July 31, 2013 Sent via e-mail KPace@csea.com

Keith Pace, Director of Field Operations
California School Employees Association
2045 Lundy Ave
San Jose CA 95131

Re: AEU Response to July 26, 2013 Letter By Pace; Request for Further Information

Dear Mr. Pace:

AEU responds to your letter of July 26, 2013. AEU requests further clarifying information as set forth below.

1. In your response to AEU Question No. 2 in the July 26, 2013 letter, you state that the (pension) contribution is calculated (on actuarial numbers) by Milliman . . . and that the pension cost reported for "GAAP" financial reporting is rarely the same as the cash contribution. Similarly, please confirm that CSEA bases the CSEA 2013-14 budget items presented to the CSEA delegates on "GAAP" figures, more accurately stated as accounting accrual figures, until such time as the actual funding (cash) pay-out is known. See July 26, 2013 letter, response to AEU Question No. 2 ["Our internal financial statements, audited financial statements and budgets are based on GAAP (accounting figures) that are rarely the same as the actual cash pay-out]. Emphasis added.

2. Based on the CSEA 2013-14 budget under the heading "Actual 2012-13," is it correct that those itemized expenditures are not what was actually spent, but only what was "projected" under accounting accrual figures? Please confirm that a loss shown as a result of these inflated numbers may not be an actual loss.

3. Please confirm Executive Direct Dave Low's (Low) representation that CSEA needed to "borrow" over $600,000 from the designated CSEA Retirement Fund was not an actual cash pay-out but a "book entry" only. In other words, actual cash "borrowing" did not occur as the designated CSEA Retirement Fund is not a bank account i.e, no cash actually moved as is usually understood by the word "borrow." Please provide written documentation to support said "borrowed" money against the inter fund transfer "Account number 7900" indicated at p. 345 of the budget.

4. Under the G/L Account 2350 budget line items (Defined Benefit Pension Plan/Retirement) the over $11 million is reported as a 2012-13 actual expenditure. In fact, CSEA itself has stated that it actually paid $7,093,000 into the Defined Pension Plan. Please confirm that the approximate $4 million difference is a result of an accounting accrual and not an actual cost. Please further confirm that if the Account 2350 expenses as reported were corrected to reflect what was actually paid out, the $104,530 alleged deficit is eliminated and the approximate $4 million more accurately reflects a tangible surplus. In addition, please confirm that this is an example of your statement indicated in No. 1 above that "GAAP" or accounting accrual figures are rarely the same as actual cash pay-out? Finally, please provide written documentation to support how the more than $11 million figure was calculated and who determined this number reported out to the CSEA Conference delegates.

5. Please explain your answer to AEU's Question No. 4 that CSEA had to make "substantially higher contributions" after the 2012 2% pay out as the reason why Low and CFO Jeff Kumataka's (Kumataka) reported on June 13, 2013 that CSEA paid an $11.5 million contribution. You specifically state that the "substantially higher contributions" were because the "stock market tumbled" shortly after the June 1, 2012 valuation. We point out that this representation is in direct contradiction to the answer to AEU Question No. 3 where you state "CSEA opted to use MAP-21 which reduced our cash (pension) contribution to an estimated $7,175,000 which was later adjusted by Milliman to $7,093,000." Obviously, this figure is a reduction to the cash contribution -- not a "substantially higher contribution." We further point out that the "tumble" was temporary and that since the June 1, 2012 valuation date, the market is up dramatically. Accordingly, please state 1) the amounts of the substantially higher contribution and the dates when they were paid and 2) where these amounts are recorded. Please further provide the written documentation to support said "substantially higher contributions" since the June 1, 2012 valuation date.

6. During Low's report to the CSEA delegates at Conference this week, Low stated that "pension costs for this year (2013-2014) were going down." According to CSEA's own representations and as supported by the applicable reports, last year's minimum contribution was $7,093,000 as determined by Milliman. If costs were "going down" why does the budget state under the Account 2350 budget line items (Defined Pension Plan/Retirement) a budgeted expense of $9.3 million notwithstanding the difference in accounting accrual figures and the actuarial cost figures? Please state where the $9.3 million figure derives. Please provide the written documentation to support how this number was reached since CSEA states it is aware that pension costs will be less this year than last year.

AEU reiterates our request for the CSEA's FY 2013financial reports (final year end revenue and expense statement and the balance sheet statement including all supporting schedules and any and all other supporting documents); CSEA Retirement Plan FASB ASC 715-20 FY 2013, and the CSEA Retiree Medical Plan FASB ASC 715-20 FY 2013 reports set forth in our letter dated July 16, 2013 from Chris Platten to you. We further reiterate our request for the June 1, 2013 Funding Actuarial Valuation Report showing the actual cost figures as opposed to the much higher (inflated) non-cash outlay accounting accrual figures. These essential reports will shine light on CSEA characterization of its fiscal condition and in turn, the funding status and true cost of the pension plan to enable the parties to conclude good faith bargaining on the economic proposals. To that end, we further request a response to our request for the CSEA actuary to speak directly to the AEU actuary to attempt to reconcile the extraordinary disparity in the parties cost figures.[1]

AEU maintains its position that both CSEA and the pension plan enjoy sufficient assets and stability to comfortably meet AEU's conservative bargaining demands for economic equality.

We thank you in advance for your prompt attention to the requests set forth herein. AEU reserves all right to continued information requests necessary for a fair contract.

In Unity

Scott Hendries

Scott Hendries
AEU President

c: AEU Bargaining Team
CSEA Board Members
Dave Low

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[1] During the last bargaining session on May 29, 2013, CSEA negotiations chair Keith Pace and CSEA spokesperson Patrick Prezioso represented that to restore the 2011 1.59% pension factor back to the 2.275% in place for at least for a decade, would cost $3.5 million. To restore the 2012 2% back to 2.275% would cost $1.7 million. The total is $5.2 million. Yet, in the CSEA document titled "AEU Negotiations Update and Talking Points" distributed to management and CSEA members after the last bargaining session on May 29, 2013, CSEA claims its actuary calculates that the restoration would cost a whopping $9.9 million! This is a ridiculous disparity against the cost figures computed by the AEU Bolton Partners actuary that the 2011 and 2012 restoration is $1,835,255 amortized over seven years to be $311,000 each year. For future years following the restoration, the cost from 2.0% to 2.275% standing alone is $526,000. This disparity screams for reconciliation between the actuaries. Yet, CSEA remains silent on this point notwithstanding two requests to date by AEU. Bargaining is gridlocked until CSEA provides the required reports it is duty bound to submit to AEU.