COUNCIL AGENDA: 06-15-10
ITEM: 9.3

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: COUNCILMEMBER NANCY PYLE

SUBJECT: **Mayor's 2010 June Budget Message**

DATE: June 11, 2010

APPROVED: Nancy Pyle **DATE:** June 11, 2010

RECOMMENDATION

Approve the Mayor's Budget Message from June 4, 2010 with the following changes in funding strategies:

Accept the latest proposals by the public safety unions which call for Police and Fire sworn employees to make at least 5% in additional contributions to their retirement plan thus relieving the General Fund from making those payments.
Per MBA #9, Attachment B savings to the General Fund at 5% are:

POA	$ 7,909,402
IAFF	$ 4,304,281

Accept the proposals by CAMP, AEA, IBEW, AMSP, ABMEI which call for employees to make 7.5% in additional contributions to their retirement plan thus relieving the General Fund from making those payments.
Per MBA #9, Attachment B savings to the General Fund are:

CAMP	$ 1,379,669
AEA	$ 325,472
IBEW	$ 230,703
AMSP	$ 194,293
ABMEI	$ 306,124

The total General Fund savings for 2010-2011 will be $14,649,944.

For any Union or Bargaining Unit that offers in writing by June 15, 2010 concessions that closely mirror the offers presented by the non-sworn unions listed above including the proposed changes in benefits submitted on June 8, 2010, the city should accept that offer. For example, a similar offer from OE3 should save an estimated $1,425,763 and negotiations are still underway with ALP for wage concessions.
Estimated Savings $1,425,763 (OE3 only)

The employees covered by Unit 99 are unrepresented by any bargaining unit and include some of our most talented employees. Their leadership is essential to helping us grow our economy and grow our way out of this budget crisis. We cannot afford to have them take on a larger burden by mandating inequitable concessions upon them. Their concessions should mirror the ones identified above which call for additional 7.5% contributions to their retirement plan and changes to benefits that match those submitted on June 8th.
Estimated Cost $700,000

**Changes in benefits presented on June 8th are in agreement with the Healthcare HMO Plan Design, Dual Coverage, and Payment-In-Lieu changes proposed in the Last, Best and Final offer by the city to the original seven unions.

Reduce the Unemployment Reserve to reflect the dramatically reduced number of lay-offs.
Estimated Savings $8,000,000

Defund the 76 Sworn Police and Fire vacancies identified in the Mayor's Budget Message on page 21 to reflect the positions that will be saved by POA and IAFF concessions identified above.
Estimated Savings $10,260,000

Remove the funding set aside for implementation of the Dynamic Deployment of the Fire Department based upon the acceptance of the proposed Two-Year contract.
Estimated Savings $598,000

Use funds from the second Fire Department Academy that were set aside to keep Fire Station 7 open for 6 months while Dynamic Deployment is phased in.
Estimated Savings $1,100,000

Direct the City Manager to immediately request the Federated and Police and Fire Retirement Boards to have their actuaries recalculate the city's contribution to the pension funds to reflect the salary increases (none) in the agreements with the unions listed above.
Estimated Savings $5,250,000 (October 2010 through June 2011)

Eliminate ten (10) low priority vacancies that occur during the year from staff separating from the city.
Estimated Savings $1,000,000

Direct the City Manager to reduce non-personnel expenditures by $1m in areas that have the least impact on public services.
Estimated Savings $1,000,000

Reduce the Economic Uncertainty Reserve by $4m to restore $12m in services through October 2010. Use $8m in fund balances out of the excess fund balances reported in the FY 09/10 CAFR to fund the services for the balance of the fiscal year. Historically CAFR fund balances have been at least $20m.
Estimated Savings $4,000,000 (Through October)
Estimated Savings $8,000,000 (October through June 2011)

Use the funding strategies to restore the positions targeted for elimination on page 17 of the City Manager's Proposed Budget totaling $64,622,000. Since the City Manager has already found ways to reduce the amount to $61,958,000 and the Mayor's Budget Message already includes solutions for re-instating some of these positions, the revenues in this memo should be used to continue to off-set these remaining proposed eliminations on page 17. **The estimated savings will not cover this entire cost and there will be a need for employee or service reductions.** Reductions to cover the shortfall should use the following criteria:

- Reductions to Unions or Bargaining Units that have not proposed concessions
- Reductions are not from new ideas, but have already been presented in the proposed budget
- Reductions should not come from Library hours or Community Centers

Include the recommendations from my memo dated May 21, 2010:

- Direct staff to meet with the union leadership to explore ways to improve the bargaining process.
- Direct the City Manager to explore options for a Two-Tier Retirement System with stakeholders participation and present the options at a Council Study Session by April 2011.

ANALYSIS

All California cities are in financial crisis and there are not any simple or easy solutions. The current nature of bargaining with our unions encourages up to the last minute proposals and an uncertain and stressful decision making process for the City Council and our residents, businesses and employees. These recommendations are an attempt to avoid imposing contracts and restoring the majority of city services.

It has been said before but should be said again, San Jose has the highest quality employees who do a remarkable job to provide services to our residents and businesses under increasingly difficult conditions. Years of budget cuts to departments have challenged them to do more with less and they have risen to that challenge. Decisions to impose Last, Best and Final offers upon these employees are hostile acts. I encourage my colleagues on the City Council to once again consider the offers presented by our employees and use these strategies to balance the city budget.

When weighing the decision to accept the presented offers or to impose upon the relatively small number of employees represented by CAMP, AEA, IBEW, AMSP, and ABMEI, I ask my colleagues to consider the following:

- Per the Grand Jury report, San Jose employees are not overpaid in relationship to other cities in California
- San Jose employs fewer city workers in relationship to total population than other cities
- Our employees are highly dedicated and innovative, qualities valued by all municipalities
- Nothing positive ever comes out of Labor unrest
- A Last, Best and Final offer can only be imposed for one year
- The offer from the Unions is a Two-Year contract

The Public Safety Unions have also offered concessions. If the Union offers are not accepted and we move forward to Binding Arbitration, considering the offers made and accepted by our neighboring cities, there is no guarantee that arbitration will produce any real savings to the city. Examples of agreements with Police and Fire Departments in our neighboring cities are:

San Francisco Police Department has agreed to the following:

4% wage increase July 1, 2010
2% wage increase deferred January 1, 2011 until January 1, 2012
3% wage increase July 1, 2011
0% wage increase July 1, 2012-June 30, 2013
Year one--6 furlough days
Year two-4 furlough days

Gilroy Police Department has agreed to the following:

12 furlough days

San Francisco Fire Department

Wage increase deferrals and no cuts

Oakland Fire Department

0% wage increases for 3 years, temporary increased work hours from 52 to 56 hours per week

Mt. View Fire Department

Under contract until June 2011, scheduled for 4.2% increase July 2010

Milpitas Fire Department

Deferral of 3% wage increase, stop cash out of Sick Leave and left positions vacant

There has been discussion regarding eliminating Binding Arbitration. The soonest this can be considered is November and requires voter approval. It is reasonable to expect that this action will be legally challenged by our Public Safety Unions and potentially tied up in court for years. Imposing contracts will result in unproductive and undesirable labor unrest.

As we have already seen, if we lay-off large numbers of employees, we incur additional increased costs for Unemployment benefits. Another cost increase for the city that will not provide additional services are payments for sick leave payouts for current employees who decide to retire this June. A record number of employees have notified the city that they intend to retire prior to the imposition of their new contract. Not only will we be losing some of our most experienced and knowledgeable employees, there will be a need for an unprecedented amount of funds for sick leave payout. If the terms of the Last, Best and Final offer drastically change the terms of the sick leave payout, employees who will be affected by the change will seriously consider separating from the city to protect what they have long considered to be one of their benefits.

Our Federated employees already have a cap on the number of hours that can be accrued for sick leave payout therefore, accepting their Two-Year contract proposals will have a minimal affect upon the amount of city liability for their sick leave payout. The Budget office anticipates that this year they will need to allocate more funding for sick leave payout. For employees at or near the cap, not changing the sick leave payout will save millions in payments for the next two years and help keep our experienced employees without increasing the amount of liability for future years.

There is a great deal of long term work that needs to be done to address our structural budget deficit. The offers we received from our unions call for two-year contracts and will help us avoid drastic service cuts and lay-offs. These offers will provide us the time needed to address concerns with the current employee compensation package. If we impose for one year or accept one-year contracts, we will need to begin the painful bargaining process within the next few months. In addition there is a real cost associated with bargaining on a yearly basis. There are hundreds of hours spent in discussion and mediation for both the union representatives and the city bargaining team.