



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

July 10, 2014

Ms. Angela Calvillo
Clerk of the Board of Supervisors
1 Dr. Carlton B. Goodlett Place Room 244
San Francisco, CA 94102-4689

REVISED
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RE: File 140507 – Charter amendment regarding retiree health benefits for former employees of the San Francisco Redevelopment Agency

Dear Ms. Calvillo,

Should the proposed charter amendment be approved by the voters, in my opinion, it will likely increase the cost of government. The proposed Charter amendment would increase the City's costs to fund health benefits for certain employees and future retirees of the former San Francisco Redevelopment Agency. The amount of this impact would range significantly depending on the number of people affected, their ages, years of service, individual choices regarding medical plan enrollment, and decisions by the City regarding the hiring of affected employees.

The amendment seeks to clarify the status of individuals who were employed by the San Francisco Redevelopment Agency (SFRDA) before it was dissolved by state mandate and who now are, or subsequently may become, employees of the City. There are approximately 45 active employees who may be affected by the amendment. Most of the active employees are now at the Office of City Infrastructure and Investment (OCII), the agency established following the dissolution of the SFRDA. Areas of potential increased costs are:

- Active employee contributions to the Retiree Health Care Trust Fund. City employees hired after 2009 pay 2% of payroll into this fund to pay for post-employment health costs, matched by a 1% City contributions. Employees hired before 2009 generally will contribute to the Trust at lower rates beginning in fiscal year (FY) 2016-17. To the degree that the amendment treats OCII employees as having begun City employment from the date of their earlier employment with RDA, their contributions to this fund for the remainder of their service would be reduced, increasing the share of future costs of retiree medical benefits paid by the employer. For an employee who works an additional 20 years at a pay rate of \$100,000, the increased employer cost given this change would be approximately \$23,000 in today's dollars.
- Retirement health benefit vesting. City employees hired after 2009 receive City funding for health benefits when they retire at tiered levels from 50% to 100% of premium costs based on years of service. These employees must retire from the City to receive these benefits. Current OCII employees are similarly situated in these two respects. City employees hired

prior to 2009 are generally eligible for fully paid health benefits following retirement after five years of working for the City and may receive these benefits regardless of where they work for the balance of their careers and ultimately retire from. To the degree that the amendment makes OCII employees eligible for the more generous vesting terms provided to City employees hired before 2009, the employer cost for retiree health will increase.

- Unfunded pension liability of the former SFRDA. To the extent that all employees of the former SFRDA become City employees and transition out of the California Public Employees Retirement System (CalPERS), CalPERS might require higher and more rapid contributions to pay down the former SFRDA's unfunded pension liability than would otherwise have been the case. The proposed Charter measure does not, in and of itself, drive this potential financial outcome. But, to the extent that it creates an incentive for employees to transition to the City given improved retiree medical care coverage and the City elects to proceed with such a transition, it could be one factor that increases the possibility of such a circumstance occurring.

Retiree health care costs for OCII retirees currently total approximately \$400,000 annually, largely paid from property tax increment, of which approximately 65% would otherwise flow to the City. The improved employee vesting allowances and reduced requirement to prefund future benefits summarized above will increase these costs. The amount of this impact would range significantly depending on the number of people affected, their ages, years of service, individual choices regarding medical plan enrollment, and decisions by the City regarding the hiring of affected employees.

As noted, the actual cost is dependent on the populations affected and rates applied and are unknown at this time. The Controller's Office will work with the Mayor, Board of Supervisors and City departments to clarify the financial effects of the proposed Charter amendment as it is considered for the ballot.

Sincerely,

for

Ben Rosenfield
Controller

Note: This analysis reflects our understanding of the proposal as of the date shown. At times further information is provided to us which may result in revisions being made to this analysis before the final Controller's statement appears in the Voter Information Pamphlet.