

SENT VIA EMAIL

August 16, 2012

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

Dear Vera:

As you know, the City and ALP are currently in negotiations on a successor agreement, with the previous agreement having expired on June 30, 2012. On your July 10, 2012, package proposal No. 18, entitled "Retiree Healthcare," you indicated ALP's desire to negotiate this issue separately. However, given that we are currently in bargaining on a successor agreement, we would like to continue negotiations at our current table on retiree healthcare even if, hopefully, the City and ALP come to an agreement on the remaining terms of a successor agreement.

As you have pointed out during our previous negotiation sessions, ALP has serious concerns given the projected retiree healthcare contributions for the upcoming fiscal year. The City shares these same concerns. Based on the valuation done by the Federated City Employees' Retirement System's actuary, Cheiron, in February 2012, retiree healthcare contributions are projected to be 15.50% and 16.84% for Fiscal Year 2013-2014 for the employees and the City, respectively. We are currently facing an approximate \$800.5 million unfunded liability on retiree healthcare, which is only approximately 14% funded. As you know, the City and its employees bear the costs of retiree medical 50/50.

Given the significance of this issue, we would like to continue discussions at our current table regarding retiree healthcare. In addition, the City is currently crafting a response to the comprehensive package proposals submitted by ALP on July 10, 2012, and July 19, 2012.

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We will contact you shortly to set up additional meeting times so that the City and ALP can continue negotiations.

Please let me know if you have any questions.

Sincerely,



Marco Mercado
Senior Executive Analyst

c: Richard Doyle, City Attorney
Jennifer Schembri, Assistant to the City Manager
Charles Sakai
Michelle Katsuyoshi