Our job -- and I'll go through this in a little more detail once we get some of the administrative issues out of the way -- our job is to try to, in a calm, reasonable way, begin to educate the public about the magnitude of these issues. And once that is understood, to step back and say, "How can we reasonably and adequately finance the promises in order to honor them?"

So with that, once again, I think if you look around the table here -- and I would just say, Connie Conway is not able to be here, but she called. This
first meeting was called not too much in advance, and so I apologize for that. We're going to try to put a schedule together for the balance of this year that will give people advance notice. And Anne will go through that for us.

But Connie did make a point of saying that she apologized for not being here.

But I think you have all of the other Commission members; and they represent, as I said, a real knowledge base about the issues that we have to address. And so I'm really grateful for everyone's willingness to participate.

With that introduction -- and I'll come back and make a few other comments before I ask our Commission members to -- I'd like to just turn this over, just for some administrative issues, to Ted Prim, who is the Deputy Attorney General, to make sure we go through what our legal requirements are.

MR. PRIM: Thank you very much.

Would you like for me to begin now?

CHAIR PARSKY: I would.

MR. PRIM: I was asked to come over and give you a brief discussion about the Bagley-Keene Open Meeting Act, and address a few issues that may come up under that.
I think what I'll do is start with kind of the philosophical underpinnings of the Bagley-Keene Act. Once those are focused upon, I think it makes a lot of the other aspects of the Bagley-Keene easier to focus on.

The Legislature made two fundamental decisions when it sets up a board or commission. The first is that it wants to bring together a group of people with different experiences and backgrounds to engage in a consensus-building process in order to reach decisions. And that is contrasted with the department style of government in which you name a department head and tell that person to appoint deputies and get a job done.

When you appoint a board or commission, more than just striving for efficiency in getting a job done, you're wanting to build in this consensus-building process.

The other decision that the Legislature made, was to say that when a board or commission goes through this consensus-building process, the public should have a seat at the table. So when you're acquiring information, when you're deliberating on what to do, the public should have the ability to watch that process and participate in it as well.

If you can keep this goal in mind, it will help you deal with some of the frustrations that living under
the Bagley-Keene Act can otherwise bring. Because in order to try to protect that process, the Bagley-Keene Act will get in your way of doing business as you're otherwise used to doing it.

We, as human beings, generally want to build consensus; and a lot of times, we want to build it in one-on-one, face-to-face conversations. We want to use e-mail, we want to have telephone conversations, we want to go to lunch, we want to do all these kinds of things in which we want to feel out the other people on our Board, get the benefit of their wisdom, give them the benefit of ours. And through that process, we get to identify problems and start to build solutions.

The problem with that is that when we do that process, the public is taken out of the process. And they don't have the ability to watch and see what information you're acquiring, they don't have the ability to see the kinds of exchanges that you're having, and they don't have the ability to contribute to that process, either.

So the Bagley-Keene imposes certain kinds of structures on the way you do business. It actually envisions that the way you are here today is the way that business ought to be done. You're in a noticed, open public meeting where everything that you do is visible,
and the public gets the chance to participate in that process as well.

There are two basic problem areas that come up under the Bagley-Keene Open Meeting Act. The first is closed sessions and the second is serial meetings.

From what I understand of your charge, probably closed sessions aren't going to be an issue for you. You'll probably be doing everything in public session.

The serial meetings is this issue of individual members of the body engaging in certain kinds of communications. And when those communications ultimately reach a quorum of the body, the Serial Meeting Rule says that you just then had a meeting of the body in serial pieces. And so the idea is that you don't do, through individual communications, that which you can't do as a group. So if you were to have an unnoticed meeting of this body in which you all came together in this room but didn't tell anybody, that would be a violation of the law.

The notion under the Serial Meeting Rule is that if you do that one by one, that will also be a violation of the Open Meeting Law.

And these serial communications can happen in a variety of ways. They can be member-to-member communications. They sometimes can be your executive
director going member to member, they sometimes can be
some other kind of intermediary, going member to member.

What they don't involve is a member of the
public approaching you one-on-one. So long as you're not
orchestrating those communications, individual members of
the public can approach you one-on-one and that doesn't
create a serial meeting.

Now, very recently we've had a Court of Appeal
decision that has kind of muddied the waters a bit. The
rule talks about participating in a process to develop a
collective consensus. And our office has always
interpreted those words, "to develop a collective
consensus," as the process by which the consensus is
developed. So it's all the steps along the way of
communication that would lead to a consensus.

This case came along and said it's
communications that result in a collective consensus.
And so it suggests that if the communications don't
actually result in a consensus, that it's "no harm, no
foul."

I would probably urge you, and I think Anne is
going to urge you, to stay on the conservative side of
that interpretation. And the reason for that is that
if you engage in lots of these serial communications, and
people who are observing your commission are aware of
that, you're going to be in a defensive position of saying, "Yes, we had all these communications, but honest to goodness, promise, we didn't reach a consensus. We just talked and we never came to any decisions at all." And people will doubt that and criticize you for it because you still are going to be having these communications outside the view of the public. So there's a policy decision by you to be made also as to whether you want to stay on the conservative side of that or whether you want to push the envelope a bit.

The other question I was asked to address is committees. There are basically two types of committees, and these are committees of your body. I understand you're a commission or a committee, but you also have the ability to create committees.

The first type are three-person advisory committees. If you create three-person advisory committees, they are treated under the Bagley-Keene just as you are.

A two-person advisory committee is not. So if you want to just name two people to an advisory committee, they can go out and collect advice and come back with a recommendation to you; and they need not comply with the Bagley-Keene, but three or more would need to.
The second thing is what we call a "delegated committee" and that means that it has had authority delegated to it to make certain kinds of decisions. A two-person or greater committee with delegated authority is subject to the Bagley-Keene Act, and has to meet according to all the open meeting and notice provisions.

So that's basically the material that I wanted to cover.

I want to point out to you, we did give each of you a little publication that we call, "The Bagley-Keene Handy Guide." It was written with boards and commissions in mind. It's got the copy of the law, which is the main thickness of the book. The text of it is only about 15 pages. And it goes through and tries to highlight the various provisions of the Act and the various exemptions and things, and try to focus on the kinds of questions that come up repeatedly.

You also will have the opportunity, if you have questions about the Bagley-Keene, to ask for assistance from counsel at the Department of Finance or from the Attorney General's office; and we'll try to provide you whatever advice you need.

So with that, I am happy to entertain questions, if you have them. Otherwise, good luck.

CHAIR PARSKY: Thank you very much.
We'll look to counsel's advice periodically. I don't think we'll ask anyone around here to take a test on the Bagley-Keene Act, so I think it will be very helpful to have counsel readily available. Any questions on any of the -- yes?

MR. LOW: So for this commission, how would "quorum" be defined?

MR. PRIM: "Quorum" is a majority of the body. So it's --

MR. LOW: Seven?

MR. PRIM: -- half plus one.

You're 12?

MS. SHEEHAN: Yes.

MR. LOW: Yes.

MR. PRIM: So it would be seven.

MR. LOW: Thank you.

CHAIR PARSKY: We'll try to schedule it so that we get a little bit more than half at each of the sessions.

I think Connie would have been here. So we're really going to try to accommodate everyone's schedules for our meetings.

John?

MR. COGAN: In terms making information from our hearings available to the general public, is it required
under the law or recommended by you to put it out on the Web, create a Web site, put it out on the Web? And if so, is there a time period? Is there a time period that you would recommend that we put the material on the Web within?

MR. PRIM: Well, the requirement under the law is that your agendas have to go on the Web site. You also have to provide information about your meetings to those people who request it.

I think the best practices are, if you have the ability to do it, to take your meeting materials and also put those on your Web site. And if you receive certain kinds of materials in connection with your hearings -- your minutes, other things like that -- I think posting them on the Web site as well is viewed as a best practice. It is not specifically required by the Bagley-Keene Act.

CHAIR PARSKY: Any other questions from Commission members?

(No audible response)

CHAIR PARSKY: Thank you very much for that input.

I'll turn it over to Anne now, just to go through a few other administrative arrangements, and walk through some of the materials; and then I'll have a
few comments, and then we'll turn it over to the
Commission.

MS. SHEEHAN: Great. Thanks, Mr. Parsky.

Just a couple of housekeeping things also.

Since the sergeant is not here today, when you do want to
talk, just press the button, the light will come on for
the microphones.

For those in the audience, there is a sign-up
sheet for anyone who would like to make any comments
during our public comment period, as well as a sign-up
sheet to get on our mailing list.

As I think was referred to just a minute ago, we
are working to set up a Web site. We will post our
transcript, as well as other background materials on the
issue and on the discussions on the Web site. We hope to
have that up in the next couple of weeks.

And you can always -- I will make sure the
Governor's office posts a press release when we have the
Web site up so that you will all be aware of when it is
up, active.

At that point, we will also be posting the
schedule or schedules for our future meetings on that Web
site. But until that is done, we will work through the
Governor's Press Office and their Web site to make the
information available to everyone.
In your folders that the members have -- and the information is also available to the public -- in addition to the agenda, you also have got a calendar and a questionnaire that we have made available, because we would like to survey the members as to what your preference is for meeting days, when and what are good days over the next -- I think we put the next five months in there for you, for you to cross out, "You can't do it this day." There's a place to put your name, so I know which of the members are sending it back. And then my office will be compiling that.

And our goal is to make sure that we maximize attendance by all the Commission members at our meetings. We recognize that's going to be a challenge; and sometimes people may not be able to attend all of them. But we will do our darnedest to make sure we can get as many members.

As I said before, for those who will miss, you'll still get the package of information; and the transcripts will be up on the Web site for those who may have scheduling conflicts.

MR. LIPPS: Anne, I don't have one.

MS. SHEEHAN: You don't have one? All right, you will -- oh, here they are. Sorry.

So he will hand those out to you now, and
they've got your names on each of them, the hand-out.

    I am assuming e-mailing -- that seems to be the easiest way to communicate with people these days. So that will be the best way and then post most everything on the Web in terms of schedules and all of that.

    In your folder, you'll see you have quite a bit of background information on the subject, both on GASB 45 as well as some information on pensions. We will be providing on the Web site, as well as at the meetings, some background materials.

    For any of you who have got some additional materials that you'd like me to circulate to the members, please feel free to send it to me, and we will make that available to the Commission members, as well as to the public. And we'll post any of that on the Web site.

    It really is just background information for all of the members to get up to speed on the issues, and to better educate everyone on the subject that we'll be discussing at the Commission.

    So for those of you who do have some additional stuff -- I mean, we went through -- I could give you reams and reams of paper. I don't think you want that, starting out. We're trying to cull through what really may be some short, concise issues; and then we can provide additional information as we need it.
I know one of our Commission members has quite a bit of writing that she's done on this; so I'll look forward to getting some stuff from her.

I think that is it, in terms of just sort of logistics and housekeeping for the first meeting. As I say, when the Web site is up, I'll send an e-mail to everyone and we'll post it; so that will be the best way to track what's going on.

Unless Members have questions for me?

CHAIR PARSKY: Any questions of Anne?

(No audible response)

CHAIR PARSKY: And, by the way, Anne is serving as our executive director for this Commission. We will also have additional staff that we will bring on.

MS. SHEEHAN: Right.

CHAIR PARSKY: We'll obviously notify the public about that as we move forward to collect appropriate information and data.

MS. SHEEHAN: And the Department of General Services will be securing office space for us, telephones, a separate computer system. So as soon as all that is up and going, we will post that for both the Commission members, as well as for the public, to make sure they know where we are.

CHAIR PARSKY: Okay, I should mention that at
every session, we will have a public comment period. For this session, the comment period will come at the end of our meeting.

We may decide that it's more appropriate to hear from the public at the beginning, once the agendas are posted, but since most of the discussion here is about the work plan itself, we thought it was appropriate to call on the public at the end of our session. So we'll go through a few things first, and then call on the public for comment.

If you want to make comment, please sign up and, depending on the number of people, we'll allocate a certain amount of time for each member of the public to comment.

I'd just like to go over a little bit an approach and a work plan that we put together. And I think everyone has been handed out this (pointing).

Has the public been given as well?

MS. SHEEHAN: They've got copies.

CHAIR PARSKY: That's good.

It's just entitled, "Public Employee Post-Employment Benefits Commission Approach and Work Plan."

And if you turn --

MS. PRICE: The copies are right here.

CHAIR PARSKY: We'll let the public have the
plan before we dig in a little.

We'll try to do things a little more efficiently as we get going. That's okay.

I think after you see this material, it won't be quite as popular as it may sound; but that's okay.

DR. GHILARDUCCI: You've raised the expectations.

CHAIR PARSKY: We want to lower expectations so we can exceed them.

Okay, very briefly, page 1, just to remind everyone that the Commission is charged with delivering a report to the Governor and the Legislature by January 1, 2008. And the nature of this report really breaks down into three categories:

First, as I said in my introduction, in a calm way, to begin to identify and quantify the size of the post-employment benefits. Try to identify the full amount of “health-care and dental benefits and other pension obligations for which California governments are liable and which may become unfunded.” Not to question that they will be honored, but then to move to the second phase.

But the first question is, what's the nature of this issue? How big is it? How big may be it become?

So that the public, as well as the Commission members,
can begin to understand why we think this is an issue that needs to be addressed.

Second, after we get our hands around the nature of the problem, then to begin to evaluate various plans or approaches to addressing the unfunded post-employment benefit obligations. As I said, it's not to question whether or not the obligations need to be funded, but to address how we can approach them in a fiscally responsible way.

And then, third, once we have assessed various approaches, to make some recommendations to the people that can act. We are not a commission that can bring into law or act in any way. Our job is to put forward some recommendations which the Legislature and the Governor and the interested parties can act on.

So that's basically the three-part approach.

And I emphasize the need for public awareness in this process, because I do think that that's a very important step.

Page 2. This may look a little like the University of California, but it's not, really. It's not meant to be that. But in order to meet these goals, the Commission should review existing background material, we're going to conduct public hearings to solicit testimony from interest groups, and then finally develop
an economic model, so that we can evaluate solutions.

On this page, you can see we need to do the review of the background material. There's a huge amount of material here, but we want to try to summarize the major publications, identify and summarize significant reform proposals that had been put forward; and then make sure that experts are interviewed, so that we can begin to approach this not just from the individuals around this table, but have the benefit of some expert advice.

We want to hold public hearings, with the exception of John Cogan, who, in and of himself, is an expert. So you can correct me anytime you'd like.

We will then conduct public hearings statewide. Our hope is to be able to have five -- we'll have to see if we need more -- but at least five public hearings with expert panelists, with interest groups who would like to speak on this subject and have adequate time to do that, as well as legislators who would like to come forward and offer their views on the kind of legislation that ought to be contemplated. And we'll try to make sure that we provide summaries of those.

Then, once all of that happens and we're still within the year 2007, we want to make sure that we develop an economic model so that we can begin to size the benefit obligations that exist, and will exist, in
state and local agencies.

And we'll want to have an ability, through issuing surveys, to validate the private-sector cost, the total private-sector cost.

And the economic model will help forecast for the legislative leaders and the Governor the impact of various proposals on the obligations that exist for the state. That's kind of the approach.

The last page kind of gives you a -- or the next-to-the-last page -- gives you kind of a four-phase approach to conducting this background review, with a little timetable that may need to be adjusted, depending on it, but we have to try to complete all of this work by the end of the year.

Background review, public hearings with a time frame, and the key activities, economic modeling time frame. And then the recommendations, with some background there. So you can see it in a time frame.

The next steps, which is the last one, is -- and I'd welcome, at this session or at the next session, any comments about this. If people think that this is too aggressive, is not inclusive enough, please, this is all meant to be a draft, to have commission members have an opportunity to at least think about these things. But we'll want to finalize this work plan. We'll want to
make sure that we secure the resources necessary.

As I said, we will have staff, we'll create a budget, we'll make the budget available to the public, so that they know exactly how much will be spent on trying to do this.

None of the Commission members are going to be paid -- unfortunately for all of you -- but the staff that we will have will be compensated.

And we will then kick off this process within the next 30 days.

So with that background, that's kind of the approach that we thought you all ought to be thinking about.

And with that, I'd just like to kind of turn it over a little bit to Commission members now, make any comments about this kind of plan, make any comments about the issue that we are facing; and we'll have comments from each of you, if you'd like to make them now. If you don't, that's perfectly okay.

So would any Commission members like to comment about this or comment about the issue that we have to face?

And you don't have to be bashful, it's okay.

Yes, Dave?

MR. LOW: I think, generally, the plan that
you've outlined looks good. I think the timeline makes sense.

I would just note that on bullet 1 on the first page, the “size of the post-employment benefits,” I think it's important to quantify that. I think it's also important to recognize that the pension unfunded liabilities are somewhat distinct and different from the GASB OPEB unfunded liabilities. And when we calculate those numbers, we don't just roll them together; that we separate them, so that people can understand that they are driven by different factors and derived differently than each other. It's important to acknowledge that.

CHAIR PARSKY: I think that's a good comment.

John?

MR. COGAN: Just to follow up on Dave's point. We have, as I understand it, two reports that we're going to make. One that's going to deal with the nature or magnitude of the problems, pension and health care separately; and then we'll have a report that deals with the solutions. I think that's a great way to go.

It's always seemed to me that it's much easier to get agreement on solutions when you first have an agreement on the nature and magnitude of the problem, so I think it would be wise to have two reports.

CHAIR PARSKY: I think that's a good point.
MR. PRINGLE: Mr. Chairman?

CHAIR PARSKY: Curt?

MR. PRINGLE: Yes, I would like to hear just a little bit about -- I have two questions on page 3 or page 2, depending upon which page you're starting with; the one with the three boxes in the middle.

First off, yes, I think it's valuable to go out and solicit information and input in public hearings around the state; but what are we asking to be provided to us? At the point in time in which it's on the chart or the schedule, the timeline, to me, that's during information-gathering time, and one identifying the magnitude of pension and obligations and benefit obligations in the state.

That's not what we're seeking public input on, necessarily; is that correct? I mean, I guess we could get people who are experts in those fields, or people who have awareness and concern in that area; but to me, we're going to get a lot of that in written form, in articles and presentations and data that has been provided.

I guess I would really like to make sure that we don't just go off in a wild -- I take that word back -- in a just general public forum, saying, "Come and talk to us about your pensions, or pension obligations, or impacts on your government," as opposed to saying,
"These are two or three or four or five topics that we want to hear on," and then people know if they are responding to what we are seeking.

We always have the opportunity to get general information; and that's good.

But I do think it might be nicer -- or better, in terms of having -- I guess I've participated in enough statewide public hearings, where you say, "This commission is in your community today to hear on public employee pension issues." And you get a wide range of public input. And we always should be open to a wide range of public input.

In fact, if we really want input that will bring us value, maybe there are categories we can identify. And as we are hearing that data from the public, people can self-identify to respond in those areas or just be general comments that they wish to provide to us.

But, to me, I'd like to have some -- and I know this is all in the thought process --

CHAIR PARSKY: Right.

MR. PRINGLE: -- a structure provided, at least in a public way, as to what we are really looking to seek. And I don't know necessarily what those categories would be.

I think members of the Commission may say, "Hey,
it would be nice to hear from people on these types of
subjects throughout the state."

CHAIR PARSKY: I think you've made a very good
point. I think in the sense that our approach needs to
be a little more structured than totally free-form.

I think that having experts come in and provide
input on specific subjects and having an agenda for each
of the sessions will somewhat orient the way in which we
would like comments. But, for instance --

MR. PRINGLE: Excuse me. With that, are you
suggesting that there may be five statewide hearings, and
each of them have a topic, an overriding purpose?

CHAIR PARSKY: Or several. Or several
overriding topics.

MR. PRINGLE: Very good.

CHAIR PARSKY: And that when we get to
summarizing the potential of reforms or approaches to
dealing with how these obligations can be financed --
there will be several different alternative approaches;
and the experts may come in and comment on those. And as
those are identified, the public will want to comment on
those, so that there will be a lot of written material.
I think we will need to structure each of these hearings
so that we approach each of those in a prime way. But
each of the public sessions will have topics that we will
try to address.

MR. PRINGLE: And looking at that, though, that was just what I was looking at in terms of the four phases here, that a few of those public hearings may, in fact, be information-gathering public hearings based around topics.

CHAIR PARSKY: Right.

MR. PRINGLE: But others may be later than this May 31st deadline, or line that's on here, that could be responses to proposals, ideas, concepts that are out there.

CHAIR PARSKY: Absolutely.

MR. PRINGLE: And, in fact, this doesn't necessarily reflect that. It reflects all of them being done as information-gathering prior to May 31st.

And there may be great value to kind of hear responses if people suggest, "Hey, here's a few ideas," hearing back the public's response and that may be of value as well.

CHAIR PARSKY: I think that's a good suggestion. We'll make that change.

MR. PRINGLE: The only other one that I was wondering about is just the phraseology of "Economic Model," in the first line, "Size current post-employment benefit obligation" and "issue survey and validate total
private-sector costs."

I guess I don't understand those words. What are we -- "issue a survey," in terms of --

MS. SHEEHAN: Surveying the public entities who have collected the information, and how they validated, how they got their actuaries to come up with those figures.

MR. PRINGLE: And validate the total private-sector costs?

MS. SHEEHAN: Well, I guess the approach on that was, it's the cost to the public; but in using the actuaries, they came up with those models. So, yes, so maybe it was worded --

MR. PRINGLE: Okay.

MS. SHEEHAN: But that's the idea.

Many of the locals -- and I've already worked with the cities and counties to put together a data-gathering group.

MR. PRINGLE: Okay, so this is really soliciting that information from --

MS. SHEEHAN: Yes, many of their actuaries.

MR. PRINGLE: We have the tools for the state government side --

MS. SHEEHAN: Yes.

MR. PRINGLE: -- this is putting together a
survey to solicit the interest of all the various
government levels in California --

    MS. SHEEHAN: Correct.

    MR. PRINGLE: -- and getting back that total pension or obligations?

    MS. SHEEHAN: Total number, yes.

    CHAIR PARSKY: And health-care obligations?

    MS. SHEEHAN: Right.

    MR. PRINGLE: Thank you.

    MS. SHEEHAN: And let me add, as David said, in the surveys, their most recent pension actuary study they did, their health care, what they've did under GASB, and then making sure we're comparing apples to apples when we've pull the numbers together, because many of them differ at the local agencies, as we know.

    MR. PRINGLE: Yes.

    MS. SHEEHAN: And so we want to make sure that in going through those figures, we are talking health care on one, and we're not mixing health care and dental, and doing the retirement systems differently.

    MR. PRINGLE: Thank you.

    MR. CAPPITELLI: Mr. Chairman, I have a question.

    CHAIR PARSKY: Yes.

    MR. CAPPITELLI: On that same page where it
talks about "Background Review." The second bullet down, "Identify and summarize most significant reform proposals." And then embedded in that paragraph, we talk about legislative proposals.

I think we need to be cautious when we look at that. Certainly, embedded in some of those proposals might be some valid remedies or some suggestions.

But I think it's been pretty clear from some of these proposals, that there's some things in there that are not real popular with a lot of people, for a lot of reasons and that's why those proposals didn't move forward.

And so I'm troubled by the wording where it talks about, "considered for a California-based solution." I think we should use that as background information, but only to gather and collect information. I think we don't want to send the message that we're trying to somehow resurrect those proposals, so that we're trying to move them forward. Because I don't think that is really what we want to do. We want to really kind of start from scratch, that's why we're here; and then move forward with using that as background information.

CHAIR PARSKY: Well, it was intended to be clearly under background.
I think that the legislative leaders, the Governor, and I think all of us recognize that the approach taken in 2005 was roundly rejected by the public. The approach taken there, however, was really oriented not around addressing the magnitude of the commitments that are already in place and how they can be financed, but looking at -- and only on the pension issue, looking at the future.

And so I think your point is well taken. This is meant under the background, it's meant to make sure that we all understand what has been looked at legislatively and otherwise; but it's not meant to in any way preclude us from turning them all aside or taking selective elements of it, if we think they're appropriate.

MR. CAPPITELLI: Thank you for clarifying that. That gives me better comfort after hearing that. Thank you.

CHAIR PARSKY: Yes, Bob?

MR. WALTON: Thank you.

Just to add to what I think Dave -- the point that Dave was making, I think the issues between retirement obligations and health obligations could well be distinctly different. And the experts we ask in each of those areas could be different.
For instance, the retirement obligations are well-known. They have a vast history. And I don't think we'll need a lot of information on what they are. We may need some background information, and possibly more to the benefit of the public on what they mean.

Whereas in health, they aren't really known, and what the impact of GASB, what it really means. And so I think the experts we look at those in those two areas could be different; and we may not be looking for the same information. I think health is going to require a lot more detail.

CHAIR PARSKY: I think you're right about that. It doesn't mean that we don't need to address how we are going to finance or deal with the obligations in each, but there's been a lot more -- I agree, a lot more information on the pension obligations than on the health care.

MR. WALTON: Absolutely.

CHAIR PARSKY: Lee?

MR. LIPPS: Going back to the legislation issue, do we know to what extent -- or have there been discussions among the legislative leaders and the Governor about current and pending legislation that could impinge upon our work and our recommendations? Or are we going to be unfettered?
CHAIR PARSKY: Well, given the nature of the people around this table, I would start with the proposition that we are unfettered. I don't think any of us, our hands are tied.

The legislative session will continue. But I think on the issues that we've been asked to deal with, I think that the legislative leaders and the Governor have said, "We would like this Commission to come forward in this area and make some recommendations." So I think they'll be waiting to hear from what this Commission has to say.

MR. LIPPS: Thank you.

MR. COTTINGHAM: Mr. Chairman?

CHAIR PARSKY: Yes, Ron?

MR. COTTINGHAM: One of the things that I look at when -- I'm going to go back to public hearings, that Mr. Pringle touched on, is that you've just identified that we should have five statewide hearings. And I think it's going to be very important what locations are picked for those hearings, because that can really skew the information and the tone and tenor of what comes forward. So I think that's something that I would like to see, is that there's some input into where these meetings will be held.

The other issue I have, in discussing
legislation, I think we do need to be open to that, because there are going to be some things that will come forward from the systems such as CalPERS and CalSTRS, that may be looking to resolve some of the problems that are out there. And I think one of the things coming forward from CalPERS is going to be prefunding for health care, which could be very important. And prefunding is one of the issues of GASB.

I don't think it's unreasonable, from my perspective, that there might be some legislation that comes forward that has the proper elements, that this Commission might be willing to support or endorse. And I think, if it does, that would carry a lot of weight.

If we look at health care -- and health care is the 800-pound gorilla in this whole mess, that is why we are here. And maybe "mess" isn't the right terminology. But in what I have seen -- and I'm not an economist, but Health-care costs have outpaced inflation, I think two times the average CPI. That's driving the cost of health care not just for retirees, not just for active employees, but for every person in California, every person in the United States. And it's been going on for decades and just over the last few years, have people really been trying to tackle it. So, again, like Mr. Walton said, we don't have all the data on that and the
way to control that.

But the only way to make any changes in health care, delivery and controlling costs, probably is going to be legislatively. So that may become, whether we want it or not, may become a very big aspect of what this Commission looks at.

CHAIR PARSKY: Well, as I said, we will not be able to, and shouldn't attempt to control the legislative process. That can go on as the legislators deems appropriate. We also can't control actions taken by individual pension plans during this time. If we're asked to provide commentary on that, I think we will be in a position to do so.

But I do think on the work of this Commission, generally, the legislative leaders have said, "We want to hear from you," but we're not here to stop them from legislating, if that's what they deem appropriate.

Any other -- Teresa?

DR. GHILARDUCCI: I'm very glad to fly all the way from Indiana to come here.

CHAIR PARSKY: We're very glad to have you.

DR. GHILARDUCCI: Thank you. Thank you.

And I'm very glad to see that you've identified what one of our outcomes would be, which is a way to project costs, because if you don't know what the cost
is, then you can't even imagine how to pay for it.

But you don't need a commission to do that. That really could be given to Finance, to the actuaries, to count up the numbers, to survey the other governments, to have a uniform way of measuring. That's all very good governance; it's very basic.

What I thought the Commission would do is a true economic model, rather than just an actuarial liability model. And a true economic model looks at cost and benefits. And so one of the things that I imagined for these hearings, is to hear from employers, agencies who really need these pensions to do their business, to motivate people, to attract them, retain them.

You know, we really have no idea what all those stories are. And there are so many, because public employment is the most varied kind of employment.

Pensions -- you know, I've written this -- a Rorschach test, depending upon who's looking at them -- we could look at them in terms of just cost; but if you look at them another way, well, they're a source of investment funds, and they're really important for economic development.

You know, should we not be charged with looking at those issues? They're very important for employers, as I just said. And there also could be very inefficient
financial intermediaries, or they could be very
efficient.

Do these pension funds collect in money in a
Timely, efficient way, and do they pay them out? Because
if they don't, that could be an interesting and important
finding for us.

So I would hate to do this to everybody, but
kind of broaden our focus a little bit, broaden our field
of vision, and take a look at some of the benefits of
these plans as well as their costs.

CHAIR PARSKY: Well, I think understanding the
benefits is clearly an appropriate part of public
awareness. I mean, I think that step one in this process
is to identify for the public, in some terms, the
magnitude of the issue.

DR. GHILARUCCI: Sure.

CHAIR PARSKY: But commensurate with that, is to
understand why are our public officials endorsing the
fact that these benefits will be honored? In large part,
it’s because they're an important part of our recruitment
and retention of an important part of our sector.

So I do think making sure that people are aware
that the benefits is an important part of this program as
well.

Yes, Jim?
MR. HARD: Yes, I wanted to agree with Teresa in terms of the impact -- looking at impacts in terms of California, because we're looking at the costs in terms of taxpayers and, you know, the economy of California. And I think that the impacts in other ways have to be looked at, too, so that we get a full picture.

I think that if we have too narrow a shot on these things, kind of like looking at the unfunded liability between 2000 and 2003, that's not how the stock market works. I mean, there's ups and downs and ups and downs. And if you take one little shot, it's going to give you one picture; and if you look at 20 years, you'll get a different picture. So I would like to endorse Teresa's suggestion that we not get too narrow in our view.

CHAIR PARSKY: Any other comments?

(No audible response)

CHAIR PARSKY: I think those are all good suggestions.

We'll try to make sure that we revise some of this material, get it around, taking into account those comments.

Okay, I think next, we want to hear from the public.

And do we have, Anne, a sign-up sheet?
MS. SHEEHAN: Yes.

CHAIR PARSKY: You can administer it, if you would like.

How many people have signed up?

MS. SHEEHAN: Well, as of now, there are four. But if other people would like to testify, please don't hesitate to come forward and sign up.

It looks like Wade Arnold is the first one, Sutter County.

CHAIR PARSKY: I think what we'll do, just to kind of set a time frame around it, why don't we, for this session, have it be not to exceed two minutes? And if you really have something more important to say, we'll extend it a little, but let's just see if we can't set some time frame around it.

MS. SHEEHAN: And then after Wade is Marcia Fritz.

MR. ARNOLD: Thank you, gentleman. I'm Wade Arnold from Sutter County. And I appreciate the opportunity for you to give us to speak.

Local governments pretty much have taken their lead from the state, and followed the state in raising retirement rates, lowering retirement ages. But in doing so, this has caused counties and cities a great deal of problems. They have raised retirement rates to a point
where it's not manageable anymore.

Sutter County's costs have gone up 65 percent in the last three years. That seems a little bit high, especially when we're already paying 57 percent of our payroll in benefits. So local governments are trying to figure a way out of this. They're closing libraries, they're laying off firemen, they're not hiring people. It leaves local governments in a position to not be able to do the things that they should for the taxpayers of their area. They can't provide road services and other services because they're paying for these high pension costs. We taxpayers, our children, and our grandchildren, are going to have to pay for this for at least 20 years or more.

And I think that we need to make some changes. And I think one of the first things that the Board, or your Commission can look at, is the possibility of changing all the new hires to a defined contribution plan. Perhaps while you're trying to figure this out, you might be able to get them to raise the retirement age to 62, maybe. And that could all be done legally to the new hires. You don't have to wait or do legislation.

And, you know, that just seems to me that you folks are here to find solutions to this problem. And we'd better look at it today because it's going to get
worse in the future.

Thank you.

CHAIR PARSKY: Thank you very much.

Who is next, Anne?

MS. SHEEHAN: Marcia Fritz, right here, is coming up.

MS. FRITZ: Good morning. I'm Marcia Fritz from Citrus Heights, and vice president of CFFR, which is California Foundation for Fiscal Responsibility.

I've been a CPA for 30 years and provided audit and consulting services to dozens of state and local government agencies, including CalPERS. As a result of this experience, the Governmental Accounting Standards Board, GASB, appointed me last year to their task force on pension accounting research.

I want to thank the Governor and legislative leadership for appointing this commission to investigate and propose solutions to the most important fiscal issue facing California: The growing debt and unsustainable costs of providing retirement benefits for public employees.

CFFR believes the Commission's research will show that California's pension and retirement benefit costs are out of control. We believe that these costs must be reduced to protect taxpayers and the vital
programs that will educate our children, build our roads, care for our sick, and provide public safety for decades to come.

CFFR has a solution that retains the defined benefit system and provides a fair opportunity for secure retirement after a full 40-year career in government service.

We recognize that promises made to employees must be kept. No change should be made in the benefits earned by current employees and retirees. They have a legal right to the existing benefits, and only the serious fiscal consequences of keeping those promises should be considered by the Commission.

We want to be very clear on these two critical points. We do not seek changes in retirement benefits owed to current employees and retirees, and we want to retain the defined benefits system as a secure foundation for new employee benefits.

But for new non-safety employees at all levels of government and in our schools, the lifetime retirement age should be increased to 65. Furthermore, except in cases of disability, retiree health benefits should not be available until that age.

Recognizing the physical demands of our public safety workers, their retirement age should return to
55 -- return to 55 -- just as it was before 2000. A full career in public safety service then should be to 30 years.

The long-term savings created by raising the retirement age for new employees should be used to pay for the mounting unfunded liabilities owed to existing employees.

There are many details to be considered in developing a less costly benefit package for all new employees.

CFFR believes the Commission should carefully consider three important issues fundamentally:

What is the fair level of replacement income for retirees?

Two, how long should employees be required to work to earn it?

And three, at what age should the lifetime benefits become available?

If a responsible consensus can be reached on these questions, designing a retirement benefits package for new employees becomes much easier.

CFFR wants to thank the Commission in advance for your work on this important issue. And we are here to assist you with both ideas and information. We have a lot of experts.
On behalf of all Californians, we hope the Commission clearly hears the tick of this fiscal time bomb and finds a responsible way to limit its damage to future budgets and programs.

Thank you.

CHAIR PARSKY: Thank you. Thank you very much. Dave?

MR. LOW: Can I ask a few questions of this witness?

So let me get your proposals clear in my mind. So if somebody were to retire before age 65 -- say, at age 60 -- then they would not be entitled to a pension at all between 60 and 65; is that correct?

MS. FRITZ: Not necessarily. We are patterning our recommendation with the Social Security. You can retire early for Social Security at 62 at reduced benefits. You still don't qualify for Medicare until 65. But it's your decision, if you can manage your money and invest, to retire early, pay your health care until you're entitled to Medicare at 65.

It is very similar to what the federal debt-defined benefit plan is today.

MR. LOW: So do you have a recommended factor that you're reducing the people's pension by?

MS. FRITZ: Yes, it would be the actuarial --
just like Social Security. It's the actuarial value based on the life expectancy. It's an actuarial calculation.

Bob, I'm sure you know how that works.

MR. LOW: So at what age could somebody retire and receive this? Is there a minimum age?

MS. FRITZ: Our foundation hasn't quite got to the early retirement. But it would be whatever the retirement is prior to 65, it would be an actuarial reduced benefit. So it would be a neutral impact on the employer's cost.

MR. LOW: And they would receive no health care at all until age 65?

MS. FRITZ: Until 65.

But the massive health-care costs -- California is going to be the hardest hit. I'm on the GASB task force that's looking at this. And we're going to be the hardest hit because our retirement ages in this state are the youngest. And the costs for health care are the most, after age 50. And the GASB 45 requires you to calculate the true costs of the retirees. You know, it's not the -- what is it, I'm trying to grasp for words here -- but the costs after 50 for your health-care benefits that you're paying to that group of people as opposed to people 20 to 35 is night and day. And we're
going to be the hardest hit. So don't be surprised at
some pretty big figures coming to California.

MR. LOW: Well, I mean, it's not surprising that
people who are older will tend to have higher health-care
costs. As you get old, you tend to --

MS. FRITZ: Right, but we have the youngest
ages. We have the youngest retirees.

MR. LOW: So this proposal hits pretty close to
home for me. So let me just sort of ask how this would
work.

My sister has just retired, she's a teacher.
She's 58. She worked in the classroom for 36 years.

MS. FRITZ: Right.

MR. LOW: She has cancer. She's going through
her fourth bout of chemotherapy. She probably is not
going to live to see 65. So the doctor said, "You know,
it's not very good for you to be in the classroom with
these sick kids every day."

MS. FRITZ: Right.

MR. LOW: And so she basically would now be
going without health care between now to 65 --

MS. FRITZ: No, we are very --

MR. LOW: -- and 65 --

MS. FRITZ: It's very similar to Social
Security. If you are disabled, you would be able to
retire and at a disability benefit with health care.

MR. LOW: I don't believe Social Security treats cancer as a disability.

CHAIR PARSKY: I would suggest that we not have a complete give-and-take on this one subject right now. It's perfectly okay. But I think what we can do with any proposals that are put forward, we can -- at a future hearing, we can have the proposals put forward in great detail, agendize them, and go back and forth on them.

If you haven't thought through completely how all of it would be dealt with, we should get it forward.

MR. LOW: Okay.

CHAIR PARSKY: Thank you very much.

MR. COTTINGHAM: Ms. Fritz, could I ask you a question?

MS. FRITZ: Sure.

MR. COTTINGHAM: I am from the public safety arena, and I think some of your data or information may be flawed, because our previous retirement formulas were at-age-50 formula. So we didn't --

MS. FRITZ: Prior to '99?

MR. COTTINGHAM: Yes, prior to '99.

MS. FRITZ: That's not my understanding.

MR. COTTINGHAM: Okay, well, if you look at the systems --
MS. FRITZ: You were able to retire at 50, but your full retirement was at 55.

MR. COTTINGHAM: But we had an eligibility at age 50.

MS. FRITZ: And we might recommend that, as long as it actuarially works. But our full retirement age that we're proposing is 55 for public safety.

MR. COTTINGHAM: Okay, but with a maximum number of service years is 30 years?

MS. FRITZ: No. The service years to be eligible for a full retirement would be 30 years. You can retire earlier. You know, we don't want a prison here. I mean, you can retire whenever you retire, but the benefit will be reduced if you retire - if you don't work as long.

MR. COTTINGHAM: Okay, so you can retire at age 55, but not pick up health benefits until age 65?

MS. FRITZ: You can retire at 55 and pick up benefits at 55.

    If you retire at 50 -- our proposal is, if you choose to retire early, you would pick up your own health benefits until 55.

MR. COTTINGHAM: Okay, who is the president of your foundation?

MS. FRITZ: Keith Richman.
MR. COTTINGHAM: Thank you.

MR. PRINGLE: Mr. Chairman?

CHAIR PARSKY: Yes, Curt?

MR. PRINGLE: It is really interesting for me to hear at the very first meeting, as I probably will have a wonderful opportunity over the next nine months to hear from a variety of divergent points of view, some of which, believe it or not, I may not necessarily agree with.

CHAIR PARSKY: I think we can count on that.

MR. PRINGLE: But it is nice to hear organizations and groups that have spent time and resources and vested knowledge and tried to stake out a territory and offer those suggestions and point of view.

And I know for the next eight months, Mr. Chairman -- and I'm really hoping deep down it will only be eight months -- that, in fact, when we conclude here, that we all will have heard from different folks and different perspectives and that we do have the opportunity to share and respond and bring about, from our perspective, challenges to someone who wishes to share with us, and know that that's the level that we should be participating: To hear positive input and respond from our perspective; and hopefully that will just encourage people from all perspectives to come and
share those views with us.

MS. FRITZ: Thank you.

CHAIR PARSKY: Teresa?

DR. GHILARUDUCCI: This is really interesting. It sounds like a summary of a lot of work that you've done.

MS. FRITZ: Yes.

DR. GHILARUDUCCI: But I just want to get clear, too. You all were talking about public safety.

MS. FRITZ: Yes.

DR. GHILARUDUCCI: But for everybody else, non-public safety, you would not give them retiree benefits until age 65?

MS. FRITZ: Their full retirement benefit until age 65.

DR. GHILARUDUCCI: You mean, their --

MS. FRITZ: Their pension.

DR. GHILARUDUCCI: Okay, so their full --

MS. FRITZ: Actually, we have -- you will see when we come up with our proposal that it's going to be fairly incredible.

Our proposal actually gives 37 percent higher lifetime income to employees that work a full career, compared to the golden-star pensions and benefits that they get today. And it all comes from the value of money
being invested.

DR. GHILARUCCI: Got it, got it. Sure.

MS. FRITZ: So it's really pretty powerful. So we'll provide that to you.

DR. GHILARUCCI: It's a simpler question. You would actuarially reduce the pension benefit, but you would not prorate the retiree health benefits?

MS. FRITZ: That's correct.

DR. GHILARUCCI: So they would get zero retiree health, but a reduced a pension?

MS. FRITZ: Right, yes. Because there's a lot of people -- the average age of employees, I believe, at the state is 46 now. There's a lot of people -- the average age to start at the state is 36.

There's a lot of people using government employment for retirement planning, because they can work a minimum number of years and get their health care taken care of.

DR. GHILARUCCI: That is not unusual. That is exactly what is happening --

MS. FRITZ: Right. It's a huge burden.

DR. GHILARUCCI: It's happening in this country that people are only working for their health plans. And I'm seeing that people get all of their wage increases towards their health plan.
So I concur with whoever said it, that what we're facing here is a very large problem with health-care costs.

MS. FRITZ: Right.

CHAIR PARSKY: Yes?

MS. FRITZ: We want people to work to earn those benefits.

CHAIR PARSKY: Lee?

MR. LIPPS: Ms. Fritz, if you could clarify just one point on your years of service versus your age.

Is it an either/or - is your proposal an either/or proposition? Meaning, if I'm a public safety officer and I work for 30 years, but let's say I'm 52. Can I retire, have a full, normal retirement factor at age 52, if I've worked 30 -- or 40 years, I think you referenced for other government workers, or age 60?

MS. FRITZ: Yes, we're assuming an entry age of about 25, with a full career of 40, or 30 years for public safety.

If you start at 22 in public safety, you would get a higher-defined benefit. But the full retirement wouldn't be available until 55, including the health care. That's our proposal.

MR. LIPPS: So even if you put in the full 30 years and you were only 52, your full retirement under
your proposal wouldn't come in until age 55?

MS. FRITZ: What I would do, if I were the public safety, I would decide, do I want to retire now at 30 and pay for my health care, or work another three years and get my health care taken care of?

MR. LIPPS: I was just trying to clarify what your proposal is.

MS. FRITZ: Yes, right.

Do you understand?

CHAIR PARSKY: John?

MR. COGAN: One thought down the road that you might give some consideration to, if you do come back to us on this health-care issue, is that if you change the structure of the health-care benefit where the individual made a contribution and the government made a contribution, you could scale that contribution with age. And so the individual would get access to health insurance, say, at age 50, but would have to pay a little bit more than a person at age 55. And that would take care of this problem, I think, that everybody sees. You'd have a hole, if you will, in the health insurance coverage in the plan.

MS. FRITZ: Right.

MR. COGAN: I think there is a way, at least, that you can begin to think about it, by scaling the
contribution that the individual might make to the plan.

MS. FRITZ: Yes, I know there's some organizations around the nation that have had a factor of a combination of the number of years of service versus your age at retirement. And that factors what you have to contribute -- I mean, there's a million ways -- in fact, that's one advantage you have with our organization is, I am on the GASB task force, and I have access to what's going on around the nation. They're doing their survey very similar to what you're trying to do themselves. You might want to coordinate with them. So I do have that vision of what everybody else is doing, which is to your benefit.

CHAIR PARSKY: Yes, Jim?

MR. HARD: I really do appreciate the ideas that you've brought forward. And I do want to hear all the different points of view, and I'm sure I'm going to in the next many months.

You've just mentioned the organization. So what kind of membership is this organization or who's in this organization that you are representing?

MS. FRITZ: Well, it's very small. We have a board of three, and we have an advisory board of many.

We just had our first advisory board meeting last Saturday. We had 15 people fly in from all over the
state. We've got experts, very passionate on the problem, and very intelligent, active people in coming up with solutions.

MR. HARD: I appreciate that. I'm sure they're intelligent.

Three members and a lot of advisors?

MS. FRITZ: Advisors.

CHAIR PARSKY: Maybe you could help --

MS. FRITZ: It's a very efficient.

CHAIR PARSKY: Maybe you could help by just providing all the Commission members a list of your advisory committee members and your board?

MS. FRITZ: Okay, yes, we'd be happy to.

You will be hearing from us. We will be at every meeting.

CHAIR PARSKY: Thank you. Thank you very much.

Anne?

MS. SHEEHAN: Scott Adams from the American Federation of State, County, Municipal Employees.

MR. ADAMS: Hi. I'm Scott Adams with the American Federation of State, County, and Municipal Employees.

I think this Commission has a really good charge here: To look at the facts, to look at the solutions, to look at the magnitude of the issue and the magnitude
of the benefits that the pension system has provided.

Some folks say they want to try to keep this to eight months. One of the easier ways you might be able to do that, there are hundreds, if not thousands of different bargained contracts around the same. And some people have given up benefit increases for raises, some people have given up raises for benefit increases, some people have gotten raises and given back on some of the formula for pensions. And I really don't think you want to have all the thousand bargaining units come here and talk about what they did.

So when you're looking at the magnitude of the problem, I think it's interesting to separate what are things that these units actually bargained, and what are things that you can look at that can actually be solutions. Because there's clearly a distinction.

One of the things, as you look at pensions, is to really look at the facts, not let figures be cherry-picked; looking at years based on when the economy went down; look at the long-term effect and the contributions; the fact that employees have continued to contribute to the system throughout these years.

And when you look at it and when you look at the benefit that a pension system can provide, there's going to be information out there on the economic impact,
that these billions of dollars of benefits paid to folks
in California put back into the economy, there's a
benefit that pension systems have as they invest in
California's economy.

And you should really look at the benefit to
taxpayers when, for instance, with CalPERS, 75 percent
of the pension benefit paid comes from investment
returns. Relying on investment professionals to beat the
market, to keep the fees down, to really give taxpayers
the best return for their investment, that they can see,
and to focus on some of those numbers.

It was good to hear that folks want to separate
Health-care benefits from pension benefits. They're two
different things.

Bob talked about we have a history on pension.
We should look at that. And there's going to be an
interesting connection, because CalPERS does have a bill
out there that would establish a trust fund for all
public employees in this state. It would operate the
same, efficient way that their pension system has
operated. It would keep fees low.

I know there are agencies around the state who
are looking at other alternative trust funds, some
for-profit ones, that, as we look at it, the fees are
incredibly high, and is that going to be the way to go?
So I think there's some interesting solutions out there on prefunding, on how to deal with health care that this Commission is seriously considering. It's going to be going on simultaneously at the Legislature. And, fortunately, we've got a pension fund that has the resources to put in a lot of work to make this a very efficient system. And it may be, you know, one of the easier solutions to look at, the prefunding side. I don't think anybody around the table here is going to figure out how to deal with health-care costs in eight months.

But we do have some solutions, we do have some efficiencies out there to really look at.

CHAIR PARSKY: Thank you very much.

Anne?

MS. SHEEHAN: The next person is Willie Pelote.

MR. PELOTE: Mr. Chairman and Commissioners, good morning.

CHAIR PARSKY: Good morning.

MR. PELOTE: And welcome.

My name is Willie Pelote. I'm with the American Federation of State, County, and Municipal Employees. I had first started not to make some comments, and decided at the hearing -- not the last witness but the witness before that -- that it was important to come
up and just make a few observations.

Mr. Chairman, you stated in your previous remarks that you wanted the facts. Now, we're talking about the facts here.

And if we're going to get the facts, we've got to make sure that we can separate the crisis that people are talking about versus the facts of what's happening in pensions. So we need to make sure that that type of rhetoric is something that you take into consideration; but the facts should be the one that we end up with at the end of the day, when we take a look at the working people's pension in the state of California.

Let me give you just a few facts. The pension system is largely funded today. They're largely funded. The employer contribution is the same as it was 20 years ago. These are facts.

Today, the investments provide 75 percent of the money yet today. The investments provide 75 percent of the money.

We do know there are a couple of local government systems that have made great mistakes, and they need to be corrected. But let's look at the facts. Let's make sure we know if it was the employees that made the mistakes or those who had a fiduciary relationship and responsibility to the city that made the mistakes;
and then let's bring the facts forward from that, and
make an honest decision on how do we correct that
problem.

Currently, from the standpoint of my union, I
don't care if you're a nurse, a firefighter, or teacher
or custodial worker, you have a safe, secure system for
working people today.

I don't want to ever ask you to reject any
comments that are made by any witness that comes forward.
But what we can only ask is that you deal with the facts.
And we should try, in an honest way, to let go of the
rhetoric that does not represent what the facts are.
There is no crisis. But I clearly ask you, as one
commissioner stated, separate the pension from the health
care; and you can place the crisis on the health care.
But there's a faith defined benefit plan as it relates to
pensions, and then you will come back to the state of
California, both this government, whether it's the
administration or the Legislature, and the people that
pays into the system, and give them the facts, and they
were borne out that you've done a job well done.

Commissioners, welcome to Sacramento. We look
forward to traveling with you across the state.

CHAIR PARSKY: Thank you for your welcome.

Anne?
MS. SHEEHAN: Yes, the next person is -- I think it's Charlie Brown from the Professional Firefighters. Is that it, "Charlie"?

MS. BOUMA: Christy Bouma.

MS. SHEEHAN: Oh, I can't read your writing. My mistake.

CHAIR PARSKY: Could you please introduce yourself?

MS. SHEEHAN: That was my mistake. I apologize.

MS. BOUMA: No problem.

Chairman Parsky, Members of the Commission, thank you for allowing -- Christy Bouma representing the California Professional Firefighters.

I am a little Charlie Brown-ish from time to time.

MS. SHEEHAN: That was it.

MS. BOUMA: I appreciate the opportunity to just say a few words to you.

The Chairman said earlier in his comments that we need to get to the facts. Mr. Pelote, just more eloquently than I will ever say to you, asked you to focus on the same thing. And I maybe can take it back even more simply. My grandfather always used to say to me that, "Figures never lie, but liars figure." And we've been victims probably -- "we," meaning public
pension systems in this state and throughout the
country, defined benefit pensions throughout this
country, health-care benefits. We've all been victims of
a pummeling, where that exact statement has been
utilized.

In other words, out of context, pieces of
information have been presented through the media and
other ways that you communicate such out-of-context facts
and have created a message. We would like you to spend
your time on the facts, the facts that Mr. Pelote
mentioned about the funded status, CalPERS, right here,
that protects state and local government employees. 90
percent funded. CalSTRS, nearly 90 percent funded.

Mr. Pelote mentioned that 75 percent --
75 percent -- of pensions paid out to pensioners are
handled by investment returns.

The prior witness, Scott, mentioned about the
collective bargaining agreements. That many of these
issues that you're discussing are benefits that were
collectively bargained at the local level.

There is a local autonomy that exists, a
trade-off in lieu of wage increases for benefits, so that
you have to tread carefully when you're talking about
state solutions.

And just in general, you know, this discussion
of post-employment benefits, this discussion of GASB reporting, reporting a liability that has always existed. This whole room behind me, myself included, all of you sitting up here and everyone in the country is suffering from a health-care crisis. However, we come about getting our health care now and when we're retirees is a subject of grave concern for all of us.

And so you have a huge task. Your task is timely, as the Legislature has the same discussion about how to create and provide affordable health care for everybody in California, or likewise, in this country.

So I hope, as Mr. Pringle hopes, that this is an eight-month commitment; but I think we all realize the gravity of the discussion. We need a solution to the rising costs of health care. And because of the focus in these new accounting standards that are put before us, it has become an issue here, in this forum, but it's an issue for our entire country.

So thank you for your time.

CHAIR PARSKY: Thank you very much.

Anne?

CHAIR PARSKY: Jim Lites.

MR. PRINGLE: I should correct, Mr. Chairman. I've quickly did the math again and maybe to December, it is nine months. So I would like to take back the
eight-month commitment.

My challenge is, my son got married a month and a half ago; and I'm worried about ever saying "nine months."

CHAIR PARSKY: Your sense of humor will be appreciated throughout these nine months, I guarantee you.

MR. LITES: Good morning. My name is Jim Lites. You should feel free to call me "Linus," if you'd like. I represent --

CHAIR PARSKY: Nine months, and you'll live that down.

MR. LITES: I represent the 1937 Act Retirement Counties. These are the 20 California counties that operate their own requirements system. We're most of the larger California counties, with a good number of small counties as well.

Last year, we sponsored legislation that was passed and signed into law that allowed our counties to accept contributions from any public agency in order to fund retiree benefit obligations, health care, or otherwise.

And I just wanted to say, we look forward to working with the Commission to share with you our experiences as we have found some challenges, in
particular, as they relate to federal law, as we seek to implement that bill and accept funds from other public agencies.

CHAIR PARSKY: Thank you very much.

MS. SHEEHAN: That is it on the list, unless there's anyone else who --

CHAIR PARSKY: If there are no other public comments, we thank the public very much.

And as I said, we're going to try to combine at each of our sessions testimony from experts on various subjects, that there will be an interchange between Commission members and the public. And if the public raises issues that the Commission members feel they want to have clarified, we'll do the same.

Any other business for this Commission at this time?

Yes, Bob?

MR. WALTON: One question I missed, I meant to ask it earlier, about the work plan. We're going to interview -- have testimony from subject-matter experts.

CHAIR PARSKY: Right.

MR. WALTON: What's the process for identifying who those should be?

CHAIR PARSKY: Anne will try to collect that information. If you have some suggestions, please
provide it to Anne. We'll make sure we try to accommodate every one of them.

MR. WALTON: Thank you.

CHAIR PARSKY: Yes, Lee?

MR. LIPPS: Anne, can you give me an idea on the turnaround time for setting the calendars, once you get the surveys back from the Commission members? I know, like probably every one of the people up here, we do have somewhat impacted calendars.

MS. SHEEHAN: Right. It would be my hope, to try as quickly as we can get them, to turn around the schedule for at least the next few months of hearings.

As the Chair said, it would be our goal to begin to go out to other parts of California to schedule those. And as people have said, if you have preferences for where you'd like us to go, or if you think it would be good, please let me know.

My guess is to try and set up a couple of hearings in April and in May to begin to continue the public hearing process.

So as soon as we get them back, we will map them -- you know, what the days are and get back to people.

MR. PRINGLE: Mr. Chairman?

CHAIR PARSKY: Yes, Curt?
MR. PRINGLE: If I could follow up with that.

So the contemplation may be that there's more than one meeting in a month; is that what you're suggesting?

MS. SHEEHAN: It's possible, yes.

CHAIR PARSKY: Unless it really becomes administratively difficult.

MS. SHEEHAN: If the schedules work for people.

MR. PRINGLE: Now, part of that scheduling then is -- for those of us who can't, although I hope to make all of the meetings -- but we should figure out if there are other means by which meetings can be attended, or at least listened to via conference call, or if there is video conferencing in which members can participate; or even as extreme as it may sound, it's not tough, but, you know, Web-streaming, so that people even who may be Sacramento-based organizations, others within those organizations can watch and hear testimony and participation.

If there's a way to try to figure that out a little bit, particularly for those of us who come a long way.

Indiana is close compared to other places.

CHAIR PARSKY: Well, I think we will look certainly for Commission members who can't attend
physically, we'll look into the possibility of coming in by conference call.

MR. PRINGLE: I'm not saying public comment by those means. I'm making sure that members of the Commission can participate.

CHAIR PARSKY: Yes, absolutely. We will.

MS. SHEEHAN: Yes, not a problem. Because we've done video-conferencing for meetings; we've also done teleconferencing.

You know, the issue is that any place that a Commission member does have to be noticed, put it on the -- so that the public -- it's a publicly accessible location for the public to come to. So we can absolutely work with that.

CHAIR PARSKY: I want to thank you all very much for this first organizational meeting.

It's adjourned now.

Thank you.  

(Proceedings concluded at 11:40 a.m.)

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REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 14th of March 2007.

______________________________
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