

**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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A P P E A R A N C E S

**PUBLIC EMPLOYEE POST-RETIREMENT BENEFITS COMMISSION**

Commission Members Present

GERRY PARSKY, Commission Chair  
Aurora Capital Group

MATTHEW BARGER  
Hellman & Friedman LLC

PAUL CAPPITELLI  
San Bernardino County Sheriff's Department

JOHN COGAN  
Stanford University

RONALD COTTINGHAM  
Peace Officers Research Association of California

TERESA GHILARDUCCI, 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)

**A P P E A R A N C E S**

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

6                           --o0o--

7           CHAIR PARSKY: Thank you all very much.

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

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

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

21          I really am very proud to have, as members of  
22          this Commission, a broad cross-section of interests and  
23          experience and expertise. And I think that from the  
24          Governor and the legislative leaders' standpoint, they've  
25          made a couple of things very clear. The promised

1 benefits -- health benefits and pensions -- that have  
2 been promised to public employees are vitally important  
3 to state workers and their families, especially public  
4 safety officers who put their lives on the line every  
5 day. They are obligations that the legislative leaders  
6 and the Governor have said, these obligations must and  
7 will be paid by the government.

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

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

23           So with that, once again, I think if you look  
24 around the table here -- and I would just say, Connie  
25 Conway is not able to be here, but she called. This

1 first meeting was called not too much in advance, and  
2 so I apologize for that. We're going to try to put a  
3 schedule together for the balance of this year that will  
4 give people advance notice. And Anne will go through  
5 that for us.

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

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

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

19 MR. PRIM: Thank you very much.

20 Would you like for me to begin now?

21 CHAIR PARSKY: I would.

22 MR. PRIM: I was asked to come over and give you  
23 a brief discussion about the Bagley-Keene Open Meeting  
24 Act, and address a few issues that may come up under  
25 that.

1 I think what I'll do is start with kind of the  
2 philosophical underpinnings of the Bagley-Keene Act.  
3 Once those are focused upon, I think it makes a lot of  
4 the other aspects of the Bagley-Keene easier to focus on.

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

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

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

24 If you can keep this goal in mind, it will help  
25 you deal with some of the frustrations that living under

1 the Bagley-Keene Act can otherwise bring. Because in  
2 order to try to protect that process, the Bagley-Keene  
3 Act will get in your way of doing business as you're  
4 otherwise used to doing it.

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

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

21 So the Bagley-Keene imposes certain kinds of  
22 structures on the way you do business. It actually  
23 envisions that the way you are here today is the way that  
24 business ought to be done. You're in a noticed, open  
25 public meeting where everything that you do is visible,

1 and the public gets the chance to participate in that  
2 process as well.

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

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

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

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

23 And these serial communications can happen in  
24 a variety of ways. They can be member-to-member  
25 communications. They sometimes can be your executive

1 director going member to member, they sometimes can be  
2 some other kind of intermediary, going member to member.

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

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

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

21 I would probably urge you, and I think Anne is  
22 going to urge you, to stay on the conservative side of  
23 that interpretation. And the reason for that is that  
24 if you engage in lots of these serial communications, and  
25 people who are observing your commission are aware of

1 that, you're going to be in a defensive position of  
2 saying, "Yes, we had all these communications, but honest  
3 to goodness, promise, we didn't reach a consensus. We  
4 just talked and we never came to any decisions at all."  
5 And people will doubt that and criticize you for it  
6 because you still are going to be having these  
7 communications outside the view of the public. So  
8 there's a policy decision by you to be made also as to  
9 whether you want to stay on the conservative side of that  
10 or whether you want to push the envelope a bit.

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

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

20 A two-person advisory committee is not. So if  
21 you want to just name two people to an advisory  
22 committee, they can go out and collect advice and come  
23 back with a recommendation to you; and they need not  
24 comply with the Bagley-Keene, but three or more would  
25 need to.

1           The second thing is what we call a "delegated  
2 committee" and that means that it has had authority  
3 delegated to it to make certain kinds of decisions. A  
4 two-person or greater committee with delegated authority  
5 is subject to the Bagley-Keene Act, and has to meet  
6 according to all the open meeting and notice provisions.

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

9           I want to point out to you, we did give each of  
10 you a little publication that we call, "The Bagley-Keene  
11 Handy Guide." It was written with boards and commissions  
12 in mind. It's got the copy of the law, which is the main  
13 thickness of the book. The text of it is only about  
14 15 pages. And it goes through and tries to highlight the  
15 various provisions of the Act and the various exemptions  
16 and things, and try to focus on the kinds of questions  
17 that come up repeatedly.

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

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

25           CHAIR PARSKY: Thank you very much.

1           We'll look to counsel's advice periodically. I  
2           don't think we'll ask anyone around here to take a test  
3           on the Bagley-Keene Act, so I think it will be very  
4           helpful to have counsel readily available.

5           Any questions on any of the -- yes?

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

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

10          MR. LOW: Seven?

11          MR. PRIM: -- half plus one.

12          You're 12?

13          MS. SHEEHAN: Yes.

14          MR. LOW: Yes.

15          MR. PRIM: So it would be seven.

16          MR. LOW: Thank you.

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

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

23          John?

24          MR. COGAN: In terms making information from our  
25          hearings available to the general public, is it required

1 under the law or recommended by you to put it out on the  
2 Web, create a Web site, put it out on the Web? And if  
3 so, is there a time period? Is there a time period  
4 that you would recommend that we put the material on the  
5 Web within?

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

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

18 CHAIR PARSKY: Any other questions from  
19 Commission members?

20 *(No audible response)*

21 CHAIR PARSKY: Thank you very much for that  
22 input.

23 I'll turn it over to Anne now, just to go  
24 through a few other administrative arrangements, and  
25 walk through some of the materials; and then I'll have a

1 few comments, and then we'll turn it over to the  
2 Commission.

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

4 Just a couple of housekeeping things also.  
5 Since the sergeant is not here today, when you do want to  
6 talk, just press the button, the light will come on for  
7 the microphones.

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

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

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

21 At that point, we will also be posting the  
22 schedule or schedules for our future meetings on that Web  
23 site. But until that is done, we will work through the  
24 Governor's Press Office and their Web site to make the  
25 information available to everyone.

1           In your folders that the members have -- and the  
2 information is also available to the public -- in  
3 addition to the agenda, you also have got a calendar and  
4 a questionnaire that we have made available, because we  
5 would like to survey the members as to what your  
6 preference is for meeting days, when and what are good  
7 days over the next -- I think we put the next five months  
8 in there for you, for you to cross out, "You can't do it  
9 this day." There's a place to put your name, so I know  
10 which of the members are sending it back. And then my  
11 office will be compiling that.

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

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

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

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

25           So he will hand those out to you now, and

1 they've got your names on each of them, the hand-out.

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

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

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

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

20 So for those of you who do have some additional  
21 stuff -- I mean, we went through -- I could give you  
22 reams and reams of paper. I don't think you want that,  
23 starting out. We're trying to cull through what really  
24 may be some short, concise issues; and then we can  
25 provide additional information as we need it.

1 I know one of our Commission members has quite a  
2 bit of writing that she's done on this; so I'll look  
3 forward to getting some stuff from her.

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

9 Unless Members have questions for me?

10 CHAIR PARSKY: Any questions of Anne?

11 *(No audible response)*

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

15 MS. SHEEHAN: Right.

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

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

25 CHAIR PARSKY: Okay, I should mention that at

1 every session, we will have a public comment period. For  
2 this session, the comment period will come at the end of  
3 our meeting.

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

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

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

18 Has the public been given as well?

19 MS. SHEEHAN: They've got copies.

20 CHAIR PARSKY: That's good.

21 It's just entitled, "Public Employee Post-  
22 Employment Benefits Commission Approach and Work Plan."  
23 And if you turn --

24 MS. PRICE: The copies are right here.

25 CHAIR PARSKY: We'll let the public have the

1 plan before we dig in a little.

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

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

6 DR. GHILARDUCCI: You've raised the  
7 expectations.

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

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

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

23 But the first question is, what's the nature of  
24 this issue? How big is it? How big may be it become?  
25 So that the public, as well as the Commission members,

1 can begin to understand why we think this is an issue  
2 that needs to be addressed.

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

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

16 So that's basically the three-part approach.

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

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

1 an economic model, so that we can evaluate solutions.

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

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

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

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

1 state and local agencies.

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

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

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

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

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

1 make sure that we secure the resources necessary.

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

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

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

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

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

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

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

24 Yes, Dave?

25 MR. LOW: I think, generally, the plan that

1 you've outlined looks good. I think the timeline makes  
2 sense.

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

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

14 John?

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

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

25 CHAIR PARSKY: I think that's a good point.

1 MR. PRINGLE: Mr. Chairman?

2 CHAIR PARSKY: Curt?

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

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

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

21 I guess I would really like to make sure that we  
22 don't just go off in a wild -- I take that word back --  
23 in a just general public forum, saying, "Come and talk  
24 to us about your pensions, or pension obligations, or  
25 impacts on your government," as opposed to saying,

1 "These are two or three or four or five topics that we  
2 want to hear on," and then people know if they are  
3 responding to what we are seeking.

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

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

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

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

20 CHAIR PARSKY: Right.

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

25 I think members of the Commission may say, "Hey,

1 it would be nice to hear from people on these types of  
2 subjects throughout the state."

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

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

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

13 CHAIR PARSKY: Or several. Or several  
14 overriding topics.

15 MR. PRINGLE: Very good.

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

1 try to address.

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

7 CHAIR PARSKY: Right.

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

12 CHAIR PARSKY: Absolutely.

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

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

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

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

1 private-sector costs."

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

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

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

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

14 MR. PRINGLE: Okay.

15 MS. SHEEHAN: But that's the idea.

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

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

21 MS. SHEEHAN: Yes, many of their actuaries.

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

24 MS. SHEEHAN: Yes.

25 MR. PRINGLE: -- this is putting together a

1 survey to solicit the interest of all the various  
2 government levels in California --

3 MS. SHEEHAN: Correct.

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

6 MS. SHEEHAN: Total number, yes.

7 CHAIR PARSKY: And health-care obligations?

8 MS. SHEEHAN: Right.

9 MR. PRINGLE: Thank you.

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

16 MR. PRINGLE: Yes.

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

21 MR. PRINGLE: Thank you.

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

24 CHAIR PARSKY: Yes.

25 MR. CAPPITELLI: On that same page where it

1 talks about "Background Review." The second bullet down,  
2 "Identify and summarize most significant reform  
3 proposals." And then embedded in that paragraph, we talk  
4 about legislative proposals.

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

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

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

24 CHAIR PARSKY: Well, it was intended to be  
25 clearly under background.

1 I think that the legislative leaders, the  
2 Governor, and I think all of us recognize that the  
3 approach taken in 2005 was roundly rejected by the  
4 public. The approach taken there, however, was really  
5 oriented not around addressing the magnitude of the  
6 commitments that are already in place and how they can be  
7 financed, but looking at -- and only on the pension  
8 issue, looking at the future.

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

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

19 CHAIR PARSKY: Yes, Bob?

20 MR. WALTON: Thank you.

21 Just to add to what I think Dave -- the point  
22 that Dave was making, I think the issues between  
23 retirement obligations and health obligations could well  
24 be distinctly different. And the experts we ask in each  
25 of those areas could be different.

1           For instance, the retirement obligations are  
2 well-known. They have a vast history. And I don't think  
3 we'll need a lot of information on what they are. We may  
4 need some background information, and possibly more to  
5 the benefit of the public on what they mean.

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

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

18           MR. WALTON: Absolutely.

19           CHAIR PARSKY: Lee?

20           MR. LIPPS: Going back to the legislation issue,  
21 do we know to what extent -- or have there been  
22 discussions among the legislative leaders and the  
23 Governor about current and pending legislation that could  
24 impinge upon our work and our recommendations? Or are we  
25 going to be unfettered?

1           CHAIR PARSKY: Well, given the nature of the  
2 people around this table, I would start with the  
3 proposition that we are unfettered. I don't think any  
4 of us, our hands are tied.

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

12           MR. LIPPS: Thank you.

13           MR. COTTINGHAM: Mr. Chairman?

14           CHAIR PARSKY: Yes, Ron?

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

25           The other issue I have, in discussing

1       legislation, I think we do need to be open to that,  
2       because there are going to be some things that will come  
3       forward from the systems such as CalPERS and CalSTRS,  
4       that may be looking to resolve some of the problems that  
5       are out there. And I think one of the things coming  
6       forward from CalPERS is going to be prefunding for health  
7       care, which could be very important. And prefunding is  
8       one of the issues of GASB.

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

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

1 way to control that.

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

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

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

18 Any other -- Teresa?

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

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

22 DR. GHILARDUCCI: Thank you. Thank you.

23 And I'm very glad to see that you've identified  
24 what one of our outcomes would be, which is a way to  
25 project costs, because if you don't know what the cost

1 is, then you can't even imagine how to pay for it.  
2 But you don't need a commission to do that. That really  
3 could be given to Finance, to the actuaries, to count up  
4 the numbers, to survey the other governments, to have a  
5 uniform way of measuring. That's all very good  
6 governance; it's very basic.

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

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

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

23           You know, should we not be charged with looking  
24 at those issues? They're very important for employers,  
25 as I just said. And there also could be very inefficient

1 financial intermediaries, or they could be very  
2 efficient.

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

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

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

16 DR. GHILARDUCCI: Sure.

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

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

25 Yes, Jim?

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

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

16           CHAIR PARSKY: Any other comments?

17           *(No audible response)*

18           CHAIR PARSKY: I think those are all good  
19 suggestions.

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

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

25           And do we have, Anne, a sign-up sheet?

1 MS. SHEEHAN: Yes.

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

4 How many people have signed up?

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

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

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

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

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

21 Local governments pretty much have taken their  
22 lead from the state, and followed the state in raising  
23 retirement rates, lowering retirement ages. But in doing  
24 so, this has caused counties and cities a great deal of  
25 problems. They have raised retirement rates to a point

1 where it's not manageable anymore.

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

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

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

1 worse in the future.

2 Thank you.

3 CHAIR PARSKY: Thank you very much.

4 Who is next, Anne?

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

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

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

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

22 CFFR believes the Commission's research will  
23 show that California's pension and retirement benefit  
24 costs are out of control. We believe that these costs  
25 must be reduced to protect taxpayers and the vital

1 programs that will educate our children, build our roads,  
2 care for our sick, and provide public safety for decades  
3 to come.

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

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

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

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

24 Recognizing the physical demands of our public  
25 safety workers, their retirement age should return to

1 55 -- return to 55 -- just as it was before 2000. A full  
2 career in public safety service then should be to  
3 30 years.

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

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

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

13 What is the fair level of replacement income for  
14 retirees?

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

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

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

22 CFFR wants to thank the Commission in advance  
23 for your work on this important issue. And we are here  
24 to assist you with both ideas and information. We have a  
25 lot of experts.

1           On behalf of all Californians, we hope the  
2 Commission clearly hears the tick of this fiscal time  
3 bomb and finds a responsible way to limit its damage to  
4 future budgets and programs.

5           Thank you.

6           CHAIR PARSKY: Thank you. Thank you very much.

7           Dave?

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

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

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

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

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

25           MS. FRITZ: Yes, it would be the actuarial --

1 just like Social Security. It's the actuarial value  
2 based on the life expectancy. It's an actuarial  
3 calculation.

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

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

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

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

14 MS. FRITZ: Until 65.

15 But the massive health-care costs -- California  
16 is going to be the hardest hit. I'm on the GASB task  
17 force that's looking at this. And we're going to be the  
18 hardest hit because our retirement ages in this state are  
19 the youngest. And the costs for health care are the  
20 most, after age 50. And the GASB 45 requires you to  
21 calculate the true costs of the retirees. You know, it's  
22 not the -- what is it, I'm trying to grasp for words  
23 here -- but the costs after 50 for your health-care  
24 benefits that you're paying to that group of people as  
25 opposed to people 20 to 35 is night and day. And we're

1 going to be the hardest hit. So don't be surprised at  
2 some pretty big figures coming to California.

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

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

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

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

13 MS. FRITZ: Right.

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

19 MS. FRITZ: Right.

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

22 MS. FRITZ: No, we are very --

23 MR. LOW: -- and 65 --

24 MS. FRITZ: It's very similar to Social  
25 Security. If you are disabled, you would be able to

1 retire and at a disability benefit with health care.

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

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

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

12 MR. LOW: Okay.

13 CHAIR PARSKY: Thank you very much.

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

16 MS. FRITZ: Sure.

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

21 MS. FRITZ: Prior to '99?

22 MR. COTTINGHAM: Yes, prior to '99.

23 MS. FRITZ: That's not my understanding.

24 MR. COTTINGHAM: Okay, well, if you look at the  
25 systems --

1 MS. FRITZ: You were able to retire at 50, but  
2 your full retirement was at 55.

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

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

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

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

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

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

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

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

25 MS. FRITZ: Keith Richman.

1 MR. COTTINGHAM: Thank you.

2 MR. PRINGLE: Mr. Chairman?

3 CHAIR PARSKY: Yes, Curt?

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

10 CHAIR PARSKY: I think we can count on that.

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

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

1 share those views with us.

2 MS. FRITZ: Thank you.

3 CHAIR PARSKY: Teresa?

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

7 MS. FRITZ: Yes.

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

10 MS. FRITZ: Yes.

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

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

16 DR. GHILARDUCCI: You mean, their --

17 MS. FRITZ: Their pension.

18 DR. GHILARDUCCI: Okay, so their full --

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

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

1 being invested.

2 DR. GHILARDUCCI: Got it, got it. Sure.

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

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

8 MS. FRITZ: That's correct.

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

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

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

19 DR. GHILARDUCCI: That is not unusual. That is  
20 exactly what is happening --

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

22 DR. GHILARDUCCI: It's happening in this country  
23 that people are only working for their health plans. And  
24 I'm seeing that people get all of their wage increases  
25 towards their health plan.

1           So I concur with whoever said it, that what  
2 we're facing here is a very large problem with  
3 health-care costs.

4           MS. FRITZ: Right.

5           CHAIR PARSKY: Yes?

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

8           CHAIR PARSKY: Lee?

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

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

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

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

24           MR. LIPPS: So even if you put in the full  
25 30 years and you were only 52, your full retirement under

1 your proposal wouldn't come in until age 55?

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

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

8 MS. FRITZ: Yes, right.

9 Do you understand?

10 CHAIR PARSKY: John?

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

23 MS. FRITZ: Right.

24 MR. COGAN: I think there is a way, at least,  
25 that you can begin to think about it, by scaling the

1 contribution that the individual might make to the plan.

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

14 CHAIR PARSKY: Yes, Jim?

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

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

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

24 We just had our first advisory board meeting  
25 last Saturday. We had 15 people fly in from all over the

1 state. We've got experts, very passionate on the  
2 problem, and very intelligent, active people in coming up  
3 with solutions.

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

6 Three members and a lot of advisors?

7 MS. FRITZ: Advisors.

8 CHAIR PARSKY: Maybe you could help --

9 MS. FRITZ: It's a very efficient.

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

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

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

16 CHAIR PARSKY: Thank you. Thank you very much.

17 Anne?

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

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

23 I think this Commission has a really good charge  
24 here: To look at the facts, to look at the solutions,  
25 to look at the magnitude of the issue and the magnitude

1 of the benefits that the pension system has provided.

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

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

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

23 And when you look at it and when you look at  
24 the benefit that a pension system can provide, there's  
25 going to be information out there on the economic impact,

1 that these billions of dollars of benefits paid to folks  
2 in California put back into the economy, there's a  
3 benefit that pension systems have as they invest in  
4 California's economy.

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

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

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

22 I know there are agencies around the state who  
23 are looking at other alternative trust funds, some  
24 for-profit ones, that, as we look at it, the fees are  
25 incredibly high, and is that going to be the way to go?

1           So I think there's some interesting solutions  
2           out there on prefunding, on how to deal with health care  
3           that this Commission is seriously considering. It's  
4           going to be going on simultaneously at the Legislature.  
5           And, fortunately, we've got a pension fund that has the  
6           resources to put in a lot of work to make this a very  
7           efficient system. And it may be, you know, one of the  
8           easier solutions to look at, the prefunding side.  
9           I don't think anybody around the table here is going to  
10          figure out how to deal with health-care costs in eight  
11          months.

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

14                 CHAIR PARSKY: Thank you very much.

15                 Anne?

16                 MS. SHEEHAN: The next person is Willie Pelote.

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

19                 CHAIR PARSKY: Good morning.

20                 MR. PELOTE: And welcome.

21                 My name is Willie Pelote. I'm with the American  
22          Federation of State, County, and Municipal Employees.

23                 I had first started not to make some comments,  
24          and decided at the hearing -- not the last witness but  
25          the witness before that -- that it was important to come

1 up and just make a few observations.

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

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

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

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

20 We do know there are a couple of local  
21 government systems that have made great mistakes, and  
22 they need to be corrected. But let's look at the facts.  
23 Let's make sure we know if it was the employees that made  
24 the mistakes or those who had a fiduciary relationship  
25 and responsibility to the city that made the mistakes;

1 and then let's bring the facts forward from that, and  
2 make an honest decision on how do we correct that  
3 problem.

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

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

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

24 CHAIR PARSKY: Thank you for your welcome.

25 Anne?

1 MS. SHEEHAN: Yes, the next person is -- I think  
2 it's Charlie Brown from the Professional Firefighters.

3 Is that it, "Charlie"?

4 MS. BOUMA: Christy Bouma.

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

7 CHAIR PARSKY: Could you please introduce  
8 yourself?

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

10 MS. BOUMA: No problem.

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

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

16 MS. SHEEHAN: That was it.

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

19 The Chairman said earlier in his comments that  
20 we need to get to the facts. Mr. Pelote, just more  
21 eloquently than I will ever say to you, asked you to  
22 focus on the same thing. And I maybe can take it back  
23 even more simply. My grandfather always used to say to  
24 me that, "Figures never lie, but liars figure." And  
25 we've been victims probably -- "we," meaning public

1 pension systems in this state and throughout the  
2 country, defined benefit pensions throughout this  
3 country, health-care benefits. We've all been victims of  
4 a pummeling, where that exact statement has been  
5 utilized.

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

14 Mr. Pelote mentioned that 75 percent --  
15 75 percent -- of pensions paid out to pensioners are  
16 handled by investment returns.

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

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

25 And just in general, you know, this discussion

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

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

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

19 So thank you for your time.

20 CHAIR PARSKY: Thank you very much.

21 Anne?

22 CHAIR PARSKY: Jim Lites.

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

1 eight-month commitment.

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

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

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

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

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

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

23 And I just wanted to say, we look forward to  
24 working with the Commission to share with you our  
25 experiences as we have found some challenges, in

1 particular, as they relate to federal law, as we seek to  
2 implement that bill and accept funds from other public  
3 agencies.

4 CHAIR PARSKY: Thank you very much.

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

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

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

15 Any other business for this Commission at this  
16 time?

17 Yes, Bob?

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

21 CHAIR PARSKY: Right.

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

24 CHAIR PARSKY: Anne will try to collect that  
25 information. If you have some suggestions, please

1 provide it to Anne. We'll make sure we try to  
2 accommodate every one of them.

3 MR. WALTON: Thank you.

4 CHAIR PARSKY: Yes, Lee?

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

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

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

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

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

24 MR. PRINGLE: Mr. Chairman?

25 CHAIR PARSKY: Yes, Curt?

1 MR. PRINGLE: If I could follow up with that.

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

5 MS. SHEEHAN: It's possible, yes.

6 CHAIR PARSKY: Unless it really becomes  
7 administratively difficult.

8 MS. SHEEHAN: If the schedules work for people.

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

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

23 Indiana is close compared to other places.

24 CHAIR PARSKY: Well, I think we will look --  
25 certainly for Commission members who can't attend

1 physically, we'll look into the possibility of coming in  
2 by conference call.

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

6 CHAIR PARSKY: Yes, absolutely. We will.

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

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

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

17 It's adjourned now.

18 Thank you.

19 (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 14<sup>th</sup> of March 2007.

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DANIEL P. FELDHAUS  
California CSR #6949  
Registered Diplomate Reporter  
Certified Realtime Reporter