

AGENDA ITEM NO. **26**

CITY OF SAN ANTONIO
INTERDEPARTMENTAL CORRESPONDENCE
Finance Department

TO: Mayor and City Council

FROM: Ben Gorzell Jr., CPA, Public Utilities Supervisor/Assistant Director of Finance

THROUGH: Terry M. Brechtel, City Manager

COPIES TO: J. Rolando Bono, Deputy City Manager; Melissa Byrne Vossmer, Assistant City Manager; Erik J. Walsh, Assistant to the City Manager; Milo D. Nitschke, Finance Director; Albert Ortiz, Chief of Police; Robert Ojeda, Fire Chief; file

SUBJECT: Execution of a Professional Services Agreement with The Segal Company to Provide Actuarial Services Related to the Fire and Police Retiree Healthcare Fund

DATE: May 22, 2003

SUMMARY AND RECOMMENDATION

This ordinance authorizes the execution of a Professional Services Agreement with The Segal Company to provide actuarial services related to the Fire and Police Retiree Healthcare Fund; authorizes and approves the terms and conditions of the Agreement; authorizes payment in the amount of \$30,000 for an actuarial study; and authorizes contingent additional services at the sole discretion of the City in an amount not to exceed \$20,000.

Staff recommends approval of this Ordinance.

BACKGROUND INFORMATION

The Fire and Police Retiree Healthcare Fund ("Fund") was originally established pursuant to the respective Fire and Police collective bargaining agreements to provide post-employment health care benefits for San Antonio Fire Fighters and Police Officers who retired from the City on or after October 1, 1989. Effective October 1, 1997, with the passage of Senate Bill 1568, the Fund was created as a separate and distinct statutory trust. The Fund is governed by a nine member Board of Trustees comprised of Mayor Edward D. Garza, Councilwoman Antoinette Moorhouse, Councilman Enrique Barrera, two active police officers, two active fire fighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The Board of Trustees is responsible for the investment of the assets of the Fund. Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations.

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund. While there is no specific standard for this type of Fund, the Texas State Pension Review Board for pension plans utilizes a benchmark of 30 years for the amortization period of the unfunded liability with 40 years as the maximum acceptable amortization period. The Board of Trustees of the Fund have had actuarial valuations performed annually for the last three (3) years. Those studies have significant differences in the underlying assumptions and reveal resulting required contributions ranging from 9.4% of covered payroll (base pay plus longevity) plus a \$20 monthly per member to 19.93% of covered payroll plus a \$20 monthly per member contribution. For example, under these studies, the total forecasted contribution ranges from approximately \$17.4 million to \$38.5 million for Fiscal Year 2004. Correspondingly, the amortization of the unfunded liability varies from infinite (unable to amortize) to a period of 40 years.

Due to the very different results of these studies and the significant potential impact to the active police and fire members, retirees, and the City, City staff recommends an independent review and valuation by another actuarial firm. The City issued a Request for Proposal in September 2002 for qualified firms to provide actuarial services. Proposals were received in response to the RFP from Deloitte and Touche; and The Segal Company. A Review Committee comprised of representatives from the City Manager's Office, Finance Department, Human Resources Department, Office of Management and Budget, San Antonio Police Officer's Association, and the Local 624 International Association of Fire Fighters evaluated the proposals and conducted telephone interviews with both firms. Based on the committee's evaluation, The Segal Company was selected to perform the services. Attached, as Exhibit I, is an evaluation summary of the average scores for each of the criteria established in the request for proposal.

Under terms of the proposed professional services agreement (copy in substantially final form attached as Exhibit II), Segal has agreed to provide the City with an actuarial valuation of the Fire and Police Retiree Healthcare Fund for a cost not to exceed \$30,000. Additionally, the City, at its sole discretion, may request that Segal provide additional services such as modeling related to changes in contributions, benefits, cost containment, and/or legislative review upon approval by the City Manager, or her designee. For any additional service requested, Segal must submit to the City a written estimate of the cost to provide such service. This written estimate must be approved by the City before any additional work is commenced by Segal, and in no event, shall the aggregate cost for contingent additional services exceed \$20,000 without further City Council approval.

POLICY ANALYSIS

This action is consistent with the City's desire to retain outside consulting services to provide specialized expertise such as actuarial valuations and related services. Segal will work in coordination with the City and the Fire and Police Associations to perform an actuarial valuation of the Fund. Additionally, Segal will perform modeling on the Fund to develop options as well a comprehensive framework for a long-term affordable strategy for addressing challenges associated with the Fund.

FINANCIAL IMPACT

Funds for the payment of services under the proposed professional services agreement with Segal are available in the General Fund, Non-departmental Budget. The City intends to seek assistance for a portion of the funding for the services performed under the agreement from the Fire and Police Associations. In the event funding is provided by the Fire and Police Associations, the City's General Fund will be reimbursed for the Associations' respective share.

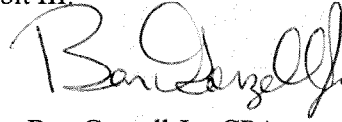
COORDINATION

This item has been coordinated with the City Manager's Office, City Attorney's Office, Human Resources Department, Office of Management and Budget, San Antonio Police Officer's Association, and the Local 624 International Association of Fire Fighters.

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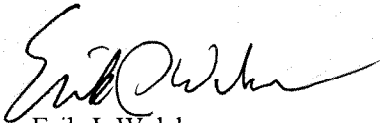
SUPPLEMENTARY COMMENTS

The required ethics disclosure form is attached as Exhibit III.

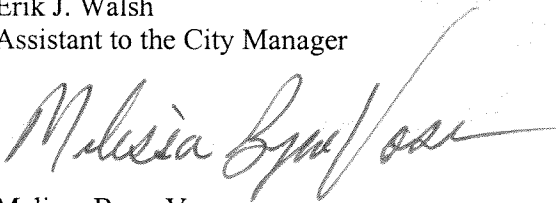


Ben Gorzell Jr., CPA
Public Utilities Supervisor/
Assistant Director of Finance

Approved:



Erik J. Walsh
Assistant to the City Manager



Melissa ByrneVosmer
Assistant City Manager



Terry M. Brechtel
City Manager