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City Manager's Office

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Alex Gurza

SUBJECT: LABOR NEGOTIATIONS
UPDATE

DATE: October 7, 2011

Approved

Date

10/7/11

INFORMATION

BACKGROUND

On September 28, 2011, the City's bargaining team received two retirement reform proposals from five of the City's 11 bargaining units. The San Jose Police Officers' Association (POA) and San Jose Fire Fighters IAFF, Local 230, provided a proposal affecting police officers and firefighters. The Association of Engineers and Architects, IFPTE Local 21 (AEA), the City Association of Management Personnel, IFPTE Local 21 (CAMP), and the Association of Maintenance Supervisory Personnel, IFPTE Local 21 (AMSP) provided a proposal that applies to the Federated City Employees' Retirement System.

Both proposals contain an opt in program where employees could voluntary opt into a lower level of benefits. It is important to note one significant difference between the two proposals. The POA and the IAFF, Local 230, are proposing that pension benefits for newly hired police officers and firefighters and current employees who opt out of the City's Police and Fire Department Retirement Plan would be administered by the California Public Employees Retirement System (CalPERS). The three unions affiliated with IFPTE Local 21 proposed to keep all current and newly hired employees in the City's Federated City Employees' Retirement System.

During the weekly labor negotiations update on October 4, 2011, the City Administration provided the City Council with information related to the proposals based on the written proposals themselves. (Attached is the presentation.) As noted during this update, it was necessary for the City to meet with the bargaining units to discuss the proposals in order to gain a thorough understanding of the proposals including but not limited to, the potential impact to our current retirement plans. The City met with IFPTE Local 21 and separately had a joint meeting with the POA and IAFF, Local 230 on Wednesday, October 5, 2011. The intent of this memorandum is to provide additional information regarding the proposals that were received on September 28th.

Information Regarding Proposal from AEA, CAMP and AMSP (IFPTE Local 21)

Unions' Estimated Savings

IFPTE Local 21 estimated that their proposal would save approximately \$33.2 million in FY13, \$36.7 million in FY14, \$39.7 million in FY15 and \$44.2 million in FY16, for a total estimated cumulative savings of \$153.8 million.

The Federated City Employees' Retirement System covers employees represented by nine different bargaining units, as well as unrepresented employees in Unit 99. The savings estimates provided by the unions assume the changes for all employees in the Federated City Employees' Retirement System. It should be noted that City has not received a similar proposal from the other six bargaining groups nor have these other bargaining groups provided an opt in proposal.

In addition, IFPTE Local 21 stated that their estimated savings assume that 100% of all current employees in the Federated City Employees' Retirement System will elect to opt out of their current level of benefits and opt to receive the lower level of benefits contained in the IFPTE Local 21 proposal.

The unions' estimated savings also assume that 33% of City employees will be in the tier for new employees by FY16.

Incentives

As part of its proposal, IFPTE Local 21 included the concept of providing incentives for employees to opt into the lower level of benefits, but did not provide any specific proposal or estimated cost for any incentives. The estimated savings provided by these bargaining units did not factor in the cost of providing any incentives. It should be noted that there may be additional costs to the General Fund, as well as other funds, depending on the nature and type of incentive that may be proposed at some future date.

Information Regarding Proposal from POA and IAFF, Local 230

Unions' Estimated Savings

POA and IAFF, Local 230 estimated that their proposal would save approximately \$18 million in FY12, \$42 million in FY13, \$61.7 million in FY14, \$75.9 million in FY15 and \$78.9 million in FY16, for a total estimated cumulative savings of \$276.5 million.

POA and IAFF, Local 230 stated that this estimated savings assume that 66% of all current employees in the Police and Fire Department Retirement Plan will opt out of their current level of benefits and into the lower level of benefits for all years of service, both past and future years, as contained in their proposal. For example, an employee in the current retirement plan with 20 years of service could elect to opt into the CalPERS plan and all 20 years of service credit would be transferred to the CalPERS system and would be under the CalPERS benefit formula.

Next Steps

CalPERS

As noted above, the proposal from the POA and IAFF, Local 230 proposes that pension benefits for new employees would be administered by CalPERS and that current employees could also elect to opt into CalPERS. The City's negotiating team posed several questions about the implication of this proposed change, including the potential impact to the City's Police and Fire Department Retirement Plan. The POA and IAFF, Local 230 suggested, and the City negotiation team agreed, that it would be beneficial to invite a CalPERS representative to a negotiation session to discuss the proposal to move current employees who elect to opt out of the City's retirement system and all new employees into CalPERS.

Union Cost Estimates

The bargaining units have estimated that their proposals reduce the City's costs for pensions by \$467 million dollars over a five year period and have indicated that Thomas Lowman (actuary for IFPTE, Local 21 and IAFF, Local 230) performed the actuarial estimates of the proposals. During our negotiation sessions, the City asked for a breakdown of the savings and the unions indicated that they would need to get back to us. We subsequently followed up requesting that the unions' actuary and the City's consulting actuary discuss the unions' cost savings estimates.

We will continue to provide the City Council with updates on the negotiations with all 11 of the City's bargaining units. Information regarding labor negotiations is available to the public at <http://www.sanjoseca.gov/employeeRelations/labor.asp>.



ALEX GURZA
DEPUTY CITY MANAGER

Attachment: October 4, 2011, Labor Negotiations Update Presentation

CITY OF SAN JOSÉ

Labor Negotiations Update

October 4, 2011

Labor Relations Information

www.sanjoseca.gov

- Click on **City Departments** (left column)
- Click on **Employee Relations** (Under City Manager's Office)
- Click on **Labor Relations Information**

<http://www.sanjoseca.gov/employeeRelations/labor.asp>

Retirement Reform Savings Goals (ALL FUNDS)

Original Goal	May 2 nd City Manager's Fiscal Reform Plan	Current Council Direction
\$215 M	\$216.6 M	\$117.2- \$161.6 M

Negotiations Update

Retirement Reform and Ballot Measure		
Bargaining Unit	Update	Next Meeting
IAFF, Local 230 and POA	Retirement Reform: September 28 th , Unions provided proposal on retirement benefits for new hires and an opt in program for current employees.	10/05
AEA, CAMP and AMSP	Retirement Reform: September 28 th , Unions provided proposal on retirement benefits for new hires and an opt in program for current employees. Met on September 30 th , during which the City provided proposals for new hires and Medicare enrollment.	10/05

**San Jose Fire Fighters, IAFF, Local 230
&
San Jose Police Officers' Association**

IAFF, Local 230 & POA Proposal

Current Employees-Pension Only			
	Current Benefit	City Proposal	POA/IAFF, Local 230
Maximum Benefit	90%	90%	90%
Accrual Rate	POA 2.5% - 4% per year IAFF, Local 230 2.5% - 3% per year	Status Quo	Status Quo
Age/Years of Service	50 w/25 yrs., 55 w/20 yrs. or 30 yrs at any age	Status Quo	Status Quo
Final Average Salary Calculation	Highest Year	Status Quo	Status Quo
COLA	3% fixed (annually)	CPI capped at 1%	Status Quo
Normal Cost	8:3 Split	Status Quo	Status Quo
Unfunded Liability	City pays 100%	50:50 Split (5% per year, max 25%)	Status Quo
SRBR (13 th Check)	Available	Eliminate	Meet and Confer

IAFF, Local 230 & POA Proposal

Voluntary Election Program (Opt In) – Pension Only			
	Current Benefit	City Proposal	POA/IAFF, Local 230
Maximum Benefit	90%	90%	90%
Accrual Rate	POA 2.5% - 4% per year IAFF, Local 230 2.5% - 3% per year	1.5% per year (future years)	2.4% - 3% per year (Depending on age at retirement)
Age/Years of Service	50 w/25 yrs. 55 w/20 yrs. 30 yrs at any age	Age 60 (phased in) Reduced benefit if less than 60	Age 50 w/5 years
Final Average Salary Calculation	Highest Year	Highest 3 consecutive years	Highest paid consecutive 36 months
COLA	3% fixed (annually)	CPI capped at 1%	CPI capped at 3%
Normal Cost	8:3 Split	Status Quo	Employee pays max 10%; City pays difference
Unfunded Liability	City pays 100%	Status Quo	
SRBR	Available	Eliminate	Eliminate

IAFF, Local 230 & POA Proposal

New Employees-Pension Only			
	Current Benefit	City Proposal	POA/IAFF, Local 230
Maximum Benefit	90%	45%	90%
Accrual Rate	POA 2.5% - 4.0% IAFF, Local 230 2.5% - 3%	1.5% per year	2.0% - 2.7% per year (Depending on age at retirement)
Age/Years of Service	50 w/25 yrs., 55 w/20 yrs. or 30 yrs at any age	Age 60 Reduced benefit if less than 60	Age 50 w/5 years of service
Final Average Salary Calculation	Highest Year	Highest 3 consecutive years	Highest paid consecutive 36 months
COLA	3% fixed (annually)	CPI capped at 1%	CPI capped at 2%
Normal Cost	8:3 Split	50:50 Split	Employee pays max 10%; City pays difference
Unfunded Liability	City pays 100%	50:50 Split	
SRBR	Available	Eliminate	Eliminate

Sick Leave Payout Proposal

Current Benefit For POA/IAFF, Local 230	City Proposal	POA/IAFF, Local 230
Up to 100% payout for all unused accrued sick leave	Eliminate Sick Leave Payout	Purchase retirement service credit

Retiree Healthcare Proposal

New Employees			
	Current Benefit	City Proposal	POA/IAFF, Local 230
Benefit Level	Plan pays 100% of lowest priced plan for Single or Family coverage	\$10 per year of service	Plan pays 50% of the lowest priced plan for Single coverage

Current Employees (Including Voluntary Election Program)			
	Current Benefit	City Proposal	POA/IAFF, Local 230
Benefit Level	Plan pays 100% of lowest priced plan for Single or Family coverage	Add High Deductible Plan as lowest priced plan	Status Quo

**Association of Engineers and Architects (AEA)
IFPTE, Local 21**

**Association of Maintenance Supervisory
Personnel (AMSP) IFPTE, Local 21**

**City Association of Management Personnel
(CAMP) IFPTE, Local 21**

AEA, AMSP & CAMP Proposal

Current Employees-Pension Only

	Current Benefit	City Proposal	IFPTE Local 21 Proposal Sept. 28 th
Accrual Rate	2.5% per year	Status Quo	Status Quo
Age/Years of Service	55 w/5 years, or 30 years at any age	Status Quo	Status Quo
Final Average Salary Calculation	Highest Year	Status Quo	Status Quo
COLA	3% fixed (annually)	CPI capped at 1%	Status Quo
Normal Cost	8:3 Split	Status Quo	Status Quo
Unfunded Liability	City pays 100%	50:50 Split (5% per year, max 25%)	Status Quo
SRBR (13 th Check)	Available	Eliminate	Status Quo

AEA, AMSP & CAMP Proposal

Voluntary Election Program (Opt In)-Pension Only

	Current Benefit	City Proposal	IFPTE Local 21 Proposal Sept. 28 th
Accrual Rate	2.5% per year	1.5% per year (future years)	2.0% per year (future years)
Age/Years of Service	55 w/5 years, or 30 years at any age	Age 65 w/5 years, (phased in) Reduced benefit if less than 65	Age 60 w/10 years
Final Average Salary Calculation	Highest Year	Highest 3 consecutive years	Average of highest 36 months
COLA	3% fixed (annually)	CPI capped at 1%	CPI capped at 2%
Normal Cost	8:3 Split	Status Quo	Status Quo
Unfunded Liability	City pays 100%	Status Quo	Status Quo
SRBR	Available	Eliminate	Eliminate

AEA, AMSP & CAMP Proposal

New Employees-Pension Only

	Current Benefit	City Proposal	IFPTE Local 21 Proposal Sept. 28 th
Accrual Rate	2.5% per year	1.5% per year	2% per year
Age/Years of Service	55 w/5 years, or 30 years at any age	Age 65 or Reduced benefit if less than 65	Age 60 w/10 years
Final Average Salary Calculation	Highest Year	Highest 3 consecutive years	Average of highest 36 months
COLA	3% fixed (annually)	CPI capped at 1%	CPI capped at 2%
Normal Cost	8:3 Split	50:50 Split	50:50 Split
Unfunded Liability	City pays 100%	50:50 Split	Status Quo
SRBR	Available	Eliminate	Eliminate

City's Retirement Reform Direction- Estimated Savings

DIRECTION	ALL FUNDS SAVINGS TOTAL
Opt In Program/Additional Retirement Contributions	\$54.9 M- \$99.3 M
Reduce COLA to 1% (Current Employees and Current Retirees)	\$39.7 M
Eliminate SRBR	\$4.7 M
Retiree Healthcare: Reduce lowest cost plan by 25%.	\$17.9 M
	\$117.2 M- \$161.6 M

Negotiations Update

Upcoming Retirement Related Negotiations

Bargaining Unit	Meetings Scheduled
IAFF & POA	October 5 th October 12 th October 20 th
AEA, CAMP & AMSP	October 5 th October 11 th October 13 th
ABMEI, MEF, CEO IBEW & OE#3	October 12 th
ALP	October 4 th October 6 th October 11 th October 13 th October 18 th October 20 th October 25 th October 27 th

Conclusion