

May 23, 2013

Alex Gurza
Deputy City Manager
City of San Jose
200 E. Santa Clara Street
San Jose, CA 95113

Re: Labor Coalition Retiree Healthcare Counter Proposal

Dear Mr. Gurza,

The Coalition of the City of San Jose Federated Union's offers this counter proposal to the City's "modified" proposal dated May 15, 2013. In an effort to foster an agreement, this counter proposal attempts to create stability by recognizing the need for mutual cooperation and collaboration on this most complex of issues.

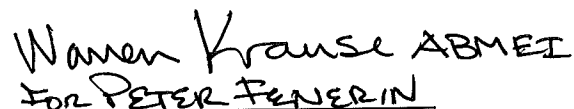
The Coalition's proposal continues the effort to responsibly provide adequate funding for the retiree healthcare benefit while modernizing the City's healthcare option structure. In addition, the proposal moves forward with financial mechanisms aimed at protecting the investment of the City and Coalition members in their retirement benefits while adding additional security to the pension benefit.

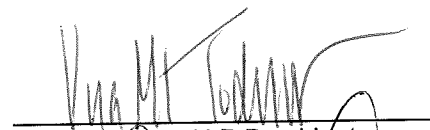
We share your goal in reaching an agreement in time for appropriate City Council action as well as ratification by the Coalition's Membership in time for the June Retirement Board meeting.


We are available to discuss this counter proposal on Wednesday, May 29, at 10 a.m. or Thursday May 30, at 10 a.m. Our intent would be to provide the City, under separate cover, with a more detailed statement of the underlying basis for the counter proposal before that meeting. Our counter proposal provides a very real compromise, addressing short-term issues as well as establishing a viable path for reaching a **comprehensive**, long-term solution. We hope the City agrees and look forward to discussing this counter proposal with you.


Sincerely,

San Jose Federated Labor Coalition

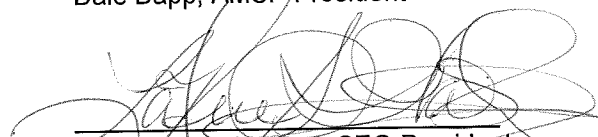

Peter Fenerin, ABMEI President



Vera Todirov, ALP President



John Mukhar, AEA President


Dale Dapp, AMSP President


Matt Farrell, CAMP President


LaVerne Washington, CEO President


Dan Rodriguez, IBEW Business Agent


Bill Pope, OE3 Business Agent


Yolanda Cruz, MEF President

COUNTER PROPOSAL

By

Coalition of the City of San Jose Federated Bargaining Units
(May 23, 2013)

The Coalition proposal is a five-part proposal and is to be considered a package proposal.

1. **Annual Required Contribution:** The ramp up to the Annual Required Contribution (ARC) includes fiscal year 2013/2014 and fiscal year 2014/2015. Employee and City contribution rates will increase by no more than .75% in each of these two fiscal years. The increases will be effective on the first pay period of each fiscal year. This proposal will result in an increased contribution by both the City and its employees of no more than 1.5% over fiscal years 2013/2014 and 2014/2015.

Having the ramp up include fiscal years 2013/2014 and 2014/2015 will allow both parties to conduct further research and investigation into options for a long term retiree healthcare solution, allow the Affordable Care Act to become effective, and allow the City workforce a reprieve from years of givebacks and takeaways. If by the end of fiscal year 2014/2015 the parties have not reached a long term retiree healthcare solution or another interim agreement on payment of the ARC, then full payment of the ARC will begin in the first pay period of fiscal year 2015/2016.

Each party would preserve all rights and claims it has regarding full payment of the ARC. Nothing in this agreement is intended to be a waiver by any party of any rights or claims the respective party has with regard to full payment of the ARC.

2. **Retiree Healthcare Stakeholders Solutions Committee:** The parties recognize that the adversarial nature of labor negotiations has not been a successful model for engaging in the kind of open and collaborative discussions needed to reach a long-term solution to the retiree healthcare issue. Accordingly, by no later than November 15, 2013, the parties will establish a Retiree Healthcare Stakeholders Solutions Committee with the express goal of reaching a long-term solution to the retiree healthcare issue by providing an environment that allows the maximum exchange and exploration of ideas. In addition to the City and each Bargaining Unit in the Coalition, a representative from each other stakeholder group will have an opportunity to be a part of the Committee. This collaborative effort will include the mutual selection of a healthcare industry consultant as a facilitator to provide independent analysis and recommendations, while facilitating open and constructive discussions between the stakeholders. The City, the Coalition and other stakeholders would share the cost of facilitator.
3. **Four Tier Rate Structure:** The Coalition will accept the City proposal regarding implementation of a four-tier rate structure, as outlined in the City's Modified Proposal dated May 15, 2013.
 - a. This proposal will modernize the healthcare structure the City offer's its employees
 - b. While creating increased cost for Family plans, this proposal will create savings for the City on the retiree plans as most retiree's will fall into an employee or employee plus one rate
4. **115 Trust:** The City can begin utilizing the 115 Trust provided that this action follows the City receiving from the IRS a specific Private Letter Ruling applicable to the City of San Jose that states that contributions to the Trust are treated as pre-tax expenditures. The City shall not deposit employee retiree healthcare contributions into a 115B Trust unless a PLR from the IRS specific to the City of San Jose states the employee contributions will be pre-tax contributions. Should the City fail to obtain such a PLR prior to reaching the

limits for the 401H account, the City may deposit employee contributions into the 115B Trust after issuing an executed agreement with coalition organizations requiring the City to indemnify employees for any and all adverse tax consequences.

5. **Refund of Retiree Healthcare Contributions:** The City will end the practice of refunding retiree healthcare contributions for all employee's hired on or after July 1, 2013 from the pension fund.
 - a. This proposal will encourage employee's to remain employed with the City as a retention tool while also creating a lower unfunded liability for the pension