

**TO: BOARD OF DIRECTORS**  
**FROM: EXECUTIVE COMMITTEE**  
**SUBJECT: CITY OF SAN ANTONIO LEGACY COSTS**  
**STATUS: APPROVED**



**DATE: 04/24/14**

**STATEMENT:**

The San Antonio Chamber of Commerce supports the outstanding service and job performed by our Police and Fire members and recognizes the need to compensate all City employees in a way that ensures a quality workforce for today and the future, as well as ensures the long-term fiscal health of our City.

The San Antonio Chamber supports the City of San Antonio and its uniformed public safety employees negotiating a sustainable plan to address the rising cost of public safety as it relates to a percentage of the City's General Fund. The San Antonio Chamber's intent, as a representative of the business community, is to insist on the responsible budgeting of our taxpayers' dollars. The Chamber also encourages the City and our Police and Firefighter labor unions to agree on terms for competitive compensation that support current and future public safety recruits. Therefore, the Chamber supports removing the active-duty healthcare benefits portion from the collective bargaining process, and placing the benefits on similar terms as other peer cities in Texas. This approach allows the City to continually monitor and adjust to the rising costs of healthcare. With these recommendations, the Chamber seeks to balance the long term sacrifices made by our public safety employees and secure a more stable fiscal outlook for our City.

To address these rising and unsustainable costs, the San Antonio Chamber believes it would be prudent for the City to consider the following changes to its contract with uniformed public safety employees:

- Policy and Budget:
  - City leadership must develop guidelines for a proper balance where the Public Safety budget does not exceed a certain percentage of the total General Fund Budget, which is critical to the City maintaining its financial stability and health. Currently, Public Safety accounts for 66.5% of the General Fund budget, which exceeds the Texas peer group cities, is too high and will continue to increase if not addressed.
- Healthcare
  - The City's Police and Fire ("Uniformed City Employees") health benefits should more closely mirror the premiums, deductibles and out-of-pocket expenses of City Civilian Employees; and Uniformed City Employees should participate in a consumer-driven healthcare plan to allow for flexibility to find quality healthcare coverage at competitive and cost-effective rates.
  - In keeping with the practice of Texas peer cities and in order to provide maximum flexibility for all parties, healthcare benefits for Uniformed City Employees should be removed from the Collective Bargaining Agreement (the "Agreement").
  - It is recommended that the City implement a vigorous wellness strategy for all city employees.
- Pension
  - The City should develop a strategy to address the State Statute limiting the flexibility to modify the structure of the pension funds for Uniformed City Employees in preparation for the 2015 State Legislative Session.
- Pre-Funded Uniform Retiree Healthcare
  - The City should continue to study pre-funded healthcare for public safety retirees and study alternatives to provide them coverage from the time they retire to the time they become eligible for Medicare benefits, and explore options such as bridge insurance under the Affordable Care Act.

## **BACKGROUND:**

The basis for our current Police and Fire Agreement was executed almost 40 years ago, in 1975 and 1976. While the City has gone through collective bargaining discussions since 1975, the changes enacted over 35 years ago have developed a trajectory of unsustainable costs today. In 1975 – 1976, the Public Safety Budget comprised 36.0% of the City's General Fund. Today, it is estimated, the Public Safety Budget comprises 66.5% of the City's General Fund and projections by independent consultants shows that it will continue to absorb an even greater percentage going forward if prudent steps are not taken to address these rising costs.

In 2013, the Mayor and City Council appointed a 13-member Healthcare and Retirements Benefits Task Force ("Task Force") that was charged with reviewing the cost of healthcare and pension expenses for uniform, civilian and retired City employees and provide recommendations on how to ensure the City maintains a strong and healthy financial position. The Task Force was composed of employees, retirees, business leaders and subject matter experts.

The Task Force submitted its official report to City Council on February 19, 2014. The report featured 86 individual recommendations that were combined into nine main recommendations and grouped into four categories:

1. Policy & Budget
2. Pension
3. Pre-Funded Uniform Retiree Healthcare
4. Healthcare

There were several over-arching themes and conclusions from the work of the Task Force, including:

- Over the past 10 years, Public Safety spending has grown faster than General Fund revenues.
- The Police & Fire Pension Fund is well-managed, well-funded and only growing slightly faster than General Fund revenues.
- Pre-Funded Uniform Retiree Healthcare is governed by State Statute and the City should continue to study pre-funded healthcare and present options for enhancements to City Council.
- San Antonio is the only major City in Texas where uniform employees pay \$0 for healthcare premiums for themselves and their dependents.
- City Civilian employees pay on average 30% of their total healthcare cost, Uniform City Employees pay 9% and the current national average is 43%.
  - Austin, Houston, Ft. Worth, and Dallas have the same healthcare plans for their Uniformed City Employees and their City Civilian Employees
- City Civilian Employees on average have 1.2 dependents, Uniform City Employees have 2.3 and the national average is 1.2 dependents.
- Healthcare:
  - The Task Force recognized the Uniformed City Employees healthcare benefits and contributions levels are richer by a substantial margin than the City Civilian Employees, peer cities in Texas and private employers in San Antonio. They recommended City staff review adjusting healthcare benefits and contribution levels for Uniform City Employees to more closely align with City Civilian Employees.
  - The Task Force recommended a vigorous wellness strategy for all City employees; asked City staff to make healthcare plan design, benefits and contribution levels a priority in the next round of collective bargaining, continue to analyze stop-loss insurance, and perform annual dependent audits of all City employees.

The San Antonio Chamber's Economic Development Council (the "Council") has met with members of the City's Task Force, including business appointees and Police and Fire Labor Union representatives and reviewed their individual findings and recommendations. Based on the information and data presented at those meetings, the Council has learned that:

- San Antonio is the only major city in Texas where Uniform City Employees pay no healthcare premiums for dependents or families. Austin, Dallas, Fort Worth, and Houston all have equal premium, deductibles, and out of pocket costs for all city employees (both uniform and civilian employees).
  - Healthcare costs for San Antonio Police and Firefighters:
    - Monthly Premiums: \$0
    - Annual Deductible: \$250 for employees; \$500 for all dependents
    - Annual Maximum Out-of-Pocket: \$600 for employee (Police)/ \$500 for employee (Fire); \$1,500 for all dependents (both Police & Fire)
- During our meetings, the Task Force and the City used the terminology "Peer Cities" to include: Austin, Dallas, El Paso, Fort Worth, and Houston.
- Police and Fire employee wage rates, salaries, and specialty pay are determined by the Agreement and are independent of the revenues collected by the City. Over the years, total personnel compensation, pension contributions, and pre-paid healthcare contributions have grown at a faster rate than the growth of the City's revenues.
- During the work of the City's Task Force, the issue of on-the-job injuries as they related to escalating healthcare costs was discussed. On-the-job injuries are currently covered under workers compensation and the Council reviewed the current state of the City's workers compensation process, which is outlined below:
  - Many City employees put their health at risk while performing their job duties, such as Police Officers, Fire Fighters, Solid Waste Employees, Public Works Employees, Animal Care Officers and Code Enforcement Officers. The City's Workers' Compensation Program provides medical and income benefits to employees injured while on the job. The City contracts with a third-party administrator for the administration of all workers' compensation claims. All claims are examined by an adjuster who is specialized and licensed in Texas to administer workers' compensation in accordance with statutory requirements of the Texas Division of Workers' Compensation, Department of Insurance.
  - In 2013, 87% of claims filed by City employees were approved as workers compensation claims in accordance with State law.
- During Task Force meetings, a key metric studied the City's total Public Safety Compensation as compared to other Texas peer cities. An independent Public Safety Compensation Analysis (the "Analysis") was performed by PFM Consulting and presented to the Mayor and City Council on March 19, 2014.
  - The Analysis compared total cash compensation with Texas peer cities. For San Antonio, longevity and cash premiums add substantial amounts to police and fire base annual cash compensation. Not all longevity and premium categories were studied, only those deemed most prevalent were included into total cash compensation when comparing the data to the peer cities.
  - The Analysis also took into account US Bureau of Labor Statistics data which adjusted and accounted for regional economic differences.
  - Comparison of Base Wage plus Special/Premium Pays plus Major Benefits Costs for San Antonio Police and Fire versus Texas peer cities:

- San Antonio Policemen rank second of 7 among the Texas peer cities for total cash compensation at the beginning of a career, and at 20 years of service (when an officer is eligible for normal retirement), when adjusted for regional labor market differences.
- San Antonio Firemen rank first of 7 among the Texas peer cities for total cash compensation at the beginning of a career, and second of 7 at 20 years of service (when an officer is eligible for normal retirement), when adjusted for regional labor market differences.
- San Antonio also contributes more toward both pension and healthcare benefits than any of the peer cities.

### **IMPACT ON BUSINESSES:**

The City currently enjoys an “AAA” Bond rating from all three major rating agencies; the only city of the ten largest cities in the United States to have this rating. The AAA bond rating is a tremendous achievement and allows the City to borrow at substantially lower interest rates, thus reducing borrowing costs and also reducing the burden on the taxpayer. This very strong bond rating is highly dependent upon maintaining a proper balance between funded/unfunded liabilities. Poor investment portfolio performance (which is not our case presently) could reflect poorly on the city’s bond rating and therefore, could require higher contribution rates from the city to maintain its current “AAA” rating.

The San Antonio Chamber is the region’s leading advocate for business growth, development and commerce and the City is a major contributor to our successful pro-business environment. It is vitally important that we maintain a fiscally sound City and it is the responsibility of city government, the business community and taxpayer to ensure this.

In addition, the City’s General Fund also supports current municipal services such as Public Works, Parks and Recreation, Historic Preservation, Center City Development, Libraries, Municipal Courts and Downtown Operations. Each of these municipal services is funded through the revenues within the General Fund and if prudent changes are not made to address the rising costs of public safety as a percentage of the General Fund, the ability of the City to adequately provide these additional services will be in jeopardy.

To maintain the City’s AAA Bond rating and continue to operate within fiscally responsible guidelines relative to the expenditures and revenue of the City’s General Fund, the rising costs of public safety needs to be addressed in a financially responsible manner with the best interests of all parties involved, especially the taxpayer. The San Antonio Chamber of Commerce firmly believes a proper balance can be struck between overall General Fund revenues and public safety expenditures to ensure that our City continues to be the first choice for business and meets the other important needs of the taxpayer.

**IMPLEMENTATION:** The San Antonio Chamber of Commerce will communicate this position to Chamber members, citizens and taxpayers of San Antonio, the Mayor, members of City Council and the media through a well implemented communications plan that reaches membership and the public.