

Employee Compensation and Benefits

As described in the *2024-2025 City Manager’s Budget Request & 2025-2029 Five-Year Forecast and Revenue Projections* at the start of the budget development process for 2024-2025, personal services costs are calculated at a detailed level using salary, retirement plan, and health plan information for each budgeted permanent position, based on an extract from the City’s payroll system as of January 2024. Position-level information is reviewed, corrected, and updated to reflect authorized effective dates, reclassification and reallocation actions, and to ensure the accuracy of bi-weekly salaries, steps, and anniversary dates for existing employees. Calculated costs, including for the following 2025-2026 budget year (ongoing), also reflect the terms of all bargaining unit agreements executed prior to adoption of the 2024-2025 budget.

As shown in the table below, salaries and other compensation, retirement, and health and other fringe benefits costs (personal services) total \$1.6 billion across all funds, representing approximately 26% of the net combined 2024-2025 Adopted Budget. However, in the General Fund, these costs (\$1.1 billion) account for roughly two-thirds (63%) of all budgeted expenditures (\$1.8 billion), excluding transfers. Personal services costs increased by approximately \$116.7 million, or 8.0%, relative to the 2023-2024 Adopted Budget, led by salaries and other compensation. Salaries and other compensation account for 60.3% of total budgeted personal services costs, retirement contributions for 32.0%, and health and other fringe benefits for 7.7%.

2024-2025 Personal Services Costs by Category and Fund Type

\$ in millions

	Salaries and Other Compensation	Retirement	Health and Fringe Benefits	Total
General Fund	661.64	366.01	81.23	1,108.88
YOY Diff.	52.17	20.03	3.81	76.02
YOY %	8.6%	5.8%	4.9%	7.4%
Special Funds	223.16	106.54	31.17	360.88
YOY Diff.	24.53	8.75	(0.33)	32.95
YOY %	12.4%	8.9%	-1.1%	10.0%
Capital Funds	69.93	34.58	9.78	114.28
YOY Diff.	5.94	2.23	(0.40)	7.77
YOY %	9.3%	6.9%	-4.0%	7.3%
Total	954.73	507.13	122.18	1,584.04
YOY Diff.	82.64	31.02	3.08	116.74
YOY %	9.5%	6.5%	2.6%	8.0%

Included below is a discussion of employee compensation and benefits assumptions for 2024-2025. Supplemental information is provided in the Summary of Contributions to Retirement Funds section of this document, the *2024-2025 City Manager’s Budget Request & 2025-2029 Five-Year Forecast and Revenue Projections*¹, *City of San José Pay Plan*², and Office of Employee Relations website³ for the status of labor relations with the 12 bargaining units representing City of San José employees and effective agreements.

¹ <https://www.sanjoseca.gov/your-government/departments-offices/office-of-the-city-manager/budget/budget-documents/2024-2025-budget-documents/2024-2025-five-year-forecast>

² <https://www.sanjoseca.gov/your-government/departments-offices/office-of-the-city-manager/employee-relations/labor-relations-information/information-resources/total-compensation-information>

³ <https://www.sanjoseca.gov/your-government/departments-offices/office-of-the-city-manager/employee-relations/labor-relations-information>

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Salaries and Other Compensation:

Annual pay increases for all employees, salary step increases for current non-management employees and pay-for-performance for management employees are included in personal services costing for 2024-2025 and subsequent years, consistent with executed bargaining unit agreements.

Agreements with the following bargaining units, expiring on June 30, 2027, were negotiated and executed following the development of the 2024-2025 Proposed Operating Budget, as prior agreements were set to expire on June 30, 2024: International Association of Firefighters (IAFF, Local 230), International Brotherhood of Electrical Workers (IBEW), and International Union of Operating Engineers (OE#3). Associated cost implications were incorporated as adjustments in the 2024-2025 Adopted Budget process due to the later execution of the agreements in April and May 2024.

Previously executed agreements with the following bargaining units are set to expire on June 30, 2026: Association of Building, Mechanical and Electrical Inspectors (ABMEI), Association of Engineers and Architects (AEA, SEA), Association of Legal Professionals (ALP), Association of Maintenance Supervisory Personnel (AMSP), City Association of Management Personnel (CAMP), Municipal Employees' Federation (MEF), San Jose Police Dispatchers Association (SJPDA), and executive management and professional employees in Unit 99 and other unrepresented employees in Unit 81/82.

Agreements with the San Jose Police Officers' Association (SJPOA) and Peace Officer Park Ranger Association (POPRA) will expire on June 30, 2025 and June 30, 2027, respectively.

Except for employees represented by SJPOA and IAFF, non-management step increases are calculated at a 2.5% step increase rate. A 5% step increase rate is assumed for SJPOA and IAFF.

Additional funding of \$14.4 million is set aside in a Salaries and Benefits Reserve for potential: 1) pay increases or other compensation changes beyond the expiration dates of bargaining unit agreements; 2) pay-for-performance for management employees; 3) increased contributions due to anticipated changes to employee benefit programs, such as health and dental plans; and, 4) pay increases resulting from classification/compensation studies.

Overtime funding totals \$44.7 million for 2024-2025 across all funds, primarily allocated for Police Department (\$26.6 million), Fire Department (\$12.1 million), Department of Transportation (\$2.0 million), and Public Works Department (\$1.4 million) operations. Base level costs are adjusted using salary and step growth as an inflationary factor.

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Retirement:

City contributions toward its two defined benefit retirement plans – Federated City Employees' Retirement System and Police and Fire Department Retirement Plan – reflect the Federated Retirement System and Police and Fire Department Retirement Boards' (Boards) approved economic and demographic assumptions and projections received from the Boards' actuary (Cheiron). However, budgeted rates differ from Board-approved levels due to the spreading of contributions across all budgeted positions, including vacancies. Refer to the *2024-2025 City Manager's Budget Request & 2025-2029 Five-Year Forecast and Revenue Projections*⁴ for a more detailed discussion of the budgeted rates and components (pension/normal cost, unfunded actuarial liability, and retiree health care) for the respective retirement plans. Please also see the "Summary of Contributions to Retirement Funds" within the *Summary Information* section of this budget document. For 2024-2025 retirement costs total \$501.7 million, an increase of 6.5% from 2023-2024, with the General Fund supporting approximately two-thirds of budgeted retirement costs.

Health and Other Fringe:

A projected rate increase of 7.0% is assumed for the City's health plans in 2024-2025, effective January 2025, based on national and City trend information received from the City's Human Resources Department benefits consultant. Projected health rate growth is held constant at 7.0% annually for subsequent years. Additionally, the re-implementation of a 0.08% rate is assumed in 2024-2025 for the City's self-funded unemployment insurance program, with claims levels projected to exhaust the previously accumulated balance in the Unemployment Insurance Fund.

No change in dental rates is assumed in 2024-2025, or in subsequent years, to spend down savings from previously accumulated fund balance in the Dental Insurance Fund. Similarly, no change is assumed for the life insurance rate in 2024-2025 based on projected expenditure levels in the Life Insurance Fund.

⁴ <https://www.sanjoseca.gov/your-government/departments-offices/office-of-the-city-manager/budget/budget-documents/2024-2025-budget-documents/2024-2025-five-year-forecast>