Controller's Office Talking Points, Thursday 2/24/11 Meet and Confer.
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1. Background: Here to provide background information on Pension and Health Care Costs and how they relate to the City's Budget.

2. Salary/Benefits Share of Budget: The City's annual FY 10-11 budget is $6.6 Billion (all-funds). Of that amount, $2.4 Billion (36%) is for salaries, and $978M (15%) is for benefits— including the employer share of pension contributions, health insurance premiums for active employees and retirees, and other benefits-- so the total employee compensation share of the budget is 51%.

3.Bottom Line:

- Looking at history in the past 10 years, while salaries per FTE increased at 4% (slightly above inflation and revenue growth, both around 3%), benefit costs increased by **10%** annually.

- Absent any change, benefit costs in future will continue to rise substantially. Employer pension, health and other benefit costs are likely to rise by at least $700 million to potentially more than $1 billion within 10 years (all-funds).

- Looked at per-employee, and taking out the effects of inflation the problem still looks big— with this view we see the City's annual cost for employee benefits growing within 5 years by the equivalent of providing each employee with $15K or a 15% raise—except all the money is consumed by benefits and the employee won't see any increase in take-home pay from the extra City costs.

4. History: Last 10 years: See Chart 1. We had extraordinary growth in revenues during good economic times, with rises in property tax, real estate transfer taxes, and payroll taxes resulting in revenues rising ahead of inflation: 3.3% versus 3%. This helped allow the City to fund salary growth along with very high benefit growth. Even in these good times, there were constant budget shortfalls and labor contracts were re-opened for renegotiation more years than not. Although property values are recovering after the recent market downturn, we think it highly unlikely to have revenue growth in excess of inflation in the near future. In addition, we are vulnerable to serious reductions in federal and state funding that help support the City budget, accounting for 16% of the total budget (23% of the General Fund).

5. Pension future scenarios: See Chart 2. Moderate positive to Moderate negative scenarios show employer costs rising from $360M in FY 10-11 to as high as $720M-$800M by FY 14-15 and potentially up to $980M in FY 20-21 before moderating slightly, even assuming no seriously bad investment years for the investments. Causes of increase include the stock market downturn, pension enhancements, and demographics—retirees living longer.

6. **Health insurance costs:** See Chart 3. Expect to rise higher than inflation. Even under conservative assumptions limiting price rises to 5% within a few years, employer costs would rise from $460M in FY 10-11 to $600M in FY 14-15, up to $840M in FY 20-21. As background information, see the data sheet that shows the budget year FY 11-12 subsidies per enrollee for the different plans for active employees and retirees.

7. **Total benefit dollar value projections:** See Chart 4. $978M in FY 10-11, projected to rise up to between $1.7 billion and $2 billion within 10 years in FY 20-21 under a range of pension system investment return scenarios. Even if there were a way to hold benefits to just the assumed rate of inflation of 3%, the amount in FY 20-21 would be $1.3 billion, or $400 million to $700 million less.

8. **Total benefits as % salaries:** See Chart 5. We can see that total benefits went from 23% salaries in FY 00-01 to 40.9% in FY 10-11 and projected to rise to 56% of salaries by FY 14-15 under the base case pension scenario. For the City, this costs as much as providing a 15% pay increase over 5 years—except the employees can't see the difference in their take-home pay.

9. **Finally-** One more way to look at the data that tries to look at these numbers on the individual employee level and to take out the effects of inflation on the dollar amounts. See Chart 6. If we use constant FY 10-11 dollar values and adjust for inflation, we see a rise from $37K per FTE in FY 10-11 to between $52K and $54K in FY 10-11 dollars within 5 years, and potentially on up to $59K within 10 years. That is at least $15K and on up to $20K or more per employee in current dollars that must be found by the City to fund the projected benefits under the current systems.

Attachments:
Chart 1: Benefit History
Chart 2: Pension Future Scenarios
Chart 3: Health Insurance Future
Chart 4: Future Benefit Growth above 3%
Chart 5: Benefits % History and Future
Chart 6: Benefits per FTE in FY 10-11 Dollars, Adjusting for Inflation

Table 1: Salary and Benefit History
Table 2: Benefit Projections
Table 3: Annual Health Insurance Premiums Detail Data

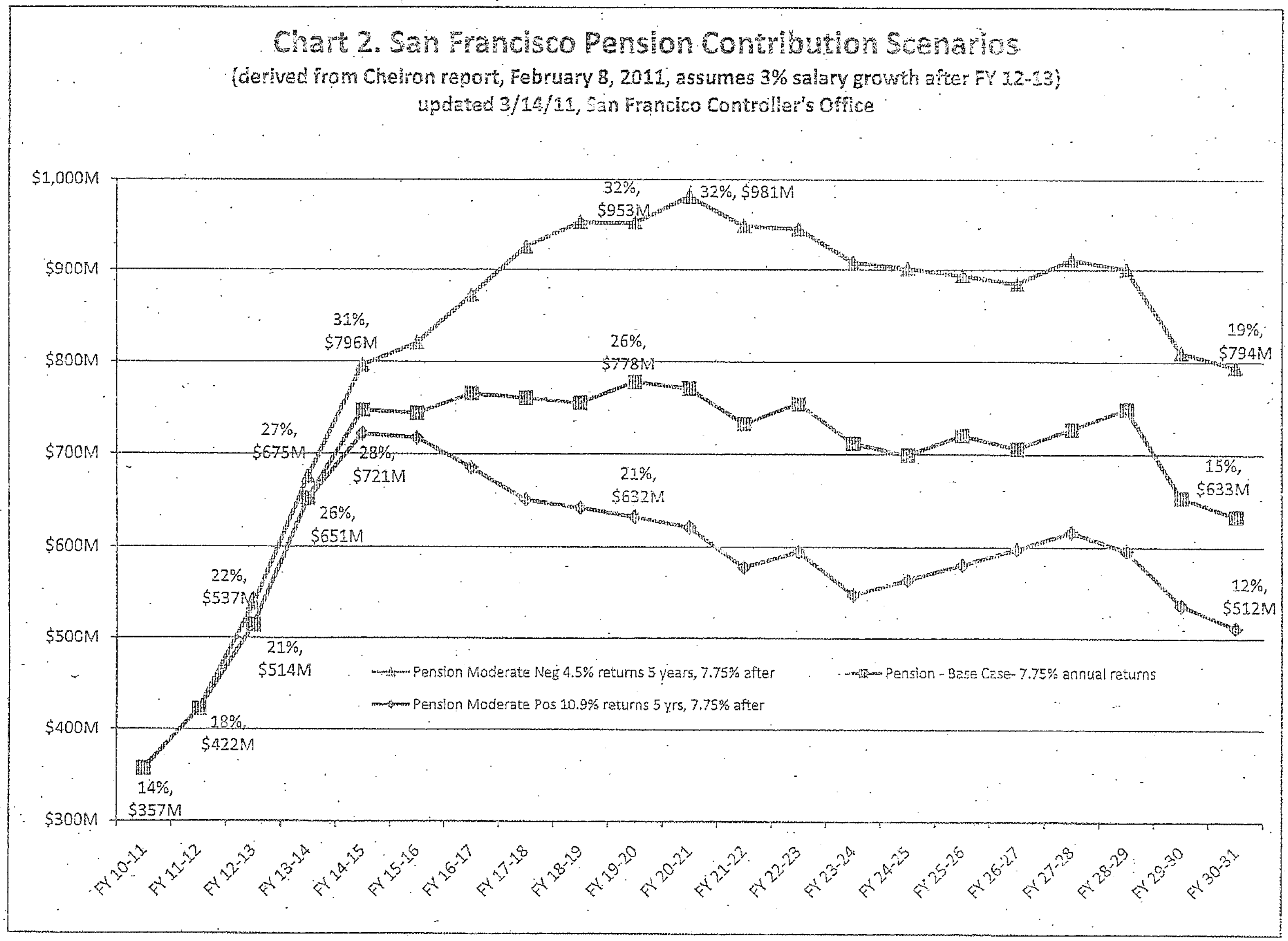
Chart 2. San Francisco Pension Contribution Scenarios
(derived from Cheiron report, February 8, 2011, assumes 3% salary growth after FY 12-13)
updated 3/14/11, San Francisco Controller's Office
$1,000M
$900M
$800M
$700M
$600M
$500M
$400M
$300M
FY 10-11
FY 11-12
FY 12-13
FY 13-14
FY 14-15
FY 15-16
FY 16-17
FY 17-18
FY 18-19
FY 19-20
FY 20-21
FY 21-22
FY 22-23
FY 23-24
FY 24-25
FY 25-26
FY 26-27
FY 27-28
FY 28-29
FY 29-30
FY 30-31
14%, $357M
18%, $422M
22%, $537M
21%, $514M
27%, $675M
26%, $651M
31%, $796M
28%, $721M
32%, $953M
32%, $981M
26%, $778M
21%, $632M
19%, $794M
15%, $633M
12%, $512M
Pension Moderate Neg 4.5% returns 5 years, 7.75% after
Pension - Base Case- 7.75% annual returns
Pension Moderate Pos 10.9% returns 5 yrs, 7.75% after