

June 4, 2013

Vera Todorov  
President  
Association of Legal Professionals (ALP)  
c/o City Attorney's Office  
200 E. Santa Clara Street  
San Jose, CA 95113

**RE: Retiree Healthcare Coalition Counterproposal**

Dear Vera:

Thank you for the Coalition's retiree healthcare counterproposal dated June 3, 2013. Enclosed is the City's counterproposal, which we hope will lead to a tentative agreement.

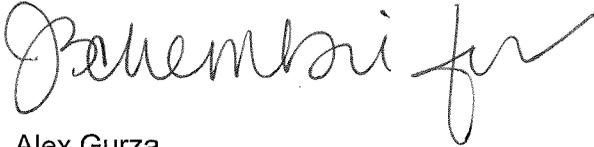
We have accepted the coalition's idea of a stakeholder working group and are agreeable to delaying the meet and confer process so that stakeholder working group meetings can occur first. Given the urgency of the retiree healthcare issue, we are proposing that the stakeholder working group commence immediately and last for a defined period of time. However, we have included a provision where the City and the bargaining units can mutually agree to extend the duration of the working group.

Regarding paying the full Annual Required Contribution for retiree healthcare, the coalition has proposed an extension of the payment for two years, and the City has previously proposed a one year extension. As a compromise, we are now proposing an 18 month extension. In the City's counterproposal, employee and City contributions will each increase by .75% in July 2013 and July 2014.

The City's counterproposal continues to propose that new employees will not go into the current retiree healthcare benefit plan, but for one year the City will pay what those employees would have otherwise paid towards the unfunded liability had they been in the plan. Because of the concerns of whether or not the City would agree to continue to do this beyond the one year period, we have added language that the City continuing to pay the unfunded liability that the new employees would have otherwise paid will be part of the subsequent meet and confer process.

Given the short time frame before the Retirement Board adopts rates on June 20, 2013, we hope the compromises made in this proposal lead to a tentative agreement within the next few days so that we can ensure the tentative agreement is on the Council agenda for June 18, 2013.

Sincerely,

A handwritten signature in cursive script, appearing to read "Alex Gurza".

Alex Gurza  
Deputy City Manager

Enclosure

**CITY PROPOSAL – RETIREE HEALTHCARE**

Proposed Language:

**RETIREE HEALTHCARE FUNDING AND BENEFITS**

The City and employees represented by the Association began to transition from the current partial pre-funding of retiree medical and dental healthcare benefits (referred to as the “policy method”) to pre-funding of the full Annual Required Contribution (ARC) for the retiree healthcare plan (“Plan”). The transition began on June 28, 2009. The Plan’s initial unfunded retiree healthcare liability shall be fully amortized over a thirty year period so that it shall be paid by June 30, 2039 (closed amortization). Amortization of changes in the unfunded retiree healthcare liability other than the initial retiree healthcare liability (e.g. gains, losses, changes in actuarial assumptions, etc.) shall be determined by the Plan’s actuary. The City and Plan members (active employees) shall contribute to funding the ARC in the ratio currently provided under Section 3.28.385 of the San Jose Municipal Code. Specifically, contributions for retiree medical benefits shall be made by the City and members in the ratio of one-to-one. Contributions for retiree dental benefits shall be made by the City and members in the ratio of eight-to-three. When determining the contribution rates for the Plan, the Plan actuary shall continue to use the Entry Age Normal (EAN) actuarial cost method and a discount rate consistent with the pre-funding policy for the Plan as outlined in this section.

The City and the Association agree that the Municipal Code and/or applicable plan documents shall be amended to the extent necessary in accordance with this agreement and that the Association will support such amendments.

The phase-in to the ARC shall be effective on the first pay period of the City’s fiscal year in each succeeding year, the first increment which was effective on June 28, 2009. It is understood that because of changes resulting from future actuarial valuations, the amount of the ARC may vary upward or downward. The City and the Association agree that the Plan member cash contribution rate shall not have an incremental increase of more than .75% of pensionable pay in each fiscal year and the City cash contribution rate shall not have an incremental increase of more than .75% of pensionable pay in each fiscal year. For example, if the members’ contribution rate is 4% of pensionable pay, the subsequent fiscal year’s contribution rate for retiree healthcare cannot exceed 4.75% of pensionable pay. Notwithstanding the limitations on the incremental increases, the City and plan members shall be contributing the contribution rate based upon the full Annual Required Contribution, beginning on December 21, 2014. In subsequent fiscal years, the City and the plan members shall be contributing the full Annual Required Contribution in the ratio currently provided under Section 3.28.385 of the San Jose Municipal Code.

The City has established a qualified 115 trust (“Trust”). Employee contributions will begin going into the Trust in time to avoid any potential of reaching IRS limits on the existing medical benefits account or whenever the City receives advice of Tax Counsel

or ruling from the IRS that the contributions can be treated as pre-tax, whichever occurs first.

If employee contributions are deposited into the Trust prior to receiving a ruling from the IRS that the contributions can be treated as pre-tax and the City subsequently receives an IRS determination that the contributions should be treated as post-tax, the City agrees to indemnify any employee as to any IRS liability arising solely from the contributions that were taken as pre-tax prior to the IRS determination. The City and the Association will meet and confer over an alternative trust vehicle for the prospective contributions should the IRS determine that the contributions are post-tax.

It is the objective of the parties that the Trust created pursuant to this agreement shall become the sole funding vehicle for Federated retiree healthcare benefits, subject to any legal restrictions under the current plan, or other applicable law.

Employees hired into full-time benefited positions on or after the first payperiod following the effective date of the ordinance implementing this provision ("Effective Date") will not participate in or be eligible for the defined benefit retiree healthcare program. For Fiscal Year 2013-2014, the City will pay the unfunded liability contribution that these employees would have otherwise paid had they gone into the retiree healthcare defined benefit program. At the end of this period, the parties will meet and confer over whether or not the City will continue to pay the unfunded liability contribution that new employees would have otherwise paid had they gone into the retiree healthcare defined benefit program.

*(This language shall be added as a section to any Memorandum of Agreement between the City and ALP under the article entitled "Retiree Healthcare.")*

## **HEALTHCARE COST MITIGATION**

Notwithstanding any other provision of this Agreement, the parties agree to meet and confer over retiree healthcare benefits and funding upon request of either party, but no earlier than January 1, 2014. This may include but is not limited to alternatives to reduce the cost of retiree healthcare benefits and options for current employees that comply with IRS regulations and whether or not the City will continue to pay the unfunded liability contribution that new employees would have otherwise paid had they gone into the retiree healthcare defined benefit program.

Negotiations between the City and the Association shall commence within 14 days upon notice of either party, but no earlier than January 1, 2014. The City and the Association shall negotiate in good faith in an effort to reach a mutual agreement. Applicable impasse dispute resolution procedures shall apply.

*(This language shall be added as a section to any agreement on a Memorandum of Agreement between the City and ALP under the article entitled "Agreement Conditions.")*

## **HEALTH INSURANCE**

Effective January 1, 2014, all available plans will have a 4-tier rate structure (Employee, Employee plus spouse/domestic partner, Employee plus Child(ren) and Family). The premiums will be adjusted effective the first payperiod in payroll calendar year 2014, which starts December 22, 2013.

Effective January 1, 2013, Kaiser Permanente 1500 Deductible HMO Benefit Plan will be available to employees represented by the Association in addition to the existing plan options.

*(This language shall be added to any agreement on a Memorandum of Agreement between the City and ALP under the article entitled "Health Insurance.")*

## **DENTAL INSURANCE**

Effective January 1, 2014, all available plans will have a 4-tier rate structure (Employee, Employee plus spouse/domestic partner, Employee plus Child(ren) and Family). The premiums will be adjusted effective the first payperiod in payroll calendar year 2014, which starts December 22, 2013.

*(This language shall be added to any agreement on a Memorandum of Agreement between the City and ALP under the article entitled "Dental Insurance.")*

# Side Letter Agreement

## RETIREE HEALTHCARE STAKEHOLDER SOLUTIONS WORKING GROUP

### PURPOSE

The City and the Coalition<sup>1</sup> shall form a Retiree Healthcare Solutions Working Group ("Working Group"). The goal of the Working Group shall be to develop options that lead to long-term solutions to the retiree healthcare issue.

### AGREEMENT

#### Facilitator:

By August 1, 2013, the City and Coalition members will mutually agree on an independent person or entity that is knowledgeable in the area of retiree healthcare benefits to facilitate the Working Group.

The facilitator will facilitate the discussions, provide information to the parties, and generally assist in the development of options for long-term solutions. Upon the mutual agreement of the City and Coalition members, other subject matter experts may be engaged to assist in analyzing possible solutions.

The costs of the facilitator and any subject matter experts will be shared equally among the City and the Coalition members.

#### Participation:

In addition to the City and a representative from each bargaining unit in the Coalition, members of the Working Committee will include a representative of the retirees, and any unrepresented employee group(s).

#### Meetings:

The City and Coalition will jointly schedule Working Group sessions in coordination with the facilitator. More frequent and longer Working Group sessions will be scheduled in

---

<sup>1</sup> The San Jose Federated Labor Coalition consists of the following 9 bargaining units: Association of Building, Mechanical, and Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA), Association of Legal Professionals (ALP), Association of Maintenance Supervisory Personnel (AMSP), City Association of Management Personnel (CAMP), Confidential Employees' Organization (CEO), International Brotherhood of Electrical Workers (IBEW), Municipal Employees' Federation (MEF) and International Union of Operating Engineers, Local #3 (OE#3).

the early stages of the process. The Working Group sessions will be open to employees and the public.

**Timeline:**

The Working Group shall agree upon a facilitator no later than August 1, 2013. The time period to schedule Working Group sessions will be from August 1, 2013, and conclude no later than December 31, 2013, unless the parties mutually agree to extend the timeframe. Negotiations between the City and the Coalition shall commence within 14 days upon notice of either party, but no earlier than January 1, 2014. The City and the Coalition shall negotiate in good faith in an effort to reach a mutual agreement. Applicable impasse dispute resolution procedures shall apply. The City and the Coalition agree that this process will not supplant the meet and confer process regarding retiree healthcare.

This Agreement is tentative and shall become effective only as part of the overall retiree healthcare agreement on, and only during the term of, any agreement reached between the City and the Coalition.



**FOR THE UNION:**

---

John Mukhar Date  
President  
AEA, IFPTE Local 21

---

Michael Seville Date  
Acting Senior Representative  
IFPTE, Local 101

**FOR THE UNION:**

---

Dale Dapp Date  
President  
AMSP, IFPTE Local 21

---

Michael Seville Date  
Acting Senior Representative  
IFPTE, Local 101

**FOR THE UNION:**

---

Matt Farrell Date  
President  
CAMP, IFPTE Local 21

---

Michael Seville Date  
Acting Senior Representative  
IFPTE, Local 101

**FOR THE UNION:**

---

Frank Crusco Date  
Chief Steward  
IBEW, Local 332

---

Dan Rodriguez Date  
Business Representative  
IBEW, Local 332