

<p>Meeting Date:</p> <p>February 21, 2017</p>	<p>Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun 660 Davis Street, San Francisco, CA 94111</p> <p>PILOT PENSION COMMITTEE MEETING MINUTES</p>	<p>Page 1 of 7</p>
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Committee Members Present

David Connolly, Board Vice President and Committee Chairman
 John Schneider, Commissioner
 David Hoppes, Commissioner
 Captain Einar Nyborg, Committee Member
 Knute Michael Miller, Past Board President

Staff Present

Allen Garfinkle, Executive Director
 Roma Cristia-Plant, Assistant Director
 Dennis Eagan, Board Counsel
 Luis Cruz, Staff Services Analyst

Public Present

Captain Joseph Long, Port Agent and San Francisco Bar Pilot (SFBP) President; Ray Paetzold, SFBP Business Manager-General Counsel; SFBP Captains Nancy Wagner (ret.) and Art Thomas (ret.); Mike Jacob, Pacific Merchant Shipping Association Vice President and General Counsel; and Mrs. Art Thomas.

OPEN MEETING

1. Call to Order and Roll Call. (Chairman Connolly)

Chairman Connolly called the meeting to order at 9:32 a.m. Staff Service Analyst Cruz called the roll and confirmed a quorum.

2. Approval of minutes from the Committee meeting held on January 29, 2016. (Chairman Connolly)

Committee members were presented with draft minutes of the Committee meeting held on January 29, 2016. There was no discussion of the draft minutes by the Board or the public.

MOTION: Mr. Miller moved to approve the minutes from the Committee meeting held on January 29, 2016. Commissioner Schneider seconded the motion.

VOTE: Yes: Connolly, Hoppes, Miller, Nyborg, and Schneider.
 No: None.
 Abstain: None.

ACTION: The minutes were approved.

Prior to further Committee discussion, Captain Nyborg stated that he had a prior discussion with Board Counsel and has decided to recuse himself from the discussion and vote of any agenda items concerning pension benefits to beneficiaries of the San Francisco Bar Pilot Pension Plan since his father is a beneficiary of the plan. He stated that he does not believe there is a conflict of interest to vote on pension benefits issues, but would like to avoid even

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---	---	---------------------------

the appearance of a conflict of interest, particularly in light of the fact that he is in the process of applying to become a Board Commissioner.

3. Review and discussion of pension benefits received by retired or disabled pilots and inland pilots and their surviving spouses as required of the Board by Harbors and Navigation Code Section 1167(a).

The Committee was provided a staff report containing a brief summary of historical pilot pension data, relevant Harbors and Navigation Code statutes, and a discussion of the last San Francisco Bar Pilot Pension Plan (Pension Plan) cost of living review from February 27, 2014, changes to the Consumer Price Index (CPI) relevant to the San Francisco Bay Area, CPI Calculation methodology and a staff recommendation to utilize annual CPI when considering increases to monthly target rates for Pension Plan participants.

Executive Director Garfinkle noted that within the past three years, monthly target rates and payments to plan participants have slightly increased to \$9.4 million paid out to participants in 2016. He stated the Pilot Pension Plan expenses have varied and held to a relatively low dollar amount since staff has been performing the pension plan calculations at no cost to the plan.

Board Counsel Eagan confirmed for Commissioner Hoppes that the Pilot Pension plan is a “pay-as you go” plan, reflecting only surcharge revenue based upon billed bar channel ship moves. Commissioner Hoppes expressed his concern over the potential instability of the Pension Plan, stating when gross registered tonnage (GRT) increases, pension payouts increase, and when GRT decreases, pension payouts decrease. He stated that pensioners have no protection or guarantee in receiving a specified pension payment, as the plan is solely reliant on vessel traffic in and out of the Golden Gate Bridge. Mr. Miller commented that over time, pension payouts are close to target amounts due to GRT oscillation.

Executive Director Garfinkle noted that there is no mechanism in place for pensioners to recoup any monthly pension payment that is lower than a participant’s targeted monthly amount. He stated the Pension Plan surcharge mill rate is adjusted quarterly and contains a rolling GRT look back period.

Chairman Connolly thanked Assistant Director Cristia-Plant for the staff report, stating the report was well put together and that Pension data was easy to understand. He commented that this pension plan is very unique, being completely based on vessel traffic. He then inquired as to why the Pension Plan expenses were so low for 2016. Executive Director Garfinkle responded, stating staff is currently performing the Pension Plan calculations that are typically contracted out to a certified public accountant (CPA) firm, and that Board staff are working with the California Highway Patrol contract staff to establish and finalize a contract with an outside CPA firm. He stated that once the contract is in place, plan expenses should increase in the future.

<p>Meeting Date: February 21, 2017</p>	<p>Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun 660 Davis Street, San Francisco, CA 94111</p> <p>PILOT PENSION COMMITTEE MEETING MINUTES</p>	<p>Page 3 of 7</p>
---	---	---------------------------

- 4. Review and consideration of cost of living calculation methodology and potential percentage increase to the monthly target pension amounts received by retired pilots and other recipients of pension benefits from the San Francisco Bar Pilot Pension Plan pursuant to Harbors and Navigation Code Section 1167(b). Possible Committee action to recommend to the Board a cost of living calculation methodology and percentage increase to the monthly target pension benefits received by retired pilots and other recipients of pension benefits from the San Francisco Bar Pilot Pension Plan pursuant to Harbors and Navigation Code Section 1167(b).**

Board Counsel Eagan reiterated a possible conflict of interest concerning Mr. Nyborg as Mr. Nyborg's father is a direct participant of the Pilot Pension Plan. He stated Mr. Nyborg has stated that he would recuse himself from discussion and voting on this agenda item.

Assistant Director Cristia-Plant provided a review of the San Francisco Bay Area CPI data chart, noting the chart reflects data that is not seasonally adjusted. She stated the Chief Economist for the Department of Finance reviewed the Board's pension statutes and recommended the Board compare annual CPI data, as opposed to a December point-to-point CPI methodology. She stated using December-to-December CPI data is volatile, as seasonal or unexpected events may occur in a particular month affecting CPI data. Assistant Director Cristia-Plant provided the two following CPI calculation options:

OPTION 1: December 2016 Monthly CPI compared to December 2014 Monthly CPI

$$((269.483/252.273)-1) * 100 = 6.822\%$$

OPTION 2: Annual 2016 CPI compared to Annual 2014 CPI

$$((266.344/251.985)-1) * 100 = 5.698\%$$

She noted HNC §1167(b) states that a CPI increase shall not exceed 50% of the cumulative increase in CPI and shall take into consideration the maritime industry practice in the United States as brought to the attention of the Board by the pilots or the shipping industry. Depending upon the methodology chosen, the maximum CPI increase that may be considered by the Board is as follows:

OPTION 1: December 2016-to-December 2014

$$50\% \text{ of } 6.822\% = 3.411\%$$

OPTION 2: Annual 2016 compared to Annual 2014

$$50\% \text{ of } 5.698\% = 2.849\%$$

She stated staff is recommending the Committee adopt the use of annual CPI data, and under this recommendation the CPI percentage increase the Board should consider would fall between 0% and 2.849%. Additionally, she noted that Board staff agree with the Department of Finance's Chief Economist that is more appropriate for the Board to utilize the less

<p>Meeting Date:</p> <p>February 21, 2017</p>	<p>Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun 660 Davis Street, San Francisco, CA 94111</p> <p>PILOT PENSION COMMITTEE MEETING MINUTES</p>	<p>Page 4 of 7</p>
---	---	---------------------------

volatile annual CPI data when considering long-term increases to pension target rates for plan participants.

Commissioner Hoppes questioned why previous CPI calculation methodology was based on December-to December CPI data. Executive Director Garfinkle answered Commissioner Hoppes, stating that convenience factors may have attributed to choosing December-to December CPI data over annual CPI in the past. Mr. Jacob expressed a concern that there are no regulations for the pension plan that would clarify this issue.

Commissioner Hoppes stated that the data points reflected in option 1 are not representative of a time frame, but rather a specific point in time. He stated that consistency is highly important when considering changes to the Pension Plan. He stated that the Board should base their decision on stable and consistent factors. Commissioner Schneider concurred with Commissioner Hoppes and noted the opinion from the Chief Economist from the Department of Finance to use annual CPI data is reasonable.

Mr. Miller urged the Committee continue using point-to-point CPI data methodology to maintain consistency with past practice. Mr. Thomas commented that in the past, annual CPI data was not readily available, which may explain the Board's reasoning behind a December point-to-point methodology. Assistant Director Cristia-Plant commented that although the U.S. Bureau of Labor Statistics (BLS) has historically lagged in providing annual CPI data, the BLS currently provides annual CPI data by the end of January.

Commissioner Hoppes stated he felt uncomfortable with the "pay as you go" pension plan. He emphasized the risks and dangers to pensioners associated with a "pay as you go" plan, stating the Board should consider methods to promote the protection of a guaranteed pension amount, without placing a burden on maritime businesses.

Executive Director Garfinkle clarified for Commissioner Hoppes that if the Committee wanted to depart from current Pension Plan calculation methodologies, regulations could be developed to clarify the pension statutes, or the statutes could be rewritten through the legislation process. Board Counsel Eagan responded to Commissioner Hoppes' question regarding why would the Board ever select less than a 50% increase of the CPI as a cost of living adjustment, and stated that an increase of less than 50% could be selected by the Board based upon the maritime industry practice in the United States as brought to the attention of the Board by the pilots or the industry. Board Counsel Eagan also confirmed that there has been no organized presentation to inform the Board in this instance.

Mr. Thomas commented that the 50% of CPI maximum increase in cost of living adjustment was negotiated by the industry and the pilots many years ago when the CPI was at much higher. He also commented that retired pilots take a lot of risks in their careers and with their pensions since pensions are based upon the flow of traffic.

Mr. Jacob stated that the Board has no basis for making a pension increase of 50% of CPI, and that he has provided information to the Board in the past to no avail, and stated that any

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---	---	---------------------------

decision by the Board is arbitrary without evidence, and reiterated that there are no pension regulations to guide the Board. He stated he would provide a letter to the Board about a pension cost of living increase in the near future.

Mr. Paetzold confirmed that the Board historically used a point-to-point methodology in calculating CPI increases to the Pension Plan and that he does not see any complications in continued uses of point-to-point. Additionally, he expressed some concern over changing the pension plan methodology without adequate notice given to pensioners. Chairman Connolly thanked Mr. Paetzold and stated that he sees a potential smoothing advantage in switching to annual CPI data.

MOTION: Commissioner Hoppes moved that the Committee accept the use of annual CPI in the cost of living calculation methodology for the San Francisco Bar Pilot Pension Plan.

ACTION: The motion failed.

MOTION: Mr. Miller then moved that the Committee accept the use of the point-to-point methodology for the calculation of CPI increases related to the Board granting cost of living increases to San Francisco Bar Pilot Pension Plan beneficiaries. Chairman Connolly seconded the motion.

VOTE: Yes: Connolly, Hoppes, Miller, and Schneider.
No: None.

Abstain: Nyborg.

ACTION: The motion was approved.

Board Counsel Eagan requested, and Chairman Connolly granted, a recess to allow Board staff to reassess the CPI increase calculations.

RECESS: 10:42 A.M.

RESUME MEETING: 11:03 A.M.

Assistant Director Cristia-Plant stated that, with a correction to the analysis presented in the staff report to include December 2016 through December 2013 data, the revised December point-to-point CPI calculation was:

OPTION 1: December 2016-to-December 2013
 $((269.483/245.711) - 1) * 100 = 9.675\%$

50% of 9.675 = 4.837%

Chairman Connolly inquired why Board staff chose to include December 2013 as a data point in reassessing the proposed CPI increase. Executive Director Garfinkle responded stating that in the previous review of the Pilot Pension plan, the point-to-point calculation included December 2010 to December 2013, covering a time period of three years.

<p>Meeting Date: February 21, 2017</p>	<p>Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun 660 Davis Street, San Francisco, CA 94111</p> <p>PILOT PENSION COMMITTEE MEETING MINUTES</p>	<p>Page 6 of 7</p>
---	---	---------------------------

Replicating the point-to-point methodology, December 2013 was added as a data point to not skip any time in the calculation of the proposed 2017 CPI increase.

Commissioner Hoppes commented that annual data is easier to interpret. Additionally, he expressed his continuing concern with the point-to-point methodology.

MOTION: Mr. Miller moved that the Committee increase San Francisco Bar Pilot Pension Plan monthly target rate amounts by 4.837%, effective April 1, 2017. Chairman Connolly seconded the motion.

VOTE: Yes: Connolly, Hoppes, Miller, and Schneider.
No: None.
Abstain: Nyborg.

ACTION: The motion was approved

- 5. Review and discuss request by Pacific Merchant Shipping Association (PMSA) Vice President Mike Jacob for the Board to direct the Executive Director, as the fiduciary agent of the Board to the San Francisco Bar Pilot Pension Plan, to retain the services of an actuary familiar with the administration of defined-benefit pension plans to assess the full value and extent of any and all present and likely future liabilities associated with the statutory San Francisco Pilot Pension Plan. Possible Committee action to recommend to the Board to direct the Executive Director, as the Board-designated Pilot Pension Plan Fiduciary, to retain the services of an actuary to conduct a study to assess the full value and extent of any and all present and likely future liabilities associated with the statutory San Francisco Pilot Pension Plan.**

Assistant Director Cristia-Plant began the discussion by noting that the actuary who did the previous study, Graham Schmidt, is available, albeit he is now with a different firm. She also noted that a critical aspect of the study that greatly affects the result are the assumptions. These will likely be determined through discussions with the final contractor, Committee and staff.

Chairman Connolly pointed out that new mortality table may be available since the last study was completed.

Mr. Miller noted that it took roughly two years to contract for the last study and that it would be more efficient if Mr. Schmidt could be the contractor, as he has a template for this report. Mr. Jacobs agreed with Mr. Miller about the length of time to contract with the prior actuarial firm.

Commissioner Hoppes pointed out that the pension surcharge adds about \$60/move to the current pilotage cost, and the Board should seek to strike a balance on pensions versus ensuring that the Bay Area remains a competitive port.

<p>Meeting Date: February 21, 2017</p>	<p>Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun 660 Davis Street, San Francisco, CA 94111</p> <p>PILOT PENSION COMMITTEE MEETING MINUTES</p>	<p>Page 7 of 7</p>
---	---	---------------------------

MOTION: Chairman Connolly moved that the Committee recommend to the Board to direct the Executive Director, as the Board-designated Pilot Pension Plan primary fiduciary, to retain the services of an actuary to conduct a study to assess the full value and extent of any and all present and likely future liabilities associated with the statutory San Francisco Bar Pilot Pension Plan. Mr. Miller seconded the motion.

VOTE: Yes: Connolly, Hoppes, Miller, Nyborg, and Schneider.
No: None.
Abstain: None.

ACTION: The motion was approved

6. Public comment on matters not on the agenda.

Mr. Thomas acknowledged Commissioner Hoppes' concerns pertaining to the Pilot Pension Plan, and stated some industry members and pilots do not share his views.

7. Schedule the next Committee meeting, proposals for items to the next Committee meeting agenda.

The Committee agreed to schedule the next meeting after Board staff contracts with a firm to conduct an actuarial study of the San Francisco Bar Pilot Pension Plan.

8. Adjournment.

MOTION: Chairman Connolly moved to adjourn the meeting. Commissioner Schneider seconded the motion.

VOTE: Yes: Connolly, Hoppes, Miller, Nyborg, and Schneider.
No: None.
Abstain: None.

ACTION: The motion was approved. The meeting was adjourned at 11:41 a.m.

Submitted by:



Allen Garfinkle, Executive Director