City of San Antonio, Texas

Labor Costing Review

Presentation to the Mayor and City Council

January 28, 2015

The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

700 Lavaca
Suite 1500
Austin, TX
78701

Two Logan Square
18th and Arch Street
Philadelphia, PA
19103-2770

Introducing PFM

- PFM was founded in 1975 on the principle of providing sound ***independent*** financial advice to state and local governments
- Today the PFM Group includes Public Financial Management, Inc. the nation's leading financial advisory firm, and PFM Asset Management, LLC, an SEC-registered investment advisor
- Overall, PFM has more than 500 professionals based in over 30 locations nationwide, including two offices in Texas
- PFM routinely advises more public sector clients on debt issuance than the largest investment banks, and is active almost daily in the municipal market
- In our Management and Budget Consulting practice, we also provide quantitative and analytic support for many of the nation's largest public employers

2013 Full Year Overall Long Term Municipal New Issues

PFM vs Underwriters

National Municipal Financial Advisory vs Underwriter Ranking

Full to Each, Equal if Joint Financial Advisor; True Economics to Each Bookrunner

Source: Thomson Reuters

	# transactions	dollars in millions
PFM	**768**	***46,071.0***
Bank of America Merrill Lynch	386	*44,952.9*
J P Morgan Securities LLC	343	*38,497.9*
Citi	362	*36,736.9*
Morgan Stanley	236	*20,647.2*
Goldman Sachs & Co	93	*17,215.8*
RBC Capital Markets	571	*17,013.1*
Wells Fargo & Co	214	*16,982.4*
Barclays	121	*13,915.2*
Piper Jaffray & Co	626	*10,996.0*

Scope of Assignment

- Independent review of the City's costing of proposals exchanged with the San Antonio Police Officers' Association (SAPOA)
- Evaluate the General Fund (GF) impact in consideration of City Council negotiation principles:
    1. Public Safety costs should not exceed 66% of the GF
    2. Police/Fire Union uniform employees should contribute to the cost of healthcare by paying premiums similar to civilian employees and other peer cities in Texas
    3. The City will maintain financial policies and practices to support a "AAA" General Obligation (GO) Bond Rating

Project Approach

- Evaluation of City costing spreadsheets and calculations
- Review of underlying source data and documents
- Credit rating assessment
- Due diligence data requests of City finance and budget staff

> *PFM's findings reflect our professional judgment based on this review, research, and due diligence*

Budget Impact

- **City proposal (October 21, 2014):**
  - 3-Year Cost: **$28.5 million**
  - FY2015 GF Impact: $1.2 million shortfall
  - FY2016 GF Impact: no shortfall
  - FY2017 GF Impact: no shortfall

- **SAPOA proposal (November 3, 2014):**
  - 3-Year Cost: **$76.8 million**
  - FY2015 GF Impact: $1.1 million shortfall
  - FY2016 GF Impact: $32.6 million shortfall
  - FY2017 GF Impact: $24.5 million shortfall

Balanced Program Spending

- <u>Guideline</u>: *Public Safety costs should not exceed 66% of the GF*

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

- Each 1% in FY2015 > $10.5 million
- PFM concurs with the use of the GF as the denominator for calculating the share of City resources dedicated to public safety. Non-GF resources are restricted in use (e.g., Airport, Advanced Transportation District), and only GF revenues are broadly available to be balanced across the full range of general municipal programs and priorities

Healthcare Cost Sharing

- Guideline: *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*

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

- Austin, Corpus Christi, Dallas, El Paso, Ft. Worth, and Houston all require healthcare premium contributions for police and firefighters
- City of San Antonio civilian employees contribute toward premiums for all City plans for dependent coverage, and toward individual coverage in 2 of 3 plans
- Health plan costing certifications for the City's model were developed under a separate actuarial engagement with Healthcare Analytics Consulting (HCA). PFM reviewed the HCA certifications, and verified that the City's costing model is appropriately based on these estimates. PFM is not an actuarial firm, and an independent assessment of the underlying HCA actuarial analysis was not within the scope of our engagement

Credit Rating

- *Guideline: The City will maintain financial policies and practices to support a "AAA" General Obligation (GO) Bond Rating*
- San Antonio holds "Aaa" GO credit ratings from all major credit rating agencies: Moody's Investor's Service, Standard & Poor's, and Fitch Ratings
- This is the highest-level credit rating possible, reducing borrowing costs to the taxpayers
- The City's credit rating from Moody's, however, has been assigned a **negative outlook**, noting *"two years of operating deficits which reduced the General Fund balance"* and citing the following as a factor that could make the rating go down:

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

- While S&P and Fitch maintain stable outlooks, both also reference the City's Fund balances and operating results as important factors going forward.

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."*

Costing Analysis

- The City costing model ties to the Adopted Budget and audited financial statements, with limited and appropriate adjustments
- Most adjustments are updates based on more recent available financial information
- Revenue forecasts for future years are based on historical ten-year revenue trends
  - While this trend-based methodology is sound, such projections are less conservative than those used in the City's standard budgeting process
  - If a downturn or other volatility were to reduce City receipts during the contract period, the same level of public safety spending under either proposal would represent a higher % of GF revenues than now shown

Business Cycle Context

- The current expansion phase of the business cycle began more than five years ago, after the recession bottomed out in June 2009

  67 months and counting as of January 2015

- Last five expansion phases (trough to peak):

Start/End	Duration
November 2001 – December 2007	73 months
March 1991 – March 2001	120 months
November 1982 – July 1990	92 months
July 1980 – July 1981	12 months
March 1975 – January 1980	58 months

- Average 1945-2009 (11 cycles): **58.4 months**
- Range: 12 to 120 months

Source: National Bureau of Economic Research (NBER)