



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

June 30, 2014

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

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 employee post-employment health benefits for certain employees 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 retiree 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. The three primary areas of financial impact are:

- Retiree 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. 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. The amendment makes certain SFRDA employees, to the extent that they subsequently become City employees, eligible for the more generous vesting allowances provided to City employees hired before 2009. The cost of their health premiums following retirement would therefore likely increase.
- Employee contributions towards future retiree health costs. 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 former RDA 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 future costs of retiree medical benefit paid by the employer.

- 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.

The cost of each of these factors is dependent on the populations affected and rates applied and are unknown at this time, but are likely significant. 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,



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.