



CITY COUNCIL AGENDA REPORT

DATE: 1/19/2011

AGENDA OF: 1/25/2011

DEPARTMENT: Human Resources

SUBJECT: Guiding Principles for Labor Negotiations. (HR)

RECOMMENDATION: Motion to:

1. Adopt the guiding principles for upcoming labor negotiations.
 2. Adopt the ground rules for negotiations.
 3. Affirm the principles on budget challenges related to pension costs originally adopted at the July 27, 2010 Council meeting.
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BACKGROUND: The Fiscal Year (FY) 2012 General Fund deficit is estimated at \$6 million, after accounting for additional revenue generated by Measure H and savings from a recent agreement with the Santa Cruz Firefighters (IAFF Local 1716) and the Fire Management Association. Long range projections estimate future General Fund deficits growing to \$12.4 million by FY 2016. Expenditures are out-pacing revenues in non-General Fund activities as well and Proposition 26 places new restrictions on the City's ability to recover certain costs by implementing off-setting fees or charges. The recently proposed State budget eliminates all redevelopment funding which places an additional financial burden on the City for programs, services and personnel costs that the Redevelopment Agency currently provides on behalf of the City.

Personnel costs (salaries and benefits) account for approximately 70% of non-capital expenditures. Personnel costs can be attributed to three main cost components: salary, retirement benefits, and health care benefits. Adding to the predicted deficits are escalating non-discretionary costs for retirement and health care benefits.

Salary and benefits are established through negotiations with the City's eight bargaining units. In order to address the significant deficits described above, the City should be guided by labor negotiations principles articulating the service priorities of the City while addressing the serious and continuing fiscal challenges.

DISCUSSION: The primary function of the City is to provide services to the community. Accordingly, 70% of operating budgets fund the staff necessary for the delivery of the current level of services. Over several phases of budget reductions (the City is currently in Phase 11), over 100 positions have been eliminated and current staffing levels are the minimum necessary to maintain current service levels (which have also been significantly reduced). Even with recent agreements with the City's bargaining units effectively freezing salaries and implementing a 10% work schedule reduction (or equivalent cost saving measures), personnel costs have continued to increase faster than revenue growth. Escalating personnel costs are attributable to non-discretionary increases in retirement and health care benefits.

In addition to reducing personnel related costs, Council has also reduced funding for community programs by 48% and approved a number of economic development projects to build a stronger revenue base. Council is fully committed to creating a sustainable revenue base by pursuing economic development projects and other revenue sources.

As the City continues to explore innovative strategies to balance the structural deficit, it is increasingly important to partner with our bargaining units to address the growing gap between revenues and expenditures. The obvious truth is that, since personnel costs are 70% of operating expenses, reductions in personnel costs must be a large part of solving the City's structural deficit to maintain the current level of City services. Because salary and benefit costs are established through negotiations with the bargaining units, current and future negotiations present an opportunity for the City to achieve the personnel costs savings critical to the City's fiscal health.

The attached guiding principles for labor negotiations will align the negotiations process (and necessary personnel cost reductions) with the City's primary function of providing services to the community (Attachment A).

In addition to the guiding principles, Council wishes to establish ground rules for themselves during negotiations. These ground rules are intended to provide Council with parameters for meeting with bargaining unit representatives and members and avoid accidental breaches of the laws governing public sector labor relations (Attachment B).

Finally, in addition to the above principles and ground rules, Council would like to affirm their principles on budget challenges related to pension costs. These principles were originally adopted July 27, 2010 on the recommendation of the City Council Ad Hoc Revenue Ballot Measure Task Force (Attachment C). This Task Force was created to explore the viability of a November 2010 revenue ballot measure (Measure H) and recommended these principles in response to the daunting fiscal picture facing the City. Measure H was passed by the voters and the additional revenue it generates will help, but not solve, the City's structural budget deficit. The City continues to face a daunting fiscal picture and needs structural adjustments to its compensation plans. The principles on budget challenges related to pension costs are as relevant today as they were in July, 2010 and will result in short and long term fiscal savings. It is important to note that several of the City's bargaining units have already agreed to pension reform measures that will reduce costs.

FISCAL IMPACT: There is no direct fiscal impact from adopting these principles and ground rules.

The guiding principles for labor negotiations will ensure that negotiated reductions to the City's pay and benefit plans will result in cost savings while providing efficient and effective services that align with the priorities of the community and the City Council.

Adjustments to the City's pension plans will result in short and long-term fiscal savings.

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ATTACHMENTS:

Attachment A - Negotiation Principles

Attachment B - Ground Rules

Attachment C - Pension Costs

Santa Cruz City Council Principles for Labor Negotiations

In order to address significant operating budget deficits, the City should be guided by labor negotiations principles articulating the service priorities of the City while addressing the serious and continuing fiscal challenges. The Santa Cruz City Council adopts the following principles for labor negotiations as we conduct negotiations with City employee bargaining units over the next eighteen (18) months.

Principle #1: Focus on the cost of total compensation while considering the City's fiscal condition, revenue growth (or lack of), and changes in the Consumer Price Index (CPI). Total compensation includes the total cost of a position including salary, pension, and all other benefits.

Principle #2: Use short-term and long-term strategies to address increasing benefit costs such as cost containment initiatives, benefit levels, etc.

Principle #3: Maintain a consistent approach to negotiations through clear, ongoing communication of policy direction among City Council, City staff, and community.

Principle #4: Remain mindful of increasing costs, including costs of health, pension, and retiree benefits.

Principle #5: Preserve the City's market competitiveness as an employer, to the extent possible.

Principle #6: Provide efficient and effective services that align with both the priorities of the community and the City Council.

Santa Cruz City Council Ground Rules for Labor Negotiations

In addition to the guiding principles, Council will abide by ground rules during negotiations. These ground rules are intended to provide Council with parameters for meeting with bargaining unit representatives and members that will avoid accidental breaches of the laws governing public sector labor relations.

Rule #1: If bargaining unit members ask Councilmembers about the status of negotiations, Councilmembers will refer them to their bargaining unit representatives.

Rule #2: If Councilmembers agree to meet with bargaining unit representatives during negotiations, Council members will not negotiate directly with the representatives. The best strategy is to limit meetings and discussions to topics not related to labor negotiations. If bargaining unit representatives introduce topics related to negotiations, Councilmembers will listen but not respond to or ask questions about the negotiations topic. Direct dealing with bargaining unit employees could expose the City to a violation of the Meyers-Milias-Brown Act (MMBA) and an unfair labor practice charge with the Public Employment Relation Board (PERB)..

Rule #3: Each closed session on negotiations will include a standing item for Councilmembers to report the content of meetings and communications from bargaining units.

Rule #4: In accordance with Government Code §54963, disclosure of confidential information acquired in closed session is prohibited.

Rule #5: Councilmembers will not meet individually with bargaining unit representatives.

Santa Cruz City Council Principles on Budget Challenges Related to Pension Costs

In light of troubling and persistent budgetary challenges, the Santa Cruz City Council endorses the following guiding principles as we conduct negotiations with City employee bargaining units over the next eighteen (18) months.

- We must adopt fiscal policies that preserve the City's ability to meet community demands for services while attracting competent and motivated employees.
- We shall provide adequate retirement benefits to attract and retain employees.
- Current levels and projected future levels of City expenditures on retirement benefits are not sustainable in light of current and projected future levels of City revenues. Current trends show that retirement costs are rising well beyond our ability to fund them and diverting significant resources away from direct services to the community.
- Current City retirement benefits exceed what most private sector employees receive and therefore are higher than necessary to attract employees.
- It would be preferable that a sustainable retirement benefits regimen be adopted on a Statewide basis. However, given the current dysfunction in State government, it is not realistic to wait for such a Statewide solution. Therefore, we hope that regional efforts will produce a workable solution that will address the issue of inter-jurisdictional competitiveness. The City will attempt to move on pension cost issues in concert with other jurisdictions in our region.
- Our City is committed to a reduction in employee retirement costs that will result in substantial savings in both the short and long term. We will pursue that reduction during negotiations with all bargaining units as current contracts expire. The City's effort will include pursuit of both an increase in employee contributions to the Public Employees Retirement System (PERS) and a new tier of retirement benefits for newly hired employees.
- Any new system of retirement payments and benefits must be fair to employees and fiscally sustainable for the community.