OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of Fringe Benefits Rate

OVERVIEW

The City's Financial Management (FM) Department responded in an August 18, 2008 memorandum to a request from Councilmember DeMaio for information related to the City's salary and fringe benefits costs. Based on FM's analysis, the City's fringe benefits rate for Fiscal Year 2009 is 61.28%. This is based on total budgeted salaries of $623.8 million and fringe benefits of $382.3 million (both on a citywide basis), as shown below.

FY 09 Fringe Analysis		
Fringe Title	**FY 09 Annual Budget**	**Percentage of fringe over FY 09 Salaries**
ARC for Retirement	$161,705,323	25.92%
SPSP	$23,952,721	3.84%
Retirement Offset Contribution	$19,505,202	3.13%
Employee Offset Savings	$19,738,384	3.16%
Workers Compensation Insurance	$25,999,363	4.17%
Flexible Benefits *	$59,338,459	9.51%
Risk Management Administration	$6,599,088	1.06%
Long Term Disability	$5,333,924	0.86%
Unemployment Insurance	$1,081,307	0.17%
FICA/MEDICARE	$8,587,377	1.38%
Retiree Health/OPEB	$50,001,169	8.01%
Unused Sick Leave	$429,000	0.07%
Applicable Totals	$382,271,317	61.28%
FY 2009 Budgeted Salaries	$ 623,849,572	
* Includes total for Management Benefits Package		

Source: 8/18/2008 Financial Management memo to Councilmember DeMaio

At the Budget and Finance Committee meeting of January 7, 2009, Councilmember DeMaio distributed the August 2008 FM memo, and expressed his interest in docketing the issue of fringe benefits at a future committee meeting. Also, Councilmember DeMaio requested an analysis of fringe benefits costs by the California Foundation for Fiscal Responsibility (CFFR), which was distributed to the Mayor and City Council on February 17, 2009. In addition, requests have been made of the IBA by both Councilmembers DeMaio and Gloria to review the fringe benefit information that has been provided thus far, and to review the recommendations made by CFFR.

This report is provided in response to these requests and reflects a summary of the work our office has completed, and provides suggestions on possible steps in moving forward in this area.

FISCAL/POLICY DISCUSSION

During the IBA's review of the FM fringe benefits analysis, it was determined that the salary figure utilized (shown on previous page) excludes various salary and wage accounts, including overtime, temporary help, and special pays. Including these other salary and wage accounts increases the total salary category to $728 million, and expressing fringe benefits as a percentage of the larger salary figure reduces the fringe benefit rate from 61.28% to 52.5%.

This rate is consistent with our previous review of the fringe benefit expenditure category as part of the IBA's review of the Fiscal Year 2009 Proposed Budget (Report No. 08-41) in April 2008. As discussed in that report, "Total fringe benefits are often expressed as a percentage of the Salaries and Wages expenditure category as many of the fringe items are funded through the application of rates, which are applied to employee salaries each pay period (every two weeks)." At that time, we calculated the citywide fringe benefit rate to be 53%, based on the figures shown in the FY 2009 Proposed Budget.

This methodology which relies on total salaries and wages, instead of the lesser salaries applied by FM, is consistent with the City's practice in preparing departmental expenditure projections throughout the fiscal year. Departments are asked to apply the current calculated fringe benefits rate to projected salaries and wages to obtain projected fringe benefit requirements.

Bureau of Labor Statistics

The United States Department of Labor, Bureau of Labor Statistics, defines total compensation as wages and salaries and benefits (combined), and expresses total benefits as a percentage of total compensation to determine a fringe benefit rate. In its September 2008 release, the Bureau reported that total benefits represented 34.2% of total compensation for state and local government workers. The methodology used by the Bureau differs from the formula employed by the City of San Diego in which total benefits are divided by total salaries and wages (only).

In an attempt to more equitably compare these figures, total salaries and wages, and fringe benefits for the City of San Diego were converted to average hourly rates. The City's formula applied to the Bureau's hourly figures results in a rate of 52.0%, when fringe benefits are compared to salaries and wages. When applying the Bureau's method to the City's hourly figures, the fringe benefit rate becomes 34.4% for San Diego when expressing fringe benefits as a percentage of total compensation.

Comparison of Bureau of Labor Statistics with City of San Diego	**Bureau of Labor Statistics All State/ Local Govts**	**City of San Diego**	**Adjusted BLS All State/ Local Govts**
	(per Hour)	(per Hour)	(per Hour)
Salaries and Wages	$ 25.19	$ 32.62	$ 28.71
Fringe Benefits	$ 13.11	$ 17.13	$ 9.59
Total Compensation	$ 38.30	$ 49.75	$ 38.30
Fringe as % of S&W (City)	52.0%	52.5%	33.4%
Fringe as % of Compensation (BLS)	34.2%	34.4%	25.0%

However, the Bureau characterizes paid leave, including vacation, holidays, sick and personal, and supplemental pay, like overtime and premium pay, as benefits. In the City's budget, these types of costs are included in the category of salaries and wages. To rectify this difference, the Bureau's national figures were adjusted and costs related to paid leave and supplemental pay were reclassified to salaries and wages, creating a more appropriate comparison with the figures shown for the City of San Diego. When calculated this way, the Bureau's fringe benefits become 33.4% of salaries and wages, or 25.0% of total compensation.

No Standard Definition of Fringe Benefits

Because of these differing methods, our office attempted to locate a standard definition of fringe benefits and accepted methodologies for calculating fringe benefit rates. No best practices or recommended policies or procedures were found among resources we typically rely on, including Government Finance Officers Association (GFOA), California Society of Municipal Finance Officers (CSMFO), the Institute for Local Government, and the National Advisory Council on State and Local Budgeting (NACSLB), among others.

In our search we found Office of Management and Budget (OMB) Circular A-87, entitled "Cost Principles for State, Local, and Indian Tribal Governments". This Circular establishes principles and standards to provide a uniform approach for determining costs which are considered allowable, related to federal grant reimbursements. Allowable costs include compensation for personnel services, including wages, salaries and fringe benefits. Under this policy, fringe benefits are described as compensation in addition to salaries and wages, and include costs of leave, employee insurance, pensions, and unemployment benefit plans.

The Employee Benefit Research Institute (EBRI) publishes Fast Facts, and in January 2009, reported that employers spent $8 trillion in compensation in 2007. This was comprised of $6.4 trillion (or 81.4%), while benefits made up the remainder, $1.5 trillion (or 18.6%). Stated another way, using these figures, benefits represented 22.9% of wages and salaries. This data, from the U.S. Department of Commerce, reflected benefits as limited to the categories of retirement income benefits, health benefits, and other benefits (which includes unemployment insurance, workers compensation and group life insurance).

Both of these publications reflect a narrower interpretation of benefits than that used by the City of San Diego.

Comparisons with Other Jurisdictions

When comparing the fringe benefits rate of San Diego with other jurisdictions across the state and country, various issues arose. As discussed, there is no standard definition of what constitutes a fringe benefit and furthermore, there are different methods for compiling and comparing fringe benefit costs. However, despite that obstacle, we attempted to gather information from other jurisdictions that would allow for an "apples-to-apples" comparison of what was included when calculating fringe benefit rates. In our comparisons, we continued with our preferred methodology of expressing fringe benefits as a percentage of total salaries and wages.

Initially, our office analyzed adopted budgets and other financial reports, and/or spoke with staff from fifteen jurisdictions. The jurisdictions included cities within San Diego County and across the state, strong-mayor cities across the country, and various counties and other agencies. We calculated the rate as a percentage of the Salaries and Wages, producing a wide-range of results, some of which are displayed below for illustrative purposes:

Comparison of Fringe Benefits Rates

(Dollars in millions)

Jurisdiction	City of San Diego	New York City	City of Los Angeles	County of San Diego	City of San Jose
Total Salary and Wages:	$ 728.0	$ 20,892.0	$ 3,049.0	$ 1,052.0	$ 473.3
Total Fringe Benefits:	$ 382.3	$ 12,100.0	$ 507.0	$ 609.3	$ 169.5
Fringe Benefits Rate	52.5%	57.9%	16.6%	57.9%	35.8%

To allow for a more "apples-to-apples" comparison, we sent a survey to many of these municipalities. The survey listed San Diego's fringe benefits line-by-line and asked the recipient to indicate whether or not the benefit was included in their calculation and if so, how much their budget allocated towards the item.

Replies were received from the County of San Diego, Los Angeles County and the City/County of Denver. The information received from the City/County of Denver applies only to non-uniform employees from the General Fund. There were a number of fringe items that the City of San Diego utilizes in its calculation that were not used in the other jurisdictions, including SPSP (or other defined contributions), Employee Offset Savings, Risk Management Administration costs, Retiree Health/OPEB debt payment and Unused Sick Leave. Furthermore, the counties both had debt service payments for Pension Obligation Bonds, which, while not included in their fringe benefit expenditures, would be consistent with the portion of the City's pension payment for the unfunded liability, and which San Diego includes in its fringe benefits. To attempt a more valid

Line-Item Comparison of San Diego Fringe Benefits and Rates
(Dollars in millions)

Jurisdiction	City of San Diego	County of San Diego	County of Los Angeles	City/County of Denver*
Salaries and Wages	**$ 728.0**	**$ 1,052.0**	**$ 6,833.0**	**$ 240.4**
ARC: For Retirement	68.6	219.6	677.8	0.0
ARC: UAAL Payment	93.0	0.0	141.5	0.0
Pension Obligation Bond Payment	**0.0**	**112.2**	**301.2**	**0.0**
SPSP (or other defined contribution plan)	24.0	0.0	206.0	0.0
Social Security	0.0	In FICA/Medicare	0.0	23.7
Retirement Offset Contribution	19.5	69.0	231.9	20.5
Employee Offset Savings	19.7	0.0	0.0	0.0
Worker's Compensation Insurance	26.0	31.2	305.6	11.2
Medical/Dental/Vision/Life Insurance	59.3	90.3	81.8	42.4
Risk Management Administration	6.6	0.0	17.3	4.4
Long Term Disability	5.3	1.3	35.0	0.0
Unemployment Insurance	1.1	1.5	4.8	0.5
FICA/Medicare	8.6	62.5	75.4	Part of SS #
Retiree Health/OPEB	25.0	21.5	387.8	0.0
Retiree Health/OPEB: Debt Payment	25.0	0.0	0.0	0.0
Unused Sick Leave	0.4	0.0	76.0	0.0
Subtotal Fringe Benefits Listed	**$ 382.2**	**$ 609.1**	**$ 2,542.1**	**$ 102.7**
Fringe Benefits Rate	**52.5%**	**57.9%**	**37.2%**	**42.7%**

*includes only non-uniform personnel from the GF

comparison, the table reflects the amounts for each of the San Diego fringe items for each jurisdiction, and may not reflect the total fringe benefit costs as reported by them.

Our findings illustrate that because there is no consistent approach as to which items are included when calculating a fringe benefits rate, obtaining a comparable data set is very challenging and simply comparing the rate as a percentage without discussing the items that are included in that number may not provide the most valuable data for decision-making purposes.

Review of Historical San Diego Fringe Rates

Our office compiled historical fringe benefit rates for the City based on budgeted salaries and fringe benefits for several fiscal years, as shown in the accompanying table. Also included is the amount of budgeted fringe benefits and number of full-time equivalents for each year. The number of positions can affect the fringe benefits rate. Some elements of fringe benefits are fixed costs that must be paid, e.g. pension payment, risk management administration, etc. Spreading fixed costs over fewer positions causes an increase in the cost per position and subsequently, the fringe benefit rate. In that same vein, the elimination or reduction of each dollar of salary and wage costs does not necessarily permit a corresponding reduction of 52 cents. Some fringe benefit costs are a fixed component of the budget, and are paid in full even if position costs are reduced or positions are eliminated mid-year. The fringe benefit rate has increased significantly from 30.5% in 2001 to 52.5% in 2009.

Fiscal Year	Budgeted Fringe Benefits (in millions)	Budgeted Fringe Rate (Total Fringe / Total Salary)	Budgeted FTEs
2001	$155.6	30.5%	10,600.63
2002	$170.6	30.9%	11,000.12
2003	$182.7	32.2%	11,235.79
2004	$220.3	37.9%	11,269.03
2005	$272.5	44.3%	11,096.14
2006	$324.1	51.3%	10,857.77
2007	$338.6	50.0%	11,391.26
2008	$376.0	53.7%	10,763.80
2009	$382.3	52.5%	10,728.82

Eight Significant Areas

In November 2006, the Mayor released the first Five-Year Financial Outlook for fiscal years 2008-2012. The Five-Year Financial Outlook is revised annually and provides a framework for budgetary decisions by communicating the City's fiscal priorities and outlining the City's strengths as well as any fiscal challenges. The most recent revision was issued in November 2008. The Five-Year Outlook includes Eight Significant Areas that must be addressed in order to restore or preserve the fiscal integrity and/or meet the legal obligations of the City. Many of these areas have been discussed for years but were not adequately addressed or funded, including:

1. Funding the Employee Pension Plan
2. Funding the General Fund reserves
3. Funding deferred maintenance and capital improvement needs
4. Funding retiree healthcare obligations/Other Post Employment Benefits (OPEB)
5. Funding new obligations under Storm Water Runoff Permits
6. Funding the Americans with Disabilities Act (ADA) obligations
7. Funding the Workers' Compensation Fund
8. Funding the Public Liability Fund

Three of the Eight Significant Areas (underlined above) are specifically related to fringe benefits. Recent efforts to appropriately fund and to address past underfunding have contributed to an escalating fringe benefits rate. Lower rates in previous years may appear more reasonable but reflect a period in time when the City did not fully fund its benefit obligations. Since 2001, budgeted fringe benefit expenditures have more than doubled, increasing an average of 18% each year for the last eight years.

Pension Costs

Commencing in July 1996, the City made annual contributions to the Retirement System that were below the actuarially required rates. In July 2004, the City entered into the "Gleason Settlement", which provided that the City contribute a fixed amount of $130 million for Citywide contributions in Fiscal Year 2005, which was less than the full actuarial amount but $45 million more than the previous year. In that same year, the UAAL amortization period was reset to a new 30-year fixed amortization period.

Budgeted Pension Payments (in millions)		
Fiscal Year	Amount	% of total fringe budget
2001	$45.0	29%
2002	$50.3	29%
2003	$54.7	30%
2004	$79.4	36%
2005	$119.0	44%
2006	$152.4	47%
2007	$154.3	46%
2008	$162.7	43%
2009	$161.7	42%

Beginning in Fiscal Year 2006, the City began to address the underfunding of the pension system, by fully funding the City's annual required contribution ("ARC"), as well as making significant additional payments.

In 2006, the City leveraged an estimated $10.1 million of employees' contribution to the Retirement System, secured by the revenue stream the City receives under the Master Settlement Agreement with tobacco companies, resulting in an infusion of $100 million to the Retirement System. In addition, $8.3 million in employee pick-up savings (described below) from Fiscal Year 2006 was contributed, both of which helped to pay down the UAAL.

The Fiscal Year 2008 Budget provided $20 million in addition to the ARC of $137.7 million, to pay down in part the UAAL with no negative amortization. An additional $7.3 million was also budgeted to begin paying back the pension plan for assets inappropriately used to pay retiree health benefits. The Fiscal Year 2009 budget reflects full funding of the ARC of $161.7 million, based on a 20-year amortization period (reduced from 27 years) and includes funding to eliminate any negative amortization. As pension funding has increased, pension payments have become the largest component of fringe benefits, and in 2009, represent 42% of total fringe benefit costs.

On July 28, 2008, the City Council approved a modified defined contribution and defined benefit plans for all non-safety City employees hired on or after July 1, 2009. The new defined benefit plan includes modified percentages used to determine annual retirement allowance (depending on employees' age at retirement), a pensionable salary calculation used to determine retirement allowances based on a 3-year average, and a maximum annual retiree benefit of 80% of employees' pensionable salary. The modified plans were agreed upon by the related labor unions representing non-safety City employees.

Retiree Health/OPEB

The City sponsors a retiree health benefit program and has historically funded the annual costs of the program through annual contributions (pay-as-you-go) from the Retirement System Trust Fund. During Fiscal Year 2005, costs related to retiree health care benefits were no longer fully paid from the Retirement System, and for the first time, approximately $6.5 million of the total $14.4 million requirement was allocated to all City departments based upon the number of eligible employees, in a midyear budget adjustment. In the years that followed, the entire requirement became part of the City's fringe benefits expenditure category, contributing to the increased fringe benefits rate, now representing 13% of the total fringe benefits category.

Budgeted Retiree Health (in millions)		
Fiscal Year	Amount	% of total fringe budget
2001	$0.0	0%
2002	$0.0	0%
2003	$0.0	0%
2004	$0.0	0%
2005	$0.0	0%
2006	$15.0	5%
2007	$25.0	7%
2008	$47.1	13%
2009	$50.0	13%

The Government Accounting Standards Board (GASB) requires that municipalities report the net liability for retiree health on its financial statements. Cities across the state and nationally are facing the GASB reporting requirements and finding solutions to address the projected growth in the cost of retiree health care. As a result of these new reporting requirements, the Council approved participation in CalPERS' California Employers' Retiree Benefit Trust (CERBT), which meets GASB reporting requirements, invests the City's Other Post Employment Benefit (OPEB) contributions at a longer term rate of return to achieve optimal asset growth and mitigates the City's reportable liability for retiree health.

In Fiscal Year 2007, the City's budget included $5 million to begin pre-funding the accrued liability for retiree health benefits. This was in addition to the $20.4 million budgeted citywide for pay-as-you-go amounts. In Fiscal Year 2008, total costs were increased to over $47 million, which has grown to $50 million in Fiscal Year 2009. In our comparisons with other jurisdictions, it was clear that not all agencies have budgeted funds to pre-fund these future obligations, and San Diego may be ahead in this area. And although it has contributed significantly to the increased fringe benefit rates in recent years, it has not provided new or additional benefits to employees.

The new benefit plans for all non-safety City employees hired on or after July 1, 2009 includes the introduction of mandatory employee contribution to a retiree medical trust plan (as well as City match) of 0.25%.

Workers Compensation

The City has chosen to increase funding for a Workers Compensation Reserve, consistent with the Reserve Policy adopted in November 2007. The City's goal under the policy is to reach a reserve target of 50% of outstanding claims by 2014, currently estimated at $80.5 million (half of $161 million). The Fiscal Year 2009 budget includes $26 million citywide for contribution to the Workers Compensation fund, including $5 million to build the reserve. However, the City has historically contributed funds for Workers Compensation in excess of budgeted levels, resulting in reserves higher than levels required by the policy. In some years, rates for Workers Compensation have been adjusted to slow contributions. Because of excess funding, the FY 2010 budget will include no reserve element as it is not needed. The Workers Compensation reserve has grown to $35 million in 2009, generated from benefit-related expenses. This is another area where additional funding has been contributed as a fiscal reform, with no new or additional benefits received by employees.

Budgeted Workers Compensation (in millions)		
Fiscal Year	Amount	% of total fringe budget
2001	$16.0	10%
2002	$16.6	10%
2003	$16.1	9%
2004	$25.3	11%
2005	$26.3	10%
2006	$25.8	8%
2007	$23.0	7%
2008	$26.0	7%
2009	$26.0	7%

Other Recent Changes Related to Fringe Benefits

In addition to the Eight Significant Areas, other fringe benefit areas have undergone changes over the last several years, affecting the fringe benefit rate.

Medical/Dental/Vision/Life (Flexible Benefits)

For Fiscal Year 2009, $59.3 million is budgeted Citywide for the City's flexible benefits plan. In Fiscal Year 2008, the City initiated a restructuring of its health benefits, providing increased family coverage and reduced waiver amounts for employees represented by some labor groups. Coverage amounts for each employee now vary widely, depending on job classification and associated labor group, and family circumstances. These cost factors cannot be specifically addressed and allocated by position in the budget, and instead estimates are utilized based on enrollment experience and expected changes in health care costs to ensure sufficient funds are budgeted in total for flexible benefit needs.

Budgeted Flexible Benefits (in millions)		
Fiscal Year	Amount	% of total fringe budget
2001	$40.7	26%
2002	$44.7	26%
2003	$48.9	27%
2004	$53.2	24%
2005	$56.9	21%
2006	$56.2	17%
2007	$56.8	17%
2008	$59.3	16%
2009	$59.3	16%

Employee Offset Savings

Starting in Fiscal Year 2006, employee groups agreed to contribute a portion of their salaries to reduce the unfunded liability of the Retirement System. As part of the agreements, the resulting City savings were collected and set aside to be used as a source of repayment for a long-term debt financing with the proceeds to be deposited in the

Retirement System. However, the contemplated financing was not initiated, and some of the funds collected to date will be re-directed or returned to employees since they were not used for the intended purposes by the contract-specified timeframe.

Budgeted Employee Offset Savings (in millions)		
Fiscal Year	Amount	% of total fringe budget
2001	$0.0	0%
2002	$0.0	0%
2003	$0.0	0%
2004	$0.0	0%
2005	$0.0	0%
2006	$16.6	5%
2007	$17.2	5%
2008	$18.9	5%
2009	$19.7	5%

This line item is unique to San Diego, may not be appropriately classified as a fringe benefit, and could distort comparisons with other jurisdictions. Since employees traded salary reductions or retirement offsets for pension contributions, this action affected the fringe benefit rate by both reducing salaries and increasing fringe benefits, with no additional benefits received by employees.

Other Factors to Consider

While the comparison of fringe benefit rates with other jurisdictions may be one indicator to gauge employee benefits in relation to compensation and/or salary levels, it is important to note that both factors affect the resulting rate. Each of these areas should be evaluated for appropriateness and competitiveness (instead of the rate) to ensure the City is efficient and effective at retaining and recruiting a qualified workforce at the best value for taxpayers.

As an example, a seemingly high fringe benefit rate could be the result of low salary levels, and may not be solely attributable to excessive benefits. Representative classifications from each of the City's labor organizations were selected to illustrate how the fringe benefit rate can vary, and that it is the lower salaried positions which create a higher rate. However, it is not that individuals in these classifications receive greater benefits, rather their benefits represent a greater percentage when compared to their lower salaries. Reviewing the rate in the aggregate may contribute to misperceptions on the level of benefits city

CITY OF SAN DIEGO REPRESENTATIVE CLASSIFICATIONS				
Classification	**FY 2009 # of FTEs**	**Budgeted Salary**	**Budgeted Fringe**	**Fringe Rate**
Grounds Mtc Worker II	254.28	$ 37,729	$ 25,129	66.6%
Motor Sweeper Operator	24.00	$ 48,499	$ 32,028	66.0%
Equipment Mechanic	114.00	$ 52,941	$ 30,259	57.2%
Sanitation Driver II	144.98	$ 53,063	$ 30,304	57.1%
Library Clerk	96.54	$ 38,366	$ 24,761	64.5%
Dispatcher II	79.00	$ 44,754	$ 26,792	59.9%
Rec Center Dir III	30.75	$ 50,522	$ 27,673	54.8%
Asst Engineer - Civil	227.00	$ 69,521	$ 33,327	47.9%
Fire Fighter II	431.31	$ 62,773	$ 41,546	66.2%
Fire Engineer	220.36	$ 74,023	$ 47,575	64.3%
Fire Captain	242.25	$ 85,466	$ 53,858	63.0%
Police Officer II	1,602.50	$ 75,670	$ 44,484	58.8%
Deputy City Attorney	135.86	$ 92,712	$ 44,150	47.6%
Info Systems Analyst II	49.00	$ 64,077	$ 35,854	56.0%
Deputy Director	44.00	$ 117,529	$ 50,705	43.1%
Program Manager	53.02	$ 99,745	$ 46,665	46.8%
TOTAL BUDGET	**10,728.82**	**$728,013,998**	**$382,271,317**	**52.5%**
Average		***$ 67,856***	***$ 35,630***	

employees receive, or distort the actual issues that need further review.

In addition, fringe benefits as reflected in a jurisdiction's budget may not accurately demonstrate the level and expanse of benefits received by employees, or appropriate funding levels of future benefit obligations. Not all governmental agencies have implemented new accounting rules which may affect how fringe benefit expenditures are reported, which may lead to comparative discrepancies.

Other Employee Benefits – Accounted for Separately

The City's labor agreements call for a number of other benefits, including uniform and tool allowances, tuition reimbursements, and transportation incentives. These expenses are not included in the City's fringe benefit expenditure category, and are instead included within Supplies and Services. To put the costs of these types of benefits into context, the City's budget includes approximately $3.5 million for uniform allowances, $168,000 for tool allowances, $615,000 for tuition reimbursements, and $1.13 million for transit pass subsidies, all on a Citywide basis. Our office did not attempt to reclassify these costs as fringe benefits, or incorporate them in a revised fringe benefit rate calculation.

Review of Report from California Foundation for Fiscal Responsibility

At the request of Councilmember DeMaio, the California Foundation for Fiscal Responsibility (CFFR) provided a report, dated February 13, 2009, regarding the City's fringe benefit analysis. CFFR summarized its analysis with six observations in the areas of City Calculation; Opportunity for Benefits Reform; National Comparisons; Best Benchmark Approach; Retirement Benefits; and Health Benefits.

The report states that due to complexities and differences in the calculation of fringe benefits, comparisons of overall fringe rates are of limited usefulness, with which the IBA concurs. CFFR recommends that instead of using an overall fringe rate comparison that a line-item approach be used.

Based on our research of this topic, the IBA has come to many of the same conclusions as CFFR, in that definitions, standard treatments, and best practices related to fringe benefits and rate calculations are not available. Because of this, comparing the City's fringe rates with other jurisdictions is not a useful endeavor. However, comparative analyses of salaries and benefits with other municipalities would be useful, as was the case with the Police and Fire salary and benefit reviews completed by Buck Consultants in 2006.

CONCLUSION

Because of differing methods that have been discussed to calculate and describe fringe benefits and related rates, our office attempted to locate a standard definition of fringe benefits and accepted methodologies for calculating fringe benefit rates. No best practices or recommended policies or procedures were found during our research.

The City's fringe benefit rate has increased over the last several years, primarily due to efforts to more appropriately fund our obligations and address underfunding that has occurred since 1996. The Mayor's Eight Significant Areas in the Five Year Financial Outlook specifically include three fringe benefit areas and a commitment of additional resources to these areas as part of the City's fiscal reforms.

Our office analyzed adopted budgets and financial reports and/or spoke with staff from fifteen jurisdictions. The jurisdictions included cities within San Diego County and across the state, strong-mayor cities across the country, and various counties and other agencies. Because of the lack of standards, a survey was developed to compare specific line-items, though the number of responses we have received to date has been limited. Our research illustrates that the lack of standard definitions and consistent treatment of fringe benefits creates a challenge for comparisons, and may not provide the most valuable data for decision-making purposes.

The focus of additional work would be better placed on a comparison of actual pay and specific benefits, and not how these expenditures are classified or funded in the budget. The City Council may want to consider the allocation of funding and the issuance of a Request for Proposals (or Qualifications) for a consultant study, similar to those previously completed by Buck Consultants in the area of Police and Fire, for a proper evaluation and comparison of employee compensation and benefits with competitor employers.

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