



STAFF REPORT

City Council Meeting Date: 2/7/2017
Staff Report Number: 17-025-CC

Regular Business: Receive a report and hear public comment on upcoming negotiations with the American Federation of State, County, and Municipal Employees Local 829 (AFSCME); Menlo Park Police Officers' Association (POA); Menlo Park Police Sergeants Association (PSA); and Local 521 Service Employees International Union, CTW, CLC (SEIU) on successor agreements to current agreements expiring June 30, 2017

Recommendation

Receive a report from staff and hear public comment on upcoming negotiations with the American Federation of State, County, and Municipal Employees Local 829 (AFSCME); Menlo Park Police Officers' Association (POA); Menlo Park Police Sergeants Association (PSA); and Local 521 Service Employees International Union, CTW, CLC (SEIU) on successor agreements to current agreements expiring June 30, 2017.

Policy Issues

This report is prepared in accordance with City Council Policy and Procedure CC-11-0001, Public Input and Outreach regarding Labor Negotiations.

Background

The current Memoranda of Understanding (MOUs) with all four City recognized employee bargaining units expire June 30, 2016. Pursuant to best labor-management practices, it is time to open negotiations on successor agreements with each unit. With the exception of the City Manager, City Attorney, unrepresented management employees, and unrepresented confidential employees, all regular full-time and regular part-time City employees are represented by one of these four units. Benefits for four unrepresented confidential employees have, by past practice, mirrored those benefits provided under the AFSCME agreement.

Analysis

This report is submitted to the City Council, members of the affected bargaining units, and members of the public in order to provide relevant information on the bargaining units' salaries and benefits in preparation for the upcoming negotiations of successor labor agreements or MOUs between the bargaining units and the City. This information is provided to all interested parties 15 days in advance of the City Council's meeting on February 7, 2017 at which time the public will have an opportunity to provide comment on this matter in accordance with City Council Policy and Procedure #CC-11-0001 (Attachment A).

As in prior years, the tenets that are used to determine the City’s bargaining principles will assist with aligning the bargaining efforts with the service and financial priorities established by both the City Council and the community. The following principles will be considered in preparation for and throughout labor negotiations with each bargaining unit on successor agreements:

- *Service to the Community* – Negotiations shall strive to achieve agreements that maintain and enhance services to the community provided by the bargaining unit members in their various roles and in concert with City Council adopted policies and goals;
- *Fiscal Sustainability* – Negotiations shall strive to achieve successor agreements that achieve continued fiscal sustainability in accordance with the City’s 10-year financial forecast for the General Fund; and
- *Recruitment & Retention* – Negotiations shall strive to develop terms that are beneficial to the recruitment and retention of high quality employees.

Annualized total compensation for each bargaining unit using January 1, 2017 data is shown below, along with a breakdown of salary, pension, and other benefit costs.

City of Menlo Park Annual Personnel Costs by Bargaining Unit as of January 1, 2017					
Compensation Component	SEIU	AFSCME	POA	PSA	Total
Base salaries	\$ 10,782,941	\$ 3,525,100	\$ 4,261,298	\$ 1,083,171	\$ 19,652,510
Other PERS eligible salary	81,970	8,263	183,737	49,007	322,977
Retirement (CalPERS)	2,064,359	688,801	1,289,051	412,090	4,454,301
Medical	2,058,359	490,537	519,659	131,697	3,200,252
Dental & Vision	372,754	67,996	97,077	27,481	565,308
Other fringe benefits	87,531	27,723	32,608	8,959	156,821
Total Compensation	\$ 15,447,915	\$ 4,808,420	\$ 6,383,430	\$ 1,712,405	\$ 28,352,170
Authorized FTE's	151	35	37	8	231

Salaries – As the largest component of compensation, salaries have the most significant impact on the City’s long-term fiscal sustainability as well as the City’s ability to recruit and retain high quality employees to deliver exemplary service to the community. The following provides a brief recap of changes in salaries as provided in the current MOU with each unit.

1. **POA and PSA** – Classifications represented by the POA and PSA last received a 3% salary adjustment on July 12, 2016 and September 4, 2016 respectively. As previously negotiated, the City conducted a comprehensive total compensation survey which found that Menlo Park continues to pay above the market median among comparable agencies. Nonetheless, the City and labor reached agreement that the effect of inflation is deteriorating the City's position in the comparative analysis following five years without a salary adjustment. Inflation was calculated using the change in Consumer Price Index for the San Francisco – Oakland – San Jose region, as measured by the U.S. Bureau of Labor Statistics from February 2015 to February 2016.
2. **AFSCME and SEIU** – Classifications represented by AFSCME and SEIU last received salary adjustments on July 12, 2016 based on two negotiated items. First, similar to the POA and PSA, all classifications were provided with an across the board salary adjustment equal to 2% to offset the impact of inflation. Second, the City agreed to increase market based adjustments to total compensation for all classifications found to be below market in a total compensation survey completed by a third party consultant.

Benefits - Similar to salaries, benefits are also negotiated with labor groups and ultimately set by the City Council through approval of labor contracts. Unlike salaries, however, the future cost of benefits tend to be governed by a third party and are correlated to actual experience either for the City or for a pool of cities. The most recent substantive change in the benefits package for all represented employees was the addition of vision insurance in January 2016 for AFSCME, SEIU, and PSA and January 2017 for POA. Minor adjustments were also made to the City's contribution for medical insurance through a Section 125 Cafeteria Plan. When reviewing benefit costs, it is important to consider:

1. **Retirement (CalPERS)** – In response to recent challenges to meet its targeted assumed rate investment earnings, called the "discount rate", CalPERS decided on December 21, 2016, to decrease the discount rate from 7.5% to 7.0%, net of expenses. This assumption change will result in higher unfunded liabilities and, consequently, higher employer contributions phased in over three years beginning on July 1, 2018. CalPERS estimates that the reduction to 7.0% will result in an increase in costs as high as 3% of payroll for miscellaneous employees and 5% of payroll for safety employees. While this increase is phased in over three years, by fiscal year 2020-21, the City's annual PERS expense is expected to increase by an estimated \$1 million per year above previous anticipated cost increases. In addition to the reduction in the discount rate from 7.5% to 7.0%, other factors that affect CalPERS costs are actual investment earnings, changes in demographics such as average life expectancies, and changes in actuarial assumptions that smooth the effects of significant deviations from assumptions over several years. The anticipated increases will be shared equally with SEIU and AFSCME employees in accordance with their MOU. POA and PSA employees contribute a fixed 3% above the minimum required for safety employees.
2. **Medical** – The City contracts with CalPERS under the Public Employee Members' Medical and Hospital Care Act (PEMHCA) to provide medical insurance to all eligible employees. PEMHCA premiums are impacted by the experience of covered members in the PEMHCA pool, demographics, and laws such as the Affordable Care Act (ACA). To the extent that the pool experiences changes in any of those factors or if the number of dependents covered by the City changes, rates may increase higher than the assumed 4% annual inflation contained in the City's forecast models. As of the date of this report, the impact changes to the ACA at the Federal level are not known and cannot be reasonably estimated.

Impact on City Resources

There are no impacts on City resources as a result of receiving input on negotiations. It is anticipated that the City Council will meet in closed session to provide direction to the City's negotiating team, Legal Counsel from Renee Sloan Holtzman Sakai, LLP and City staff. The negotiators will meet and confer with each bargaining units' negotiation team, and once tentative agreement is reached on each successor agreement, the fiscal impact of that tentative agreement will be released 15 days prior to the City Council's vote to ratify the successor agreement(s) at a public meeting(s). The estimated cost for negotiation of all four agreements, inclusive of release time for labor representatives paid by the City, is between \$85,000 and \$125,000 depending on the complexity of negotiations.

Environmental Review

No environmental review is required for these items.

Public Notice

Public Notification was achieved by posting the report 15 days prior to the City Council meeting of February 7, 2017.

Attachments

A. Public Input and Outreach regarding Labor Negotiations Policy

Report prepared by:
Lenka Diaz, Human Resources Manager

City of Menlo Park

City Council Policy

Department City Council	Page 1 of 1	Effective Date 03/02/2011
Subject Public Input and Outreach regarding Labor Negotiations	Approved by City Council 03/01/2011	Procedure # CC-11-0001

PURPOSE

To incorporate public input into the labor negotiations process.

BACKGROUND

The City Council has expressed a desire to improve public communication and outreach on labor relations to the extent reasonably possible.

POLICY

A regular business item shall be placed on a Council agenda in advance of formal labor negotiations that includes an opportunity for the public to comment. At least seven days prior to this meeting, staff shall post a report that contains relevant information on employee salaries and benefits, as well as the methodology used to determine a competitive and appropriate compensation package. As part of this process, a concerted effort shall be made to request public comment on the negotiations parameters.

As a general rule, staff shall engage the services of a labor attorney to participate in formal labor negotiations with bargaining units representing permanent employees.

During labor negotiations, public comment will be provided prior to the entry into closed session to discuss labor negotiations, in accordance with State law. At the conclusion of the closed session, the Council shall report out any action taken, including in the record the individual votes taken and the characterization of the deliberations. In addition, at some point in the negotiations process, staff shall submit a public report to Council that provides a general status of labor negotiations and that allows for public input prior to concluding negotiations.

Staff shall prepare and make public a staff report, at least fifteen calendar days prior to Council consideration of a tentative agreement or implementation resolution for any bargaining unit, that provides full details and costing associated with the recommended action, shall schedule the matter as a regular business item and shall provide an opportunity for the public to comment.

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