



City of San Antonio, TX

Labor Costing Review

January 2015



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I. Executive Summary

Executive Summary

To help ensure the reasonableness and reliability of costing analysis being developed in support of collective bargaining, the City of San Antonio (City) engaged Public Financial Management, Inc. (PFM) to conduct an independent review of the City's calculations and assumptions regarding workforce cost and budget impact.

This analysis focuses on collective bargaining proposals exchanged in October and November 2014 between the City and the San Antonio Police Officers' Association (SAPOA),¹ and evaluates the impact on the City's General Fund in consideration of the following principles approved by San Antonio City Council for the negotiation of police and fire labor union contracts:

- Public Safety costs should not exceed 66% of the General Fund.
- Police and Fire Union uniform employees should contribute to the cost of healthcare by paying premiums similar to civilian employees and other peer cities in Texas.
- The City will maintain financial policies and practices to support a "AAA" General Obligation Bond Rating.

Based on detailed evaluation of original City documents and calculations, with due diligence to confirm alignment of the City's costing with the FY2015 Adopted Budget, audited financial statements, actuarial and benefits reports, and other published fiscal data, the following findings reflect PFM's independent, professional judgment regarding the projected impacts of the City and SAPOA bargaining proposals:

- The City's proposal of October 21, 2014 is estimated to create modest budget pressure in FY2015, resulting in a \$1.2 million shortfall. Going forward, however, the proposed terms are projected to remain affordable within City Council's policy guidelines, with a total three-year General Fund incremental cost of \$28.5 million.
- The SAPOA proposal of November 3, 2014 is estimated to add \$76.8 million in incremental costs to the General Fund over three years – \$48.3 million more than the City proposal. Following a \$1.1 million shortfall in FY2015, shortfalls in future years under the SAPOA proposal would be projected to grow to be much more significant at \$32.6 million for FY2016 and \$24.5 million in FY2017. As a result, the SAPOA proposal is estimated to fall well outside of the parameters established by City Council.

¹ The costing analysis evaluated within this report is focused on those proposals with the most significant budget impact, related to wages (across-the-board increases, lump sums, longevity structure, and probationary rates), and employee health benefits. In ongoing bargaining between the City and SAPOA, additional economic proposals have been put forward in areas such as tuition and mileage reimbursements that are not included in the analysis addressed in this report.

Executive Summary

Public Safety Costs as a Percentage of the General Fund

PFM concurs with the use of the General Fund as the denominator for calculating the share of City resources dedicated to public safety. Within the City's overall financial profile, non-General Fund resources are subject to restricted use (such as Airport revenues and expenditures regulated by the Federal Aviation Administration, voter-approved sales tax revenues dedicated to the Advanced Transportation District, Hotel Occupancy Tax collections restricted to tourism, history and preservation, and arts and culture programming, and fees for garbage collection) – with only General Fund revenues broadly available for general municipal purposes. It is within this primary pool of resources that public safety expenditure demands must be balanced against other public service needs and priorities.

- Under the City proposal, total public safety costs would be forecast to remain at or below 66% of total General Fund spending (FY2015: 66%; FY2016: 66%; FY2017: 65%).
- Under the SAPOA proposal, public safety costs would be forecast to exceed 66% of total General Fund spending after FY2015 (FY2015: 66%; FY2016: 69%; FY2017: 69%).

When spending in one area exceeds City Council's guidelines, the result is to crowd out other services to the public, or to require that additional revenues be raised through actions such as tax rate increases, or a combination of these two approaches.

Employee Health Care Premium Contributions

Given the high rate of healthcare inflation nationally, public and private employers alike have broadly adopted employee premium cost-sharing structures to address affordability concerns and to provide employees with a stake in healthcare cost containment. Among the largest Texas cities (Austin, Corpus Christi, Dallas, El Paso, Ft. Worth, Houston), San Antonio is the only employer that does not yet require healthcare premium contributions for police and firefighters. In addition, City of San Antonio civilian employees already contribute toward premiums for all City plans for dependent coverage, and toward individual coverage in two of the three City plan offerings.

To evaluate the budget impact of the alternative healthcare plans included in the City and SAPOA bargaining proposals, the City engaged Healthcare Analytics Consulting (HCA), a division of Arthur A. Gallagher & Co., to develop a certification of costs. PFM has reviewed the resulting HCA certifications, and verified that the City's costing model is appropriately based on the median estimate of cost per employee. PFM is not an actuarial firm, and an independent assessment of the underlying HCA actuarial analysis was not within the scope of this engagement.

Executive Summary

Maintaining “Aaa” General Obligation Bond Ratings

As of January 2015, the City of San Antonio holds “Aaa” General Obligation credit ratings from all three major credit rating agencies: Moody’s Investor’s Service, Standard & Poor’s, and Fitch Ratings. This is the highest-level credit rating possible, providing access to the capital markets at highly competitive interest rates for the City’s taxpayers, and reflecting positively on San Antonio’s financial management.

Of concern, however, the City’s credit rating from Moody’s has been assigned a negative outlook – indicating ongoing review with the potential for a near-term downgrade below “Aaa.” Moody’s ratings reports² for San Antonio indicate that the primary rationale for this negative outlook is the City’s recent “two years of operating deficits which reduced the General Fund balance,” and specifically cites the following as a factor that could make the rating go down below the “Aaa” level:

“Failure to return to structurally balanced operations depleting GF reserves”

Accordingly, the significant budget shortfalls projected to result from the November SAPOA proposal, if left unaddressed, would create exactly the type of factor cited by Moody’s as holding the potential to drive the City’s rating below “Aaa.”

With regard to the other major rating agencies, Fitch Ratings and Standard & Poor’s, the City currently holds a stable credit outlook. At the same time, however, both rating agencies specifically cite reserve levels as a key credit factor in their most recent reports on the City of San Antonio, along with their expectations that reserves will be maintained. For example, Fitch’s most recent San Antonio report notes as follows:

“The rating is sensitive to shifts in fundamental credit characteristics, including the city’s strong, albeit reduced, financial reserves. Additional significant reductions in reserves, even if planned, could result in negative rating pressure.”³

Costing Analysis

PFM reviewed the cost estimates, methodology, and calculations developed by the City regarding alternative salary-driven labor proposals, and found these projections to be reasonable and realistic, reflecting detailed analysis of the impacts of any wage adjustments on various elements of compensation. In addition, PFM assessed the data and assumptions used to determine the impact of these proposals on the City’s finances. As noted above, this framework was found to tie directly to the City’s Adopted Budget and audited financial

² See, for example, “Moody’s assigns Aaa to San Antonio, TX’s Series 2014 GOLT refunding bonds; negative outlook,” Moody’s Investors Service (November 6, 2014).

³ Fitch Ratings, San Antonio, Texas (November 14, 2014).

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statements, with limited and appropriate updates and/or adjustments to project forward over the three years of the proposed contract period.

Most of the adjustments made by the City to Adopted Budget data were simply updates based on more recent, actual results. With regard to revenue forecasts for future years, however, the City's projections were based on historical ten-year revenue trends. While this methodology is data-based and sound, such projections are less conservative than those used in the City's standard budgeting process. City finance and budget officials reported that the more aggressive revenue forecast as developed for this labor analysis (in comparison to the more conservative Budget forecasts) was used to avoid any potential overstatement of the adverse overall impact of incremental personnel expenditures.

PFM concurs that this is a reasonable and balanced approach, given historical revenue experience. At the same time, we note that the resulting labor-related forecasts now carry greater financial risk than incorporated in San Antonio's general fiscal forecasts, given the economic sensitivity and volatility of key revenue streams such as sales taxes and payments from CPS Energy.

While most economic forecasts do not anticipate a near-term recession, the expansion phase of the business cycle nationally has now reached 67 months and counting as of January 2015. Since the start of the post-War era, the prior eleven (11) expansion phases lasted an average of 58.4 months. If a downturn were to occur and reduce City receipts during the contract period, the same level of public safety spending under either proposal scenario would represent a higher percentage of General Fund revenues than now shown in the City's analysis.



II. Project Overview and Approach

Project Overview and Approach

To help ensure the reasonableness and reliability of costing analysis being developed in conjunction with collective bargaining, the City of San Antonio (City) engaged Public Financial Management, Inc. (PFM) to conduct an independent review of the City's calculations and assumptions regarding workforce cost and budget impact.

This analysis focuses on collective bargaining proposals exchanged in October and November 2014 between the City and the San Antonio Police Officers' Association (SAPOA), and evaluates the impact on the City's General Fund in consideration of the following principles approved by San Antonio City Council for the negotiation of police and fire labor union contracts:

- Public Safety costs should not exceed 66% of the General Fund.
- Police and Fire Union uniform employees should contribute to the cost of healthcare by paying premiums similar to civilian employees and other peer cities in Texas.
- The City will maintain financial policies and practices to support a "AAA" General Obligation Bond Rating.

To conduct this evaluation, PFM reviewed original source documents, such as the existing collective bargaining agreement between the City and SAPOA, as well as actuarial and benefits documentation, to gain an understanding of the relevant compensation structure and proposed adjustments. In addition, PFM reviewed Comprehensive Annual Financial Report (CAFR) and Budget data for the City.

To further assess the potential impact of any changes on the City's overall financial status, PFM also evaluated the most recent San Antonio credit rating reports. These reports were reviewed relative to published rating agency methodologies, scorecards, and medians, as well as in relation to the bargaining information and compensation data referenced above.

To clarify our understanding of the City's analysis and assumptions, PFM interviewed City finance and budget staff by telephone on multiple occasions, and requested extensive backup documentation.

The resulting findings reflect our professional judgment, based on the research and due diligence outlined above.



III. Financial Policies and Credit Impact

Financial Policies and Credit Impact

City Council Policy Guidelines

PFM's findings regarding alignment of the City and SAPOA bargaining proposals with the major principles for the negotiation of police and fire labor contracts as adopted by San Antonio City Council are outlined below.

Balanced Program Spending

In recent years, many cities nationally have experienced cost growth for public safety compensation that has significantly outpaced growth in revenues. As a result, such workforce costs have often “crowded out” the capacity to fund other public services important to a community's quality of life – requiring budget cuts, tax increases, or a combination of the two.

In San Antonio, City Council has established the target that public safety costs should not exceed 66% of the General Fund.

In the City's analysis, public safety costs are projected to remain at this Council policy limit in FY2015 under both the City's proposal of October 21, 2014 (66%) and the SAPOA proposal of November 3, 2014 (66%). In subsequent years, however, only the City proposal would be forecast to remain within these guidelines, while the SAPOA proposal would be projected to drive public safety costs well beyond these policy parameters:

	City Proposal (10/21/14)	SAPOA Proposal (11/3/14)
FY2015 Projected Result	66%	66%
FY2016 Projected Result	66%	69%
FY2017 Projected Result	65%	69%

Further, the SAPOA proposal would be projected to create significant budget shortfalls of \$32.6 million in FY2016 and another \$24.5 million in FY2017, with unspecified actions needed to close the gap in each year. As a result, eliminating these shortfalls would be projected to require budget cuts that could potentially further erode progress on other priorities and/or could be addressed by actions to raise City revenues, such as an increase to local property tax rates.

Of note, the above calculations are based on public safety costs (police, park police, and firefighter) as a percentage of available General Fund resources⁴. These projections further assume that City firefighters would receive the same compensation adjustments as police under each scenario, however, parallel compensation adjustments are not assumed for park police.

⁴ Operating revenues plus beginning balance, less the amount required to maintain 10% reserves and the additional reserves necessary to meet targeted ending Fund Balance carried over in the 2-year balanced budget plan.

Financial Policies and Credit Impact

PFM concurs with the use of the General Fund as the denominator for calculating the share of City resources dedicated to public safety. Within the City's overall financial profile, non-General Fund resources are subject to restricted use, such as Airport revenues and expenditures regulated by the Federal Aviation Administration, voter-approved sales tax revenues dedicated to the Advanced Transportation District, Hotel Occupancy Tax collections restricted to tourism, history and preservation, and arts and culture programming, fees for garbage collection, and bond-financed capital funds. Accordingly, only General Fund revenues are broadly available for general municipal purposes. It is within this primary pool of resources that public safety expenditure demands must be balanced against other public service needs and priorities.

Employee Contributions toward Healthcare Premiums

Given the high rate of healthcare inflation nationally, public and private employers alike have broadly adopted employee premium cost-sharing structures. As of the most recent March 2014 Bureau of Labor Statistics (BLS) National Compensation Survey, premium contribution requirements for full-time employees were prevalent across the U.S. labor market.

	U.S. Private Industry Employee Premium Share (2014)	U.S. State and Local Governments Employee Premium Share (2014)
Single Coverage	21%	12%
Family Coverage	31%	29%

Not only does such premium cost-sharing approach help to offset an employer's direct cost of coverage, addressing affordability concerns, but it also provides employees with a stake in healthcare cost containment that can promote the more efficient use of services.

Among major Texas cities (Austin, Corpus Christi, Dallas, El Paso, Ft. Worth, Houston), San Antonio is the only employer that does not yet require healthcare premium contributions for police and firefighters.

Among other City of San Antonio employees, civilians contribute toward premiums for all City plans for dependent coverage, and toward individual coverage in two of the three City plan offerings. Specific employee contribution amounts vary by plan choice, level of dependent coverage, and hire date.

Credit Rating

As of January 2015, the City of San Antonio holds "Aaa" General Obligation credit ratings from all three major credit rating agencies: Moody's Investor's Service, Standard & Poor's, and Fitch Ratings. This is the highest-level credit rating possible, providing access to the capital markets

Financial Policies and Credit Impact

at highly competitive interest rates for the City's taxpayers, and reflecting positively on San Antonio's financial management.

Of concern, however, the City's credit rating from Moody's has been assigned a negative outlook – indicating ongoing review with the potential for a near-term downgrade below "Aaa."

Moody's ratings reports⁵ for San Antonio indicate that the primary rationale for this negative outlook is the City's recent "two years of operating deficits which reduced the General Fund balance," and specifically cites the following as a factor that could make the rating go down below the "Aaa" level:

"Failure to return to structurally balanced operations depleting GF reserves"

A review of the Moody's methodology used for developing municipal ratings⁶ further indicates that Fund Balance levels and trends will, in combination, generally represent fully 15% of a local government's credit rating.

While absolute Fund Balance levels may appropriately vary based on the volatility and flexibility of a particular local government's revenues and expenditures, Moody's reports that "Aaa" ratings are typically associated with Fund Balances greater than 30% of revenues – although larger governments are generally considered to have more flexibility. Among major U.S. cities with a population of 500,000 or greater rated as "Aaa" by Moody's, the 2013 median General Fund Balance as a percentage of revenues was 18.90%. Again among cities with a population above 500,000, a lower median General Fund Balance of 13.37% was associated with "Aa" ratings⁷.

Based on the City's budget and costing projections, the City proposal of October 21, 2014 would create moderate pressure on the City's structural budget balance in FY2015 (\$1.2 million shortfall while maintaining reserves at 16% of revenues), but fully support balance in FY2016 and FY2017.

In contrast, the SAPOA proposal of November 3, 2014 would be projected to create shortfalls in each of the next three years, with significant structural imbalance in years two and three, relative to maintenance of 16% reserves:

- FY2015: \$1.1 million shortfall.
- FY2016: \$32.6 million shortfall.
- FY2017: \$24.5 million shortfall.

⁵ See, for example, "Moody's assigns Aaa to San Antonio, TX's Series 2014 GOLT refunding bonds; negative outlook," Moody's Investors Service (November 6, 2014).

⁶ "US Local Government General Obligation Debt," Moody's Investors Service (January 15, 2014)

⁷ "2013 US Local Government Medians Demonstrate Stability of Sector," Moody's Investors Service (August 21, 2014).

Financial Policies and Credit Impact

Such budgetary shortfalls would reflect a “*failure to return to structurally balanced operations depleting General Fund reserves*” – consistent with exactly the type of factor cited by Moody’s as holding the potential to drive the City’s rating below “Aaa.” Accordingly, to address such negative ratings pressure under the projected scenario inclusive of the SAPOA November proposal, the City would face the potential for cuts of other General Fund services, revenue increases through actions such as raising tax rates, or a combination of the two.

With regard to the other major rating agencies, Fitch Ratings and Standard & Poor’s, the City currently holds a stable credit outlook. At the same time, however, it may be noted that both rating agencies specifically cite reserve levels as a key credit factor in their most recent reports on the City of San Antonio, along with their expectations that reserves will be maintained:

- Fitch: “*The rating is sensitive to shifts in fundamental credit characteristics, including the city’s strong, albeit reduced, financial reserves. Additional significant reductions in reserves, even if planned, could result in negative rating pressure.*”⁸
- S&P: “*The ratings reflect our view of the city’s... Strong budgetary performance, with reserves at more than 15% of operational expenditures*”⁹

Consistent with these expectations, the City’s analysis holds reserves at or above 16% of revenues. This level provides a thin margin above the target of 15% – accounting for the less conservative revenue forecasts used in this analysis, and also reflecting rating agency expectations.

Review of Budget Projections

As a component of our overall review and due diligence, PFM evaluated the fiscal forecasts associated with the projected budget shortfalls and imbalances outlined above. Key findings from this evaluation include:

- For FY2014, the City relies primarily on the estimated year-end results included in the FY2015 Adopted City Budget. One adjustment is made to recognize anticipated revenues \$12.6 million above originally budgeted levels, and a second, technical accounting adjustment adds a further \$0.4 million. These City adjustments are based on actual results from the preliminary closing of the City’s books for FY2014, and have the effect of increasing the funds available to maintain reserves in subsequent years of the projection model. In other words, without these adjustments, public safety costs under the various settlement scenarios evaluated would be shown to generate even larger shortfalls and would represent a higher percentage of the overall General Fund. PFM views these adjustments to be reasonable and appropriate updates based on more current financial results than were available at the time of the original Budget adoption.

⁸ Fitch Ratings, San Antonio, Texas (November 14, 2014).

⁹ Standard & Poor’s, San Antonio, Texas: Appropriations; General Obligation (November 7, 2014).

Financial Policies and Credit Impact

- For FY2015, the City relies primarily on the estimates included in the FY2015 Adopted City Budget. Other than adjustments to reflect labor contract proposal scenarios, the only adjustment made relative to the Adopted Budget is to recognize potential revenues \$28.5 million above originally budgeted levels. This increase in revenues for FY2015 – and parallel upward adjustments for FY2016 and FY2017 – result from the City's assumption that aggregate General Fund revenues will grow by 4% annually. This assumption aligns with San Antonio's actual, historical compound annual growth rate (CAGR) from FY2003 through FY2013.

Of note, this figure is somewhat higher than the Adopted Budget for FY2015. To minimize the risk of current year budget shortfalls, the City uses moderately conservative assumptions when developing its annual budgets. Such conservative forecasting is a sound approach, as it reduces the likelihood of difficult and disruptive mid-year corrections, mitigates the need to carry even larger reserves, and is consistent with the maintenance of a strong credit rating. In the City's most recent (November 7, 2014) credit report from Standard & Poor's (S&P), for example, S&P notes that *"San Antonio's management conditions are very strong, in our view, with 'strong' financial practices under our Financial Management Assessment (FMA) methodology, indicating practices are, in our opinion, strong, well embedded, and likely sustainable. Strengths of the assessment, in our opinion, include the city's use of conservative revenue and expenditure assumptions in its budgeting process..."* [emphasis added]. For the purposes of evaluating the potential fiscal impact of alternative labor settlements on the City's finances, however, again, the somewhat higher historical CAGR is used.

City finance and budget officials reported that the more aggressive revenue forecast as developed for this labor analysis (in comparison to the more conservative Budget forecasts) was used to avoid any potential overstatement of the adverse overall impact of incremental personnel expenditures. PFM concurs that this is a reasonable and balanced approach, given historical experience, but notes that the resulting labor-related forecasts now carry greater financial risk than incorporated in San Antonio's general fiscal forecasts as a result. Economically sensitive revenue streams may experience lower rates of growth during a downturn, and the current expansion phase of the business cycle nationally has already reached 67 months and counting as of January 2015. Since the start of the post-War era, the prior eleven (11) expansion phases lasted an average of 58.4 months, and the very longest has been 100 months.

- In addition to the FY2016 and FY2017 revenue adjustments, as outlined above, the City's forecasts also add \$3.3 million in expenditures associated with the anticipated restoration of 40 police vacancies defunded in FY2015 on a one-time, one-year basis to help achieve overall budget balance. The City's goal is to refill these vacancies for FY2016 and beyond, so the associated personnel costs are appropriately included in these subsequent years.

Financial Policies and Credit Impact

- Other than this headcount adjustment, forecast expenditures in the City analysis are consistent with the City's Adopted Budget, with projected FY2016 aggregate spending growth aligned with the FY2016 Budget Plan included in the FY2015 Adopted Budget (2.1%), and FY2017 growth consistent with the City's published FY2015 to FY2019 5-Year Financial Forecast (2.0%).

As part of our review, PFM also evaluated alignment of the City's Adopted Budgets with the most recent Comprehensive Audited Financial Report for the Fiscal Year Ended September 30, 2013. Like most governments, the City of San Antonio's budgetary basis for presenting financial data varies somewhat from the presentation used for accounting purposes. A schedule of reconciliations was reviewed, and confirmed that the two presentation formats have been accurately aligned.

IV. Costing Analysis

Costing Analysis

Collective Bargaining Proposals

The following are the quantified elements of the City's October 21, 2014 proposal to the SAPOA:

- FY2015:
 - Lump sum payment equal to 1.5% of salary (does not carry forward into future years);
 - New healthcare plan design, assumed to be effective July 1, 2015;
- FY2016:
 - Lump sum payment equal to 1.0% of salary (does not carry forward into future years);
 - 1% across-the board wage increase; and
- FY2017:
 - 2% across-the board wage increase.

The following are the quantifiable elements of SAPOA's November 3, 2014 proposal to the City:

- FY2015:
 - 4% across-the board wage increase in FY2015, effective July 1;
 - Upgrading the probationary pay rate to the higher-paid Step A in FY2015, effective July 1;
 - New healthcare plan design, assumed to be effective July 1, 2015;
- FY2016:
 - 4% across-the board wage increase;
- FY2017:
 - 1% across-the board wage increase;
 - Additional pay gains from restructured longevity pay, providing 0.75% for each year of service (equivalent in fiscal impact to an across-the-board increase of nearly 2.4% on average);
- FY2018:
 - 3% across-the board wage increase.

The following sections detail the methodology used by the City to project the impact of the proposals above, as well as PFM's findings regarding the City's costing approach.

Costing Analysis

Salary Costs

For the purposes of calculating the fiscal impact of across-the-board wage increases, lump sum payments determined as a percentage of salary, and/or salary-based longevity pay improvements, the City's analysis encompasses both direct, regular salaries and any additional compensation elements that would increase proportionately with an across-the-board wage adjustment. In labor costing, such additional wage-driven costs are commonly referred to as "roll up" costs, and are important to include for a complete assessment of projected wage adjustment impacts.

For regular salaries, the City's costing analysis relied on actual payroll data as of March 2014, analyzed within the City's SAP financial system. This system includes a module that accounts for anniversary-based step increments to project costs forward in time.

Certain "roll up" elements of compensation that also increase in tandem with regular salaries, however, are not encompassed within the SAP budget projection module. For these compensation components, the City developed a separate spreadsheet analysis aligned with the FY2015 Adopted Budget to estimate the cost of each 1% wage increase provided.

For San Antonio Police, salary-driven roll-up compensation elements include:

- **Overtime:** Pursuant to the agreement between the City and SAPOA, Article 16, Section 10, overtime pay is calculated as a percentage of base pay (typically 1.5X, and, 2X in certain circumstances). Accordingly, the cost per overtime hour worked, as well as related premiums for work on a holiday reported by the City to be booked in the overtime payroll category, would increase proportionately with a general wage increase. Because the overtime base also includes certain fixed premium pays (e.g., education incentives and certification pays), however, the cost of overtime would increase by somewhat less than a full percentage point for each percent of salary increased across-the-board. To account for this minor variance, the City has analyzed the actual percentage of the overtime base that would increase with an across-the-board wage adjustment, and used this factor (91.3%) in its costing model. PFM has reviewed this overtime base analysis, and finds this factor to be aligned with the Adopted Budget.
- **Longevity:** Pursuant to the agreement between the City of San Antonio and the San Antonio Police Officers' Association, Article 16, Section 3, supplemental pay based on years of service is primarily determined as a percentage of base pay, with such salary-based adjustments occurring after every five years of service. Accordingly, longevity pay costs will increase with a general wage increase. In between such five-year, salary-based adjustments, however, additional (smaller) annual longevity payments are earned based on a fixed amount of \$8 per month for each year of incremental service the cost of overtime would increase by somewhat less than a full percentage point for each percent of salary increased across-the-board. To account for this minor variance, the City has analyzed payroll data to approximate the actual percentage of the longevity base that

Costing Analysis

would increase with an across-the-board wage adjustment, and estimates that 97% of total longevity expenditures would increase with each 1% raise. PFM has reviewed this longevity analysis, and finds this factor to be reasonable.

- **Work in a Higher Classification:** Pursuant to the agreement between the City and SAPOA, Article 23, officers assigned to work on an extended basis in a higher classification are paid at the commensurate higher rate. Because the rates for all ranks are increased by an across-the-board raise, such premiums would rise proportionately with a general wage increase.
- **Retiree Payouts and Leave Buyback:** Pursuant to the agreement between the City and SAPOA, Article 22, Section 2 officers who leave City service may receive a cash payment for unused, accumulated leave based on the final rate of salary. Similarly, pursuant to Article 22, Section 3, the City may, at its discretion, buy back unused sick leave and bonus days at the regular rate of salary. Accordingly, both retiree payout and leave buyback costs will increase with a general wage increase. Much as with overtime pay, the base for calculating retiree payouts and leave buybacks also includes certain fixed premium pays (e.g., education incentives and certification pays), such that the cost of such payments would increase by somewhat less than a full percentage point for each percent of salary increased across-the-board. The adjustment factor for such premiums is consistent with that for overtime pay at 91.3%, and the City appropriately uses this factor in its costing model. PFM has reviewed this leave buyback base analysis, and finds this factor to be aligned with the Adopted Budget.
- **Pensions** – The Fire and Police Pension Plan is funded in accordance with Texas statutes, and employer contributions are not actuarially determined. The City's mandated contribution rate is 24.6%, and is appropriately reflected in the City's costing, applied to base plus longevity. Such employer contribution costs will increase with any across-the-board wage adjustments provided.
- **Payroll Taxes:** As an employer mandated to participate in the Medicare system, the City contributes 1.45% of pay toward future Medicare participation. San Antonio Police do not participate in Social Security system, so no further payroll taxes are paid. Medicare-related payroll taxes will increase with any across-the-board wage adjustments provided.
- **Life Insurance:** The City contributes 0.1% of salary toward combined life and accidental death and dismemberment insurance coverage on behalf of all employees. This wage-driven benefit cost is appropriately reflected in the City's analysis.
- **Pre-Paid Healthcare:** As detailed in Attachment 7 to the agreement between the City and SAPOA, pursuant to Texas Civil Statutes Annotated Article 6243q, the City contributes into a retiree healthcare trust on the basis of a percentage of salary costs (9.4%). As part of this assessment, PFM reviewed communications from the consulting

Costing Analysis

actuaries to the Board of Trustees of the Fire and Police Retiree Health Care Fund, Rudd and Wisdom, Inc., outlining the methodology used to determine the City's contributions. Attachment 7 and these communications confirmed that the City's contribution will be adjusted proportionately with any across-the-board wage increase.

PFM has also reviewed the agreement between the City and SAPOA to confirm that various other forms of cash compensation – such as pay for special assignments, standby duty, shift differential, clothing allowance, field training officer pay, education and certification incentives, and language skills pay – are established as fixed amounts by contract and/or administrative directive that do not increase automatically with a general wage increase. Such forms of cash compensation are appropriately excluded from the City's estimates of the impact of an across-the-board raise.

Consistent with City Council guidance, the City's costing model evaluates all public safety expenditures as a percentage of the overall City General Fund. As of the date of this analysis, the City's firefighters have no compensation agreement in place for the future years encompassed by the SAPOA proposals. Accordingly, to evaluate the full, potential impact of the SAPOA proposals if established as a pattern across public safety expenditures generally, the City's model also evaluates the cost of proposals if applied to San Antonio firefighters.

Consistent with the police salary analysis, the City's costing for firefighter pay increases includes both regular salaries and roll-up premiums. In the following cases, firefighter roll-up costs function similarly to those outlined above for police:

- Overtime
- Longevity
- Work in a Higher Classification
- Retiree Payouts and Leave Buyback
- Payroll Taxes (Medicare)
- Life Insurance
- Retirement/Pension Costs

PFM has also reviewed the City's spreadsheet formulas regarding the factors outlined above, and has identified no calculation errors.

In addition to costing the impact of an across-the-board wage adjustment, the City also developed separate analyses to quantify the projected cost of the SAPOA proposals to modify the longevity pay formula and to eliminate the probationary rate. The City's costing of the SAPOA longevity proposal relies on actual payroll data, while the costing of modifying the probationary rate assumes the hiring of 45 cadets hires on an annual basis to replace officers separating from City employment through retirement or other normal attrition. PFM has reviewed these separate analyses, and finds that each provides a reasonable estimate for the budget impact of such salary adjustments.

Costing Analysis

Benefit Costs

For the alternative healthcare plans included in the City and SAPOA proposals outlined above, the City engaged Healthcare Analytics Consulting (HCA), a division of Arthur A. Gallagher & Co., to develop a certification of costs. For each alternative plan design proposed, HCA actuaries developed an upper bound, median, and lower bound estimate of cost per employee. In turn, the City incorporated the mid-range estimates from this HCA analysis within the overall labor costing analysis. In addition, the City applied healthcare inflation factors provided by the City's benefits consultants to adjust these cost estimates in future years, and assumed implementation effective July 1, 2015.

PFM has reviewed the HCA certifications, and verified that the City's costing model accurately incorporates these estimates. In addition, PFM evaluated the adjustments made by the City to account for implementation of new plans effective July 1st, and found these calculations to be appropriate. PFM is not an actuarial firm, and an independent assessment of the underlying HCA actuarial analysis was not within the scope of this engagement.