

2012 LABOR AGREEMENTS

Measure F Committee Meeting – July 19, 2012



TENTATIVE AGREEMENTS

Overview

- ✓ Reached Tentative Agreements with all six of its employee labor unions on new collective bargaining agreements.
- ✓ Proposed two-year contracts are effective retroactively to July 1, 2012 and continue through June 30, 2014.
- ✓ Focus during the negotiations was on continued pension reform paired with concessions that improve the City's 5-year financial forecast; yet balanced with the need to maintain the City's ability to attract and retain.
- ✓ Based on the February 2012 5-Year Forecast, the City will generate **\$1.6 million in savings** over the two years including an estimated \$400,000 in permanent, ongoing annual savings from pension reform.
- ✓ Elimination of the City paying the remaining portion Employee Paid Member Contribution component of the employee's pension.



2012-2014 TENTATIVE AGREEMENTS

PENSION REFORM -- Elimination of EPMC

- ✓ 100% shift of Employer Paid Member Contribution to Employees.
 - ✓ July 1, 2012 - All employees, current and new, will be responsible for paying 100% of employee pension contributions. This represents an additional shift of 7% for Safety employees and 5% for Miscellaneous employees. With the 2% that was shifted in the last two year contract, the total employee contributions actually paid by employees will be 9% and 7%, respectively, for Safety and Miscellaneous employees.
 - ✓ July 1, 2012 - Safety employees will receive a 5.25% salary adjustment as partial compensation for the shift. Miscellaneous employees will receive a 3.00% adjustment. There was no salary adjustment for the 2% that was shifted during the previous two years.
- ✓ Employees will pay 100% of employee portion of PERS pension moving forward.
- ✓ Elimination of the City reporting the value of EPMC as compensation to PERS effective July 1, 2012.



2012-2014 TENTATIVE AGREEMENTS

COLA and Elimination of Furloughs

- ✓ July 1, 2013 - 1.50% cost of living adjustment for all employees; first COLA increase since 2008; 0.5% less than what is reflected in the 5-Year Forecast.
- ✓ Elimination of unpaid furloughs which results in increased service levels to the community and additional hours of service available for the public over the next two years.
- ✓ Ends three consecutive years of historical furloughs and their corresponding reduction in service levels to the community.

PENSION REFORM AND OPEB





PENSION REFORM – ACTIONS TO DATE

PERS Pension Components	Status	Current Employees	New Employees
Final Pay Calculation Use an employee’s average salary over a 36-month period rather than a 12-month period to calculate an employee’s pension	✓	12 consecutive highest months VESTED Can’t be changed - State Law	3 Year Average COMPLETED EFFECTIVE 9/25/2011 PERS Contract Change
Shifting Employer Paid Member Contribution (EPMC) Full Shifting the employer paid member contribution (EPMC) back to employees	✓	100% shift to Employees COMPLETED EFFECTIVE 7/1/2012	100% shift to Employees COMPLETED EFFECTIVE 7/1/2012
Reporting EPMC as Compensation Ending the practice of reporting the value of the EPMC to CalPERS to calculate an employee’s pension	✓	Eliminated Reporting COMPLETED EFFECTIVE 7/1/2012	Eliminated Reporting COMPLETED EFFECTIVE 7/1/2012
Benefit Cap on Final Benefits Placing a cap on the pension benefit a Miscellaneous employee can receive.	✓	No cap VESTED Can’t be changed - State Law	90% cap for Safety (State law) 100% cap for Miscellaneous COMPLETED EFFECTIVE 9/15/10 PERS Resolution Change
Lower Benefit Formula Lower the benefit formula for new employees by creating a 2 nd Tier	Not At This Time	2% @ 55 = Misc 3% @ 55 = Safety VESTED Can’t be changed - State Law	2% @ 55 = Misc 3% @ 55 = Safety REVIEW IN 2014; Can’t legally change until September 2014; 3 year window



FORMULA CHANGES – MARKET STATUS

MISCELLANEOUS		MISCELLANEOUS		SAFETY		SAFETY	
2009		2012		2009		2012	
3% @ 60 Santa Rosa		3% @ 60		3% @ 50 Concord		3% @ 50 Concord	
2.7% @ 55 Fairfield Napa Rohnert Park San Rafael		2.7% @ 55		Fairfield Napa Petaluma Pleasant Hill Rohnert Park		Fairfield Petaluma Pleasant Hill	
2.5% @ 55 Concord Larkspur Mill Valley Sausalito		2.5% @ 55 Fairfield Sausalito Santa Rosa		San Rafael Santa Rosa			
2% @ 55 Belvedere Novato Petaluma Pleasant Hill		2% @ 55 Belvedere Concord Larkspur Novato Mill Valley Petaluma Rohnert Park San Rafael		3% @ 55 Larkspur Mill Valley Novato Sausalito Twin Cities		3% @ 55 Larkspur Mill Valley Napa Novato Rohnert Park San Rafael Santa Rosa Sausalito Twin Cities	
2% @ 60		2% @ 60 Napa Pleasant Hill		2% @ 50 Belvedere		2% @ 50 Belvedere	



BENEFIT FORMULA – LIMITED SAVINGS

Creating 2nd Tier Benefit Formula – Misc = 2% @ 60 and Safety = 2% @ 50

MISCELLANEOUS	% Savings	\$ Savings
Savings of lower formula 2@60:	1.2%	Year 1=\$2K Year 10=\$22K
SAFETY	% Savings	\$ Savings
Savings of lower formula 2@50:	0.8%	Year 1=\$5K Year 1=\$50K

Lower Benefit Formula would generate \$72,000 in 10 Year after 50% turnover by employees.



OTHER POST EMPLOYMENT BENEFITS (OPEB)

As of June 2011

Jurisdiction	Unfunded Liability (GASB 45)
Marin County	\$359.9 million
San Rafael	\$46.1 million
Marin Municipal Water District	\$33.0 million
Mill Valley	\$20.3 million
Larkspur	\$7.5 million
Sausalito	\$6.6 million
Novato Sanitary District	\$5.5 million
North Marin Water District	\$3.5 million
Novato Fire Protection District	\$2.8 million
Fairfax	\$2.3 million
Tiburon	\$2.1 million
San Anselmo	\$1.9 million
<u>Novato</u>	<u>\$1.8 million</u>
Ross	\$1.5 million
Corte Madera	\$1.4 million
Belvedere	\$374,116

CLOSING

Novato has been fiscally conservative compared to most other California local agencies

- Lower base salary and total compensation for current employees when compared to surrounding agencies
- Never gave highest pension benefits
- Never gave rich post employment benefits
- New employees now have lower pension benefits
- Reduced its workforce by 22% from 232 employees in FY 07/08 to 182 employees in FY 11/12. With these reductions, employees have taken on more responsibility and yet continue to look for improvements to the efficiency and effectiveness of the City's operation.

As a PERS agency, there are limitations to what Council can do with pension reform.

- Novato has done all that it can legally do for pension reform at this time
- Statewide legislative solutions would be ideal so the rules are the same for everyone

Novato has significantly reduced its structural deficit in the last 3 years and starting in August the Council will be continuing their Fiscal Sustainability discussions and decisions

CONCLUSION

Council Questions

Public Comment

Council Comments

Council Action on Tentative Agreements





THE CITY OF
NOVATO
CALIFORNIA



FEBRUARY FORECAST MODEL SAVINGS

Savings of Tentative Agreements over Forecast (all \$\$ in thousands)

Original February Forecast	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17
Surplus / (Deficit)	(1,936)	(2,309)	(2,499)	(2,675)	(2,932)
	\$751	\$933	\$959	\$987	\$1020
Tentative Agreements – 7/17/2012	FY12/13	FY13/14	FY14/15	FY15/16	FY16/17
Surplus / (Deficit)	(1,173)	(1,379)	(1,540)	(1,688)	(1,912)



PRE-RETIREMENT OPTION 2W DEATH BENEFIT

Provides a member's surviving spouse or domestic partner a monthly allowance equal to the amount the member would have received if he/she had retired for service on the date of death and elected Option 2W.

The Option 2W is the highest monthly allowance a member can leave a spouse or domestic partner.

It permanently reduces the maximum retirement benefit the member would have received had he/she chosen the Unmodified Allowance.

Rough estimate of impact on employer normal cost is 0.1% to 0.2% of payroll for Miscellaneous groups.

Impact on total employer contribution rate estimated at 0.2% to 0.4% of payroll for Miscellaneous groups.

This provision is mandated for pooled plans.

PENSION REFORM

Legal Parameters

The California Constitution protects public pension benefits, like other contracts, from impairment (Cal. Const., Art. I, §9).

- The California Supreme Court has determined that a public employee's pension constitutes an element of compensation, and a vested contractual right to pension benefits accrues upon acceptance of employment
- Benefit can increase during employment, but cannot be reduced, once vested.
- Benefit cannot be negotiated away; "individual vesting"
- Based on contract principles – State Constitution, MOU, Personnel Rules, Resolutions or Ordinance

Current Employees

- Can acquire vested rights
- Can be modified if necessary to preserve plan and "comparable new advantage" given

Public Employees Retirement Law (PERL) limits potential reforms for current employees

- Reforms can only be applied to new employees – 2nd Tier
- While helpful in the long-term, 2nd tiers do not provide short-term savings

Current trend is to reduce the EPMC and shift the employee contribution back to employees and/or have employees share in part of Employee costs



SUMMARY RESPONSE

CITIZENS FOR PENSION REFORM

COMPLETED	<i>Phase out the employer pick-up of the employee pension contribution</i>
NOT NOW; MONITOR FOR FUTURE	<i>Creation of a second tier pension program with reduced retirement benefits for new employees</i>
Watch STATEWIDE EFFORTS	<i>Establish a goal to ultimately require equal sharing of pension costs Miscellaneous – XX% of annual normal cost (Like Governor Proposal) Safety – XX% of annual normal cost (Like Governor Proposal)</i>
COMPLETED - DONE ALL THIS IS POSSIBLE BASED ON CURRENT STATE LAW	<i>Reduce or eliminate potential abuses of pension or compensation contract</i>
ELIMINATED YEAR 26 AND YEAR 28 STEPS; DIFFERENT PERSPECTIVE ON REMAINING LONGEVITY STEPS	<i>Bring the longevity steps in the Police MOUs into line with those of comparable cities</i>



IMPLEMENTED PENSION REFORM IN NOVATO

	CURRENT EMPLOYEES	NEW EMPLOYEES
EPMC Shifts	<p>2% shift of Employer Paid Member Contribution; Employees now paying 2% of pension costs</p> <p><i>Savings - \$250K annually</i></p>	<p>2% shift of Employer Paid Member Contribution; Employees now paying 2% of pension costs</p>
Other Contract Changes	<p>None; vested benefits.</p>	<p>EPMC not reported as earnings</p> <p>3 Year Average for Final Compensation</p> <p>Caps at 100% of 3 Year Average</p> <p><i>Savings - \$16K in Year 1 and \$218K in Year 10</i></p>