Item #1

Fiscal Year 2012 Proposed and 2013 Proposed Conceptual Budgets:

Airport Authority Employee Benefits:

Past, Present and Future

Presented by:

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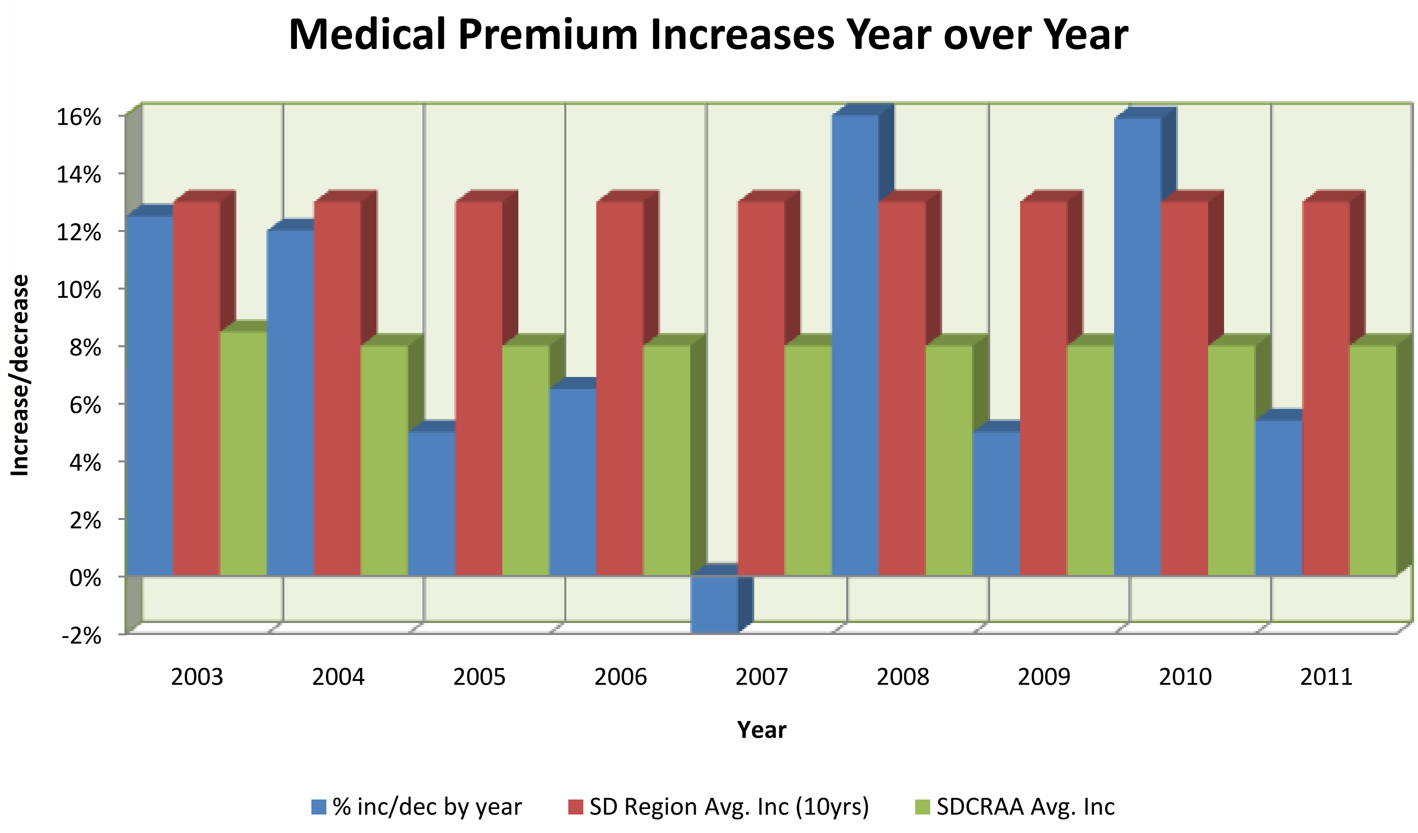
HISTORICAL PERSPECTIVE:

HEALTHCARE

Historical Perspective: Healthcare



Historical Perspective: Healthcare

- For all but 2 of the past 8 years, Authority has beat region average
- A major reason is because of our prudent management and drive toward consumerism:
  - This includes plan design changes
  - Also included was increasing employee co-pays and deductibles

Historical Perspective: Healthcare

- In each of the last several years, the Authority has not spent it's allocated benefits budget
  - FY 07 to present Actual to Budget variance for Employee Benefits line item ranges from -5% to -32%
  - Part of prudent management led to executive decisions to only fill essential positions resulting in decreased benefit expenditures

HISTORICAL PERSPECTIVE:

RETIREMENT

Historical Perspective: Retirement

Annual Pension Contributions

Fiscal Year	Annual Required Contribution	Funded Level
2012	$3.8 million	N/A
2011	$4.3 million	N/A
2010	$3.0 million	96%
2009	$3.0 million	86.9%*
2008	$2.2 million	102.3%
2007	$2.6 million	109%

*Board direction requires a strategy for 95% funded ratio

Historical Perspective: Retirement

- Employees hired May 2006 (October 2008 for represented) and beyond become eligible for Second Generation Retiree Healthcare program
  - 2009 Board action resulted in creation of 2^{nd} Generation vehicle: VEBA
- Employees hired October 2006 and beyond are not eligible to:
  - Participate in DROP
  - Purchase service credits ("air time")
  - Receive supplemental benefits (13^{th} check)

Historical Perspective: Retirement

- Because of past Authority action, GASB liability is reduced:
  - Second Generation Retiree Healthcare plan saves a net $35.0 million in future cash flow
  - Example can be seen in 2013 First Generation GASB liability of $1.9 million compared to anticipated Second Generation expenditure of $55,700

Present

- Employee wellness and safety initiatives have saved the Authority $1.2 million in direct insurance costs over past 3 years
- Total employee benefit cost increases from approved FY 11 budget to conceptual FY 13 budget average 5.9% per year

Proposed Budget Expenses

Excerpted from 2012 Budget presentation

Account Name	FY 2010 Actuals	FY 2011 Budget	Inc\(Dec) FY 11 vs. FY 10	FY 2012 Proposed Budget	Inc/(Dec) FY12 vs. FY11	FY 2013 Proposed Budget	Inc\(Dec) FY 13 vs. FY 12
Health Insurance-Group	$ 4,459,883	$ 4,998,451	$ 538,568	$ 5,684,201	$ 685,750	$ 6,813,736	$ 1,129,535
Retirement & Retirement Amort	5,300,733	7,614,106	2,313,373	6,854,572	(759,534)	7,319,212	464,640
Other*	2,906,545	3,211,843	305,298	3,376,140	164,297	3,608,173	232,034
Employee Benefits	**$ 12,667,161**	**$ 15,824,400**	**$ 3,157,240**	**$ 15,914,912**	**$ 90,512**	**$ 17,741,121**	**$ 1,826,209**

*Taxes & Medicare, Workers' Comp, Dental, Life, Vision, Disability, Unemployment Insurance

Present

- Authority received guidance from Alliant Insurance Services to anticipate a 25% increase in premiums for calendar years 2012 and 2013
  - Insurance carriers are facing unknown risks associated with implementing Healthcare Reform
  - Increased and anticipated risk exposure result in increased premiums
  - Anecdotally, the Authority’s broker representative has recently presented 30%-35% premium increases to clients

Today's Actions to Address the Future

- Re-convene an Employee Benefits Task Force
  - Immediate focus is on healthcare cost containment strategies that will still enable the Authority to be an Employer of Choice
  - Second phase will be to look at retirement plan sustainability
- In both cases, the Task Force is expected to address quality and affordability

Today's Actions to Address the Future

- Authority decision making has historically demonstrated an effective balance of fiscal prudence while striving to maintain Employer of Choice status in San Diego region
- The intention remains to maintain focus on quality and competitive benefits at an affordable cost
- CEO direction is to budget for no greater than 14% increase in health insurance budget line item

Questions?